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2016  
INVESTOR DAY

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## Investor Day – EU Region Lausanne, September 29, 2016

Frederic de Wilde  
*President, European Union Region*



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# Agenda

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- Underlying Business
- Strategic Pillars
- Evolution to Multi-category Management:
  - RRP Portfolio: *iQOS* is the Growth Catalyst
- Concluding Remarks



# EU Regional Overview (2015)

 EU Political Area  
 + Non EU Markets



PMI EU Region  
Population: 524 million

## Cigarettes

Industry Volume (units billion)	509
PMI Volume	195
PMI SoM	38.3%

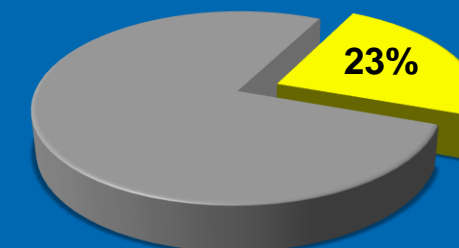
## Other Tobacco Products (OTP)

OTP Industry (units billion eq.)	155
Fine Cut Industry (units billion eq.)	144
PMI Fine Cut SoM	15.7%

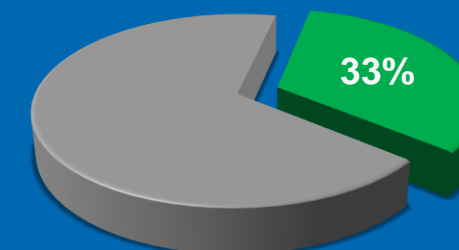
## PMI Footprint

Adjusted OCI (\$ million)	3,644
Employees	~11,000

## Contribution to PMI



PMI Cigarette Volume



Adjusted OCI

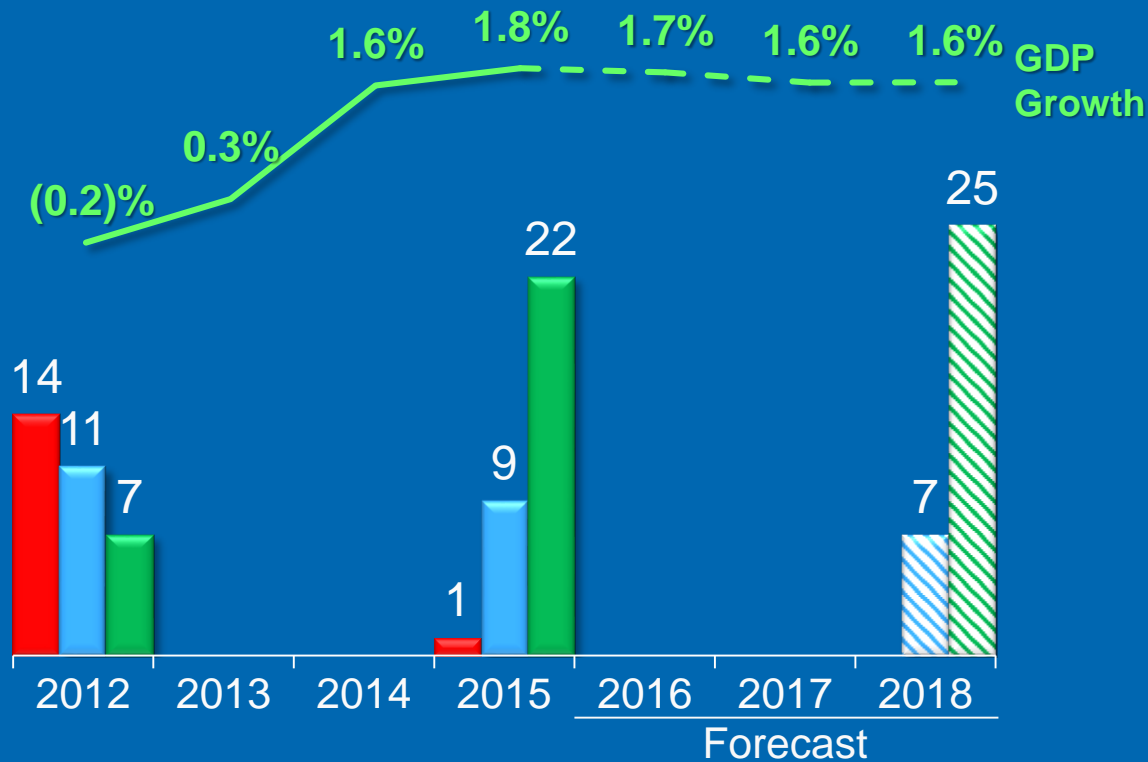
# Better Macroeconomics and Stronger Consumer Confidence Providing Improved Operating Environment in EU Region



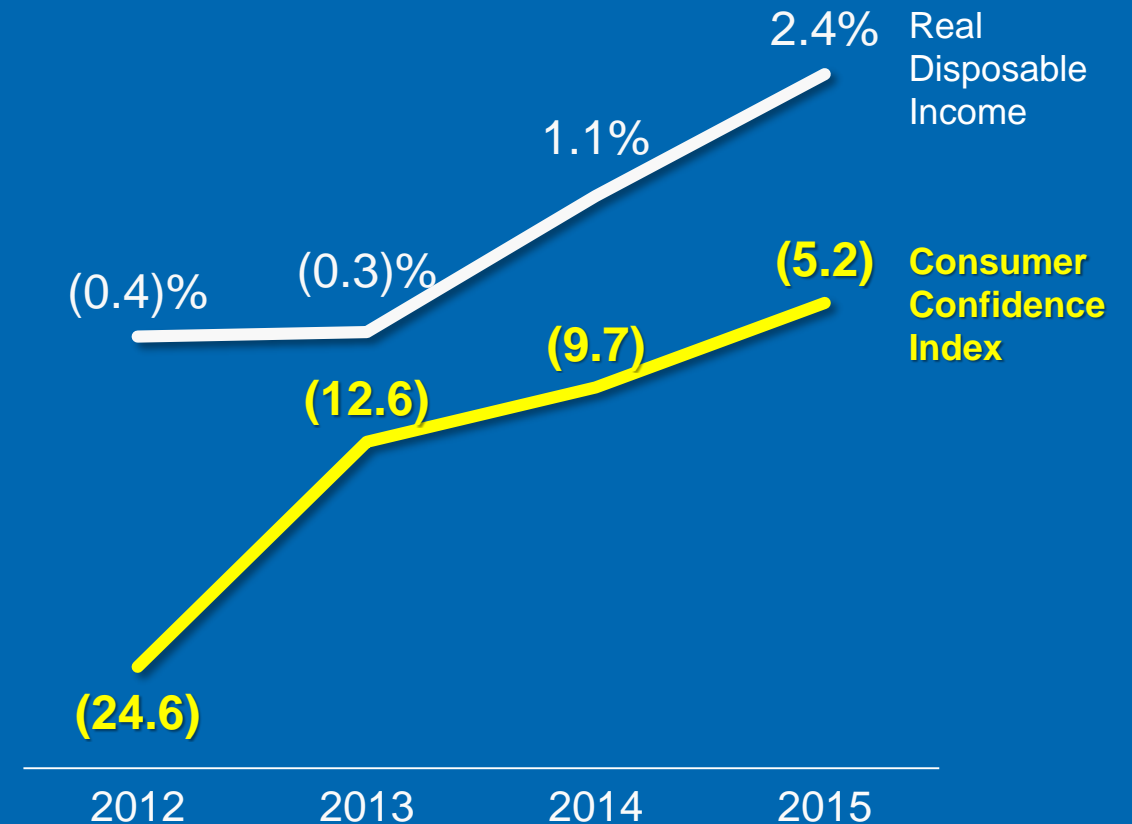
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## # of EU Markets Within GDP Growth Brackets

■ <0% ■ 0%-1.5% ■ >1.5%



**Broad Based GDP Growth Expected to Continue...**

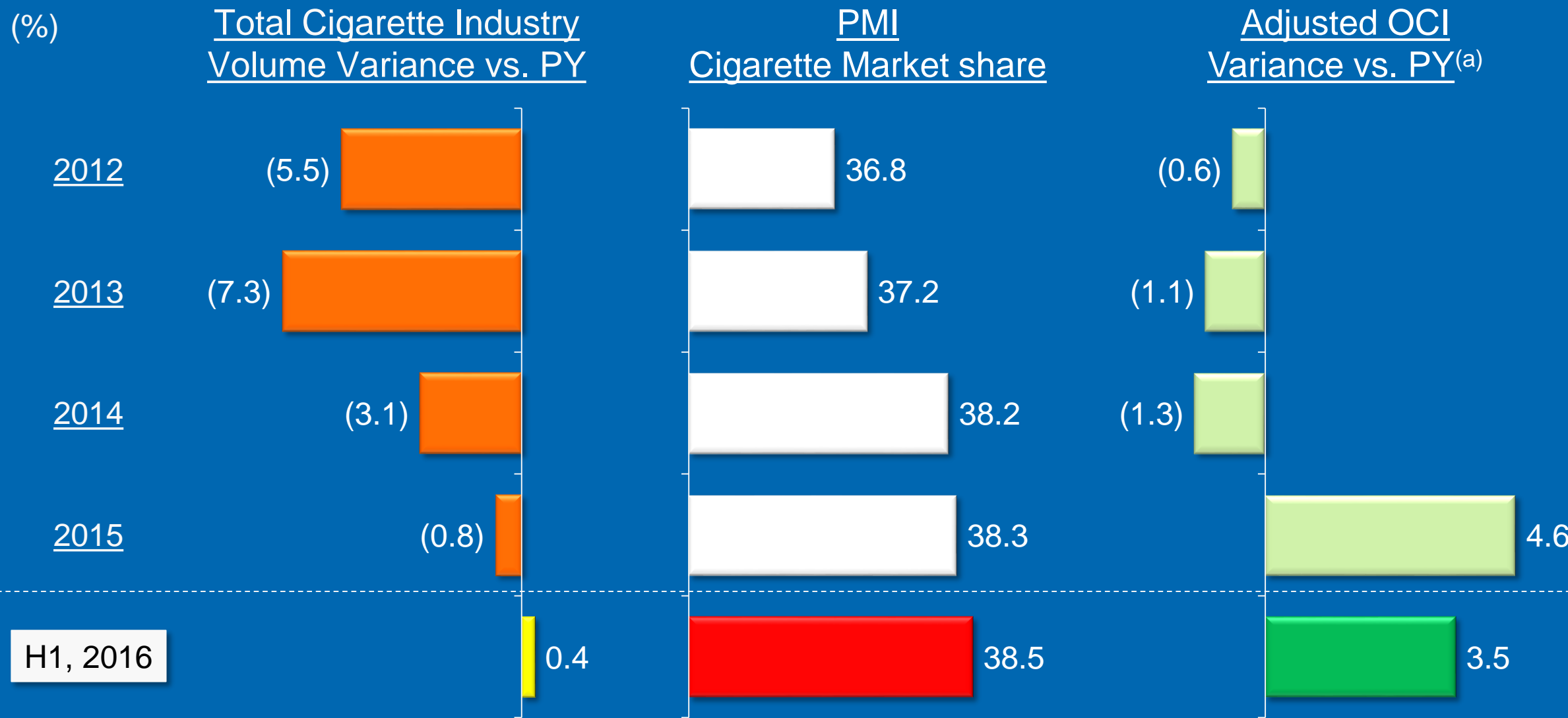


**...Contributing to Stronger Consumer Confidence**



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## EU Region: Recent Turn Around & Growth Contributor to PMI



(a) Excluding currency  
Source: PMI Financials or estimates

# TPD2 Sets Regulatory Environment for the Years to Come

## Cigarettes and Fine Cut

- 65% combined health warnings (both front & back of pack)
- Minimum pack size: 20 cigarettes or 30 grams for fine cut
- Ban on characterizing flavors:
  - Grace period until 2020 for menthol
- Segments with largest potential volume impact: <20 cigarettes and certain slim formats:
  - Represent approx. 120 billion cigarettes (approx. 23% of 2015 cigarette industry volume)
- Major undertaking from manufacturing standpoint to comply



## RRPs

- TPD2 establishes a new category - "Novel Tobacco Products"
- Provides regulatory basis for RRP commercialization
- E-cigarettes regulated as tobacco-related products



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. Pack designs and product visuals are for illustrative purposes only

Source: PMI Financials or estimates

# Extreme Regulation: Plain Packaging

## Update

- France, Hungary, Ireland and the U.K. adopted legislation
- A few additional countries considering extreme regulation
- We continue to speak out against plain packaging
- Advocate for appropriate and effective fiscal structures



## France

- Plain pack to be fully present in market by January 2017
- Streamlined portfolio of well recognized brands with positive SoM momentum



## United Kingdom

- Plain pack to be fully present in market by May 2017
- *Chesterfield* established prior to implementation
- Taken back our distribution and built own field force





# Strategic Pillars and Growth Catalysts

## REINVIGORATED GROWTH CONTRIBUTOR: EU REGION

### COMBUSTIBLE BUSINESS

#### Mid-Single-Digit Adjusted OCI Growth<sup>(a)</sup>

- Leverage our superior cigarette brand portfolio
- Judicious pricing
- Rigorous cost management
- Advocate for rational and predictable tax structures
- Combating illicit-trade

TPD / Regulations

Simplification of  
Processes

Optimizing  
Manufacturing Footprint

Commercial Approach

### RRP PORTFOLIO

#### Incremental OCI Catalyst

- Accelerate *iQOS* commercialization
- Commercialize other RRP platforms
- Advocate for appropriate fiscal and regulatory structures

## ORGANIZATIONAL TRANSFORMATION TO MULTICATEGORY

(a) Excluding currency

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

# Focused Portfolio and Innovation Pipeline in a Post-TPD2 Environment



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EU Region: Top-4 Brands' Share of PMI Regional Cigarette Volume (H1, 2016)



Adult Smoker-  
Relevant Innovations

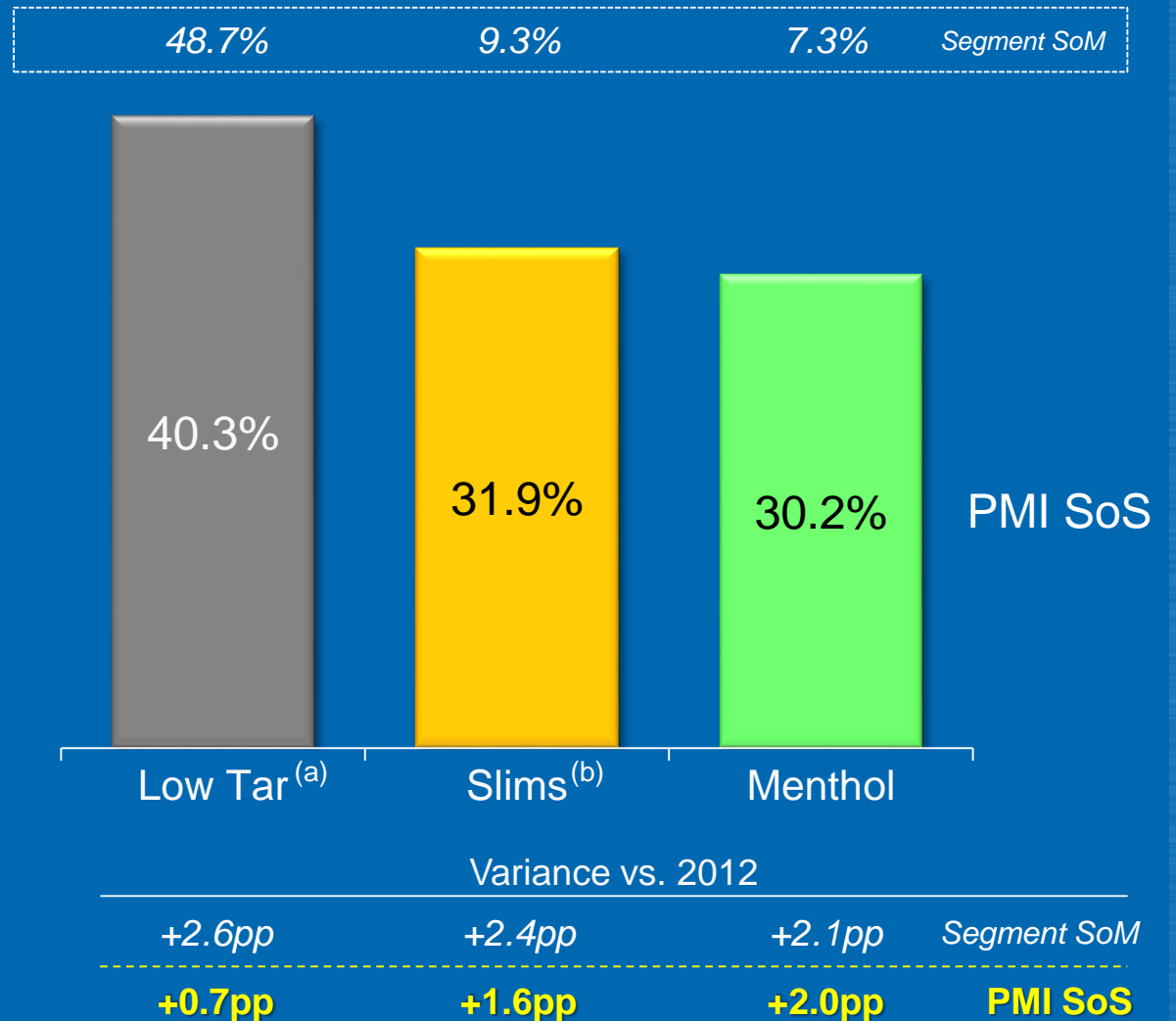


Local  
"Champion" Brands



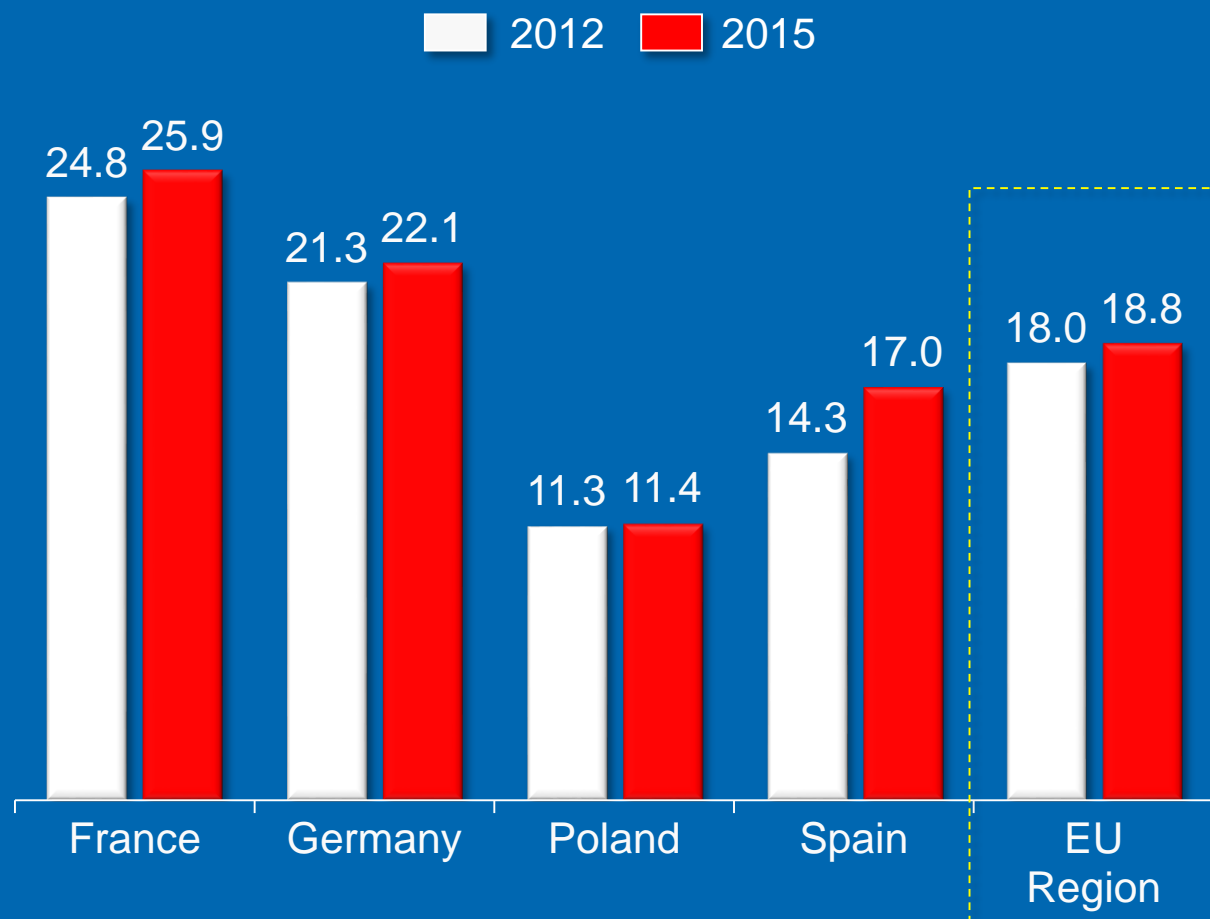
(a) Includes low tar nicotine (LTN), ultra LTN and Super LTN  
 (b) Includes slims, extra slims, super slims and micro slims  
 Note: Pack designs and visual are for illustrative purposes only  
 Source: PMI Financials or estimates

PMI Share of Key Cigarette Growth Segments (2015)



# Marlboro: Excellent Momentum in our Premium Cigarette Offering

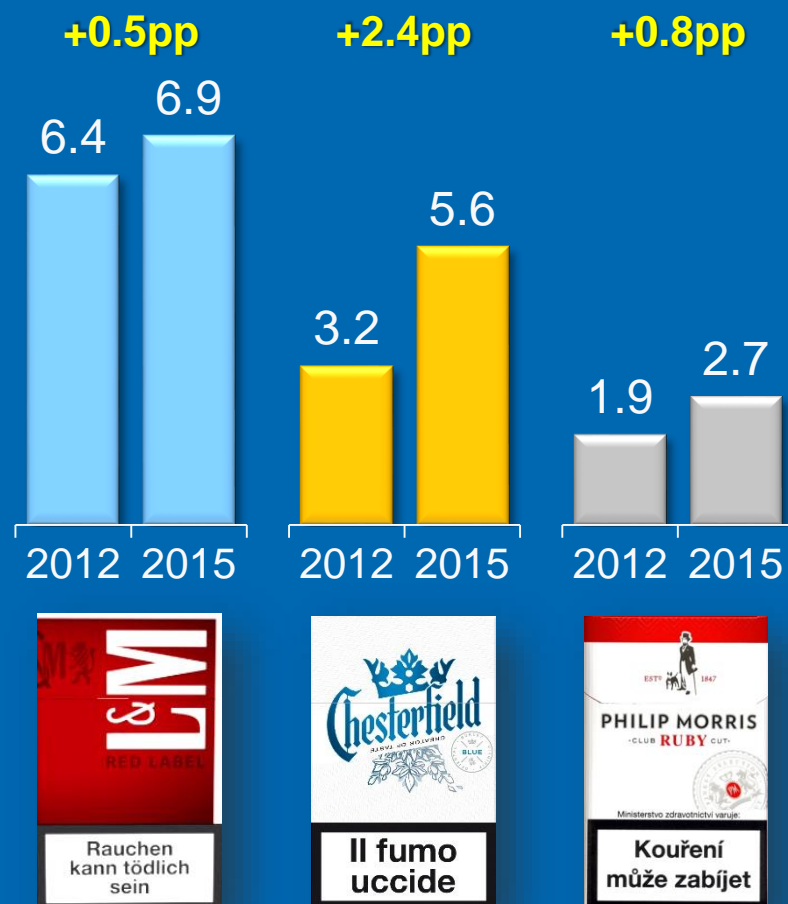
Marlboro Cigarette Market Shares (%)



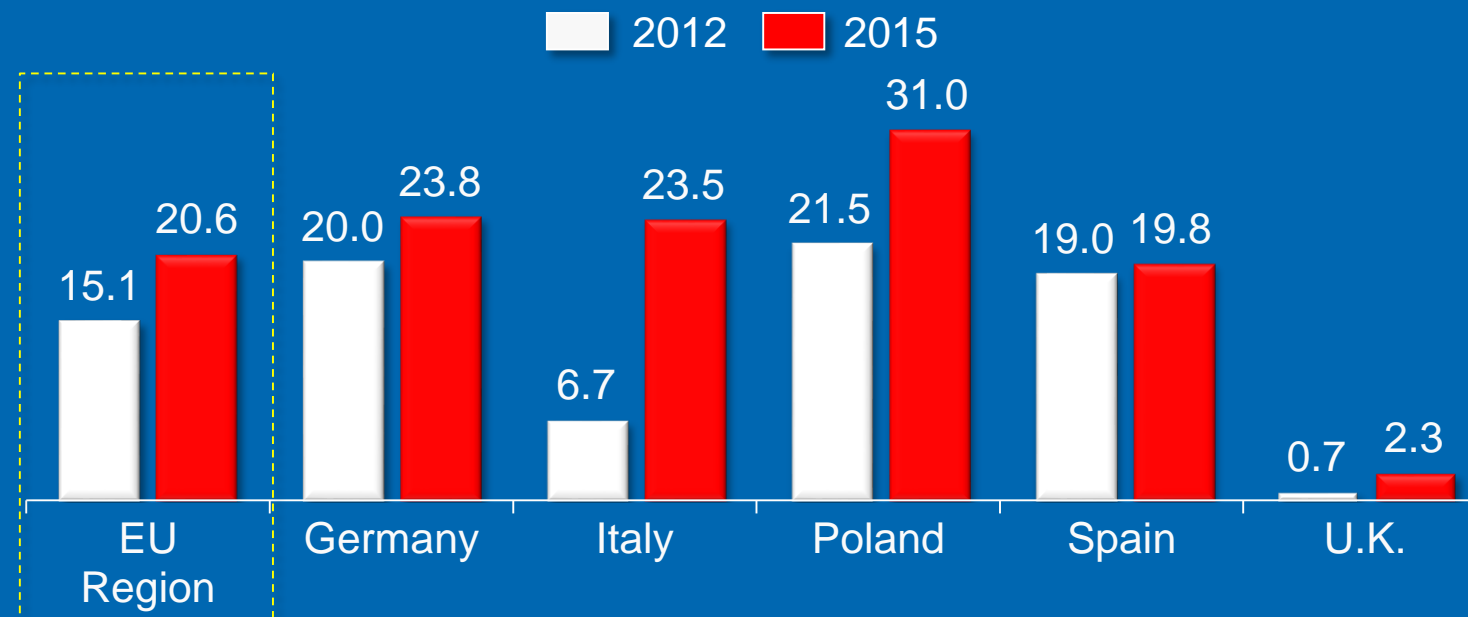
- New brand architecture rolled out successfully across all pillars
- Significantly reinvigorated brand and its relevance to adult smokers
- Price banding further enables multiple entry points for adult smokers

# Growing in the Below-Premium Segment

Cigarette Market Shares (%)<sup>(a)</sup>



*L&M, Chesterfield & Philip Morris*  
Combined Share of Below-Premium Segment (%)<sup>(a)</sup>



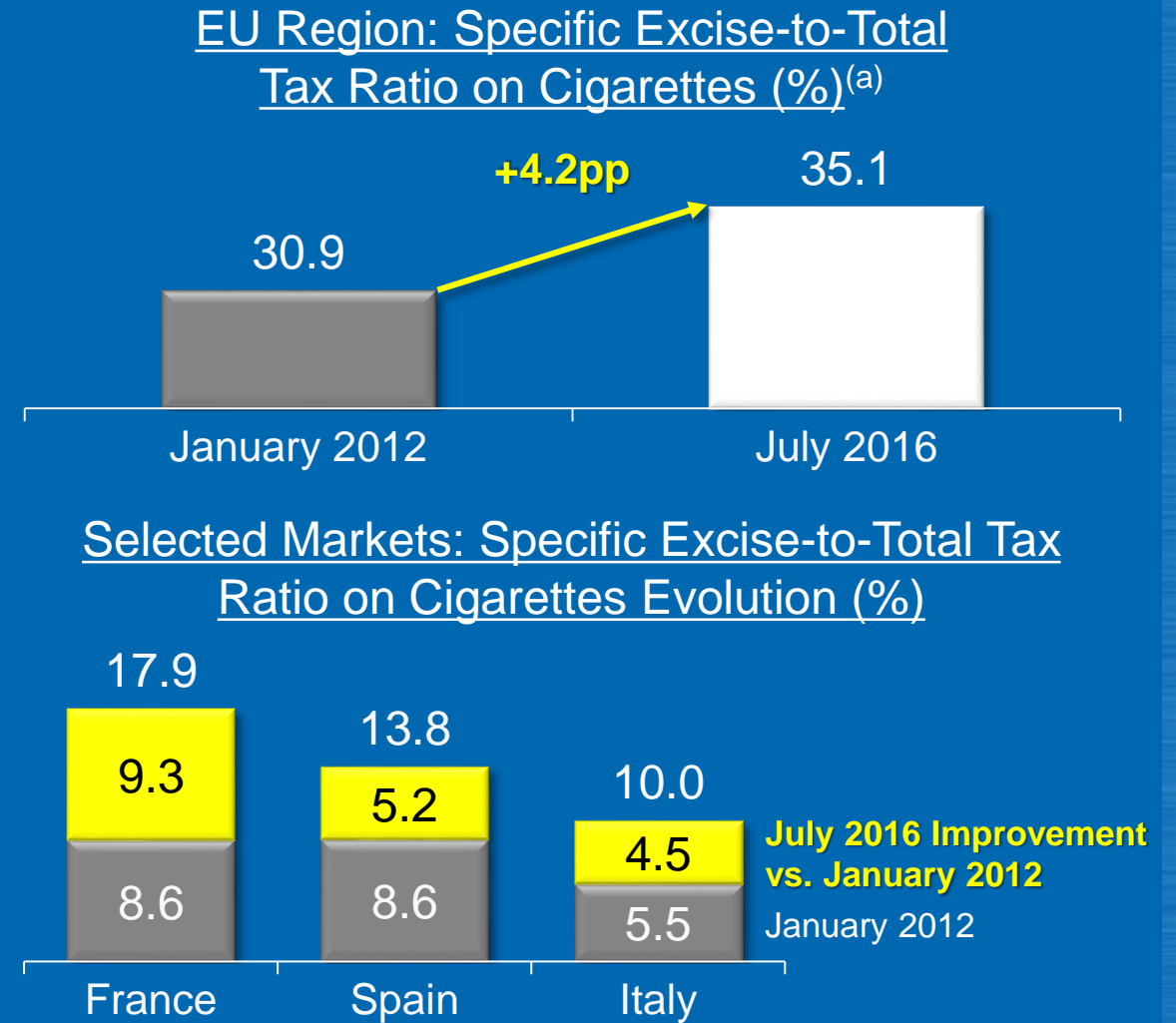
- Strong market and segment share growth
- Brands offer successful morphing destinations:
  - *Diana* in Italy and *Red & White* in Poland

(a) Historical view. Brands' market shares exclude the impact of morphed volumes in the base reference period  
 Note: Below-premium includes mid, low and super-low priced products. Pack designs are for illustrative purposes only  
 Source: PMI Financials or estimates



# Rational Excise Environment & Improving Tax Structures

- Current excise environment rational
- Advocate for reasonable excise taxes:
  - Regular, reasonable increases
  - High proportion of specific elements in excise tax structure
  - Multi-year tax plans
  - Both public health and government revenue objectives are met
  - Predictability for business



(a) Weighted average by total cigarette market volume in 2015 and 2015 Weighted Average Price published by European Commission, for EU Member States (excluding Bulgaria, Romania, Croatia, Slovenia and small EU Region markets such as Azores, Canary Islands, Channel Island, Corsica and Madeira) plus Switzerland

Note: The above calculations for 2016 are based on the 2015 WAPs as published by the European Commission

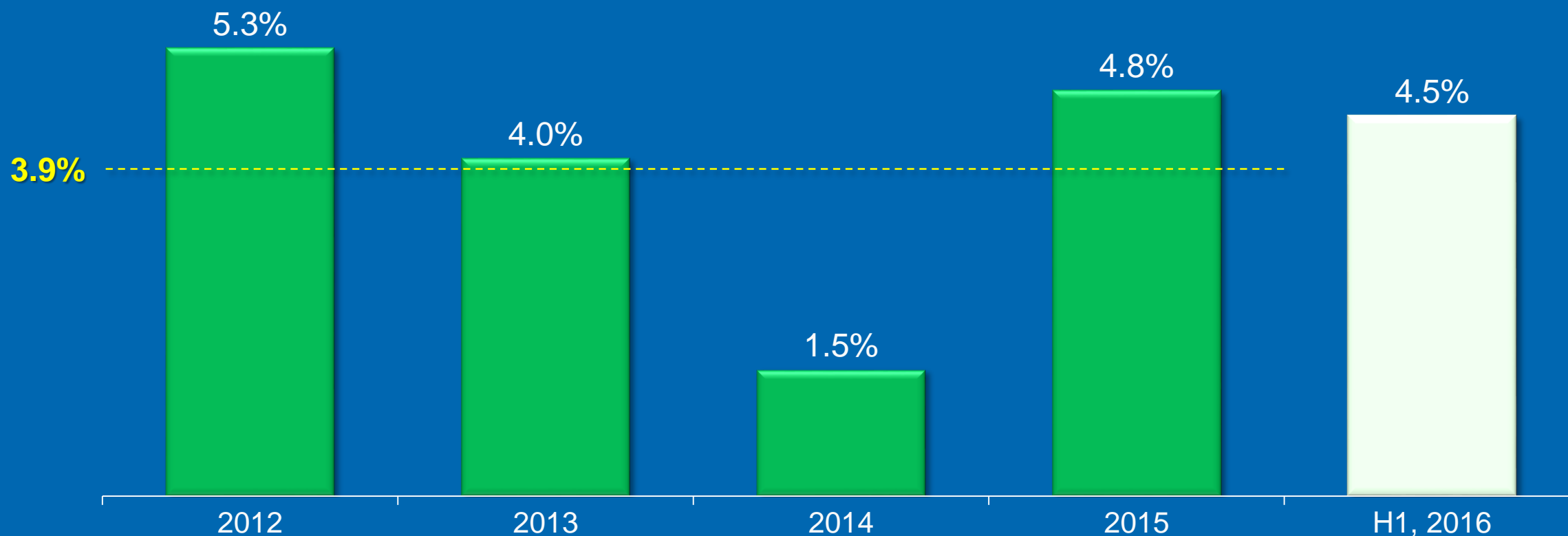
Source: PMI Financials or estimates (based on national data for reference weighted-average price for cigarettes and tax rates)



# Judicious and Broad Based Pricing Momentum

## EU Region Pricing Variance as a % of PY Net Revenues

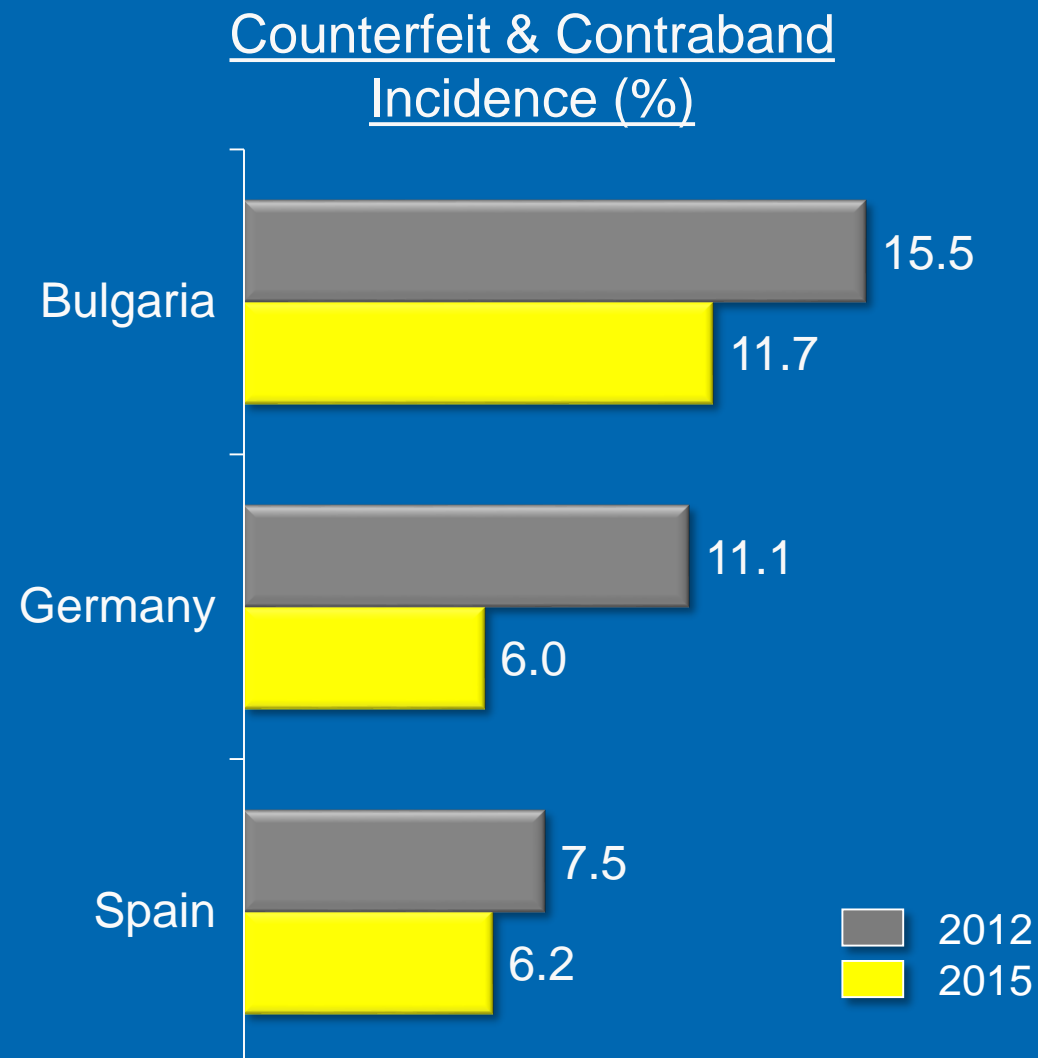
Annual  
Average  
(2012-2015)





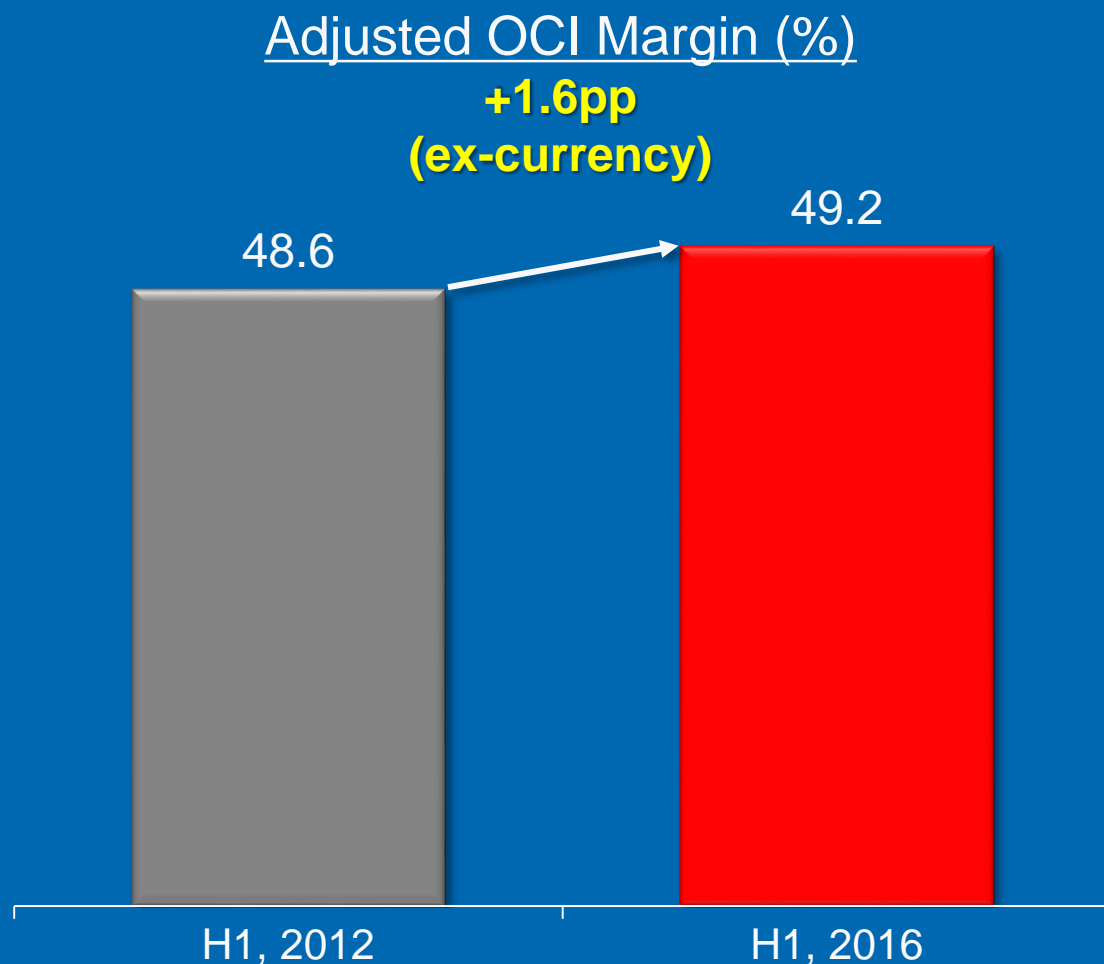
## Illicit Trade: Effective Law Enforcement Yielding Positive Results

- Improved coordination between key stakeholders and increased awareness
- Illicit trade now on agenda of governments
- Cooperation with national and international law enforcement bodies
- Increased enforcement and intelligence sharing achieved numerous illicit factory closures





# Maintaining Robust Operating Margins



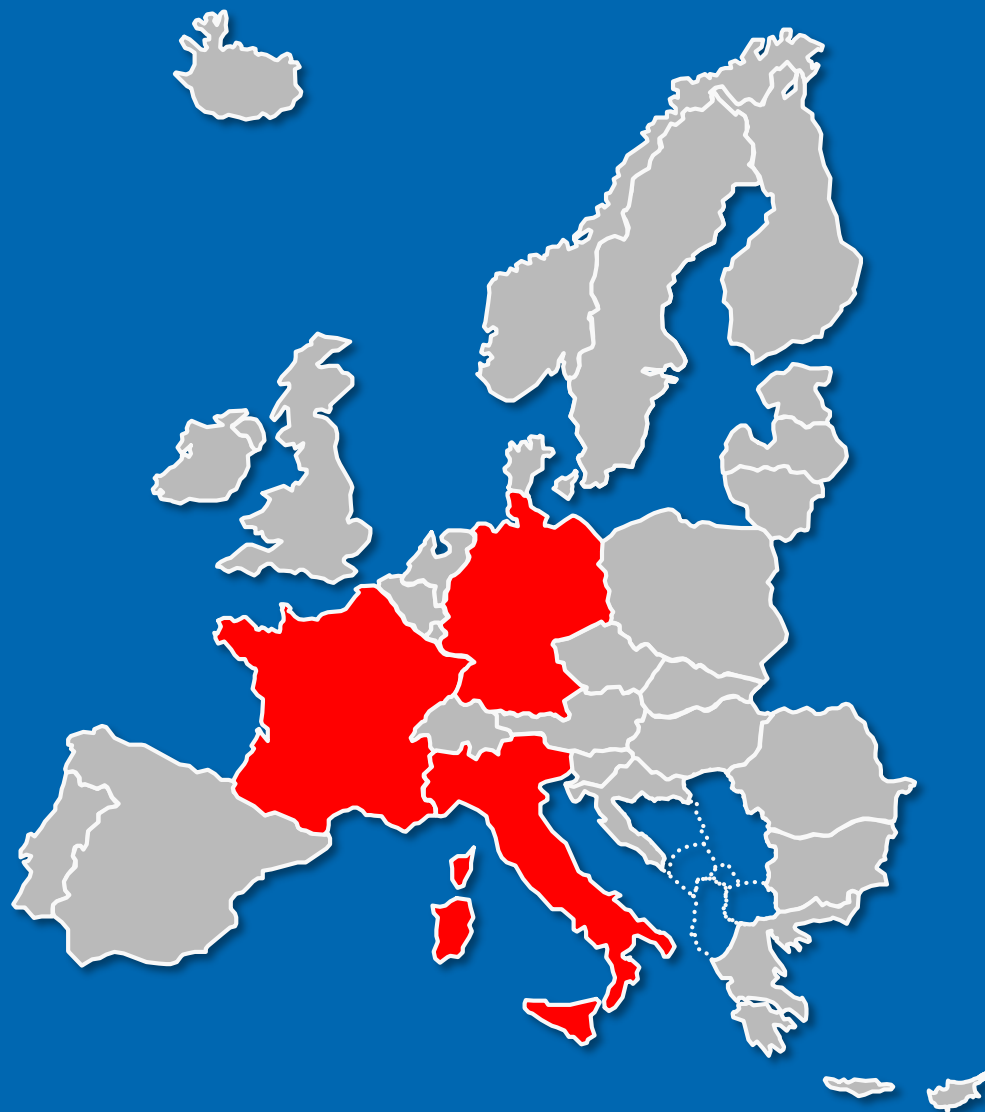
## Robust margins driven by:

- Top-line growth
- Disciplined cost base management
- Simplification of processes and portfolio
- Continued focus on productivity initiatives and further optimization of manufacturing footprint
- Provides confidence to deliver our annual mid to long-term currency neutral adjusted OCI target, ex-RRP



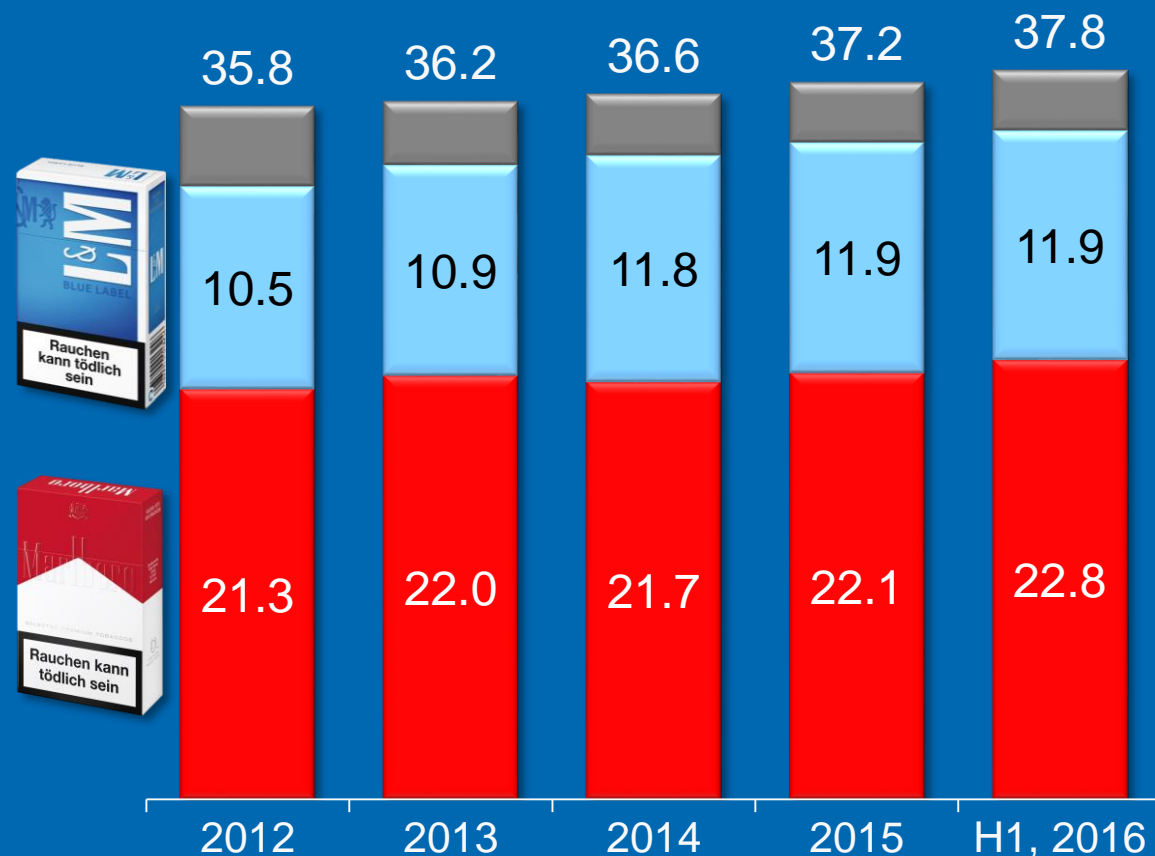
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## Key Market Highlights in the EU



# Germany: Growing Cigarette Market Share

PMI Cigarette Market Share (%)

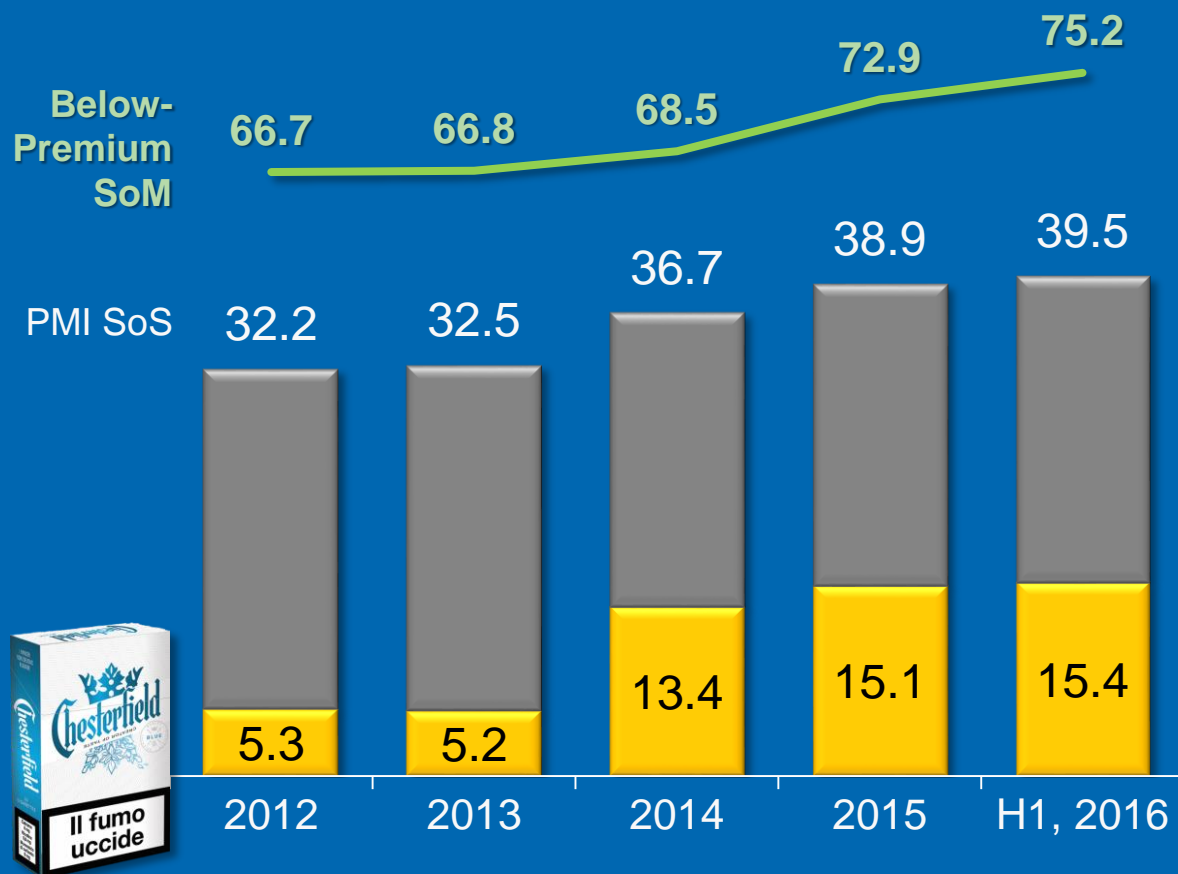


- Cigarette industry volume essentially flat in H1, 2016:
  - Lower illicit trade
  - Impact from immigration
- Solid cigarette market share momentum
- *Marlboro* reinvigorated and highly relevant amongst adult smokers
- *L&M* the leading offer in the below-premium segment<sup>(a)</sup>

(a) Includes mid, low and super-low priced products  
 Note: Pack designs are for illustrative purposes only  
 Source: PMI Financials or estimates

# Italy: Growing Presence in Below-Premium Segment

## Below-Premium Cigarette SoM and PMI SoS (%)



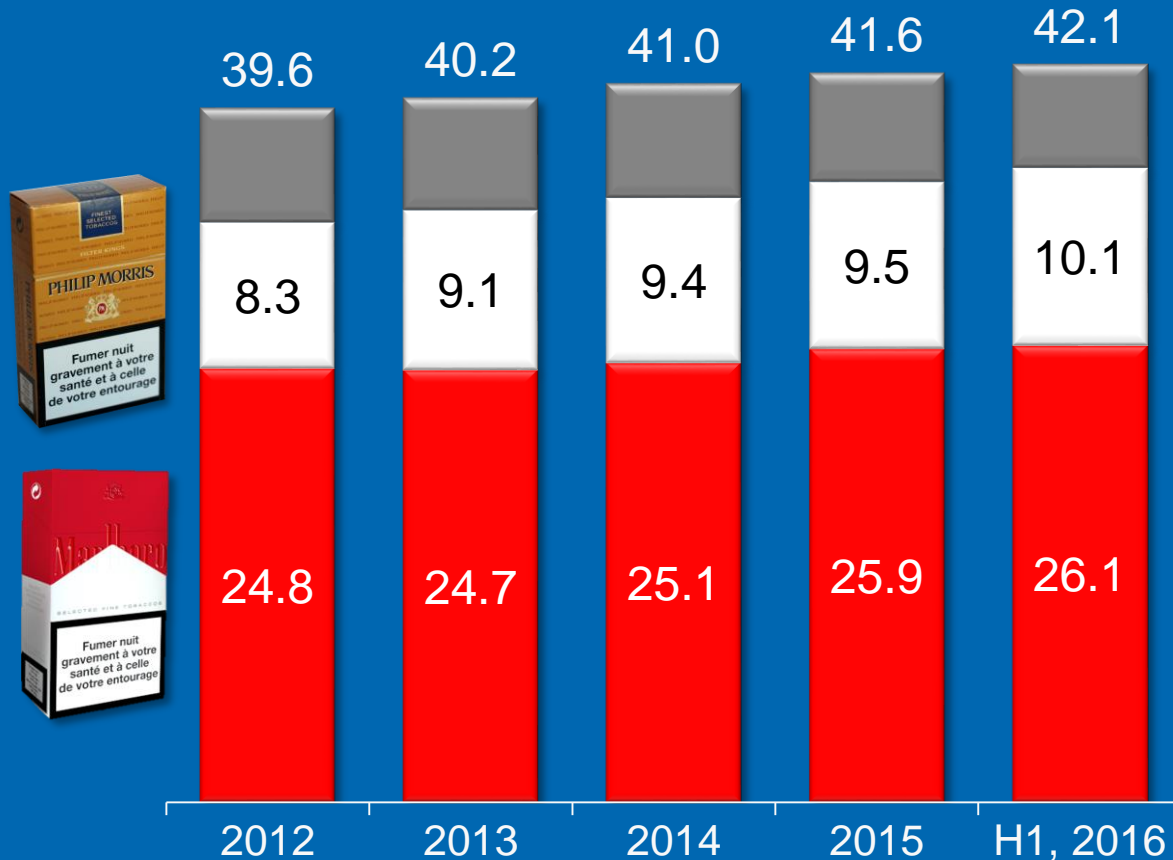
- Cigarette industry volume up by 1.2% in H1, 2016:
  - Lower illicit trade
- PMI cigarette share under pressure:
  - Down by 1 point to 52.9% in H1, 2016
  - *Marlboro* crossing €5/pack price point
- Rapid growth of below-premium segment:
  - *Chesterfield* established as powerhouse
  - Morph of *Diana* into *Philip Morris*

# France: Well Positioned for More Restrictive Regulatory Environment



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PMI Cigarette Market Share (%)



- Cigarette industry volume flat in H1, 2016:
  - Lower illicit trade
- At present, limited plain packs visible in market
- Focused and well recognized cigarette brand portfolio:
  - Market share momentum
  - Strong gains from premium brands

# RRP Portfolio: Key Growth Catalyst for the EU Region

- Exciting proposition and high adult smoker interest
- Multi-category approach
- Ambitious commercialization plans in place
- New ways of conducting business for PMI:
  - Innovative offers and product pipeline
  - New and evolving channels for interaction with both adult smokers and trade partners
  - Organizational evolution to support multi-category management
- Advocate for appropriate regulatory frameworks based on the TPD2
- Differentiated tax classification granted in multiple markets for *iQOS*

Platform 1: *iQOS*



Platform 2



Platform 4





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# RRPs: Advocating for Ability to Communicate Reduced-Risk Claims



- Majority of EU Member States have transposed TPD2 on a one-to-one basis
- Leverage scientific filings with the EU and several national regulators in Member States:
  - Pursuant to the TPD2 Novel Tobacco Product provisions
- Standards for claims, including clinical and behavioral data

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. Pack design and product visuals are for illustrative purposes only

# iQOS: Executing Our Ambitious Commercialization Plan



- Now present in key cities in eight markets across the EU Region:
  - Italy, Switzerland, Portugal, Romania, Denmark, Germany, Greece and Monaco
- Solid knowledge to leverage based on key learnings:
  - Guided trial driving high conversion rates across all geographies
- Set of innovative commercialization tools

# iQOS: Performance in Italy and Switzerland

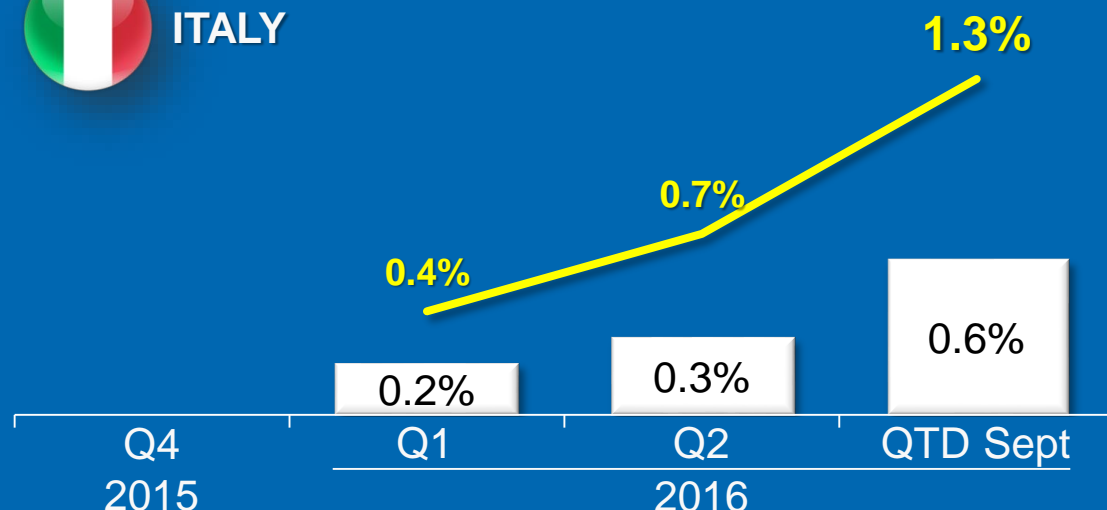
## HeatSticks Offtake Share and iQOS Offtake Penetration Ratio

■ Offtake SoM (Launch Area)

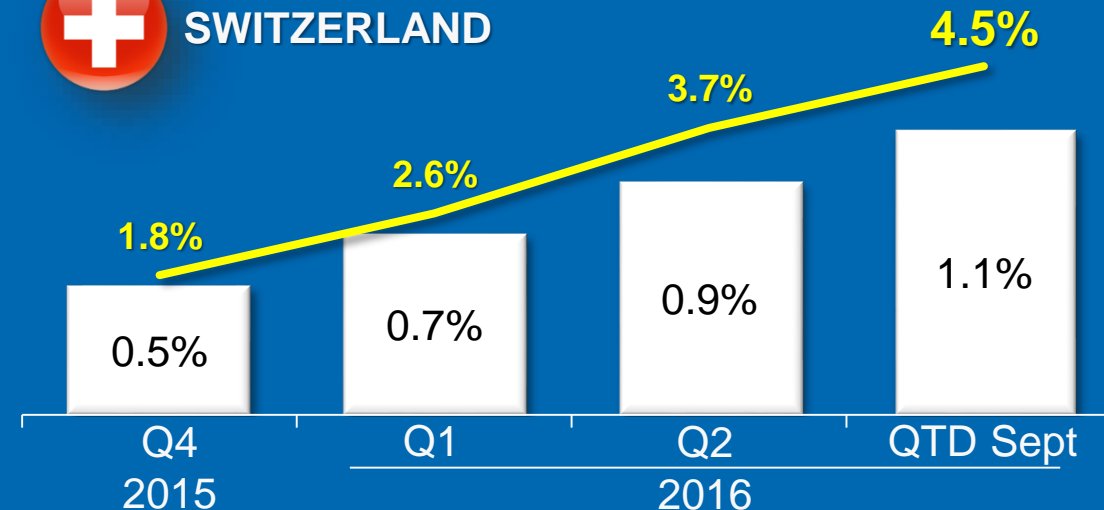
— Penetration Ratio (Launch Area)



ITALY



SWITZERLAND



- Pilot launch in Milan
- Investment in engagement force for high-quality guided trial
- High conversion ratio driving accelerated SoM growth in the expansion areas

- Launched successfully in French-speaking area; achieved a 2% SoM
- Applying key learnings from French-speaking area to German-speaking area

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. Launch Area refers to the Expansion Area in Italy (Bologna, Milan, Modena, Rome and Turin) and the Launch Area in Switzerland (Basel, Bern, Geneva, Lausanne, Neuchatel and Zurich)

Source: PMI Financials or estimates

# iQOS: Rollout in Additional Geographies with Promising Results

## Lisbon

- Doubled penetration ratio to 1.4% reaching a 0.3% SOM
- Conversion ratio of 68%

## Bucharest

- Promising results with penetration ratio at 1.2% QTD September
- Conversion ratio of 71%

## Monaco

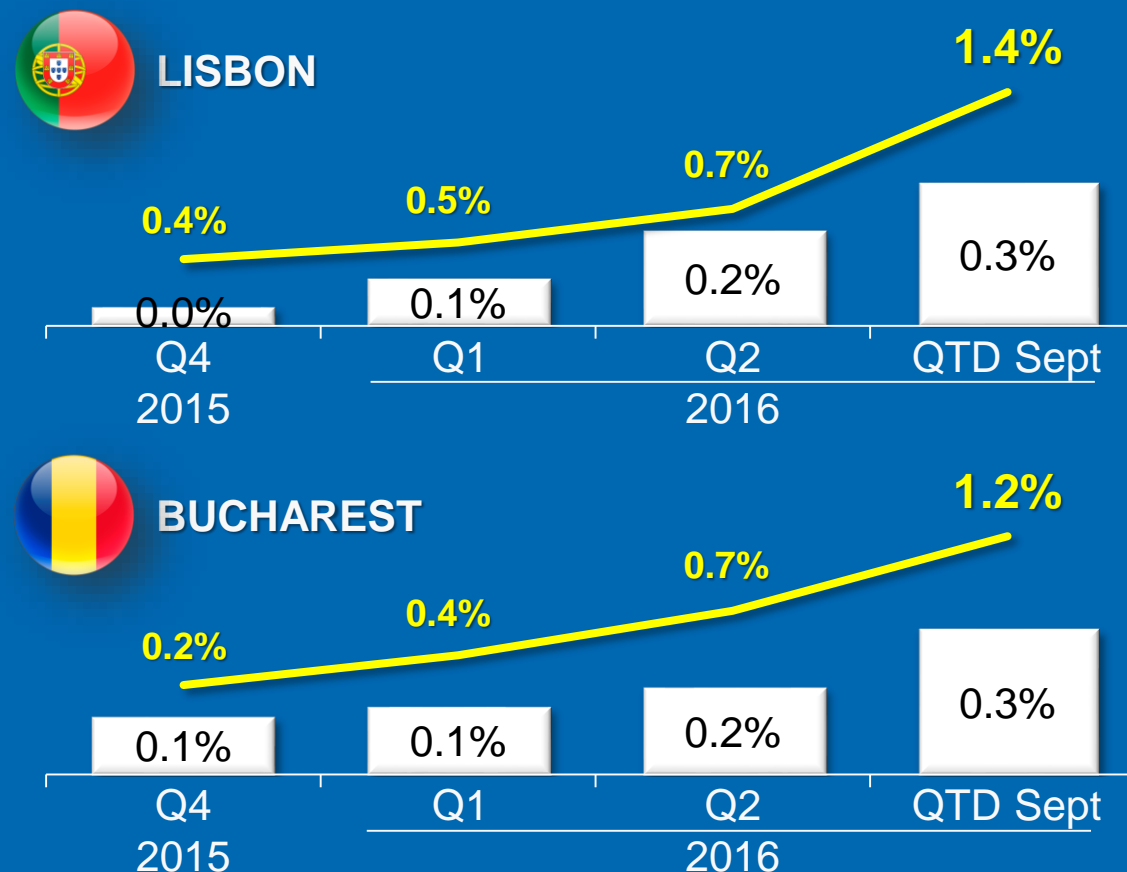
- Penetration ratio grew to 5.0% reaching a 3.8% SoM, QTD September

## Germany

- Launched iQOS in three key cities: Berlin, Frankfurt and Munich

### HeatSticks Offtake Share and iQOS Offtake Penetration Ratio

■ Offtake SoM — Penetration Ratio





## EU Region: Reinvigorated Growth Contributor for PMI

- Strong underlying cigarette business:
  - Improved macroeconomic environment and positive consumer sentiment
  - Moderating total industry volume providing positive lift
  - Superior cigarette brand portfolio and undisputed market share leadership
  - Sustainable pricing momentum and rational excise tax environment
- Transforming rapidly to a multi-category company:
  - RRPs are a game changer; and a key growth catalyst with *iQOS* leading the way
  - Rapid commercialization across EU region; currently executing our ambitious plans
  - Organization energized and agile to manage evolution
- EU Region is a reinvigorated growth contributor for PMI:
  - Target to deliver annual currency neutral mid-single-digit adjusted OCI growth, ex-RRPs
  - RRPs to provide additional, attractive growth catalyst for the EU Region and PMI



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Questions & Answers



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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](http://www.pmi.com/2016InvestorDay/RecSlides)

Glossary of Terms: [www.pmi.com/2016InvestorDay/Glossary](http://www.pmi.com/2016InvestorDay/Glossary)