



PHILIP MORRIS  
INTERNATIONAL

2018  
INVESTOR DAY

Designing a Smoke-Free Future

# Investor Day

Lausanne, September 27, 2018

*Glossary of Key Terms and Definitions*



# Glossary: General Terms

- "PMI" refers to Philip Morris International Inc. and its subsidiaries
- Until March 28, 2008, PMI was a wholly owned subsidiary of Altria Group, Inc. ("Altria"). Since that time the company has been independent and is listed on the New York Stock Exchange (ticker symbol "PM")
- Trademarks are italicized
- Comparisons are made to the same prior-year period unless otherwise stated
- Unless otherwise stated, references to total industry, total market, PMI shipment volume and PMI market share performance reflect cigarettes and heated tobacco units
- References to total international market, defined as worldwide cigarette and heated tobacco unit volume excluding the United States, total industry, total market and market shares are PMI estimates for tax-paid products based on the latest available data from a number of internal and external sources and may, in defined instances, exclude the People's Republic of China and/or PMI's duty free business
- "OTP" is defined as "other tobacco products," primarily roll-your-own and make-your-own cigarettes, pipe tobacco, cigars and cigarillos, and does not include reduced-risk products
- "Combustible products" is the term PMI uses to refer to cigarettes and OTP, combined
- "PMI volume" is defined as the combined total of cigarette shipment volume and heated tobacco unit shipment volume
- In-market sales, or "IMS," represent sell-in to the retail channel, though this may vary somewhat by market depending on the distribution model
- Effective January 1, 2018, PMI began managing its business in six reporting segments as follows: the European Union Region (EU); the Eastern Europe Region (EE); the Middle East & Africa Region (ME&A), which includes PMI Duty Free; the South & Southeast Asia Region (S&SA); the East Asia & Australia Region (EA&A); and the Latin America & Canada Region (LA&C)



# Glossary: General Terms (cont.)

- "CC" stands for conventional cigarette
- "The GCC" (Gulf Cooperation Council) is defined as Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE)
- "Illicit trade" refers to domestic non-tax paid products
- "Illicit whites" are branded cigarettes manufactured purely for export and resale without paying any taxes
- "IP" stands for intellectual property
- "LAMPS" stands for legal age meeting points
- "LAU" stands for legal age user
- "mma" stands for month moving average
- "NGOs" stands for non-governmental organizations
- "NPL" stand for new product launch
- "OECD" stands for Organisation for Economic Co-operation and Development
- "R&D" stands for Research & Development
- "SKU" stands for stock keeping unit
- "SoM" stands for share of market
- "TPD" stands for the EU Tobacco Products Directive
- "VAT" stands for value added tax
- "WHO" stands for the World Health Organization



# Glossary: Financial Terms

- "COGS" stands for cost of goods sold
- "Cost of sales" consists principally of: tobacco leaf, non-tobacco raw materials, labor and manufacturing costs; shipping and handling costs; and the cost of IQOS devices produced by third-party electronics manufacturing service providers. Estimated costs associated with IQOS warranty programs are generally provided for in cost of sales in the period the related revenues are recognized
- Net revenues related to combustible products refer to the operating revenues generated from the sale of these products, including shipping and handling charges billed to customers, net of sales and promotion incentives, and excise taxes. PMI recognizes revenue when control is transferred to the customer, typically either upon shipment or delivery of goods
- Net revenues related to RRP's represent the sale of heated tobacco units, IQOS devices and related accessories, and other nicotine-containing products, primarily e-vapor products, including shipping and handling charges billed to customers, net of sales and promotion incentives, and excise taxes. PMI recognizes revenue when control is transferred to the customer, typically either upon shipment or delivery of goods
- "Marginal contribution" represents "net revenues" less the volume driven components of "cost of sales". Total cost of sales also includes fixed manufacturing costs
- PMI has adopted Accounting Standard Update ASU 2014-09 "Revenue from Contracts with Customers" as of January 1, 2018 on a retrospective basis. PMI made an accounting policy election to exclude excise taxes collected from customers from the measurement of the transaction price, thereby presenting revenues, net of excise taxes in all periods. The underlying principles of the new standard, relating to the measurement of revenue and the timing of recognition, are closely aligned with PMI's current business model and practices

# Glossary: Financial Terms (cont.)



- PMI adopted Accounting Standard Update ASU 2017-07 "Compensation - Retirement Benefits" as of January 1, 2018 on a retrospective basis. Previously, total pension and other employee benefit costs were included in operating income. Beginning January 1, 2018, only the service cost component is required to be shown in operating income, while all other cost components are presented in a new line item "pension and other employee benefit costs" below operating income
- Prior to 2018, management evaluated business segment performance, and allocated resources, based on operating companies income, or "OCI." Effective January 1, 2018, management began evaluating business segment performance, and allocating resources, based on operating income, or "OI"
- OCI was defined as operating income, excluding general corporate expenses and the amortization of intangibles, plus equity (income)/loss in unconsolidated subsidiaries, net
- "Marketing, administration and research costs" include the costs of marketing and selling our products, other costs generally not related to the manufacture of our products (including general corporate expenses), and costs incurred to develop new products. The most significant components of our marketing, administration and research costs are marketing and sales expenses and general and administrative expenses
- "Adjusted OI margin" is calculated as adjusted OI, divided by net revenues
- "Adjusted EBITDA" is defined as earnings before interest, taxes, depreciation, amortization and equity (income)/loss in unconsolidated subsidiaries, excluding asset impairment and exit costs, and unusual items
- "Net debt" is defined as total debt, less cash and cash equivalents
- Management reviews net revenues, OI, OI margins, operating cash flow 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, tax items and other special items



# Glossary: Reduced-Risk Products

- "Reduced-risk products," or "RRPs," is the term PMI uses to refer to products that present, are likely to present, or have the potential to present less risk of harm to smokers who switch to these products versus continued smoking. PMI has a range of RRP's in various stages of development, scientific assessment and commercialization. Because PMI's RRP's do not burn tobacco, they produce an aerosol that contains far lower quantities of harmful and potentially harmful constituents than found in cigarette smoke
- "Aerosol" refers to a gaseous suspension of fine solid particles and/or liquid droplets
- "Combustion" is the process of burning a substance in oxygen, producing heat and often light
- "Smoke" is a visible suspension of solid particles, liquid droplets and gases in air, emitted when a material burns
- "HNB" stands for "heat-not-burn"
- "IQOS" is a precisely controlled heating device into which a specially designed and proprietary tobacco unit is inserted and heated to generate an aerosol
- "EHTP" refers to PMI's electronically heated tobacco product, *IQOS*
- "Heated tobacco product," or "HTP," is a manufactured tobacco product that delivers a nicotine containing vapor (aerosol), without combustion of the tobacco mixture
- "Heated tobacco units," or "HTUs," is the term PMI uses to refer to heated tobacco consumables, which include the company's *HEETS*, *HEETS Marlboro* and *HEETS FROM MARLBORO*, defined collectively as *HEETS*, as well as *Marlboro HeatSticks* and *Parliament HeatSticks*
- Heated tobacco unit "offtake volume" represents the estimated retail offtake of heated tobacco units based on a selection of sales channels that vary by market, but notably include retail points of sale and e-commerce platforms
- Heated tobacco unit "offtake share" represents the estimated retail offtake volume of heated tobacco units divided by the sum of estimated total offtake volume for cigarettes, heated tobacco units and, where the data is available, other RRP's



# Glossary: Reduced-Risk Products (cont.)

- National market share for heated tobacco units is defined as the total sales volume for heated tobacco units as a percentage of the total estimated sales volume for cigarettes and heated tobacco units
- An "e-vapor product" is an electrical product that generates an aerosol by heating a nicotine or non-nicotine containing liquid, such as electronic cigarettes (or "e-cigarettes")
- "E-liquids" refer to a liquid solution that is used in/with e-cigarettes. E-liquids contain different levels of nicotine in a propylene glycol and/or vegetable glycerin based solution with various flavors
- "IQOS MESH" is the brand name that PMI has chosen for one of its Platform 4 reduced-risk product that leverages new proprietary vaporization technology. IQOS MESH is a closed tank system, to be used exclusively with VEEV flavor caps
- "Tier 1" awareness: "I have heard or seen IQOS and/or HEETS"
- "Tier 2" awareness: "I have heard of IQOS and HEETS, understand correctly what IQOS is, or what its benefits are"
- "Tier 3" awareness: "I have heard of IQOS and HEETS, understand correctly what IQOS is, or what its benefits are, and I find at least one benefit highly relevant"
- "Converted IQOS Users" means the estimated number of Legal Age (minimum 18-year-old) IQOS users that used *HeatSticks* /*HEETS* heated tobacco units for over 95% of their daily tobacco consumption over the past seven days
- "Predominant IQOS Users" means the estimated number of Legal Age (minimum 18-year-old) IQOS users that used *HeatSticks* /*HEETS* heated tobacco units for between 70% and 95% of their daily tobacco consumption over the past seven days
- New PMI methodology as of 2018 for estimating the number of people who have stopped smoking and made the change to IQOS: for markets where IQOS is the only heated tobacco product, daily individual consumption of PMI heated tobacco units represents the totality of their daily tobacco consumption in the past seven days. For markets where IQOS is one among other heated tobacco products, daily individual consumption of heated tobacco units represents the totality of their daily tobacco consumption in the past seven days, of which at least 70% are PMI heated tobacco units



# Glossary: Reduced-Risk Products (cont.)

- "Situational IQOS Users" means the estimated number of Legal Age (minimum 18-year-old) IQOS users that used *HeatSticks* /*HEETS* heated tobacco units for between 5% and less than 70% of their daily tobacco consumption over the past seven days
- "Abandoned IQOS Users" means the estimated number of Legal Age (minimum 18-year-old) IQOS users that used *HeatSticks* /*HEETS* heated tobacco units for less than 5% of their daily tobacco consumption over the past seven days
- "FDA" stands for the U.S. Food & Drug Administration
- "MFDS" refers to the Korean Ministry of Food & Drug Safety (formerly known as the Korea Food & Drug Administration or "KFDA")
- "MRTP" stands for Modified Risk Tobacco Product, the term used by the U.S. FDA to refer to RRP
- "MRTP application" stands for Modified Risk Tobacco Product application under section 911 of the FD&C Act
- "PMTA" stands for Premarket Tobacco Application under section 910 of the FD&C Act
- "TPSAC" stands for the Tobacco Product Scientific Advisory Committee
- PMI presentation to TPSAC on MRTP applications for IQOS (January 24, 2018): <https://www.pmiscience.com/news/pmi-presents-our-modified-risk-tobacco-product-application-iqos-tobacco-products-scientific>
- "3R4F" is a reference cigarette for laboratory testing provided by the University of Kentucky. It is used for non-clinical investigations by tobacco manufacturers, contract and government laboratories, and academic institutions
- "AAA" stands for abdominal aortic aneurysm
- A "biomarker" is used as a measure of how well the body responds to a treatment for a disease or condition. Biomarkers can be classified into biomarkers of exposure and clinical risk markers
- "Biomarkers of exposure" indicates exposure to a potentially hazardous substance



# Glossary: Reduced-Risk Products (cont.)

- "Clinical risk markers" represents a measurable biochemical, physiological, behavioral, or other alteration within an organism that, depending upon the magnitude, can be recognized as associated with an established or possible health impairment or disease
- "COPD" stands for chronic obstructive pulmonary disease
- "ERS" stands for exposure response study
- "HPHCs" stands for harmful or potentially harmful constituents which have been identified as likely causes of tobacco related diseases
- "IIS" stands for investigator-initiated studies
- "LIR" stands for local initiated research
- "NCDs" stands for non-communicable diseases
- "NFDPM" stands for nicotine-free dry particulate matter

# PHILIP MORRIS INTERNATIONAL INC. and Subsidiaries

## New Geographic Segmentation (effective January 1, 2018)



### European Union

- Andorra
- Austria
- Baltic States
- Belgium
- Bulgaria
- Canary Islands
- Croatia
- Czech Republic
- Denmark
- Finland
- France
- Germany
- Greece
- Hungary
- Iceland
- Italy
- Luxembourg
- Netherlands
- Norway
- Poland
- Portugal
- Romania
- Slovak Republic
- Slovenia
- Spain
- Sweden
- Switzerland
- United Kingdom

### Eastern Europe

- Albania
- Armenia
- Belarus
- Bosnia & Herzegovina
- Georgia
- Israel
- Kazakhstan
- Kosovo
- Kyrgyzstan
- Macedonia
- Moldova
- Mongolia
- Montenegro
- Russia
- Serbia
- Tajikistan
- Turkmenistan
- Ukraine
- Uzbekistan

# PHILIP MORRIS INTERNATIONAL INC. and Subsidiaries

## New Geographic Segmentation (effective January 1, 2018)



### Middle East & Africa

- Algeria
- Bahrain
- Central Africa<sup>(a)</sup>
- Duty Free
- Eastern Africa<sup>(b)</sup>
- Egypt
- Iraq
- Jordan
- Kuwait
- Lebanon
- Libya
- Morocco
- Oman
- Palestine Auth. Area
- Qatar
- Saudi Arabia
- Southern Africa<sup>(c)</sup>
- Tunisia
- Turkey
- Turkish Cyprus
- United Arab Emirates (UAE)
- West Africa<sup>(d)</sup>
- Yemen

### South & Southeast Asia

- Afghanistan
- Bangladesh
- Cambodia
- East Timor
- India
- Indonesia
- Laos
- Maldives
- Nepal
- Pakistan
- Philippines
- Sri Lanka
- Thailand
- Vietnam

(a) Central Africa includes Angola, Cameroon, Democratic Republic of the Congo, Equatorial Guinea and Gabon

(b) Eastern Africa includes Djibouti, Ethiopia, Kenya, Malawi, Mozambique, Somalia and Tanzania

(c) Southern Africa includes Botswana, Lesotho, Mauritius, Mayotte, Namibia, Reunion and Swaziland

(d) West Africa includes Benin, Burkina Faso, Cape Verde, The Gambia, Guinea, Ivory Coast, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone and Togo

# PHILIP MORRIS INTERNATIONAL INC. and Subsidiaries

## New Geographic Segmentation (effective January 1, 2018)



### East Asia & Australia

- Australia
- Hong Kong
- Japan
- Macau
- Malaysia
- New Zealand
- People's Republic of China
- Singapore
- South Korea
- South Pacific<sup>(a)</sup>
- Taiwan

### Latin America & Canada

- Argentina
- Bolivia
- Brazil
- Canada
- Caribbean<sup>(b)</sup>
- Chile
- Colombia
- Costa Rica
- Dominican Republic
- Ecuador
- El Salvador
- Guatemala
- Honduras
- Mexico
- Nicaragua
- Panama
- Paraguay
- Peru
- Uruguay
- Venezuela

(a) South Pacific includes Christmas Islands, French Polynesia, Marshall Islands, Nauru, New Caledonia, Palau, Papua New Guinea, Tonga, Vanuatu and other South Pacific islands

(b) Caribbean includes Aruba, Bahamas, Bermuda, Bonaire, Cayman Islands, Curacao, Guadeloupe, Martinique, St. Barth's, St. Maarten, St. Martin and other Caribbean markets