Remarks by Martin King
President, Asia Region
Philip Morris International Inc.

Investor Day
Lausanne, September 29, 2016

(SLIDE 1.)

Thank you and good afternoon Ladies and Gentlemen. I am very pleased to have this opportunity to share with you PMI's results in the Asia Region and our prospects for renewed growth.

(SLIDE 2.)

Our 2015 and year-to-date 2016 performance has established a solid base for the Asia Region. Although we continue to face challenges in certain key markets, I believe we have the right strategies and plans in place to deliver stronger business growth in the years to come.

Our strategy of advocating for a reasonable tax environment has not changed. We will continue to guard against the risk of governments introducing disruptively large excise tax increases while advocating for reasonable and appropriate regulation, especially with regard to Reduced-Risk Products.

We are extremely happy with the exceptional performance of *iQOS* in Japan, especially since the national expansion in April of this year. Our invaluable learnings in Japan will be the foundation of our success both in Asia and in the rest of the world.

One of our key strategies is to continue growing our brands through innovation and judicious investments. Our superb brand portfolio, led by *Marlboro* and complemented by an array of successful local heritage and international brands, is unparalleled.

We will continue to pursue geographical expansion, with particular focus on those emerging markets where we have a limited presence.

Our currency-neutral adjusted OCI margin is recovering, and we expect it to further expand through a mix of price increases, share growth, efficient cost management and RRP success.

With these strategies, strong business fundamentals and our diverse, talented and committed organization, we target high-single digit annual currency-neutral adjusted OCI growth, excluding RRPs, over the mid to long-term. We anticipate that our RRPs will provide the opportunity for additional growth for the Asia Region.

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Let me give you an overview of our Region.

In Asia, we operate in 23 markets with a growing population that is already above four billion. Excluding China, these markets represented a total cigarette volume of approximately 1.1 trillion units in 2015. Last year, our shipment volume reached 281 billion units, and our adjusted OCI was $2.9 billion.

We own nine cigarette manufacturing and five hand-rolled facilities in the Region. In Indonesia, in addition to our five hand-rolled facilities, we contract 38 third-party operators to manufacture our hand-rolled kretek cigarettes. With our established and effective manufacturing footprint, almost 84% of our volume sold is produced in Asia. 42,000 committed employees contribute to our success in the Region, and in Indonesia, our third-party operators employ over 41,000 hand-rollers.

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Last year, Asia's GDP growth reached 4.4%, well above the global average, and is expected to continue to outpace world-wide growth in the coming years as a result of significant GDP growth in non-OECD countries such as China, India, Indonesia and the Philippines.

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Over time, non-OECD countries offer higher growth of disposable income, which is conducive to sustainable industry volume and margin growth. Between 2016 and 2018, disposable income is expected to continue to grow at a higher pace compared to the period between 2010 and 2015. Increasing affluence supports up-trading to premium products offering innovation and differentiation in line with adult consumer preferences.

Between 2010 and 2015, the industry decline was driven by Asia's OECD countries, while non-OECD industry volume increased at a compound annual rate of 0.7% or 29 billion units.

PMI is well positioned to capture these growth opportunities with a balanced presence in both OECD and non-OECD markets.

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From 2010 to 2015, our shipment volume including both cigarettes and *HeatSticks* was essentially flat, and outperformed the total industry volume. This was the result of our balanced presence in the Region with our shipment volume in Asia's non-OECD countries growing at a compound annual rate of 0.6% within the same period. Net revenues and adjusted OCI grew at an ex-currency compound annual rate of 5.2% and 5.5%, respectively.

Pricing is the key driver behind our margin and adjusted OCI improvements. Between 2012 and 2015, Asia's non-OECD markets contributed 73% of the total pricing gains in the Region and were impacted less by unfavorable currency movements.

For the six months year-to-date this year, our shipment volume, including both cigarettes and *HeatSticks*, decreased by 6.4% to 136.1 billion units, mainly due to low margin volume losses in the Philippines and Pakistan, as well as soft share performance in Indonesia.

In the first half of 2016, our currency-neutral net revenues and adjusted OCI, declined by 0.3% and 7.9%, respectively. Our first-half growth was negatively impacted by comparisons related to timing of pricing in Korea, investments in Reduced-Risk Products and distributor cigarette inventory movements in Japan. In 2016, our second-quarter results were improved versus first quarter, with currency-neutral net revenues up by 1.1% versus the prior year period. We expect a stronger second half to drive currency-neutral Regional adjusted OCI growth in the mid to high-single-digit range for the full year.

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Our adjusted OCI margin decline of 3.5 points in 2015 versus 2010 was primarily due to higher costs, mainly manufacturing costs in Indonesia, marketing spend for new brand launches, and investments behind *iQOS* in Japan.

With the first half 2016 results, our adjusted OCI margin has started to recover, increasing by 2.0 points versus the full year 2015. In the mid to long-term, we expect our currency-neutral adjusted OCI margin to further expand with increasing contribution from our Reduced-Risk Products, price increases, moderating cigarette volume decline, and share growth, as well as efficient cost management and productivity initiatives.

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The strength of our brands is the foundation of our sustainable pricing, which remains a key driver of our mid to long-term margin and adjusted OCI improvements.

Over the last six years, our gross revenue growth as a result of increased pricing has been higher than inflation in Asia, but still largely within the boundaries of affordability, as reflected in the nominal GDP growth.

Going forward, sustainable pricing will be important to our success as we expect to be able to continue pricing our products within these affordability boundaries.

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Another key element to our success remains our superior portfolio led by *Marlboro* and other international brands such as *Lark* and *Parliament*, complemented by a number of strong local heritage brands such as *Sampoerna A*, *Fortune* and *Dji Sam Soe*.

In Asia, *Marlboro* alone achieved a volume of 73.5 billion units in 2015, supplemented by a total of 28 billion units from *Lark* and *Parliament*. In addition, at 95 billion units, the volume of our three key local heritage brands combined was larger than the estimated total of each of BAT's and JT's main global brands in Asia.

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Complementing our strong portfolio is our ability to introduce products that are relevant to adult smoker preferences. Since 2010, adult smoker taste and product preferences have demonstrated a clear shift towards the low-tar and slimmer diameter product segments.

We have been able to build a very strong position in these segments – well above our Regional market share of 24.9% – with growth of 6.6 and 11.5 share points in the low-tar and slimmer diameter product segments, respectively, over the last five years.

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Furthermore, we continue to grow our portfolio in the premium and mid-price segments, capitalizing on adult smoker up-trading from increasing disposable income, which is further proof of PMI's premium leadership in Asia.

Between 2010 and 2015, our premium priced volume in Asia's non-OECD markets increased by eight billion units, or 8%. The strong momentum of the premium segment was mainly driven by India, Indonesia and Vietnam.

We have witnessed a similar trend in the mid-price segment. Between 2010 and 2015, our mid-price volume in Asia's non-OECD markets increased by almost 10 billion units, or 29%. The momentum of the segment was mainly driven by Indonesia and Pakistan.

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Marlboro continues to perform strongly. Compared to the first half 2015, cigarette volume of *Marlboro* grew by 1.5 billion units, mostly driven by narrowing price gaps in the Philippines, and complemented by in-market-sales volume gains in India and Korea.

Marlboro is benefiting from our success in further reinvigorating the brand with the deployment of the 2.0 Architecture across the Region.

One of the key drivers of *Marlboro*'s success has been our ability to introduce product innovations that are relevant to adult smokers, including launches in the new taste dimension segment in ten markets across the Region within the last year. The launch of Filter Black kretek in Indonesia earlier this month will further enhance *Marlboro*'s success in this key market.

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As part of our continuous efforts to grow our market share in the below premium price segments, we successfully introduced *Chesterfield*, *L&M*, *Philip Morris* and *Bond*

Street in eight more markets within the last twelve months, in addition to the nine markets in which they were already present. For example, since its launch in January 2016, *Chesterfield* in Malaysia has become one of the top-10 in-market-sales volume brands on year-to-date August basis.

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I would like to share with you some of the tremendous opportunities that still exist in our Asia Region.

In 2015, excluding China, the total cigarette industry volume that is not sourced from the large international competitors accounted for 494 billion units, or 44% of the total Asia Region volume.

Although we already hold sizable market shares in countries such as Indonesia, the Philippines and Thailand, other geographies such as Vietnam, India and Bangladesh represent significant opportunities for business expansion with favorable demographics and economic growth potential in the mid to long-term. In 2015, excluding China, 22% of the total cigarette consumption in the Asia Region occurred in these three markets.

In Vietnam, India and Bangladesh, between 2010 and 2015, we grew our shipment volume at compound annual rates between 27% and 34% and reached 3.6 billion units combined in 2015.

In Vietnam, distribution expansion and trade channel optimization will fuel our growth, together with participation in the mid-price segment following the launch of *Champion* in October 2015.

We are confident that our growth in India and Bangladesh will continue over the mid to long-term. In 2015, *Marlboro* was the fastest growing brand in the king size format by in-market-sales volume in India despite our limited but growing distribution presence in the market. In Bangladesh, *Marlboro* posted a premium segment share in Dhaka of over 10%, and we introduced *Bond Street* in the below premium segment earlier this year.

We will continue with our investments in distribution, visibility, adult smoker engagement and our organization to accelerate growth in these very promising markets.

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We believe that *iQOS* and our other RRPs have the potential to change the future of the tobacco industry. Building on our exceptional performance in Japan, we anticipate that *iQOS* will have a significantly favorable impact on our mid to long-term results.

Furthermore, our valuable learnings in Japan will help us succeed as we expand RRPs to additional markets in Asia.

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The steady market share increase of *HeatSticks* in Japan indicates strong adult smoker demand for RRPs and adult consumer appreciation for the unique benefits of *iQOS*.

Earlier today, Mirek showed the in-market-sales market share for *HeatSticks* in his presentation. We also closely follow the offtake share from a four convenience store chain panel that represents about 35% of the total offtake volume. We believe this data is a good leading indicator of in-market sales.

Following our national expansion of *iQOS* in April this year, *HeatSticks* offtake share reached 5.2% for the week of September 18th.

In Tokyo, our estimated offtake share more than tripled to 7.0% from year-end 2015 to the week of September 18th, which is a very positive indicator of the potential of *iQOS* in the rest of Japan.

Furthermore, the growth of *HeatSticks* is resulting in up-trading, as adult smokers across all price segments are converting to a premium-priced product.

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The continuous increase of the conversion rate from cigarettes to *iQOS* is very promising. Based on our most recent data, 73% of the panel users have either fully or predominantly converted to *iQOS*.

This high conversion rate can be attributed to increasing awareness levels among adult smokers through both broader media coverage and word-of-mouth. We have taken pro-active steps to raise this awareness through various forms of communications, especially following the national expansion, and we will continue to invest behind *iQOS* to further enhance adult consumer awareness and trial.

We are fully aware of the importance of having an effective end-to-end device management and after-sales customer care process. This comes through a variety of touch-points in the form of Customer Service Centers, Flagship Stores, and Points-of-Sale.

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As we improve our competitive positon in Japan with *iQOS*, we are also pleased that our cigarette market share is stabilizing on a sequential basis, after excluding the estimated impact of inventory movements.

Year-to-date August this year, our combined cigarettes and *HeatSticks* in-market-sales volume was up 2.3% versus the same period last year as the cigarette volume decrease versus the prior year was more than offset by the growing volume of *HeatSticks*. Between March and August, monthly *HeatSticks* in-market sales volume grew at a compound rate of 28%.

Overall, we're now gaining significant market share in Japan due to *Marlboro HeatSticks* and improvements in our cigarette share. For the second quarter, based on industry exchange data, *HeatSticks* reached an estimated national market share of 2.2%, more than double its first-quarter share.

HeatSticks market share growth continues, reaching an estimated national market share of 3.3% for quarter-to-date August, with estimated lower cannibalization from our own cigarette portfolio of 32% in June, down from 40% when we began the initial geographic expansion of *iQOS*.

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Our cigarette market share has been helped by our ability to support our cigarette brands despite our intense focus on *iQOS*.

According to point-of-sale data obtained from four major convenience store chains, offtake shares of recently launched *Lark Smart Plus* and *Lark* 7.0 Splash, helped the entire *Lark* family reach 9.9% market share year-to-date August.

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Following the August 1st price increase of 10 Yen per pack, *Parliament* market share has been resilient and grew on a year-to-date August basis compared to the same period last year helped by the launch of *Parliament* Crystal Blast in March.

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Marlboro is responding well to the reduced price gap with the leading brand in the market, while newly-launched *Marlboro W-Burst* series and *Marlboro Ice Blast Mega* offerings helped to stabilize the entire *Marlboro* cigarette family share.

To further drive the growth of *Marlboro*, in September we launched *Marlboro Dry Menthol*, a high-cooling taste offer featuring the distinctive new "mega dry capsule."

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We are the undisputed market leader in Indonesia and continue to have confidence in this market as a key driver of our growth in Asia.

On a macro-economic level, Indonesia represents a significant growth opportunity for PMI, underpinned by favorable demographics and economic expansion. For the full year, we anticipate double-digit currency-neutral OCI growth in Indonesia.

The soft start in the first quarter of this year was primarily due to share loss in the machine-made kretek segment, reflecting the growth of competitors' discounted product offerings in the Plus 4 arena.

We are judiciously responding to this competitor activity with competitively-priced machine-made kretek offerings. As a result, our market share has returned to sequential growth, reaching 34.7% for the quarter-to-date August period.

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We are pleased with the performance of our latest launches and geographical expansion in the machine-made kretek segment and will continue to invest in brands with launches at convenient price points to solidify our market leadership.

Distribution expansion of *Avolution* and *U Bold* successfully drove market share to 0.8% and 1.7% in August 2016, respectively. Within the machine-made kretek full flavor segment, we have reached a segment share of 11.9% in August, driven by the positive performance of *U Bold* 12s and the continued success of *Dji Sam Soe* Magnum.

To further enhance our position, earlier this month we launched *Marlboro* Filter Black kretek in 25 cities. Although it is early, we strongly believe that this offer will set the standard for the machine-made full flavor kretek segment.

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Turning now to Australia, where, since 2012, as a result of excessive out-of-cycle excise tax increases and heavy price discounting at the bottom of the market, we have witnessed continuous down-trading to lower price, lower margin brands, and growth of illicit products.

Between 2012 and 2015, although personal disposable income continued to grow, high tobacco products price increases resulted in a decline in relative affordability.

This year the price gap between the discounted price segment and the rest of the market has started to gradually close as a result of the March pricing, with relatively higher price increases at the bottom of the market as compared to those for the mid and premium price segments. This September's pricing also settled with relatively higher price increases on low and discount brands.

We expect that prices will continue to rise significantly on the heels of the already announced 12.5% out-of-cycle excise tax increases over the next four years in addition to the regular bi-annual excise tax increase based on salary inflation indexation.

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Despite these steep tax-driven price increases, the introduction of plain packaging, and the growth of illicit trade from 11.5% in 2012 to 14.0% in 2015, total industry volume has been relatively resilient. It has declined at a compound annual rate of 3.4% from 2012 to 2015, which was lower than the decline of 4.1% between 2010 and 2012. This trend was driven by the growing roll-your-own segment in which we grew our market share by 8.4 share points to 10.9% between 2012 and 2015.

We are hopeful that we can continue to gradually close price gaps over time. However, Australia continues to be a very challenging market, and our market share remains under pressure. For the full-year 2016, we expect our OCI decrease in Australia to be much less of a drag on the Region than it has been over the last few years.

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Let me now move to the Philippines.

Year-to-date August 2016, the estimated total cigarette market decreased by 12.2%, mainly due to the impact of price increases of low and super low price brands in the fourth quarter of 2015 ahead of the January 2016 excise tax increase. Although our lower-priced brands, *Fortune* and *Jackpot*, were impacted, *Marlboro* has been benefiting from its narrowed price gap with lower-priced brands. As a result, the premium segment grew to 29.3%, up by 9.1 share points year-to-date August compared to 2015. Importantly, our profitability and mix have improved as a result of *Marlboro*'s growth.

The last step of the multi-year tax reform is the convergence to a single tier tax structure in January 2017 with year-on-year index-driven excise tax increases thereafter. The tax increase is expected to result in continued industry volume softness in 2017, due mainly to its impact on lower-priced brands, which will be the only ones impacted by the convergence to the single tier. Nevertheless, this convergence should create a more favorable environment, thereby allowing us to further enhance our profitability.

Going forward, we plan to continue to invest in the quality superiority of our products while leveraging on our nation-wide distribution network. We will also continue to support and advocate for efforts to contain illicit trade.

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Finally, and most importantly, we benefit greatly from a diverse, talented and committed organization which has been the foundation of our success to date, and is the catalyst for a promising future. This is the result of our steadfast commitment to recruiting, developing and retaining the best talent. We have multiple initiatives and programs that are in place to ensure its continuity. In addition, we are working to further improve diversity and gender mix in our organization. Overall, the quality and caliber of our 42,000 employees in the Asia Region are the key of our success.

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To conclude, the operating environment in Asia is favorable with a positive economic and demographic outlook.

Although we have been facing challenges in key markets, we have solid strategies and plans in place to regain momentum and deliver increasingly strong business growth in the years to come.

Our business fundamentals remain strong, characterized by our clear market leadership, solid financial performance and backed by a leading brand portfolio with a focus on relevant innovation and judicious investments, which underpin our sustainable pricing power.

The exceptional performance of *iQOS* in Japan, especially since the national roll-out, has proved that RRPs represent a phenomenal opportunity for us in Asia. Improving category awareness together with our ability to develop a reasonable and appropriate regulatory framework will pave the way for geographical expansion of RRPs in the Region which will further enhance our growth.

Thank you very much for allowing me to share with you an overview of PMI’s dynamic, exciting and promising business in Asia. I’ll be happy to take your questions.