

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): February 2, 2017

Philip Morris International Inc.

(Exact name of registrant as specified in its charter)

Virginia
(State or other jurisdiction
of incorporation)

1-33708
(Commission File Number)

13-3435103
(I.R.S. Employer
Identification No.)

120 Park Avenue, New York, New York
(Address of principal executive offices)

10017-5592
(Zip Code)

Registrant's telephone number, including area code: (917) 663-2000

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02. Results of Operations and Financial Condition.

On February 2, 2017, Philip Morris International Inc. (the “Company”) issued a press release announcing its financial results for the quarter ended December 31, 2016 and the fiscal year ended December 31, 2016. The earnings release is attached as Exhibit 99.1 to this Current Report on Form 8-K and incorporated by reference to this Item 2.02.

In accordance with General Instruction B.2 of Form 8-K, the information in Item 2.02 of this Current Report on Form 8-K, including Exhibit 99.1, shall not be deemed “filed” for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section. The information in Item 2.02 of this Current Report on Form 8-K shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as may be expressly set forth by specific reference in such filing or document.

Item 7.01. Regulation FD Disclosure.

On February 2, 2017, the Company held a live audio webcast to discuss its financial results for the quarter ended December 31, 2016 and the fiscal year ended December 31, 2016. In connection with the webcast, the Company is furnishing to the Securities and Exchange Commission the following documents attached as exhibits to this Current Report on Form 8-K and incorporated by reference to this Item 7.01: the conference call script attached as Exhibit 99.2 hereto and the webcast slides attached as Exhibit 99.3 hereto.

In accordance with General Instruction B.2 of Form 8-K, the information in Item 7.01 of this Current Report on Form 8-K, including Exhibits 99.2 and 99.3, shall not be deemed “filed” for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section. The information in Item 7.01 of this Current Report on Form 8-K shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as may be expressly set forth by specific reference in such filing or document.

Item 9.01. Financial Statements and Exhibits.

- (d) Exhibits
- 99.1 Philip Morris International Inc. Press Release dated February 2, 2017 (furnished pursuant to Item 2.02)
- 99.2 Conference Call Script dated February 2, 2017 (furnished pursuant to Item 7.01)
- 99.3 Webcast Slides dated February 2, 2017 (furnished pursuant to Item 7.01)
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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

PHILIP MORRIS INTERNATIONAL INC.

By: /s/ JERRY WHITSON

Name: Jerry Whitson

Title: Deputy General Counsel and Corporate Secretary

DATE: February 2, 2017

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
99.1	Philip Morris International Inc. Press Release dated February 2, 2017 (furnished pursuant to Item 2.02)
99.2	Conference Call Script dated February 2, 2017 (furnished pursuant to Item 7.01)
99.3	Webcast Slides dated February 2, 2017 (furnished pursuant to Item 7.01)



PHILIP MORRIS INTERNATIONAL

PRESS RELEASE

Investor Relations:
 New York: +1 (917) 663 2233
 Lausanne: +41 (0)58 242 4666

Media:
 Lausanne: +41 (0)58 242 4500

PHILIP MORRIS INTERNATIONAL INC. (PMI) REPORTS 2016 RESULTS:
PROVIDES 2017 EARNINGS PER SHARE FORECAST

2016 Full-Year

- Reported diluted earnings per share of \$4.48, up by \$0.06 or 1.4% versus \$4.42 in 2015
 - Excluding unfavorable currency of \$0.46, reported diluted earnings per share up by \$0.52 or 11.8% versus \$4.42 in 2015 as detailed in the attached Schedule 15
- Adjusted diluted earnings per share of \$4.48, up by \$0.06 or 1.4% versus \$4.42 in 2015
 - Excluding unfavorable currency of \$0.46, adjusted diluted earnings per share up by \$0.52 or 11.8% versus \$4.42 in 2015 as detailed in the attached Schedule 15
- Cigarette shipment volume of 812.9 billion units, down by 4.1%
- *HeatSticks* shipment volume of 7.4 billion units, up from 396 million units in 2015
- Reported net revenues of \$75.0 billion, up by 1.4%
- Net revenues, excluding excise taxes, of \$26.7 billion, down by 0.4%
 - Excluding unfavorable currency of \$1.3 billion, net revenues, excluding excise taxes, up by 4.4% as detailed in the attached Schedule 13
- Reported operating income of \$10.8 billion, up by 1.8%
- Operating companies income of \$11.1 billion, up by 1.6%
 - Excluding unfavorable currency of \$1.0 billion, operating companies income up by 11.0% as detailed in the attached Schedule 13
- Adjusted operating companies income, reflecting the items detailed in the attached Schedule 14, of \$11.1 billion, up by 0.9%
 - Excluding unfavorable currency of \$1.0 billion, adjusted operating companies income up by 10.3% as detailed in the attached Schedule 14
- Increased the regular quarterly dividend by 2.0% to an annualized rate of \$4.16 per common share

2016 Fourth-Quarter

- Reported diluted earnings per share of \$1.10, up by \$0.30 or 37.5% versus \$0.80 in 2015
 - Excluding unfavorable currency of \$0.13, reported diluted earnings per share up by \$0.43 or 53.8% versus \$0.80 in 2015 as detailed in the attached Schedule 12
 - Adjusted diluted earnings per share of \$1.10, up by \$0.29 or 35.8% versus \$0.81 in 2015
 - Excluding unfavorable currency of \$0.13, adjusted diluted earnings per share up by \$0.42 or 51.9% versus \$0.81 in 2015 as detailed in the attached Schedule 12
 - Cigarette shipment volume of 200.6 billion units, down by 4.4%
 - *HeatSticks* shipment volume of 3.7 billion units, up from 62 million units in 2015
 - Reported net revenues of \$19.2 billion, up by 4.5%
 - Net revenues, excluding excise taxes, of \$7.0 billion, up by 9.1%
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- Excluding unfavorable currency of \$90 million, net revenues, excluding excise taxes, up by 10.5% as detailed in the attached Schedule 10
- Reported operating income of \$2.6 billion, up by 37.4%
- Operating companies income of \$2.7 billion, up by 34.4%
 - Excluding unfavorable currency of \$360 million, operating companies income up by 52.4% as detailed in the attached Schedule 10
- Adjusted operating companies income, reflecting the items detailed in the attached Schedule 11, of \$2.7 billion, up by 30.0%
 - Excluding unfavorable currency of \$360 million, adjusted operating companies income up by 47.4% as detailed in the attached Schedule 11

2017 Full-Year Forecast

- Forecasts 2017 full-year reported diluted earnings per share to be in a range of \$4.70 to \$4.85, at prevailing exchange rates, versus \$4.48 in 2016. Excluding an unfavorable currency impact, at prevailing exchange rates, of approximately \$0.18 for the full-year 2017, the reported diluted earnings per share range represents a projected increase of approximately 9% to 12% versus adjusted diluted earnings per share of \$4.48 in 2016 as detailed in the attached Schedule 15
- This forecast reflects net revenue growth, excluding excise taxes, in excess of the company's current annual growth target range of 4% to 6%, excluding currency and acquisitions
- This forecast does not include any share repurchases in 2017
- This forecast excludes the impact of any future acquisitions, unanticipated asset impairment and exit cost charges, future changes in currency exchange rates, and any unusual events. Factors described in the Forward-Looking and Cautionary Statements section of this release represent continuing risks to these projections

NEW YORK, February 2, 2017 – Philip Morris International Inc. (NYSE / Euronext Paris: PM) today announced its 2016 full-year and fourth-quarter results.

"Our results last year underscore the strength of our existing business, driven by our world-class brand portfolio, the enormous promise of our Reduced-Risk Products and the tremendous commitment of our talented employees," said André Calantzopoulos, Chief Executive Officer.

"We continue to make considerable progress on the development, assessment and commercialization of our Reduced-Risk Products. Our ambitious goal, to transform PMI from a manufacturer of combustible tobacco products to an RRP-focused company, took a further important step forward at the end of 2016 with the submission of our Modified Risk Tobacco Product Application for our heat-not-burn IQOS product to the U.S. Food and Drug Administration."

"We have entered 2017 confident that our base business fundamentals are in robust shape, and increasingly excited by the tremendous potential of our RRP portfolio to materially accelerate our overall business and contribute significantly to our commitment to generously reward our shareholders in the years to come."

Conference Call

A conference call, hosted by André Calantzopoulos, Chief Executive Officer, and Jacek Olczak, Chief Financial Officer, with members of the investor community and news media, will be webcast at 9:00 a.m., Eastern Time, on February 2, 2017. Access is at www.pmi.com/webcasts. The audio webcast may also be accessed on iOS or Android devices by downloading PMI's free Investor Relations Mobile Application at www.pmi.com/irapp.

Dividends and Share Repurchases

During 2016, PMI increased its regular quarterly dividend by 2.0% from \$1.02 to \$1.04, representing an annualized rate of \$4.16 per common share. Since its spin-off in March 2008, PMI has increased its regular quarterly dividend by 126.1% from the initial annualized rate of \$1.84 per common share. PMI did not make any share repurchases in 2016.

2016 FULL-YEAR AND FOURTH-QUARTER CONSOLIDATED RESULTS

Key Terms, Definitions and Explanatory Notes

General

- "PMI" refers to Philip Morris International Inc. and its subsidiaries. Trademarks and service marks that are the registered property of, or licensed by, the subsidiaries of PMI, are italicized.
- Comparisons are made to the same prior-year period unless otherwise stated.
- References to total international cigarette market, defined as worldwide cigarette volume excluding the United States, total cigarette market, total market and market shares are PMI tax-paid estimates based on the latest available data from a number of internal and external sources and may, in defined instances, exclude the People's Republic of China and/or PMI's duty free business.
- "OTP" is defined as other tobacco products, primarily roll-your-own and make-your-own cigarettes, pipe tobacco, cigars and cigarillos, and does not include Reduced-Risk Products.
- "EEMA" is defined as Eastern Europe, Middle East and Africa and includes PMI's international duty free business.
- "North Africa" is defined as Algeria, Egypt, Libya, Morocco and Tunisia.

Financial

- "Operating companies income," or "OCI," is defined as operating income, excluding general corporate expenses and the amortization of intangibles, plus equity (income)/loss in unconsolidated subsidiaries, net. Management evaluates business segment performance and allocates resources based on OCI.
- "Adjusted EBITDA" is defined as earnings before interest, taxes, depreciation and amortization, excluding asset impairment and exit costs, discrete tax items and unusual items.
- "Net debt" is defined as total debt, less cash and cash equivalents.
- "Free cash flow" is defined as net cash provided by operating activities less capital expenditures.
- Management reviews OCI, OCI margins, earnings per share, or "EPS," and free cash flow on an adjusted basis, which may exclude the impact of currency and other items such as acquisitions, asset impairment and exit costs, discrete tax items and other special items.
- Management reviews these measures because they exclude changes in currency exchange rates and other factors that may distort underlying business trends, thereby improving the comparability of PMI's business performance between reporting periods. Furthermore, PMI uses several of these measures in its management compensation program to promote internal fairness and a disciplined assessment of performance against company targets. PMI discloses these measures to enable investors to view the business through the eyes of its management.
- Non-GAAP measures used in this release should be neither considered in isolation nor as a substitute for the financial measures prepared in accordance with U.S. GAAP. For a reconciliation of non-GAAP measures to the most directly comparable GAAP measures, see the relevant schedules provided with this press release.

Reduced-Risk Products (RRPs)

- RRPs is the term PMI uses to refer to products that present, are likely to present, or have the potential to present less risk of harm to smokers who switch to these products versus continued smoking. PMI has a range of RRPs in various stages of development, scientific assessment and commercialization. Because our RRPs do not burn tobacco, they produce far lower quantities of harmful and potentially harmful compounds than found in cigarette smoke.
- The term *HeatSticks* refers to *Marlboro HeatSticks*, *Parliament HeatSticks* and *HEETS* from *Marlboro*.
- Net revenues, excluding excise taxes, related to RRPs represent the sale of heat-not-burn consumables, including *HeatSticks*, *IQOS* devices and related accessories, and other nicotine-containing products, primarily e-vapor products, net of sales and promotion incentives.
- National market share for *HeatSticks* in Japan is defined as the total sales volume for *HeatSticks* as a percentage of the total estimated sales volume for cigarettes and *HeatSticks*.

NET REVENUES (Excluding Excise Taxes)

PMI Net Revenues (Excl. Excise Taxes)

(in millions)

	<u>Fourth-Quarter</u>				<u>Full-Year</u>			
	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>Excl. Curr.</u>	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>Excl. Curr.</u>
European Union	\$ 1,944	\$ 1,934	0.5 %	1.8%	\$ 8,162	\$ 8,068	1.2 %	3.0%
EEMA	1,798	1,717	4.7 %	9.7%	7,000	7,364	(4.9)%	3.2%
Asia	2,444	1,919	27.4 %	21.2%	8,681	8,203	5.8 %	5.9%
Latin America & Canada	785	822	(4.5)%	7.4%	2,842	3,159	(10.0)%	6.6%
Total PMI	\$ 6,971	\$ 6,392	9.1 %	10.5%	\$ 26,685	\$ 26,794	(0.4)%	4.4%

2016 Full-Year

Net revenues, excluding excise taxes, of \$26.7 billion decreased by 0.4%. Excluding unfavorable currency of \$1.3 billion, net revenues, excluding excise taxes, increased by 4.4%, driven by a favorable pricing variance of \$1.6 billion from across all Regions, principally EEMA, representing 6.0% of the prior year's net revenues excluding excise taxes. The favorable pricing was partially offset by unfavorable volume/mix of \$450 million, due to the EU, EEMA and Latin America & Canada, partly offset by Asia.

Net revenues, excluding excise taxes, included \$733 million related to the sale of RRPs, as detailed in the attached Schedule 18, mainly driven by Japan.

2016 Fourth-Quarter

Net revenues, excluding excise taxes, of \$7.0 billion increased by 9.1%. Excluding unfavorable currency of \$90 million, net revenues, excluding excise taxes, increased by 10.5%, driven by a favorable pricing variance of \$565 million from across all Regions, principally EEMA and Asia. The favorable pricing variance was supported by favorable volume/mix of \$104 million, driven by Asia.

Net revenues, excluding excise taxes, included \$343 million related to the sale of RRPs, as detailed in the attached Schedule 18, mainly driven by Japan.

OPERATING COMPANIES INCOME

<u>PMI OCI</u> (in millions)	<u>Fourth-Quarter</u>				<u>Full-Year</u>			
	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>Excl.</u> <u>Curr.</u>	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>Excl.</u> <u>Curr.</u>
European Union	\$ 898	\$ 599	49.9 %	45.1%	\$ 3,994	\$ 3,576	11.7 %	10.7%
EEMA	627	704	(10.9)%	44.5%	3,016	3,425	(11.9)%	12.6%
Asia	908	465	95.3 %	81.7%	3,196	2,886	10.7 %	8.9%
Latin America & Canada	261	236	10.6 %	36.9%	938	1,085	(13.5)%	12.4%
Total PMI	\$ 2,694	\$ 2,004	34.4 %	52.4%	\$ 11,144	\$ 10,972	1.6 %	11.0%

2016 Full-Year

Operating companies income of \$11.1 billion increased by 1.6%. Excluding unfavorable currency of \$1.0 billion, operating companies income increased by 11.0%, driven by: a favorable pricing variance across all Regions; a favorable cost comparison to 2015, notably related to the impact of asset impairment and exit charges associated with organizational streamlining initiatives in the EU, cigarette brand building initiatives, notably in the EU, and business optimization initiatives, notably in Asia; partly offset by unfavorable volume/mix of \$692 million, primarily in EEMA, and increased support behind Reduced-Risk Products.

Adjusted operating companies income and margin are shown in the table below and detailed in Schedule 14. Adjusted operating companies income, excluding unfavorable currency, increased by 10.3%. Adjusted operating companies income margin, excluding currency, increased by 2.4 points to 43.6%, primarily reflecting the factors mentioned above, as detailed on Schedule 14.

2016 Fourth-Quarter

Operating companies income of \$2.7 billion increased by 34.4%. Excluding unfavorable currency of \$360 million, operating companies income increased by 52.4%, driven by: a favorable pricing variance across all Regions; a favorable volume/mix of \$13 million, driven by Asia, partly offset by the EU; a favorable cost comparison with the fourth quarter of 2015, notably related to the impact of asset impairment and exit charges associated with organizational streamlining initiatives in the EU, significant investments behind cigarette brand building initiatives in the EU and Asia, the implementation of the EU Tobacco Products Directive and business building and optimization initiatives; partly offset by increased support behind Reduced-Risk Products.

Adjusted operating companies income and margin are shown in the table below and detailed in Schedule 11. Adjusted operating companies income, excluding unfavorable currency, increased by 47.4%. Adjusted operating companies income margin, excluding currency, increased by 10.9 points to 43.3%, reflecting the factors mentioned above, as detailed on Schedule 11.

<u>PMI OCI</u> (in millions)	<u>Fourth-Quarter</u>				<u>Full-Year</u>			
	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>Excl.</u> <u>Curr.</u>	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>Excl.</u> <u>Curr.</u>
OCI	\$ 2,694	\$ 2,004	34.4%	52.4%	\$ 11,144	\$ 10,972	1.6%	11.0%
Asset impairment & exit costs	—	(68)			—	(68)		
Adjusted OCI	\$ 2,694	\$ 2,072	30.0%	47.4%	\$ 11,144	\$ 11,040	0.9%	10.3%
Adjusted OCI Margin*	38.6%	32.4%	6.2	10.9	41.8%	41.2%	0.6	2.4

*Margins are calculated as adjusted OCI, divided by net revenues, excluding excise taxes.

SHIPMENT VOLUME & MARKET SHARE

PMI cigarette shipment volume by Region and brand are shown in the table below.

<u>PMI Cigarette Shipment Volume by Region</u> (million units)	<u>Fourth-Quarter</u>			<u>Full-Year</u>		
	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>2016</u>	<u>2015</u>	<u>Change</u>
European Union	45,193	47,210	(4.3)%	193,586	194,589	(0.5)%
EEMA	67,763	69,271	(2.2)%	271,393	279,411	(2.9)%
Asia	63,815	68,183	(6.4)%	260,029	281,350	(7.6)%
Latin America & Canada	23,794	25,105	(5.2)%	87,938	91,920	(4.3)%
Total PMI	200,565	209,769	(4.4)%	812,946	847,270	(4.1)%

<u>PMI Cigarette Shipment Volume by Brand</u> (million units)	<u>Fourth-Quarter</u>			<u>Full-Year</u>		
	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>2016</u>	<u>2015</u>	<u>Change</u>
<i>Marlboro</i>	70,295	71,829	(2.1)%	281,720	285,583	(1.4)%
<i>L&M</i>	23,177	24,482	(5.3)%	96,770	97,884	(1.1)%
<i>Parliament</i>	11,424	11,507	(0.7)%	45,671	44,879	1.8 %
<i>Bond Street</i>	11,775	10,605	11.0 %	44,567	43,608	2.2 %
<i>Chesterfield</i>	12,088	10,382	16.4 %	46,291	41,397	11.8 %
<i>Philip Morris</i>	9,069	9,832	(7.8)%	35,914	35,815	0.3 %
<i>Lark</i>	6,540	6,793	(3.7)%	27,571	28,828	(4.4)%
Others	56,197	64,339	(12.7)%	234,442	269,276	(12.9)%
Total PMI	200,565	209,769	(4.4)%	812,946	847,270	(4.1)%

2016 Full-Year

PMI's total cigarette shipment volume decreased by 4.1%, or by 4.7% excluding net estimated inventory movements, due to: the EU, principally Italy, Germany and Greece, partly offset by Poland and Spain; EEMA, mainly North Africa, primarily Algeria, and Russia, partly offset by Saudi Arabia and Ukraine; Asia, principally Indonesia, Pakistan, the Philippines and Thailand, partly offset by Korea; and Latin America & Canada, predominantly Argentina, partly offset by Mexico.

Cigarette shipment volume of *Marlboro* decreased, driven by Algeria, Argentina, Egypt and Vietnam, as well as in-switching to *HeatSticks*, partly offset by Korea, Mexico, the Philippines, Saudi Arabia and Spain.

Cigarette shipment volume of *L&M* decreased, notably in Russia, Thailand and Turkey, partly offset by Algeria, Kazakhstan and Ukraine. Cigarette shipment volume of *Parliament* increased, mainly driven by Korea, Turkey, and Ukraine, partly offset by Japan and Russia. Cigarette shipment volume of *Bond Street* increased, mainly driven by Ukraine, partly offset by Kazakhstan. Cigarette shipment volume of *Chesterfield* increased, mainly driven by Argentina, the Czech Republic, reflecting the morphing of *Red & White*, Turkey and the United Kingdom, partly offset by Russia. Cigarette shipment volume of *Philip Morris* increased, driven mainly by Italy and Russia, partly offset by Argentina. Cigarette shipment volume of *Lark* decreased, principally due to Japan and Turkey. Cigarette shipment volume of "Others" decreased, mainly due to local, largely low-margin brands in Pakistan, the Philippines, Russia and Ukraine.

Total shipment volume of OTP, in cigarette equivalent units, decreased by 4.5%. Total shipment volume for cigarettes and OTP, in cigarette equivalent units, decreased by 4.1%.

Total shipment volume of *HeatSticks* reached 7.4 billion units, up from 396 million units in 2015.

PMI's cigarette market share increased in a number of markets, including Brazil, Canada, Colombia, the Czech Republic, France, Kuwait, Mexico, the Netherlands, Norway, Poland, Saudi Arabia, Spain, Switzerland, Turkey and the United Arab Emirates.

2016 Fourth-Quarter

PMI's total cigarette shipment volume, benefiting from the positive impact of estimated inventory movements, decreased by 4.4% due to: the EU, principally Germany and Italy, partly offset by Spain and the United Kingdom; EEMA, mainly North Africa, primarily Algeria and Egypt, and Turkey, partly offset by Russia and Saudi Arabia; Asia, principally Indonesia, the Philippines and Thailand, partly offset by Japan, reflecting a favorable comparison related to distributor inventory movements in the fourth quarter of 2015; and Latin America & Canada, predominantly Argentina, partly offset by Mexico.

Cigarette shipment volume of *Marlboro* decreased, notably in Algeria and Argentina, as well as in-switching to *HeatSticks*, partly offset by Japan, Mexico and the Philippines.

Cigarette shipment volume of *L&M* decreased, mainly due to Egypt, Thailand and Turkey, partly offset by Kazakhstan, Saudi Arabia and Ukraine. Cigarette shipment volume of *Parliament* decreased, due mainly to Japan and Turkey, partly offset by Korea and Russia. Cigarette shipment volume of *Bond Street* increased, driven by Russia. Cigarette shipment volume of *Chesterfield* increased, mainly driven by Argentina, Turkey and the United Kingdom, partly offset by Russia. Cigarette shipment volume of *Philip Morris* decreased, mainly due to Argentina, partly offset by Russia. Cigarette shipment volume of *Lark* decreased, principally due to Turkey, partly offset by Japan. Cigarette shipment volume of "Others" decreased, mainly due to local, largely low-margin brands in Indonesia, the Philippines, Russia and Ukraine.

Total shipment volume of OTP, in cigarette equivalent units, decreased by 6.4%. Total shipment volume for cigarettes and OTP, in cigarette equivalent units, decreased by 4.5%.

Total shipment volume of *HeatSticks* reached 3.7 billion units, up from 62 million units in 2015.

PMI's cigarette market share increased in a number of markets, including Brazil, Canada, the Czech Republic, France, Kazakhstan, Korea, Kuwait, Mexico, the Netherlands, Norway, Poland, Saudi Arabia, Switzerland, Turkey and the United Arab Emirates.

EUROPEAN UNION REGION (EU)

2016 Full-Year

Net revenues, excluding excise taxes, of \$8.2 billion increased by 1.2%. Excluding unfavorable currency of \$147 million, net revenues, excluding excise taxes, increased by 3.0%, driven by a favorable pricing variance of \$390 million, notably in Germany, Italy and Poland, partly offset by unfavorable volume/mix of \$149 million, mainly due to Germany reflecting a lower total market and impact of price increases.

Operating companies income of \$4.0 billion increased by 11.7%. Excluding favorable currency of \$34 million, operating companies income increased by 10.7%, driven by: a favorable pricing variance; lower cigarette manufacturing costs; a favorable cost comparison related to the impact of asset impairment and exit charges associated with organizational streamlining initiatives in the EU, and cigarette brand building initiatives, notably those associated with the implementation of the Tobacco Products Directive; partly offset by unfavorable volume/mix of \$168 million and increased support behind Reduced-Risk Products.

Adjusted operating companies income and margin are shown in the table below and detailed on Schedule 14. Adjusted operating companies income, excluding favorable currency, increased by 8.7%. Adjusted operating

companies income margin, excluding currency, increased by 2.5 points to 47.7%, reflecting the factors mentioned above, as detailed on Schedule 14.

2016 Fourth-Quarter

Net revenues, excluding excise taxes, of \$1.9 billion, increased by 0.5%. Excluding unfavorable currency of \$25 million, net revenues, excluding excise taxes, increased by 1.8%, driven by a favorable pricing variance of \$118 million, notably in Germany, Italy and Poland, partly offset by unfavorable volume/mix of \$83 million, mainly due to Germany reflecting a lower total market and impact of price increases.

Operating companies income of \$898 million increased by 49.9%. Excluding favorable currency of \$29 million, operating companies income increased by 45.1%, driven by: a favorable pricing variance, lower cigarette manufacturing costs; and a favorable cost comparison related to the impact of asset impairment and exit charges associated with organizational streamlining initiatives in the EU, cigarette brand building initiatives, notably those associated with the implementation of the Tobacco Products Directive; partly offset by unfavorable volume/mix of \$84 million and increased support behind Reduced-Risk Products.

Adjusted operating companies income and margin are shown in the table below and detailed on Schedule 11. Adjusted operating companies income, excluding favorable currency, increased by 30.3%. Adjusted operating companies income margin, excluding currency, increased by 9.6 points to 44.1%, reflecting the factors mentioned above, as detailed on Schedule 11.

<u>EU OCI</u> (in millions)	<u>Fourth-Quarter</u>				<u>Full-Year</u>			
	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>Excl. Curr.</u>	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>Excl. Curr.</u>
OCI	\$ 898	\$ 599	49.9%	45.1%	\$ 3,994	\$ 3,576	11.7%	10.7%
Asset impairment & exit costs	—	(68)			—	(68)		
Adjusted OCI	\$ 898	\$ 667	34.6%	30.3%	\$ 3,994	\$ 3,644	9.6%	8.7%
Adjusted OCI Margin*	46.2%	34.5%	11.7	9.6	48.9%	45.2%	3.7	2.5

*Margins are calculated as adjusted OCI, divided by net revenues, excluding excise taxes.

EU Total Market, PMI Shipment & Market Share Commentaries

<u>EU Cigarette Shipment Volume by Brand</u> (in millions)	<u>Fourth-Quarter</u>			<u>Full-Year</u>		
	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>2016</u>	<u>2015</u>	<u>Change</u>
Marlboro	22,663	23,219	(2.4)%	96,245	95,588	0.7 %
L&M	8,063	8,553	(5.7)%	34,691	35,010	(0.9)%
Chesterfield	7,029	7,189	(2.2)%	30,140	28,278	6.6 %
Philip Morris	3,668	3,990	(8.1)%	16,290	14,205	14.7 %
Others	3,770	4,259	(11.5)%	16,220	21,508	(24.6)%
Total EU	45,193	47,210	(4.3)%	193,586	194,589	(0.5)%

EU Cigarette Market Shares by Brand

	<u>Fourth-Quarter</u>			<u>Full-Year</u>		
	<u>2016</u>	<u>2015</u>	<u>Change</u> <u>p.p.</u>	<u>2016</u>	<u>2015</u>	<u>Change</u> <u>p.p.</u>
<i>Marlboro</i>	19.1%	19.1%	—	19.0%	18.8%	0.2
<i>L&M</i>	6.9%	6.9%	—	6.9%	6.9%	—
<i>Chesterfield</i>	5.9%	5.9%	—	5.9%	5.6%	0.3
<i>Philip Morris</i>	3.1%	3.2%	(0.1)	3.2%	3.2%	—
<i>Others</i>	3.1%	3.4%	(0.3)	3.3%	3.8%	(0.5)
Total EU	38.1%	38.5%	(0.4)	38.3%	38.3%	—

2016 Full-Year

The estimated total cigarette market decreased by 1.6% to 501.0 billion units, reflecting improved macroeconomics, a lower prevalence of illicit trade and, in certain geographies, the estimated positive impact of immigration, which was concentrated in the first half of 2016.

The estimated total OTP market decreased by 2.3% to 152.5 billion cigarette equivalent units, reflecting a lower total fine cut market, down by 2.4% to 141.7 billion cigarette equivalent units.

As shown in the tables above, PMI's cigarette shipment volume decreased by 0.5% to 193.6 billion units, mainly due to Italy, Germany and Greece, partly offset by Poland and Spain. PMI's cigarette shipment volume of *Marlboro* increased by 0.7%, mainly driven by Spain, partly offset by Greece. PMI's total cigarette market share was flat at 38.3%, with gains, notably in the Czech Republic, France, Poland and Spain, offset by declines, mainly in Greece and Italy. Cigarette shipment volume of "Others" decreased, mainly due the morphing of various trademarks in the Czech Republic and Italy into international brands.

PMI's shipments of OTP decreased by 5.3% to 22.2 billion cigarette equivalent units. PMI's total OTP market share decreased by 0.4 points to 14.6%.

2016 Fourth-Quarter

The estimated total cigarette market decreased by 5.7% to 118.5 billion units, reflecting the impact of price increases, and the lower contribution of two favorable factors in 2015, namely the estimated positive impact of immigration and a recovery from illicit trade, partly offset by improved macroeconomics.

The estimated total OTP market decreased by 5.5% to 37.6 billion cigarette equivalent units, reflecting a lower total fine cut market, down by 5.6% to 34.8 billion cigarette equivalent units.

As shown in the tables above, PMI's cigarette shipment volume decreased by 4.3% to 45.2 billion units, mainly due to Germany and Italy, partly offset by Spain and the United Kingdom. Excluding the net impact of distributor inventory movements, notably in Italy and Spain, PMI's cigarette shipment volume decreased by 6.7%. PMI's cigarette shipment volume of *Marlboro* decreased by 2.4%, mainly due to Germany, partly offset by Spain. PMI's total cigarette market share decreased by 0.4 points to 38.1%, with declines, mainly in Germany, Greece and Italy, partly offset by gains, notably in the Czech Republic, France and Poland. Cigarette shipment volume of "Others" decreased, mainly due to the morphing of *Multifilter* into *Marlboro* in Italy, as well as the delisting of various low-price Assos variants in Greece.

PMI's shipments of OTP decreased by 10.2% to 5.0 billion cigarette equivalent units. PMI's total OTP market share decreased by 0.7 points to 13.9%.

EU Key Market Commentaries

In France, estimated industry size, PMI cigarette shipment volume and market share performance are shown in the table below.

<u>France Key Market Data</u>	<u>Fourth-Quarter</u>			<u>Full-Year</u>		
	<u>2016</u>	<u>2015</u>	<u>Change % / p.p.</u>	<u>2016</u>	<u>2015</u>	<u>Change % / p.p.</u>
Total Cigarette Market (billion units)	10.5	11.3	(7.1)%	44.9	45.5	(1.2)%
PMI Shipments (million units)	4,375	4,493	(2.6)%	19,243	18,943	1.6 %
PMI Cigarette Market Share						
<i>Marlboro</i>	26.9%	26.4%	0.5	26.4%	25.9%	0.5
<i>Philip Morris</i>	10.4%	9.5%	0.9	10.2%	9.5%	0.7
<i>Chesterfield</i>	3.1%	3.3%	(0.2)	3.1%	3.3%	(0.2)
Others	2.9%	2.9%	—	2.7%	2.9%	(0.2)
Total	43.3%	42.1%	1.2	42.4%	41.6%	0.8

For the full year, the estimated total cigarette market decreased moderately by 1.2%, partly reflecting a lower prevalence of illicit trade and e-vapor products. The increase in PMI's cigarette shipment volume mainly reflected market share growth, driven by *Marlboro*, as well as the launch of certain *Philip Morris* variants in January 2016. The estimated total industry fine cut category of 14.7 billion cigarette equivalent units increased by 1.2%. PMI's market share of the category increased by 0.6 points to 25.6%.

In the quarter, the estimated total cigarette market decreased by 7.1%, partly due to the net impact of distributor inventory movements primarily related to the implementation of the Tobacco Products Directive at the beginning of 2016. Excluding the impact of inventory movements, the estimated total market decreased by 4.6%, largely reflecting a comparison with a strong fourth quarter in 2015, in which the total market increased by 2.2%, driven by a lower prevalence of illicit trade and e-vapor products. The decrease in PMI's cigarette shipment volume mainly reflected the lower total cigarette market, partly offset by market share growth, driven by the same dynamics as those for the full year. The estimated total industry fine cut category of 3.4 billion cigarette equivalent units decreased by 6.2%. PMI's market share of the category increased by 1.3 points to 26.7%.

In **Germany**, estimated industry size, PMI cigarette shipment volume and market share performance are shown in the table below.

<u>Germany Key Market Data</u>	<u>Fourth-Quarter</u>			<u>Full-Year</u>		
	<u>2016</u>	<u>2015</u>	<u>Change</u> <u>% / p.p.</u>	<u>2016</u>	<u>2015</u>	<u>Change</u> <u>% / p.p.</u>
Total Cigarette Market (billion units)	18.4	20.2	(8.7)%	78.1	80.0	(2.4)%
PMI Shipments (million units)	6,886	7,644	(9.9)%	28,950	29,778	(2.8)%
PMI Cigarette Market Share						
<i>Marlboro</i>	22.9%	22.9%	—	22.5%	22.1%	0.4
<i>L&M</i>	11.5%	11.8%	(0.3)	11.6%	11.9%	(0.3)
<i>Chesterfield</i>	1.6%	1.7%	(0.1)	1.6%	1.7%	(0.1)
Others	1.4%	1.5%	(0.1)	1.4%	1.5%	(0.1)
Total	37.4%	37.9%	(0.5)	37.1%	37.2%	(0.1)

For the full year, the estimated total cigarette market decreased by 2.4%, primarily reflecting the impact of price increases. The decrease in PMI's cigarette shipment volume primarily reflected the lower total market. The estimated total industry fine cut category of 40.6 billion cigarette equivalent units decreased by 0.8%. PMI's market share of the category decreased by 1.4 points to 11.3%.

In the quarter, the estimated total cigarette market decreased by 8.7% principally reflecting the lower contribution of two favorable factors, namely the estimated positive impact of immigration and a recovery from illicit trade, which contributed to a 2.7% growth of the estimated total cigarette market in the fourth quarter of 2015. The decrease in PMI's cigarette shipment volume was mainly due to the lower total market. The estimated total industry fine cut category of 10.0 billion cigarette equivalent units decreased by 5.1%. PMI's market share of the category decreased by 2.4 points to 10.4%.

In **Italy**, estimated industry size, PMI cigarette shipment volume and market share performance are shown in the table below.

<u>Italy Key Market Data</u>	<u>Fourth-Quarter</u>			<u>Full-Year</u>		
	<u>2016</u>	<u>2015</u>	<u>Change</u> <u>% / p.p.</u>	<u>2016</u>	<u>2015</u>	<u>Change</u> <u>% / p.p.</u>
Total Cigarette Market (billion units)	16.5	18.3	(9.7)%	72.1	73.8	(2.4)%
PMI Shipments (million units)	8,763	9,356	(6.3)%	38,624	39,717	(2.8)%
PMI Cigarette Market Share						
<i>Marlboro</i>	23.7%	24.3%	(0.6)	24.2%	24.6%	(0.4)
<i>Chesterfield</i>	11.3%	11.5%	(0.2)	11.5%	11.0%	0.5
<i>Philip Morris</i>	8.2%	8.9%	(0.7)	8.5%	9.2%	(0.7)
Others	8.3%	8.7%	(0.4)	8.2%	8.9%	(0.7)
Total	51.5%	53.4%	(1.9)	52.4%	53.7%	(1.3)

For the full year, the estimated total cigarette market decreased by 2.4%, primarily reflecting the impact of price increases. The decline of PMI's cigarette shipments, down by 4.8% excluding the net impact of distributor

inventory movements, reflected the lower total market, and lower cigarette market share, notably due to *Marlboro* as a result of its price increase in the second quarter of 2016, and low-price *Philip Morris*, impacted by the growth of the super-low price segment, partly offset by super-low price *Chesterfield*. The estimated total industry fine cut category of 6.6 billion cigarette equivalent units increased by 3.5%. PMI's market share of the category decreased by 1.9 points to 39.2%.

In the quarter, the estimated total cigarette market decreased by 9.7%, or by 6.0% excluding the net impact of trade inventory movements primarily related to the implementation of the Tobacco Products Directive, mainly reflecting: a difficult comparison with the fourth quarter of 2015, which declined by a modest 0.4%; and the impact of price increases in the second quarter of 2016. The decline of PMI's cigarette shipments, by 13.6% excluding the net impact of distributor inventory movements, mainly reflected the lower total market, as well as lower cigarette market share, notably due to *Marlboro* as a result of its price increase in the second quarter of 2016, and low-price *Philip Morris*, impacted by the growth of the super-low price segment. The estimated total industry fine cut category of 1.7 billion cigarette equivalent units increased by 3.2%. PMI's market share of the category decreased by 0.7 points to 39.9%.

In **Poland**, estimated industry size, PMI cigarette shipment volume and market share performance are shown in the table below.

<u>Poland Key Market Data</u>	<u>Fourth-Quarter</u>			<u>Full-Year</u>		
	<u>2016</u>	<u>2015</u>	<u>Change % / p.p.</u>	<u>2016</u>	<u>2015</u>	<u>Change % / p.p.</u>
Total Cigarette Market (billion units)	9.0	9.2	(2.1)%	41.3	41.1	0.5%
PMI Shipments (million units)	3,970	4,005	(0.9)%	17,485	16,763	4.3%
PMI Cigarette Market Share						
<i>Marlboro</i>	12.6%	12.4%	0.2	11.6%	11.4%	0.2
<i>L&M</i>	19.6%	18.9%	0.7	18.5%	18.1%	0.4
<i>Chesterfield</i>	9.3%	9.4%	(0.1)	9.1%	8.6%	0.5
Others	2.7%	3.0%	(0.3)	3.1%	2.7%	0.4
Total	44.2%	43.7%	0.5	42.3%	40.8%	1.5

For the full year, the estimated total cigarette market increased by 0.5%, primarily reflecting a lower prevalence of non-duty paid products. The increase in PMI's cigarette shipment volume was mainly driven by higher cigarette market share, principally *L&M*, reflecting the positive impact of brand support, *Chesterfield*, benefiting from its 100s and super-slimes variants, and *RGD* in "Others," up by 0.4 points to 2.6%. The estimated total industry fine cut category of 4.1 billion cigarette equivalent units increased by 3.3%. PMI's market share of the category decreased by 4.7 points to 26.7%, mainly due to increased price competition at the bottom of the market.

In the quarter, the estimated total cigarette market decreased by 2.1%, partly reflecting an increase in the prevalence of e-vapor products. The decrease in PMI's cigarette shipment volume primarily reflected the lower total market, partly offset by higher market share, principally driven by *L&M*, reflecting the positive impact of brand support. The estimated total industry fine cut category of 822 million cigarette equivalent units decreased by 2.1%. PMI's market share of the category decreased by 3.4 points to 25.2%.

In **Spain**, estimated industry size, PMI cigarette shipment volume and market share performance are shown in the table below.

<u>Spain Key Market Data</u>	<u>Fourth-Quarter</u>			<u>Full-Year</u>		
	<u>2016</u>	<u>2015</u>	<u>Change % / p.p.</u>	<u>2016</u>	<u>2015</u>	<u>Change % / p.p.</u>
Total Cigarette Market (billion units)	11.4	11.3	0.3%	46.7	46.7	(0.1)%
PMI Shipments (million units)	3,728	3,574	4.3%	16,365	15,435	6.0 %
PMI Cigarette Market Share						
<i>Marlboro</i>	17.7%	17.2%	0.5	18.0%	17.0%	1.0
<i>Chesterfield</i>	8.6%	9.0%	(0.4)	8.6%	9.1%	(0.5)
<i>L&M</i>	5.3%	5.7%	(0.4)	5.4%	5.8%	(0.4)
Others	1.8%	1.6%	0.2	1.9%	1.5%	0.4
Total	33.4%	33.5%	(0.1)	33.9%	33.4%	0.5

For the full year, the estimated total cigarette market decreased by 0.1%, reflecting an improved economy and the favorable estimated impact of in-switching from other tobacco products. Excluding the net impact of distributor inventory movements, PMI's cigarette shipment volume increased by 1.6%, driven by higher market share reflecting the strong performance of *Marlboro*, benefiting from its round price point in the vending channel and the new Architecture 2.0. The estimated total industry fine cut category of 9.3 billion cigarette equivalent units decreased by 2.7%. PMI's market share of the fine cut category decreased by 1.9 points to 11.6%.

In the quarter, the estimated total cigarette market increased by 0.3%, mainly reflecting the same dynamics as for the full year. Excluding the net impact of distributor inventory movements, PMI's cigarette shipment volume was essentially flat. Market share dynamics reflected those for the full year. The estimated total industry fine cut category of 2.2 billion cigarette equivalent units decreased by 2.9%. PMI's market share of the fine cut category decreased by 3.0 points to 10.2%.

EASTERN EUROPE, MIDDLE EAST & AFRICA REGION (EEMA)

2016 Full-Year

Net revenues, excluding excise taxes, of \$7.0 billion decreased by 4.9%. Excluding unfavorable currency of \$600 million, net revenues, excluding excise taxes, increased by 3.2%, reflecting a favorable pricing variance of \$584 million, driven principally by Russia and Turkey, partly offset by Ukraine. The favorable pricing variance was partly offset by unfavorable volume/mix of \$348 million, mainly due to unfavorable volume in North Africa, primarily Algeria, and Russia, principally reflecting a lower total market and cigarette market share.

Operating companies income of \$3.0 billion decreased by 11.9%. Excluding unfavorable currency of \$839 million, operating companies income increased by 12.6%, principally reflecting a favorable pricing variance and a favorable cost comparison with 2015, partly offset by unfavorable volume/mix of \$333 million, mainly due to North Africa, primarily Algeria, and Russia.

Adjusted operating companies income and margin are shown in the table below and detailed on Schedule 14. Adjusted operating companies income, excluding unfavorable currency, increased by 12.6%. Adjusted operating companies income margin, excluding currency, increased by 4.2 points to 50.7%, reflecting the factors mentioned above, as detailed on Schedule 14.

2016 Fourth-Quarter

Net revenues, excluding excise taxes, of \$1.8 billion increased by 4.7%. Excluding unfavorable currency of \$85 million, net revenues, excluding excise taxes, increased by 9.7%, reflecting a favorable pricing variance of \$182 million, driven principally by Egypt, Saudi Arabia and Turkey. The favorable pricing variance was partly offset by unfavorable volume/mix of \$16 million, mainly due to unfavorable volume in North Africa, primarily Algeria and Egypt, largely reflecting a lower total market and cigarette market share, and Turkey, largely reflecting a lower total market, partly offset by favorable volume in Russia and Saudi Arabia.

Operating companies income of \$627 million decreased by 10.9%. Excluding unfavorable currency of \$390 million, operating companies income increased by 44.5%, principally reflecting a favorable pricing variance and a favorable cost comparison with 2015, partly offset by unfavorable volume/mix of \$16 million, mainly due to North Africa, primarily Algeria, and Turkey, partly offset by Russia and Saudi Arabia.

Adjusted operating companies income and margin are shown in the table below and detailed on Schedule 11. Adjusted operating companies income, excluding unfavorable currency, increased by 44.5%. Adjusted operating companies income margin, excluding currency, increased by 13.0 points to 54.0%, reflecting the factors mentioned above, as detailed on Schedule 11.

<u>EEMA OCI</u> (in millions)	<u>Fourth-Quarter</u>				<u>Full-Year</u>			
	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>Excl. Curr.</u>	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>Excl. Curr.</u>
OCI	\$ 627	\$ 704	(10.9)%	44.5%	\$ 3,016	\$ 3,425	(11.9)%	12.6%
Asset impairment & exit costs	—	—			—	—		
Adjusted OCI	\$ 627	\$ 704	(10.9)%	44.5%	\$ 3,016	\$ 3,425	(11.9)%	12.6%
Adjusted OCI Margin*	34.9%	41.0%	(6.1)	13.0	43.1%	46.5%	(3.4)	4.2

*Margins are calculated as adjusted OCI, divided by net revenues, excluding excise taxes.

EEMA PMI Shipment Commentaries

2016 Full-Year

PMI's cigarette shipment volume decreased by 2.9% to 271.4 billion units, mainly due to North Africa, primarily Algeria, and Russia, partially offset by Saudi Arabia and Ukraine. PMI's cigarette shipment volume of *Marlboro* decreased by 8.5% to 73.8 billion units, principally due to Algeria and Egypt, partly offset by Saudi Arabia. PMI's cigarette shipment volume of *Parliament* increased by 1.0% to 33.9 billion units, driven by Saudi Arabia, Turkey and Ukraine, partly offset by Russia. PMI's cigarette shipment volume of *L&M* increased by 1.9% to 52.2 billion units, driven notably by Algeria, Kazakhstan and Ukraine, partly offset by Russia and Turkey.

2016 Fourth-Quarter

PMI's cigarette shipment volume decreased by 2.2% to 67.8 billion units, mainly due to North Africa, primarily Algeria and Egypt, and Turkey, partly offset by Russia and Saudi Arabia. PMI's cigarette shipment volume of *Marlboro* decreased by 7.5% to 18.8 billion units, principally due to Algeria, partly offset by Saudi Arabia. PMI's cigarette shipment volume of *Parliament* decreased by 0.5% to 8.4 billion units, mainly due to Turkey, partly offset by Russia. PMI's cigarette shipment volume of *L&M* decreased by 2.4% to 12.7 billion units, mainly due to Egypt and Turkey, partly offset by Kazakhstan, Saudi Arabia and Ukraine.

EEMA Key Market Commentaries

In **North Africa**, estimated industry size, PMI cigarette shipment volume and market share performance are shown in the table below.

<u>North Africa Key Market Data</u>	<u>Fourth-Quarter</u>			<u>Full-Year</u>		
	<u>2016</u>	<u>2015</u>	<u>Change</u> <u>% / p.p.</u>	<u>2016</u>	<u>2015</u>	<u>Change</u> <u>% / p.p.</u>
Total Cigarette Market (billion units)	33.6	37.4	(10.3)%	139.0	138.5	0.4 %
PMI Shipments (million units)	8,141	10,174	(20.0)%	34,035	38,111	(10.7)%
PMI Cigarette Market Share						
<i>Marlboro</i>	9.3%	12.4%	(3.1)	8.5%	13.7%	(5.2)
<i>L&M</i>	12.2%	13.0%	(0.8)	12.5%	11.9%	0.6
Others	2.5%	2.4%	0.1	2.7%	2.3%	0.4
Total	24.0%	27.8%	(3.8)	23.7%	27.9%	(4.2)

For the full year, the estimated total cigarette market increased by 0.4%, driven by Egypt, Morocco and Tunisia, partly offset by Algeria. The decrease in PMI's cigarette shipment volume reflected lower market share, mainly due to *Marlboro* in Algeria, principally resulting from the impact of excise tax-driven price increases, as well as lower-than-anticipated acceptance of Architecture 2.0 for *Marlboro Round Taste*.

In the quarter, the estimated total cigarette market decreased by 10.3%, or by 3.1% excluding the net impact of estimated trade inventory movements, due primarily to Algeria and Egypt, partly offset by Tunisia. The decrease in PMI's cigarette shipment volume reflected a lower total market, and lower market share reflecting the same factors as for the full year.

In **Russia**, estimated industry size, PMI cigarette shipment volume and market share performance, as measured by Nielsen, are shown in the table below.

<u>Russia Key Market Data</u>	<u>Fourth-Quarter</u>			<u>Full-Year</u>		
	<u>2016</u>	<u>2015</u>	<u>Change</u> <u>% / p.p.</u>	<u>2016</u>	<u>2015</u>	<u>Change</u> <u>% / p.p.</u>
Total Cigarette Market (billion units)	71.7	74.2	(3.4)%	280.7	294.1	(4.6)%
PMI Shipments (million units)	20,543	18,596	10.5 %	79,651	84,422	(5.7)%
PMI Cigarette Market Share						
<i>Marlboro</i>	1.3%	1.4%	(0.1)	1.4%	1.4%	—
<i>Parliament</i>	3.7%	3.9%	(0.2)	3.8%	3.9%	(0.1)
<i>Bond Street</i>	8.9%	8.7%	0.2	8.4%	8.4%	—
Others	13.3%	14.5%	(1.2)	13.6%	14.7%	(1.1)
Total	27.2%	28.5%	(1.3)	27.2%	28.4%	(1.2)

For the full year, the estimated total cigarette market decreased by 4.6%, mainly due to the impact of excise tax-driven price increases. The decrease in PMI's cigarette shipment volume, down by 8.3% excluding the impact of estimated distributor inventory movements, mainly reflected the lower total market, and lower cigarette market

share primarily due to a decline in "Others" of mid-price *L&M* and *Chesterfield* and super-low *Optima*, resulting from the timing of retail price increases compared to competition.

In the quarter, the estimated total cigarette market decreased by 3.4%, reflecting the same dynamic as for the full year. The increase in PMI's cigarette shipment volume reflected a favorable comparison with the fourth quarter of 2015, which was unfavorably impacted by estimated distributor inventory movements related to supply chain optimization. Excluding these inventory movements, PMI's cigarette volume decreased by 4.7%, reflecting the lower total market, and lower cigarette market share due to the same dynamics as for the full year.

In **Turkey**, estimated industry size, PMI cigarette shipment volume and market share performance, as measured by Nielsen, are shown in the table below.

Turkey Key Market Data	Fourth-Quarter			Full-Year		
	2016	2015	Change % / p.p.	2016	2015	Change % / p.p.
Total Cigarette Market (billion units)	26.0	28.2	(8.0)%	105.5	103.2	2.2%
PMI Shipments (million units)	12,074	13,581	(11.1)%	49,624	49,014	1.2%
PMI Cigarette Market Share						
<i>Marlboro</i>	10.3%	9.9%	0.4	10.2%	9.5%	0.7
<i>Parliament</i>	11.8%	11.6%	0.2	11.7%	11.6%	0.1
<i>Lark</i>	7.0%	7.9%	(0.9)	7.4%	7.6%	(0.2)
Others	15.3%	14.8%	0.5	15.0%	15.1%	(0.1)
Total	44.4%	44.2%	0.2	44.3%	43.8%	0.5

For the full year, the estimated total cigarette market increased by 2.2%, primarily reflecting a lower prevalence of illicit trade. The increase in PMI's cigarette shipment volume was mainly driven by the higher total market. PMI's higher market share, led by *Marlboro*, primarily reflecting the growth of its slimmer *Touch* variant, and *Chesterfield*, partly offset by *L&M* in "Others."

In the quarter, the estimated total cigarette market decreased by 8.0%, or by 4.7% excluding the net impact of estimated trade inventory movements, principally due to the impact of price increases. The decrease also reflected a difficult comparison with the fourth quarter of 2015, which increased by 7.8% driven by a lower prevalence of illicit trade and the favorable impact of estimated immigration. The decrease in PMI's shipments mainly reflected the lower total market. The increase in PMI's market share, as measured by Nielsen, reflected the same dynamics as for the full year.

In **Ukraine**, estimated industry size, PMI cigarette shipment volume and market share performance, as measured by Nielsen, are shown in the table below.

Ukraine Key Market Data	Fourth-Quarter			Full-Year		
	2016	2015	Change % / p.p.	2016	2015	Change % / p.p.
Total Cigarette Market (billion units)	17.0	18.2	(6.4)%	72.7	70.6	2.9%
PMI Shipments (million units)	4,791	4,813	(0.5)%	22,014	19,195	14.7%
PMI Cigarette Market Share						
<i>Marlboro</i>	3.2%	3.4%	(0.2)	3.2%	3.8%	(0.6)
<i>Parliament</i>	3.2%	2.8%	0.4	3.0%	2.9%	0.1
<i>Bond Street</i>	9.3%	8.8%	0.5	10.1%	8.3%	1.8
Others	12.9%	13.6%	(0.7)	13.6%	15.0%	(1.4)
Total	28.6%	28.6%	—	29.9%	30.0%	(0.1)

For the full year, the estimated total cigarette market increased by 2.9%, mainly driven by a lower prevalence of illicit trade. The increase in PMI's cigarette shipment volume reflected the higher total cigarette market. The decrease in PMI's market share was primarily due to *Marlboro*, reflecting the impact of widened price gaps, and mid-price *Chesterfield* and super-low *President* in "Others," mainly resulting from competitive price pressure in the low price segment, partly offset by *Bond Street* and *L&M* in "Others."

In the quarter, the estimated total cigarette market decreased by 6.4%, principally driven by the impact of price increases in 2016. The decrease in PMI's cigarette shipment volume mainly reflected a lower total market and a flat market share.

ASIA REGION

2016 Full-Year

Net revenues, excluding excise taxes, of \$8.7 billion increased by 5.8%. Excluding unfavorable currency of \$8 million, net revenues, excluding excise taxes, increased by 5.9%, reflecting a favorable pricing variance of \$335 million, driven principally by Australia, Indonesia and the Philippines. The favorable pricing variance was supported by favorable volume/mix of \$151 million, mainly driven by *HeatSticks* volume in Japan and a favorable cigarette volume comparison in Korea, partly offset by unfavorable volume/mix in Australia, Indonesia and Thailand, reflecting a lower estimated total market and cigarette market share.

Net revenues, excluding excise taxes, included \$666 million related to the sale of RRP's, as detailed in the attached Schedule 18, mainly driven by Japan.

Operating companies income of \$3.2 billion increased by 10.7%. Excluding favorable currency of \$52 million, operating companies income increased by 8.9%, mainly driven by: a favorable pricing variance and a favorable cost comparison, notably related to cigarette business building and optimization initiatives in Indonesia. The increase was partly offset by: unfavorable volume/mix of \$106 million, predominantly in Australia and Indonesia, partly offset by favorable *HeatSticks* volume in Japan, and increased support behind Reduced-Risk Products.

Adjusted operating companies income and margin are shown in the table below and detailed in Schedule 14. Adjusted operating companies income, excluding favorable currency, increased by 8.9%. Adjusted operating companies income margin, excluding currency, increased by 1.0 point to 36.2%, reflecting the above-mentioned factors, as detailed on Schedule 14.

2016 Fourth-Quarter

Net revenues, excluding excise taxes, of \$2.4 billion increased by 27.4%. Excluding favorable currency of \$118 million, net revenues, excluding excise taxes, increased by 21.2%, reflecting a favorable pricing variance of \$178 million, driven principally by Australia, Indonesia and the Philippines. The favorable pricing variance was supported by favorable volume/mix of \$229 million, predominantly driven by favorable *HeatSticks* volume in Japan, partly offset by unfavorable volume/mix in Indonesia and unfavorable volume in Australia, the Philippines and Thailand, reflecting a lower estimated total market and cigarette market share.

Net revenues, excluding excise taxes, included \$312 million related to the sale of RRP's, mainly driven by Japan, as detailed in the attached Schedule 18.

Operating companies income of \$908 million increased by 95.3%. Excluding favorable currency of \$63 million, operating companies income increased by 81.7%, mainly driven by: a favorable pricing variance; favorable volume/mix of \$132 million driven by *HeatSticks* volume in Japan; and a favorable cost comparison, notably related to significant investments behind cigarette brand building initiatives in Indonesia and Japan; partly offset by increased costs behind Reduced-Risk Products in Japan.

Adjusted operating companies income and margin are shown in the table below and detailed on Schedule 11. Adjusted operating companies income, excluding favorable currency, increased by 81.7%. Adjusted operating companies income margin, excluding favorable currency, increased by 12.1 points to 36.3%, reflecting the factors mentioned above, as detailed on Schedule 11.

Asia OCI (in millions)	Fourth-Quarter			Excl. Curr.	Full-Year			Excl. Curr.
	2016	2015	Change		2016	2015	Change	
OCI	\$ 908	\$ 465	95.3%	81.7%	\$ 3,196	\$ 2,886	10.7%	8.9%
Asset impairment & exit costs	—	—			—	—		
Adjusted OCI	\$ 908	\$ 465	95.3%	81.7%	\$ 3,196	\$ 2,886	10.7%	8.9%
Adjusted OCI Margin*	37.2%	24.2%	13.0	12.1	36.8%	35.2%	1.6	1.0

*Margins are calculated as adjusted OCI, divided by net revenues, excluding excise taxes.

Asia PMI Shipment Commentaries

2016 Full-Year

PMI's cigarette shipment volume decreased by 7.6% to 260.0 billion units, mainly due to: Indonesia; Pakistan, reflecting a lower total estimated cigarette market resulting from excise tax-driven price increases and the growth of illicit trade; the Philippines; and Thailand, primarily reflecting the impact of excise tax-driven price increases in the first quarter of 2016, as well as lower market share; and in-switching to *HeatSticks*; partly offset by Korea, reflecting a normalization of the total estimated cigarette market following the disruptive excise tax increase in January 2015.

Cigarette shipment volume of *Marlboro* increased by 4.0% to 76.5 billion units, mainly driven by Korea and the Philippines, partly offset by Vietnam, as well as in-switching to *HeatSticks*. Cigarette shipment volume of

Parliament increased by 7.5% to 10.1 billion units, driven by Korea. Cigarette shipment volume of *Lark* decreased by 3.8% to 17.6 billion units, principally due to Japan.

2016 Fourth-Quarter

PMI's cigarette shipment volume decreased by 6.4% to 63.8 billion units, mainly due to: Indonesia; the Philippines; and Thailand, primarily reflecting the same dynamics as for the full year; partly offset by Japan, reflecting a favorable comparison related to distributor inventory movements.

Cigarette shipment volume of *Marlboro* increased by 4.8% to 19.2 billion units, predominantly driven by Japan and the Philippines, partly offset by Indonesia and Vietnam, as well as in-switching to *HeatSticks*. Cigarette shipment volume of *Parliament* increased by 2.7% to 2.6 billion units, driven mainly by Korea, partly offset by Japan. Cigarette shipment volume of *Lark* increased by 11.5% to 4.2 billion units, driven by Japan.

Asia Key Market Commentaries

In **Indonesia**, estimated industry size, PMI cigarette shipment volume, market share and segmentation performance are shown in the tables below.

Indonesia Key Market Data

	<u>Fourth-Quarter</u>			<u>Full-Year</u>		
	<u>2016</u>	<u>2015</u>	<u>Change % / p.p.</u>	<u>2016</u>	<u>2015</u>	<u>Change % / p.p.</u>
Total Cigarette Market (billion units)	80.5	83.1	(3.1)%	315.6	320.0	(1.4)%
PMI Shipments (million units)	26,732	27,945	(4.3)%	105,524	109,840	(3.9)%
PMI Cigarette Market Share						
<i>Sampoerna A</i>	14.0%	14.3%	(0.3)	14.0%	14.6%	(0.6)
<i>Dji Sam Soe</i>	6.4%	6.8%	(0.4)	6.5%	6.9%	(0.4)
<i>U Mild</i>	3.9%	4.5%	(0.6)	4.2%	4.7%	(0.5)
Others	8.9%	8.0%	0.9	8.7%	8.1%	0.6
Total	33.2%	33.6%	(0.4)	33.4%	34.3%	(0.9)

Indonesia Segmentation Data

	<u>Fourth-Quarter</u>			<u>Full-Year</u>		
	<u>2016</u>	<u>2015</u>	<u>Change p.p.</u>	<u>2016</u>	<u>2015</u>	<u>Change p.p.</u>
Segment % of Total Market						
<i>Hand-Rolled Kretek (SKT)</i>	18.2%	19.1%	(0.9)	18.2%	19.1%	(0.9)
<i>Machine-Made Kretek (SKM)</i>	76.2%	74.8%	1.4	75.8%	74.7%	1.1
<i>Whites (SPM)</i>	5.6%	6.1%	(0.5)	6.0%	6.2%	(0.2)
Total	100.0%	100.0%	—	100.0%	100.0%	—
PMI % Share of Segment						
<i>Hand-Rolled Kretek (SKT)</i>	37.8%	38.9%	(1.1)	37.3%	37.7%	(0.4)
<i>Machine-Made Kretek (SKM)</i>	29.0%	28.5%	0.5	28.9%	29.7%	(0.8)
<i>Whites (SPM)</i>	76.3%	80.6%	(4.3)	79.5%	80.3%	(0.8)

For the full year, the estimated total cigarette market decreased by 1.4%, mainly reflecting a soft economic environment and the impact of excise tax-driven price increases. The decrease in PMI's cigarette shipments was mainly due to lower market share, reflecting the soft performance of PMI's SKM portfolio, due to competitors'

discounted product offerings, and PMI's SKT portfolio, broadly in line with industry trends, as well as a lower estimated total market.

In the quarter, the estimated total cigarette market decreased by 3.1%, reflecting the same dynamics as for the full year. The decrease in PMI's cigarette shipments was mainly due to a lower estimated total market, as well as lower market share mainly reflecting the soft performance of PMI's SKT portfolio, broadly in line with industry trends.

In **Japan**, estimated industry size, PMI cigarette shipment volume and market share performance are shown in the table below.

Japan Key Market Data	Fourth-Quarter			Full-Year		
	2016	2015	Change % / p.p.	2016	2015	Change % / p.p.
Total Cigarette Market (billion units)	43.1	46.5	(7.4)%	173.8	182.3	(4.6)%
PMI Shipments (million units)	10,631	9,496	12.0 %	43,915	45,690	(3.9)%
PMI Cigarette Market Share						
<i>Marlboro</i>	10.7%	11.0%	(0.3)	10.9%	11.3%	(0.4)
<i>Parliament</i>	2.4%	2.3%	0.1	2.4%	2.3%	0.1
<i>Lark</i>	9.8%	9.9%	(0.1)	9.9%	9.9%	—
Others	1.6%	1.7%	(0.1)	1.7%	1.8%	(0.1)
Total	24.5%	24.9%	(0.4)	24.9%	25.3%	(0.4)

For the full year, the estimated total cigarette market decreased by 4.6%, reflecting the continued underlying cigarette consumption decline, the growth of Reduced-Risk Products, and the impact of the April price increases of certain brands of PMI's key competitor. Excluding the net impact of distributor inventory movements, PMI's cigarette shipment volume decreased by 6.5%. The decline was mainly due to a lower total cigarette market, as well as lower cigarette market share, reflecting the impact of competitors' retail pricing, competitors' differentiated menthol taste product offerings and in-switching to *Marlboro HeatSticks*.

The estimated national market share of *Marlboro HeatSticks* was 2.9%, bringing PMI's total combined national market share to 27.1%, up by 1.7 points.

In the quarter, the estimated total cigarette market decreased by 7.4%, mainly reflecting the same dynamics as for the full year. Excluding the net impact of distributor inventory movements, PMI's cigarette shipment volume decreased by 10.8%, mainly reflecting the lower cigarette market, as well as lower cigarette market share, reflecting the same dynamics as for the full year.

The estimated national market share of *Marlboro HeatSticks* was 4.9%, bringing PMI's total combined national market share to 28.3%, up by 3.1 points.

In **Korea**, estimated industry size, PMI cigarette shipment volume and market share performance are shown in the table below.

<u>Korea Key Market Data</u>	<u>Fourth-Quarter</u>			<u>Full-Year</u>		
	<u>2016</u>	<u>2015</u>	<u>Change</u> <u>% / p.p.</u>	<u>2016</u>	<u>2015</u>	<u>Change</u> <u>% / p.p.</u>
Total Cigarette Market (billion units)	18.0	17.9	0.5%	73.6	67.3	9.4%
PMI Shipments (million units)	3,937	3,848	2.3%	15,490	14,201	9.1%
PMI Cigarette Market Share						
<i>Marlboro</i>	10.0%	9.7%	0.3	9.6%	9.6%	—
<i>Parliament</i>	9.0%	8.7%	0.3	8.5%	8.4%	0.1
<i>Virginia S.</i>	2.3%	2.6%	(0.3)	2.4%	2.6%	(0.2)
Others	0.4%	0.5%	(0.1)	0.5%	0.6%	(0.1)
Total	21.7%	21.5%	0.2	21.0%	21.2%	(0.2)

For the full year, excluding a favorable comparison with the prior year driven by estimated trade inventory movements, the estimated total cigarette market increased by 4.3%, reflecting the normalization of the market following the disruptive excise tax increase of 120% in January 2015. The growth in PMI's cigarette shipment volume primarily reflected the higher estimated total market.

In the quarter, the estimated total cigarette market increased by 0.5%. Excluding the net impact of estimated trade inventory movements, the total cigarette market decreased by 2.3%. The increase in PMI's cigarette shipment volume partly reflected higher market share.

In the **Philippines**, estimated industry size, PMI cigarette shipment volume and market share performance are shown in the table below.

<u>Philippines Key Market Data</u>	<u>Fourth-Quarter</u>			<u>Full-Year</u>		
	<u>2016</u>	<u>2015</u>	<u>Change</u> <u>% / p.p.</u>	<u>2016</u>	<u>2015</u>	<u>Change</u> <u>% / p.p.</u>
Total Cigarette Market (billion units)	19.2	22.1	(13.2)%	79.3	90.2	(12.0)%
PMI Shipments (million units)	13,053	16,415	(20.5)%	56,611	66,236	(14.5)%
PMI Cigarette Market Share						
<i>Marlboro</i>	29.9%	23.9%	6.0	28.4%	20.0%	8.4
<i>Fortune</i>	20.5%	28.1%	(7.6)	23.4%	29.2%	(5.8)
<i>Jackpot</i>	6.8%	10.6%	(3.8)	7.9%	12.4%	(4.5)
Others	11.0%	11.8%	(0.8)	11.6%	11.8%	(0.2)
Total	68.2%	74.4%	(6.2)	71.3%	73.4%	(2.1)

For the full year, the estimated total cigarette market decreased by 12.0%, mainly due to the impact of excise tax-driven price increases. The decline in PMI's cigarette shipment volume reflected the lower total market, as well as the impact of these price increases on market share, particularly on its low and super-low price brands, *Fortune* and *Jackpot*, partly offset by an increase in market share of *Marlboro*, benefiting from its narrowed price gap with lower-priced brands as a result of the price increases.

In the quarter, the estimated total cigarette market decreased by 13.2%, mainly due to the impact of excise-tax-driven price increases, including those on PMI's full brand portfolio at the end of October. The decline in PMI's cigarette shipment volume and market share reflected the same dynamics as for the full year.

LATIN AMERICA & CANADA REGION

2016 Full-Year

Net revenues, excluding excise taxes, of \$2.8 billion decreased by 10.0%. Excluding unfavorable currency of \$525 million, net revenues, excluding excise taxes, increased by 6.6%, driven by a favorable pricing variance of \$312 million, principally in Argentina and Canada, partly offset by unfavorable volume/mix of \$104 million, mainly due to unfavorable volume in Argentina, reflecting the impact of excise tax-driven price increases, partly offset by favorable volume in Mexico.

Operating companies income of \$938 million decreased by 13.5%. Excluding unfavorable currency of \$282 million, operating companies income increased by 12.4%, primarily driven by a favorable pricing variance, partially offset by unfavorable volume/mix of \$85 million, mainly due to Argentina, partly offset by Mexico, and higher costs, mainly inflation-driven in Argentina.

Adjusted operating companies income and margin are shown in the table below and detailed in Schedule 14. Adjusted operating companies income, excluding unfavorable currency, increased by 12.4%. Adjusted operating companies income margin, excluding currency, increased by 1.9 points to 36.2%, principally driven by the factors mentioned above, as detailed on Schedule 14.

2016 Fourth-Quarter

Net revenues, excluding excise taxes, of \$785 million decreased by 4.5%. Excluding unfavorable currency of \$98 million, net revenues, excluding excise taxes, increased by 7.4%, driven by a favorable pricing variance of \$87 million, principally in Argentina and Canada, partly offset by unfavorable volume/mix of \$26 million, mainly due to the same dynamics as for the full year.

Operating companies income of \$261 million increased by 10.6%. Excluding unfavorable currency of \$62 million, operating companies income increased by 36.9%, primarily driven by a favorable pricing variance, partly offset by unfavorable volume/mix of \$19 million, mainly due to Argentina, partly offset by Mexico.

Adjusted operating companies income and margin are shown in the table below and detailed on Schedule 11. Adjusted operating companies income, excluding unfavorable currency, increased by 36.9%. Adjusted operating companies income margin, excluding currency, increased by 7.9 points to 36.6%, principally driven by the factors mentioned above, as detailed on Schedule 11.

<u>Latin America & Canada OCI</u> (in millions)	<u>Fourth-Quarter</u>				<u>Full-Year</u>			
	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>Excl. Curr.</u>	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>Excl. Curr.</u>
OCI	\$ 261	\$ 236	10.6%	36.9%	\$ 938	\$ 1,085	(13.5)%	12.4%
Asset impairment & exit costs	—	—			—	—		
Adjusted OCI	\$ 261	\$ 236	10.6%	36.9%	\$ 938	\$ 1,085	(13.5)%	12.4%
Adjusted OCI Margin*	33.2%	28.7%	4.5	7.9	33.0%	34.3%	(1.3)	1.9

*Margins are calculated as adjusted OCI, divided by net revenues, excluding excise taxes.

Latin America & Canada PMI Shipment Commentaries

2016 Full-Year

PMI's cigarette shipment volume decreased by 4.3% to 87.9 billion units, mainly due to Argentina, partly offset by Mexico. While cigarette shipment volume of *Marlboro* decreased by 1.8% to 35.2 billion units, its market share increased by 0.6 points to an estimated 15.8%, primarily driven by Brazil, up by 0.6 points to 10.3%, Colombia, up by 0.3 points to 9.3%, and Mexico, up by 1.3 points to 48.9%, partly offset by Argentina, down by 1.9 points to 22.4%. Cigarette shipment volume of *Philip Morris* decreased by 15.3% to 16.5 billion units, mainly due to Argentina.

2016 Fourth-Quarter

PMI's cigarette shipment volume decreased by 5.2% to 23.8 billion units, mainly due to Argentina, partly offset by Mexico. While cigarette shipment volume of *Marlboro* decreased by 3.4% to 9.6 billion units, its market share increased by 0.7 points to an estimated 16.4%, primarily driven by Brazil, up by 0.7 points to 10.3% and Colombia, up by 0.4 points to 9.4%, and Mexico, up by 2.6 points to 52.2%, partly offset by Argentina, down by 3.9 points to 20.8%. Cigarette shipment volume of *Philip Morris* decreased by 26.5% to 3.9 billion units, mainly due to Argentina.

Latin America & Canada Key Market Commentaries

In **Argentina**, estimated industry size, PMI cigarette shipment volume and market share performance are shown in the table below.

Argentina Key Market Data

	<u>Fourth-Quarter</u>			<u>Full-Year</u>		
	<u>2016</u>	<u>2015</u>	<u>Change % / p.p.</u>	<u>2016</u>	<u>2015</u>	<u>Change % / p.p.</u>
Total Cigarette Market (billion units)	9.4	11.0	(14.6)%	36.1	40.8	(11.6)%
PMI Shipments (million units)	7,123	8,676	(17.9)%	27,512	31,910	(13.8)%
PMI Cigarette Market Share						
<i>Marlboro</i>	20.8%	24.7%	(3.9)	22.4%	24.3%	(1.9)
<i>Parliament</i>	1.7%	2.1%	(0.4)	1.9%	2.1%	(0.2)
<i>Philip Morris</i>	37.3%	45.1%	(7.8)	41.6%	44.7%	(3.1)
Others	15.7%	6.7%	9.0	10.4%	7.1%	3.3
Total	75.5%	78.6%	(3.1)	76.3%	78.2%	(1.9)

For the full year, the decline of the estimated total cigarette market of 11.6% mainly reflected a soft economic environment and the impact of the May 2016 excise tax increase that drove a more than 50% increase in average industry retail prices. The decrease in PMI's cigarette shipment volume was principally due to the lower total market. PMI's lower cigarette market share primarily reflected growth in competitors' super-low priced products benefiting from down-trading, partly offset by low-price *Chesterfield* in "Others." The capsule segment was up by 1.0 point to 17.4% of the total market; PMI's share of the segment increased by 0.4 points to 73.9%.

In the quarter, the decline of the total cigarette market of 14.6%, the decrease in PMI's cigarette shipment volume and lower cigarette market share reflected the same dynamics as for the full year. Although the capsule segment was down by 0.1 point to 17.2% of the total market, PMI's share of the segment increased by 0.9 points to 75.2%.

In **Canada**, estimated industry size, PMI cigarette shipment volume and market share performance are shown in the table below.

<u>Canada Key Market Data</u>	<u>Fourth-Quarter</u>			<u>Full-Year</u>		
	<u>2016</u>	<u>2015</u>	<u>Change % / p.p.</u>	<u>2016</u>	<u>2015</u>	<u>Change % / p.p.</u>
Total Cigarette Market (billion units)	6.8	6.9	(1.8)%	26.3	26.7	(1.6)%
PMI Shipments (million units)	2,584	2,502	3.3 %	10,049	9,926	1.2 %
PMI Cigarette Market Share						
<i>Belmont</i>	3.8%	3.4%	0.4	3.7%	3.3%	0.4
<i>Canadian Classics</i>	10.3%	9.8%	0.5	10.2%	10.3%	(0.1)
<i>Next</i>	11.6%	10.6%	1.0	11.3%	10.6%	0.7
Others	13.1%	12.3%	0.8	13.2%	13.1%	0.1
Total	38.8%	36.1%	2.7	38.4%	37.3%	1.1

For the full year, the estimated total cigarette market decreased by 1.6%. The increase in PMI's cigarette shipment volume was principally driven by higher cigarette market share, favorably impacted by estimated trade inventory movements, partly offset by a lower total market.

In the quarter, the estimated total cigarette market decreased by 3.6% excluding the net impact of estimated trade inventory movements. The increase in PMI's cigarette shipment volume reflected higher cigarette market share, favorably impacted by estimated inventory movements.

In **Mexico**, estimated industry size, PMI cigarette shipment volume and market share performance are shown in the table below.

<u>Mexico Key Market Data</u>	<u>Fourth-Quarter</u>			<u>Full-Year</u>		
	<u>2016</u>	<u>2015</u>	<u>Change % / p.p.</u>	<u>2016</u>	<u>2015</u>	<u>Change % / p.p.</u>
Total Cigarette Market (billion units)	9.7	9.1	6.8%	36.2	33.9	6.7%
PMI Shipments (million units)	7,066	6,380	10.8%	25,080	23,246	7.9%
PMI Cigarette Market Share						
<i>Marlboro</i>	52.2%	49.6%	2.6	48.9%	47.6%	1.3
<i>Delicados</i>	9.5%	10.3%	(0.8)	9.7%	10.6%	(0.9)
<i>Benson & Hedges</i>	5.0%	4.5%	0.5	4.7%	4.5%	0.2
Others	6.0%	5.7%	0.3	6.0%	5.8%	0.2
Total	72.7%	70.1%	2.6	69.3%	68.5%	0.8

For the full year, the estimated total cigarette market increased by 6.7%, or by 1.9% excluding the net impact of estimated trade inventory movements, primarily reflecting improved market conditions and a lower prevalence of illicit trade. The increase in PMI's cigarette shipment volume reflected the higher total market. PMI's cigarette market share, benefiting from the impact of estimated inventory movements, was up by 0.8 points, with growth of *Marlboro* and *Benson & Hedges*, reflecting the impact of new product launches, partly offset by low-price

Delicados. PMI's share of the premium segment, representing 56.8% of the total market, increased by 1.1 points to 93.5%.

In the quarter, the estimated total cigarette market increased by 6.8%. Excluding the net impact of estimated trade inventory movements, the estimated total cigarette market decreased by 2.5%. The increase in PMI's cigarette shipment volume mainly reflected the higher total cigarette market. PMI's cigarette market share, benefiting from the impact of estimated trade inventory movements mentioned above, was up by 2.6 points, reflecting the same dynamics as for the full year. PMI's share of the premium segment, representing 59.5% of the total market, was up by 2.1 points to 94.9%.

About Philip Morris International Inc. (“PMI”)

PMI is the world’s leading international tobacco company, with six of the world’s top 15 international brands and products sold in more than 180 markets. In addition to the manufacture and sale of cigarettes, including *Marlboro*, the number one global cigarette brand, and other tobacco products, PMI is engaged in the development and commercialization of Reduced-Risk Products (“RRPs”). RRPs is the term PMI uses to refer to products that present, are likely to present, or have the potential to present less risk of harm to smokers who switch to these products versus continued smoking. Through multidisciplinary capabilities in product development, state-of-the-art facilities, and industry-leading scientific substantiation, PMI aims to provide an RRP portfolio that meets a broad spectrum of adult smoker preferences and rigorous regulatory requirements. For more information, see www.pmi.com and www.pmiscience.com.

Forward-Looking and Cautionary Statements

This press release contains projections of future results and other forward-looking statements. Achievement of future results is subject to risks, uncertainties and inaccurate assumptions. In the event that risks or uncertainties materialize, or underlying assumptions prove inaccurate, actual results could vary materially from those contained in such forward-looking statements. Pursuant to the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995, PMI is identifying important factors that, individually or in the aggregate, could cause actual results and outcomes to differ materially from those contained in any forward-looking statements made by PMI.

PMI's business risks include: significant increases in cigarette-related taxes; the imposition of discriminatory excise tax structures; fluctuations in customer inventory levels due to increases in product taxes and prices; increasing marketing and regulatory restrictions, often with the goal of reducing or preventing the use of tobacco products; health concerns relating to the use of tobacco products and exposure to environmental tobacco smoke; litigation related to tobacco use; intense competition; the effects of global and individual country economic, regulatory and political developments; changes in adult smoker behavior; lost revenues as a result of counterfeiting, contraband and cross-border purchases; governmental investigations; unfavorable currency exchange rates and currency devaluations; adverse changes in applicable corporate tax laws; adverse changes in the cost and quality of tobacco and other agricultural products and raw materials; and the integrity of its information systems. PMI's future profitability may also be adversely affected should it be unsuccessful in its attempts to produce and commercialize Reduced-Risk Products; if it is unable to successfully introduce new products, promote brand equity, enter new markets or improve its margins through increased prices and productivity gains; if it is unable to expand its brand portfolio internally or through acquisitions and the development of strategic business relationships; or if it is unable to attract and retain the best global talent.

PMI is further subject to other risks detailed from time to time in its publicly filed documents, including the Form 10-Q for the quarter ended September 30, 2016. PMI cautions that the foregoing list of important factors is not a complete discussion of all potential risks and uncertainties. PMI does not undertake to update any forward-looking statement that it may make from time to time, except in the normal course of its public disclosure obligations.

PHILIP MORRIS INTERNATIONAL INC.
and Subsidiaries
Condensed Statements of Earnings
For the Quarters Ended December 31,
(\$ in millions, except per share data)
(Unaudited)

	2016	2015	% Change
Net Revenues	\$ 19,189	\$ 18,371	4.5%
Cost of sales	2,499	2,375	5.2%
Excise Taxes on products (1)	12,218	11,979	2.0%
Gross profit	4,472	4,017	11.3%
Marketing, administration and research costs	1,842	2,028	
Asset impairment and exit costs	—	68	
Amortization of intangibles	18	20	
Operating Income (2)	2,612	1,901	37.4%
Interest expense, net	201	227	
Earnings before income taxes	2,411	1,674	44.0%
Provision for income taxes	658	412	59.7%
Equity (income)/loss in unconsolidated subsidiaries, net	(22)	(36)	
Net Earnings	1,775	1,298	36.7%
Net Earnings attributable to noncontrolling interests	64	49	
Net Earnings attributable to PMI	\$ 1,711	\$ 1,249	37.0%
Per share data (3):			
Basic Earnings Per Share	\$ 1.10	\$ 0.80	37.5%
Diluted Earnings Per Share	\$ 1.10	\$ 0.80	37.5%

(1) The segment detail of Excise Taxes on products sold for the quarters ended December 31, 2016 and 2015 is shown on Schedule 2.

(2) PMI's management evaluates segment performance and allocates resources based on operating companies income, which PMI defines as operating income, excluding general corporate expenses and amortization of intangibles, plus equity (income)/loss in unconsolidated subsidiaries, net. The reconciliation from operating income to operating companies income is as follows:

	2016	2015	% Change
Operating Income	\$ 2,612	\$ 1,901	37.4%
Excluding:			
- Amortization of intangibles	18	20	
- General corporate expenses (included in marketing, administration and research costs above)	42	47	
Plus: Equity (income)/loss in unconsolidated subsidiaries, net	(22)	(36)	
Operating Companies Income	\$ 2,694	\$ 2,004	34.4%

(3) Net Earnings and weighted-average shares used in the basic and diluted earnings per share computations for the quarters ended December 31, 2016 and 2015 are shown on Schedule 4, Footnote 1.

PHILIP MORRIS INTERNATIONAL INC.
and Subsidiaries
Selected Financial Data by Business Segment
For the Quarters Ended December 31,
(\$ in millions)
(Unaudited)

	Net Revenues excluding Excise Taxes				
	European Union	EEMA	Asia	Latin America & Canada	Total
2016 Net Revenues (1)	\$ 6,465	\$ 4,636	\$ 5,517	\$ 2,571	\$ 19,189
Excise Taxes on products	(4,521)	(2,838)	(3,073)	(1,786)	(12,218)
Net Revenues excluding Excise Taxes	1,944	1,798	2,444	785	6,971
2015 Net Revenues	\$ 6,647	\$ 4,420	\$ 4,786	\$ 2,518	\$ 18,371
Excise Taxes on products	(4,713)	(2,703)	(2,867)	(1,696)	(11,979)
Net Revenues excluding Excise Taxes	1,934	1,717	1,919	822	6,392
Variance Currency	(25)	(85)	118	(98)	(90)
Acquisitions	—	—	—	—	—
Operations	35	166	407	61	669
Variance Total	10	81	525	(37)	579
Variance Total (%)	0.5%	4.7%	27.4%	(4.5)%	9.1%
Variance excluding Currency	35	166	407	61	669
Variance excluding Currency (%)	1.8%	9.7%	21.2%	7.4 %	10.5%
Variance excluding Currency & Acquisitions	35	166	407	61	669
Variance excluding Currency & Acquisitions (%)	1.8%	9.7%	21.2%	7.4 %	10.5%

(1) 2016 Currency increased / (decreased) Net Revenues as follows:

European Union	\$ (103)
EEMA	(329)
Asia	233
Latin America & Canada	(580)
	<u>\$ (779)</u>

PHILIP MORRIS INTERNATIONAL INC.
and Subsidiaries
Selected Financial Data by Business Segment
For the Quarters Ended December 31,
(\$ in millions)
(Unaudited)

Operating Companies Income

	European Union	EEMA	Asia	Latin America & Canada	Total
2016	\$ 898	\$ 627	\$ 908	\$ 261	\$ 2,694
2015	599	704	465	236	2,004
% Change	49.9%	(10.9)%	95.3%	10.6%	34.4%

Reconciliation:

For the quarter ended December 31, 2015	\$ 599	\$ 704	\$ 465	\$ 236	\$ 2,004
2015 Asset impairment and exit costs	68	—	—	—	68
2016 Asset impairment and exit costs	—	—	—	—	—
Acquired businesses	—	—	—	—	—
Currency	29	(390)	63	(62)	(360)
Operations	202	313	380	87	982
For the quarter ended December 31, 2016	\$ 898	\$ 627	\$ 908	\$ 261	\$ 2,694

PHILIP MORRIS INTERNATIONAL INC.
and Subsidiaries
Diluted Earnings Per Share
For the Quarters Ended December 31,
(\$ in millions, except per share data)
(Unaudited)

	<u>Diluted E.P.S.</u>
2016 Diluted Earnings Per Share	\$ 1.10 ⁽¹⁾
2015 Diluted Earnings Per Share	\$ 0.80 ⁽¹⁾
Change	\$ 0.30
% Change	37.5%
<u>Reconciliation:</u>	
2015 Diluted Earnings Per Share	\$ 0.80 ⁽¹⁾
Special Items:	
2015 Asset impairment and exit costs	0.03
2015 Tax items	(0.02)
2016 Asset impairment and exit costs	—
2016 Tax items	—
Currency	(0.13)
Interest	0.01
Change in tax rate	(0.02)
Operations	0.43 ⁽²⁾
2016 Diluted Earnings Per Share	\$ 1.10 ⁽¹⁾

(1) Basic and diluted EPS were calculated using the following (in millions):

	Q4 2016	Q4 2015
Net Earnings attributable to PMI	\$ 1,711	\$ 1,249
Less distributed and undistributed earnings attributable to share-based payment awards	5	4
Net Earnings for basic and diluted EPS	\$ 1,706	\$ 1,245
Weighted-average shares for basic and diluted EPS	1,551	1,549

(2) Includes the impact of shares outstanding and share-based payments

PHILIP MORRIS INTERNATIONAL INC.
and Subsidiaries
Condensed Statements of Earnings
For the Years Ended December 31,
(\$ in millions, except per share data)
(Unaudited)

	2016	2015	% Change
Net Revenues	\$ 74,953	\$ 73,908	1.4 %
Cost of sales	9,391	9,365	0.3 %
Excise Taxes on products (1)	48,268	47,114	2.4 %
Gross profit	17,294	17,429	(0.8)%
Marketing, administration and research costs	6,405	6,656	
Asset impairment and exit costs	—	68	
Amortization of intangibles	74	82	
Operating Income (2)	10,815	10,623	1.8 %
Interest expense, net	891	1,008	
Earnings before income taxes	9,924	9,615	3.2 %
Provision for income taxes	2,768	2,688	3.0 %
Equity (income)/loss in unconsolidated subsidiaries, net	(94)	(105)	
Net Earnings	7,250	7,032	3.1 %
Net Earnings attributable to noncontrolling interests	283	159	
Net Earnings attributable to PMI	\$ 6,967	\$ 6,873	1.4 %
Per share data (3):			
Basic Earnings Per Share	\$ 4.48	\$ 4.42	1.4 %
Diluted Earnings Per Share	\$ 4.48	\$ 4.42	1.4 %

(1) The segment detail of Excise Taxes on products sold for the years ended December 31, 2016 and 2015 is shown on Schedule 6.

(2) PMI's management evaluates segment performance and allocates resources based on operating companies income, which PMI defines as operating income, excluding general corporate expenses and amortization of intangibles, plus equity (income)/loss in unconsolidated subsidiaries, net. The reconciliation from operating income to operating companies income is as follows:

	2016	2015	% Change
Operating Income	\$ 10,815	\$ 10,623	1.8 %
<u>Excluding:</u>			
- Amortization of intangibles	74	82	
- General corporate expenses (included in marketing, administration and research costs above)	161	162	
Plus: Equity (income)/loss in unconsolidated subsidiaries, net	(94)	(105)	
Operating Companies Income	\$ 11,144	\$ 10,972	1.6 %

(3) Net Earnings and weighted-average shares used in the basic and diluted Earnings Per Share computations for the years ended December 31, 2016 and 2015 are shown on Schedule 8, Footnote 1.

PHILIP MORRIS INTERNATIONAL INC.
and Subsidiaries
Selected Financial Data by Business Segment
For the Years Ended December 31,
(\$ in millions)
(Unaudited)

		Net Revenues excluding Excise Taxes				
		European Union	EEMA	Asia	Latin America & Canada	Total
2016	Net Revenues (1)	\$ 27,129	\$ 18,286	\$ 20,531	\$ 9,007	\$ 74,953
	Excise Taxes on products	(18,967)	(11,286)	(11,850)	(6,165)	(48,268)
	Net Revenues excluding Excise Taxes	8,162	7,000	8,681	2,842	26,685
2015	Net Revenues	\$ 26,563	\$ 18,328	\$ 19,469	\$ 9,548	\$ 73,908
	Excise Taxes on products	(18,495)	(10,964)	(11,266)	(6,389)	(47,114)
	Net Revenues excluding Excise Taxes	8,068	7,364	8,203	3,159	26,794
Variance	Currency	(147)	(600)	(8)	(525)	(1,280)
	Acquisitions	—	—	—	—	—
	Operations	241	236	486	208	1,171
	Variance Total	94	(364)	478	(317)	(109)
	Variance Total (%)	1.2%	(4.9)%	5.8%	(10.0)%	(0.4)%
	Variance excluding Currency	241	236	486	208	1,171
	Variance excluding Currency (%)	3.0%	3.2 %	5.9%	6.6 %	4.4 %
	Variance excluding Currency & Acquisitions	241	236	486	208	1,171
	Variance excluding Currency & Acquisitions (%)	3.0%	3.2 %	5.9%	6.6 %	4.4 %

(1) 2016 Currency decreased Net Revenues as follows:

European Union	\$ (571)
EEMA	(1,963)
Asia	(266)
Latin America & Canada	(2,403)
	<u>\$ (5,203)</u>

PHILIP MORRIS INTERNATIONAL INC.
and Subsidiaries
Selected Financial Data by Business Segment
For the Years Ended December 31,
(\$ in millions)
(Unaudited)

	Operating Companies Income				
	European Union	EEMA	Asia	Latin America & Canada	Total
2016	\$ 3,994	\$ 3,016	\$ 3,196	\$ 938	\$ 11,144
2015	3,576	3,425	2,886	1,085	10,972
% Change	11.7%	(11.9)%	10.7%	(13.5)%	1.6%
Reconciliation:					
For the year ended December 31, 2015	\$ 3,576	\$ 3,425	\$ 2,886	\$ 1,085	\$ 10,972
2015 Asset impairment and exit costs	68	—	—	—	68
2016 Asset impairment and exit costs	—	—	—	—	—
Acquired businesses	—	—	—	—	—
Currency	34	(839)	52	(282)	(1,035)
Operations	316	430	258	135	1,139
For the year ended December 31, 2016	\$ 3,994	\$ 3,016	\$ 3,196	\$ 938	\$ 11,144

PHILIP MORRIS INTERNATIONAL INC.
and Subsidiaries
Diluted Earnings Per Share
For the Years Ended December 31,
(\$ in millions, except per share data)
(Unaudited)

	<u>Diluted E.P.S.</u>
2016 Diluted Earnings Per Share	\$ 4.48 ⁽¹⁾
2015 Diluted Earnings Per Share	\$ 4.42 ⁽¹⁾
Change	\$ 0.06
% Change	1.4%
Reconciliation:	
2015 Diluted Earnings Per Share	\$ 4.42 ⁽¹⁾
Special Items:	
2015 Asset impairment and exit costs	0.03
2015 Tax items	(0.03)
2016 Asset impairment and exit costs	—
2016 Tax items	—
Currency	(0.46)
Interest	0.05
Change in tax rate	0.03
Operations	0.44 ⁽²⁾
2016 Diluted Earnings Per Share	<u>\$ 4.48 ⁽¹⁾</u>

(1) Basic and diluted EPS were calculated using the following (in millions):

	YTD December 2016	YTD December 2015
Net Earnings attributable to PMI	\$ 6,967	\$ 6,873
Less distributed and undistributed earnings attributable to share-based payment awards	19	24
Net Earnings for basic and diluted EPS	\$ 6,948	\$ 6,849
Weighted-average shares for basic and diluted EPS	1,551	1,549

(2) Includes the impact of shares outstanding and share-based payments

PHILIP MORRIS INTERNATIONAL INC.
and Subsidiaries
Condensed Balance Sheets
(\$ in millions, except ratios)
(Unaudited)

	December 31, 2016	December 31, 2015
Assets		
Cash and cash equivalents	\$ 4,239	\$ 3,417
All other current assets	13,369	12,387
Property, plant and equipment, net	6,064	5,721
Goodwill	7,324	7,415
Other intangible assets, net	2,470	2,623
Investments in unconsolidated subsidiaries	1,011	890
Other long-term assets	2,374	1,503
Total assets	\$ 36,851	\$ 33,956
Liabilities and Stockholders' (Deficit) Equity		
Short-term borrowings	\$ 643	\$ 825
Current portion of long-term debt	2,573	2,405
All other current liabilities	13,251	12,156
Long-term debt	25,851	25,250
Deferred income taxes	1,897	1,543
Other long-term liabilities	3,536	3,253
Total liabilities	47,751	45,432
Total PMI stockholders' deficit	(12,688)	(13,244)
Noncontrolling interests	1,788	1,768
Total stockholders' deficit	(10,900)	(11,476)
Total liabilities and stockholders' (deficit) equity	\$ 36,851	\$ 33,956
Total debt	\$ 29,067	\$ 28,480
Total debt to Adjusted EBITDA	2.51 ⁽¹⁾	2.49 ⁽¹⁾
Net debt to Adjusted EBITDA	2.15 ⁽¹⁾	2.19 ⁽¹⁾

(1) For the calculation of Total Debt to Adjusted EBITDA and Net Debt to Adjusted EBITDA ratios, refer to Schedule 16.

PHILIP MORRIS INTERNATIONAL INC.
and Subsidiaries
Reconciliation of Non-GAAP Measures
Adjustments for the Impact of Currency and Acquisitions
For the Quarters Ended December 31,
(\$ in millions)
(Unaudited)

2016							2015			% Change in Net Revenues excluding Excise Taxes		
Net Revenues	Less Excise Taxes	Net Revenues excluding Excise Taxes	Less Currency	Net Revenues excluding Excise Taxes & Currency	Less Acquisitions	Net Revenues excluding Excise Taxes, Currency & Acquisitions	Net Revenues	Less Excise Taxes	Net Revenues excluding Excise Taxes	Total	Excluding Currency	Excluding Currency & Acquisitions
\$ 6,465	\$ 4,521	\$ 1,944	\$ (25)	\$ 1,969	\$ —	\$ 1,969	\$ 6,647	\$ 4,713	\$ 1,934	0.5 %	1.8%	1.8%
4,636	2,838	1,798	(85)	1,883	—	1,883	4,420	2,703	1,717	4.7 %	9.7%	9.7%
5,517	3,073	2,444	118	2,326	—	2,326	4,786	2,867	1,919	27.4 %	21.2%	21.2%
2,571	1,786	785	(98)	883	—	883	2,518	1,696	822	(4.5)%	7.4%	7.4%
\$ 19,189	\$ 12,218	\$ 6,971	\$ (90)	\$ 7,061	\$ —	\$ 7,061	\$ 18,371	\$ 11,979	\$ 6,392	9.1 %	10.5%	10.5%

2016						2015			% Change in Operating Companies Income		
Operating Companies Income	Less Currency	Operating Companies Income excluding Currency	Less Acquisitions	Operating Companies Income excluding Currency & Acquisitions	Operating Companies Income	Operating Companies Income	Total	Excluding Currency	Excluding Currency & Acquisitions		
\$ 898	\$ 29	\$ 869	\$ —	\$ 869	\$ 599	\$ 599	49.9 %	45.1%	45.1%		
627	(390)	1,017	—	1,017	704	704	(10.9)%	44.5%	44.5%		
908	63	845	—	845	465	465	95.3 %	81.7%	81.7%		
261	(62)	323	—	323	236	236	10.6 %	36.9%	36.9%		
\$ 2,694	\$ (360)	\$ 3,054	\$ —	\$ 3,054	\$ 2,004	\$ 2,004	34.4 %	52.4%	52.4%		

PHILIP MORRIS INTERNATIONAL INC.
and Subsidiaries
Reconciliation of Non-GAAP Measures
Reconciliation of Operating Companies Income to Adjusted Operating Companies Income &
Reconciliation of Adjusted Operating Companies Income Margin, excluding Currency and Acquisitions
For the Quarters Ended December 31,
(\$ in millions)
(Unaudited)

2016							2015			% Change in Adjusted Operating Companies Income			
Operating Companies Income	Less Asset Impairment & Exit Costs	Adjusted Operating Companies Income	Less Currency	Adjusted Operating Companies Income excluding Currency	Less Acquisitions	Adjusted Operating Companies Income excluding Currency & Acquisitions	Operating Companies Income	Less Asset Impairment & Exit Costs	Adjusted Operating Companies Income	Adjusted	Adjusted excluding Currency	Adjusted excluding Currency & Acquisitions	
\$ 898	\$ —	\$ 898	\$ 29	\$ 869	\$ —	\$ 869	European Union	\$ 599	\$ (68)	\$ 667	34.6 %	30.3%	30.3%
627	—	627	(390)	1,017	—	1,017	EEMA	704	—	704	(10.9)%	44.5%	44.5%
908	—	908	63	845	—	845	Asia	465	—	465	95.3 %	81.7%	81.7%
261	—	261	(62)	323	—	323	Latin America & Canada	236	—	236	10.6 %	36.9%	36.9%
\$ 2,694	\$ —	\$ 2,694	\$ (360)	\$ 3,054	\$ —	\$ 3,054	PMI Total	\$ 2,004	\$ (68)	\$ 2,072	30.0 %	47.4%	47.4%

2016							2015			% Points Change	
Adjusted Operating Companies Income excluding Currency	Net Revenues excluding Excise Taxes & Currency(1)	Adjusted Operating Companies Income excluding Currency	Adjusted Operating Companies Income excluding Currency & Acquisitions	Net Revenues excluding Excise Taxes, Currency & Acquisitions(1)	Adjusted Operating Companies Income excluding Currency & Acquisitions	Adjusted Operating Companies Income	Net Revenues excluding Excise Taxes(1)	Adjusted Operating Companies Income Margin	Adjusted Operating Companies Income excluding Currency	Adjusted Operating Companies Income Margin excluding Currency & Acquisitions	
\$ 869	\$ 1,969	44.1%	\$ 869	\$ 1,969	44.1%	European Union	\$ 667	\$ 1,934	34.5%	9.6	9.6
1,017	1,883	54.0%	1,017	1,883	54.0%	EEMA	704	1,717	41.0%	13.0	13.0
845	2,326	36.3%	845	2,326	36.3%	Asia	465	1,919	24.2%	12.1	12.1
323	883	36.6%	323	883	36.6%	Latin America & Canada	236	822	28.7%	7.9	7.9
\$ 3,054	\$ 7,061	43.3%	\$ 3,054	\$ 7,061	43.3%	PMI Total	\$ 2,072	\$ 6,392	32.4%	10.9	10.9

(1) For the calculation of Net Revenues excluding Excise Taxes, currency and acquisitions, refer to Schedule 10.

PHILIP MORRIS INTERNATIONAL INC.
and Subsidiaries

Reconciliation of Non-GAAP Measures

Reconciliation of Reported Diluted EPS to Reported Diluted EPS, excluding Currency, and
Reconciliation of Reported Diluted EPS to Adjusted Diluted EPS and Adjusted Diluted EPS, excluding Currency

For the Quarters Ended December 31,

(Unaudited)

	<u>2016</u>	<u>2015</u>	<u>% Change</u>
Reported Diluted EPS	\$ 1.10	\$ 0.80	37.5%
Less:			
Currency impact	(0.13)		
Reported Diluted EPS, excluding Currency	<u>1.23</u>	<u>0.80</u>	53.8%
	<u>2016</u>	<u>2015</u>	<u>% Change</u>
Reported Diluted EPS	\$ 1.10	\$ 0.80	37.5%
Adjustments:			
Asset impairment and exit costs	—	0.03	
Tax items	—	(0.02)	
Adjusted Diluted EPS	\$ 1.10	\$ 0.81	35.8%
Less:			
Currency Impact	(0.13)		
Adjusted Diluted EPS, excluding Currency	<u>1.23</u>	<u>0.81</u>	51.9%

PHILIP MORRIS INTERNATIONAL INC.
and Subsidiaries
Reconciliation of Non-GAAP Measures
Adjustments for the Impact of Currency and Acquisitions
For the Years Ended December 31,
(\$ in millions)
(Unaudited)

2016							2015			% Change in Net Revenues excluding Excise Taxes			
Net Revenues	Less Excise Taxes	Net Revenues excluding Excise Taxes	Less Currency	Net Revenues excluding Excise Taxes & Currency	Less Acquisitions	Net Revenues excluding Excise Taxes, Currency & Acquisitions	Net Revenues	Less Excise Taxes	Net Revenues excluding Excise Taxes	Total	Excluding Currency	Excluding Currency & Acquisitions	
\$ 27,129	\$ 18,967	\$ 8,162	\$ (147)	\$ 8,309	\$ —	\$ 8,309	European Union	\$ 26,563	\$ 18,495	\$ 8,068	1.2 %	3.0%	3.0%
18,286	11,286	7,000	(600)	7,600	—	7,600	EEMA	18,328	10,964	7,364	(4.9)%	3.2%	3.2%
20,531	11,850	8,681	(8)	8,689	—	8,689	Asia	19,469	11,266	8,203	5.8 %	5.9%	5.9%
9,007	6,165	2,842	(525)	3,367	—	3,367	Latin America & Canada	9,548	6,389	3,159	(10.0)%	6.6%	6.6%
\$ 74,953	\$ 48,268	\$ 26,685	\$ (1,280)	\$ 27,965	\$ —	\$ 27,965	PMI Total	\$ 73,908	\$ 47,114	\$ 26,794	(0.4)%	4.4%	4.4%

2016					2015			% Change in Operating Companies Income		
Operating Companies Income	Less Currency	Operating Companies Income excluding Currency	Less Acquisitions	Operating Companies Income excluding Currency & Acquisitions	Operating Companies Income	Total	Excluding Currency	Excluding Currency & Acquisitions		
\$ 3,994	\$ 34	\$ 3,960	\$ —	\$ 3,960	European Union	\$ 3,576	11.7 %	10.7%	10.7%	
3,016	(839)	3,855	—	3,855	EEMA	3,425	(11.9)%	12.6%	12.6%	
3,196	52	3,144	—	3,144	Asia	2,886	10.7 %	8.9%	8.9%	
938	(282)	1,220	—	1,220	Latin America & Canada	1,085	(13.5)%	12.4%	12.4%	
\$ 11,144	\$ (1,035)	\$ 12,179	\$ —	\$ 12,179	PMI Total	\$ 10,972	1.6 %	11.0%	11.0%	

PHILIP MORRIS INTERNATIONAL INC.
and Subsidiaries
Reconciliation of Non-GAAP Measures
Reconciliation of Operating Companies Income to Adjusted Operating Companies Income &
Reconciliation of Adjusted Operating Companies Income Margin, excluding Currency and Acquisitions
For the Years Ended December 31,
(\$ in millions)
(Unaudited)

2016							2015			% Change in Adjusted Operating Companies Income			
Operating Companies Income	Less Asset Impairment & Exit Costs	Adjusted Operating Companies Income	Less Currency	Adjusted Operating Companies Income excluding Currency	Less Acquisitions	Adjusted Operating Companies Income excluding Currency & Acquisitions	Operating Companies Income	Less Asset Impairment & Exit Costs	Adjusted Operating Companies Income	Adjusted	Adjusted excluding Currency	Adjusted excluding Currency & Acquisitions	
\$ 3,994	\$ —	\$ 3,994	\$ 34	\$ 3,960	\$ —	\$ 3,960	European Union	\$ 3,576	\$ (68)	\$ 3,644	9.6 %	8.7%	8.7%
3,016	—	3,016	(839)	3,855	—	3,855	EEMA	3,425	—	3,425	(11.9)%	12.6%	12.6%
3,196	—	3,196	52	3,144	—	3,144	Asia	2,886	—	2,886	10.7 %	8.9%	8.9%
938	—	938	(282)	1,220	—	1,220	Latin America & Canada	1,085	—	1,085	(13.5)%	12.4%	12.4%
\$ 11,144	\$ —	\$ 11,144	\$ (1,035)	\$ 12,179	\$ —	\$ 12,179	PMI Total	\$ 10,972	\$ (68)	\$ 11,040	0.9 %	10.3%	10.3%
2016							2015			% Points Change			
Adjusted Operating Companies Income excluding Currency	Net Revenues excluding Excise Taxes & Currency(1)	Adjusted Operating Companies Income Margin excluding Currency	Adjusted Operating Companies Income excluding Currency & Acquisitions	Net Revenues excluding Excise Taxes, Currency & Acquisitions(1)	Adjusted Operating Companies Income Margin excluding Currency & Acquisitions	Adjusted Operating Companies Income	Net Revenues excluding Excise Taxes(1)	Adjusted Operating Companies Income Margin	Adjusted Operating Companies Income Margin excluding Currency	Adjusted Operating Companies Income Margin excluding Currency & Acquisitions			
\$ 3,960	\$ 8,309	47.7%	\$ 3,960	\$ 8,309	47.7%	\$ 3,644	\$ 8,068	45.2%	2.5	2.5			
3,855	7,600	50.7%	3,855	7,600	50.7%	EEMA	3,425	7,364	46.5%	4.2	4.2		
3,144	8,689	36.2%	3,144	8,689	36.2%	Asia	2,886	8,203	35.2%	1.0	1.0		
1,220	3,367	36.2%	1,220	3,367	36.2%	Latin America & Canada	1,085	3,159	34.3%	1.9	1.9		
\$ 12,179	\$ 27,965	43.6%	\$ 12,179	\$ 27,965	43.6%	PMI Total	\$ 11,040	\$ 26,794	41.2%	2.4	2.4		

(1) For the calculation of Net Revenues excluding Excise Taxes, currency and acquisitions, refer to Schedule 13.

PHILIP MORRIS INTERNATIONAL INC.
 and Subsidiaries
 Reconciliation of Non-GAAP Measures
 Reconciliation of Reported Diluted EPS to Reported Diluted EPS, excluding Currency, and
 Reconciliation of Reported Diluted EPS to Adjusted Diluted EPS and Adjusted Diluted EPS, excluding Currency
For the Years Ended December 31,
 (Unaudited)

	<u>2016</u>	<u>2015</u>	<u>% Change</u>
Reported Diluted EPS	\$ 4.48	\$ 4.42	1.4%
Less:			
Currency impact	(0.46)		
Reported Diluted EPS, excluding Currency	\$ 4.94	\$ 4.42	11.8%

	<u>2016</u>	<u>2015</u>	<u>% Change</u>
Reported Diluted EPS	\$ 4.48	\$ 4.42	1.4%
Adjustments:			
Asset impairment and exit costs	—	0.03	
Tax items	—	(0.03)	
Adjusted Diluted EPS	\$ 4.48	\$ 4.42	1.4%
Less:			
Currency impact	(0.46)		
Adjusted Diluted EPS, excluding Currency	\$ 4.94	\$ 4.42	11.8%

PHILIP MORRIS INTERNATIONAL INC.
and Subsidiaries
Reconciliation of Non-GAAP Measures
Calculation of Total Debt to Adjusted EBITDA and Net Debt to Adjusted EBITDA Ratios
(\$ in millions, except ratios)
(Unaudited)

	For the Year Ended December 31, 2016	For the Year Ended December 31, 2015
Net Earnings	\$ 7,250	\$ 7,032
Equity (income)/loss in unconsolidated subsidiaries, net	(94)	(105)
Provision for Income Taxes	2,768	2,688
Interest expense, net	891	1,008
Depreciation and amortization	743	754
Asset impairment and exit costs	—	68
Adjusted EBITDA	\$ 11,558	\$ 11,445
	December 31, 2016	December 31, 2015
Short-term borrowings	\$ 643	\$ 825
Current portion of long-term debt	2,573	2,405
Long-term debt	25,851	25,250
Total Debt	\$ 29,067	\$ 28,480
Less: Cash and cash equivalents	4,239	3,417
Net Debt	\$ 24,828	\$ 25,063
Ratios:		
Total Debt to Adjusted EBITDA	2.51	2.49
Net Debt to Adjusted EBITDA	2.15	2.19

PHILIP MORRIS INTERNATIONAL INC.
and Subsidiaries
Reconciliation of Non-GAAP Measures
Reconciliation of Operating Cash Flow to Free Cash Flow and Free Cash Flow, excluding Currency
Reconciliation of Operating Cash Flow to Operating Cash Flow, excluding Currency
For the Quarters and Years Ended December 31,
(\$ in millions)
(Unaudited)

	For the Quarters Ended			For the Years Ended		
	December 31,			December 31,		
	2016	2015	% Change	2016	2015	% Change
Net cash provided by operating activities (1)	\$ 2,149	\$ 1,872	14.8%	\$ 8,077	\$ 7,865	2.7%
Less:						
Capital expenditures	438	324		1,172	960	
Free cash flow	\$ 1,711	\$ 1,548	10.5%	\$ 6,905	\$ 6,905	—%
Less:						
Currency impact	(338)			(340)		
Free cash flow, excluding currency	\$ 2,049	\$ 1,548	32.4%	\$ 7,245	\$ 6,905	4.9%

	For the Quarters Ended			For the Years Ended		
	December 31,			December 31,		
	2016	2015	% Change	2016	2015	% Change
Net cash provided by operating activities (1)	\$ 2,149	\$ 1,872	14.8%	\$ 8,077	\$ 7,865	2.7%
Less:						
Currency impact	(346)			(409)		
Net cash provided by operating activities, excluding currency	\$ 2,495	\$ 1,872	33.3%	\$ 8,486	\$ 7,865	7.9%

(1) Operating cash flow.

PHILIP MORRIS INTERNATIONAL INC.
and Subsidiaries
Selected Financial Data by Product Category
(\$ in millions)
(Unaudited)

	2016				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full-Year
Net Revenues					
Combustible Products (1)	\$ 16,732	\$ 18,917	\$ 19,721	\$ 18,844	74,214
Reduced-Risk Products (2)	56	124	214	345	739 (3)
PMI Total	<u>\$ 16,788</u>	<u>\$ 19,041</u>	<u>\$ 19,935</u>	<u>\$ 19,189</u>	<u>\$ 74,953</u>

Net Revenues excluding Excise Taxes (5)

Combustible Products	\$ 6,028	\$ 6,526	\$ 6,770	\$ 6,628	\$ 25,952
Reduced-Risk Products	55	123	212	343	733 (4)
PMI Total	<u>\$ 6,083</u>	<u>\$ 6,649</u>	<u>\$ 6,982</u>	<u>\$ 6,971</u>	<u>\$ 26,685</u>

(1) Net revenue amounts for our Combustible Products refer to the operating revenues generated from the sale of these products, net of sales and promotion incentives. These net revenue amounts consist of the sale of our cigarettes and other tobacco products combined. Other tobacco products primarily include tobacco for roll-your-own and make-your-own cigarettes, pipe tobacco, cigars and cigarillos and do not include Reduced-Risk products.

(2) Net revenue amounts for our Reduced-Risk Products refer to the operating revenues generated from the sale of these products, net of sales and promotion incentives. These net revenue amounts consist of the sale of our a) heat-not-burn consumables, which include *HeatSticks*, our *IQOS* devices and related accessories, and b) other nicotine-containing products, which primarily include our e-vapor products. Reduced-Risk Products is the term we use to refer to products that present, are likely to present, or have the potential to present less risk of harm to smokers who switch to these products versus continued smoking. We have a range of Reduced-Risk Products in various stages of development, scientific assessment and commercialization. Because our Reduced-Risk Products do not burn tobacco, they produce far lower quantities of harmful and potentially harmful compounds than found in cigarette smoke.

(3) Primarily in Asia Region. Reduced-Risk Products net revenues in our Asia Region are as follows: Q1: \$47, Q2: \$111, Q3: \$196, Q4: \$312 and full year: \$666.

(4) Primarily in Asia Region. Reduced-Risk Products net revenues, excluding excise taxes, in our Asia Region are as follows: Q1: \$47, Q2: \$111, Q3: \$196, Q4: \$312 and full year: \$666.

(5) PMI often collects excise taxes from its customers and then remits them to governments, and, in those circumstances, PMI includes the excise taxes in its net revenues and in excise taxes on products. In some jurisdictions, including Japan, PMI is not responsible for collecting excise taxes.

**Philip Morris International Inc.
2016 Fourth-Quarter and Full-Year Results Conference Call
February 2, 2017**

NICK ROLLI

(SLIDE 1.)

Welcome. Thank you for joining us. Earlier today, we issued a press release containing detailed information on our 2016 fourth-quarter and full-year results. You may access the release on our new company website at www.pmi.com or the PMI Investor Relations App.

(SLIDE 2.)

During our call today, we will be talking about results for the fourth quarter and full-year 2016 and comparing them to the same period in 2015, unless otherwise stated.

A glossary of terms, adjustments and other calculations, as well as reconciliations to the most directly comparable U.S. GAAP measures, are at the end of today's webcast slides, which are posted on our website. Reduced-Risk Products, or "RRPs," is the term we use to refer to products that present, are likely to present, or have the potential to present less risk of harm to smokers who switch to these products versus continued smoking.

(SLIDE 3.)

Today's remarks contain forward-looking statements and projections of future results. I direct your attention to the Forward-Looking and Cautionary Statements disclosure in today's presentation and press release for a review of the various factors that could cause actual results to differ materially from projections or forward-looking statements.

Please also note that in the first quarter of 2017, we will begin to report our shipment volume on a combined basis including both cigarettes and *HeatSticks*. We will also report our combined estimated market share in certain markets, as we currently do for Japan, to the extent that reliable data is available.

It's now my pleasure to introduce André Calantzopoulos, our Chief Executive Officer. Jacek Olczak, our Chief Financial Officer, will join André for the question and answer period.

André.

ANDRÉ CALANTZOPOULOS

(SLIDE 4.)

Thank you, Nick, and welcome, ladies and gentlemen.

2016 was a pivotal year for PMI, reflecting exciting progress in our transformation from combustible tobacco products to a Reduced-Risk Products focused company. While our combustible tobacco portfolio continued to drive our income growth, we began to see clear signs of the enormous potential for our RRP portfolio.

(SLIDE 5.)

As expected, we closed 2016 with exceptionally strong quarterly results, driven by the annualization of price increases and the growth of RRPs, coupled with a favorable cost comparison. Net revenues increased by 10.5%, excluding currency, while adjusted OCI and adjusted diluted EPS increased by over 47% and 51%, respectively, on the same basis.

(SLIDE 6.)

Full-year net revenues increased by 4.4%, excluding currency, driven by a favorable pricing variance, equivalent to 6.0% of prior year net revenues, and the strong performance of RRPs, notably *HeatSticks* and *IQOS* devices.

As in any year, we faced some unique challenges in 2016, such as the very large excise tax increase in Argentina, the surge of illicit trade in Pakistan and the cigarette industry volume declines in the Philippines and Thailand. In aggregate, these items had an adverse effect on our volume and net revenues, but a very limited impact on our adjusted OCI due to the low corresponding margins.

Please note that approximately 22% of our \$733 million in 2016 RRP net revenues were from *IQOS* devices, which yielded a negative margin due to introductory discounts offered in the initial commercialization phase to accelerate adult smoker switching. Clearly, the economics of the devices will improve over time as we reach broader adult smoker acceptance.

(SLIDE 7.)

Adjusted OCI increased by a robust 10.3%, excluding currency, driven by higher net revenues, on the same basis, and a favorable cost comparison versus 2015 notwithstanding continued investment behind RRPs. Our results were strong across all four Regions, with currency-neutral adjusted OCI growth ranging from 8.7% in the EU to 12.6% in EEMA.

Adjusted OCI margin increased by 0.6 points to 41.8%, or by 2.4 points to 43.6% excluding currency, again with gains across all four Regions.

(SLIDE 8.)

Adjusted diluted EPS increased by 11.8%, excluding currency, in 2016. Importantly, adjusted diluted EPS grew by 1.4% including currency, representing the first such increase since 2013.

(SLIDE 9.)

Full-year free cash flow was stable at \$6.9 billion, despite unfavorable currency of \$340 million and our previously announced increase in capital expenditures to support the manufacturing capacity expansion for *HeatSticks*. Excluding currency, free cash flow increased by 4.9%.

(SLIDE 10.)

As I mentioned previously, our strong financial results were achieved despite a cigarette shipment volume decline in 2016. Some 40% of the decline was due to Pakistan and the Philippines, where the volume erosion was concentrated in low unit margin brands that had a limited impact on our bottom line.

A portion of our cigarette volume decline was also due to in-switching to *HeatSticks* from our own cigarette brands, a trend that we expect to continue going forward. *HeatSticks* volume reached 7.4 billion units, which reflected our maximum manufacturing capacity for 2016. *HeatSticks* volume would have been much higher absent this capacity restriction, which obliged us to limit *IQOS* device sales in Japan since June.

(SLIDE 11.)

Our cigarette market share, excluding China and the U.S., declined by 0.6 points in 2016, with low-price *Fortune* and super-low price *Jackpot*, both in the Philippines, accounting for 0.5 points of the total decline. Cigarette share for the balance of our portfolio was essentially stable.

(SLIDE 12.)

Marlboro continued its widespread growth, with cigarette share increases in the EU, Asia and Latin America & Canada Regions. Importantly, the brand's cigarette share growth in Asia was achieved in spite of the impact of *Marlboro HeatSticks* growth in Japan.

Marlboro's decline in EEMA was due essentially to Algeria, reflecting significant adult smoker rejection of the 2.0 Architecture for *Marlboro* Round Taste. As noted during our September Investor Day, we instituted a number of initiatives to address this weakness and, as of the fourth quarter, the brand had already recovered close to six points of market share compared to its nadir in the second quarter.

(SLIDE 13.)

I will now discuss our performance in a few of our key geographies, beginning with the EU Region.

Currency-neutral adjusted OCI increased for the second straight year, with higher pricing driving growth of over 8%.

Full-year cigarette industry volume declined by 1.6%, with the decrease concentrated in the fourth quarter. This primarily reflects a difficult comparison with 2015, which benefited from the estimated positive impact of immigration and a recovery from illicit trade.

Our Regional cigarette share was flat in 2016, with growth notably in France, Poland and Spain, offset mainly by a decline in Italy as a result of our price increase in the second quarter of 2016 and the growth of the super-low price segment. *Marlboro's* share increased by 0.2 points, growing in most key markets, with the exception of Italy.

(SLIDE 14.)

Moving to Russia, cigarette industry volume again exceeded our expectations in 2016, with the decline moderating to 4.6%, despite a third straight year of weighted-average industry retail price increases above 20%.

Our cigarette market share declined by 1.2 points, due mainly to the slower penetration of competitors' price increases at retail. In addition, following the ban on the production of big packs, effective July 2016, many competitors launched limited pack editions at a discount equivalent to the per-stick price of big packs. We have deployed initiatives to improve our share performance and indeed stabilized our sequential quarterly share in the second half of the year.

Strong pricing drove another year of double-digit OCI growth, excluding currency, in 2016, more than offsetting the adverse cigarette volume impact.

For reference, amendments to the tax code effective January 2017 were enacted last November, raising the ad valorem rate to 14.5% and increasing both the specific and minimum excise tax. The weighted-average total excise tax pass-on for the industry is around 13 Rubles per pack, which equates to an average retail price increase of around 10% and is above the approximately 10 Rubles per pack average pass-on for 2016. Importantly, the tax code also now includes the introduction of a weight-based specific excise tax on heated tobacco products.

(SLIDE 15.)

Turning now to Japan, the growth of RRP's in 2016 had a notable impact on cigarette industry volume, which declined by 4.6% for the full year and by 7.4% in the fourth quarter.

HeatSticks' national market share continued its strong sequential growth, reaching 4.9% in the fourth quarter. During the final week of December, *HeatSticks*' national market share reached an estimated 5.5% and its offtake share increased to 7.0%.

Our full-year cigarette market share declined by 0.4 points to 24.9%, due mainly to the impact of *HeatSticks*. The rate of in-switching to *HeatSticks* from our own cigarette portfolio declined as the year progressed to an estimated 32% in late 2016.

Our combined market share, including cigarettes and *HeatSticks*, increased by 1.7 points to 27.1% in 2016 and by 3.1 points to 28.3% in the fourth quarter.

(SLIDE 16.)

Indonesia continued to be an important profit driver for PMI in 2016, with double-digit OCI growth mainly reflecting strong pricing.

Cigarette industry volume declined by 1.4%, due mainly to the soft economic environment and higher retail prices driven by a weighted-average excise tax increase in 2016 of around 15% industry-wide. The excise tax increase for 2017 is around 10%, on the same basis, though the government also increased the VAT rate on cigarettes to 9.1%, from 8.7% last year. As a result, the weighted-average total pass-on for the industry in 2017 is approximately 6% at the retail level, compared to 8% in 2016.

The 0.9 points decline in our cigarette market share was due mainly to the soft performance of our lighter-tasting machine-made kretek brands, reflecting the impact of competitors' discounted product offerings. Our share decline was partly offset by the strong performance of our full-flavor machine-made kretek brand, *U Bold*. In addition, our *Marlboro Filter Black* kretek offering, which we launched in 25 cities last September, is performing well and already reached a national market share of 0.5% in the fourth quarter.

Our actions to address our 2016 share weakness will continue bearing fruit this year, and we project that Indonesia will again be a key contributor to our OCI growth in 2017.

(SLIDE 17.)

Profit in the Philippines continued to improve in 2016, through higher pricing and favorable mix. While our total cigarette share declined by 2.1 points, due mainly to *Fortune* and *Jackpot*, *Marlboro* performed exceptionally, increasing its volume by 25%.

Cigarette industry volume declined by 12.0%, due principally to the impact of excise tax-driven retail price increases at the bottom of the market in late 2015. Industry volume decreased by 13.2% in the fourth quarter, reflecting the impact of further excise tax-driven retail price increases at the end of October last year.

Effective January 1st of this year, the excise tax structure in the Philippines was reduced to one tier, with a specific rate of 30 Pesos per pack. This completed the tax tier harmonization process, which saw weighted-average excise tax increases of 33%, on a compound annual basis, since 2013. Based on current legislation, the specific rate is scheduled to increase by 4% annually, beginning in 2018.

While we expect continued volume softness in 2017, due mainly to the final step in the excise tax tier convergence, we remain positive about the long-term growth potential in this important market.

(SLIDE 18.)

In the Latin America & Canada Region, strong currency-neutral adjusted OCI growth of 12.4% in 2016 was driven by higher pricing, notably in Argentina and Canada.

Our Regional cigarette market share increased by 0.7 points, driven by *Marlboro* and supported by share gains in Brazil, Canada and Mexico.

Regional cigarette industry volume declined by 5.9% in 2016, due mainly to tax-driven retail price increases in Argentina and Brazil. We expect the industry volume declines in both markets to moderate in 2017.

(SLIDE 19.)

To close on 2016, I will highlight the favorable performance of *IQOS* across the many launch markets beyond Japan. While this performance requires some additional context, given the smaller scale of the launches and the role of *HeatSticks* capacity constraints in the second half of 2016, it nonetheless serves as a positive indicator of the potential for *IQOS* broadly.

One measure that we closely monitor is the rate of *IQOS* purchasers who fully or predominantly convert to the product. Conversion rates have grown over time and at the end of 2016 stood at approximately 70% or higher. As a reminder, Japan only reached this level in May of last year – over 18 months after launch. This confirms that *IQOS* resonates strongly with adult smokers who try it, irrespective of the market.

(SLIDE 20.)

We also clearly monitor *HeatSticks* offtake volumes. During the fourth quarter of 2016, estimated offtake volume in all markets with launches prior to mid-year grew at a compound weekly rate of over 6%, comparable to Japan during the initial launch phase. Such performance augurs well for our planned national expansions, which in Japan had an accelerating effect.

(SLIDE 21.)

Turning now to 2017, we enter the year with positive momentum and favorable trends across many of our key geographies, although currency volatility remains an issue.

As announced this morning, our reported diluted EPS guidance for 2017, at prevailing exchange rates, is a range of \$4.70 to \$4.85, versus \$4.48 in 2016, and includes an unfavorable currency impact of approximately 18 cents. This guidance represents a growth rate, excluding currency, of approximately 9% to 12% compared to our adjusted diluted EPS of \$4.48 in 2016.

We expect our currency-neutral financial growth to be slightly skewed toward the second-half of 2017, reflecting the timing of *HeatSticks* capacity and phasing of RRP investments, as well as unfavorable cigarette industry volume comparisons with the first half of 2016, notably in Argentina, the EU Region and Turkey.

(SLIDE 22.)

The 18 cents of unfavorable currency impact, at prevailing exchange rates, included in our 2017 guidance, is driven primarily by the Turkish Lira, Euro, Japanese Yen and Mexican Peso, partly offset by the Russian Ruble.

We have currently hedged approximately 40% of our 2017 forecast sales to Japan, which, at prevailing exchange rates, translates to an effective rate of 114 Yen to the U.S. Dollar, versus 111 Yen in 2016.

(SLIDE 23.)

As I noted during last September's Investor Day, the advent of RRPs introduces some additional variables into the attractive and predictable growth equation of our industry. These variables are somewhat less range-bound and linear given the emerging nature of the category, but also offer exponential upside. For this reason, we have widened our EPS guidance range this year to 15 cents.

Our EPS guidance reflects net revenue growth in excess of our current currency-neutral annual growth target range of 4% to 6%. We expect this growth to be driven by two main factors: higher RRP volume, reflecting both *HeatSticks* and *IQOS* devices, and a favorable pricing variance.

The anticipated pricing variance is equivalent to approximately 6% of our 2016 net revenues. As of today, we have implemented or announced over 60% of the pricing that is included in our guidance.

Our guidance also reflects significant incremental investment behind the deployment of our RRP portfolio, partly offset by the judicious reallocation of resources from our combustible tobacco portfolio to RRPs in the relevant markets.

(SLIDE 24.)

For 2017 we are targeting operating cash flow of approximately \$8.5 billion, reflecting higher net earnings. We plan to use this cash flow primarily for capital expenditures to support the growth of our business, and for dividends, at the Board's discretion, to our shareholders.

We anticipate capital expenditures of approximately \$1.5 billion this year, versus \$1.2 billion in 2016. The projected increase is driven by higher investments to support RRP capacity expansion, notably for *HeatSticks*.

Last September, we increased our annual dividend for the ninth consecutive year since the spin in 2008, representing a total increase of approximately 126% and a compound annual growth rate of approximately 11%.

(SLIDE 25.)

While we expect our combustible tobacco business to remain the primary driver of our financial results in the near term, our Reduced-Risk Products portfolio provides us with the single largest opportunity to significantly accelerate the growth of our company and generously reward our shareholders.

In 2017, the majority of our RRP commercialization focus will remain on *IQOS*. To date, we have launched *IQOS* in key cities in 20 markets, as seen on this slide, and aim to expand nationally in many of these markets this year as *HeatSticks* capacity becomes available. We are also targeting launches in key cities in an additional 10 to 15 markets by year-end, subject to capacity.

(SLIDE 26.)

We began 2017 with approximately 15 billion units of installed annual *HeatSticks* capacity and expect over 32 billion units in total capacity to be available for commercialization this year. We continue to anticipate an installed annual capacity of approximately 50 billion units by year end.

We look forward to unleashing the true potential of *IQOS* once the pressure on *HeatSticks* capacity eases as the year unfolds.

(SLIDE 27.)

Moving to our other RRP platforms, we expect to conduct city tests for our Platform 2 heated tobacco product and our Platform 3 nicotine-containing product this year.

We began the city test of our Platform 4 *MESH* vaporization technology in Birmingham, U.K., late last year and, though still very early, we are pleased by the initial results and our related learnings thus far.

(SLIDE 28.)

In conclusion, 2016 was a pivotal year for PMI, reflecting exciting progress in our transformation from combustible tobacco products to a Reduced-Risk Products focused company.

We recorded strong full-year currency-neutral financial results, driven by our combustible tobacco business and including an important net revenue growth contribution from RRPs for the first time.

IQOS is performing exceptionally, with its most visible success in Japan and high conversion rates and offtake volume growth broadly. As of year-end 2016, we estimate that approximately 1.4 million adult consumers have quit smoking cigarettes and converted to *IQOS*.

Finally, the outlook for our business remains strong. Our 2017 EPS guidance reflects a growth rate of approximately 9% to 12%, excluding currency, compared to adjusted diluted EPS of \$4.48 in 2016.

(SLIDE 29.)

Thank you. Jacek and I will now be happy to answer your questions.

NICK ROLLI

That concludes our call today. Thank you for joining us. If you have any follow-up questions, please contact the Investor Relations team, which is currently in Switzerland. Our next presentation will be at the CAGNY Conference on Wednesday, February 22nd.

Thank you again and have a nice day.



PHILIP MORRIS INTERNATIONAL

Exhibit 99.3

2016 Fourth-Quarter and Full-Year Results

February 2, 2017



Introduction

- Unless otherwise stated, we will be talking about results for the fourth-quarter and full-year 2016 and comparing them to the same period in 2015
- A glossary of terms, adjustments and other calculations, as well as reconciliations to the most directly comparable U.S. GAAP measures, are at the end of today's webcast slides, which are posted on our website
- Reduced-Risk Products ("RRPs") is the term PMI uses to refer to products that present, are likely to present, or have the potential to present less risk of harm to smokers who switch to these products versus continued smoking. PMI has a range of RRP's in various stages of development, scientific assessment and commercialization. Because our RRP's do not burn tobacco, they produce far lower quantities of harmful and potentially harmful compounds than found in cigarette smoke



Forward-Looking and Cautionary Statements

- This presentation and related discussion contain forward-looking statements. Achievement of future results is subject to risks, uncertainties and inaccurate assumptions, and PMI is identifying important factors that, individually or in the aggregate, could cause actual results to differ materially from those contained in any forward-looking statements made by PMI
- PMI's business risks include: significant increases in cigarette-related taxes; the imposition of discriminatory excise tax structures; fluctuations in customer inventory levels due to increases in product taxes and prices; increasing marketing and regulatory restrictions, often with the goal of reducing or preventing the use of tobacco products; health concerns relating to the use of tobacco products and exposure to environmental tobacco smoke; litigation related to tobacco use; intense competition; the effects of global and individual country economic, regulatory and political developments; changes in adult smoker behavior; lost revenues as a result of counterfeiting, contraband and cross-border purchases; governmental investigations; unfavorable currency exchange rates and currency devaluations; adverse changes in applicable corporate tax laws; adverse changes in the cost and quality of tobacco and other agricultural products and raw materials; and the integrity of its information systems. PMI's future profitability may also be adversely affected should it be unsuccessful in its attempts to produce and commercialize Reduced-Risk Products; if it is unable to successfully introduce new products, promote brand equity, enter new markets or improve its margins through increased prices and productivity gains; if it is unable to expand its brand portfolio internally or through acquisitions and the development of strategic business relationships; or if it is unable to attract and retain the best global talent
- PMI is further subject to other risks detailed from time to time in its publicly filed documents, including the Form 10-Q for the quarter ended September 30, 2016. PMI cautions that the foregoing list of important factors is not a complete discussion of all potential risks and uncertainties. PMI does not undertake to update any forward-looking statement that it may make from time to time, except in the normal course of its public disclosure obligations



2016: A Pivotal Year for PMI

- Exciting progress in our transformation from combustible tobacco products to a Reduced-Risk Products focused company
- Combustible tobacco portfolio remains the driver of our income growth
- RRP portfolio showing clear signs of its enormous potential

Note: Reduced-Risk Products ("RRPs") is the term PMI uses to refer to products that present, are likely to present, or have the potential to present less risk of harm to smokers who switch to these products versus continued smoking
Source: PMI Financials or estimates



Q4, 2016: Exceptionally Strong Financial Results

	<u>Growth vs. PY^(a)</u>
Net Revenues	+10.5%
Adjusted OCI	+47.4%
Adjusted Diluted EPS	+51.9%

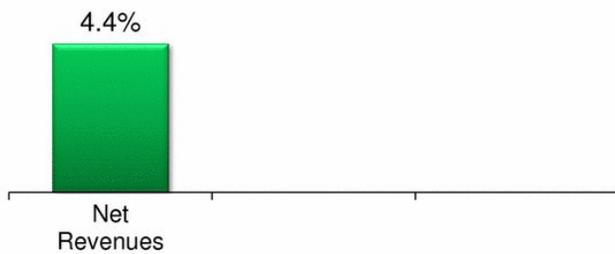
(a) Excluding currency
Source: PMI Financials or estimates



2016: As Expected, Strong Financial Results, ex-Currency

Growth vs. PY^(a)

• Key Drivers:



Favorable
pricing variance



Strong *HeatSticks*
performance



Higher *IQOS*
device sales

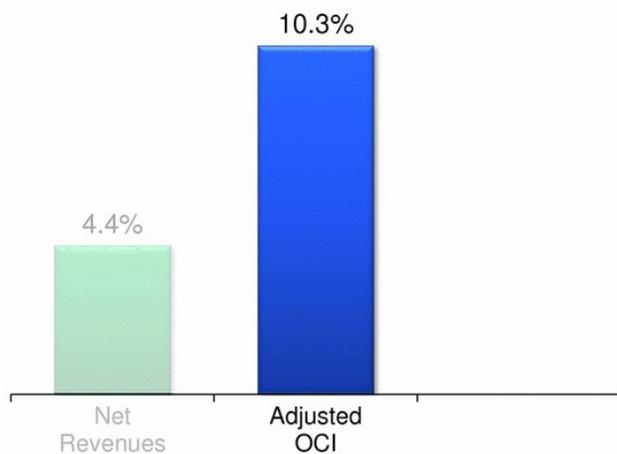
(a) Excluding currency

Note: Reduced-Risk Products ("RRPs") is the term PMI uses to refer to products that present, are likely to present, or have the potential to present less risk of harm to smokers who switch to these products versus continued smoking. Visuals are for illustrative purposes only
Source: PMI Financials or estimates



2016: As Expected, Strong Financial Results, ex-Currency

Growth vs. PY^(a)

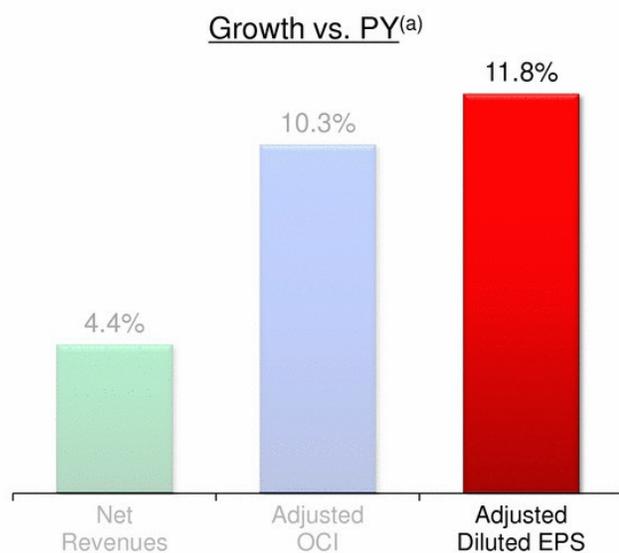


- Robust adjusted OCI growth, ex-currency, reflecting:
 - Higher net revenues
 - Favorable cost comparison vs. 2015
 - Strong results across all four Regions
- Adjusted OCI margin:
 - +0.6 points to 41.8%
 - +2.4 points to 43.6%, ex-currency
 - Gains across all four Regions, ex-currency

(a) Excluding currency
Source: PMI Financials or estimates



2016: As Expected, Strong Financial Results, ex-Currency



- Adjusted diluted EPS increased by 1.4% to \$4.48, despite a currency headwind of 46 cents:
 - First increase since 2013

(a) Excluding currency
Source: PMI Financials or estimates



2016: Free Cash Flow In Line With Last Year

- Free cash flow stable at \$6.9 billion, despite:
 - Unfavorable currency of \$340 million
 - Previously announced increase in capital expenditures to support the manufacturing capacity expansion for *HeatSticks*
- Free cash flow increased by 4.9%, ex-currency

Note: Reduced-Risk Products ("RRPs") is the term PMI uses to refer to products that present, are likely to present, or have the potential to present less risk of harm to smokers who switch to these products versus continued smoking
Source: PMI Financials or estimates

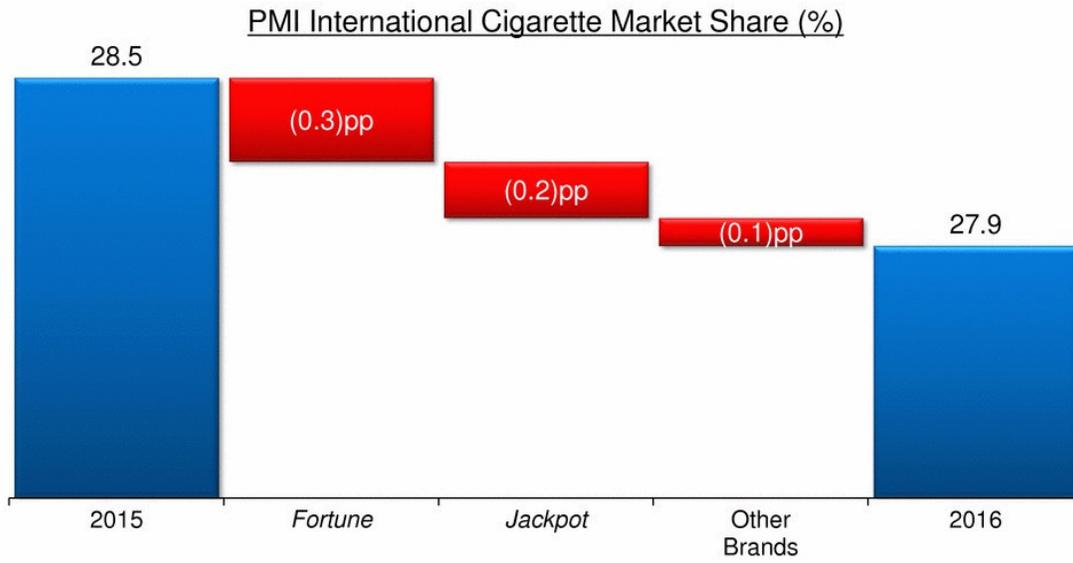


2016: PMI Volume

- Cigarette volume down by 4.1%:
 - Some 40% of the decline due to Pakistan and the Philippines, where volume erosion was concentrated in low unit margin brands
- Cigarette volume decline also due in part to the in-switching to *HeatSticks* from our own cigarette brands
- *HeatSticks* volume reached 7.4 billion units, which reflected our maximum manufacturing capacity for 2016

Note: Reduced-Risk Products ("RRPs") is the term PMI uses to refer to products that present, are likely to present, or have the potential to present less risk of harm to smokers who switch to these products versus continued smoking
Source: PMI Financials or estimates

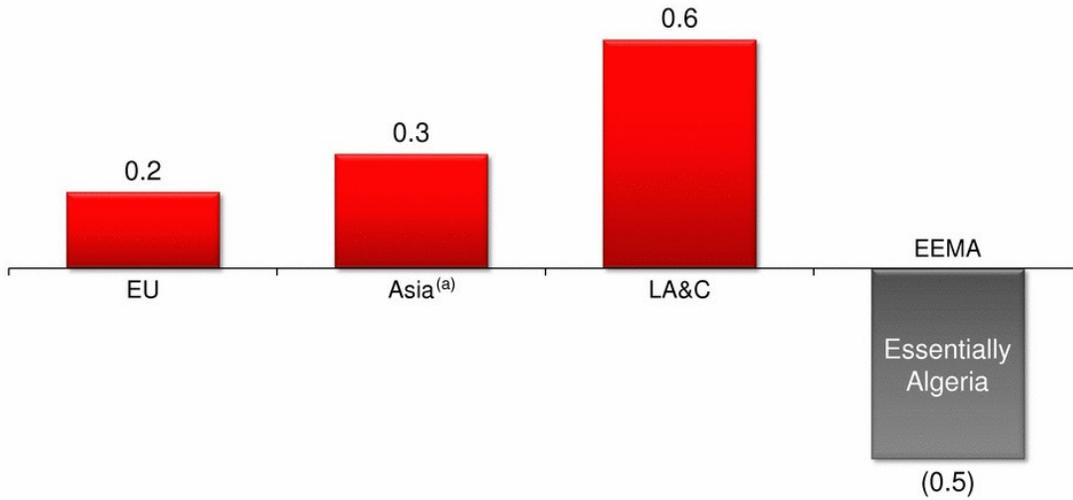
2016: PMI International Cigarette Market Share Decline Mainly Due to Lower-Priced Brands in the Philippines



Note: Excluding China and the U.S.
Source: PMI Financials or estimates

2016: Robust *Marlboro* Cigarette Share Performance Overall

Marlboro Cigarette Market Share Variance vs. PY (pp)



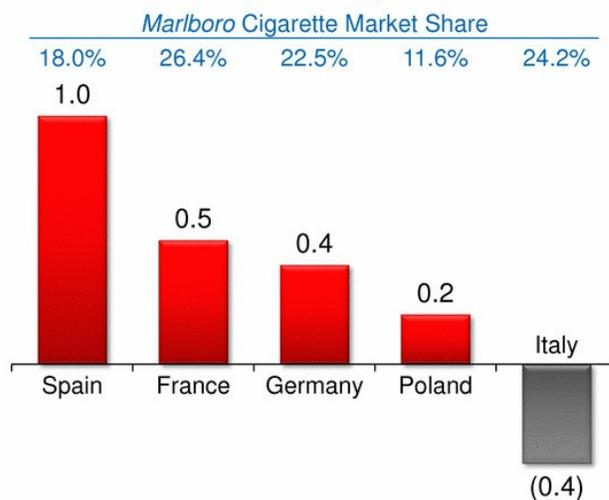
(a) Excluding China
Source: PMI Financials or estimates



EU Region: Another Year of Adjusted OCI Growth, ex-Currency

- Adjusted OCI growth, ex-currency, of 8.7% in 2016, driven by higher pricing:
 - Second straight year of growth
- Cigarette industry volume down by 1.6% in 2016:
 - Decline concentrated in Q4, primarily reflecting a difficult comparison vs. 2015, which benefited from the estimated positive impact of immigration and a recovery from illicit trade
- Regional cigarette share was flat in 2016, with growth notably in France, Poland and Spain, offset mainly by Italy

Marlboro Cigarette Market Share Variance (pp)
(2016 vs. PY)

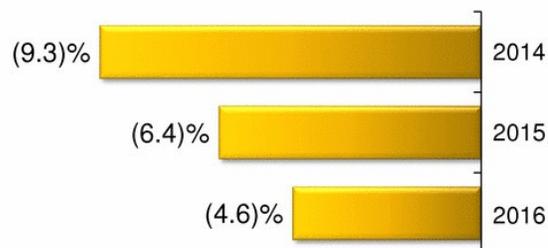




Russia: Double-Digit OCI Growth in 2016, ex-Currency

- Further moderation in cigarette industry volume decline
- Cigarette market share down by 1.2 points to 27.2% in 2016. Sequential share stabilization in H2, 2016
- Strong pricing drove double-digit OCI growth, ex-currency
- As of January 2017, tax code now includes a weight-based specific excise tax on heated tobacco products

Cigarette Industry Volume Decline vs. PY



New Excise Tax Code (2017-2019)

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Ad Valorem Excise Tax (% of MRSP)	12.0%	14.5%	14.5%	14.5%
Specific Excise Tax (RUB/000)	1,250	1,562	1,718	1,890
Minimum Excise Tax (RUB/000)	1,680	2,123	2,335	2,568

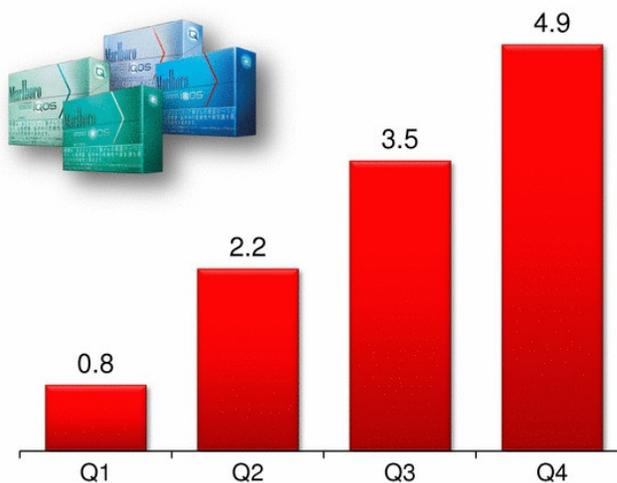
Note: MRSP stands for Maximum Retail Selling Price
Source: PMI Financials or estimates, and Nielsen



Japan: Strong Combined Market Share Growth^(a)

- Cigarette industry volume down by 4.6% in 2016, mainly due to the growth of RRP's
- Cigarette share down by 0.4 points to 24.9% in 2016, due mainly to the impact of *HeatSticks*
- PMI combined market share^(a) up by 1.7 points to 27.1% in 2016

2016 *HeatSticks* Quarterly Market Share (%)



(a) Combined market share includes cigarettes and *Marlboro HeatSticks*

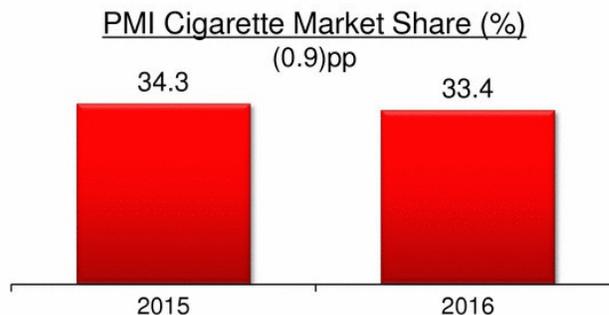
Note: Reduced-Risk Products ("RRPs") is the term PMI uses to refer to products that present, are likely to present, or have the potential to present less risk of harm to smokers who switch to these products versus continued smoking. National market share for *HeatSticks* is defined as the total sales volume for *HeatSticks* as a percentage of the total estimated sales volume for cigarettes and *HeatSticks*. Pack designs are for illustrative purposes only

Source: PMI Financials or estimates, and Tobacco Institute of Japan



Indonesia: Double-Digit OCI Growth in 2016

- Important profit driver for PMI:
 - Double-digit OCI growth, mainly reflecting strong pricing
- Cigarette industry volume down by 1.4%, due mainly to a soft economy and excise-tax driven retail price increases
- Cigarette share decline due mainly to:
 - Soft performance of our lighter-tasting machine-made kretek brands, impacted by competitors' discounted product offerings
 - Partly offset by the strong performance of *U Bold* and *Marlboro Filter Black*



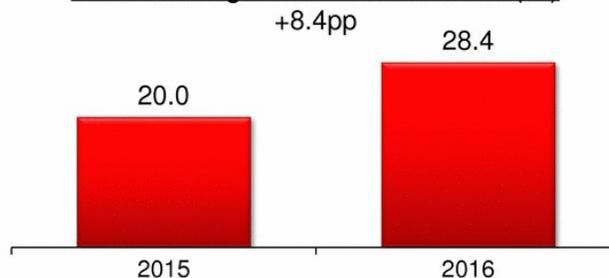
	2016	2017
Excise tax weighted industry average increase	Around 15%	Around 10%
VAT rate	8.7%	9.1%



Philippines: Exceptional *Marlboro* Performance in 2016

- Improved profit driven by higher pricing and favorable mix
- Cigarette share decline due mainly to lower-priced *Fortune* and *Jackpot*
- *Marlboro* performed exceptionally
- Cigarette industry volume down by 12.0%, due mainly to the impact of excise tax-driven retail price increases at the bottom of the market in late 2015

Marlboro Cigarette Market Share (%)



Excise Taxation (2016-2018 onwards)

Tax Tier	Net Retail Price (PHP/pack)	Excise Tax (PHP/pack)	
		2016	2017
1	> 11.50	29	30
2	≤ 11.50	25	30

2018 onwards +4% annually

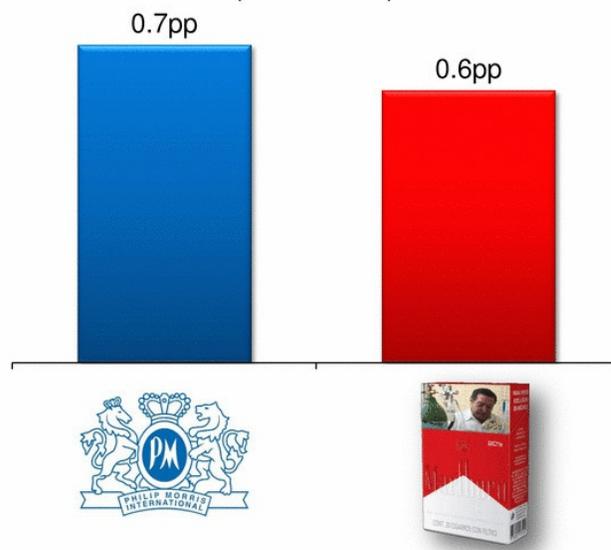
Note: Net retail price is the recommended retail selling price less the applicable excise tax and VAT
Source: PMI Financials or estimates



LA&C Region: Strong Currency-Neutral 2016 Performance

- Adjusted OCI up by 12.4%, ex-currency, driven by higher pricing, notably in Argentina and Canada
- Regional cigarette market share growth:
 - Driven by *Marlboro*
 - Supported by share gains in Brazil, Canada and Mexico
- Cigarette industry volume down by 5.9%, due mainly to tax-driven retail price increases in Argentina and Brazil

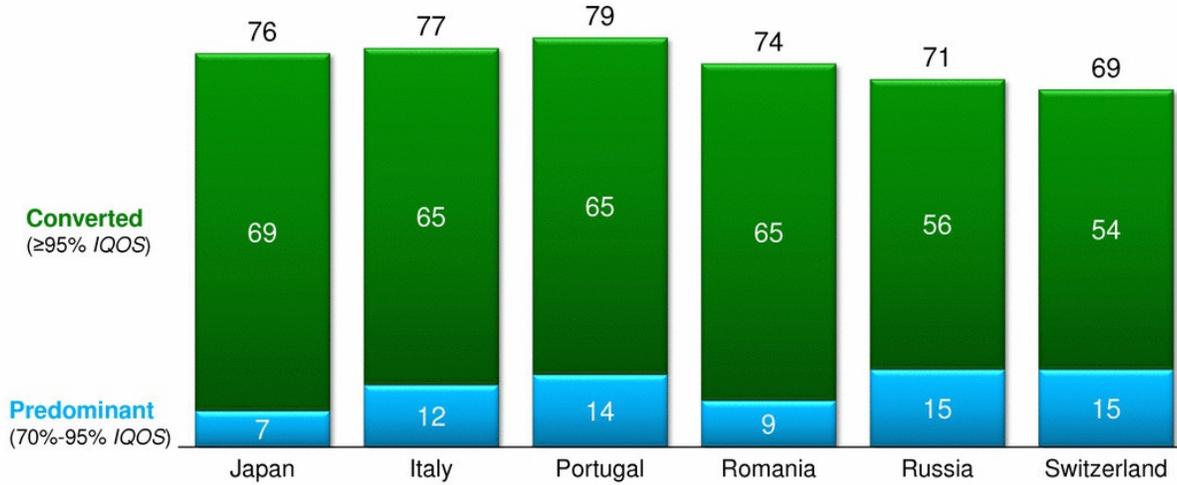
Cigarette Market Share Growth
(2016 vs. PY)



Note: Pack design is for illustrative purposes only
Source: PMI Financials or estimates

IQOS: High Conversion Rates

December 2016 Adult Smoker Conversion Rates (%)^(a)



(a) Data relates to December 2016 User Panel with the exception of Japan, Italy and Romania (November 2016)

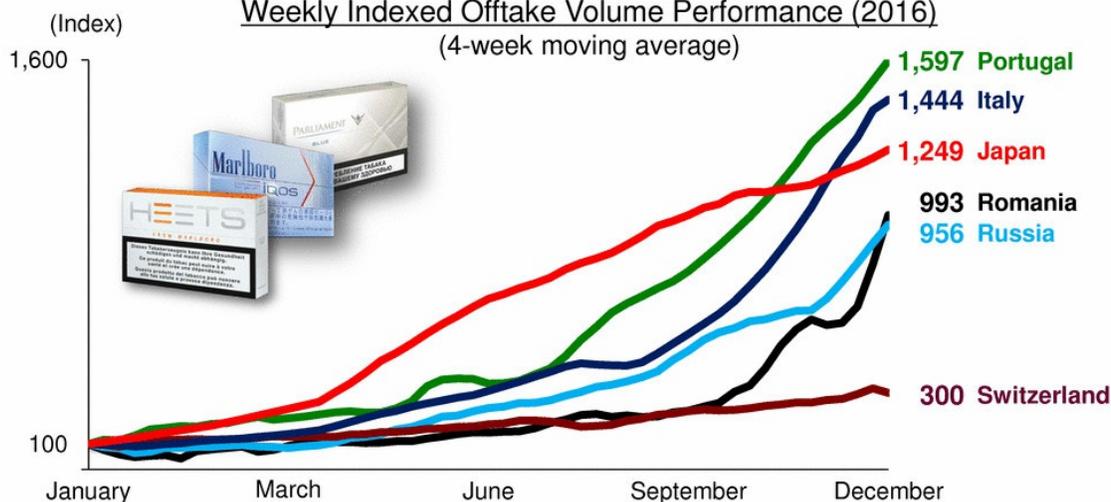
Note: Reduced-Risk Products ("RRPs") is the term PMI uses to refer to products that present, are likely to present, or have the potential to present less risk of harm to smokers who switch to these products versus continued smoking

Source: PMI Japan / Italy / Portugal / Romania / Russia / Switzerland IQOS User Panels



IQOS: HeatSticks Offtake Volume Trends

Weekly Indexed Offtake Volume Performance (2016) (4-week moving average)



Weekly Offtake SoM (Year-end 2016)

0.3%
0.3%
7.0%
1.2% ^(a)
0.4% ^(b)
1.7% ^(c)

(a) Weekly offtake SoM for Romania refers to Bucharest, Cluj, Constanta, Lasi and Timisoara

(b) Weekly offtake SoM for Russia refers to Moscow and St. Petersburg

(c) Weekly offtake SoM for Switzerland refers to Basel, Bern, Geneva, Lausanne, Neuchâtel and Zurich

Note: Reduced-Risk Products ("RRPs") is the term PMI uses to refer to products that present, are likely to present, or have the potential to present less risk of harm to smokers who switch to these products versus continued smoking. Pack designs are for illustrative purposes only

Source: PMI Financials or estimates



2017 EPS Guidance

- Reported diluted EPS guidance for 2017 is \$4.70 to \$4.85 at prevailing exchange rates, compared to \$4.48 in 2016:
 - Includes approximately 18 cents of unfavorable currency at prevailing exchange rates
 - Does not include any share repurchases
- Excluding currency, our guidance represents a growth rate of approximately 9% to 12% compared to adjusted diluted EPS of \$4.48 in 2016



2017 EPS Guidance: Impact of Currency

- 18 cents of unfavorable currency in our 2017 EPS guidance, at prevailing exchange rates:

Turkish Lira	\$(0.08)
Euro	(0.07)
Japanese Yen	(0.04)
Mexican Peso	(0.04)
Russian Ruble	0.10
Others	(0.05)
Total	\$(0.18)

- We have currently hedged approximately 40% of our 2017 forecast sales to Japan, which, at prevailing exchange rates, translates to an effective rate of 114 Yen to the U.S. Dollar (vs. 111 Yen in 2016)



2017 EPS Guidance: Key Variables

- RRPs introduce higher forecasting volatility
- Guidance reflects net revenue growth in excess of our current currency-neutral annual growth target range of 4% to 6%^(a), driven by:
 - Higher RRP volumes (reflecting both *HeatSticks* and *IQOS* devices)
 - Favorable pricing variance (equivalent to approximately 6% of our 2016 net revenues)
- Guidance also reflects significant incremental investment behind the deployment of our RRP portfolio, partly offset by the judicious reallocation of resources from our combustible tobacco portfolio to RRPs in the relevant markets

(a) Excluding acquisitions

Note: Reduced-Risk Products ("RRPs") is the term PMI uses to refer to products that present, are likely to present, or have the potential to present less risk of harm to smokers who switch to these products versus continued smoking

Source: PMI Financials or estimates



2017: Cash Flow Outlook

- Target operating cash flow^(a) of approximately \$8.5 billion, reflecting higher net earnings
- Anticipate capital expenditures of \$1.5 billion, driven by increased investments to support RRP capacity expansion, notably for *HeatSticks*
- Focused on rewarding our shareholders:
 - Nine consecutive dividend increases since 2008, representing a total increase of 126.1%



(a) Net cash provided by operating activities

Note: Reduced-Risk Products ("RRPs") is the term PMI uses to refer to products that present, are likely to present, or have the potential to present less risk of harm to smokers who switch to these products versus continued smoking. 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



IQOS: Launched in Key Cities in 20 Markets To Date

EU Region (11)

- Denmark
- Germany
- Greece
- Italy
- Monaco
- Netherlands
- Portugal
- Romania
- Spain
- Switzerland
- United Kingdom

EEMA Region (6)

- Duty Free^(a)
- Israel
- Kazakhstan
- Russia
- South Africa
- Ukraine

Asia Region (2)

- Japan (National)
- New Zealand

LA&C Region (1)

- Canada

Target
30-35
Markets by
end 2017^(b)



(a) Japan (Chubu, Fukuoka, Osaka and Tokyo airports); Switzerland (Zurich airport)

(b) Subject to *HeatSticks* capacity

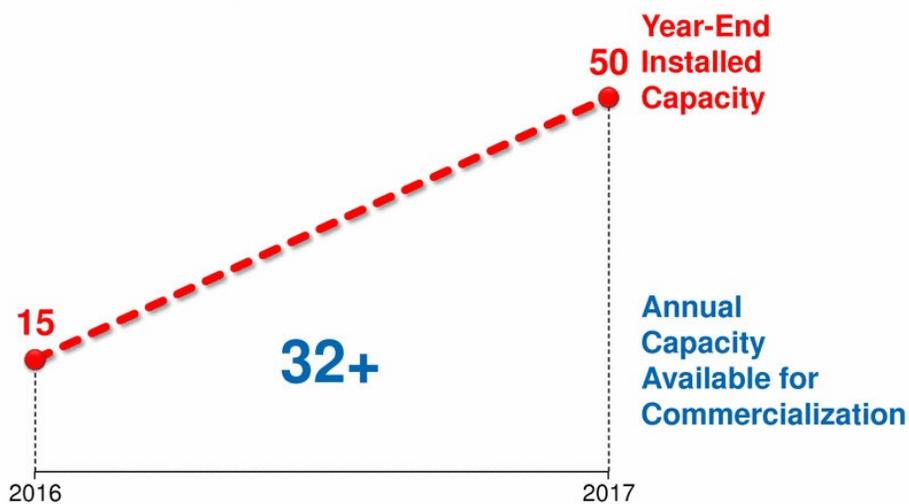
Note: Reduced-Risk Products ("RRPs") is the term PMI uses to refer to products that present, are likely to present, or have the potential to present less risk of harm to smokers who switch to these products versus continued smoking



IQOS: Expanding HeatSticks Capacity in 2017



HeatSticks Capacity Forecast (units billion)



Note: Reduced-Risk Products ("RRPs") is the term PMI uses to refer to products that present, are likely to present, or have the potential to present less risk of harm to smokers who switch to these products versus continued smoking. Pack designs are for illustrative purposes only
Source: PMI Financials or estimates



RRPs: Exciting Progress with Our Other Platforms

Heated Tobacco
Product

Platform 2



- City test in 2017

Nicotine-Containing
Products

Platform 3



- City test in 2017

Platform 4 (Next Generation)



MESH:

- City test in late 2016
- Pleased by initial results

Note: Reduced-Risk Products ("RRPs") is the term PMI uses to refer to products that present, are likely to present, or have the potential to present less risk of harm to smokers who switch to these products versus continued smoking. The products depicted are subject to ongoing development and therefore the visuals are illustrative and do not necessarily represent the latest stages of product development



A Pivotal Year for PMI in 2016; Outlook Remains Strong for 2017

- Exciting progress in our transformation from combustible tobacco products to a Reduced-Risk Products focused company
- Strong currency-neutral financial results in 2016, driven by our combustible tobacco business
- *IQOS* performing exceptionally. As of year-end 2016, we estimate that approximately 1.4 million adult consumers have quit smoking cigarettes and converted to *IQOS*
- Our 2017 guidance represents a growth rate of approximately 9% to 12%, ex-currency, compared to adjusted diluted EPS of \$4.48 in 2016

Note: Reduced-Risk Products ("RRPs") is the term PMI uses to refer to products that present, are likely to present, or have the potential to present less risk of harm to smokers who switch to these products versus continued smoking
Source: PMI Financials or estimates



PHILIP MORRIS INTERNATIONAL

2016 Fourth-Quarter and Full-Year Results

Questions & Answers

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PHILIP MORRIS INTERNATIONAL

Glossary and Reconciliation of Non-GAAP Measures





Glossary: General Terms

- PMI refers to Philip Morris International Inc. and its subsidiaries
- Until March 28, 2008, PMI was a wholly owned subsidiary of Altria Group, Inc. ("Altria"). Since that time the company has been independent and is listed on the New York Stock Exchange (ticker symbol "PM")
- Trademarks are italicized
- Comparisons are made to the same prior-year period, unless otherwise stated
- PMI volumes refer to PMI cigarette shipment data, unless otherwise stated
- References to total international cigarette market, defined as worldwide cigarette volume excluding the U.S., total cigarette market, total market and market shares are PMI tax-paid estimates based on the latest available data from a number of internal and external sources and may, in defined instances, exclude China and/or PMI's duty free business
- EEMA refers to the Eastern Europe, Middle East & Africa Region and includes our international duty free business
- EU refers to the European Union Region
- LA&C refers to the Latin America & Canada Region
- SoM stands for share of market
- VAT stands for value added tax



Glossary: Financial Terms

- Net revenues exclude excise taxes
- Operating companies income, or "OCI", is defined as operating income, excluding general corporate expenses and the amortization of intangibles, plus equity (income)/loss in unconsolidated subsidiaries, net. Management evaluates business segment performance and allocates resources based on OCI
- Adjusted OCI margins are calculated as adjusted OCI, divided by net revenues
- Free cash flow is defined as net cash provided by operating activities less capital expenditures
- Management reviews OCI, OCI margins, earnings per share, or "EPS," and free cash flow on an adjusted basis, which may exclude the impact of currency and other items such as acquisitions, asset impairment and exit costs, discrete tax items and other special items
- Management reviews these measures because they exclude changes in currency exchange rates and other factors that may distort underlying business trends, thereby improving the comparability of PMI's business performance between reporting periods. Furthermore, PMI uses several of these measures in its management compensation program to promote internal fairness and a disciplined assessment of performance against company targets. PMI discloses these measures to enable investors to view the business through the eyes of its management



Glossary: Reduced-Risk Products

- Reduced-Risk Products ("RRPs") is the term PMI uses to refer to products that present, are likely to present, or have the potential to present less risk of harm to smokers who switch to these products versus continued smoking. PMI has a range of RRP's in various stages of development, scientific assessment and commercialization. Because our RRP's do not burn tobacco, they produce far lower quantities of harmful and potentially harmful compounds than found in cigarette smoke
- *IQOS* is the brand name under which PMI has chosen to commercialize its Platform 1 controlled heating device
- The term *HeatSticks* refers to *Marlboro HeatSticks*, *Parliament HeatSticks* and *HEETS* from *Marlboro*
- *HeatSticks* and *HEETS* tobacco sticks are novel patented tobacco products specifically designed by PMI for use with PMI's *IQOS* system. The tobacco in *HeatSticks* / *HEETS* is heated by our *IQOS* technology to provide adult smokers with real tobacco taste and satisfaction without combustion
- *HeatSticks* volume includes *HeatSticks* and *HEETS*
- Net revenues, excluding excise taxes, related to RRP's represent the sale of heat-not-burn consumables, including *HeatSticks*, *IQOS* devices and related accessories, and other nicotine-containing products, primarily e-vapor products, net of sales and promotion incentives
- National market share for *HeatSticks* in Japan is defined as the total sales volume for *HeatSticks* as a percentage of the total estimated sales volume for cigarettes and *HeatSticks*



Glossary: Reduced-Risk Products

- "Converted *IQOS* Users" means the estimated number of Legal Age (minimum 18-year-old) *IQOS* users that used *HeatSticks* for 95% or more of their daily tobacco consumption over the past seven days
- "Predominant *IQOS* Users" means the estimated number of Legal Age (minimum 18-year-old) *IQOS* users that used *HeatSticks* for between 70% and 94.9% of their daily tobacco consumption over the past seven days
- An e-vapor product is an electrical product that generates an aerosol by heating a nicotine or non-nicotine containing liquid, such as electronic cigarettes (or "e-cigarettes")
- *MESH* is the brand name that PMI has chosen for the city test of its "next generation" Platform 4 Reduced-Risk Product that leverages new proprietary vaporization technology

PHILIP MORRIS INTERNATIONAL INC. and Subsidiaries

Reconciliation of Non-GAAP Measures



Adjustments for the Impact of Currency and Acquisitions
For the Quarters Ended December 31,
(\$ in millions)
(Unaudited)

2016							2015			% Change in Net Revenues excluding Excise Taxes			
Net Revenues	Less Excise Taxes	Net Revenues excluding Excise Taxes	Less Currency	Net Revenues excluding Excise Taxes & Currency	Less Acquisitions	Net Revenues excluding Excise Taxes, Currency & Acquisitions	Net Revenues	Less Excise Taxes	Net Revenues excluding Excise Taxes	Total	Excluding Currency	Excluding Currency & Acquisitions	
\$ 6,465	\$ 4,521	\$ 1,944	\$ (25)	\$ 1,969	\$ -	\$ 1,969	European Union	\$ 6,647	\$ 4,713	\$ 1,934	0.5%	1.8%	1.8%
4,636	2,838	1,798	(85)	1,883	-	1,883	EEMA	4,420	2,703	1,717	4.7%	9.7%	9.7%
5,517	3,073	2,444	118	2,326	-	2,326	Asia	4,786	2,867	1,919	27.4%	21.2%	21.2%
2,571	1,786	785	(98)	883	-	883	Latin America & Canada	2,518	1,696	822	(4.5)%	7.4%	7.4%
\$ 19,189	\$ 12,218	\$ 6,971	\$ (90)	\$ 7,061	\$ -	\$ 7,061	PMI Total	\$ 18,371	\$ 11,979	\$ 6,392	9.1%	10.5%	10.5%

2016					2015			% Change in Operating Companies Income		
Operating Companies Income	Less Currency	Operating Companies Income excluding Currency	Less Acquisitions	Operating Companies Income excluding Currency & Acquisitions	Operating Companies Income	Total	Excluding Currency	Excluding Currency & Acquisitions		
\$ 898	\$ 29	\$ 869	\$ -	\$ 869	European Union	\$ 599	49.9%	45.1%	45.1%	
627	(390)	1,017	-	1,017	EEMA	704	(10.9)%	44.5%	44.5%	
908	63	845	-	845	Asia	465	95.3%	81.7%	81.7%	
261	(62)	323	-	323	Latin America & Canada	236	10.6%	36.9%	36.9%	
\$ 2,694	\$ (360)	\$ 3,054	\$ -	\$ 3,054	PMI Total	\$ 2,004	34.4%	52.4%	52.4%	

PHILIP MORRIS INTERNATIONAL INC. and Subsidiaries

Reconciliation of Non-GAAP Measures



Reconciliation of Operating Companies Income to Adjusted Operating Companies Income &
 Reconciliation of Adjusted Operating Companies Income Margin, excluding Currency and Acquisitions
 For the Quarters Ended December 31,
 (\$ in millions)
 (Unaudited)

2016							2015							% Change in Adjusted Operating Companies Income		
Operating Companies Income	Less Asset Impairment & Exit Costs	Adjusted Operating Companies Income	Less Currency	Adjusted Operating Companies Income excluding Currency	Less Acquisitions	Adjusted Operating Companies Income excluding Currency & Acquisitions	Operating Companies Income	Less Asset Impairment & Exit Costs	Adjusted Operating Companies Income	Adjusted	Adjusted excluding Currency	Adjusted excluding Currency & Acquisitions				
\$ 898	\$ -	\$ 898	\$ 29	\$ 869	\$ -	\$ 869	European Union	\$ 599	\$ (68)	\$ 667	34.6%	30.3%	30.3%			
627	-	627	(390)	1,017	-	1,017	EEMA	704	-	704	(10.9)%	44.5%	44.5%			
908	-	908	83	845	-	845	Asia	465	-	465	95.3%	81.7%	81.7%			
261	-	261	(62)	323	-	323	Latin America & Canada	236	-	236	10.6%	36.9%	36.9%			
\$ 2,694	\$ -	\$ 2,694	\$ (360)	\$ 3,054	\$ -	\$ 3,054	PMI Total	\$ 2,004	\$ (68)	\$ 2,072	30.0%	47.4%	47.4%			

2016							2015							% Points Change	
Adjusted Operating Companies Income excluding Currency	Net Revenues excluding Excise Taxes & Currency ^(a)	Adjusted Operating Companies Income Margin excluding Currency	Adjusted Operating Companies Income excluding Currency & Acquisitions	Net Revenues excluding Excise Taxes, Currency & Acquisitions ^(a)	Adjusted Operating Companies Income Margin excluding Currency & Acquisitions	Adjusted Operating Companies Income	Adjusted Operating Companies Income	Net Revenues excluding Excise Taxes ^(a)	Adjusted Operating Companies Income	Adjusted Operating Companies Income Margin excluding Currency	Adjusted Operating Companies Income Margin excluding Currency & Acquisitions				
\$ 869	\$ 1,969	44.1%	\$ 869	\$ 1,969	44.1%	European Union	\$ 667	\$ 1,934	34.5%	9.6	9.6				
1,017	1,883	54.0%	1,017	1,883	54.0%	EEMA	704	1,717	41.0%	13.0	13.0				
845	2,326	36.3%	845	2,326	36.3%	Asia	465	1,919	24.2%	12.1	12.1				
323	883	36.6%	323	883	36.6%	Latin America & Canada	236	822	28.7%	7.9	7.9				
\$ 3,054	\$ 7,061	43.3%	\$ 3,054	\$ 7,061	43.3%	PMI Total	\$ 2,072	\$ 6,392	32.4%	10.9	10.9				

(a) For the calculation of net revenues excluding excise taxes, currency and acquisitions, refer to previous slide

PHILIP MORRIS INTERNATIONAL INC. and Subsidiaries

Reconciliation of Non-GAAP Measures



Reconciliation of Reported Diluted EPS to Adjusted Diluted EPS and Adjusted Diluted EPS, excluding Currency
For the Quarters Ended December 31,
(Unaudited)

	<u>2016</u>	<u>2015</u>	<u>% Change</u>
Reported Diluted EPS	\$ 1.10	\$ 0.80	37.5%
Adjustments:			
Asset impairment and exit costs	-	0.03	
Tax items	-	(0.02)	
Adjusted Diluted EPS	\$ 1.10	\$ 0.81	35.8%
Less:			
Currency impact	(0.13)		
Adjusted Diluted EPS, excluding Currency	\$ 1.23	\$ 0.81	51.9%

PHILIP MORRIS INTERNATIONAL INC. and Subsidiaries

Reconciliation of Non-GAAP Measures



Reconciliation of Reported Diluted EPS to Reported Diluted EPS, excluding Currency
For the Quarters Ended December 31,
(Unaudited)

	<u>2016</u>	<u>2015</u>	<u>% Change</u>
Reported Diluted EPS	\$ 1.10	\$ 0.80	37.5%
Less:			
Currency impact	<u>(0.13)</u>		
Reported Diluted EPS, excluding Currency	<u>\$ 1.23</u>	<u>\$ 0.80</u>	53.8%

PHILIP MORRIS INTERNATIONAL INC. and Subsidiaries

Reconciliation of Non-GAAP Measures



Adjustments for the Impact of Currency and Acquisitions For the Years Ended December 31, (\$ in millions) (Unaudited)

2016							2015			% Change in Net Revenues excluding Excise Taxes			
Net Revenues	Less Excise Taxes	Net Revenues excluding Excise Taxes	Less Currency	Net Revenues excluding Excise Taxes & Currency	Less Acquisitions	Net Revenues excluding Excise Taxes, Currency & Acquisitions	Net Revenues	Less Excise Taxes	Net Revenues excluding Excise Taxes	Total	Excluding Currency	Excluding Currency & Acquisitions	
\$ 27,129	\$ 18,967	\$ 8,162	\$ (147)	\$ 8,309	\$ -	\$ 8,309	European Union	\$ 26,563	\$ 18,495	\$ 8,068	1.2%	3.0%	3.0%
18,286	11,286	7,000	(600)	7,600	-	7,600	EEMA	18,328	10,964	7,364	(4.9)%	3.2%	3.2%
20,531	11,850	8,681	(6)	8,689	-	8,689	Asia	19,469	11,266	8,203	5.8%	5.9%	5.9%
9,007	6,165	2,842	(525)	3,367	-	3,367	Latin America & Canada	9,548	6,389	3,159	(10.0)%	6.6%	6.6%
\$ 74,953	\$ 48,268	\$ 26,685	\$ (1,280)	\$ 27,965	\$ -	\$ 27,965	PMI Total	\$ 73,908	\$ 47,114	\$ 26,794	(0.4)%	4.4%	4.4%

2016							2015			% Change in Operating Companies Income		
Operating Companies Income	Less Currency	Operating Companies Income excluding Currency	Less Acquisitions	Operating Companies Income excluding Currency & Acquisitions	Operating Companies Income	Less Currency	Operating Companies Income	Total	Excluding Currency	Excluding Currency & Acquisitions		
\$ 3,994	\$ 34	\$ 3,960	\$ -	\$ 3,960	European Union	\$ 3,576	11.7%	10.7%	10.7%			
3,016	(839)	3,855	-	3,855	EEMA	3,425	(11.9)%	12.6%	12.6%			
3,196	52	3,144	-	3,144	Asia	2,886	10.7%	8.9%	8.9%			
938	(282)	1,220	-	1,220	Latin America & Canada	1,085	(13.5)%	12.4%	12.4%			
\$ 11,144	\$ (1,035)	\$ 12,179	\$ -	\$ 12,179	PMI Total	\$ 10,972	1.6%	11.0%	11.0%			

PHILIP MORRIS INTERNATIONAL INC. and Subsidiaries

Reconciliation of Non-GAAP Measures



Reconciliation of Operating Companies Income to Adjusted Operating Companies Income &
 Reconciliation of Adjusted Operating Companies Income Margin, excluding Currency and Acquisitions
 For the Years Ended December 31,
 (\$ in millions)
 (Unaudited)

2016							2015							% Change in Adjusted Operating Companies Income		
Operating Companies Income	Less Asset Impairment & Exit Costs	Adjusted Operating Companies Income	Less Currency	Adjusted Operating Companies Income excluding Currency	Less Acquisitions	Adjusted Operating Companies Income excluding Currency & Acquisitions	Operating Companies Income	Less Asset Impairment & Exit Costs	Adjusted Operating Companies Income	Adjusted	Adjusted excluding Currency	Adjusted excluding Currency & Acquisitions				
\$ 3,994	\$ -	\$ 3,994	\$ 34	\$ 3,960	\$ -	\$ 3,960	European Union	\$ 3,576	\$ (68)	\$ 3,644	9.6%	8.7%	8.7%			
3,016	-	3,016	(639)	3,855	-	3,855	EEMA	3,425	-	3,425	(11.9)%	12.6%	12.6%			
3,196	-	3,196	52	3,144	-	3,144	Asia	2,886	-	2,886	10.7%	8.9%	8.9%			
938	-	938	(282)	1,220	-	1,220	Latin America & Canada	1,085	-	1,085	(13.5)%	12.4%	12.4%			
\$ 11,144	\$ -	\$ 11,144	\$ (1,035)	\$ 12,179	\$ -	\$ 12,179	PMI Total	\$ 10,972	\$ (68)	\$ 11,040	0.9%	10.3%	10.3%			

2016							2015							% Points Change	
Adjusted Operating Companies Income excluding Currency	Net Revenues excluding Excise Taxes & Currency ^(a)	Adjusted Operating Companies Income excluding Currency	Adjusted Operating Companies Income excluding Currency & Acquisitions	Net Revenues excluding Excise Taxes, Currency & Acquisitions ^(a)	Adjusted Operating Companies Income Margin excluding Currency & Acquisitions	Adjusted Operating Companies Income	Adjusted Operating Companies Income	Net Revenues excluding Excise Taxes ^(a)	Adjusted Operating Companies Income	Adjusted Operating Companies Income Margin excluding Currency	Adjusted Operating Companies Income Margin excluding Currency & Acquisitions				
\$ 3,960	\$ 8,309	47.7%	\$ 3,960	\$ 8,309	47.7%	European Union	\$ 3,644	\$ 8,068	45.2%	2.5	2.5				
3,855	7,600	50.7%	3,855	7,600	50.7%	EEMA	3,425	7,364	46.5%	4.2	4.2				
3,144	8,689	36.2%	3,144	8,689	36.2%	Asia	2,886	8,203	35.2%	1.0	1.0				
1,220	3,367	36.2%	1,220	3,367	36.2%	Latin America & Canada	1,085	3,159	34.3%	1.9	1.9				
\$ 12,179	\$ 27,965	43.6%	\$ 12,179	\$ 27,965	43.6%	PMI Total	\$ 11,040	\$ 26,794	41.2%	2.4	2.4				

(a) For the calculation of net revenues excluding excise taxes, currency and acquisitions, refer to previous slide

PHILIP MORRIS INTERNATIONAL INC. and Subsidiaries

Reconciliation of Non-GAAP Measures



Calculation of Adjusted Operating Companies Income Margins
(\$ in millions)
(Rounded)

For the Year Ended December 31, 2015

	Operating Companies Income	Less Asset Impairment & Exit Costs	Adjusted Operating Companies Income	Net Revenues	Less Excise Taxes	Net Revenues excluding Excise Taxes	Adjusted Operating Companies Income Margin
European Union	\$ 3,576	\$ (68)	\$ 3,644	\$ 26,563	\$ 18,495	\$ 8,068	45.2%
EEMA	3,425	-	3,425	18,328	10,964	7,364	46.5%
Asia	2,886	-	2,886	19,469	11,266	8,203	35.2%
Latin America & Canada	1,085	-	1,085	9,548	6,389	3,159	34.3%
PMI Total	\$ 10,972	\$ (68)	\$ 11,040	\$ 73,908	\$ 47,114	\$ 26,794	41.2%

For the Year Ended December 31, 2016

	Operating Companies Income	Less Asset Impairment & Exit Costs	Adjusted Operating Companies Income	Net Revenues	Less Excise Taxes	Net Revenues excluding Excise Taxes	Adjusted Operating Companies Income Margin
European Union	\$ 3,994	\$ -	\$ 3,994	\$ 27,129	\$ 18,967	\$ 8,162	48.9%
EEMA	3,016	-	3,016	18,286	11,286	7,000	43.1%
Asia	3,196	-	3,196	20,531	11,850	8,681	36.8%
Latin America & Canada	938	-	938	9,007	6,165	2,842	33.0%
PMI Total	\$ 11,144	\$ -	\$ 11,144	\$ 74,953	\$ 48,268	\$ 26,685	41.8%

PHILIP MORRIS INTERNATIONAL INC. and Subsidiaries

Reconciliation of Non-GAAP Measures



Reconciliation of Reported Diluted EPS to Adjusted Diluted EPS and Adjusted Diluted EPS, excluding Currency
For the Years Ended December 31,
(Unaudited)

	<u>2016</u>	<u>2015</u>	<u>% Change</u>
Reported Diluted EPS	\$ 4.48	\$ 4.42	1.4%
Adjustments:			
Asset impairment and exit costs	-	0.03	
Tax items	-	(0.03)	
Adjusted Diluted EPS	\$ 4.48	\$ 4.42	1.4%
Less:			
Currency impact	(0.46)		
Adjusted Diluted EPS, excluding Currency	<u>\$ 4.94</u>	<u>\$ 4.42</u>	11.8%

PHILIP MORRIS INTERNATIONAL INC. and Subsidiaries

Reconciliation of Non-GAAP Measures



Reconciliation of Reported Diluted EPS to Reported Diluted EPS, excluding Currency
For the Years Ended December 31,
(Unaudited)

	<u>2016</u>	<u>2015</u>	<u>% Change</u>
Reported Diluted EPS	\$ 4.48	\$ 4.42	1.4%
Less:			
Currency impact	<u>(0.46)</u>		
Reported Diluted EPS, excluding Currency	<u>\$ 4.94</u>	<u>\$ 4.42</u>	11.8%

PHILIP MORRIS INTERNATIONAL INC. and Subsidiaries

Reconciliation of Non-GAAP Measures



Reconciliation of Operating Cash Flow to Free Cash Flow and Free Cash Flow, excluding Currency
For the Quarters and Years Ended December 31,
(\$ in millions)
(Unaudited)

	For the Quarters Ended December 31,			For the Years Ended December 31,		
	2016	2015	% Change	2016	2015	% Change
Net cash provided by operating activities^(a)	\$ 2,149	\$ 1,872	14.8%	\$ 8,077	\$ 7,865	2.7%
Less:						
Capital expenditures	438	324		1,172	960	
Free cash flow	\$ 1,711	\$ 1,548	10.5%	\$ 6,905	\$ 6,905	- %
Less:						
Currency impact	(338)			(340)		
Free cash flow, excluding currency	\$ 2,049	\$ 1,548	32.4%	\$ 7,245	\$ 6,905	4.9%

(a) Operating Cash Flow



PHILIP MORRIS INTERNATIONAL

2016 Fourth-Quarter and Full-Year Results

February 2, 2017
