

**Remarks by Werner Barth
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**Investor Day
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(SLIDE 1.)

Good morning, Ladies and Gentlemen. My name is Werner Barth and I will focus on the marketing and sales of our superior brand portfolio of combustible tobacco products.

(SLIDE 2.)

Today, I will share an overview of our outstanding product portfolio, the center of which is *Marlboro*, the number one brand in the category and the only truly global cigarette brand. I'll touch upon our success in innovation, both in new product launches as well as initiatives designed to strengthen our core cigarette portfolio. Lastly, since innovation takes many forms, I will update you on key initiatives in our commercial organization to be more effective and efficient as we enter the Reduced-Risk Product category.

(SLIDE 3.)

We have an outstanding portfolio, made up of powerful international brands and important local heritage brands in some key markets.

Within this portfolio, *Marlboro* and *Parliament* compete in the premium and above segment, where we've successfully increased our share of segment to 51.5% in 2015, an increase of 1.2 share points compared to 2014.

L&M, *Philip Morris* and *Lark* compete in the mid-price segment, where we have successfully held our share of segment year-on-year.

In the large, growing and hyper-competitive low price segment, we achieved a modest growth of 0.2 points in our share of segment in 2015.

Our portfolio of international brands is complemented by local gems such as *Sampoerna A* in Indonesia, *Fortune* in the Philippines, and *Delicados* in Mexico. In all, our portfolio is well consolidated, with our top 10 brands accounting for about 80% of our global cigarette volume last year. Going forward, we will continue to seek out further opportunities for consolidation.

(SLIDE 4.)

Our four key international brands combined contribute over half of PMI's total cigarette volume. This contribution has expanded significantly in recent years. These four brands alone also account for nearly 16% share of total cigarette industry volume excluding China and the U.S.

(SLIDE 5.)

We have successfully capitalized on trends in the cigarette category. PMI is the number one player in three important and growing segments: low tar, slimmer diameter and capsules.

Adult smokers continue to prefer lighter and smoother-tasting products, with nearly 43% of industry volume, excluding China and the U.S., in low tar propositions in 2015. PMI brands accounted for one-third of this dynamic segment in 2015, up significantly versus 2011.

The slimmer diameter segment continues to grow, accounting for 14% of industry volume in 2015, up almost 50% in five years. PMI is also number one in this segment, with one out of every three slimmer diameter cigarettes sold today being a PMI offering.

Adult smokers continue to seek fresh or new taste experiences "on demand," as evidenced by the growth of the capsule segment. As more and more competitors enter this segment, PMI no longer has an early mover advantage. However, we became number one in this segment in 2014 and maintained our leadership position in 2015.

(SLIDE 6.)

To sustain our leadership position in key growth segments and identify future trends, we have created a consumer-centric innovation platform. Using techniques pioneered in Silicon Valley, we approach innovation with a lean start-up mentality to achieve our strategy of bringing fewer, but more successful, new products to the market faster.

Based on best-in-class understanding of category trends, consumer preferences, and key purchase drivers, we know a substantial number of adult smokers are willing to pay more for higher quality products from well-known brands. We also know that 64% of adult smokers want more moments of indulgence or pleasure; 70% want more convenient solutions; 72% want the ability to customize products and 78% want to make a difference to the environment.

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We then align these needs to our four focus innovation corridors as follows:

The first corridor is taste smoothness. Adult smokers increasingly prefer lighter and smoother taste experiences. Even full-flavor smokers expect a rich and satisfying taste with no bitterness.

Second is the ego-social friendly corridor, which is about smoking pleasure and minimizing some of the unpleasant aspects of the smoking experience. Product features such as reduced smoke smell and “easy stub out” are two examples of innovations that are appreciated by adult smokers.

The third corridor is about fresh and new taste dimensions. Adult smokers increasingly look for different intensities and varieties of menthol and new interesting flavors, which can be customized on demand.

Finally, in some markets, we observe a preference for more environmentally friendly features and additive free tobacco blends. This is the eco-corridor.

(SLIDE 8.)

We have a rigorous innovation process with a clearly defined market share threshold for success of new launches. The percentage of new product launches clearing this threshold is defined as strike rate.

As a result of this process, we have been able to reduce the number of launches and, at the same time, significantly increase our strike rate and thus become much more efficient. This strategy becomes even more important with the advent of RRP's and we will continue to rationalize our portfolio and focus on fewer and bigger product launches.

During the course of this year, we have increased the market share threshold from 0.4% to 0.7%, and you can see that this will lead to an increased focus.

With our outstanding portfolio, our strong track record of successful innovations, and our global scale, we are confident that we can continue to deliver excellent growth for the combustible side of our business.

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I will now provide an overview of our key brands, starting with *Marlboro*, the number one cigarette brand in the world.

(SLIDE 10.)

Marlboro performed very well in 2015 with a global market share, excluding China and the U.S., of 9.6%, or 286 billion units, despite ongoing economic uncertainty in many parts of the world. In the first half of 2016, *Marlboro* grew market share in three out of our four Regions, declining temporarily in EEMA due to the issues in North Africa that André mentioned earlier.

Innovation is a key pillar of *Marlboro's* strategy, and in the last five years, innovative new products have contributed 12.5% of *Marlboro's* volume.

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Marlboro's growth follows our successful roll-out of the *Marlboro Architecture 2.0* project, now complete in over 100 markets.

Our objectives with the rollout were to reinforce *Marlboro's* leadership by re-interpreting its iconic design in a more contemporary and minimalistic manner and upgrade the product offer to a smoother, more rounded taste. In addition, we sought to make *Marlboro* less overtly masculine. Our research and actual results indicate that we achieved our objectives across very different markets, with *Marlboro* now seen as less harsh tasting, more modern and more gender inclusive.

(SLIDE 12.)

The *Marlboro Smooth* pillar includes the brand's offerings into lower tar, smoother taste and slimmer propositions. Thanks to a vibrant and progressive design as well as innovative features, *Marlboro Touch* is the leading variant among international premium brands within the 'slims' segment.

Marlboro Advance, designed to appeal to the ego-social needs of adult smokers, offers progressive features such as a *Recessed Filter*, a brighter blend for less smell, a special paper for more contained ash, and a "*Smart Seal*" for product freshness. Early results have been positive.

We will continue to roll out these offers through 2016.

(SLIDE 13.)

Marlboro continues to lead the menthol segment, and we are now accelerating our growth in the "new taste" capsule segment with offerings under the name "*Marlboro Fusion*." Results to date have been very promising, particularly in Mexico where we now have a 2.3% share of market with two *Marlboro Fusion* variants.

(SLIDE 14.)

Marlboro Dry is a new capsule offer that will be launched at the end of this month in Japan. It delivers a sharp, crisp, high cooling taste sensation with a proprietary flavor capsule, differentiating *Marlboro* once again from competitive "me too" products.

(SLIDE 15.)

Lastly, *Marlboro Filter Black* was launched in Indonesia this month. *Marlboro Filter Black* offers a unique kretek blend with a special *Air Flow* filter, offered in a resealable, *ProSeal* pack, and designed to appeal to the sizeable full-flavor kretek segment.

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Let me now introduce you to the "You decide" campaign, which is an evolution of the "Don't be a Maybe" campaign and is based on the same adult smoker emotional need and brand promise.

The “You Decide” campaign creates a strong “One Brand” platform for *Marlboro* that enables image and product communication under a single brand idea. The call to action, “You Decide,” is, in and of itself, a message to adult smokers of inclusiveness. Adult smokers are invited to decide for themselves some of life’s bigger questions...

What’s your next move? You Decide.

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Are you doing what you love? You Decide.

(SLIDE 18.)

Will the world know your name? You Decide.

(SLIDE 19.)

The “You Decide” campaign is broad enough to encompass product communication for the three pillars of *Marlboro*: Round, Smooth, and Fresh.

(SLIDE 20.)

In addition, *Marlboro*’s promotional platforms will be consolidated under one campaign called “*Neuland*.” “*Neuland*” is an innovative engagement platform for adult smokers. Twenty-plus markets will launch “*Neuland*” this year, with a full global rollout expected in 2017. Before I share with you a short video, let me explain how adult smokers engage with “*Neuland*.” The promotion can run over several months and is heavily entrenched in both on- and offline activities, where adult smokers can collaborate and co-create around the passion fields of sound, vision and taste. In the final event, they will be able to see “*Neuland*” come to life, in a fully immersive and sensorial experience.

Let’s experience the concept of “*Neuland*” ...

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[Video]

(SLIDE 22.)

I will now talk about *Parliament*. Positioned as an above premium, luxury proposition and distinguished by its famous *Recessed Filter* and iconic pack, *Parliament* offers adult smokers a refined smoking experience.

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Parliament’s performance is remarkable, especially given its selective geographic footprint. *Parliament* has maintained its overall global 2015 market share of 1.5%,

excluding China and the U.S., and grew or maintained share in the first half of 2016 across the key markets illustrated on the slide.

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A prestige brand like *Parliament* requires a pioneering innovation pipeline to remain competitive. Adult smokers of above-premium brands demand the best quality, the most innovative features and the best designed packs.

To achieve this, we will continue to roll out the successful “*P Line*” by *Parliament*: a slim diameter proposition featuring a unique, long *Recessed Filter*, which delivers taste smoothness and ego-social friendly features. With this proposition we are well equipped to make the *Parliament* franchise more gender inclusive.

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Parliament Carat, a super-premium offer designed to reinforce the brand’s prestige image, will be upgraded this year, featuring a faceted pack shape in a contemporary design. This upgrade, inspired by the beauty of diamonds, has laser-shaped bevels and premium features such as diamond cut tobacco and less smoke smell.

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Finally, addressing the growing trend for on-demand refreshment, *Crystal Blast*, a fresh-to-fresh menthol capsule product, is being rolled out nationally in Japan in 2016 with positive initial results.

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To celebrate *Parliament’s* famous *Recessed Filter* and iconic blue diffractive foil badge, we’ve launched a new product campaign. The campaign offers a nod to the recess or “space” in the *Parliament* filter and invites consumers to find...

A space to imagine...a space to explore...a space to indulge...and a space to discover.

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I will now turn to *L&M*.

(SLIDE 29.)

L&M is our international below-premium offering, the second-largest brand in our portfolio, and the third-largest international cigarette brand in the world.

In 2015, *L&M* recorded a strong performance, achieving a market share of 3.3%, excluding China and the U.S., and annual cigarette volume of around 98 billion units. 2015 marks the fifth consecutive year of growing or stable share for the brand, indicating powerful momentum and significant upside potential. Growth has been driven primarily by EEMA, where the brand’s share crossed 5% as of June year-to-

date 2016. In the EU, *L&M*'s share of around 6.9% was stable. In Asia and Latin America & Canada, the brand still has limited presence.

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L&M delivers excellent value-for-money by innovating in popular segments. *L&M*'s capsule offers are currently available in more than 40 markets, and command a 5.1% share of the global capsules segment as of June 2016. *L&M*'s slims formats continued to perform extremely well in 2015, with volume up by 39% versus the prior year, driven by the Czech Republic, Russia and Ukraine.

L&M's new pack design is already in more than 80% of *L&M* markets around the globe, with the roll-out expected to be completed in 2017. The new pack features the distinctive *L&M* font in a circular badge, giving the brand global uniformity and a modern look.

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To strengthen *L&M*'s image perception as a popular, approachable and sociable brand, we are evolving our current communication platform. The concept is based on the “& is more” platform and invites adult smokers to co-create, compete and vote for the most talk-worthy experiences, triggered by “& then...” story starters.

Here are two examples of the new campaign. “My friends called me, & then...*L&M*: Open for more”

(SLIDE 32.)

... and, “Pack your bags, & then...*L&M*: open for more.”

(SLIDE 33.)

Turning to *Chesterfield*, our fifth largest brand. *Chesterfield* is positioned as a non-mainstream brand in our portfolio, with a highly differentiated proposition built upon 120 years of heritage and authenticity. This complements *Marlboro* and *L&M*'s mass appeal very well.

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As of June year-to-date 2016, *Chesterfield* recorded a 1.5% share of market, excluding China and the U.S., up by 0.1 point versus 2015. The brand has achieved strong growth, in particular in the EU Region, holding a solid number three industry position and growing. In EEMA, we see positive momentum in Turkey.

Chesterfield has been rapidly expanding around the globe, from more than 40 markets in 2011 to close to 70 markets today.

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We plan to leverage *Chesterfield's* unique brand positioning by supporting the core offer as well as new product innovations. Let me share one example of each.

In Switzerland, we've successfully grown the core brand of *Chesterfield* to over 5% market share as of year-to-date June 2016. *Chesterfield* is the fastest-growing brand in the market thanks to continuous support, competitive pricing, and fun and engaging consumer promotions.

In Croatia, we've successfully launched a progressive, slimmer diameter proposition, *Chesterfield Crown*, with less smoke smell and ash control features. The offer has achieved a 2.8% market share in less than two years as of year-to-date June 2016.

With *Chesterfield*, I have completed the overview of our global brand initiatives. Let me now conclude with some final words on our efforts to strengthen our commercial organization and prepare and structure for supporting both combustible tobacco products and RRP's.

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We first rolled out the new Commercial Approach in 2013. The Commercial Approach was designed to:

First, empower the people who know our business best, our salesforce, with the training and tools to make the best support decisions at the store level.

Second, increase collaboration between Sales and Marketing, and foster shared objectives through project management skill training and bottom-up field planning.

Third, but most importantly, create a consumer-centric approach by gaining an understanding of where our adult smokers shop and engaging our retail partners to advocate our brands with tailored messaging.

Since 2013, more than 14,000 employees have been trained in markets that represent 90% of our adjusted OCI.

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I've covered the "What" of commercial approach and strategy. I'd now like to share with you two examples of the "How." ... How we drive greater efficiency and effectiveness in selling our products.

The first is "TEN," which stands for "Trade Engagement Network." TEN is a global web-based platform that allows retailers to order products, learn the latest news from our brands, use tools to help strengthen their business acumen, and earn rewards based on performance. The system was successfully piloted in Ukraine and is now in 25 markets around the globe. We will continue this expansion, covering 45 markets by the end of 2017.

“TaskApp” is another new and exciting tool. With TaskApp, retailers can do many of the low added-value tasks in-store that were previously done with a visit from a sales representative. Retailers enjoy the chance to earn rewards and we enjoy both a volume uplift and significant cost savings of approximately 28% versus a traditional sales call.

You will have a chance to hear more about these, and other tools, during your Brand Showroom visit tomorrow morning.

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With the addition of RRP to our portfolio, our Commercial Approach must continue to evolve. We recognize that different roles and new skills are necessary to help adult smokers become aware of, and commit to switching to, Reduced-Risk Products.

We’ve identified and defined new roles for our employees to ensure clarity of responsibilities as we manage multiple categories. To highlight just three, “Visual Merchandiser” is a role specified for ensuring *iQOS* availability and visually arresting presentation at every touch point. “Corporate Seller” is a role designed to approach corporations to explain the workplace advantages of employee conversion from cigarettes to *iQOS* and to arrange corporate sales. “Converter” is a role designed to provide hyper-care to adult *iQOS* users as they start the journey to switch to a new way to enjoy tobacco taste.

In Japan, for example, 95% of the existing sales force personnel are now in these newly designed roles.

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In conclusion, we have a superior brand portfolio that is well positioned to deliver growth.

Marlboro’s momentum remains strong, fueled by growth of the core, as well as successful line extensions, supported by 2.0 Architecture and the new “You Decide” and “*Neuland*” platforms.

Our wider brand portfolio is delivering growth across price points and across key growth segments.

We will continue to innovate, both with line extensions and on our core product ranges, to ensure that our product portfolio remains responsive to ever evolving adult smoker preferences and allows us to maintain our leadership of growing segments.

We will increase our speed and efficiency through new digital platforms designed to empower our field forces on the front lines as well as engage our retail partners. And most importantly, we are transitioning our organization to manage multiple categories as we continue on our journey to convert the world’s adult smokers to Reduced-Risk Products.

(SLIDE 40.)

Thank you very much for your attention. I will be glad to take your questions.