Remarks by Jacek Olczak
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Investor Day
Lausanne, September 30, 2016

(SLIDE 1.)

Good morning, Ladies and Gentlemen. I have the privilege of giving the final presentation of PMI's 2016 Investor Day, which will be followed by a coffee break. Afterward, André and I will be happy to answer any remaining questions you may have.

(SLIDE 2.)

Today, I will begin with the key factors supporting our revised 2016 reported diluted EPS guidance. Next, I will cover our free cash flow target for the year, including the impact of the capacity expansion for Reduced-Risk Products. I will then provide an update on our capital structure, before wrapping up with a discussion of our shareholder returns.

(SLIDE 3.)

As announced by André yesterday, we have narrowed, and revised for currency only, our 2016 reported diluted EPS guidance to a range of $4.53 to $4.58. Excluding a full-year unfavorable currency impact of approximately 35 cents per share, at prevailing exchange rates, our guidance represents a growth rate of approximately 10.5% to 11.5% compared to our adjusted diluted EPS of $4.42 in 2015.

(SLIDE 4.)

When considering our quarterly financial performance this year, it is important to remember two specific factors that distort our comparisons to 2015. The first relates to our first-half 2015 pricing gain in Asia, which was concentrated in the first quarter. The second relates to the significant investments behind *iQOS* and our cigarette brand portfolio in the fourth quarter of 2015.

We expect our currency-neutral adjusted diluted EPS in the third quarter to be flat to slightly up versus the third quarter of 2015. As a reminder, in the fourth quarter of this year, we anticipate strong currency-neutral net revenue growth, driven primarily by the annualization of price increases and the growth of RRPs, principally in Japan, as well as the favorable cost comparison versus 2015. These factors will contribute to the significant adjusted diluted EPS growth, excluding currency, that we anticipate.

(SLIDE 5.)

The 35 cent unfavorable currency impact on our 2016 guidance represents a significant improvement compared to both 2014 and 2015. As seen on this slide, the Euro, Indonesian Rupiah, Japanese Yen and Russian Ruble, in particular, have been key contributors. The improvement has been partly offset by a depreciation in the Egyptian Pound.

While currency remains a headwind in 2016 at prevailing exchange rates, today's guidance represents projected year-on-year reported diluted EPS growth for the first time since 2013.

Looking to 2017, it would be premature to provide a full-year currency impact at this time. We will do so when we give our 2017 guidance in February. However, we are clearly encouraged by the currency movements in 2016 and believe we could see less of an adverse impact on our financial results next year.

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Let me now take you through the key factors supporting our 2016 guidance, beginning with cigarette industry volume.

Excluding China and the U.S., cigarette industry volume declined by 1.7% year-to-date August. This represents a further moderation in the decline rate compared to recent years, supported by relatively modest decreases in the EU and EEMA Regions, in part due to growth in large profitable markets such as France, Italy and Turkey. The year-to-date decline was due mainly to markets in the Asia Region such as Indonesia, Japan, Pakistan, the Philippines and Vietnam, as well as Argentina and Brazil in the Latin America & Canada Region.

For the full-year, we forecast a cigarette industry volume decline of 2.0% to 2.5%, excluding China and the U.S., reflecting the impact of recent price increases in select markets, notably Argentina.

(SLIDE 7.)

Our cigarette shipment volume declined by 3.9% year-to-date August, reflecting lower cigarette industry volume and lower market share. While we target stronger average annual volume performance over the longer term, the decline this year has been due mainly to a limited number of markets, in the majority of which we are successfully managing the balance between volume and OCI growth.

(SLIDE 8.)

Approximately 1.6 points of the year-to-date decline was due to two markets – Pakistan and the Philippines – where the decreases were concentrated in low margin volumes with limited, if any, impact on OCI. Furthermore, in the case of the Philippines, while the lower volume was principally due to the impact of price increases at the bottom of the market, the resulting reduced price gaps contributed to the strong performance of *Marlboro* and thus our improved profitability.

(SLIDE 9.)

Another 1.6 points of the decline was due to Indonesia and Russia, where our market shares have been impacted by specific factors. In Indonesia, growth in the financially unattractive "plus-4" arena has put pressure on our volume and share in the short-term. In Russia, the impact of the cigarette industry volume decline has been compounded by lower market share due to the slower relative penetration of our competitors' price increases. In these markets, we nevertheless continue to target double-digit currency-neutral OCI growth this year.

(SLIDE 10.)

As Drago discussed yesterday, Algeria has also impacted our cigarette volume performance this year, accounting for approximately 0.7 points of the decline.

For the full year, we anticipate a cigarette shipment volume decline in line with that of August year to date.

(SLIDE 11.)

Our year-to-date August cigarette market share excluding China and the U.S. declined by 0.5 points. This was mainly due to the Asia Region, notably Indonesia and Pakistan, and the EEMA Region, notably North Africa and Russia, which Drago and Martin covered yesterday.

Marlboro continues to perform well, with year-to-date August cigarette share growth in the Asia, EU and Latin America & Canada Regions. Furthermore, the brand's international cigarette share, which excludes China and the U.S., was flat despite lower share in EEMA due mainly to North Africa. Excluding North Africa, *Marlboro*'s share in the EEMA Region increased by 0.2 points, while *Marlboro*'s international share increased by 0.4 points.

(SLIDE 12.)

A key factor supporting our performance is pricing, which remains robust. From 2008 through 2015, our pricing variance as a percentage of the prior year's net revenues averaged 6.4%, with fluctuations from year to year notably reflecting the timing of our retail price increases.

We continue to anticipate a full-year 2016 pricing variance of around 6% of 2015 net revenues, consistent with the historical annual average and despite the negative comparison related to Asia. During the third quarter, we announced or implemented price increases in markets including Argentina, Canada, Mexico and Turkey.

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In addition to top-line growth, we remain focused on managing costs. In 2016, we expect our total cost base to increase by approximately 1%, excluding currency.

Importantly, this increase includes the impact of higher investment behind the commercialization of RRPs, as well as higher-than-anticipated costs associated with *iQOS* device replacements and air freight shipping of *HeatSticks* to Japan driven by surging adult consumer demand.

Based on our robust pricing and effective cost management, we expect to exceed our currency-neutral adjusted OCI growth algorithm of 6% to 8% in 2016, thus underpinning our strong adjusted EPS growth projection for the year on the same basis.

Over the near term, we target a currency-neutral total cost base increase of 1% to 3% annually, excluding the potential impact of any significant net incremental share in RRPs.

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Our favorable cost outlook is supported by moderating prices for key inputs such as tobacco leaf, clove and direct materials. Furthermore, our outlook reflects manageable increases in our conversion costs, excluding currency, mainly driven by the impact of local inflation.

Collectively, our key input and conversion costs account for the majority of our cost of goods sold, which represented nearly 60% of our total costs above OCI in 2015.

(SLIDE 15.)

Our strong pricing, partly reflecting our premium brand portfolio, and focus on cost management contribute to a superior adjusted OCI margin. At 42.3% in the first half of 2016, our adjusted OCI margin compares very favorably to the average margins of our Company Peer Group and our international tobacco competitors.

The comparison versus our international tobacco competitors is particularly impressive, given that we are at the forefront of the tobacco industry in terms of the development, scientific substantiation and commercialization of RRPs.

(SLIDE 16.)

We continue to expect RRPs to approach break-even OCI in 2017 and become accretive in 2018, though the timeline for individual markets to be accretive may be shorter, depending on the speed of their success.

By 2020, we are targeting an additional annual OCI in the range of $0.7 to $1.2 billion. As André indicated, we are confident that we will be close to the upper end of this range.

(SLIDE 17.)

To support our commercialization plans for RRPs and related demand, we are increasing our investment to expand planned annual heated tobacco stick production capacity to 50 billion units.

This chart outlines our current forecast for capacity through the end of 2017. This year, we should have approximately seven billion units of available capacity for commercialization and expect to reach installed annual capacity of approximately 15 billion units by year end.

Although we are steadily increasing capacity through the installation of new machinery, we still expect the short-term supply shortages resulting from the stronger-than-anticipated demand in Japan to continue through the first quarter of 2017. As of 2018, we estimate that we can increase installed annual capacity, as needed, by approximately four billion units per month, with a lead time of around 12 months.

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As we increase our investment behind heated tobacco stick capacity, we expect to achieve greater investment efficiency per unit. The initial 30 billion units of production capacity at our Bologna factory has required investment of approximately $22 million per billion units. For reference, an average greenfield cigarette factory would currently require investment of approximately $11 million per billion units.

In the near term, we expect required investment of around $16 to $18 million per billion units to expand current manufacturing capacity and to retrofit existing cigarette factories with machinery for heated tobacco products.

While we are still preparing for the initial commercialization of Platforms 2 and 4, we currently estimate a required investment in capacity of around $25 to $30 million per billion units for Platform 2, reflecting the lower speed of the first generation of machines. For Platform 4, we estimate required investment of around $10 to $15 million per billion units.

Our geographic footprint for RRP production over the mid to long-term will be driven by considerations such as trade blocs and the need to diversify our production base, and have an impact on the per-unit level of investment required. Additionally, while we currently have sufficient capacity with respect to *iQOS* devices, we plan to expand our *iQOS* supplier base as well.

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To accelerate our RRP capacity expansion, we have increased our full-year 2016 total capital expenditures estimate by $100 million to $1.2 billion.

Despite this increase, we now expect our free cash flow to be modestly above last year’s level of $6.9 billion, supported by a favorable currency impact on free cash flow. Importantly, we have been able to sustain the improvements in working capital that we achieved last year.

For 2017, we anticipate capital expenditures of approximately $1.5 billion, primarily reflecting further incremental investment behind RRP capacity.

(SLIDE 20.)

To underscore our commitment to the commercialization of RRPs, this chart shows the growing contribution of RRP-related investment to our capital expenditures over recent years. In 2016, the figure is projected to reach approximately 27%, up by 20 percentage points versus 2013. It is important to note, however, that we continue to invest behind cigarette production, with related capital expenditures at levels that generally offset depreciation.

(SLIDE 21.)

Highlighting the strength of our free cash flow generation, since 2008 we have converted a greater proportion of net revenues into free cash flow than all but one of the companies in our peer group.

(SLIDE 22.)

Turning now to our capital structure, we remain fully committed to our current single-A credit rating.

This is central to our financial strategy because it provides us with the flexibility to successfully manage through events such as the 2008 financial crisis and the unprecedented currency headwinds that we've faced over recent years, while still making significant investments behind RRPs.

(SLIDE 23.)

To support our solid capital structure, we have built a well-laddered bond portfolio. As seen in this chart, we have limited our bond maturities so that no more than an aggregate of around $3 billion becomes due in any one year.

(SLIDE 24.)

Furthermore, we have been able to finance our debt at increasingly attractive terms over time. For 2016, we project a year-end weighted-average coupon on our total bond portfolio of 3.2% and a year-end weighted-average time to maturity for our total long-term debt of 10.6 years. These represent significant improvements versus year-end 2010.

Furthermore, including short-term borrowings, our average cost of debt is expected to be just below 3% for 2016.

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Our net debt to adjusted EBITDA ratio stood at 2.2 times at the end of December last year, with the increase over recent years due mainly to the adverse impact of currency on our adjusted EBITDA.

While the methodology varies from one rating agency to another, our current debt multiples are generally outside the ranges associated with a single-A rating. This can be seen in the examples for Moody's and S&P in the table on the right. Recognizing the strong underlying growth in our business, the investment in and potential opportunity for RRPs, and our balanced financial policy, Moody's recently reaffirmed our single-A rating with a stable outlook. The other agencies have also maintained the current ratings and outlooks.

For illustrative purposes, a 0.1 point decrease in our adjusted net debt to EBITDA ratio, based on S&P's methodology, corresponds to a $400 million increase in EBITDA.

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We remain focused on generously rewarding our shareholders over the long term, with dividends currently serving as the primary use of our free cash flow. Earlier this month, we increased our annual dividend rate by 2.0%. This was our ninth dividend increase since the spin in 2008, representing a cumulative increase of 126.1% and a compound annual growth rate of 10.7%.

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Moreover, our dividend yield as of last Friday's market close was 4.1%, which places us at the top of our peer group.

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Our history of annual dividend increases has contributed to leading shareholder returns. Year-to-date, PMI shares have delivered a total shareholder return of 17.9%, more than double the returns for our peer group and the S&P 500.

Investors who have held PMI since the spin in March 2008 and reinvested their dividends have received a total shareholder return of 189%. This is well above the corresponding figures for our peer group and the S&P 500.

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In summary, we remain on track to deliver strong underlying performance this year.

Our reported diluted EPS guidance reflects currency-neutral growth of approximately 10.5% to 11.5%, and represents year-on-year reported diluted EPS growth for the first time since 2013.

While our cigarette volume performance has been impacted by specific factors in select markets, our pricing outlook remains intact and we expect our focus on cost management to help drive 2016 currency-neutral adjusted OCI growth above our algorithm, notwithstanding our significant investment in RRPs.

We are now targeting 2016 free cash flow to be modestly above last year's level of $6.9 billion.

In addition, we remain focused on maintaining our single-A credit rating and continue to prioritize the dividend as our primary use of free cash flow. Our dividend increase earlier this month demonstrates our steadfast commitment to shareholder returns.

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Finally, as highlighted by André yesterday, we continue to target annual net revenue and adjusted OCI growth, excluding currency and acquisitions, of 4% to 6% and 6% to 8%, respectively, and currency-neutral adjusted diluted EPS growth modestly above our target adjusted OCI results in the absence of share repurchases.

These ranges reflect the fact that the commercialization of RRPs is still in its early stages, and that our share repurchase capacity remains highly constrained due to the adverse impact of currency on our credit metrics in recent years.

We envisage being able to revisit the algorithm once, as anticipated, RRPs become accretive to the bottom line in 2018.

(SLIDE 31.)

Thank you. We will now have a short coffee break until 11:00 am. André and I will then be happy to answer any final questions you may have.