PHILIP MORRIS INTERNATIONAL

INVESTOR DAY 2018

Designing a Smoke-Free Future

Investor Day

Lausanne, September 27, 2018

Martin King
Chief Financial Officer

Agenda

- Revised 2018 EPS guidance
- 2019-2021 growth targets
- 2019 outlook

2018: Revising and Narrowing EPS Guidance for Currency-Related Items

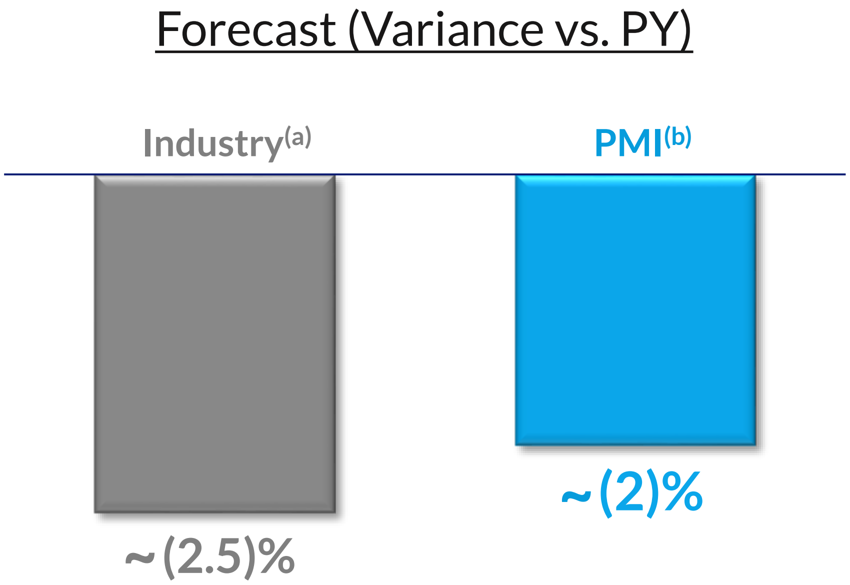
- Revising and narrowing 2018 reported diluted EPS guidance to a range of $4.97 to $5.02, at prevailing exchange rates, compared to $3.88 in 2017

- Primarily reflects two items, at prevailing exchange rates:
  1. **Currency**: approximately 12 cents of unfavorable currency (vs. seven cents previously)
  2. **Argentine peso devaluation:** following the accounting for the operations of our affiliates in Argentina as highly inflationary, and the related treatment of the U.S. dollar as their functional currency, an unfavorable impact of approximately six cents due to the further devaluation of the Argentine peso

- Excluding the 12 cents of unfavorable currency, our guidance now represents a growth rate of approximately 8% to 9% compared to our adjusted diluted EPS of $4.72 in 2017

Source: PMI Financials or estimates

2018: PMI Outperforming Industry Volume Decline



Industry[a]

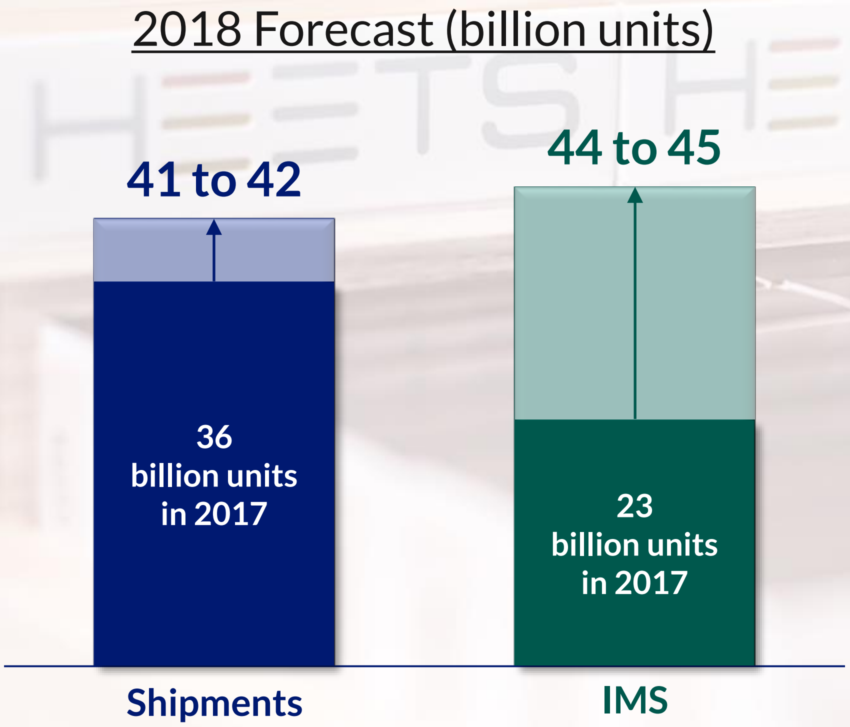
- Decline primarily reflects lower cigarette volume, notably in:
  - Brazil, Japan, Korea, Russia, Saudi Arabia and Ukraine
  - Partly offset by Pakistan and Turkey
- Partly offset by the growth of HTUs

PMI[b]

- **Expect to outperform the industry**, primarily reflecting the growth of HTUs (mainly the EU Region, Japan and Korea)

(a) Excluding China and the U.S.
(b) Shipment volume
Note: Reflects cigarettes and heated tobacco units
Source: PMI Financials or estimates

2018: Reaffirming PMI HTU Volume Outlook



Shipments

- Anticipated distributor net inventory reduction of approximately 3 billion units (vs. 13 billion increase in 2017), reflecting an estimated:
  - 4 billion unit **reduction** in Japan
  - 1 billion unit **increase** in other markets

In-Market Sales ("IMS")

- **Nearly double vs. 2017**, reflecting higher volume across all launch markets driven by the EU Region, Japan, Korea and Russia

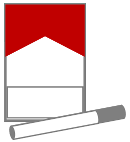
Source: PMI Financials or estimates

2018: Revising Net Revenue Growth Target

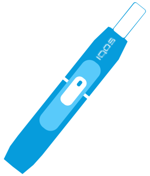
~3%

Growth ex-Currency

- Revising for impact of Argentine peso devaluation under highly inflationary accounting
- Full-year growth target driven by:



Strong combustible pricing



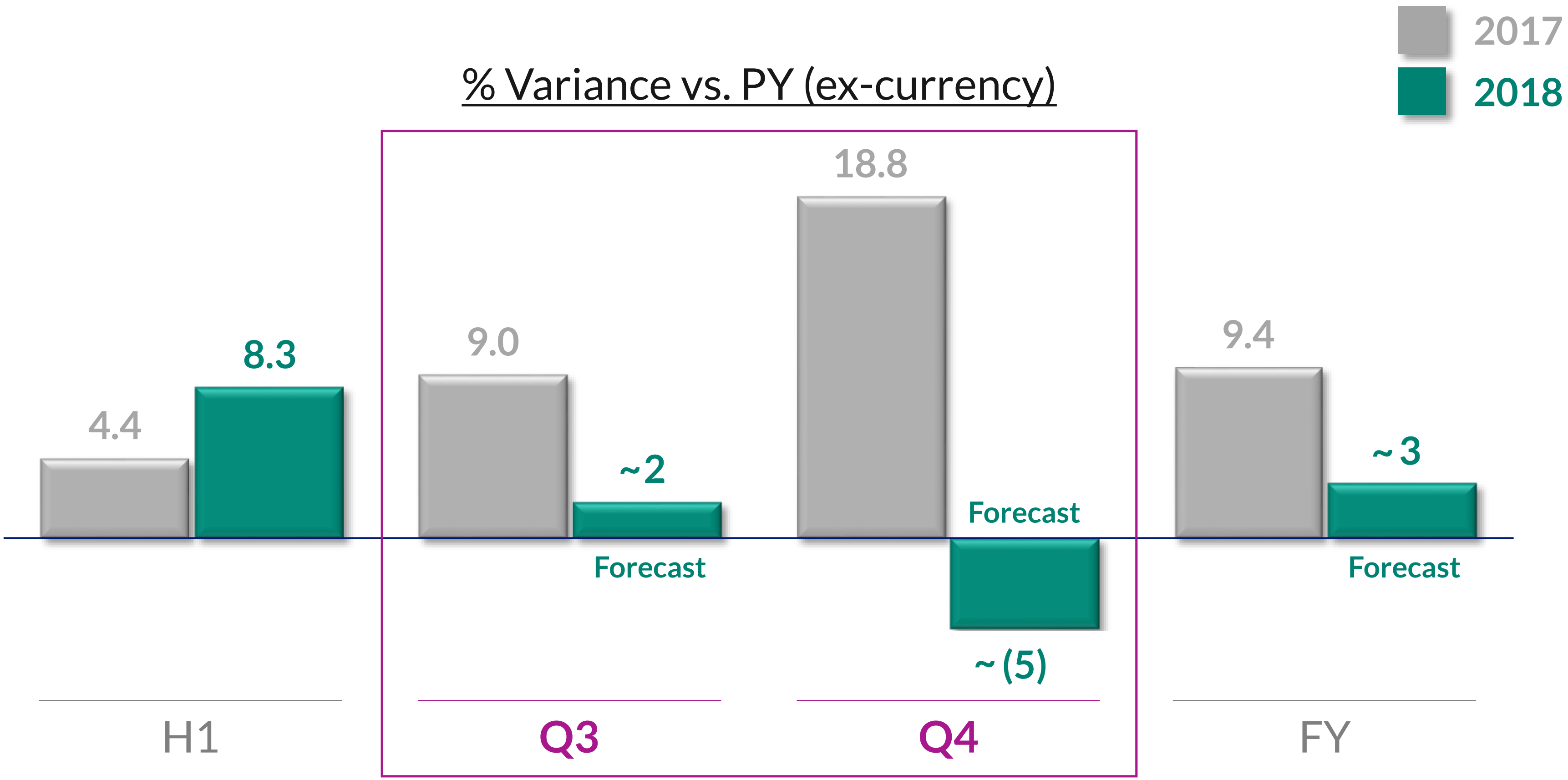
RRP volume growth

Partly offset by cigarette volume decline

- Anticipate combustible pricing variance of approximately 7%[a]
- Expect *IQOS* devices to account for approximately 20% of RRP net revenues

(a) As a percentage of combustible product 2017 net revenues
Source: PMI Financials or estimates

2018: Net Revenue Growth Phasing for H2



Source: PMI Financials or estimates

2018: Strong Cash Flow Despite Unfavorable Currency

Continue to Target

Operating Cash Flow[(a)]	~$9 billion	... subject to further currency movements and year-end working capital requirements
Capital Expenditures	~$1.5 billion	... of which around 60% are RRP-related

(a) Net cash provided by operating activities
Source: PMI Financials or estimates

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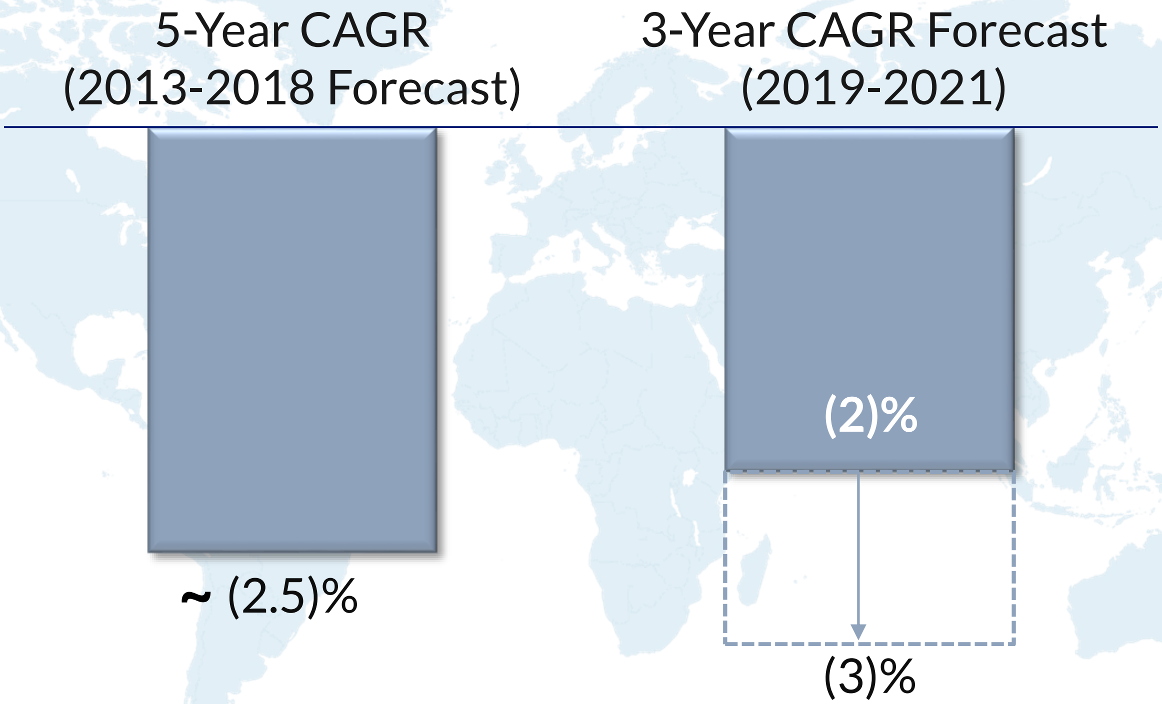
2019-2021: PMI Compound Annual Growth Targets

Net Revenues	Adjusted Diluted EPS
≥5%	≥8%
CAGR ex-Currency	CAGR ex-Currency

Source: PMI Financials or estimates

2019-2021: Industry Volume In-Line with Historical Trends



Note: Excludes China and the U.S. Reflects cigarettes and heated tobacco units
Source: PMI Financials or estimates

2019-2021: Net Revenue Growth Target

≥5%

CAGR
ex-Currency

- Driven by:
  - Continued strong pricing
  - Higher volume for *IQOS* devices and HTUs
  - Partly offset by lower cigarette volume, reflecting:
    - Switching to RRPs
    - Impact of lower cigarette consumption, net of market share gains
- Strong pricing outlook supported by the broadly rational excise tax environment globally and our leading brand portfolio
- Leading product innovation capabilities position PMI to remain at the forefront of the growing RRP category

Source: PMI Financials or estimates

2019-2021: Stable Unit Cost of Goods Sold

Cigarettes

- Unit COGS expected to be relatively stable, reflecting productivity improvements and limited input cost pressure

HTUs

- Unit COGS should remain in-line with those for equivalent cigarette products

IQOS Devices

- No significant changes in unit COGS expected, on average, despite the introduction of new device versions

Source: PMI Financials or estimates

2019-2021: Targeting Over $1 Billion in Cost Efficiencies

- Stepping up the pace of cost efficiencies through:
  - Increased manufacturing performance and better asset utilization
  - Productivity initiatives
  - Shift to project-based organization model
  - New zero-based budgeting initiative

- Savings from cost efficiencies will be partly reinvested to support net revenue growth

Source: PMI Financials or estimates

2019-2021: Adjusted Diluted EPS Growth Target

≥8%

CAGR
ex-Currency

- Assumes over the period:
  - An effective income tax rate of approximately 24%
  - Relatively stable net interest expense
- Assumes no share repurchases

Source: PMI Financials or estimates

2019-2021: Continued Cash Flow Growth

- Expect operating cash flow[a] to grow broadly in line with net earnings
- Remain focused on managing our working capital judiciously, and will target further improvements
- Anticipate annual capital expenditures of $1.2-$1.3 billion

PMI employee overseeing tobacco sheet production for *HEETS* in our Bologna, Italy manufacturing facility

(a) Net cash provided by operating activities
Source: PMI Financials or estimates

2019-2021: More Efficient Manufacturing Investment

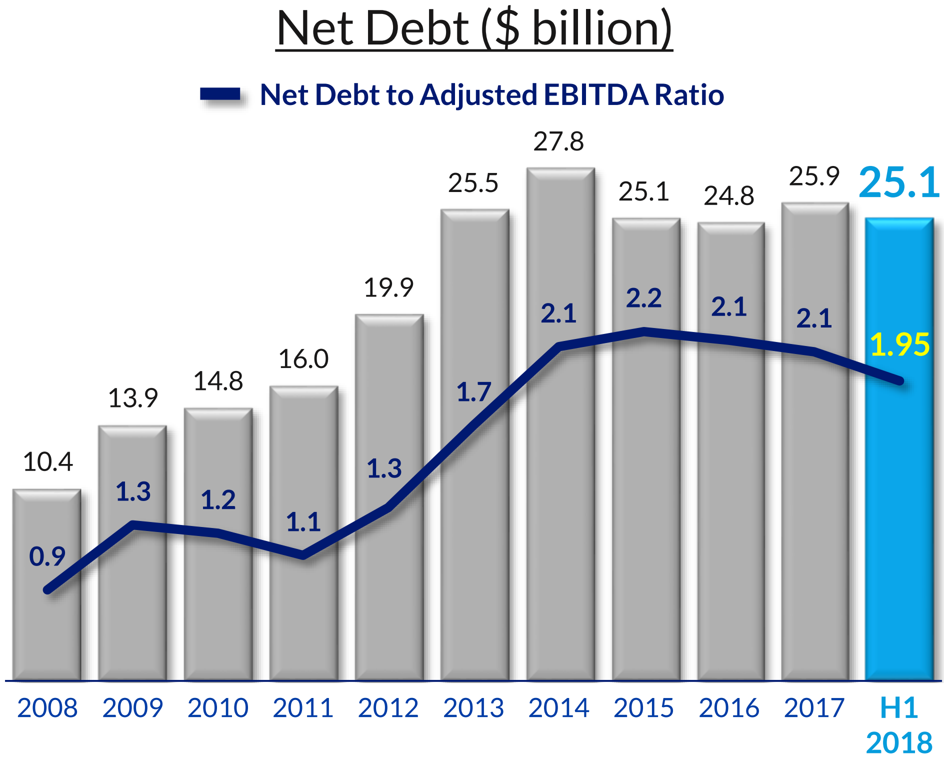
- Projected RRP capital expenditures primarily reflect investments behind HTU manufacturing

- To date, HTU manufacturing investment has consisted of:
  - Bologna Greenfield site / expansion
  - Full and partial conversions of existing cigarette manufacturing facilities to HTU production

- Ability to convert existing facilities allows us to:
  - Lower capital investment per billion units of production
  - Better manage the decline in cigarette production needs (particularly as more adult smokers switch to heated tobacco products)

Source: PMI Financials or estimates

Improving Leverage Metrics



	Moody's	**S&P**
Long-Term Credit Rating	A2	A
Outlook	Stable	Stable
Ratio	Adjusted Total Debt to EBITDA	Adjusted Net Debt to EBITDA
Target Range	1.5x – 2.5x	1.5x – 2.0x
PMI[(a)]	2.7x	2.4x

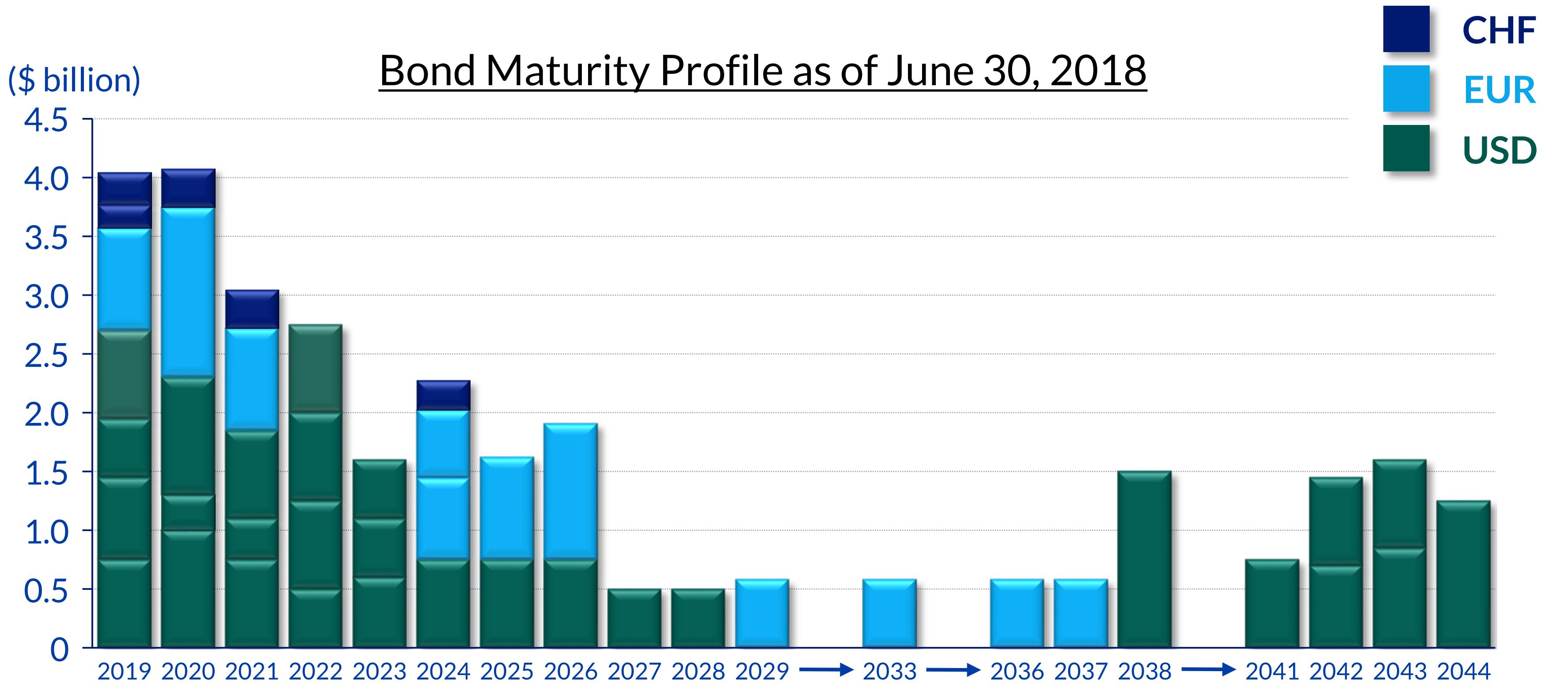
(a) Moody's (LTM June, 2018); S&P (2017)
Source: PMI Financials or estimates

2019-2021: Leverage Strategy

- Remain committed to restoring our leverage multiples to the ranges associated with our current credit rating
- Last year's corporate tax reform in the U.S. provides us with greater flexibility on cash repatriation and capital structure optimization
- Our current rating is central to our financial policy, providing us with financial flexibility while still making significant investments behind RRPs
- We will reconsider share repurchases once our leverage is comfortably within the debt multiples range associated with our current rating:
  - Based on our growth targets, we expect to be within this range later in the plan period, subject to currency movements

Source: PMI Financials or estimates

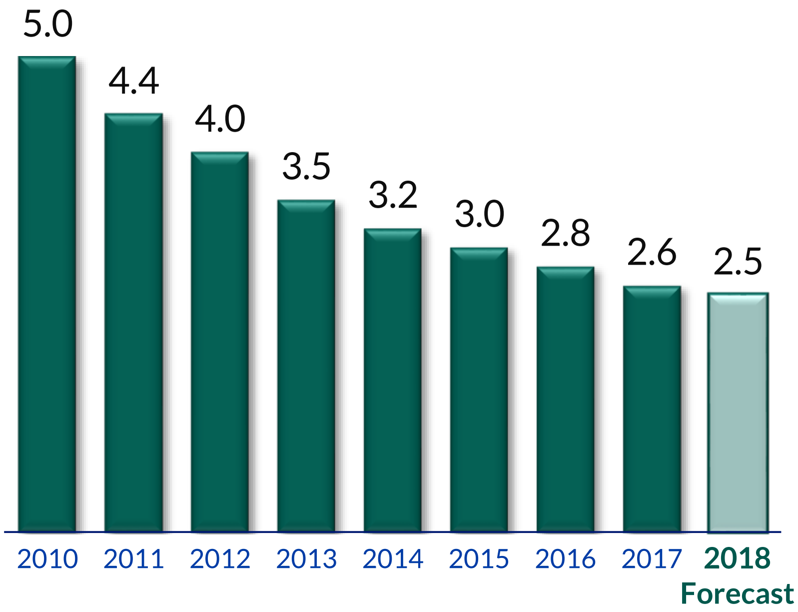
Well-Laddered Bond Portfolio



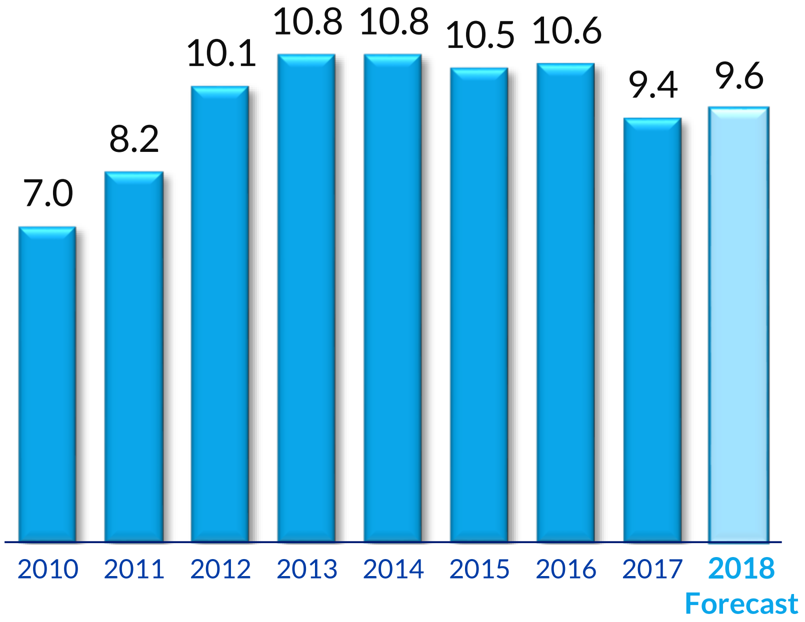
Source: PMI Financials or estimates

Debt Financing at Increasingly Attractive Terms

Weighted-Average All-in Financing Cost of Total Debt (%)



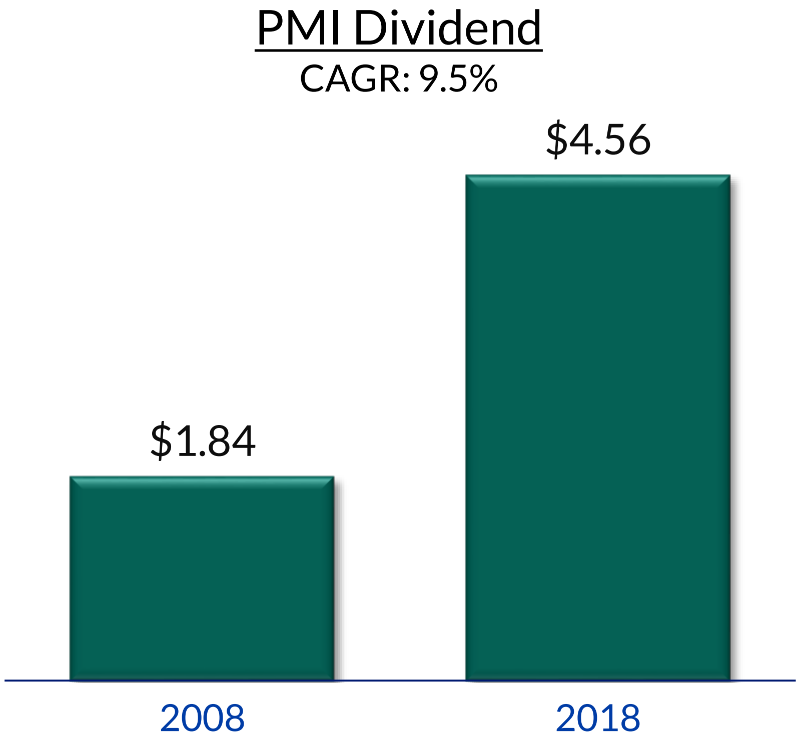
Weighted-Average Time to Maturity of Total Long-Term Debt (years)[(a)]



(a) 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
Note: Year-end 2018 all-in financing cost and time to maturity are based on the outstanding bonds as of August 31, 2018
Source: PMI Financials or estimates

Generously Rewarding Shareholders over the Long Term

- Dividends are our primary way of returning cash to shareholders
- Increased dividend by 6.5% in June 2018:
  - Eleventh consecutive year with a dividend increase
  - Total increase of approximately 148% since 2008
- Expect dividend pay-out ratio to come down gradually over the 2019-2021 period



Note: Dividends for 2008 and 2018 are annualized rates. The 2008 annualized rate is based on a quarterly dividend of $0.46 per common share, declared June 18, 2008. The 2018 annualized rate is based on a quarterly dividend of $1.14 per common share, declared June 8, 2018
Source: PMI Financials or estimates

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2019: Anticipate Better Business Performance

Key Factors Supporting Outlook

- **Combustible business**: better volume performance
- **Saudi Arabia**: adverse impact of the 2017 excise tax increase fully lapped
- **Investments**: lower incremental RRP investments vs. 2018
- **Japan**: HTU inventory rightsizing addressed; initiatives in place to drive further *IQOS* growth
- ***IQOS***: more balanced growth across a broader range of geographies

Source: PMI Financials or estimates

CONFIDENT

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