



PHILIP MORRIS
INTERNATIONAL

2016
INVESTOR DAY

Investor Day

Lausanne, September 30, 2016

Jacek Olczak
Chief Financial Officer



Agenda

- Key factors supporting revised 2016 EPS guidance
- 2016 free cash flow target
- Capital structure update
- Shareholder returns



Narrowed and Revised 2016 EPS Guidance

- Narrowed, and revised for currency only, 2016 reported diluted EPS guidance to \$4.53 to \$4.58, at prevailing exchange rates, compared to \$4.42 in 2015
- Guidance now includes approximately 35 cents of unfavorable currency at prevailing exchange rates (vs. 40 cents previously)
- Excluding currency, our guidance represents a growth rate of approximately 10.5% to 11.5% compared to adjusted diluted EPS of \$4.42 in 2015



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Distorted Quarterly Comparisons vs. 2015

	% Variance vs. PY					
	Q1		Q2		Q3	Q4
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2015</u>	<u>2015</u>
Net Revenues ^(a)	2.4	9.1	1.4	4.5	5.9	4.0
Adjusted OCI ^(a)	(0.9)	16.3	1.8	6.1	9.3	(7.2)
Adjusted Diluted EPS ^(b)	0.9	23.5	1.7	9.2	15.8	(3.9)

(a) Excluding currency and acquisitions

(b) Excluding currency

Source: PMI Financials or estimates



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Moderating Currency Impact on PMI EPS

(\$ per share)

	<u>2014</u>	<u>2015</u>	<u>Feb 2016 Guidance</u>	<u>Sept 2016 Guidance</u>
Russian Ruble	(0.14)	(0.44)	(0.16)	(0.09)
Egyptian Pound	(0.01)	(0.02)	(0.03)	(0.06)
Mexican Peso	(0.01)	(0.04)	(0.03)	(0.05)
Turkish Lira	(0.04)	(0.07)	(0.02)	(0.04)
Euro	(0.03)	(0.14)	(0.02)	(0.01)
Indonesian Rupiah	(0.14)	(0.09)	(0.05)	(0.01)
Japanese Yen	(0.20)	(0.13)	(0.07)	0.05
Other	(0.23)	(0.27)	(0.22)	(0.14)
Total Currency Impact	(0.80)	(1.20)	(0.60)	(0.35)

Note: Currency impact represents the variance vs. prior year period
Source: PMI Financials or estimates



Moderating Cigarette Industry Volume Decline

- Further moderation in cigarette industry volume decline, down by 1.7% YTD August, 2016:
 - Supported by relatively modest decreases in the EU and EEMA Regions
 - Decline mainly due to the Asia and LA&C Regions
- Forecast full-year 2016 cigarette industry volume decline of 2.0% to 2.5%

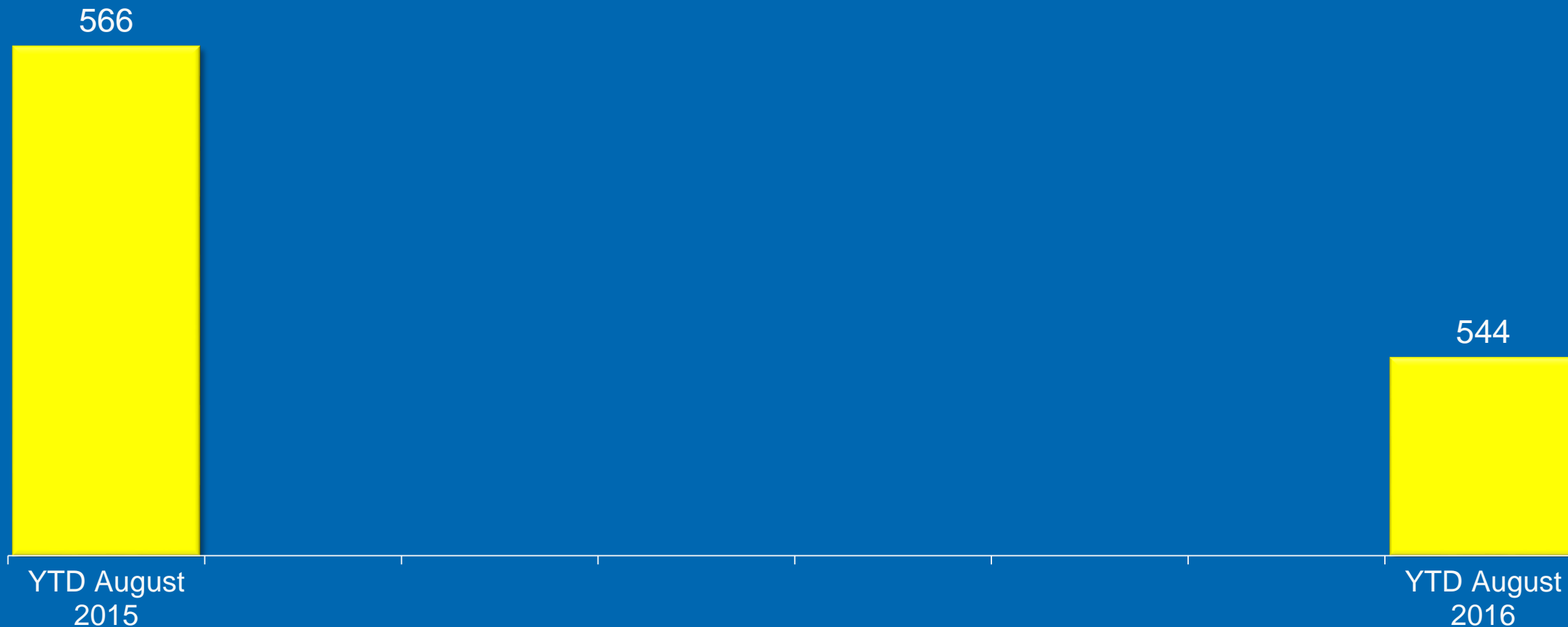


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PMI Cigarette Volume Performance

(units billion)

**Volume down
by 3.9%**



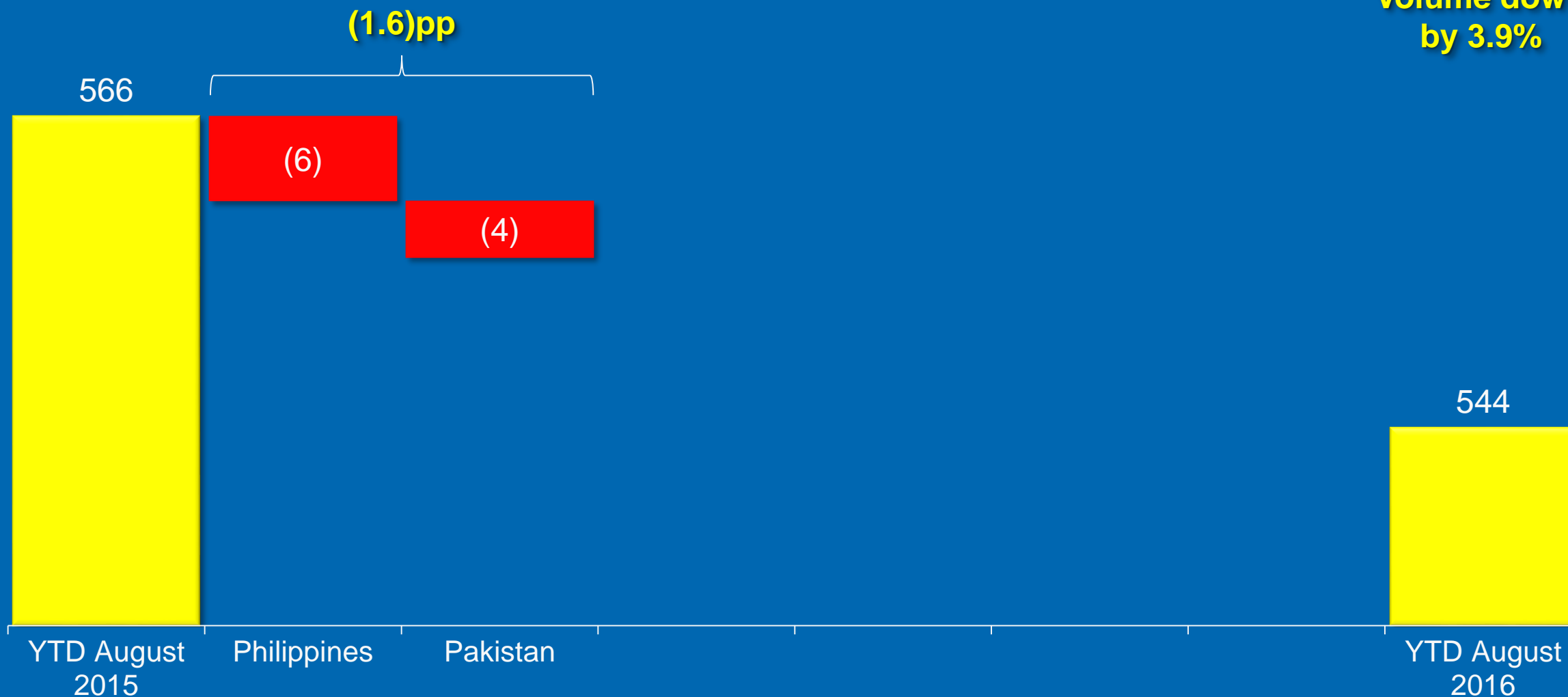


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PMI Cigarette Volume Performance

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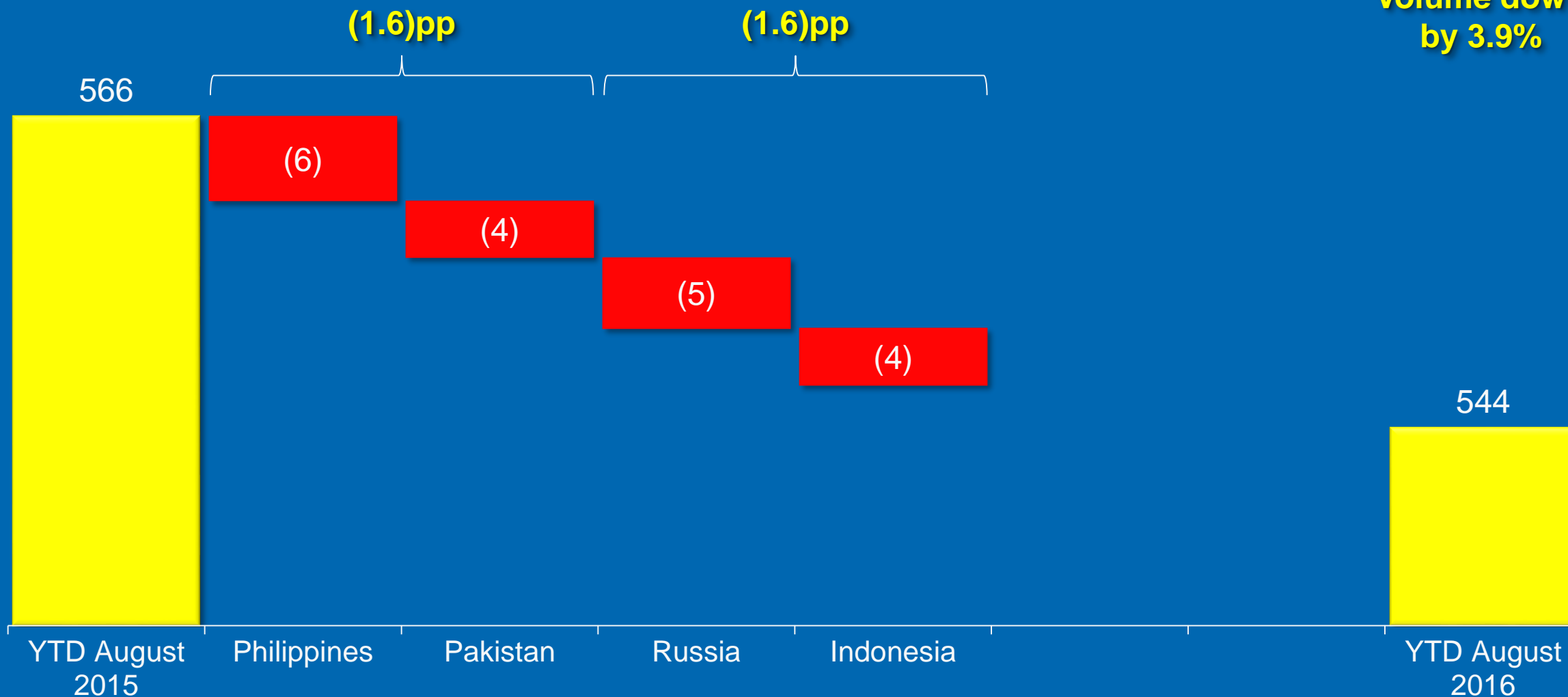


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PMI Cigarette Volume Performance

(units billion)

**Volume down
by 3.9%**



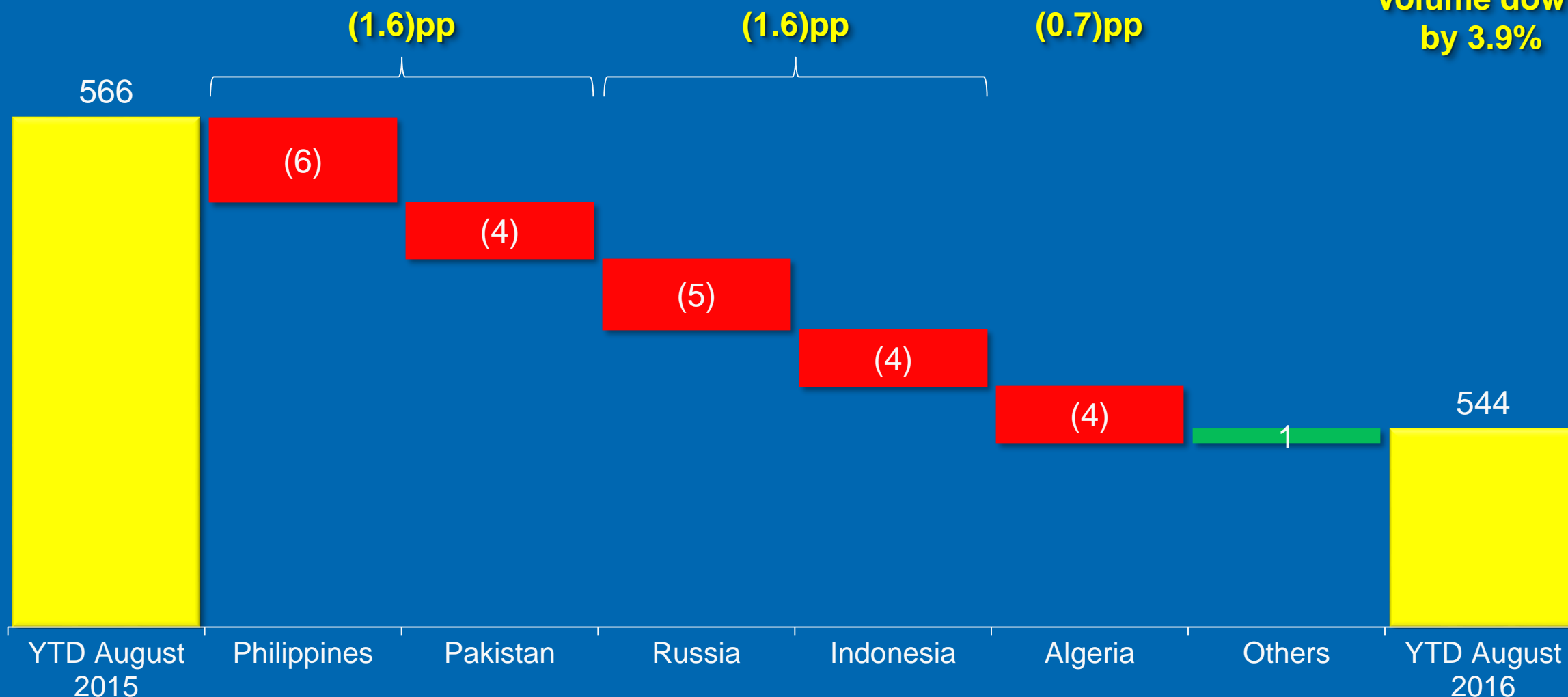


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PMI Cigarette Volume Performance

(units billion)

**Volume down
by 3.9%**





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PMI and *Marlboro* Cigarette Market Shares



YTD Aug, 2016 Var. vs. PY

YTD Aug, 2016 Var. vs. PY

EU 38.5% 0.2 pp

19.1% 0.3 pp

EEMA 25.2 (0.5)

6.7 (0.7)

Asia^(a) 23.9 (1.3)

6.8 0.5

LA&C 39.1 0.4

15.6 0.6

Total PMI^{(a)(b)} 28.2 (0.5)

9.6 —

(a) Excluding China

(b) Also excluding the U.S.

Note: Pack design is for illustrative purposes only

Source: PMI Financials or estimates



Robust Pricing

- Since the spin through 2015, annual pricing variance averaged 6.4% of net revenues
- Anticipate 2016 pricing variance to be around 6% of 2015 net revenues
- Announced or implemented price increases in Q3, 2016, in markets including Argentina, Canada, Mexico and Turkey



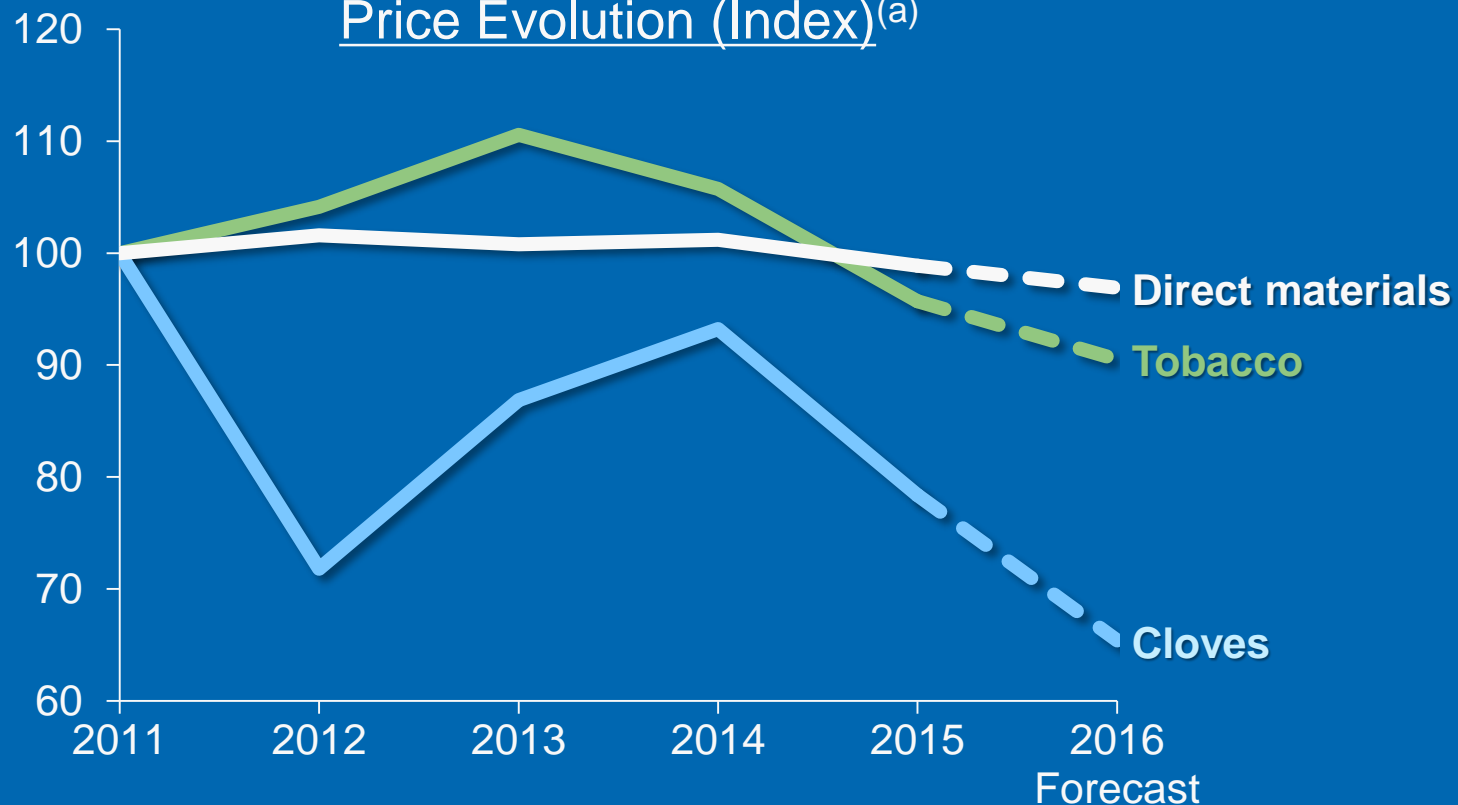
Continued Focus on Managing Costs

- In 2016, we expect our total cost base to increase by approximately 1%, excluding currency:
 - Includes the impact of higher investments behind the commercialization of RRP
 - Includes higher-than-anticipated costs associated with *iQOS* device replacements and air freight shipping of *HeatSticks* to Japan
- Over the near term, we target an annual total cost base increase of 1% to 3%, excluding currency and the potential impact of any significant net incremental share in RRP



Moderating Prices for Key Inputs

Tobacco, Clove and Direct Materials
Price Evolution (Index)^(a)



	2015	
	(\$ billion)	% split
Tobacco and cloves	2.9	18%
Direct materials	2.6	17%
Other COGS ^(b)	3.9	25%
Marketing, overhead & other costs above OCI	6.4	40%
Total costs^(c)	15.8	100%

(a) Price evolution index: tobacco based on average \$/packed kg; cloves based on average IDR/kg; direct materials based on usage cost

(b) Other manufacturing related costs and shipping

(c) Total costs above adjusted OCI

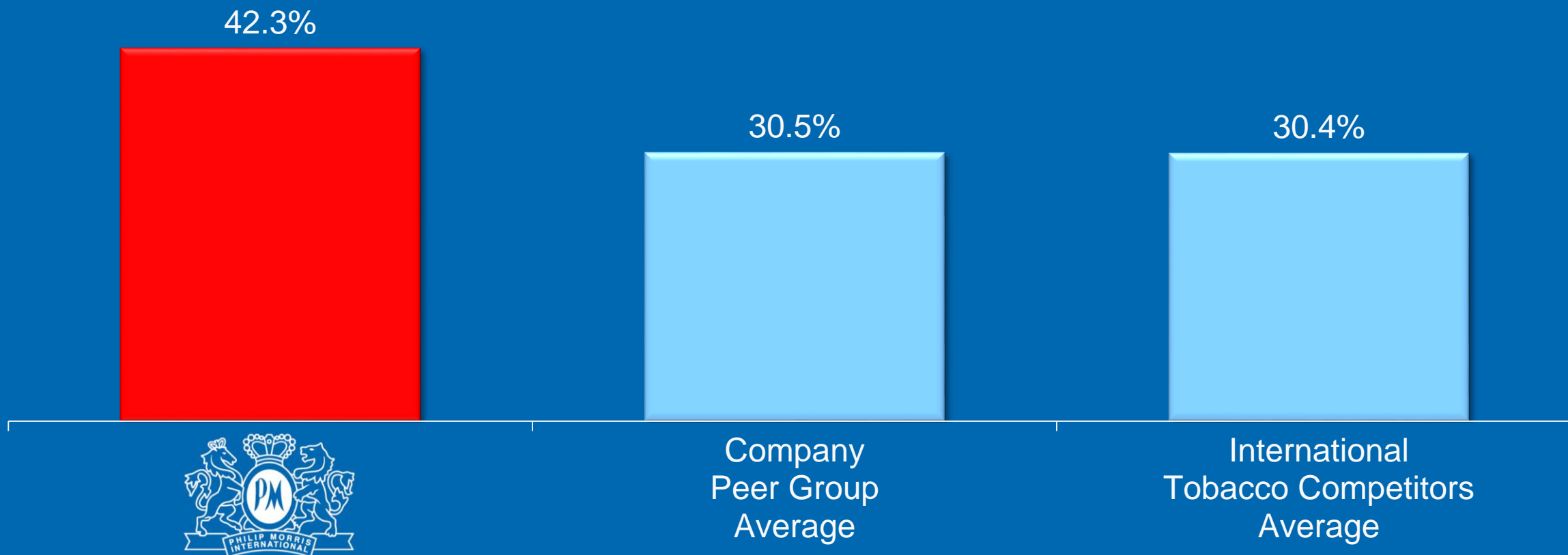
Source: PMI Financials or estimates

Superior PMI Margin



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Adjusted OCI Margin (H1, 2016)



Note: PMI is not included in the averages for the Company Peer Group and International Tobacco Competitors. Figures are for H1, 2016 or nearest comparable period. A list of the companies included in the Company Peer Group and International Tobacco Competitors averages is available in the glossary

Source: PMI Financials or estimates. FactSet and company filings, compiled by Centerview

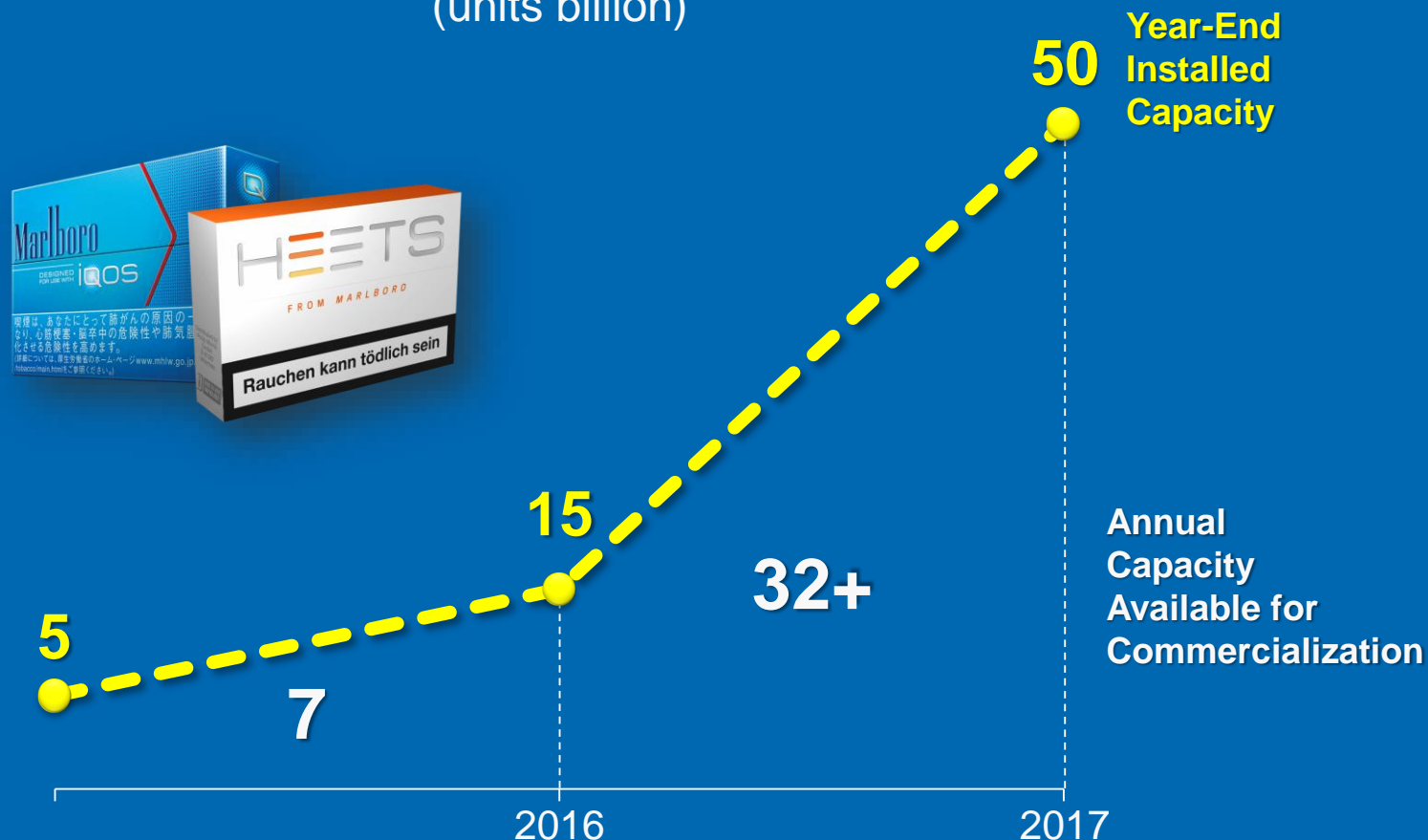


RRPs: The Opportunity

- We continue to expect RRP's 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, targeting an additional annual OCI of \$0.7 to \$1.2 billion on volume of some 30 to 50 billion units, net of cannibalization

RRPs: Increasing Capacity for Heated Tobacco Sticks

Heated Tobacco Stick Capacity Forecast (units billion)



- As of 2018, we estimate that we can increase installed annual capacity by approx. 4 billion units per month, with a lead time of around 12 months



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RRPs: Capital Expenditures

\$ Million Investment per Billion Units Capacity



Bologna Greenfield

Approximately
\$22

Capacity Expansion

Around
\$16 - \$18

Platform 2

Around
\$25 - \$30

Platform 4
(next generation)

Around
\$10 - \$15

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 are for illustrative purposes only
Source: PMI Financials or estimates



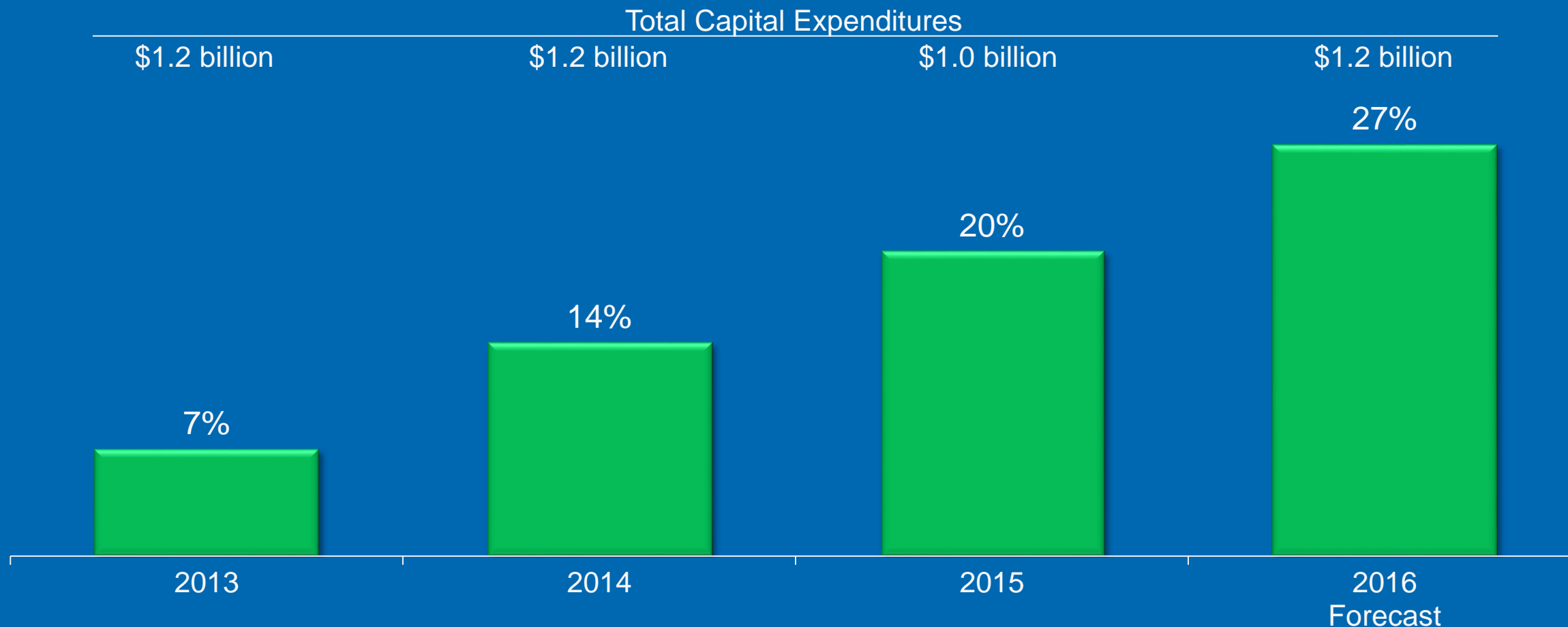
Free Cash Flow

- Increased 2016 capital expenditures estimate to \$1.2 billion (vs. \$1.1 billion) to accelerate RRP capacity expansion
- Forecast full-year 2016 free cash flow to be modestly above last year's level of \$6.9 billion, despite increase in capital expenditures target
- Anticipate capital expenditures of approximately \$1.5 billion in 2017, primarily reflecting further incremental investment behind RRP capacity



Growing Proportion of RRP-Related Capital Expenditures

Investment in RRPs as a % of Capital Expenditures

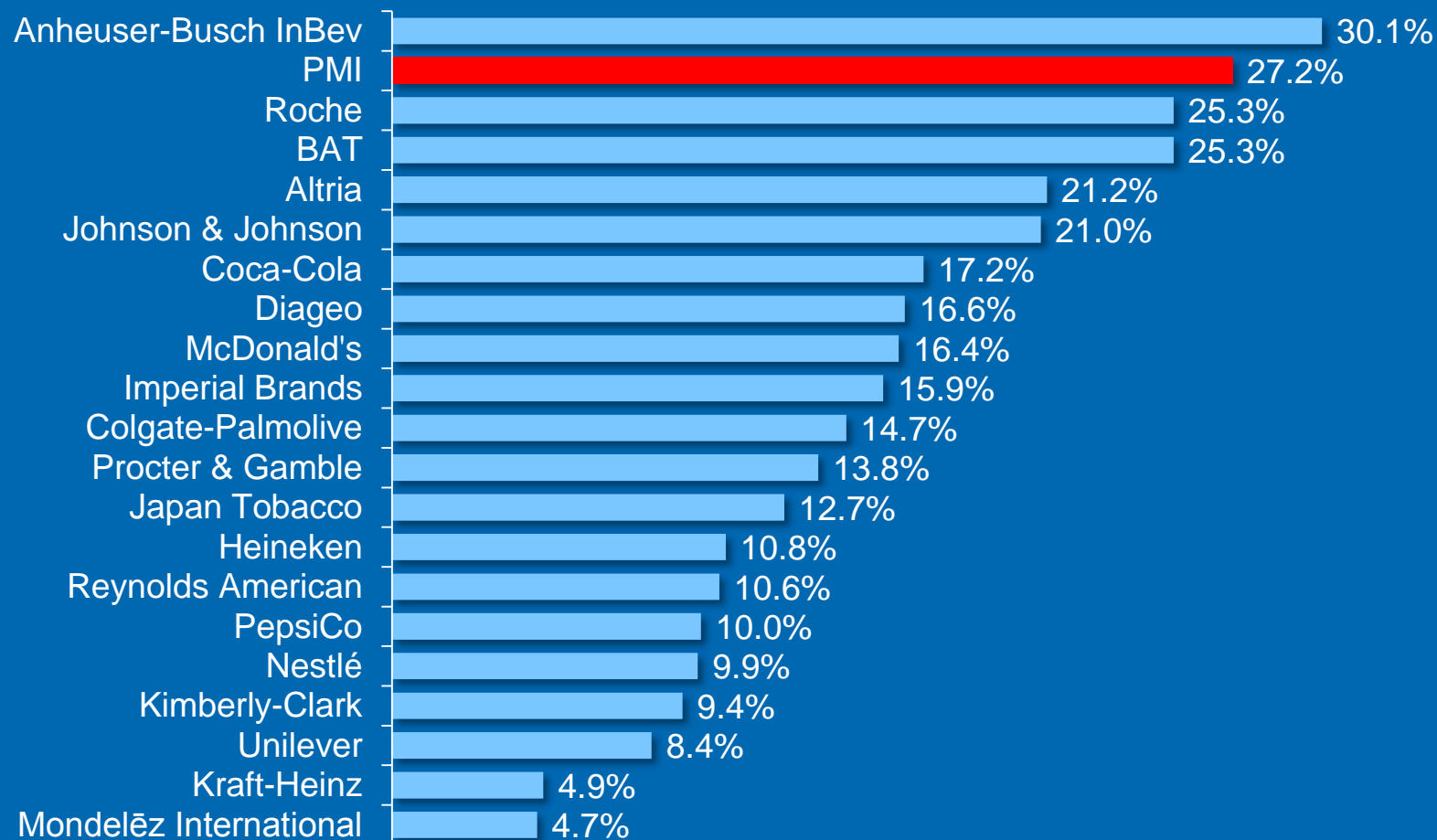


Note: Reduced-Risk Products ("RRPs") is the term the company uses to refer to products with the potential to reduce individual risk and population harm in comparison to smoking cigarettes
Source: PMI Financials or estimates



Free Cash Flow as a % of Net Revenues

Company Peer Group (2008 – June 30, 2016)



Note: Free cash flow as a percentage of net revenues is defined as total 2008 – June 30, 2016 period free cash flow over total 2008 – June 30, 2016 period net revenues. PMI's free cash flow and net revenues for the period were \$65.5 billion and \$240.9 billion, respectively. For peers, the nearest comparable period is used where the 2008 – June 30, 2016 comparison is not available

Source: Company filings, compiled by Centerview



Solid Capital Structure

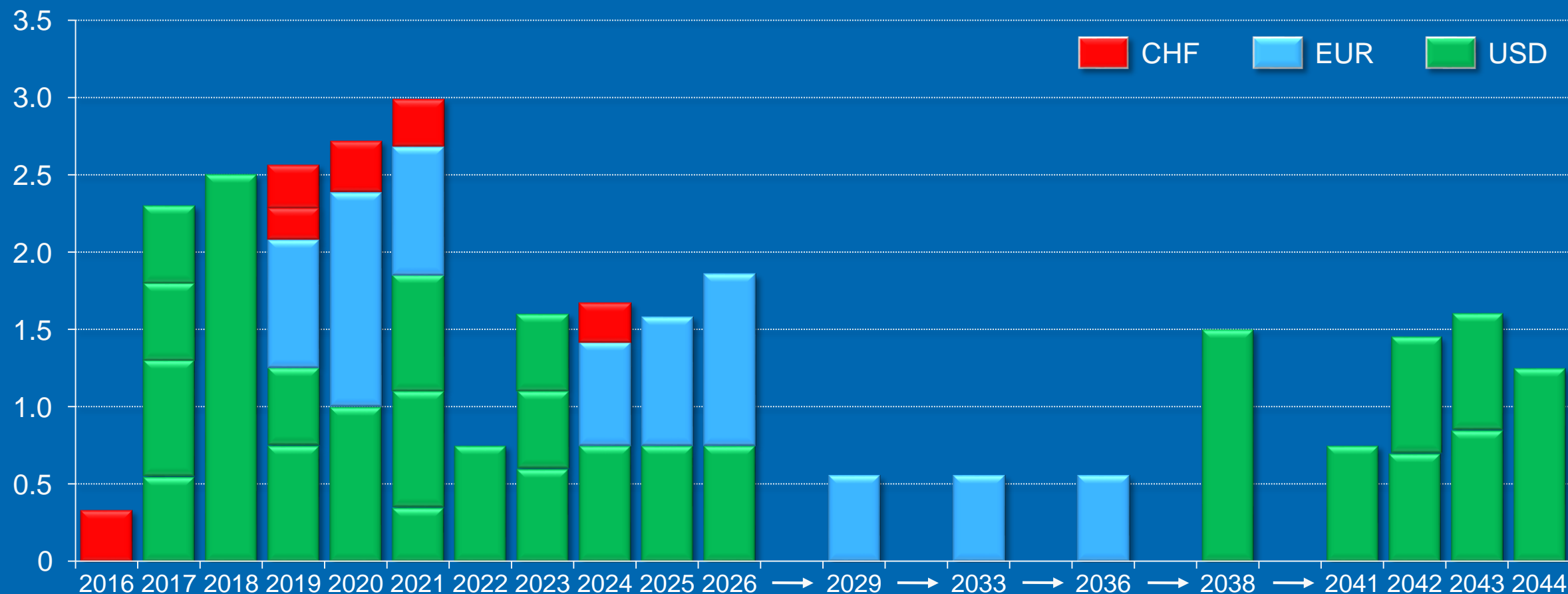
- Remain fully committed to our single-A credit rating
- Long-term credit ratings: A2 / A / A (Outlook: stable / negative / negative)
- Short-term credit ratings: P-1 / A-1 / F1
- Access to tier 1 commercial paper market
- Strong liquidity profile backed by \$8 billion stand-by revolving credit facilities



Well-Laddered Bond Portfolio

(\$ billion)

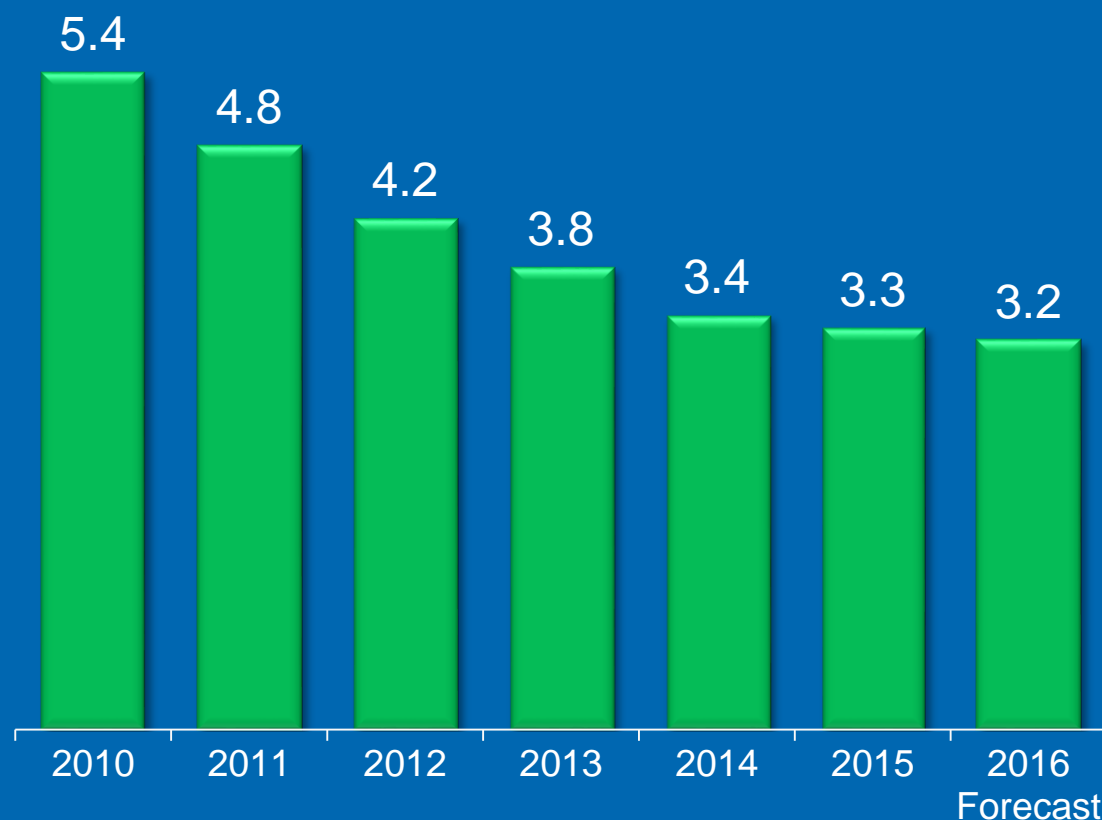
Bond Maturity Profile as of June 30, 2016



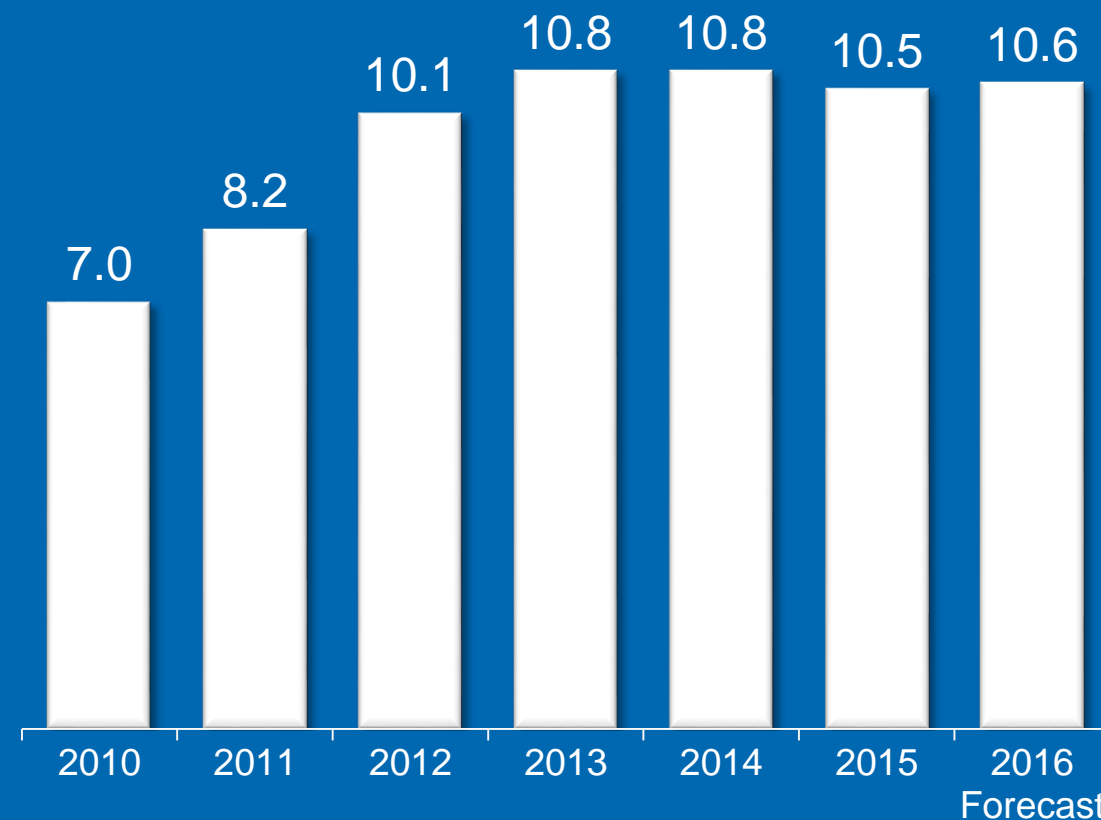


Debt Financing at Increasingly Attractive Terms

Weighted-Average Coupon
of Total Bond Portfolio (%)



Weighted-Average Time to Maturity
of Total Long-Term Debt (years)

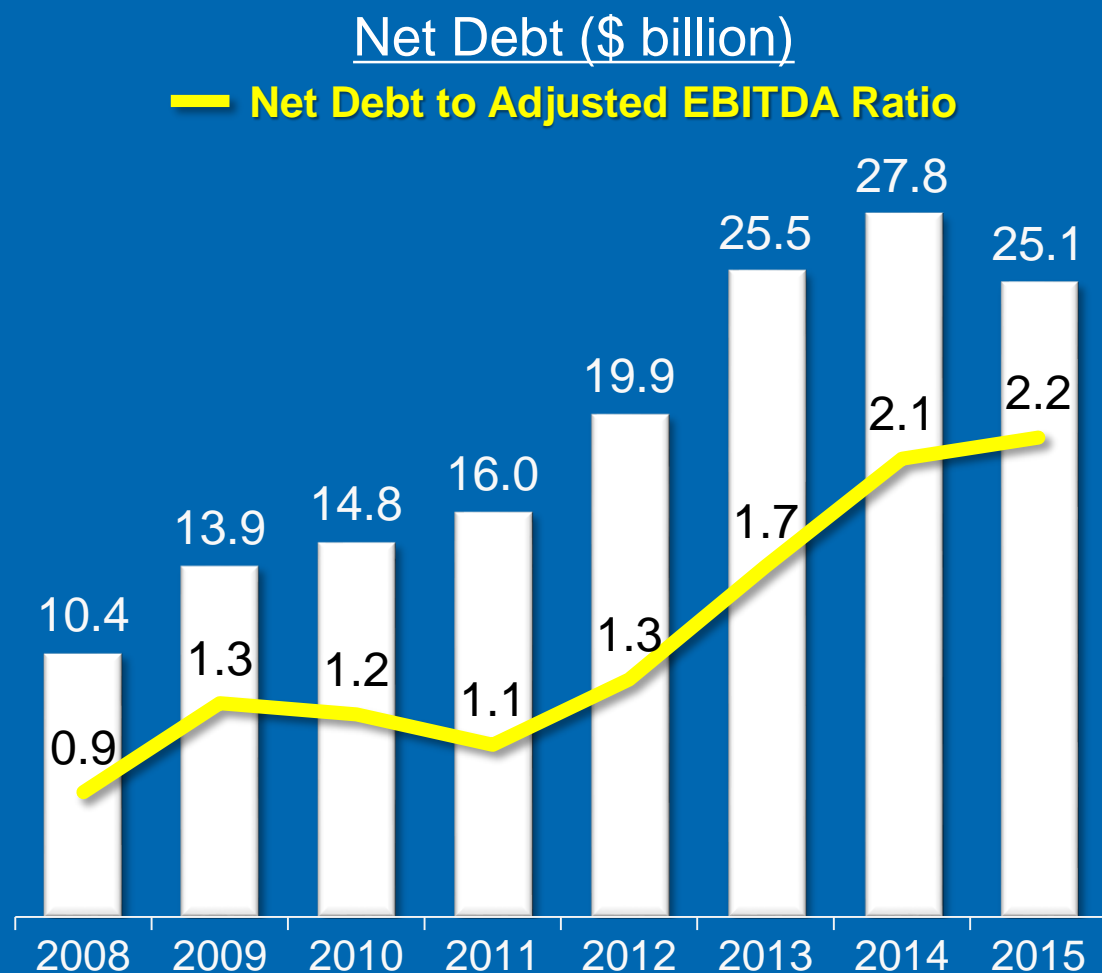


Note: Weighted-average coupon of total bond portfolio is calculated based on historical exchange rates. Weighted-average time to maturity of total long-term debt excludes the current portion of the bond portfolio and reflects the weighted-average at the respective year-end. Year-end 2016 time to maturity and total bond portfolio are based on the outstanding bonds as of August 31, 2016

Source: PMI Financials or estimates



Net Debt to Adjusted EBITDA Evolution



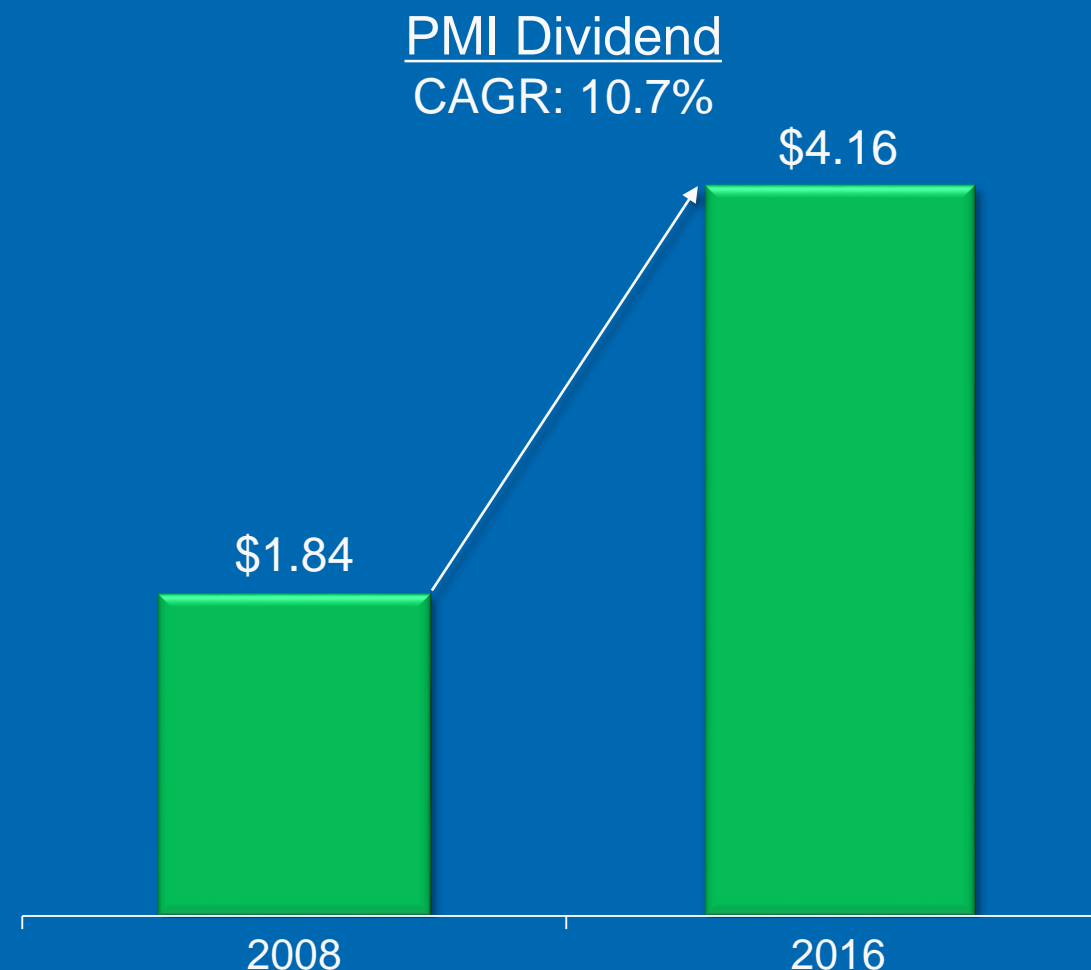
	Adjusted Net Debt to EBITDA Ratio ^(a)	
	Target Range	PMI (2015)
Moody's	1.5x – 2.5x	2.6x
S&P	1.5x – 2.0x	2.4x

(a) Adjusted net debt to EBITDA ratios for PMI are based on credit rating methodologies
Source: PMI Financials or estimates



Rewarding Our Shareholders: Attractive Dividend

- Dividends are currently the primary use of our free cash flow
- Increased our dividend this month, to an annualized rate of \$4.16 per share
- Nine consecutive dividend increases since 2008, representing a total increase of 126.1%



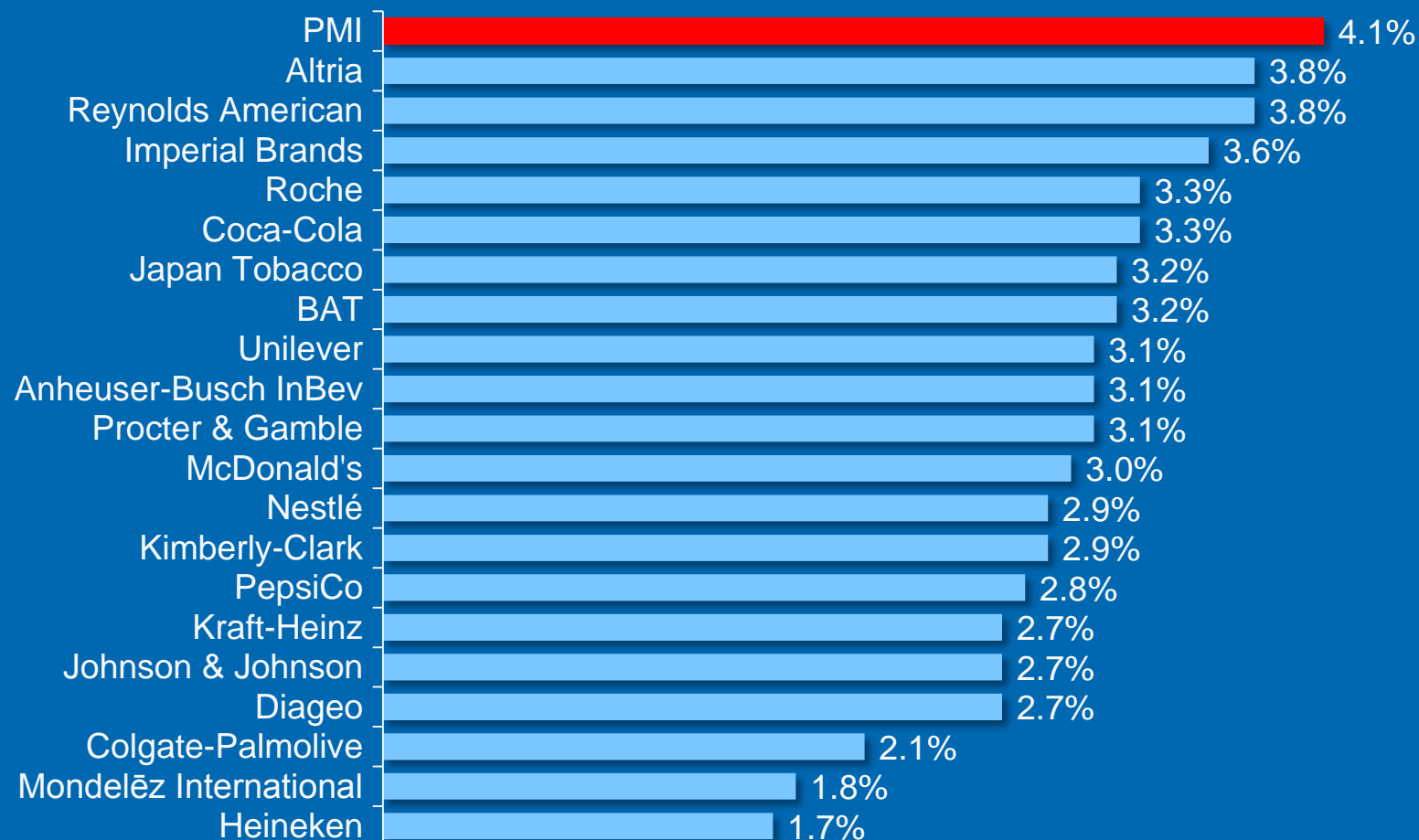
Note: Dividends for 2008 and 2016 are annualized rates. The 2008 annualized rate is based on a quarterly dividend of \$0.46 per common share, declared June 18, 2008. The 2016 annualized rate is based on a quarterly dividend of \$1.04 per common share, declared September 14, 2016

Source: PMI Financials or estimates



Rewarding Our Shareholders: Strong Dividend Yield

Dividend Yield: Company Peer Group (September 23, 2016)



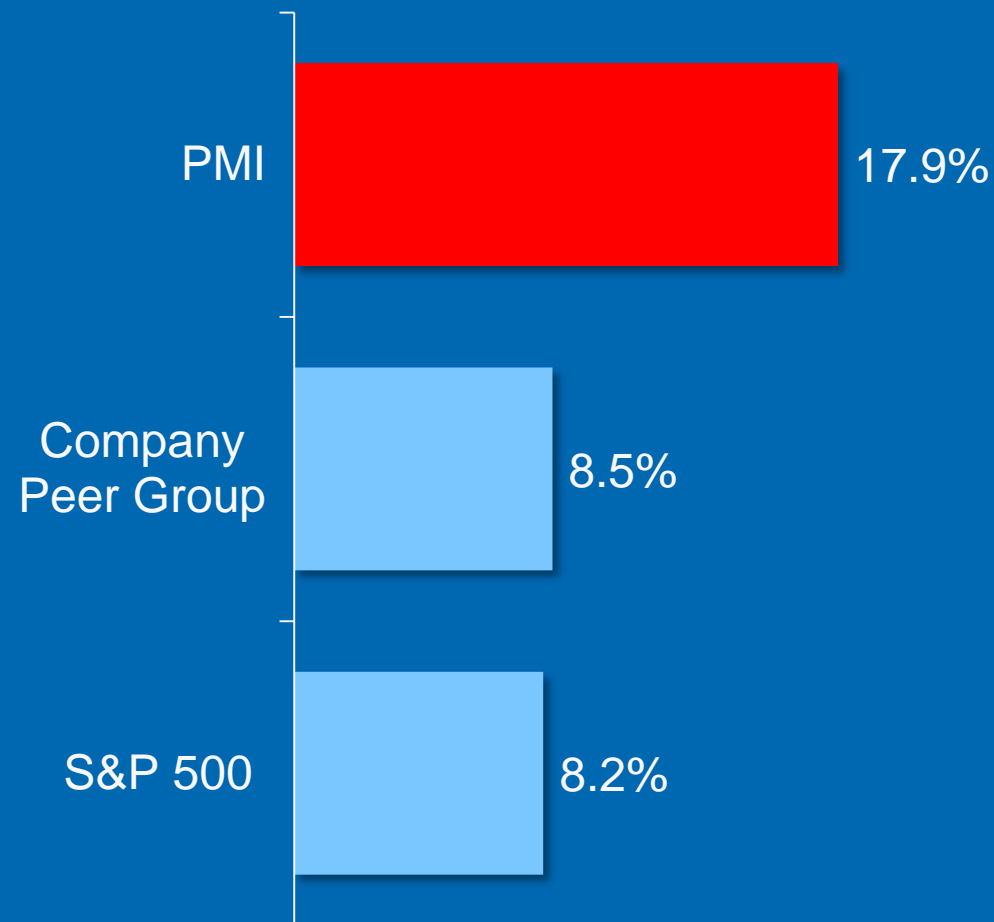
Note: Dividend yield represents the annualized dividend on September 14, 2016, over the closing share price on that date. The current annualized dividend rate for PMI is \$4.16. The closing share price for PMI was \$101.53 on September 23, 2016

Source: FactSet, compiled by Centerview

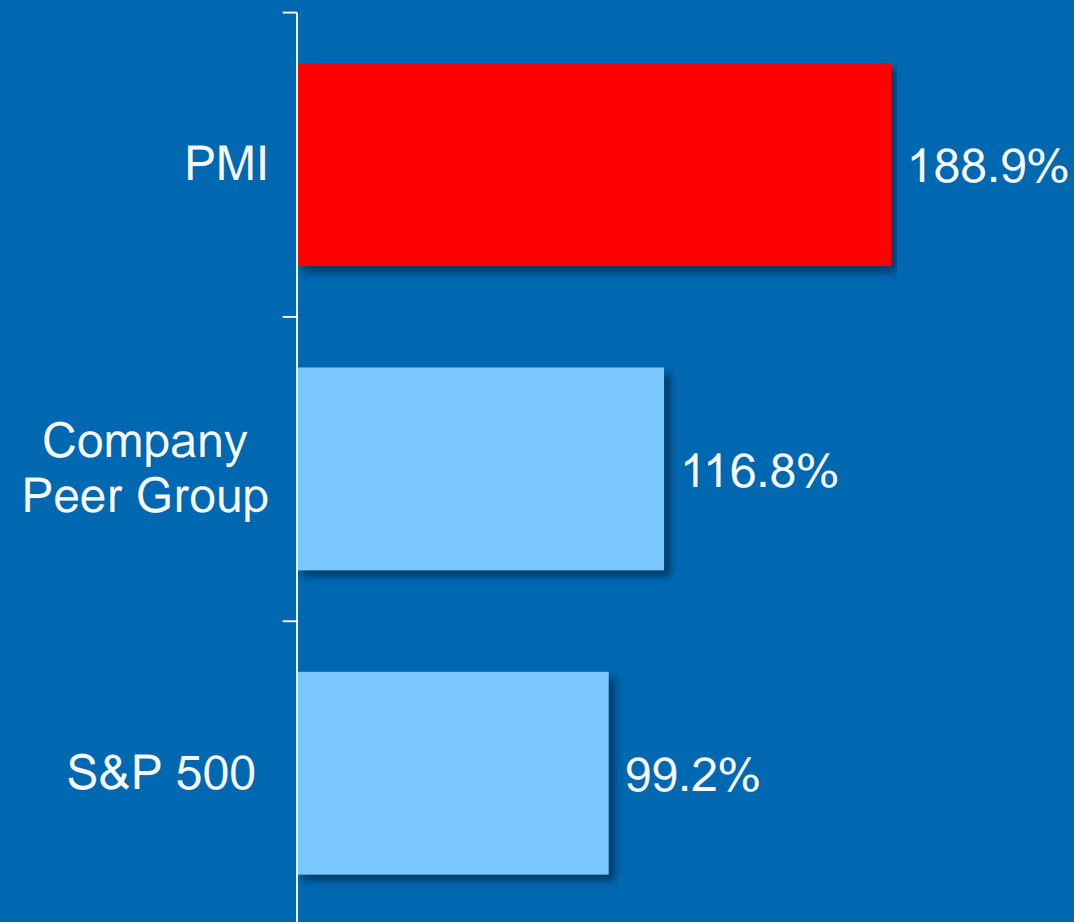


Rewarding Our Shareholders: Total Shareholder Return

January 1, 2016 – September 23, 2016



March 28, 2008 – September 23, 2016



Note: In USD. The company peer group represents the market weighted-average return of the group. PMI total shareholder return pro forma for additional \$0.46 per share dividend paid in April 2008 impacts the period March 28, 2008 – September 23, 2016. Exchange rates are as of March 28, 2008, January 1, 2016, and September 23, 2016. The company peer group is defined in the glossary
Source: FactSet, compiled by Centerview



Conclusion

- Remain on track to deliver a strong underlying performance in 2016
- Reported diluted EPS guidance reflecting currency-neutral growth of approximately 10.5% to 11.5% vs. adjusted diluted EPS of \$4.42 in 2015
- Our pricing outlook remains intact; expect cost management to help drive currency-neutral adjusted OCI growth above our algorithm
- Anticipate 2016 free cash flow to be modestly above last year's level
- Remain focused on maintaining our single-A credit rating, and continue to prioritize the dividend as our primary use of free cash flow



PMI Annual Growth Algorithm

- Currency-neutral net revenue growth target of 4% to 6%^(a)
- Currency-neutral adjusted OCI growth target of 6% to 8%^(a), including continued investments in RRPs
- Currency-neutral adjusted diluted EPS growth target of 8% to 10%
- We envisage being able to revisit the algorithm once RRPs become accretive in 2018

(a) Excluding acquisitions

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

Source: PMI Financials or estimates



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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

Glossary of Terms: www.pmi.com/2016InvestorDay/Glossary