

**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): October 18, 2016

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 October 18, 2016, Philip Morris International Inc. (the “Company”) issued a press release announcing its financial results for the quarter ended September 30, 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 October 18, 2016, the Company held a live audio webcast to discuss its financial results for the quarter ended September 30, 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 October 18, 2016 (furnished pursuant to Item 2.02)

99.2 Conference Call Script dated October 18, 2016 (furnished pursuant to Item 7.01)

99.3 Webcast Slides dated October 18, 2016 (furnished pursuant to Item 7.01)

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: October 18, 2016

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
99.1	Philip Morris International Inc. Press Release dated October 18, 2016 (furnished pursuant to Item 2.02)
99.2	Conference Call Script dated October 18, 2016 (furnished pursuant to Item 7.01)
99.3	Webcast Slides dated October 18, 2016 (furnished pursuant to Item 7.01)

PRESS RELEASE



PHILIP MORRIS INTERNATIONAL

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

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PHILIP MORRIS INTERNATIONAL INC. (PMI) REPORTS 2016 THIRD-QUARTER RESULTS: REAFFIRMS 2016 FULL-YEAR REPORTED DILUTED EPS FORECAST

2016 Third-Quarter

- Reported diluted earnings per share of \$1.25, flat versus 2015
 - Excluding unfavorable currency of \$0.04, reported diluted earnings per share up by \$0.04 or 3.2% versus \$1.25 in 2015 as detailed in the attached Schedule 13
- Adjusted diluted earnings per share of \$1.25, up by \$0.01 or 0.8% versus \$1.24 in 2015
 - Excluding unfavorable currency of \$0.04, adjusted diluted earnings per share up by \$0.05 or 4.0% versus \$1.24 in 2015 as detailed in the attached Schedule 12
- Cigarette shipment volume of 207.1 billion units, down by 5.4%
- Reported net revenues of \$19.9 billion, up by 2.6%
- Net revenues, excluding excise taxes, of \$7.0 billion, up by 0.8%
 - Excluding unfavorable currency of \$196 million, net revenues, excluding excise taxes, up by 3.6% as detailed in the attached Schedule 10
- Reported operating income of \$3.0 billion, up by 0.6%
- Operating companies income of \$3.1 billion, up by 1.2%
 - Excluding unfavorable currency of \$94 million, operating companies income up by 4.3% as detailed in the attached Schedule 10
- Adjusted operating companies income, reflecting the items detailed in the attached Schedule 11, of \$3.1 billion, up by 1.2%
 - Excluding unfavorable currency of \$94 million, adjusted operating companies income up by 4.3% as detailed in the attached Schedule 11
- Increased the regular quarterly dividend by 2.0% to an annualized rate of \$4.16 per common share

2016 Nine Months Year-to-Date

- Reported diluted earnings per share of \$3.38, down by \$0.24 or 6.6% versus \$3.62 in 2015
 - Excluding unfavorable currency of \$0.32, reported diluted earnings per share up by \$0.08 or 2.2% versus \$3.62 in 2015 as detailed in the attached Schedule 17
 - Adjusted diluted earnings per share of \$3.38, down by \$0.23 or 6.4% versus \$3.61 in 2015
 - Excluding unfavorable currency of \$0.32, adjusted diluted earnings per share up by \$0.09 or 2.5% versus \$3.61 in 2015 as detailed in the attached Schedule 16
 - Cigarette shipment volume of 612.4 billion units, down by 3.9%
 - Reported net revenues of \$55.8 billion, up by 0.4%
 - Net revenues, excluding excise taxes, of \$19.7 billion, down by 3.4%
-

- Excluding unfavorable currency of \$1.2 billion, net revenues, excluding excise taxes, up by 2.5% as detailed in the attached Schedule 14
- Reported operating income of \$8.2 billion, down by 6.0%
- Operating companies income of \$8.5 billion, down by 5.8%
 - Excluding unfavorable currency of \$675 million, operating companies income up by 1.8% as detailed in the attached Schedule 14
- Adjusted operating companies income, reflecting the items detailed in the attached Schedule 15, of \$8.5 billion, down by 5.8%
 - Excluding unfavorable currency of \$675 million, adjusted operating companies income up by 1.8% as detailed in the attached Schedule 15

2016 Full-Year Forecast

- PMI reaffirms its 2016 full-year reported diluted earnings per share forecast to be in a range of \$4.53 to \$4.58, as previously announced on September 29, 2016, versus \$4.42 in 2015. Excluding an unfavorable currency impact, at prevailing exchange rates, of approximately \$0.35 for the full-year 2016, the diluted earnings per share range represents a projected increase of approximately 10.5% to 11.5% versus adjusted diluted earnings per share of \$4.42 in 2015 as detailed in the attached Schedule 20
- This forecast does not include any share repurchases in 2016
- 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, October 18, 2016 – Philip Morris International Inc. (NYSE / Euronext Paris: PM) today announced its 2016 third-quarter results.

"Our adjusted diluted EPS in the quarter increased by 4.0%, excluding currency, in line with our expectations," said André Calantzopoulos, Chief Executive Officer.

"We are confident that we will achieve our full-year reported diluted EPS forecast. We continue to anticipate annual volume in line with the September year-to-date decline of 3.9%, despite temporary volume weakness this quarter."

"We are particularly encouraged by the strong performance of *iQOS* across all of its launch geographies, particularly in Japan where *HeatSticks* recorded a quarterly share of 3.5%."

Conference Call

A conference call, hosted by 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 October 18, 2016. 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 the quarter, 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 the first nine months of 2016.

2016 THIRD-QUARTER CONSOLIDATED RESULTS

In this press release, "**PMI**" refers to Philip Morris International Inc. and its subsidiaries. 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. **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. "**North Africa**" is defined as Algeria, Egypt, Libya, Morocco and Tunisia. "**OTP**" is defined as other tobacco products. "**EEMA**" is defined as Eastern Europe, Middle East and Africa and includes PMI's international duty free business. In the fourth quarter of 2015, to further align with the Member State composition of the European Union, PMI transferred the management of its operations in Bulgaria, Croatia, Romania and Slovenia from its EEMA segment to its European Union segment, resulting in the reclassification of current and prior year amounts between the two segments. The reclassification was not material to the respective segments' results. 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. PMI's 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. Management also reviews OCI, OCI margins and earnings per share, or "EPS," 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 unusual items), as well as **free cash flow**, defined as net cash provided by operating activities less capital expenditures, and net debt. PMI believes it is appropriate to disclose these measures as they improve comparability and help investors analyze business performance and trends. 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. Comparisons are to the same prior-year period unless otherwise stated. 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") is the term the company uses to refer to products with the potential to reduce individual risk and population harm in comparison to smoking cigarettes. PMI's RRP's are in various stages of development and commercialization, and we are conducting extensive and rigorous scientific studies to determine whether we can support claims for such products of reduced exposure to harmful and potentially harmful constituents in smoke, and ultimately claims of reduced disease risk, when compared to smoking cigarettes. Before making any such claims, we will rigorously evaluate the full set of data from the relevant scientific studies to determine whether they substantiate reduced exposure or risk. Any such claims may also be subject to government review and authorization, as is the case in the United States today. Trademarks and service marks in this press release that are the registered property of, or licensed by, the subsidiaries of PMI, are italicized.

NET REVENUES (Excluding Excise Taxes)

PMI Net Revenues (Excl. Excise Taxes)

(in millions)

	<u>Third-Quarter</u>			<u>Nine Months Year-to-Date</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	\$ 2,200	\$ 2,123	3.6 %	3.9%	\$ 6,218	\$ 6,134	1.4 %	3.4%
EEMA	1,936	2,016	(4.0)%	3.0%	5,202	5,647	(7.9)%	1.2%
Asia	2,136	1,984	7.7 %	4.7%	6,237	6,284	(0.7)%	1.3%
Latin America & Canada	710	804	(11.7)%	1.7%	2,057	2,337	(12.0)%	6.3%
Total PMI	\$ 6,982	\$ 6,927	0.8 %	3.6%	\$ 19,714	\$ 20,402	(3.4)%	2.5%

In the quarter, net revenues, excluding excise taxes, of \$7.0 billion increased by 0.8%. Excluding unfavorable currency of \$196 million, net revenues, excluding excise taxes, increased by 3.6%, driven by a favorable pricing variance of \$440 million from across all Regions, principally EEMA, mainly Russia and Turkey. The favorable pricing variance was partly offset by unfavorable volume/mix of \$189 million across all Regions, principally EEMA, mainly Algeria and Russia.

OPERATING COMPANIES INCOME

<u>PMI OCI</u> (in millions)	<u>Third-Quarter</u>				<u>Nine Months Year-to-Date</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	\$ 1,120	\$ 1,045	7.2 %	4.4 %	\$ 3,096	\$ 2,977	4.0 %	3.8 %
EEMA	962	1,002	(4.0)%	8.7 %	2,389	2,721	(12.2)%	4.3 %
Asia	761	690	10.3 %	2.0 %	2,288	2,421	(5.5)%	(5.0)%
Latin America & Canada	224	294	(23.8)%	(5.8)%	677	849	(20.3)%	5.7 %
Total PMI	\$ 3,067	\$ 3,031	1.2 %	4.3 %	\$ 8,450	\$ 8,968	(5.8)%	1.8 %

In the quarter, operating companies income of \$3.1 billion was up by 1.2%. Excluding unfavorable currency of \$94 million, operating companies income increased by 4.3%, mainly resulting from a favorable pricing variance driven by all Regions, partly offset by: unfavorable volume/mix of \$209 million, primarily in EEMA, mainly North Africa and Russia; and higher costs, mainly in support of PMI's 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 4.3%. Adjusted operating companies income margin, excluding currency, increased by 0.2 points to 44.0%, reflecting the factors mentioned above, as detailed on Schedule 11.

<u>PMI OCI</u> (in millions)	<u>Third-Quarter</u>				<u>Nine Months Year-to-Date</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	\$ 3,067	\$ 3,031	1.2%	4.3%	\$ 8,450	\$ 8,968	(5.8)%	1.8%
Asset impairment & exit costs	—	—			—	—		
Adjusted OCI	\$ 3,067	\$ 3,031	1.2%	4.3%	\$ 8,450	\$ 8,968	(5.8)%	1.8%
Adjusted OCI Margin*	43.9%	43.8%	0.1	0.2	42.9%	44.0%	(1.1)	(0.3)

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

SHIPMENT VOLUME & MARKET SHARE

PMI cigarette shipment volume by Region is shown in the table below.

<u>PMI Cigarette Shipment Volume by Region</u> (million units)	<u>Third-Quarter</u>			<u>Nine Months Year-to-Date</u>		
	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>2016</u>	<u>2015</u>	<u>Change</u>
European Union	52,001	51,771	0.4 %	148,393	147,379	0.7 %
EEMA	72,172	76,318	(5.4)%	203,630	210,140	(3.1)%
Asia	61,693	67,786	(9.0)%	196,214	213,167	(8.0)%
Latin America & Canada	21,185	23,036	(8.0)%	64,144	66,815	(4.0)%
Total PMI	207,051	218,911	(5.4)%	612,381	637,501	(3.9)%

In the quarter, PMI's total cigarette shipment volume decreased by 5.4% due to: EEMA, principally North Africa and Russia, partly offset by Ukraine; Asia, principally Indonesia, Pakistan, the Philippines and Thailand; and Latin America & Canada, predominantly Argentina, Brazil and Ecuador; partly offset by the EU, notably France and the United Kingdom, partly offset by Greece and Italy.

Year-to-date, PMI's total cigarette shipment volume decreased by 3.9% due to: EEMA, principally Algeria and Russia, partly offset by Turkey and Ukraine; Asia, principally Indonesia, Japan, Pakistan, the Philippines and Thailand, partly offset by Korea; and Latin America & Canada, predominantly Argentina, Brazil and Ecuador, partly offset by Mexico. The decrease was partly offset by the EU, driven by the Czech Republic, France, Poland, Spain and the United Kingdom, partly offset by Greece and Italy.

PMI cigarette shipment volume by brand is shown in the table below.

<u>PMI Cigarette Shipment Volume by Brand</u> (million units)	<u>Third-Quarter</u>			<u>Nine Months Year-to-Date</u>		
	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>2016</u>	<u>2015</u>	<u>Change</u>
Marlboro	73,338	74,185	(1.1)%	211,426	213,754	(1.1)%
L&M	25,349	26,179	(3.2)%	73,592	73,402	0.3 %
Parliament	12,200	12,289	(0.7)%	34,247	33,372	2.6 %
Bond Street	11,709	12,045	(2.8)%	32,792	33,003	(0.6)%
Chesterfield	12,425	10,864	14.4 %	34,203	31,015	10.3 %
Philip Morris	8,726	9,390	(7.1)%	26,845	25,983	3.3 %
Lark	6,994	7,320	(4.5)%	21,031	22,034	(4.6)%
Others	56,310	66,639	(15.5)%	178,245	204,938	(13.0)%
Total PMI	207,051	218,911	(5.4)%	612,381	637,501	(3.9)%

In the quarter, cigarette shipment volume of *Marlboro* decreased, notably in Algeria, Argentina and Vietnam, partly offset by France, Germany, Mexico, the Philippines and Spain.

Cigarette shipment volume of *L&M* decreased, mainly due to Egypt, Russia, Thailand and Turkey, partly offset by Algeria, Kazakhstan and Ukraine. Cigarette shipment volume of *Parliament* decreased, due mainly to Japan and Russia, partly offset by Korea and Ukraine. Cigarette shipment volume of *Bond Street* decreased, mainly due to Russia, partly offset by Ukraine. Cigarette shipment volume of *Chesterfield* increased, mainly driven by Argentina, the morphing of *Red & White* in the Czech Republic, Turkey and the United Kingdom, partly offset by Russia. Cigarette shipment volume of *Philip Morris* decreased, mainly due to Argentina, partly offset by France.

Cigarette shipment volume of *Lark* decreased, principally due to Turkey. Cigarette shipment volume of "Others" decreased, mainly due to local and largely low-margin brands in Indonesia, Pakistan, the Philippines and Russia.

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 5.4%.

Total shipment volume of *HeatSticks* reached 2.1 billion units, up from 278 million units during the three months ended September 30, 2015.

PMI's cigarette market share increased in a number of markets, including Belgium, the Czech Republic, France, Germany, Kuwait, Poland, Saudi Arabia, Spain, Switzerland, Turkey, Ukraine and the United Kingdom.

Year-to-date, cigarette shipment volume of *Marlboro* decreased, notably in Argentina, Japan, North Africa and Vietnam, partly offset by Korea, Mexico, the Philippines and Spain.

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

Total shipment volume of OTP, in cigarette equivalent units, decreased by 3.9%. Total shipment volume for cigarettes and OTP, in cigarette equivalent units, decreased by 3.9%.

Total shipment volume of *HeatSticks* reached 3.7 billion units, up from 334 million units during the nine months ended September 30, 2015.

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

EUROPEAN UNION REGION (EU)

2016 Third-Quarter

Net revenues, excluding excise taxes, of \$2.2 billion increased by 3.6%. Excluding unfavorable currency of \$6 million, net revenues, excluding excise taxes, increased by 3.9%, driven by a favorable pricing variance of \$93 million, notably in Germany, Italy and Poland, partly offset by unfavorable volume/mix of \$10 million.

Operating companies income of \$1.1 billion increased by 7.2%. Excluding favorable currency of \$29 million, operating companies income increased by 4.4%, mainly driven by a favorable pricing variance, partly offset by unfavorable volume/mix of \$19 million and higher costs, primarily related to the commercialization of 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 4.4%. Adjusted operating

companies income margin, excluding currency, increased by 0.3 points to 49.5%, reflecting the factors mentioned above, as detailed on Schedule 11.

EU OCI (in millions)	Third-Quarter			Excl. Curr.	Nine Months Year-to-Date			Excl. Curr.
	2016	2015	Change		2016	2015	Change	
OCI	\$ 1,120	\$ 1,045	7.2%	4.4%	\$ 3,096	\$ 2,977	4.0%	3.8%
Asset impairment & exit costs	—	—			—	—		
Adjusted OCI	\$ 1,120	\$ 1,045	7.2%	4.4%	\$ 3,096	\$ 2,977	4.0%	3.8%
Adjusted OCI Margin*	50.9%	49.2%	1.7	0.3	49.8%	48.5%	1.3	0.3

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

2016 Third-Quarter and Nine Months Year-to-Date

In the quarter, the estimated total cigarette market decreased by 1.4% to 137.9 billion units, mainly reflecting 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 and a lower prevalence of e-vapor products. The estimated total OTP market decreased by 2.6% to 39.8 billion cigarette equivalent units, reflecting a lower total fine cut market, down by 2.7% to 36.9 billion cigarette equivalent units.

Year-to-date, the estimated total cigarette market decreased by 0.2% to 382.4 billion units, reflecting improved macroeconomics, a lower prevalence of illicit trade and e-vapor products and, in certain geographies, the estimated positive impact of immigration, which was mainly concentrated in the first half of 2016. The estimated total OTP market decreased by 0.8% to 114.9 billion cigarette equivalent units, reflecting a lower total fine cut market, down by 0.8% to 106.8 billion cigarette equivalent units.

Cigarette shipment volume and market share performance by brand are shown in the tables below.

EU Cigarette Shipment Volume by Brand (in millions)	Third-Quarter			Nine Months Year-to-Date		
	2016	2015	Change	2016	2015	Change
Marlboro	25,943	25,463	1.9 %	73,582	72,370	1.7 %
L&M	9,454	9,570	(1.2)%	26,628	26,457	0.6 %
Chesterfield	8,055	7,432	8.4 %	23,111	21,090	9.6 %
Philip Morris	4,330	4,101	5.6 %	12,621	10,215	23.6 %
Others	4,219	5,205	(18.9)%	12,451	17,247	(27.8)%
Total EU	52,001	51,771	0.4 %	148,393	147,379	0.7 %

EU Cigarette Market Shares by Brand	Third-Quarter			Nine Months Year-to-Date		
	2016	2015	Change	2016	2015	Change
Marlboro	19.0%	18.7%	p.p.	19.0%	18.8%	0.2
L&M	6.8%	6.8%	—	6.9%	6.8%	0.1
Chesterfield	5.9%	5.5%	0.4	6.0%	5.5%	0.5
Philip Morris	3.2%	3.1%	0.1	3.3%	3.1%	0.2
Others	3.3%	3.7%	(0.4)	3.2%	4.0%	(0.8)
Total EU	38.2%	37.8%	0.4	38.4%	38.2%	0.2

In the quarter, PMI's cigarette shipment volume increased by 0.4% to 52.0 billion units, mainly driven by France and the United Kingdom, partly offset by Greece and Italy. Excluding the net impact of distributor inventory movements, notably in Italy, PMI's cigarette shipment volume decreased by 0.5%. PMI's cigarette shipment volume of *Marlboro* increased by 1.9%, mainly driven by France, Germany, Spain and the United Kingdom, partly offset by Greece. PMI's total cigarette market share increased by 0.4 points to 38.2%, with gains, notably in France, Germany, Poland and the United Kingdom, partly offset by declines, mainly in Italy and Portugal. Cigarette shipment volume of "Others" decreased, mainly due to the morphing of various trademarks in the Baltic States, the Czech Republic and Italy into international brands.

In the quarter, PMI's shipments of OTP decreased by 7.2% to 5.7 billion cigarette equivalent units. PMI's total OTP market share decreased by 0.5 points to 14.6%.

Year-to-date, PMI's cigarette shipment volume increased by 0.7% to 148.4 billion units, mainly driven by the Czech Republic, France, Poland, Spain and the United Kingdom, partly offset by Greece and Italy. Excluding the net impact of distributor inventory movements, notably in Spain, PMI's cigarette shipment volume increased by 0.3%. PMI's cigarette shipment volume of *Marlboro* increased by 1.7%, mainly driven by France, Germany and Spain, partly offset by Greece and Italy. PMI's total cigarette market share increased by 0.2 points to 38.4%, with gains, notably in France, Poland, Spain and the United Kingdom, partly offset by declines, mainly in Italy and Portugal. Cigarette shipment volume of "Others" decreased, mainly due to the same factors as for the quarter.

Year-to-date, PMI's shipments of OTP decreased by 3.7% to 17.1 billion cigarette equivalent units. PMI's total OTP market share decreased by 0.4 points to 14.8%.

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>Third-Quarter</u>			<u>Nine Months Year-to-Date</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)	12.1	11.8	2.3%	34.5	34.2	0.8%
PMI Shipments (million units)	5,034	4,746	6.1%	14,869	14,450	2.9%
PMI Cigarette Market Share						
<i>Marlboro</i>	26.3%	25.8%	0.5	26.2%	25.7%	0.5
<i>Philip Morris</i>	10.1%	9.2%	0.9	10.1%	9.5%	0.6
<i>Chesterfield</i>	3.1%	3.3%	(0.2)	3.1%	3.3%	(0.2)
Others	2.7%	2.9%	(0.2)	2.8%	2.9%	(0.1)
Total	42.2%	41.2%	1.0	42.2%	41.4%	0.8

In the quarter, the estimated total cigarette market increased by 2.3%. Excluding the net impact of estimated trade inventory movements, the total market increased by 1.3%, partly reflecting a lower prevalence of illicit trade and e-vapor products. The increase in PMI's cigarette shipment volume mainly reflected the higher total cigarette market and market share growth, driven by *Marlboro*, as well as the launch of *Philip Morris* 25s and 100s in January 2016. The estimated total industry fine cut category of 3.9 billion cigarette equivalent units increased by 1.5%. PMI's market share of the category increased by 0.7 points to 25.3%.

Year-to-date, the estimated total cigarette market increased by 0.8%, 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 the same dynamics as those in the quarter. The estimated total industry fine cut category of 11.3 billion cigarette equivalent units increased by 3.7%. PMI's market share of the category increased by 0.4 points to 25.3%.

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>Third-Quarter</u>			<u>Nine Months Year-to-Date</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)	21.7	21.8	(0.5)%	59.7	59.9	(0.3)%
PMI Shipments (million units)	7,690	7,633	0.7 %	22,065	22,134	(0.3)%
PMI Cigarette Market Share						
<i>Marlboro</i>	21.5%	20.8%	0.7	22.3%	21.9%	0.4
<i>L&M</i>	11.1%	11.2%	(0.1)	11.6%	12.0%	(0.4)
<i>Chesterfield</i>	1.5%	1.6%	(0.1)	1.6%	1.7%	(0.1)
Others	1.3%	1.4%	(0.1)	1.5%	1.4%	0.1
Total	35.4%	35.0%	0.4	37.0%	37.0%	—

In the quarter, the moderate decline of the estimated total cigarette market of 0.5% principally reflected a lower prevalence of illicit trade and a decrease in the rate of out-switching to other tobacco products. The increase in PMI's cigarette shipment volume was driven by higher market share, principally *Marlboro*, benefiting from marketing support. The estimated total industry fine cut category of 10.7 billion cigarette equivalent units decreased by 0.5%. PMI's market share of the category decreased by 1.5 points to 10.7%.

Year-to-date, the moderate decline of the estimated total cigarette market of 0.3% principally reflected a lower prevalence of illicit trade and the estimated favorable impact of immigration. The decrease in PMI's cigarette shipment volume reflected the lower total market. The estimated total industry fine cut category of 30.6 billion cigarette equivalent units increased by 0.6%. PMI's market share of the category decreased by 1.1 points to 11.6%.

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>Third-Quarter</u>			<u>Nine Months Year-to-Date</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)	19.7	20.1	(2.2)%	55.5	55.5	— %
PMI Shipments (million units)	9,939	10,148	(2.1)%	29,861	30,362	(1.6)%
PMI Cigarette Market Share						
<i>Marlboro</i>	24.4%	24.8%	(0.4)	24.3%	24.7%	(0.4)
<i>Chesterfield</i>	11.6%	11.2%	0.4	11.6%	10.8%	0.8
<i>Philip Morris</i>	8.3%	9.0%	(0.7)	8.6%	9.3%	(0.7)
Others	8.0%	8.7%	(0.7)	8.2%	9.1%	(0.9)
Total	52.3%	53.7%	(1.4)	52.7%	53.9%	(1.2)

In the quarter, the estimated total cigarette market decreased by 2.2%, primarily reflecting the impact of price increases in the second quarter of 2016. PMI's cigarette shipments decreased by 2.1%, or by 5.2% excluding the net impact of distributor inventory movements. The decline mainly 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 1.7 billion cigarette equivalent units increased by 3.1%. PMI's market share of the category decreased by 2.3 points to 38.7%.

Year-to-date, the estimated total cigarette market was flat, primarily reflecting a lower prevalence of illicit trade and the favorable estimated impact of immigration. The decline of PMI's cigarette shipments, down by 2.1% excluding the net impact of distributor inventory movements, and market share reflected the same dynamics as those in the quarter. The estimated total industry fine cut category of 4.9 billion cigarette equivalent units increased by 3.6%. PMI's market share of the category decreased by 2.3 points to 39.0%.

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>Third-Quarter</u>			<u>Nine Months Year-to-Date</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)	11.5	11.6	(0.2)%	32.3	31.9	1.3%
PMI Shipments (million units)	4,864	4,734	2.7 %	13,515	12,757	5.9%
PMI Cigarette Market Share						
<i>Marlboro</i>	11.3%	11.4%	(0.1)	11.3%	11.2%	0.1
<i>L&M</i>	18.2%	18.0%	0.2	18.3%	17.8%	0.5
<i>Chesterfield</i>	9.4%	8.6%	0.8	9.1%	8.4%	0.7
Others	3.2%	2.9%	0.3	3.1%	2.6%	0.5
Total	42.1%	40.9%	1.2	41.8%	40.0%	1.8

In the quarter, the estimated total cigarette market decreased by 0.2%. Excluding the net impact of estimated trade inventory movements, the total market increased by 1.0%, mainly driven by a lower prevalence of e-vapor products. The increase in PMI's cigarette shipment volume primarily reflected higher market share, principally driven by *Chesterfield*, benefiting from its 100s and super-slimes variants, and *RGD* in "Others," up by 0.4 points to 2.8%. The estimated total industry fine cut category of 1.1 billion cigarette equivalent units increased by 6.2%. PMI's market share of the category decreased by 1.3 points to 29.2%.

Year-to-date, the estimated total cigarette market increased by 1.3%. Excluding the net impact of estimated trade inventory movements, the total market increased by 2.1%, mainly driven by a lower prevalence of e-vapor products and non-duty paid products. The increase in PMI's cigarette shipment volume resulted from the higher total market and higher market share, driven principally by *L&M*, reflecting the positive impact of brand support, *Chesterfield*, benefiting from its 100s and super-slimes variants, and *RGD* in "Others," up by 0.6 points to 2.7%. The estimated total industry fine cut category of 3.3 billion cigarette equivalent units increased by 4.7%. PMI's market share of the category decreased by 5.0 points to 27.1%, mainly due to increased price competition at the bottom of the market.

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>Third-Quarter</u>			<u>Nine Months Year-to-Date</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)	13.0	13.1	(0.6)%	35.3	35.4	(0.3)%
PMI Shipments (million units)	4,272	4,173	2.4 %	12,637	11,861	6.5 %
PMI Cigarette Market Share						
<i>Marlboro</i>	18.6%	17.7%	0.9	18.1%	16.9%	1.2
<i>Chesterfield</i>	8.4%	8.8%	(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	2.1%	1.8%	0.3	2.0%	1.5%	0.5
Total	34.4%	34.0%	0.4	34.1%	33.3%	0.8

In the quarter, the moderate decline of the estimated total cigarette market of 0.6% mainly reflected an improving 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 0.9%, 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 2.4 billion cigarette equivalent units decreased by 3.4%. PMI's market share of the fine cut category decreased by 1.4 points to 11.5%.

Year-to-date, the estimated total cigarette market decreased by 0.3%. Excluding the net impact of distributor inventory movements, PMI's cigarette shipment volume increased by 2.1%, driven by the same dynamics as those for the quarter. The estimated total industry fine cut category of 7.0 billion cigarette equivalent units decreased by 2.6%. PMI's market share of the fine cut category decreased by 1.5 points to 12.1%.

EASTERN EUROPE, MIDDLE EAST & AFRICA REGION (EEMA)

2016 Third-Quarter

Net revenues, excluding excise taxes, of \$1.9 billion decreased by 4.0%. Excluding unfavorable currency of \$141 million, net revenues, excluding excise taxes, increased by 3.0%, reflecting a favorable pricing variance of \$180 million, driven principally by Russia, Saudi Arabia and Turkey, partly offset by Ukraine. The favorable pricing variance was partly offset by unfavorable volume/mix of \$119 million, mainly due to unfavorable volume in North Africa, principally reflecting lower market share, and Russia, largely reflecting the lower total market and cigarette share of market.

Operating companies income of \$962 million decreased by 4.0%. Excluding unfavorable currency of \$127 million, operating companies income increased by 8.7%, principally reflecting a favorable pricing variance, partly offset by unfavorable volume/mix of \$105 million, mainly due to North Africa and Russia.

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 8.7%. Adjusted operating companies income margin, excluding currency, increased by 2.7 points to 52.4%, reflecting the factors mentioned above, as detailed on Schedule 11.

<u>EEMA OCI</u> (in millions)	<u>Third-Quarter</u>			<u>Excl.</u> <u>Curr.</u>	<u>Nine Months Year-to-Date</u>			<u>Excl.</u> <u>Curr.</u>
	<u>2016</u>	<u>2015</u>	<u>Change</u>		<u>2016</u>	<u>2015</u>	<u>Change</u>	
OCI	\$ 962	\$ 1,002	(4.0)%	8.7%	\$ 2,389	\$ 2,721	(12.2)%	4.3%
Asset impairment & exit costs	—	—	—	—	—	—	—	—
Adjusted OCI	\$ 962	\$ 1,002	(4.0)%	8.7%	\$ 2,389	\$ 2,721	(12.2)%	4.3%
Adjusted OCI Margin*	49.7%	49.7%	—	2.7	45.9%	48.2%	(2.3)	1.4

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

2016 Third-Quarter and Nine Months Year-to-Date

In the quarter, PMI's cigarette shipment volume decreased by 5.4% to 72.2 billion units, mainly due to North Africa and Russia, partly offset by Ukraine. PMI's cigarette shipment volume of *Marlboro* decreased by 6.5% to 20.1 billion units, principally due to Algeria. PMI's cigarette shipment volume of *Parliament* increased by 0.3% to 9.3 billion units, primarily driven by Saudi Arabia and Ukraine, partly offset by Russia. PMI's cigarette shipment volume of *L&M* decreased by 1.3% to 13.5 billion units, mainly due to Egypt, Russia and Turkey, partly offset by Algeria, Kazakhstan and Ukraine.

Year-to-date, PMI's cigarette shipment volume decreased by 3.1% to 203.6 billion units, mainly due to North Africa and Russia, partially offset by Turkey and Ukraine. PMI's cigarette shipment volume of *Marlboro* decreased by 8.8% to 55.0 billion units, principally due to North Africa, partly offset by Saudi Arabia and Turkey. PMI's cigarette shipment volume of *Parliament* increased by 1.6% to 25.5 billion units, driven by Saudi Arabia, Turkey and Ukraine, partly offset by Russia. PMI's cigarette shipment volume of *L&M* increased by 3.3% to 39.5 billion units, driven notably by Kazakhstan, North Africa and Ukraine, partly offset by Russia, Saudi Arabia and Turkey.

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>Third-Quarter</u>			<u>Nine Months Year-to-Date</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)	36.5	33.1	10.4 %	105.0	101.0	3.9 %
PMI Shipments (million units)	8,480	9,928	(14.6)%	25,893	27,936	(7.3)%
PMI Cigarette Market Share						
<i>Marlboro</i>	10.3%	14.1%	(3.8)	8.2%	14.2%	(6.0)
<i>L&M</i>	11.7%	13.6%	(1.9)	12.6%	11.5%	1.1
Others	2.6%	2.9%	(0.3)	2.9%	2.2%	0.7
Total	24.6%	30.6%	(6.0)	23.7%	27.9%	(4.2)

In the quarter, the estimated total cigarette market increased by 10.4%, principally driven by Egypt, mainly reflecting the favorable impact of estimated net inventory movements by PMI's principal competitor, partly offset by Algeria, mainly due to challenging macro-economic conditions and geopolitical instability. Excluding the impact of the inventory movements in Egypt, the estimated total cigarette market increased by 5.5%. The decrease in PMI's cigarette shipment volume reflected lower market share, mainly due to: *Marlboro* in Algeria, principally reflecting the impact of excise tax-driven price increases, as well as lower-than-anticipated acceptance of the 2.0 Architecture for *Marlboro Round Taste*; and *L&M* in Egypt.

Year-to-date, the estimated total cigarette market increased by 3.9%, principally driven by Egypt, partly offset by Algeria. The decrease in PMI's cigarette shipment volume, down by 12.2% excluding the net impact of distributor inventory movements, reflected lower market share, mainly due to *Marlboro* in Algeria; partly offset by *L&M* in Algeria and *Merit* in Egypt.

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

<u>Russia Key Market Data</u>	<u>Third-Quarter</u>			<u>Nine Months Year-to-Date</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)	76.4	81.1	(5.7)%	208.9	219.9	(5.0)%
PMI Shipments (million units)	20,762	23,742	(12.6)%	59,108	65,826	(10.2)%
PMI Cigarette Market Share						
<i>Marlboro</i>	1.3%	1.4%	(0.1)	1.4%	1.4%	—
<i>Parliament</i>	3.8%	3.8%	—	3.9%	3.8%	0.1
<i>Bond Street</i>	8.2%	8.7%	(0.5)	8.1%	8.3%	(0.2)
Others	13.6%	15.1%	(1.5)	13.8%	14.7%	(0.9)
Total	26.9%	29.0%	(2.1)	27.2%	28.2%	(1.0)

In the quarter, the estimated total cigarette market decreased by 5.7%, mainly due to the impact of excise tax-driven price increases. The decrease in PMI's cigarette shipment volume mainly reflected the lower total market, and lower cigarette market share due to *Bond Street*, a decline in "Others" of mid-price *L&M* and *Chesterfield* and super-low *Optima*, reflecting the timing of retail price increases compared to competition.

Year-to-date, the estimated total cigarette market decreased by 5.0%, reflecting the same dynamic as for the quarter. The decrease in PMI's cigarette shipment volume mainly reflected the lower total market, and lower cigarette market share due to the same factors as those for the quarter, partly offset by super-low *Next/Dubliss*.

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

<u>Turkey Key Market Data</u>	<u>Third-Quarter</u>			<u>Nine Months Year-to-Date</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)	29.3	29.3	0.1 %	79.4	75.0	6.0%
PMI Shipments (million units)	14,041	14,150	(0.8)%	37,550	35,433	6.0%
PMI Cigarette Market Share						
<i>Marlboro</i>	10.4%	9.8%	0.6	10.2%	9.3%	0.9
<i>Parliament</i>	11.7%	11.9%	(0.2)	11.6%	11.7%	(0.1)
<i>Lark</i>	7.3%	7.7%	(0.4)	7.5%	7.5%	—
Others	15.1%	14.7%	0.4	14.9%	15.0%	(0.1)
Total	44.5%	44.1%	0.4	44.2%	43.5%	0.7

In the quarter, the estimated total cigarette market was essentially flat, mainly reflecting a lower prevalence of illicit trade. The increase in PMI's market share was led by *Marlboro*, primarily reflecting the growth of its slimmer *Touch* variant, and *Chesterfield*, partly offset by *L&M* in "Others."

Year-to-date, the estimated total cigarette market increased by 6.0%, primarily reflecting a lower prevalence of illicit trade. The increase in PMI's cigarette shipment volume was mainly driven by the higher total market and higher market share, reflecting the same dynamics as for the quarter.

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

<u>Ukraine Key Market Data</u>	<u>Third-Quarter</u>			<u>Nine Months Year-to-Date</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)	18.9	18.8	0.8%	55.6	52.4	6.1%
PMI Shipments (million units)	5,624	4,704	19.6%	17,222	14,382	19.7%
PMI Cigarette Market Share						
<i>Marlboro</i>	3.2%	3.5%	(0.3)	3.2%	4.1%	(0.9)
<i>Parliament</i>	3.1%	2.8%	0.3	2.9%	2.9%	—
<i>Bond Street</i>	10.3%	8.4%	1.9	10.4%	8.1%	2.3
Others	13.5%	14.7%	(1.2)	14.0%	15.7%	(1.7)
Total	30.1%	29.4%	0.7	30.5%	30.8%	(0.3)

In the quarter, the estimated total cigarette market increased by 0.8%. Excluding the net impact of estimated trade inventory movements in 2015, the total market decreased by 1.6%, principally driven by the impact of price increases in 2016. The increase in PMI's cigarette shipment volume mainly reflected the increase in PMI's market share, driven by low price *Bond Street* and *L&M* in "Others," partly offset by *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.

Year-to-date, the estimated total cigarette market increased by 6.1%, 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*.

ASIA REGION

2016 Third-Quarter

Net revenues, excluding excise taxes, of \$2.1 billion increased by 7.7%. Excluding favorable currency of \$59 million, net revenues, excluding excise taxes, increased by 4.7%, mainly reflecting a favorable pricing variance of \$95 million, driven principally by Australia, Indonesia and the Philippines. The favorable pricing variance was marginally offset by unfavorable volume/mix of \$2 million, mainly due to unfavorable volume in Australia, Indonesia and the Philippines, primarily reflecting the lower total markets, largely offset by favorable *HeatSticks* volume in Japan, and favorable mix in the Philippines.

Operating companies income of \$761 million increased by 10.3%. Excluding favorable currency of \$57 million, operating companies income increased by 2.0%, mainly driven by: a favorable pricing variance, partly offset by unfavorable volume/mix of \$35 million, predominantly Australia and Indonesia, partly offset by favorable *HeatSticks* volume in Japan, and higher costs, primarily related to the commercialization of 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 2.0%. Adjusted operating

companies income margin, excluding favorable currency, decreased by 0.9 points to 33.9%, reflecting the factors mentioned above, as detailed on Schedule 11.

Asia OCI (in millions)	Third-Quarter				Nine Months Year-to-Date			
	2016	2015	Change	Excl. Curr.	2016	2015	Change	Excl. Curr.
OCI	\$ 761	\$ 690	10.3%	2.0%	\$ 2,288	\$ 2,421	(5.5)%	(5.0)%
Asset impairment & exit costs	—	—			—	—		
Adjusted OCI	\$ 761	\$ 690	10.3%	2.0%	\$ 2,288	\$ 2,421	(5.5)%	(5.0)%
Adjusted OCI Margin*	35.6%	34.8%	0.8	(0.9)	36.7%	38.5%	(1.8)	(2.4)

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

2016 Third-Quarter and Nine Months Year-to-Date

In the quarter, PMI's cigarette shipment volume decreased by 9.0% to 61.7 billion units, mainly due to: Indonesia, reflecting the reversal of estimated trade inventory movements in the second quarter of 2016 related to the timing of Ramadan; Pakistan, reflecting a lower total estimated cigarette market resulting from excise tax-driven price increases and the growth of illicit trade; the Philippines, reflecting a lower total estimated cigarette market resulting from excise-tax driven price increases; and Thailand, primarily reflecting the impact of excise tax-driven price increases in the first quarter of 2016, as well as lower market share.

Cigarette shipment volume of *Marlboro* increased by 3.4% to 19.0 billion units, predominantly driven by the Philippines, partly offset by Indonesia and Vietnam. Cigarette shipment volume of *Parliament* decreased by 1.3% to 2.5 billion units, due mainly to Japan, partly offset by Korea. Cigarette shipment volume of *Lark* decreased by 1.0% to 4.3 billion units, due to Japan.

Year-to-date, PMI's cigarette shipment volume decreased by 8.0% to 196.2 billion units, mainly due to: Indonesia, reflecting a lower total estimated cigarette market, resulting from the impact of excise-tax driven price increases, and lower market share, reflecting the soft performance of PMI's machine-made kretek portfolio due to competitors' discounted product offerings; Japan, mainly reflecting the continued underlying cigarette consumption decline and the growth of the Reduced-Risk Products category; Pakistan, the Philippines and Thailand, reflecting the same dynamics as for the quarter; 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 3.8% to 57.3 billion units, mainly driven by Korea and the Philippines, partly offset by Japan and Vietnam. Cigarette shipment volume of *Parliament* increased by 9.3% to 7.5 billion units, driven by Korea. Cigarette shipment volume of *Lark* decreased by 7.7% to 13.4 billion units, principally due to 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.

<u>Indonesia Key Market Data</u>	<u>Third-Quarter</u>			<u>Nine Months Year-to-Date</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)	72.3	75.5	(4.3)%	229.7	232.5	(1.2)%
PMI Shipments (million units)	25,084	26,552	(5.5)%	78,792	81,895	(3.8)%
PMI Cigarette Market Share						
<i>Sampoerna A</i>	14.4%	14.9%	(0.5)	14.4%	15.0%	(0.6)
<i>Dji Sam Soe</i>	6.6%	7.2%	(0.6)	6.6%	7.1%	(0.5)
<i>U Mild</i>	4.3%	4.7%	(0.4)	4.3%	4.9%	(0.6)
Others	9.4%	8.3%	1.1	9.0%	8.2%	0.8
Total	34.7%	35.1%	(0.4)	34.3%	35.2%	(0.9)

<u>Indonesia Segmentation Data</u>	<u>Third-Quarter</u>			<u>Nine Months Year-to-Date</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>	17.2%	18.4%	(1.2)	17.8%	18.8%	(1.0)
<i>Machine-Made Kretek (SKM)</i>	76.7%	75.2%	1.5	76.0%	74.9%	1.1
<i>Whites (SPM)</i>	6.1%	6.4%	(0.3)	6.2%	6.3%	(0.1)
Total	100.0%	100.0%	—	100.0%	100.0%	—
PMI % Share of Segment						
<i>Hand-Rolled Kretek (SKT)</i>	38.6%	40.3%	(1.7)	38.9%	38.7%	0.2
<i>Machine-Made Kretek (SKM)</i>	30.2%	30.0%	0.2	29.4%	30.5%	(1.1)
<i>Whites (SPM)</i>	79.7%	80.7%	(1.0)	80.7%	80.9%	(0.2)

In the quarter, the estimated total cigarette market decreased by 4.3%, reflecting the reversal of estimated trade inventory movements in the second quarter of 2016 related to the timing of Ramadan. Excluding the impact of these inventory movements, the estimated total cigarette market increased by 1.9%. The decrease in PMI's cigarette shipments was mainly due to a lower total market, and lower market share mainly reflecting the soft performance of PMI's SKT portfolio, in line with industry trends.

Year-to-date, the estimated total cigarette market decreased by 1.2%, 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 a lower total market, and lower market share, mainly reflecting the soft performance of: PMI's SKM portfolio, due to competitors' discounted product offerings; and PMI's SKT portfolio, 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	Third-Quarter			Nine Months Year-to-Date		
	2016	2015	Change % / p.p.	2016	2015	Change % / p.p.
Total Cigarette Market (billion units)	44.5	47.2	(5.8)%	130.8	135.8	(3.7)%
PMI Shipments (million units)	10,691	10,796	(1.0)%	33,284	36,194	(8.0)%
PMI Cigarette Market Share						
<i>Marlboro</i>	11.1%	11.3%	(0.2)	11.0%	11.4%	(0.4)
<i>Parliament</i>	2.4%	2.3%	0.1	2.4%	2.3%	0.1
<i>Lark</i>	10.0%	10.0%	—	9.9%	10.0%	(0.1)
Others	1.7%	1.7%	—	1.7%	1.7%	—
Total	25.2%	25.3%	(0.1)	25.0%	25.4%	(0.4)

In the quarter, the estimated total cigarette market decreased by 5.8%, mainly 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 6.8%, mainly reflecting the lower cigarette market. The decline of PMI's cigarette market share partly reflected the cannibalization by *Marlboro HeatSticks*.

The estimated national market share of *Marlboro HeatSticks* was 3.5%, bringing PMI's total combined national market share to 27.9%, up by 2.5 points.

Year-to-date, the estimated total cigarette market decreased by 3.7%, reflecting the same dynamics as for the quarter. Excluding the net impact of distributor inventory movements, PMI's cigarette shipment volume decreased by 5.1%. The decline was mainly due to a lower total cigarette market and lower cigarette market share, reflecting the impact of competitors' retail pricing, competitors' differentiated menthol taste product offerings and cannibalization by *Marlboro HeatSticks*.

The estimated national market share of *Marlboro HeatSticks* was 2.2%, bringing PMI's total combined national market share to 26.7%, up by 1.2 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>Third-Quarter</u>			<u>Nine Months Year-to-Date</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)	19.8	19.8	0.2 %	55.6	49.4	12.6%
PMI Shipments (million units)	4,109	4,163	(1.3)%	11,553	10,352	11.6%
PMI Cigarette Market Share						
<i>Marlboro</i>	9.7%	9.6%	0.1	9.5%	9.6%	(0.1)
<i>Parliament</i>	7.5%	7.0%	0.5	7.6%	7.1%	0.5
<i>Virginia S.</i>	3.1%	3.7%	(0.6)	3.2%	3.8%	(0.6)
Others	0.5%	0.7%	(0.2)	0.5%	0.6%	(0.1)
Total	20.8%	21.0%	(0.2)	20.8%	21.1%	(0.3)

In the quarter, the estimated total cigarette market increased by 0.2%. Excluding the net impact of estimated trade inventory movements, the total market increased by 1.2%, reflecting the normalization of the market following the disruptive excise tax increase of 120% in January 2015. The decline in PMI's cigarette shipment volume was due to lower market share, reflecting the impact of new brand launches by PMI's principal competitor. The decline in market share of *Virginia S.* reflected the continued morphing of *Virginia Super Slims* into *Parliament Super Slims* that began in January 2016.

Year-to-date, the growth of the estimated total cigarette market reflected the normalization of the market following the disruptive excise tax increase of 120% in January 2015. The growth in PMI's cigarette shipment volume reflected the higher estimated total market, partly offset by a decline of market share, reflecting the same dynamic as for the quarter.

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>Third-Quarter</u>			<u>Nine Months Year-to-Date</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)	20.2	23.3	(13.2)%	60.1	68.2	(11.8)%
PMI Shipments (million units)	14,277	17,192	(17.0)%	43,558	49,821	(12.6)%
PMI Cigarette Market Share						
<i>Marlboro</i>	28.5%	18.8%	9.7	27.9%	18.7%	9.2
<i>Fortune</i>	23.4%	30.9%	(7.5)	24.3%	29.5%	(5.2)
<i>Jackpot</i>	7.5%	12.2%	(4.7)	8.3%	13.0%	(4.7)
Others	11.3%	12.0%	(0.7)	11.9%	11.9%	—
Total	70.7%	73.9%	(3.2)	72.4%	73.1%	(0.7)

In the quarter, the estimated total cigarette market decreased by 13.2%, mainly due to the impact of price increases, notably in the fourth quarter of 2015 ahead of the January 2016 excise tax increase. The decline in

PMI's cigarette shipment volume reflected the impact of these price increases, 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 excise tax increase.

Year-to-date, the estimated total cigarette market decreased by 11.8%, reflecting the same factors as those described for the quarter. The decline in PMI's cigarette shipment volume and market share reflected the same dynamics as for the quarter.

LATIN AMERICA & CANADA REGION

2016 Third-Quarter

Net revenues, excluding excise taxes, of \$710 million decreased by 11.7%. Excluding unfavorable currency of \$108 million, net revenues, excluding excise taxes, increased by 1.7%, driven by a favorable pricing variance of \$72 million, principally in Argentina and Canada, partly offset by unfavorable volume/mix of \$58 million, mainly due to unfavorable volume in Argentina, Brazil and Ecuador reflecting the impact of excise tax-driven price increases in 2016.

Operating companies income of \$224 million decreased by 23.8%. Excluding unfavorable currency of \$53 million, operating companies income decreased by 5.8%, principally due to unfavorable volume/mix of \$50 million, mainly due to Argentina, Brazil and Ecuador, and higher costs, mainly inflation-driven in Argentina. The unfavorable volume/mix and higher costs were partly offset by a favorable pricing variance.

Adjusted operating companies income and margin are shown in the table below and detailed on Schedule 11. Adjusted operating companies income, excluding unfavorable currency decreased by 5.8%. Adjusted operating companies income margin, excluding unfavorable currency, decreased by 2.7 points to 33.9%, principally driven by the factors mentioned above, as detailed on Schedule 11.

<u>Latin America & Canada OCI</u> (in millions)	<u>Third-Quarter</u>				<u>Nine Months Year-to-Date</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	\$ 224	\$ 294	(23.8)%	(5.8)%	\$ 677	\$ 849	(20.3)%	5.7%
Asset impairment & exit costs	—	—			—	—		
Adjusted OCI	\$ 224	\$ 294	(23.8)%	(5.8)%	\$ 677	\$ 849	(20.3)%	5.7%
Adjusted OCI Margin*	31.5%	36.6%	(5.1)	(2.7)	32.9%	36.3%	(3.4)	(0.2)

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

2016 Third-Quarter and Nine Months Year-to-Date

In the quarter, PMI's cigarette shipment volume decreased by 8.0% to 21.2 billion units, predominantly due to Argentina, Brazil and Ecuador, all reflecting the impact of tax-driven price increases in 2016. While cigarette shipment volume of *Marlboro* decreased by 6.2% to 8.3 billion units, its market share increased by 0.1 point to an estimated 15.4%, primarily driven by Brazil, up by 0.1 point to 9.8% and Colombia, up by 0.2 points to 9.3%, partly offset by Argentina, down by 1.7 points to 22.1%, and Mexico, down by 0.4 points to 48.5%. Cigarette shipment volume of *Philip Morris* decreased by 19.4% to 3.8 billion units, mainly due to Argentina, partly offset by Canada.

Year-to-date, PMI's cigarette shipment volume decreased by 4.0% to 64.1 billion units, mainly due to Argentina, Brazil and Ecuador, reflecting the same dynamics as for the quarter, partly offset by Mexico, reflecting a higher total market. While cigarette shipment volume of *Marlboro* decreased by 1.2% to 25.6 billion units, its market share increased by 0.6 points to an estimated 15.5%, primarily driven by Brazil, up by 0.4 points to 10.0%.

Colombia, up by 0.2 points to 9.2%, and Mexico, up by 1.0 point to 48.3%, partly offset by Argentina, down by 1.2 points to 23.0%. Cigarette shipment volume of *Philip Morris* decreased by 11.1% to 12.6 billion units, mainly due to Argentina, partly offset by Canada.

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.

<u>Argentina Key Market Data</u>	<u>Third-Quarter</u>			<u>Nine Months Year-to-Date</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)	8.5	9.9	(14.1)%	26.7	29.8	(10.5)%
PMI Shipments (million units)	6,418	7,648	(16.1)%	20,389	23,234	(12.2)%
PMI Cigarette Market Share						
<i>Marlboro</i>	22.1%	23.8%	(1.7)	23.0%	24.2%	(1.2)
<i>Parliament</i>	1.9%	2.1%	(0.2)	1.9%	2.1%	(0.2)
<i>Philip Morris</i>	39.9%	44.5%	(4.6)	43.2%	44.6%	(1.4)
Others	11.6%	6.8%	4.8	8.4%	7.1%	1.3
Total	75.5%	77.2%	(1.7)	76.5%	78.0%	(1.5)

In the quarter, the estimated total cigarette market decreased by 14.1%, mainly due to 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 0.4 points to 16.9% of the total market; PMI's share of the segment decreased by 1.4 points to 72.5%.

Year-to-date, the decline of the estimated total cigarette market, PMI's cigarette shipment volume and market share reflected the same dynamics as for the quarter. The capsule segment was up by 1.5 points to 17.6% of the total market; PMI's share of the segment increased by 0.3 points to 73.4%.

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>Third-Quarter</u>			<u>Nine Months Year-to-Date</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)	6.9	7.0	(1.4)%	19.4	19.7	(1.5)%
PMI Shipments (million units)	2,675	2,725	(1.8)%	7,466	7,424	0.6 %
PMI Cigarette Market Share						
<i>Belmont</i>	3.9%	3.6%	0.3	3.7%	3.3%	0.4
<i>Canadian Classics</i>	10.2%	10.8%	(0.6)	10.2%	10.5%	(0.3)
<i>Next</i>	11.5%	11.1%	0.4	11.3%	10.7%	0.6
Others	13.4%	13.7%	(0.3)	13.1%	13.2%	(0.1)
Total	39.0%	39.2%	(0.2)	38.3%	37.7%	0.6

In the quarter, the estimated total cigarette market decreased by 1.4%, or by 2.0% excluding the net impact of estimated competitors' trade inventory movements. The decrease in PMI's cigarette shipment volume was mainly due to: the lower estimated total market; and lower cigarette market share, unfavorably impacted by the inventory movements, due to *Canadian Classics*, and *Accord* and *Number 7* in "Others," partly offset by the strong performance of premium *Belmont*, low-price *Next*, and super-low price *Philip Morris* in "Others" that benefited from down-trading.

Year-to-date, the estimated total cigarette market decreased by 1.5%. Excluding the impact of estimated competitors' trade inventory movements, the total market increased by 0.5%, mainly driven by improved consumer spending. The increase in PMI's cigarette shipment volume was principally due to higher market share, largely reflecting the strong performance of premium *Belmont*, low-price *Next*, and super-low price *Philip Morris* in "Others" that benefited from down-trading.

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>Third-Quarter</u>			<u>Nine Months Year-to-Date</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)	8.8	8.5	3.4%	26.2	24.6	6.2%
PMI Shipments (million units)	6,055	5,980	1.3%	18,013	16,866	6.8%
PMI Cigarette Market Share						
<i>Marlboro</i>	48.5%	48.9%	(0.4)	48.3%	47.3%	1.0
<i>Delicados</i>	9.6%	10.8%	(1.2)	9.9%	10.8%	(0.9)
<i>Benson & Hedges</i>	4.8%	4.6%	0.2	4.7%	4.6%	0.1
Others	5.9%	5.9%	—	5.9%	5.7%	0.2
Total	68.8%	70.2%	(1.4)	68.8%	68.4%	0.4

In the quarter, the estimated total cigarette market increased by 3.4%, or by 0.8% 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 cigarette market. PMI's cigarette market share, unfavorably distorted by the impact of estimated trade inventory movements mentioned above, was down by 1.4 points, mainly due to low-price *Delicados*. PMI's share of the premium segment, representing 56.6% of the total market, was up by 0.4 points to 93.2%.

Year-to-date, the estimated total cigarette market increased by 6.2%, or by 3.0% excluding the net impact of estimated trade inventory movements, reflecting the same factors as for the quarter. The increase in PMI's cigarette shipment volume reflected the higher total market. PMI's cigarette market share, favorably distorted by the impact of estimated inventory movements, was up by 0.4 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 56.5% of the total market, increased by 1.1 points to 93.0%.

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 with the potential to reduce individual risk and population harm in comparison to smoking cigarettes. 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 products that have the potential to reduce individual risk and population harm; 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 June 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 September 30,
(\$ in millions, except per share data)
(Unaudited)

	2016	2015	% Change
Net Revenues	\$ 19,935	\$ 19,422	2.6 %
Cost of sales	2,432	2,383	2.1 %
Excise Taxes on products (1)	12,953	12,495	3.7 %
Gross profit	4,550	4,544	0.1 %
Marketing, administration and research costs	1,554	1,566	
Asset impairment and exit costs	—	—	
Amortization of intangibles	19	19	
Operating Income (2)	2,977	2,959	0.6 %
Interest expense, net	220	247	
Earnings before income taxes	2,757	2,712	1.7 %
Provision for income taxes	764	748	2.1 %
Equity (income)/loss in unconsolidated subsidiaries, net	(35)	(20)	
Net Earnings	2,028	1,984	2.2 %
Net Earnings attributable to noncontrolling interests	90	42	
Net Earnings attributable to PMI	\$ 1,938	\$ 1,942	(0.2)%
Per share data (3):			
Basic Earnings Per Share	\$ 1.25	\$ 1.25	— %
Diluted Earnings Per Share	\$ 1.25	\$ 1.25	— %

(1) The segment detail of Excise Taxes on products sold for the quarters ended September 30, 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	\$ 2,977	\$ 2,959	0.6 %
Excluding:			
- Amortization of intangibles	19	19	
- General corporate expenses (included in marketing, administration and research costs above)	36	33	
Plus: Equity (income)/loss in unconsolidated subsidiaries, net	(35)	(20)	
Operating Companies Income	\$ 3,067	\$ 3,031	1.2 %

(3) Net Earnings and weighted-average shares used in the basic and diluted earnings per share computations for the quarters ended September 30, 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 September 30,
(\$ in millions)
(Unaudited)

	Net Revenues excluding Excise Taxes				
	European Union	EEMA	Asia	Latin America & Canada	Total
2016 Net Revenues (1)	\$ 7,387	\$ 5,122	\$ 5,113	\$ 2,313	\$ 19,935
Excise Taxes on products	(5,187)	(3,186)	(2,977)	(1,603)	(12,953)
Net Revenues excluding Excise Taxes	2,200	1,936	2,136	710	6,982
2015 Net Revenues	\$ 7,018	\$ 5,107	\$ 4,880	\$ 2,417	\$ 19,422
Excise Taxes on products	(4,895)	(3,091)	(2,896)	(1,613)	(12,495)
Net Revenues excluding Excise Taxes	2,123	2,016	1,984	804	6,927
Variance Currency	(6)	(141)	59	(108)	(196)
Acquisitions	—	—	—	—	—
Operations	83	61	93	14	251
Variance Total	77	(80)	152	(94)	55
Variance Total (%)	3.6%	(4.0)%	7.7%	(11.7)%	0.8%
Variance excluding Currency	83	61	93	14	251
Variance excluding Currency (%)	3.9%	3.0 %	4.7%	1.7 %	3.6%
Variance excluding Currency & Acquisitions	83	61	93	14	251
Variance excluding Currency & Acquisitions (%)	3.9%	3.0 %	4.7%	1.7 %	3.6%

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

European Union	\$ (59)
EEMA	(441)
Asia	51
Latin America & Canada	(584)
	<u>\$ (1,033)</u>

PHILIP MORRIS INTERNATIONAL INC.
and Subsidiaries
Selected Financial Data by Business Segment
For the Quarters Ended September 30,
(\$ in millions)
(Unaudited)

Operating Companies Income

	European Union	EEMA	Asia	Latin America & Canada	Total
2016	\$ 1,120	\$ 962	\$ 761	\$ 224	\$ 3,067
2015	1,045	1,002	690	294	3,031
% Change	7.2%	(4.0)%	10.3%	(23.8)%	1.2%

Reconciliation:

For the quarter ended September 30, 2015	\$ 1,045	\$ 1,002	\$ 690	\$ 294	\$ 3,031
2015 Asset impairment and exit costs	—	—	—	—	—
2016 Asset impairment and exit costs	—	—	—	—	—
Acquired businesses	—	—	—	—	—
Currency	29	(127)	57	(53)	(94)
Operations	46	87	14	(17)	130
For the quarter ended September 30, 2016	\$ 1,120	\$ 962	\$ 761	\$ 224	\$ 3,067

PHILIP MORRIS INTERNATIONAL INC.
and Subsidiaries
Diluted Earnings Per Share
For the Quarters Ended September 30,
(\$ in millions, except per share data)
(Unaudited)

	<u>Diluted E.P.S.</u>
2016 Diluted Earnings Per Share	\$ 1.25 ⁽¹⁾
2015 Diluted Earnings Per Share	\$ 1.25 ⁽¹⁾
Change	\$ —
% Change	—%
Reconciliation:	
2015 Diluted Earnings Per Share	\$ 1.25 ⁽¹⁾
Special Items:	
2015 Asset impairment and exit costs	—
2015 Tax items	(0.01)
2016 Asset impairment and exit costs	—
2016 Tax items	—
Currency	(0.04)
Interest	0.01
Change in tax rate	0.01
Impact of shares outstanding and share-based payments	—
Operations	0.03
2016 Diluted Earnings Per Share	\$ 1.25 ⁽¹⁾

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

	Q3 2016	Q3 2015
Net Earnings attributable to PMI	\$ 1,938	\$ 1,942
Less distributed and undistributed earnings attributable to share-based payment awards	5	7
Net Earnings for basic and diluted EPS	\$ 1,933	\$ 1,935
Weighted-average shares for basic and diluted EPS	1,551	1,549

PHILIP MORRIS INTERNATIONAL INC.
and Subsidiaries
Condensed Statements of Earnings
For the Nine Months Ended September 30,
(\$ in millions, except per share data)
(Unaudited)

	2016	2015	% Change
Net Revenues	\$ 55,764	\$ 55,537	0.4 %
Cost of sales	6,892	6,990	(1.4)%
Excise Taxes on products (1)	36,050	35,135	2.6 %
Gross profit	12,822	13,412	(4.4)%
Marketing, administration and research costs	4,563	4,628	
Asset impairment and exit costs	—	—	
Amortization of intangibles	56	62	
Operating Income (2)	8,203	8,722	(6.0)%
Interest expense, net	690	781	
Earnings before income taxes	7,513	7,941	(5.4)%
Provision for income taxes	2,110	2,276	(7.3)%
Equity (income)/loss in unconsolidated subsidiaries, net	(72)	(69)	
Net Earnings	5,475	5,734	(4.5)%
Net Earnings attributable to noncontrolling interests	219	110	
Net Earnings attributable to PMI	\$ 5,256	\$ 5,624	(6.5)%
Per share data (3):			
Basic Earnings Per Share	\$ 3.38	\$ 3.62	(6.6)%
Diluted Earnings Per Share	\$ 3.38	\$ 3.62	(6.6)%

(1) The segment detail of Excise Taxes on products sold for the nine months ended September 30, 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	\$ 8,203	\$ 8,722	(6.0)%
<u>Excluding:</u>			
- Amortization of intangibles	56	62	
- General corporate expenses (included in marketing, administration and research costs above)	119	115	
Plus: Equity (income)/loss in unconsolidated subsidiaries, net	(72)	(69)	
Operating Companies Income	\$ 8,450	\$ 8,968	(5.8)%

(3) Net Earnings and weighted-average shares used in the basic and diluted Earnings Per Share computations for the nine months ended September 30, 2016 and 2015 are shown on Schedule 8, Footnote 1.

PHILIP MORRIS INTERNATIONAL INC.
and Subsidiaries
Selected Financial Data by Business Segment
For the Nine Months Ended September 30,
(\$ in millions)
(Unaudited)

		Net Revenues excluding Excise Taxes				
		European Union	EEMA	Asia	Latin America & Canada	Total
2016	Net Revenues (1)	\$ 20,664	\$ 13,650	\$ 15,014	\$ 6,436	\$ 55,764
	Excise Taxes on products	(14,446)	(8,448)	(8,777)	(4,379)	(36,050)
	Net Revenues excluding Excise Taxes	6,218	5,202	6,237	2,057	19,714
2015	Net Revenues	\$ 19,916	\$ 13,908	\$ 14,683	\$ 7,030	\$ 55,537
	Excise Taxes on products	(13,782)	(8,261)	(8,399)	(4,693)	(35,135)
	Net Revenues excluding Excise Taxes	6,134	5,647	6,284	2,337	20,402
Variance	Currency	(122)	(515)	(126)	(427)	(1,190)
	Acquisitions	—	—	—	—	—
	Operations	206	70	79	147	502
	Variance Total	84	(445)	(47)	(280)	(688)
	Variance Total (%)	1.4%	(7.9)%	(0.7)%	(12.0)%	(3.4)%
	Variance excluding Currency	206	70	79	147	502
	Variance excluding Currency (%)	3.4%	1.2 %	1.3 %	6.3 %	2.5 %
	Variance excluding Currency & Acquisitions	206	70	79	147	502
	Variance excluding Currency & Acquisitions (%)	3.4%	1.2 %	1.3 %	6.3 %	2.5 %

(1) 2016 Currency decreased Net Revenues as follows:

European Union	\$ (468)
EEMA	(1,634)
Asia	(499)
Latin America & Canada	(1,823)
	<u>\$ (4,424)</u>

PHILIP MORRIS INTERNATIONAL INC.
and Subsidiaries
Selected Financial Data by Business Segment
For the Nine Months Ended September 30,
(\$ in millions)
(Unaudited)

	Operating Companies Income				
	European Union	EEMA	Asia	Latin America & Canada	Total
2016	\$ 3,096	\$ 2,389	\$ 2,288	\$ 677	\$ 8,450
2015	2,977	2,721	2,421	849	8,968
% Change	4.0%	(12.2)%	(5.5)%	(20.3)%	(5.8)%
Reconciliation:					
For the nine months ended September 30, 2015	\$ 2,977	\$ 2,721	\$ 2,421	\$ 849	\$ 8,968
2015 Asset impairment and exit costs	—	—	—	—	—
2016 Asset impairment and exit costs	—	—	—	—	—
Acquired businesses	—	—	—	—	—
Currency	5	(449)	(11)	(220)	(675)
Operations	114	117	(122)	48	157
For the nine months ended September 30, 2016	\$ 3,096	\$ 2,389	\$ 2,288	\$ 677	\$ 8,450

PHILIP MORRIS INTERNATIONAL INC.
and Subsidiaries
Diluted Earnings Per Share
For the Nine Months Ended September 30,
(\$ in millions, except per share data)
(Unaudited)

	<u>Diluted E.P.S.</u>
2016 Diluted Earnings Per Share	\$ 3.38 ⁽¹⁾
2015 Diluted Earnings Per Share	\$ 3.62 ⁽¹⁾
Change	\$ (0.24)
% Change	(6.6)%
Reconciliation:	
2015 Diluted Earnings Per Share	\$ 3.62 ⁽¹⁾
Special Items:	
2015 Asset impairment and exit costs	—
2015 Tax items	(0.01)
2016 Asset impairment and exit costs	—
2016 Tax items	—
Currency	(0.32)
Interest	0.04
Change in tax rate	0.04
Impact of shares outstanding and share-based payments	(0.01)
Operations	0.02
2016 Diluted Earnings Per Share	\$ 3.38 ⁽¹⁾

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

	<u>YTD September 2016</u>	<u>YTD September 2015</u>
Net Earnings attributable to PMI	\$ 5,256	\$ 5,624
Less distributed and undistributed earnings attributable to share-based payment awards	15	20
Net Earnings for basic and diluted EPS	<u>\$ 5,241</u>	<u>\$ 5,604</u>
Weighted-average shares for basic and diluted EPS	<u>1,551</u>	<u>1,549</u>

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

	<u>September 30, 2016</u>	<u>December 31, 2015</u>
Assets		
Cash and cash equivalents	\$ 4,884	\$ 3,417
All other current assets	11,690	12,387
Property, plant and equipment, net	6,133	5,721
Goodwill	7,646	7,415
Other intangible assets, net	2,578	2,623
Investments in unconsolidated subsidiaries	986	890
Other assets	1,660	1,503
Total assets	\$ 35,577	\$ 33,956
Liabilities and Stockholders' (Deficit) Equity		
Short-term borrowings	\$ 710	\$ 825
Current portion of long-term debt	2,417	2,405
All other current liabilities	11,131	12,156
Long-term debt	26,960	25,250
Deferred income taxes	1,376	1,543
Other long-term liabilities	3,300	3,253
Total liabilities	45,894	45,432
Total PMI stockholders' deficit	(12,142)	(13,244)
Noncontrolling interests	1,825	1,768
Total stockholders' deficit	(10,317)	(11,476)
Total liabilities and stockholders' (deficit) equity	\$ 35,577	\$ 33,956
Total debt	\$ 30,087	\$ 28,480
Total debt to Adjusted EBITDA	2.76 ⁽¹⁾	2.49 ⁽¹⁾
Net debt to Adjusted EBITDA	2.31 ⁽¹⁾	2.19 ⁽¹⁾

(1) For the calculation of Total Debt to Adjusted EBITDA and Net Debt to Adjusted EBITDA ratios, refer to Schedule 18.

PHILIP MORRIS INTERNATIONAL INC.
and Subsidiaries
Reconciliation of Non-GAAP Measures
Adjustments for the Impact of Currency and Acquisitions
For the Quarters Ended September 30,
(\$ 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	
\$ 7,387	\$ 5,187	\$ 2,200	\$ (6)	\$ 2,206	\$ —	\$ 2,206	European Union	\$ 7,018	\$ 4,895	\$ 2,123	3.6 %	3.9 %	3.9 %
5,122	3,186	1,936	(141)	2,077	—	2,077	EEMA	5,107	3,091	2,016	(4.0)%	3.0 %	3.0 %
5,113	2,977	2,136	59	2,077	—	2,077	Asia	4,880	2,896	1,984	7.7 %	4.7 %	4.7 %
2,313	1,603	710	(108)	818	—	818	Latin America & Canada	2,417	1,613	804	(11.7)%	1.7 %	1.7 %
\$ 19,935	\$12,953	\$ 6,982	\$ (196)	\$ 7,178	\$ —	\$ 7,178	PMI Total	\$ 19,422	\$12,495	\$ 6,927	0.8 %	3.6 %	3.6 %

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	Less Acquisitions	Operating Companies Income	Operating Companies Income	Less Currency	Operating Companies Income	Total	Excluding Currency	Excluding Currency & Acquisitions
\$ 1,120	\$ 29	\$ 1,091	\$ —	\$ 1,091	\$ —	\$ 1,091	European Union	\$ 1,045	\$ 1,045	7.2 %	4.4 %	4.4 %
962	(127)	1,089	—	1,089	—	1,089	EEMA	1,002	1,002	(4.0)%	8.7 %	8.7 %
761	57	704	—	704	—	704	Asia	690	690	10.3 %	2.0 %	2.0 %
224	(53)	277	—	277	—	277	Latin America & Canada	294	294	(23.8)%	(5.8)%	(5.8)%
\$ 3,067	\$ (94)	\$ 3,161	\$ —	\$ 3,161	\$ —	\$ 3,161	PMI Total	\$ 3,031	\$ 3,031	1.2 %	4.3 %	4.3 %

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 September 30,
(\$ 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	
\$ 1,120	\$ —	\$ 1,120	\$ 29	\$ 1,091	\$ —	\$ 1,091	European Union	\$ 1,045	\$ —	\$ 1,045	7.2 %	4.4 %	4.4 %
962	—	962	(127)	1,089	—	1,089	EEMA	1,002	—	1,002	(4.0)%	8.7 %	8.7 %
761	—	761	57	704	—	704	Asia	690	—	690	10.3 %	2.0 %	2.0 %
224	—	224	(53)	277	—	277	Latin America & Canada	294	—	294	(23.8)%	(5.8)%	(5.8)%
\$ 3,067	\$ —	\$ 3,067	\$ (94)	\$ 3,161	\$ —	\$ 3,161	PMI Total	\$ 3,031	\$ —	\$ 3,031	1.2 %	4.3 %	4.3 %

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 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	
\$ 1,091	\$ 2,206	49.5%	\$ 1,091	\$ 2,206	49.5%	European Union	\$ 1,045	\$ 2,123	49.2%	0.3	0.3
1,089	2,077	52.4%	1,089	2,077	52.4%	EEMA	1,002	2,016	49.7%	2.7	2.7
704	2,077	33.9%	704	2,077	33.9%	Asia	690	1,984	34.8%	(0.9)	(0.9)
277	818	33.9%	277	818	33.9%	Latin America & Canada	294	804	36.6%	(2.7)	(2.7)
\$ 3,161	\$ 7,178	44.0%	\$ 3,161	\$ 7,178	44.0%	PMI Total	\$ 3,031	\$ 6,927	43.8%	0.2	0.2

(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 Adjusted Diluted EPS and Adjusted Diluted EPS, excluding Currency
For the Quarters Ended September 30,
 (Unaudited)

	<u>2016</u>	<u>2015</u>	<u>% Change</u>
Reported Diluted EPS	\$ 1.25	\$ 1.25	—%
Adjustments:			
Asset impairment and exit costs	—	—	
Tax items	—	(0.01)	
Adjusted Diluted EPS	\$ 1.25	\$ 1.24	0.8%
Less:			
Currency impact	(0.04)		
Adjusted Diluted EPS, excluding Currency	\$ 1.29	\$ 1.24	4.0%

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 September 30,
 (Unaudited)

	<u>2016</u>	<u>2015</u>	<u>% Change</u>
Reported Diluted EPS	\$ 1.25	\$ 1.25	—%
Less:			
Currency impact	<u>(0.04)</u>		
Reported Diluted EPS, excluding Currency	<u>\$ 1.29</u>	<u>\$ 1.25</u>	3.2%

PHILIP MORRIS INTERNATIONAL INC.
and Subsidiaries
Reconciliation of Non-GAAP Measures
Adjustments for the Impact of Currency and Acquisitions
For the Nine Months Ended September 30,
(\$ 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	
\$ 20,664	\$ 14,446	\$ 6,218	\$ (122)	\$ 6,340	\$ —	\$ 6,340	European Union	\$ 19,916	\$ 13,782	\$ 6,134	1.4 %	3.4 %	3.4 %
13,650	8,448	5,202	(515)	5,717	—	5,717	EEMA	13,908	8,261	5,647	(7.9)%	1.2 %	1.2 %
15,014	8,777	6,237	(126)	6,363	—	6,363	Asia	14,683	8,399	6,284	(0.7)%	1.3 %	1.3 %
6,436	4,379	2,057	(427)	2,484	—	2,484	Latin America & Canada	7,030	4,693	2,337	(12.0)%	6.3 %	6.3 %
\$ 55,764	\$ 36,050	\$ 19,714	\$ (1,190)	\$ 20,904	\$ —	\$ 20,904	PMI Total	\$ 55,537	\$ 35,135	\$ 20,402	(3.4)%	2.5 %	2.5 %

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		
\$ 3,096	\$ 5	\$ 3,091	\$ —	\$ 3,091	European Union	\$ 2,977	4.0 %	3.8 %	3.8 %		
2,389	(449)	2,838	—	2,838	EEMA	2,721	(12.2)%	4.3 %	4.3 %		
2,288	(11)	2,299	—	2,299	Asia	2,421	(5.5)%	(5.0)%	(5.0)%		
677	(220)	897	—	897	Latin America & Canada	849	(20.3)%	5.7 %	5.7 %		
\$ 8,450	\$ (675)	\$ 9,125	\$ —	\$ 9,125	PMI Total	\$ 8,968	(5.8)%	1.8 %	1.8 %		

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 Nine Months Ended September 30,
(\$ 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	
\$ 3,096	\$ —	\$ 3,096	\$ 5	\$ 3,091	\$ —	\$ 3,091	European Union	\$ 2,977	\$ —	\$ 2,977	4.0 %	3.8 %	3.8 %
2,389	—	2,389	(449)	2,838	—	2,838	EEMA	2,721	—	2,721	(12.2)%	4.3 %	4.3 %
2,288	—	2,288	(11)	2,299	—	2,299	Asia	2,421	—	2,421	(5.5)%	(5.0)%	(5.0)%
677	—	677	(220)	897	—	897	Latin America & Canada	849	—	849	(20.3)%	5.7 %	5.7 %
\$ 8,450	\$ —	\$ 8,450	\$ (675)	\$ 9,125	\$ —	\$ 9,125	PMI Total	\$ 8,968	\$ —	\$ 8,968	(5.8)%	1.8 %	1.8 %
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			
\$ 3,091	\$ 6,340	48.8%	\$ 3,091	\$ 6,340	48.8%	European Union	\$ 2,977	\$ 6,134	48.5%	0.3	0.3		
2,838	5,717	49.6%	2,838	5,717	49.6%	EEMA	2,721	5,647	48.2%	1.4	1.4		
2,299	6,363	36.1%	2,299	6,363	36.1%	Asia	2,421	6,284	38.5%	(2.4)	(2.4)		
897	2,484	36.1%	897	2,484	36.1%	Latin America & Canada	849	2,337	36.3%	(0.2)	(0.2)		
\$ 9,125	\$ 20,904	43.7%	\$ 9,125	\$ 20,904	43.7%	PMI Total	\$ 8,968	\$ 20,402	44.0%	(0.3)	(0.3)		

(1) For the calculation of Net Revenues excluding Excise Taxes, currency and acquisitions, refer to Schedule 14.

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 Nine Months Ended September 30,
 (Unaudited)

	<u>2016</u>	<u>2015</u>	<u>% Change</u>
Reported Diluted EPS	\$ 3.38	\$ 3.62	(6.6)%
Adjustments:			
Asset impairment and exit costs	—	—	
Tax items	—	(0.01)	
Adjusted Diluted EPS	\$ 3.38	\$ 3.61	(6.4)%
Less:			
Currency impact	(0.32)		
Adjusted Diluted EPS, excluding Currency	\$ 3.70	\$ 3.61	2.5 %

PHILIP MORRIS INTERNATIONAL INC.
 and Subsidiaries
 Reconciliation of Non-GAAP Measures
 Reconciliation of Reported Diluted EPS to Reported Diluted EPS, excluding Currency
For the Nine Months Ended September 30,
 (Unaudited)

	<u>2016</u>	<u>2015</u>	<u>% Change</u>
Reported Diluted EPS	\$ 3.38	\$ 3.62	(6.6)%
Less:			
Currency impact	<u>(0.32)</u>		
Reported Diluted EPS, excluding Currency	<u>\$ 3.70</u>	<u>\$ 3.62</u>	2.2 %

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 September 30, 2016			For the Year Ended December 31, 2015
	October ~ December 2015	January ~ September 2016	12 months rolling	
Net Earnings	\$ 1,298	\$ 5,475	\$ 6,773	\$ 7,032
Equity (income)/loss in unconsolidated subsidiaries, net	(36)	(72)	(108)	(105)
Provision for Income Taxes	412	2,110	2,522	2,688
Interest expense, net	227	690	917	1,008
Depreciation and amortization	193	548	741	754
Extraordinary, unusual or non-recurring expenses, net (1)	68	—	68	68
Adjusted EBITDA	\$ 2,162	\$ 8,751	\$ 10,913	\$ 11,445

	September 30, 2016	December 31, 2015
Short-term borrowings	\$ 710	\$ 825
Current portion of long-term debt	2,417	2,405
Long-term debt	26,960	25,250
Total Debt	\$ 30,087	\$ 28,480
Less: Cash and cash equivalents	4,884	3,417
Net Debt	\$ 25,203	\$ 25,063
Ratios:		
Total Debt to Adjusted EBITDA	2.76	2.49
Net Debt to Adjusted EBITDA	2.31	2.19

(1) Asset Impairment and Exit Costs at Operating Income level.

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 Nine Months Ended September 30,
(\$ in millions)
(Unaudited)

	For the Quarters Ended			For the Nine Months Ended		
	September 30,			September 30,		
	2016	2015	% Change	2016	2015	% Change
Net cash provided by operating activities (1)	\$ 3,092	\$ 2,693	14.8%	\$ 5,928	\$ 5,993	(1.1)%
Less:						
Capital expenditures	254	223		734	636	
Free cash flow	\$ 2,838	\$ 2,470	14.9%	\$ 5,194	\$ 5,357	(3.0)%
Less:						
Currency impact	(192)			(2)		
Free cash flow, excluding currency	\$ 3,030	\$ 2,470	22.7%	\$ 5,196	\$ 5,357	(3.0)%

	For the Quarters Ended			For the Nine Months Ended		
	September 30,			September 30,		
	2016	2015	% Change	2016	2015	% Change
Net cash provided by operating activities (1)	\$ 3,092	\$ 2,693	14.8%	\$ 5,928	\$ 5,993	(1.1)%
Less:						
Currency impact	(202)			(63)		
Net cash provided by operating activities, excluding currency	\$ 3,294	\$ 2,693	22.3%	\$ 5,991	\$ 5,993	— %

(1) Operating cash flow.

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

	<u>2015</u>
Reported Diluted EPS	\$ 4.42
Adjustments:	
Asset impairment and exit costs	0.03
Tax items	<u>(0.03)</u>
Adjusted Diluted EPS	<u>\$ 4.42</u>

**Philip Morris International Inc.
2016 Third-Quarter Results Conference Call
October 18, 2016**

NICK ROLLI

(SLIDE 1.)

Welcome. Thank you for joining us. Earlier today, we issued a press release containing detailed information on our 2016 third-quarter results. You may access the release on our 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 third quarter of 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 with the potential to reduce individual risk and population harm in comparison to smoking cigarettes.

(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.

It's now my pleasure to introduce Jacek Olczak, our Chief Financial Officer.

Jacek.

JACEK OLCZAK

(SLIDE 4.)

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

Following the comprehensive business review that we provided during our recent Investor Day event, I will focus today on a brief summary of our 2016 full-year outlook and third-quarter results, and highlight some important developments in select geographies. A detailed discussion of our third-quarter and year-to-date September results can be found in our earnings release.

Let me begin with our full-year outlook. As announced this morning, we are reaffirming our 2016 reported diluted EPS guidance, at prevailing exchange rates, to be in a range of \$4.53 to \$4.58.

Our guidance includes 35 cents of unfavorable currency and continues to represent a growth rate, excluding currency, of approximately 10.5% to 11.5% compared to our adjusted diluted EPS of \$4.42 in 2015.

As a reminder, in the fourth quarter, we anticipate strong currency-neutral net revenue growth, driven primarily by the annualization of price increases and the growth of RRP's. We also anticipate a favorable cost comparison, driven by the significant investments that we made in the fourth quarter of 2015 behind *iQOS* and our cigarette brand portfolio, including those related to the implementation of the EU Tobacco Products Directive.

(SLIDE 5.)

Moving to our third-quarter results, net revenues and adjusted OCI increased by 3.6% and 4.3%, respectively, excluding currency, reflecting favorable pricing, partly offset by negative volume/mix, particularly in the EEMA Region. Adjusted diluted EPS increased by 4.0%, excluding currency.

(SLIDE 6.)

Our favorable pricing variance of \$440 million in the third quarter was driven by positive contributions from all Regions, notably EEMA.

During the quarter we announced or implemented price increases in a number of markets -- including those shown on this slide -- which should further support favorable pricing in the fourth quarter.

(SLIDE 7.)

We recorded currency-neutral financial growth in the third quarter despite an organic cigarette shipment volume decline of 5.4%. The decrease was due mainly to lower cigarette industry volume in Argentina, Indonesia, the Philippines and Russia, as well as lower cigarette market share, notably in North Africa, the Philippines and Russia, partly offset by market share growth in the EU Region.

Year-to-date September, our cigarette shipment volume declined by 3.9%, consistent with the year-to-date August decrease that I referenced at Investor Day. We continue to anticipate a similar decline for full-year 2016.

Our shipment volume for heated tobacco sticks reached 2.1 billion units in the third quarter, an increase of approximately 900 million units compared to the second quarter of this year. While principally driven by Japan, all *iQOS* launch markets contributed to this growth.

(SLIDE 8.)

While our cigarette market share, excluding China and the U.S., declined by 0.6 points in the third quarter, due notably to North Africa, the Philippines and Russia, *Marlboro's* cigarette share increased by 0.3 points, driven by the EU and Asia Regions.

(SLIDE 9.)

Let me now move to select geographies, beginning with the EU Region. Regional cigarette industry volume declined by 1.4% in the third quarter, contributing to a year-to-date September decrease of 0.2%. For the full-year, we continue to expect a decline of around 1%.

Our Regional cigarette share in the quarter increased by 0.4 points, driven by the continued strong performance of *Marlboro*, which grew share in four of the Region's top six markets by cigarette industry volume, notably Germany and Spain.

(SLIDE 10.)

In Indonesia, we recorded sequential market share growth in the third quarter, driven by our strong performance in the full-flavor machine-made kretek segment, notably following the geographical expansion of *U Bold* in June.

To further enhance our position, in September we launched *Marlboro Filter Black* kretek in 25 cities. Although it is early, we strongly believe that this offer will set the standard for the full-flavor machine-made kretek segment.

In addition, this month the Indonesian Ministry of Finance issued its 2017 excise tax regulation, which will result in a weighted-average excise tax increase of approximately 10% industry-wide. As you may recall, the weighted-average increase in 2016 was approximately 15%.

(SLIDE 11.)

In Japan, our cigarette market share continued to stabilize, and was essentially flat compared to the third quarter of last year. This performance is notable given the impact of *HeatSticks* cannibalization on our cigarette share, and was supported by recent *Lark and Marlboro* launches.

iQOS continues to perform exceptionally well, with *HeatSticks* market share reaching 4.3% in the last week of September. In the third quarter, *HeatSticks* market share was 3.5%, an increase of 1.3 points compared to the second quarter of 2016. Importantly, these share gains have been achieved despite the limits we have placed on *iQOS* device sales since June.

PMI's total combined market share, including cigarettes and *HeatSticks*, was 27.9% in the third quarter, reflecting an increase of 2.5 points compared to the same period in 2015.

(SLIDE 12.)

In North Africa, our third-quarter market share was 24.6%, representing a sequential increase versus the second quarter. This growth was driven by the improving performance of *Marlboro* in Algeria, highlighting the early success of the initiatives that we shared during Investor Day.

(SLIDE 13.)

In Russia, the Ministry of Finance submitted a proposal earlier this month to raise the specific and minimum excise tax levels for 2017 by approximately 10% above what is currently in the tax code. If the proposal is approved by the Duma and signed into law by the President, it will result -- assuming full pass-on -- in a total tax pass-on of approximately 11 Rubles per pack in 2017. The ad valorem rate of 13.0% remains unchanged in the proposal.

(SLIDE 14.)

I will finish my discussion of important developments with an update on the cigarette market in Argentina.

While cigarette industry volume continues to be impacted by the significant excise tax-driven price increases in May, declining 14.1% in the third quarter, adult smokers appear to be adjusting relatively quickly to the higher retail prices given the broader inflationary environment. The average monthly decline in August and September was 8.0%.

We continue to expect a full-year cigarette industry volume decline of around 12% in 2016, and a return to its low single-digit historical decline rate during 2017 once the May 2016 tax increase has been lapped.

(SLIDE 15.)

In conclusion, our third-quarter results were in line with our expectations, and our full-year outlook remains strong.

(SLIDE 16.)

Thank you. I am now 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.

Thank you again and have a nice day.



PHILIP MORRIS INTERNATIONAL

2016 Third-Quarter Results

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Introduction

- Unless otherwise stated, we will be talking about results for the third quarter of 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 the company uses to refer to products with the potential to reduce individual risk and population harm in comparison to smoking cigarettes. PMI's RRP's are in various stages of development and commercialization, and we are conducting extensive and rigorous scientific studies to determine whether we can support claims for such products of reduced exposure to harmful and potentially harmful constituents in smoke, and ultimately claims of reduced disease risk, when compared to smoking cigarettes. Before making any such claims, we will rigorously evaluate the full set of data from the relevant scientific studies to determine whether they substantiate reduced exposure or risk. Any such claims may also be subject to government review and authorization, as is the case in the U.S. today



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 products with the potential to reduce exposure to harmful constituents in smoke, individual risk and population harm; 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 June 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

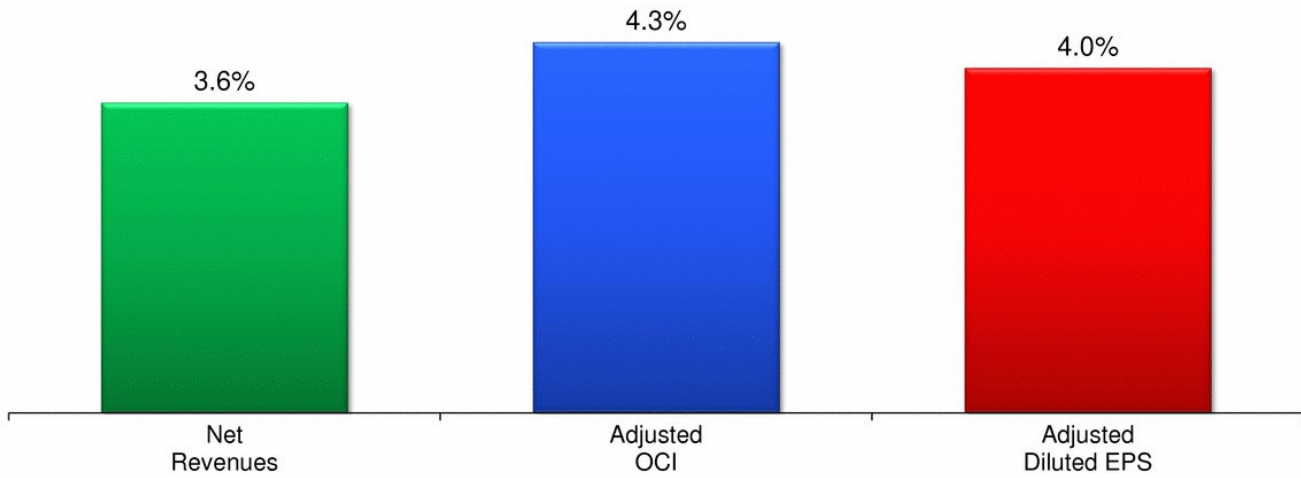


2016 EPS Guidance Reaffirmed

- Reaffirming 2016 reported diluted EPS guidance of \$4.53 to \$4.58, at prevailing exchange rates
- Guidance includes 35 cents of unfavorable currency at prevailing exchange rates
- Excluding currency, guidance continues to represent a growth rate of approximately 10.5% to 11.5% compared to adjusted diluted EPS of \$4.42 in 2015

Q3, 2016: Financial Results

Growth (Q3, 2016 vs. PY)^(a)



(a) Excluding currency
Source: PMI Financials or estimates



Q3, 2016: Favorable Pricing in All Regions

- Favorable pricing variance of \$440 million, reflecting positive contributions from all Regions, notably EEMA
- Announced or implemented price increases in a number of markets, including Argentina, Canada, Indonesia, Mexico and Turkey

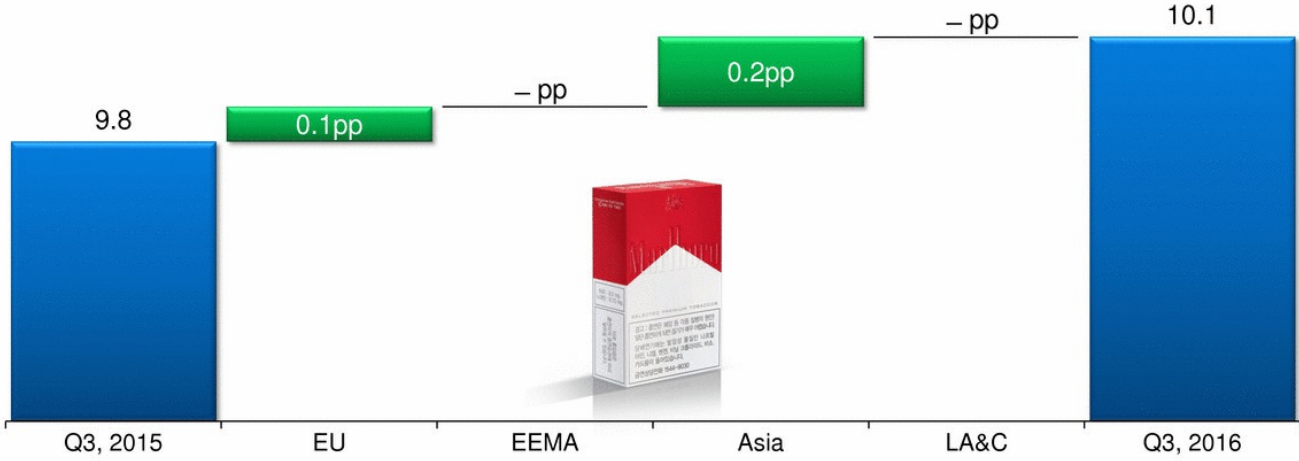


Q3, 2016: PMI Organic Volume

- Q3, 2016 organic cigarette volume down by 5.4%, due mainly to:
 - Lower cigarette industry volume in Argentina, Indonesia, the Philippines and Russia
 - Lower cigarette market share, notably in North Africa, the Philippines and Russia
 - Partly offset by market share growth in the EU Region
- YTD September organic cigarette volume down by 3.9%. Anticipate similar decline for the full-year
- Heated tobacco stick shipment volume reached 2.1 billion units, an increase of approximately 900 million units compared to Q2, 2016

Marlboro: Cigarette Market Share Growth

Marlboro International Cigarette Market Share (%)

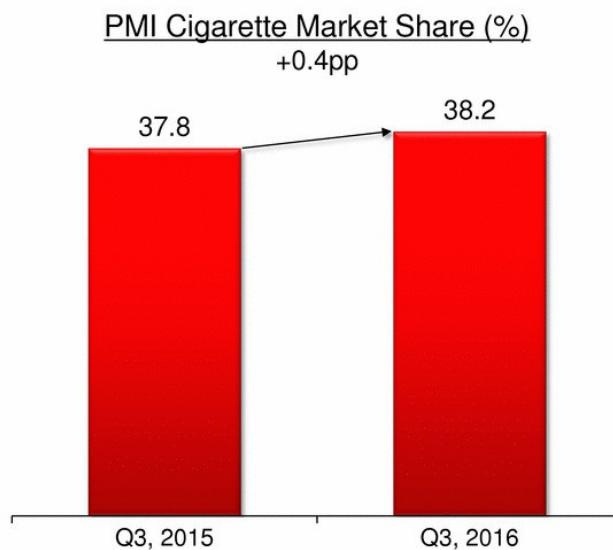


Note: Excluding China and the U.S. Pack visual is for illustrative purposes only
Source: PMI Financials or estimates



EU Region: Strong Cigarette Market Share Performance

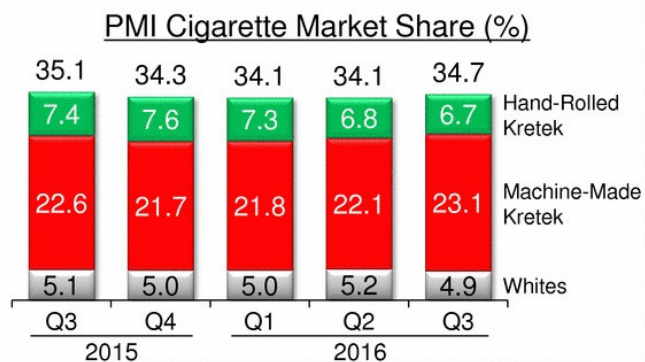
- Cigarette industry volume down by 1.4% in Q3, 2016. Expect full-year decline of around 1%
- *Marlboro* cigarette share was up in four of the top six largest EU Region markets by industry volume in Q3, 2016, with particularly strong growth in Germany and Spain





Indonesia: Sequential Market Share Growth in Q3, 2016

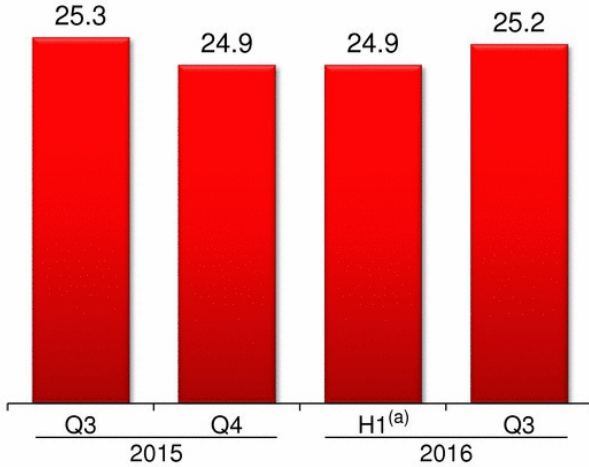
- Sequential market share growth in Q3, 2016, driven by our strong performance in the full-flavor machine-made kretek segment
- Launched *Marlboro Filter Black* (full-flavor machine-made kretek) in 25 cities in September 2016
- In 2017, excise taxes will increase by an industry weighted-average of approximately 10% (vs. around 15% in 2016)



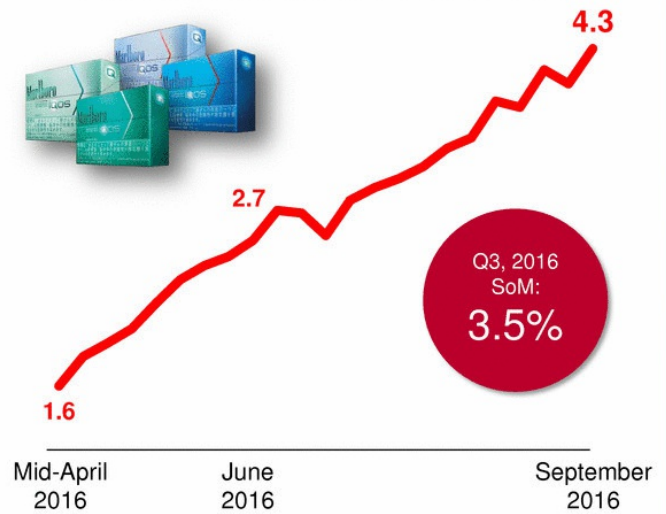
Note: Pack design is for illustrative purposes only
Source: PMI Financials or estimates

Japan: Stabilizing Cigarette Share; *HeatSticks* Share Growth Continues

PMI Cigarette Market Share (%)



Weekly *HeatSticks* Market Share (%)



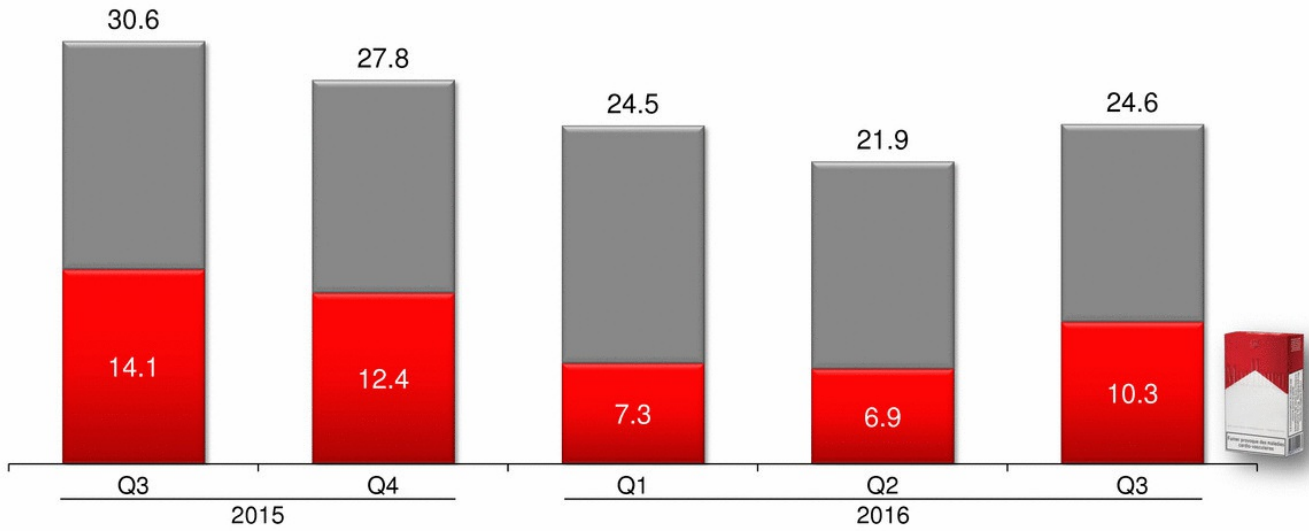
(a) H1, 2016 period used due to significant trade inventory movements in Q1 and Q2

Note: Reduced-Risk Products ("RRPs") is the term the company uses to refer to products with the potential to reduce individual risk and population harm in comparison to smoking cigarettes. *HeatSticks* market share represents 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

North Africa: Sequential Market Share Improvement in Q3, 2016

PMI Cigarette Market Share (%)



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



Russia: 2017 Excise Tax Increase Proposal

- On October 1st, Ministry of Finance submitted a proposal to raise the specific and minimum excise tax levels for 2017 by approximately 10% above what is currently in the tax code
- If approved by the Duma and signed into law, it will result in a total tax pass-on of approximately RUB 11/pack^(a)

<u>Excise Tax Structure</u>	<u>2016</u>	<u>2017 Excise Tax</u>	
		<u>Current</u>	<u>Proposed</u>
Ad Valorem Excise Tax (% of MRSP)	12.0%	13.0%	13.0%
Specific Excise Tax (RUB/000)	1,250	1,420	1,560
Minimum Excise Tax (RUB/000)	1,680	1,930	2,120

(a) Assuming full tax pass-on
Note: MRSP stands for Maximum Retail Selling Price

Argentina: Cigarette Industry Showing Signs of Adjustment to Significant Excise-Tax Driven Price Increases in 2016



- Cigarette industry volume declined by 14.1% in Q3, due mainly to the impact of significant excise-tax driven price increases in May
- Early signs that adult smokers are adjusting to the higher retail prices:
 - Average monthly decline in August and September of 8.0%
- Cigarette industry volume decline forecast:
 - 2016: down by around 12%
 - During 2017: return to the low single-digit historical decline rate, once the May 2016 excise tax increase has been lapped



Conclusion: Full-Year 2016 Outlook Remains Strong

- Q3, 2016 results in line with of our expectations
- Reaffirming 2016 reported diluted EPS guidance. Ex-currency, our guidance continues to represent a growth rate of approximately 10.5% to 11.5% compared to adjusted diluted EPS of \$4.42 in 2015



PHILIP MORRIS INTERNATIONAL

2016 Third-Quarter Results

Questions & Answers

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PHILIP MORRIS INTERNATIONAL

Glossary and Reconciliation of Non-GAAP Measures





Glossary: General Terms

- PMI stands for 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")
- Unless otherwise stated, results are compared to those of the same period in the preceding year
- PMI volumes refer to PMI cigarette shipment data, unless otherwise stated
- Organic volume refers to volume excluding acquisitions
- 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
- Trademarks are italicized



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) or loss in unconsolidated subsidiaries, net
- Adjusted OCI is defined as OCI adjusted for asset impairment, exit and other costs
- OCI growth rates are on an adjusted basis
- EPS stands for Earnings per Share



Glossary: Industry/Market Terms

- 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
- North Africa: Algeria, Egypt, Libya, Morocco and Tunisia
- SoM stands for Share of Market
- "Whites" stands for non-kretek cigarettes



Glossary: Reduced-Risk Products

- *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. Includes *Marlboro HeatSticks*, *Parliament HeatSticks* and *HEETS* from *Marlboro*
- *iQOS* is the new brand name under which PMI has chosen to commercialize its Platform 1 controlled heating device
- Reduced-Risk Products ("RRPs") is the term the company uses to refer to products with the potential to reduce individual risk and population harm in comparison to smoking cigarettes. PMI's RRP's are in various stages of development and commercialization, and we are conducting extensive and rigorous scientific studies to determine whether we can support claims for such products of reduced exposure to harmful and potentially harmful constituents in smoke, and ultimately claims of reduced disease risk, when compared to smoking cigarettes. Before making any such claims, we will rigorously evaluate the full set of data from the relevant scientific studies to determine whether they substantiate reduced exposure or risk. Any such claims may also be subject to government review and authorization, as is the case in the U.S. today

PHILIP MORRIS INTERNATIONAL INC. and Subsidiaries

Reconciliation of Non-GAAP Measures



Reconciliation of Reported Diluted EPS to Adjusted Diluted EPS
For the Year Ended December 31,
(Unaudited)

	<u>2015</u>
Reported Diluted EPS	\$ 4.42
Adjustments:	
Asset impairment and exit costs	0.03
Tax items	<u>(0.03)</u>
Adjusted Diluted EPS	<u>\$ 4.42</u>

PHILIP MORRIS INTERNATIONAL INC. and Subsidiaries

Reconciliation of Non-GAAP Measures



Adjustments for the Impact of Currency and Acquisitions
For the Quarters Ended September 30,
(\$ 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				
\$ 7,387	\$ 5,187	\$ 2,200	\$ (6)	\$ 2,206	\$ -	\$ 2,206	European Union	\$ 7,018	\$ 4,895	\$ 2,123	3.6%	3.9%	3.9%			
5,122	3,186	1,936	(141)	2,077	-	2,077	EEMA	5,107	3,091	2,016	(4.0)%	3.0%	3.0%			
5,113	2,977	2,136	59	2,077	-	2,077	Asia	4,880	2,896	1,984	7.7%	4.7%	4.7%			
2,313	1,603	710	(108)	818	-	818	Latin America & Canada	2,417	1,613	804	(11.7)%	1.7%	1.7%			
\$ 19,935	\$ 12,953	\$ 6,982	\$ (196)	\$ 7,178	\$ -	\$ 7,178	PMI Total	\$ 19,422	\$ 12,495	\$ 6,927	0.8%	3.6%	3.6%			

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						
\$ 1,120	\$ 29	\$ 1,091	\$ -	\$ 1,091	European Union	\$ 1,045	7.2%	4.4%	4.4%							
962	(127)	1,089	-	1,089	EEMA	1,002	(4.0)%	8.7%	8.7%							
761	57	704	-	704	Asia	690	10.3%	2.0%	2.0%							
224	(53)	277	-	277	Latin America & Canada	294	(23.8)%	(5.8)%	(5.8)%							
\$ 3,067	\$ (94)	\$ 3,161	\$ -	\$ 3,161	PMI Total	\$ 3,031	1.2%	4.3%	4.3%							

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 September 30,
 (\$ 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	
\$ 1,120	\$ -	\$ 1,120	\$ 29	\$ 1,091	\$ -	\$ 1,091	European Union	\$ 1,045	\$ -	\$ 1,045	7.2%	4.4%	4.4%
962	-	962	(127)	1,089	-	1,089	EEMA	1,002	-	1,002	(4.0)%	8.7%	8.7%
781	-	781	57	704	-	704	Asia	690	-	690	10.3%	2.0%	2.0%
224	-	224	(53)	277	-	277	Latin America & Canada	294	-	294	(23.8)%	(5.8)%	(5.8)%
\$ 3,067	\$ -	\$ 3,067	\$ (94)	\$ 3,161	\$ -	\$ 3,161	PMI Total	\$ 3,031	\$ -	\$ 3,031	1.2%	4.3%	4.3%

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 Margin	Adjusted Operating Companies Income Margin excluding Currency	Adjusted Operating Companies Income Margin excluding Currency & Acquisitions
\$ 1,091	\$ 2,206	49.5%	\$ 1,091	\$ 2,206	49.5%	European Union	\$ 1,045	\$ 2,123	49.2%	0.3	0.3
1,089	2,077	52.4%	1,089	2,077	52.4%	EEMA	1,002	2,016	49.7%	2.7	2.7
704	2,077	33.9%	704	2,077	33.9%	Asia	690	1,984	34.8%	(0.9)	(0.9)
277	818	33.9%	277	818	33.9%	Latin America & Canada	294	804	36.6%	(2.7)	(2.7)
\$ 3,161	\$ 7,178	44.0%	\$ 3,161	\$ 7,178	44.0%	PMI Total	\$ 3,031	\$ 6,927	43.6%	0.2	0.2

(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 September 30,
(Unaudited)

	<u>2016</u>	<u>2015</u>	<u>% Change</u>
Reported Diluted EPS	\$ 1.25	\$ 1.25	-
Adjustments:			
Asset impairment and exit costs	-	-	
Tax items	-	(0.01)	
Adjusted Diluted EPS	<u>\$ 1.25</u>	<u>\$ 1.24</u>	0.8%
Less:			
Currency impact	(0.04)		
Adjusted Diluted EPS, excluding Currency	<u>\$ 1.29</u>	<u>\$ 1.24</u>	4.0%

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 September 30,
(Unaudited)

	<u>2016</u>	<u>2015</u>	<u>% Change</u>
Reported Diluted EPS	\$ 1.25	\$ 1.25	-
Less:			
Currency impact	<u>(0.04)</u>		
Reported Diluted EPS, excluding Currency	<u>\$ 1.29</u>	<u>\$ 1.25</u>	3.2%



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