Philip Morris International Inc.
Form DEF 14A
March 26, 2015
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement
¨ Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
x Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Under Rule 14a-12

Philip Morris International Inc.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed: March 26, 2015

Table of Contents

2015 PROXY STATEMENT

And Notice of Annual Meeting of Shareholders

To be held on Wednesday, May 6, 2015

Table of Contents

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Table of Contents

March 26, 2015

Dear Fellow Shareholder,

You are cordially invited to join us at the 2015 Annual Meeting of Shareholders of Philip Morris International Inc. (PMI or the Company) to be held on Wednesday, May 6, 2015, at 9:00 a.m., in the Empire State Ballroom at the Grand Hyatt New York, 109 East 42nd Street, New York, New York 10017-5579.

At this year s meeting, we will vote on the election of twelve directors, the ratification of the selection of PricewaterhouseCoopers SA as the Company s independent auditors, an advisory say-on-pay vote approving executive compensation and, if properly presented, two proposals from shareholders. There will also be a report on the Company s business, and shareholders will have an opportunity to ask questions.

We anticipate that a large number of shareholders will attend the meeting. Because seating is limited, you may bring only one immediate family member as a guest. **To attend the meeting, you must present an admission ticket and government-issued photographic identification. To request an admission ticket, please follow the instructions set forth on page 66 in response to Question 4**.

The meeting facilities will open at 7:30 a.m. on May 6, 2015. We suggest you arrive early to facilitate your registration and security clearance. Those needing special assistance at the meeting are requested to write to the Company s Corporate Secretary at 120 Park Avenue, New York, New York 10017-5579. For your comfort and security, you will not be permitted to bring any packages, briefcases, large pocketbooks or bags into the meeting. Also, cellular and digital phones, audio tape recorders, laptops and other portable electronic devices, video and still cameras, pagers and pets will not be permitted into the meeting. We thank you in advance for your patience and cooperation with these rules, which assist us in conducting a safe and orderly meeting.

Attached you will find a notice of meeting and proxy statement that contains additional information about the meeting, including the methods that you can use to vote your proxy, such as the telephone or Internet. As we did last year, we are mailing to certain of our shareholders a Notice of Internet Availability of Proxy Materials. This Notice contains instructions on how to access our proxy statement and 2014 Annual Report to Shareholders and vote online. Those shareholders who do not receive the Notice will receive a paper copy of the proxy materials by mail. By furnishing this Notice, we are lowering costs and reducing the environmental impact of our Annual Meeting.

You will note that Carlos Slim has decided not to stand for re-election at the Annual Meeting and will retire from the Board of Directors. We have benefited tremendously from Carlos s dedicated service and invaluable advice. We are indebted to him and he leaves with our most heartfelt gratitude.

Your vote is important. I encourage you to sign and return your proxy card, or use telephone or Internet voting prior to the meeting, so that your shares of common stock will be represented and voted at the meeting even if you cannot attend.

Sincerely,	Sincerely,
LOUIS C. CAMILLERI	ANDRÉ CALANTZOPOULOS

CHAIRMAN OF THE BOARD CHIEF EXECUTIVE OFFICER

For further information about the Annual Meeting, please call toll-free 1-866-713-8075.

Table of Contents

PHILIP MORRIS INTERNATIONAL INC.

NOTICE OF 2015 ANNUAL MEETING OF SHAREHOLDERS

Date and Time	9:00 a.m. on Wednesday, May 6, 2015
Place	Empire State Ballroom Grand Hyatt New York 109 East 42nd Street New York, New York 10017-5579
Items of Business	(1) To elect twelve directors. (2) To ratify the selection of PricewaterhouseCoopers SA as independent auditors for the Company for the fiscal year ending December 31, 2015. (3) To vote on an advisory resolution approving executive compensation. (4) To vote on two shareholder proposals, if properly presented at the meeting. (5) To transact other business properly coming before the meeting.
Who Can Vote	Only shareholders of record of shares of common stock at the close of business on March 13, 2015 (the Record Date) are entitled to notice of and to vote at the meeting, or at any adjournments or postponements of the meeting. Each shareholder of record on the Record Date is entitled to one vote for each share of common stock held. On March 13, 2015, there were 1,549,092,838 shares of common stock issued and outstanding.
Voting of Proxies and Deadline for Receipt	All properly executed written proxies, and all properly completed proxies submitted by telephone or Internet, that are delivered pursuant to this solicitation will be voted at the meeting in accordance with the directions given in the proxy, unless the proxy is revoked before the meeting. Proxies submitted by telephone or Internet must be received by 11:59 p.m., EDT, on May 5, 2015.
2014 Annual Report	A copy of our 2014 Annual Report is enclosed.
Date of Mailing	This notice and the proxy statement are first being mailed to shareholders on or about March 26, 2015.

Jerry Whitson

Deputy General Counsel and Corporate Secretary

March 26, 2015

WE URGE EACH SHAREHOLDER TO PROMPTLY SIGN AND RETURN THE ENCLOSED PROXY CARD OR TO USE TELEPHONE OR INTERNET VOTING. SEE THE QUESTION AND ANSWER SECTION FOR INFORMATION ABOUT VOTING BY TELEPHONE OR INTERNET, HOW TO REVOKE A PROXY, AND HOW TO VOTE YOUR SHARES OF COMMON STOCK IN PERSON. PLEASE NOTE THAT YOU MUST OBTAIN AN ADMISSION TICKET IN ORDER TO ATTEND THE MEETING. TO OBTAIN AN ADMISSION TICKET, PLEASE FOLLOW THE INSTRUCTIONS SET FORTH ON PAGE 66 IN RESPONSE TO QUESTION 4.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to be held on May 6, 2015: The Company s Proxy Statement and 2014 Annual Report to Shareholders are available at www.pmi.com/investors.

Table of Contents

TABLE OF CONTENTS

Important Note on Terminology:

Reduced-Risk Products (RRPs) is the term we use to refer to products with the potential to reduce individual risk and population harm in comparison to smoking combustible cigarettes. Our RRPs are in various stages of development, 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 combustible cigarettes. Before making any such claims, we will need to 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 approval, as is the case in the USA today.

Table of Contents

PROXY STATEMENT SUMMARY

This proxy statement contains proposals to be voted on at our Annual Meeting, and other information about our Company and our corporate governance practices. We provide below a brief summary of certain information contained in this proxy statement. The summary does not contain all of the information you should consider. Please read the entire proxy statement carefully before voting.

2014 Business Performance Highlights

We met or exceeded five of our performance target ranges in 2014, while narrowly missing the remaining one, despite facing a number of specific challenges in key markets such as Italy, Japan and the Philippines, investing in the launch of Reduced-Risk Products, rolling out the *Marlboro* 2.0 Architecture, and undertaking a major optimization of our manufacturing footprint, all within an operating environment of continued macro-economic weakness, significant market declines in Russia and the EU, and consumer down-trading across many geographies. The percentages indicated in the white boxes and in the associated target ranges in the following table represent growth in 2014 versus 2013 results, excluding acquisitions or the effect of currency, or both, as stated. See page 32 for further detail.

2014 Performance Targets and Results

PROXY STATEMENT SUMMARY

Further Highlights:

- **Dividend** increased by 6.4% to an annualized rate of $4.00 per share
- **Share Repurchases** of $3.8 billion
- 2012-2014 **Total Shareholder Return** (TSR) up by 17.5%
- Substantial progress in achieving **strategic goals** (see page 33)

2014 Executive Compensation Highlights

- Our shareholders approved, on an advisory basis, our 2013 executive compensation by a vote of 96.22% of the votes cast.

- Approximately 77% of the total direct compensation delivered to our Chairman, our CEO and our other named executive officers was variable and tied to performance.

- For cash bonus purposes, the Compensation and Leadership Development Committee assigned PMI an incentive compensation business rating of 95 for 2014 versus our ratings of 85 for 2013 and 110 for 2012. For equity award purposes, the Committee assigned a stock business rating of 85 for 2014 versus our ratings of 95 for 2013 and 120 for 2012. Each rating is below the target level of 100, reflecting a difficult operating environment in the case of the incentive compensation rating and extreme currency headwinds in the case of the equity award rating, and the Committee s commitment to linking pay to performance.

- When Mr. Calantzopoulos was promoted to CEO on May 8, 2013, his base salary was not increased and his annual incentive compensation award target was set one-third lower than the level previously associated with the CEO position, from 300% to 200%. These levels were maintained for 2014 and 2015.

- In 2013, the Committee determined to review increases to base salaries of executive officers every two years instead of annually. In 2015, for the third year in a row, the Committee determined not to increase the base salaries of the Swiss-based executive officers.

- Effective January 1, 2014, the Committee realigned the variable compensation mix for senior management to increase the equity component relative to the cash component to better reflect market practices and to further enhance the focus of senior executives on longer-term performance, while remaining mindful of our objective to minimize equity dilution.

- The Committee also reduced total variable compensation targets, effective January 1, 2014, resulting in average reductions in total targeted direct compensation (base salary, cash incentives and equity awards) of approximately 9%-10% for the most senior executives.

- Company executives continued their dialogue with investors on the subjects of corporate governance and executive compensation and reported the results of those conversations to the Committee.

Table of Contents

PROXY STATEMENT SUMMARY

Shareholder Agenda Items

Item 1 Election of Directors

It is proposed that twelve directors be elected to hold office until the next Annual Meeting of Shareholders and until their successors have been elected. Under the heading Election of Directors you will find important information concerning the nominees, including their experience, skills and qualifications, and strengths they bring to the Board, and the process by which the Nominating and Corporate Governance Committee has recommended to the Board, and the Board has approved, the persons named.

Item 2 Ratification of the Selection of Independent Auditors

The Audit Committee has selected PricewaterhouseCoopers SA as the Company s independent auditors for the fiscal year ending December 31, 2015, and has directed that management submit the selection of independent auditors to shareholders for ratification at the Annual Meeting. Shareholder ratification of the selection of PricewaterhouseCoopers SA as the Company s independent auditors is not required by the Company s by-laws or otherwise. However, we are submitting the selection of PricewaterhouseCoopers SA to the shareholders for ratification as a matter of good corporate practice.

Item 3 Advisory Vote Approving Executive Compensation

We are asking our shareholders to approve, on an advisory basis, our named executive officers compensation as described in this proxy statement. This annual say-on-pay resolution gives our shareholders the opportunity to express their views on our named executive officers compensation at each Annual Meeting of Shareholders.

Item 4 Shareholder Proposal on Lobbying

Item 5 Shareholder Proposal on Non-Employment of Certain Farm Workers

2015 Shareholder Vote Recommendations

The Board of Directors makes the following recommendations to shareholders:

	Board s Recommendation	Page
Item 1: Election of Directors	**FOR each nominee**	**13**
Item 2: Ratification of the Selection of Independent Auditors	**FOR**	**59**

Table of Contents

BOARD OPERATIONS AND GOVERNANCE

Board Responsibility and Meetings

The primary responsibility of the Board of Directors is to foster the long-term success of the Company, consistent with its statutory duty to the shareholders. The Board has responsibility for establishing broad corporate policies, setting strategic direction, and overseeing management, which is responsible for the day-to-day operations of the Company. In fulfilling this role, each director must exercise his or her good faith business judgment of the best interests of the Company.

The Board holds regular meetings, typically during the months of February, March, May, June, September and December, and additional meetings when necessary. The organizational meeting follows immediately after the Annual Meeting of Shareholders. The Board held six regular meetings in 2014. The Board meets in executive session regularly with no members of management being present. Directors are expected to attend Board meetings, the Annual Meeting of Shareholders and meetings of the Committees on which they serve, with the understanding that on occasion a director may be unable to attend a meeting. During 2014, all nominees for director attended at least 75% of the aggregate number of meetings of the Board and all Committees on which they served, and each of the nominee directors then in office attended the 2014 Annual Meeting of Shareholders.

Governance Guidelines, Policies and Codes

The Board has adopted Corporate Governance Guidelines. In 2014, the Audit Committee approved a substantial revision to the Company s Code of Conduct. The revised document, known as the Guidebook to Success, is an interactive, plain language tool that describes the fundamental beliefs and attributes that unite and guide us in pursuing PMI s goals, illustrates how to meet our commitments to these beliefs and attributes, and explains why it is critical to do so. The Guidebook applies to all employees, including the Company s principal executive officer, principal financial officer, and principal accounting officer or controller. The Board has also adopted a Code of Business Conduct and Ethics that applies to directors. The Board has also adopted a policy with regard to reviewing certain transactions in which the Company is a participant and an officer, director or nominee for director has, had or may have a direct or indirect material interest. All of these documents are available free of charge on the Company s website, www.pmi.com/governance, and will be provided free of charge to any shareholder requesting

a copy by writing to the Corporate Secretary, Philip Morris International Inc., 120 Park Avenue, New York, New York 10017-5579.

The information on the Company s website is not, and shall not be deemed to be, a part of this proxy statement or incorporated into any other filings the Company makes with the U.S. Securities and Exchange Commission.

Leadership Structure

The Board does not believe that any particular leadership structure is inherently superior to all others under all circumstances. Rather, it determines from time to time the structure that best serves the interests of the Company and its shareholders under the then prevailing circumstances. Between the time we became an independent public company in 2008 and until our 2013 Annual Meeting of Shareholders, Louis Camilleri served as our Chairman and Chief Executive Officer, and the Company thrived under that leadership model.

Pursuant to the Board s plan for Mr. Camilleri s succession, André Calantzopoulos was appointed Chief Executive Officer effective immediately following the Annual Meeting of Shareholders on May 8, 2013. Mr. Camilleri remained as Chairman and as an employee of the Company. Effective December 31, 2014, Mr. Camilleri retired as an employee, and the Board determined that it is in the Company s best interest for him to continue as a non-employee Chairman.

As Chairman, Mr. Camilleri facilitates communication between the Board and management and assists the CEO in long-term strategy. He presides at all meetings of shareholders and of the Board and assists in the preparation of agendas and materials for Board meetings, working together with the Presiding Director, who approves the agendas before they are disseminated to the Board. Input is sought from all directors as to topics they wish to review. Mr. Camilleri is not an independent Chairman, and the Board will continue to have a Presiding Director as described immediately below.

Presiding Director

The non-management directors annually elect at the organizational meeting one independent director to be the Presiding Director. The Presiding Director s responsibilities are to:

¡ preside over executive sessions of the non-management directors and at all meetings at which the Chairman is not present;

Table of Contents

BOARD OPERATIONS AND GOVERNANCE

- call meetings of the non-management directors as he or she deems necessary;
- serve as liaison between the Chief Executive Officer and the non-management directors;
- approve agendas and schedules for Board meetings;
- advise the Chairman and the Chief Executive Officer of the Board s informational needs and approve information sent to the Board;
- together with the Chairman of the Compensation and Leadership Development Committee, communicate goals and objectives to the Chief Executive Officer and the results of the evaluation of his performance; and
- be available for consultation and communication if requested by major shareholders.

The Presiding Director is invited to attend all meetings of Committees of the Board. Lucio A. Noto currently serves as the Presiding Director.

Committees of the Board

The Board has established various standing Committees to assist it with the performance of its responsibilities.

These Committees and their current members are listed below. The Board designates the members of these Committees and the Committee Chairs annually at its

organizational meeting following the Annual Meeting of Shareholders, based on the recommendations of the Nominating and Corporate Governance Committee. The Board has adopted written charters for each of these Committees and these charters are available on the Company s website at www.pmi.com/governance. The Chair of each Committee develops the agenda for that Committee and determines the frequency and length of Committee meetings. Each Committee meets as often as it deems to be appropriate and each has sole authority to retain its own legal counsel, experts and consultants.

The Audit Committee, the Compensation and Leadership Development Committee, and the Nominating and Corporate Governance Committee each consists entirely of non-management directors, all of whom the Board has determined are independent within the meaning of the listing standards of the New York Stock Exchange and Rule 10A-3 of the Securities Exchange Act of 1934, as amended (the Exchange Act). The Board has determined that all members of the Audit Committee are financially literate and that Lucio A. Noto is an audit committee financial expert within the meaning set forth in the regulations of the Securities and Exchange Commission. No member of the Audit

Committee, the Compensation and Leadership Development Committee or the Nominating and Corporate Governance Committee received any payments in 2014 from Philip Morris International Inc. or its subsidiaries other than compensation received as a director.

Committees and 2014 Meetings	Current Members	Purpose, Authority and Responsibilities
AUDIT 2014 Meetings: 9	- **Lucio A. Noto (Chair)** - Jennifer Li - Jun Makihara - Sergio Marchionne - Stephen M. Wolf	**Purpose:** to assist the Board in its oversight of: ¡ the integrity of the financial statements and financial reporting processes and systems of internal control; ¡ the qualifications, independence and performance of the independent auditors; ¡ the internal audit function; and ¡ the Company s compliance with legal and regulatory requirements. **Authority and Responsibilities:** ¡ sole authority for appointing, compensating, retaining and overseeing the work of the independent auditors; ¡ evaluate the internal audit function; ¡ evaluate the compliance function; ¡ monitor cybersecurity risks; ¡ review financial risk assessment and management; and ¡ establish whistleblower procedures and review claims of improper conduct.

Table of Contents

BOARD OPERATIONS AND GOVERNANCE

Committees and 2014 Meetings	Current Members	Purpose, Authority and Responsibilities
COMPENSATION AND LEADERSHIP DEVELOPMENT 2014 Meetings: 7	**- Stephen M. Wolf (Chair)** - Harold Brown - Werner Geissler - Sergio Marchionne - Robert B. Polet	**Purpose:** ¡ discharge the Board s responsibilities relating to executive compensation; ¡ produce a report for inclusion in the proxy statement; and ¡ review succession plans for the CEO and other senior executives. **Authority and Responsibilities:** ¡ review and approve the Company s overall compensation philosophy and design; ¡ review and approve corporate goals and objectives relevant to the compensation of the CEO, evaluate his performance and determine and approve his compensation; ¡ review and approve the compensation of all executive officers; ¡ recommend to the Board compensation plans and administer and make awards under such plans and review the cumulative effect of its actions; ¡ monitor compliance by executives with our stock ownership requirements; ¡ review and assist the development of executive

		succession plans, evaluate and make recommendations to the Board regarding potential CEO candidates and evaluate and approve candidates to fill other senior executive positions; ¡ review and discuss with management proposed disclosures regarding executive compensation matters; and ¡ recommend to the Board whether the Compensation Discussion and Analysis should be accepted for inclusion in the proxy statement and annual report.
FINANCE 2014 Meetings: 4	**- Jennifer Li (Chair)** - Harold Brown - Werner Geissler - Jun Makihara - Sergio Marchionne - Kalpana Morparia - Lucio A. Noto - Frederik Paulsen - Robert B. Polet - Stephen M. Wolf	**Purpose, Authority and Responsibilities:** ¡ monitor PMI s financial performance and condition; ¡ oversee sources and uses of cash flow and capital structure; ¡ advise the Board on dividends, share repurchases and other financial matters; ¡ advise the Board on PMI s long-term financing plans, short-term financing plans and credit facilities; ¡ monitor PMI s cash management function; ¡ monitor PMI s pension plans, including funded status and performance; and ¡ monitor PMI s investor relations and stock market performance.
NOMINATING AND CORPORATE GOVERNANCE 2014 Meetings: 5	**- Kalpana Morparia (Chair)** - Jennifer Li - Sergio Marchionne - Lucio A. Noto - Robert B. Polet	**Purpose:** ¡ identify qualified candidates for Board membership; ¡ recommend nominees for election at the annual meeting; ¡ advise the Board on corporate governance matters; and

	- Stephen M. Wolf	¡ oversee self-evaluation of the Board and each Committee. **Authority and Responsibilities:** ¡ review qualifications of prospective candidates for director; ¡ consider performance of incumbent directors; ¡ make recommendations to the Board regarding director independence and the function, composition and structure of the Board and its Committees; ¡ monitor lobbying activities; ¡ recommend corporate governance guidelines; and ¡ review director compensation.
PRODUCT INNOVATION AND REGULATORY AFFAIRS 2014 Meetings: 3	**- Harold Brown (Chair)** - Werner Geissler - Jun Makihara - Kalpana Morparia - Frederik Paulsen - Robert B. Polet - Stephen M. Wolf	**Purpose, Authority and Responsibilities:** ¡ monitor and review the development of new product strategies, with a particular focus on Reduced-Risk Products; ¡ monitor and review key legislative, regulatory and public policy issues; ¡ monitor and review the Company s programs on societal alignment issues; and ¡ meet with PMI s Scientific Advisory Board to review scientific developments.

Table of Contents

BOARD OPERATIONS AND GOVERNANCE

Board Risk Oversight

Risk oversight is conducted both by the Committees of the Board with respect to their areas of responsibility as well as by the full Board. The Audit Committee monitors risks relating to internal and financial controls, certain compliance matters and information technology and cybersecurity; the Finance Committee monitors risks relating to the sources and uses of the Company s cash flow and impact of the capital markets on the Company; the Compensation and Leadership Development Committee monitors risks relating to compensation design and payouts and management succession; the Product Innovation and Regulatory Affairs Committee monitors product and regulatory risks; and the Nominating and Corporate Governance Committee monitors risks relating to Board structure and processes and the Company s lobbying activities. The full Board monitors risks relating to the Company s business plan, as well as compliance and litigation.

Communications with the Board

Shareholders and other interested parties who wish to communicate with the Board may do so by writing to the Presiding Director, Board of Directors of Philip Morris International Inc., 120 Park Avenue, New York, New York 10017-5579. The non-management directors have established procedures for the handling of communications from shareholders and other interested parties and directed the Corporate Secretary to act as their agent in processing any communications received. All communications that relate to matters that are within the scope of the responsibilities of the Board and its Committees are to be forwarded to the Presiding Director. Communications that relate to matters that are within the responsibility of one of the Board Committees are also to be forwarded to the Chair of the appropriate Committee. Communications that relate to ordinary business matters that are not within the scope of the Board s responsibilities, such as customer complaints, are to be sent to the appropriate subsidiary. Solicitations, junk mail and obviously frivolous or inappropriate communications are not to be forwarded, but will be made available to any non-management director who wishes to review them.

BOARD OPERATIONS AND GOVERNANCE

Summary of Corporate Governance Practices

The Nominating and Corporate Governance Committee of the Board reviews our corporate governance practices regularly and proposes modifications to our principles and other key governance practices as warranted for adoption by the Board. The following summarizes our key principles and practices and refers you to the pages of this proxy statement where you will find a more detailed discussion of various items:

- the Board has a policy providing that **all directors are elected annually and by majority vote** rather than by a plurality (see page 13);
- the Audit, Compensation and Leadership Development, and Nominating and Corporate Governance Committees **consist entirely of independent directors**, all other Board Committees consist entirely of non-management directors, and the Board has no executive committee;
- the Board **elects the Chairman annually**;
- the non-management directors **elect the Presiding Director annually** (see page 7);
- directors may be **removed with or without cause**;
- the **non-management directors meet in executive session** regularly without any members of management being present;
- the Board assesses its performance and the performance of Board Committees **annually**;
- PMI has **not adopted a poison pill rights plan**;
- the Board has **adopted a clawback policy** providing for the recovery of cash bonuses and equity compensation in appropriate circumstances (see page 39);

- the Board has **adopted stock ownership requirements and an anti-hedging policy** for executives intended to align their interests with those of our shareholders and to protect against inappropriate risk taking (see page 39);

- we **do not gross up** our named executive officers to offset their taxes on imputed income on the limited perquisites we provide;

- the Philip Morris International Inc. 2012 Performance Incentive Plan includes a **double-trigger feature** to the vesting provisions following a change in control as described on page 55; and

- as its primary long-term incentive tool and its only form of equity award, the **Board uses deferred stock awards** that are awarded on the basis of a **rolling prior three-year total shareholder return** and generally vest three years after grant   these awards are substantially less dilutive than stock options and the amount of the annual awards is based on completed performance, and awards are valued on the grant date which, by design, is the date we release our annual earnings information.

ELECTION OF DIRECTORS

Process for Nominating Directors

The Nominating and Corporate Governance Committee is responsible for identifying and evaluating nominees for director and for recommending to the Board a slate of nominees for election at the Annual Meeting of Shareholders.

In evaluating the suitability of individuals for Board membership, the Committee takes into account many factors, including whether the individual meets requirements for independence; the individual s general understanding of the various disciplines relevant to the success of a large publicly-traded company in today s global business environment; the individual s understanding of the Company s global businesses and markets; the individual s professional expertise and educational background; and other factors, including nationality, that promote diversity of views and experience. The Committee evaluates each individual in the context of the Board as a whole, with the objective of recommending a group of directors that can best perpetuate the success of the business and represent shareholder interests through the exercise of sound judgment, using its breadth of knowledge and experience. In determining whether to recommend a director for re-election, the Committee also considers the director s attendance at meetings and participation in and contributions to the activities of the Board. The Committee has not established any specific minimum qualification standards for nominees to the Board, although from time to time the Committee may identify certain skills or attributes, such as financial experience, global business experience and scientific expertise, as being particularly desirable to help meet specific Board needs that have arisen.

In identifying potential candidates for Board membership, the Committee relies on suggestions and recommendations from the Board, shareholders, management and others. The Committee does not distinguish between nominees recommended by shareholders and other nominees. From time to time, the Committee also retains search firms to assist it in identifying potential candidates for director, gathering information about the background and experience of such

candidates and acting as an intermediary with such candidates. In 2014, the Committee recommended three new candidates to the Board. These candidates were initially recommended to the Committee by our Presiding Director, in the case of Mr. Makihara, our CEO, in the case of Dr. Paulsen, and by a search firm, in the case of Mr. Geissler.

Shareholders wishing to suggest candidates to the Committee for consideration as directors must submit a written notice to the Corporate Secretary, who will provide it to the Committee. Our by-laws set forth the procedures a shareholder must follow to nominate directors. These procedures are summarized in this proxy statement under the caption 2016 Annual Meeting.

Recommendations of the Board

It is proposed that twelve directors be elected to hold office until the next Annual Meeting of Shareholders and until their successors have been elected. The Nominating and Corporate Governance Committee has recommended to the Board, and the Board has approved, the persons named and, unless otherwise marked, a proxy will be voted for such persons. Each of the nominees currently serves as a director and each was elected by the shareholders at the 2014 Annual Meeting, except for Mr. Makihara and Dr. Paulsen, who joined the Board in September 2014, and Mr. Geissler, who joined the Board January 1, 2015. The Board believes that the experience, qualifications, attributes and skills of each of the nominees presented qualify them to deal with the complex global, regulatory and financial issues that the Company faces, and that the Board as a whole provides a breadth of knowledge, international experience, intellectual rigor and willingness to face tough issues. Three-quarters of the nominees, two of whom are women, are non-U.S. nationals and ten different nationalities are represented, underscoring the global perspective of the Board taken as a whole.

In recommending and nominating Mr. Marchionne, the Nominating and Corporate Governance Committee and the Board, respectively, took note of Mr. Marchionne s membership on various boards of directors. The Board unanimously recommends Mr. Marchionne for his significant and valuable contributions to its deliberations.

Table of Contents

ELECTION OF DIRECTORS

Although it is not anticipated that any of the persons named below will be unable or unwilling to stand for election, a proxy, in the event of such an occurrence, may be voted for a substitute designated by the Board. However, in lieu of designating a substitute, the Board may amend the Company s by-laws to reduce the number of directors.

The Board recommends a vote FOR each of

the nominees identified below.

Independence of Nominees

After receiving the recommendation of the Nominating and Corporate Governance Committee, the Board has determined that each of the following nominees for director is independent of and has no material relationship with the Company: Harold Brown, Werner Geissler, Jennifer Li, Jun Makihara, Sergio Marchionne, Kalpana Morparia, Lucio A. Noto, Frederik Paulsen, Robert B. Polet and Stephen M. Wolf. To assist it in making these determinations, the Board has adopted categorical standards of director independence that are set forth in the Corporate Governance Guidelines, which are available on the Company s website at www.pmi.com/governance. Each of the above-named nominees qualifies as independent under these standards.

In making its affirmative determination that Mr. Marchionne is independent, the Board considered the fact that the Company has a sponsorship agreement with Ferrari, a majority-owned subsidiary of Fiat. The amounts involved in the sponsorship agreement fall significantly below 2% of Fiat s consolidated gross revenues, the threshold that, if exceeded, would preclude a determination of director independence under the Company s categorical standards of director independence.

The sponsorship agreement with Ferrari dates back to 1984, well before Mr. Marchionne became CEO of Fiat in 2004. The agreement and its renewals have been negotiated on an arms-length basis with executives of Ferrari, and Mr. Marchionne has not been involved in any aspect of the negotiations or the agreement and has no direct or indirect material interest in the agreement.

In making the affirmative determination that Ms. Morparia is independent, the Board considered the fact that the Company has routine commercial relationships with J.P. Morgan Chase, the parent company of Ms. Morparia s employer. Payments by the Company to J.P. Morgan Chase are immaterial and Ms. Morparia has no direct or indirect material interest in these routine commercial relationships. Ms. Morparia has never represented J.P. Morgan Chase in connection with its provision of services to the Company, the Company has no commercial relationship with Ms. Morparia s employer, and her compensation is not affected by any banking relationship between the Company and J.P. Morgan Chase.

Majority Vote Standard in Uncontested Elections

All directors are elected annually. The Company s by-laws provide that, where the number of nominees for director does not exceed the number of directors to be elected, directors shall be elected by a majority rather than by a plurality vote. Under applicable law, a director s term extends until his or her successor is duly elected and qualified. Thus, an incumbent director who fails to receive a majority vote would continue to serve as a holdover director. To address that possibility, our Corporate Governance Guidelines require a director who receives less than a majority of the votes cast to offer to resign. The Nominating and Corporate Governance Committee would then consider the offer and recommend to the Board whether to accept or reject the offer.

Table of Contents

ELECTION OF DIRECTORS

Director Nominees

				Current Committee Membership					
inee	Director Since	Nationality	Experience and Qualifications Highlights	Independent	Audit	Compensation and Leadership Development	Finance	Nominating and Corporate Governance	Produ Innovat and Regulat Affai
old Brown	2008	USA	¡ Civic Leadership ¡ Geopolitical and Governmental Affairs ¡ Science and Technology ¡ Academic and Research	ü		ü	ü		Chai
ré Calantzopoulos	2013	Greece / Switzerland	¡ Senior Executive ¡ Tobacco Industry ¡ Operations ¡ Global Business						
is C. Camilleri	2008	UK	¡ Senior Executive						

			¡ Tobacco Industry ¡ Operations ¡ Global Business ¡ Financial						
rner Geissler	2015	Germany	¡ Global Consumer Products ¡ Senior Executive ¡ Operations ¡ Financial ¡ Civic Leadership	ü		ü	ü		ü
nifer Li	2010	China	¡ Senior Executive ¡ Financial ¡ Technology ¡ Global Business	ü	ü		Chair	ü	
Makihara	2014	Japan	¡ Global Business ¡ Global Finance	ü	ü		ü		ü
gio Marchionne	2008	Italy / Canada	¡ Senior Executive ¡ Financial ¡ Law ¡ Global Automotive Business	ü	ü	ü	ü	ü	
pana Morparia	2011	India	¡	ü			ü	Chair	ü

			Senior Executive ¡ Global Finance ¡ Law ¡ Risk Management					
io A. Noto	2008	USA	¡ Senior Executive ¡ Operations ¡ Financial ¡ Global Business	ü (Presiding Director)	Chair	ü	ü	
lerik Paulsen	2014	Sweden	¡ Global Pharmaceutical ¡ Senior Executive/ Entrepreneur ¡ Civic Leadership ¡ Academic and Research	ü		ü		ü

Table of Contents

ELECTION OF DIRECTORS

					Current Committee Membership				
Nominee	Director Since	Nationality	Experience and Qualifications Highlights	Independent	Audit	Compensation and Leadership Development	Finance	Nominating and Corporate Governance	Product Innovation and Regulatory Affairs
Robert B. Polet	2011	Netherlands	¡ Senior Executive ¡ Global Consumer and Luxury Products ¡ Marketing	ü		ü	ü	ü	ü
Stephen M. Wolf	2008	USA	¡ Senior Executive ¡ Global Business ¡ Operations	ü	ü	Chair	ü	ü	ü

Table of Contents

ELECTION OF DIRECTORS

Director Nominees

HAROLD BROWN

Primary

Occupation:

Counselor, Center

for Strategic and International

Studies

Director since:

2008

Age: 87

Professional Experience:

Dr. Brown has been a Counselor at the Center for Strategic and International Studies since 1992. He was a partner of Warburg Pincus, a leading private equity firm, from 1990 until he retired from the firm in January 2007. Previously, he was Chairman of the Foreign Policy Institute at The Johns Hopkins University School of Advanced International Studies. Dr. Brown is President Emeritus of the California Institute of Technology and served as Secretary of Defense for the United States from 1977 through 1981.

Other Directorships and Associations:

Dr. Brown is a member of the board of directors of Chemical Partners, Inc. and is an emeritus trustee of the California Institute of Technology, of the Trilateral Commission (North America) and of the RAND Corporation. Dr. Brown served as a director of Altria Group, Inc. from 1983 to April 2003, and again from December 2004 to March 2008.

PMI Board Committees:

Dr. Brown is Chair of the Product Innovation and Regulatory Affairs Committee and a member of the Compensation and Leadership Development and Finance Committees.

Director Qualifications:

Dr. Brown combines a scientist s intellect with an extensive knowledge and unique experience of international geopolitical and governmental affairs that are of particular benefit to the Board in his role as Chair of the Product Innovation and Regulatory Affairs Committee.

ANDRÉ CALANTZOPOULOS

Primary Occupation: Chief Executive Officer

Director since: 2013

Age: 57

Professional Experience:

Mr. Calantzopoulos became our Chief Executive Officer immediately following our Annual Meeting of Shareholders on May 8, 2013. He served as our Chief Operating Officer since our spin-off on March 28, 2008, and until becoming CEO. Mr. Calantzopoulos served as PMI s President and Chief Executive Officer between 2002 and the date of our spin-off. He joined the Company in 1985 and worked extensively across Central Europe, including as Managing Director of PM Poland and President of the Eastern European Region.

Director Qualifications:

Mr. Calantzopoulos s intellect and all-encompassing knowledge of the Company serve him well as CEO and as a member of the Board. He has played an instrumental role in numerous key initiatives, including critical innovative developments, such as the new architecture that has revitalized the *Marlboro* brand, new product development, including Reduced-Risk Products, and revamped consumer engagement activities that drove our broad-based market share gains in both OECD and non-OECD markets.

Table of Contents

ELECTION OF DIRECTORS

LOUIS C. CAMILLERI

Primary Occupation:

Chairman of the Board

Director since:

2008

Age: 60

Professional Experience:

Mr. Camilleri is our Chairman, having served as our Chairman and Chief Executive Officer from our spin-off in 2008 until the 2013 Annual Meeting of Shareholders. Mr. Camilleri remained as Chairman and an employee of the Company following the 2013 Annual Meeting. He retired effective December 31, 2014, and continues to serve as a non-employee Chairman. Before our spin-off, Mr. Camilleri was Chairman and Chief Executive Officer of Altria Group, Inc., positions he had held since 2002. From November 1996 to April 2002, he served as Senior Vice President and Chief Financial Officer of Altria Group, Inc. He had been employed continuously by Altria Group, Inc. and its subsidiaries (including Philip Morris International Inc.) in various capacities since 1978.

Other Directorships and Associations:

Mr. Camilleri was appointed to the Board of Directors of América Móvil, S.A.B. de C.V. in April 2011, and previously served on the Board of Telmex International SAB from December 2009 to April 2011. Mr. Camilleri was a director of Kraft Foods Inc. from March 2001 to December 2007 and was Kraft s Chairman from September 2002 to March 2007.

Director Qualifications:

Mr. Camilleri s extensive and detailed knowledge of the Company and the tobacco industry and an incisive strategic view, combined with his transparency and open-mindedness, serve him well in his ongoing role as Chairman of the Board.

WERNER GEISSLER

Primary

Professional Experience:

Mr. Geissler served as Vice Chairman and Advisor to the CEO of Procter and Gamble until his retirement on December 31, 2014. He joined that company in 1979 and served in various capacities, including President, Northeast Asia, from 2001 to 2004, Group President, Central

Occupation:

Operating Partner,

Advent International

Director since:

2015

Age: 61

and Eastern Europe, Middle East and Africa, from 2004 to 2007, and Vice Chairman, Global Operations, from 2007 to 2014.

Other Directorships and Associations:

Mr. Geissler is a director of the Goodyear Tire and Rubber Company.

PMI Board Committees:

Mr. Geissler is a member of the Compensation and Leadership Development, Finance, and Product Innovation and Regulatory Affairs Committees.

Director Qualifications:

Mr. Geissler has a keen knowledge of the global consumer products business, having served as a senior consumer products executive in many of the Company s most important markets and regions.

Table of Contents

ELECTION OF DIRECTORS

JENNIFER LI

Primary Occupation: Chief Financial Officer, Baidu Inc.	**Professional Experience:** Ms. Li joined Baidu Inc., the largest Internet search engine in China and the third-largest independent search engine in the world, in March 2008, as Chief Financial Officer, responsible for a wide range of corporate functions, including Finance, Human Resources, International Operations, Marketing, Communications and Purchasing. Previously, from 1994 to 2008, she held a number of senior finance positions at various General Motors companies in China, Singapore, the United States and Canada, rising to Chief Financial Officer of GM s business in China and Financial Controller of the North American Operations of GMAC.
Director since: 2010	**PMI Board Committees:** Ms. Li is the Chair of the Finance Committee and a member of the Audit and Nominating and Corporate Governance Committees.
Age: 47	**Director Qualifications:** Ms. Li s strong financial expertise, experience in a fast-growing, high-tech business and Asian background strengthen the Board s depth and global perspective.

JUN MAKIHARA

Primary Occupation: Chairman,	**Professional Experience:** Mr. Makihara was employed at Goldman, Sachs & Co. from 1981 to 2000, during which time he was a General Partner for six years, working in New York, Los Angeles, and Tokyo. During his tenure in Tokyo, he was co-head of the Investment Banking Group and the Japanese Equities Group and also served as co-branch manager. Subsequently, he was Chairman of Neoteny Co., Ltd., a Japanese venture incubator.

Neoteny Co., Ltd.

Director since:

2014

Age: 57

Other Directorships and Associations:

Mr. Makihara is a director of Monex Group, Inc. and Shinsei Bank, Ltd. He is a member of the Governing Board of St. Albans School in Washington, D.C., and a board member of the Japan Society in New York. He also served on the board of RHJ International from 2005 to 2014.

PMI Board Committees:

Mr. Makihara is a member of the Audit, Finance, and Product Innovation and Regulatory Affairs Committees.

Director Qualifications:

Mr. Makihara brings to the Board his deep experience in finance, an entrepreneurial spirit, and a thorough knowledge of business in Asia, one of the Company s most important segments.

Table of Contents

ELECTION OF DIRECTORS

SERGIO MARCHIONNE

Primary Occupation:

Chief Executive Officer, Fiat Chrysler Automobiles N.V.

Chairman, CNH Industrial N.V.

Director since: 2008

Age: 62

Professional Experience:

Mr. Marchionne is Chief Executive Officer of Fiat Chrysler Automobiles N.V., having become a member of the Board of Directors of a predecessor of that company, Fiat S.p.A., in May 2003. He is also Chairman of CNH Industrial N.V. Mr. Marchionne has been a member of the Board of SGS S.A. since May 2001, serving as the Chief Executive and Managing Director from 2002 to 2004 and Chairman since March 2006. Mr. Marchionne is a director of Exor S.p.A., an investment company that, directly or indirectly, holds significant equity investments in Fiat Chrysler and CNH. Mr. Marchionne is a chartered accountant and lawyer who, since beginning his career in 1983, has held executive positions at several firms prior to assuming his current positions.

Other Directorships and Associations:

Mr. Marchionne was a member of the Board of Directors of UBS from 2007 to 2010.

PMI Board Committees:

Mr. Marchionne serves on the Audit, Compensation and Leadership Development, Finance, and Nominating and Corporate Governance Committees.

Director Qualifications:

Trained as both a lawyer and an accountant and currently the chief executive of an international automotive manufacturer, Mr. Marchionne brings strategic insights and a hands-on multi-disciplinary approach to the Board, along with experience in many of the same international markets in which the Company does business.

KALPANA MORPARIA

Primary Occupation:

Chief Executive Officer, J.P. Morgan India Private Ltd.

Director since:

2011

Age: 65

Professional Experience:

Ms. Morparia assumed her current position with J.P. Morgan India Private Ltd. in 2008, and is a member of J.P. Morgan s Asia Pacific Management Committee. Prior to joining J.P. Morgan India, Ms. Morparia served as Joint Managing Director of ICICI Bank, India s second-largest bank, from 2001 to 2008 and the Vice Chair of ICICI s insurance and asset management business from 2007 to 2008.

Other Directorships and Associations:

Ms. Morparia is a director of Dr. Reddy s Laboratories Ltd. and Hindustan Unilever Limited (HUL).

PMI Board Committees:

Ms. Morparia is Chair of the Nominating and Corporate Governance Committee and is a member of the Finance and Product Innovation and Regulatory Affairs Committees.

Director Qualifications:

With her strong executive leadership experience in finance, and her deep knowledge of international business, Ms. Morparia provides a keen perspective on economies in Asia.

Table of Contents

ELECTION OF DIRECTORS

LUCIO A. NOTO

Primary

Occupation:

Managing Partner, Midstream

Partners, LLC

Director since:

2008

Age: 76

Professional Experience:

Mr. Noto assumed his current position with Midstream Partners, LLC in March 2001. He retired as Vice Chairman of ExxonMobil Corporation in January 2001, a position he had held since the merger of the Exxon and Mobil companies in November 1999. Before the merger, Mr. Noto was Chairman and Chief Executive Officer of Mobil Corporation. Mr. Noto had been employed by Mobil continuously since 1962.

Other Directorships and Associations:

Mr. Noto is a director of Penske Automotive Group, Inc. and RHJ International. He also served on the boards of IBM from 1995 to 2008, Altria Group, Inc. from 1998 to 2008, Shinsei Bank from 2005 to 2008 and Commercial International Bank (Cairo) from 2006 to 2009.

PMI Board Committees:

Mr. Noto is the Presiding Director, the Chair of the Audit Committee and a member of the Finance and Nominating and Corporate Governance Committees.

Director Qualifications:

As the former chief financial officer and chief executive officer of a large, multi-national oil company, together with his past governance experience serving on the boards and audit committees of a number of major international companies, Mr. Noto brings an extensive knowledge of internal controls and risk assessment to his Audit Committee role and a strong hands-on approach as Presiding Director.

FREDERIK PAULSEN

Professional Experience:

Dr. Paulsen has been Chairman of the Ferring Group, a research-driven, specialty biopharmaceutical group, since 1988, having joined that company in 1976.

Primary

Occupation:

Chairman,

Ferring Group

Other Directorships and Associations:

Dr. Paulsen is a member of the Boards of MGIMO University in Moscow, Russia, and the Pro Universitate of the Christian Albrechts University in Kiel, Germany, and a Trustee of the Salk Institute of Biological Research in La Jolla, California, USA.

Director since:

2014

PMI Board Committees:

Dr. Paulsen is a member of the Finance and Product Innovation and Regulatory Affairs Committees.

Age: 64

Director Qualifications:

Dr. Paulsen s substantial experience as head of a successful multinational biopharmaceutical group, together with his scientific background, bring a unique perspective to the Company s critical efforts to develop Reduced-Risk Products.

Table of Contents

ELECTION OF DIRECTORS

ROBERT B. POLET

Primary Occupation:

Chairman, Safilo Group S.p.A.

Director since:

2011

Age: 59

Professional Experience:

Mr. Polet is currently serving as Chairman of Safilo Group S.p.A. He was President, Chief Executive Officer and Chairman of the Management Board of the Gucci Group from 2004 until March 2011. Previously, Mr. Polet spent 26 years in the Unilever Group in a variety of executive roles, including President of Unilever s Worldwide Ice Cream and Frozen Foods division, Chairman of Unilever Malaysia, Chairman of Van den Bergh and Executive Vice President of Unilever s European Home and Personal Care division.

Other Directorships and Associations:

Mr. Polet is a director of Reed Elsevier PLC/NV, William Grant & Sons and Crown Topco Limited, parent company of Vertu.

PMI Board Committees:

Mr. Polet serves on the Compensation and Leadership Development, Finance, Nominating and Corporate Governance, and Product Innovation and Regulatory Affairs Committees.

Director Qualifications:

In his previous position, Mr. Polet was responsible for managing such global luxury brands as Gucci, Bottega Veneta, Yves Saint Laurent, Boucheron, Balenciaga, Sergio Rossi, Alexander McQueen and Stella McCartney. He brings to the Board his considerable entrepreneurial business experience in the global luxury business and his deep executive background running major consumer packaged goods businesses, as well as his extensive knowledge of global markets.

STEPHEN M. WOLF

Primary Occupation:

Managing Partner, Alpilles, LLC

Director since:

2008

Age: 73

Professional Experience:

Mr. Wolf has been Managing Partner of Alpilles, LLC since April 2003. Previously, he was Chairman of US Airways Group from November 2001 to April 2003, and Chief Executive Officer of US Airways, Inc. from January 1996 to November 1998. Prior to joining US Airways, he had served since August 1994 as senior advisor in the investment banking firm of Lazard Frères & Co., LLC. From 1987 to July 1994, he was Chairman and Chief Executive Officer of UAL Corporation and United Air Lines, Inc.

Other Directorships and Associations:

Mr. Wolf is Chairman of the Advisory Board of Trilantic Capital Partners and a director of Fiat Chrysler Automobiles N.V. Mr. Wolf served as Chairman of R.R. Donnelley & Sons Company from 2004 to 2014. From 1993 to 2008, Mr. Wolf served as a director of Altria Group, Inc. He is a trustee emeritus of the Brookings Institute.

PMI Board Committees:

Mr. Wolf is Chair of the Compensation and Leadership Development Committee and a member of the Audit, Finance, Nominating and Corporate Governance, and the Product Innovation and Regulatory Affairs Committees.

Director Qualifications:

As a former chief executive officer of four New York Stock Exchange listed companies, and with experience on the boards of a number of companies, Mr. Wolf provides a strong focus in his position as Chair of the Compensation and Leadership Development Committee in ensuring that the Company has the right compensation processes in place and programs to develop future leaders.

Table of Contents

COMPENSATION OF DIRECTORS

Directors who are full-time employees of the Company receive no additional compensation for services as a director. With respect to non-employee directors, the Company s philosophy is to provide competitive compensation necessary to attract and retain high-quality non-employee directors. The Board believes that a substantial portion of director compensation should consist of equity-based compensation to assist in aligning directors interests with the interests of shareholders.

The Nominating and Corporate Governance Committee periodically benchmarks director compensation against the Company s Compensation Survey Group (defined on page 38), considers the appropriateness of the form and amount of director compensation and makes recommendations to the Board concerning such compensation with a view toward attracting and retaining qualified directors. Based on the latest available data, total compensation for the Company s non-employee directors ranked in the top quartile of the Company s Compensation Survey Group.

At his request, Dr. Paulsen serves as a director without compensation. Except for the Chairman, all other non-employee directors receive an annual cash retainer of $125,000 and a retainer of $5,000 for each Committee of which they are a member. The Chairman receives an annual cash retainer of $1.25 million. The Presiding Director receives an additional annual retainer of $25,000 and the chairs of each Committee receive an additional annual retainer of $35,000 for services rendered in connection with those responsibilities. Directors do not receive meeting fees.

Summary of Directors Compensation

PMI provides competitive compensation levels to attract and retain high-quality non-employee directors, and it uses a substantial component of equity-based compensation.

Compensation levels are benchmarked to our Compensation Survey Group.

Annual cash retainer:	**$125,000**
Annual equity award:	**$175,000**
Chairman annual cash retainer:	**$1,250,000**
Chairman annual equity award:	**$1,250,000**
Presiding Director retainer:	**$25,000**
Committee Chair retainer:	**$35,000**
Committee member retainer:	**$5,000**
Committee meeting fees:	**None**
Stock Options:	**None**

Pursuant to the 2008 PMI Stock Compensation Plan for Non-Employee Directors, each non-employee director then in office received an annual share award on May 7, 2014, of that number of shares of common stock having an aggregate fair market value of $175,000 on the date of grant (2,047 shares of common stock with a fair market value of $85.52 per share). As a non-employee Chairman, Mr. Camilleri will receive an annual share award having a value of $1.25 million. He will also continue to use Company aircraft for all travel on the same terms as described on page 43.

Table of Contents

COMPENSATION OF DIRECTORS

The following table presents the compensation received by the non-employee directors for fiscal year 2014.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	All Other Compensation ($)	Total ($)
Harold Brown	175,000	175,000	_	350,000
Werner Geissler (1)	_	_	_	_
Jennifer Li	166,250	175,000	_	341,250
Jun Makihara (2)	43,169	116,667	_	159,836
Sergio Marchionne	145,000	175,000	_	320,000
Kalpana Morparia	175,000	175,000	_	350,000
Lucio A. Noto	191,250	175,000	_	366,250
Frederik Paulsen (3)	_	_	_	_
Robert B. Polet	145,000	175,000	_	320,000
Carlos Slim Helú	135,000	175,000	_	310,000
Stephen M. Wolf	185,000	175,000	_	360,000

(1) Mr. Geissler joined the Board effective January 1, 2015.

(2) Mr. Makihara s cash retainer and stock award for 2014 were pro-rated to reflect his joining the Board in September 2014.

(3) At his request, Dr. Paulsen serves as a director without compensation.

Non-employee directors may also elect to defer the award of shares of common stock and all or part of the annual and committee retainers. Deferred fee amounts are credited to an unfunded account and may be invested in eight investment choices, including a PMI common stock equivalent account. These investment choices parallel the investment options offered to employees under the PMI Deferred Profit-Sharing Plan and determine the earnings that are credited for bookkeeping purposes to a non-employee director s account. Subject to certain restrictions, a non-employee director is permitted to take cash distributions, in whole or

in part, from his or her account either prior to or following termination of service.

The Company reimburses non-employee directors (other than Dr. Paulsen) for their reasonable expenses incurred in attending Board of Directors, Committee and shareholder meetings and other corporate functions, including travel, meals and lodging. Non-employee directors (other than Dr. Paulsen) also are covered by business travel and accident insurance, which the Company maintains for their benefit when they travel on Company business, as well as group life insurance.

Table of Contents

STOCK OWNERSHIP INFORMATION

Ownership of Equity Securities

The following table shows the number of shares of common stock beneficially owned as of March 13, 2015, by each director, nominee for director and executive officer named in the Summary Compensation Table and the directors and executive officers of the Company as a group. Unless otherwise indicated, each of the named individuals has sole voting and investment power with respect to the shares shown. The beneficial ownership of each director, nominee for director and executive officer, and of the directors, nominees for director and executive officers as a group, is less than 1% of the outstanding shares.

Name	Amount and Nature of Beneficial Ownership [1]
Harold Brown	46,165
André Calantzopoulos	760,492
Louis C. Camilleri	952,814
Marc Firestone	207,080
Werner Geissler	719
Martin King	152,772
Jennifer Li	12,395
Jun Makihara	1,423
Sergio Marchionne	59,734
Kalpana Morparia	6,822
Lucio A. Noto	86,936
Jacek Olczak	223,792
Matteo Pellegrini	268,888
Frederik Paulsen	0
Robert B. Polet	8,351
Carlos Slim Helú	320,009
Stephen M. Wolf	71,946
Miroslaw Zielinski	208,672
Group (28 persons)	4,200,785

(1) Includes shares of deferred stock as follows: Dr. Brown, 30,256; Mr. Calantzopoulos, 268,070; Mr. Firestone, 190,580; Mr. King, 62,630; Mr. Makihara, 1,423; Mr. Noto, 47,358; Mr. Olczak, 112,550; Mr. Pellegrini, 62,340; Mr. Slim, 11,901; Mr. Wolf, 48,624; Mr. Zielinski, 77,490; and group, 1,283,062. Also includes 17,085 shares as to which beneficial ownership is disclaimed by Mr. Noto (shares held by spouse). Also includes 300,000 shares as to which Mr. Slim shares voting and/or investment power with others and has disclaimed beneficial ownership except to the extent of his pecuniary interest therein. Also includes 15,909 shares held in trust as to which Dr. Brown shares voting and/or investment power with others and as to which he has not disclaimed beneficial

ownership.

In addition to the shares shown in the table above, as of March 13, 2015, those directors who participate in the Company s director deferred fee program had the following PMI share equivalents allocated to their accounts: Mr. Makihara, 527; Mr. Noto, 75,136; Mr. Slim, 6,311; and Mr. Wolf, 26,732. See Compensation of Directors on page 23 for a description of the deferred fee program for directors.

Table of Contents

STOCK OWNERSHIP INFORMATION

The following table sets forth information regarding persons or groups known to the Company to be beneficial owners of more than 5% of the outstanding common stock.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned	Percent of Common Stock Outstanding on March 13, 2015
Capital Research Global Investors A division of Capital Research and Management Company (CRMC) 333 South Hope Street Los Angeles, CA 90071	88,454,518 (1)	5.71%
BlackRock, Inc. 55 East 52nd Street New York, NY 10022	85,659,829 (2)	5.53%
The Vanguard Group 100 Vanguard Blvd. Malvern, PA 19355	86,017,354 (3)	5.55%

(1) According to a Schedule 13G/A, dated February 11, 2015, filed with the U.S. Securities and Exchange Commission on February 13, 2015, by Capital Research and Management Company presenting the number of shares as of December 31, 2014.

(2) According to a Schedule 13G/A, dated January 12, 2015, filed with the U.S. Securities and Exchange Commission on February 2, 2015, by BlackRock, Inc. presenting the number of shares as of December 31, 2014.

(3)

According to a Schedule 13G, dated February 9, 2015, filed with the U.S. Securities and Exchange Commission on February 11, 2015, by The Vanguard Group presenting the number of shares as of December 31, 2014.

Section 16(a) Beneficial Ownership Reporting Compliance

The Company believes that during 2014 all reports for the Company s executive officers and directors that were required to be filed under Section 16 of the Securities Exchange Act of 1934 were filed on a timely basis.

Table of Contents

COMPENSATION DISCUSSION AND ANALYSIS

Executive Summary

Our Compensation Discussion and Analysis outlines the design of our executive compensation program components, the objectives and principles upon which they are based, our 2014 performance and the resulting decisions of the Compensation and Leadership Development Committee to reflect that performance in setting compensation for the Chief Executive Officer, the named executive officers identified in the Summary Compensation Table on page 42 and the other members of our senior management team.

Compensation and Leadership Development Committee

The Compensation and Leadership Development Committee consists entirely of non-management directors, all of whom our Board has determined are independent within the meaning of the listing standards of the New York Stock Exchange. Its responsibilities are described below and set forth in the Compensation and Leadership Development Committee Charter, which is available on the Company s website at www.pmi.com/governance. The members of the Committee are: Stephen M. Wolf (Chair), Harold Brown, Werner Geissler, Sergio Marchionne and Robert B. Polet. The Committee met seven times in 2014. The Chair of the Committee, in consultation with the other members, sets meeting agendas. The Committee reports its actions and recommendations to the Board.

Program Design, Philosophy and Objectives

Our compensation and benefits program supports our business and financial objectives. The program s components are set and periodically reviewed by the Committee. Each component is designed to achieve one or more of the following objectives:

- to support our ability to attract, develop and retain world-class leaders;
- to align the interests of executives and shareholders;
- to reward performance;
- to support long-term business growth, superior financial results, societal alignment and integrity of conduct; and

- to promote internal fairness and a disciplined qualitative and quantitative assessment of performance.

These objectives provide the framework for the various components of compensation and benefits and take into account the specific nature of our business. Together, these elements form an aggregate package that is intended to be appropriately competitive. The design of the overall package encompasses the following features:

- **a mix of fixed and at-risk compensation:** the higher the organizational level of the executive, the lower the fixed component of the overall compensation and benefits package;
- **a mix of annual and long-term compensation and benefits** to appropriately reward the achievement of annual goals and objectives and long-term performance aspirations;
- **a mix of cash and deferred equity compensation** that seeks to discourage actions that are solely driven by the stock price at any given time to the detriment of PMI s long-term strategic goals; and
- **an optimal balance of equity compensation**, together with significant stock ownership requirements, to align the interests of executives and shareholders while remaining mindful of the potential dilutive nature of equity compensation on shareholder value.

In determining the precise levels of each element of compensation, as well as the total compensation and benefits package awarded, the Committee exercises its business judgment and discretion in pre-establishing compensation ranges, setting the actual level of compensation within these ranges and reviewing total compensation design to assure that the various ranges remain appropriately competitive and continue to meet our objectives.

The Committee compares the Company s compensation practices and levels of pay to a Compensation Survey Group as further discussed on page 38. Our compensation program also reflects local practices and is designed to deliver total direct compensation upon

Table of Contents

COMPENSATION DISCUSSION AND ANALYSIS

attainment of targeted goals at the 75th percentile of the local market; actual total direct compensation can exceed the 75th percentile when business and individual performance exceed targeted goals, and can be significantly lower if goals are not met.

The Committee also compares the mix of compensation for our named executive officers to the compensation for those executives with similar roles in companies in our Compensation Survey Group.

Components of Our Total Direct Compensation Program

The three components of total direct compensation are base salary, annual incentive compensation awards and equity awards. We also provide our executives retirement benefits and limited perquisites.

Our total direct compensation program emphasizes pay-for-performance, and the one component that is fixed for a given year, base salary, constitutes the smallest portion of executive compensation. With respect to compensation earned in 2014, base salary constituted approximately 23% of total direct compensation for our named executive officers. The second component is the annual cash-based incentive compensation award that is determined by the

Committee based on individual and Company performance and that constituted approximately 24% of total direct compensation for our named executive officers in 2014. The third component is the equity award granted in 2015 that was determined based on 2014 individual performance and the Company s rolling three-year total shareholder return over the 2012 to 2014 period relative to our Compensation Survey Group, our tobacco peer group and the S&P 500 Index, and that constituted approximately 53% of total direct compensation for our named executive officers in 2014.

Component	Key Characteristics	Key Objective
Base Salary	¡ Fixed component of compensation reflecting the scope of the executive s role, performance and market pay practices.	¡ Intended to provide sufficient competitive base pay to attract, develop and retain world-class leaders.
Incentive Compensation (IC)	¡ Annual performance-based variable cash award for meeting pre-established performance goals.	¡ Intended to motivate executives to meet or exceed our performance goals and strategic objectives in a given

Awards	¡ Performance is assessed against annual operating targets, progress towards strategic initiatives and the executive s individual performance. ¡ Final award is based on the Committee s assessment of Company performance and the executive s individual performance factor.	fiscal year.
Equity Awards	¡ Performance-based long-term variable equity award based on the executive s contribution to increasing shareholder value. ¡ Contributes to all five of the Committee s program design objectives while minimizing share dilution and protecting against excessive risk taking. ¡ Amount of each annual award is based on the Committee s assessment of our total shareholder return (TSR) over the previous three-year period relative to the performance of our Compensation Survey Group, our tobacco peer group and the S&P 500 Index and the executive s individual performance factor. ¡ Equity awards generally vest three years after being granted.	¡ Intended to motivate our executives to achieve superior returns for our shareholders over the long-term.

Table of Contents

COMPENSATION DISCUSSION AND ANALYSIS

Changes in Compensation Structure

Last Year s Say-on-Pay Vote on 2013 Executive Compensation: In 2014, 96.22% of the votes cast at our Annual Meeting of Shareholders approved, on an advisory basis, the 2013 compensation of our named executive officers. Based on this vote and the many conversations the Company continues to have with our shareholders, the Compensation and Leadership Development Committee believes that shareholders strongly support the Committee s approach to aligning pay with performance.

Changes in Salary Banding Structure: Historically, the Company used a salary band structure for its executives, with letter-based bands ranging from A at the highest level through I at the lowest. Effective January 1, 2014, the Committee replaced the nine lettered salary bands with fifteen numeric grades ranging from 28 at the highest level to 14 at the lowest. The narrower salary levels under the new numeric system will afford the Company greater flexibility to differentiate job accountabilities and a more granular career progression ladder. The change in banding structure was not intended to have an immediate impact on the base salaries of most of the affected employees.

Recent Changes in Executive Compensation Levels and Mix: In 2013 and 2014, the Compensation and Leadership Development Committee took several significant actions regarding the absolute levels and the component mix of executive compensation. The first two of these actions reflected Mr. Calantzopoulos s succession as Chief Executive Officer and Mr. Camilleri s continuation as Chairman. This succession took place immediately after the 2013 Annual Meeting of Shareholders.

First, in connection with his appointment as CEO, effective May 8, 2013, Mr. Calantzopoulos was promoted from salary band B (now grade 26) to salary band A (now grade 28). Nevertheless, his annual base salary was maintained at its then existing level of CHF 1,476,150 (or $1,575,790 at June 11, 2013, the date of the Committee s action). Mr. Calantzopoulos s annual incentive compensation award target was set at 200% of his annual base salary, a reduction from the level of 300% previously associated with salary band A.

His equity award target was set at 600% of his base salary, the level previously associated with salary band A. In both 2014 and 2015, Mr. Calantzopoulos received no

increase in his base salary or his incentive compensation and equity award targets.

Second, recognizing the fact that while he would fully assist in the management transition, Mr. Camilleri would no longer have management responsibility for the Company, effective May 8, 2013, he was removed from the Company s salary band structure, his base salary was reduced from $1,750,000 to $1,000,000, and he ceased to be eligible for annual incentive compensation awards. Reflecting his role in assisting the CEO in long-term strategy, Mr. Camilleri remained eligible for equity compensation awards with a target of 600% of his new base salary. (Mr. Camilleri retired as an employee effective December 31, 2014.)

Third, after reviewing data from the Compensation Survey Group, as well as market data in Switzerland and other geographies where the Company has a significant presence, the Committee determined, effective January 1, 2014:

- to consider increases to the base salaries of the executive officers (16 persons currently) every two years instead of annually;

- to modify the variable compensation mix for salary grades 28 through 18 to increase the equity component relative to the cash component to better reflect market practices and to further enhance the focus of senior executives on longer-term performance, while remaining mindful of our objective to minimize equity dilution; and

- to reduce total variable compensation targets for all employees in grades 28 through 14, resulting in average reductions in total targeted direct compensation (base salary, cash incentive compensation and equity awards) of approximately 9-10% for the most senior executives.

In 2015, for the third year in a row, the Committee determined not to increase the base salaries of the Swiss-based executive officers.

Table of Contents

COMPENSATION DISCUSSION AND ANALYSIS

Target Compensation Mix

For 2014, except for the Chairman, all of our named executive officers were in salary grades 28 to 24. Our CEO is the only employee in salary grade 28. As shown in the chart below, the Compensation Committee determined, effective January 1, 2014, to rebalance the target level mix of fixed (base salary) and at-risk (annual incentive compensation and equity awards) compensation to more closely reflect the mix at the 75th percentile of the Company s Compensation Survey

Group and the Swiss market, and to remain consistent with our objectives of putting proportionately greater compensation at risk for each increase in salary level and to further enhance the focus of senior executives on longer-term performance, while minimizing equity dilution. The increase in base salary as a percentage of total direct compensation reflects a reduction in target levels for both annual incentive compensation and equity awards, and not an increase in base salary levels.

Source: Towers Watson

Table of Contents

COMPENSATION DISCUSSION AND ANALYSIS

Methodology for Linking Pay to Performance

Approximately 77% of total direct compensation earned by our named executive officers in 2014 was variable and directly linked to the Company s and the individual s performance. The lower percentage versus last year reflects reduced incentive compensation and equity award targets and a lower Company stock rating in 2014. The following section describes the process by which the Committee ties variable compensation to performance.

At the beginning of each year, the Committee sets target ranges with respect to key performance metrics. Each of the target ranges set by the Committee is based on the Company s original operating budget approved by the Board for that year. The budget and the targets reflect appropriately ambitious but realistic performance goals. In February, the Committee evaluates the Company s actual results against these targets and assigns the Company an incentive compensation (IC) business rating ranging from 0 to 150, with a rating of 100 correlating to attaining targeted levels of performance. Its evaluation is not only quantitative but also qualitative. Numerical weights are not assigned to any specific performance measure. Nor is a rating assigned based solely on the key performance measures. Rather, the Committee also assesses the Company s progress on key strategic initiatives and our performance relative to our international competitors. It then determines the Company s IC business rating based on its assessment of the Company s overall performance for that year.

Next, the Committee determines the Company s stock business rating, which can range from 0 to 150, based on the Company s total shareholder return, or TSR, over a rolling three-year period relative to the returns of our Compensation Survey Group, our tobacco peer group and the S&P 500 Index.

Individuals are rated based on both a quantitative and a qualitative assessment of performance. Ratings can range from 0% to 150% for incentive compensation (IC) awards and from 0% to 130% for equity awards. To assure a disciplined, fair and equitable assessment of individual performance, the Company calibrates individual performance ratings to achieve budgeted total targeted compensation assuming Company ratings of 100%.

Incentive Compensation Award Formula

IC Award	=	**Base Salary**	X	**Individual Target % (varies by grade)**	X	**IC Business Rating [1] (0%-150%)**	X	**Individual Rating (0%-150%)**

(1) 2014 performance targets included: cigarette volume; share of top 30 OCI markets; net revenues, excluding excise taxes; adjusted OCI; adjusted diluted EPS; and free cash flow. Progress on key strategic initiatives is also evaluated.

Annual individual incentive compensation award targets in 2013 and 2014 as a percentage of base salary were as follows:

2013 Salary Band	2014 Salary Grade	2013 Individual Target %	2014 Individual Target %
A	28	200%(1)	200%
B	26	180%	125%
C	25	120%	100%
C	24	120%	100%

(1) Reduced from 300% effective May 8, 2013.

Equity Award Formula

Stock Award	**=**	**Base Salary**	**X**	**Individual Target %**	**X**	**Stock Business Rating (1) (0%-150%)**	**X**	**Individual Rating (0%-130%)**

(1) Our rolling 3-year TSR is measured relative to our Compensation Survey Group, our tobacco peer group and the S&P 500 Index.

Annual individual equity award targets in 2013 and 2014 as a percentage of base salary were as follows:

2013 Salary Band	2014 Salary Grade	2013 Individual Target %	2014 Individual Target %
A	28	600%	600%
B	26	270%	275%
C	25	180%	175%
C	24	180%	160%

Equity awards are granted to management employees under the Philip Morris International Inc. 2012 Performance Incentive Plan and are intended to build stock ownership and enhance the retention and commitment of participants to increasing long-term shareholder value. Equity awards are made in shares of performance-based deferred stock, rather than stock options, because this form of award:

¡ establishes a relationship between our cost and the value ultimately delivered to our executives that is more direct and more visible than is the case with stock options; and

Table of Contents

COMPENSATION DISCUSSION AND ANALYSIS

- requires the use of substantially fewer shares than stock options to deliver equivalent value, resulting in an annual Company run rate (number of stock awards granted in the calendar year as a percentage of all shares outstanding) in 2014 of 0.16% and a total 2014 year-end overhang (number of unexercised stock options and unvested stock awards as a percentage of all shares outstanding) of 0.46%.

As a result, our run rate and overhang each compares favorably to those of the Compensation Survey Group.

Equity award recommendations are approved annually at the Committee s February meeting, and are granted on the date of approval. The Committee determines the dollar value of each award based on its assessment of the Company s prior three-year TSR relative to the

returns of our Compensation Survey Group, our tobacco peer group and the S&P 500 Index, along with its rating of the individual s performance. The number of shares awarded is based on the fair market value of PMI stock on the date of grant.

Equity awards generally vest three or more years after the date of the award, subject to earlier vesting on death or disability or normal retirement, or separation from employment by mutual agreement after reaching age 58. The three-year vesting period provides PMI with a means of both retaining and motivating executives.

Recipients receive dividend equivalents on unvested equity awards during the vesting period in order to further align the interests of participants with those of shareholders.

Table of Contents

COMPENSATION DISCUSSION AND ANALYSIS

2014 Company Performance and Targets

Analysis of 2014 Incentive Compensation Business Rating: The Committee believes that quality of results is key and, accordingly, uses its business judgment to assess performance both on a quantitative and qualitative basis and to tie compensation to performance based on those assessments rather than on a fixed formula. With regard to its quantitative assessment, the following table shows the performance target ranges pre-established by the Committee for 2014 incentive compensation awards and the Company s results. The percentages indicated for cigarette volume, net revenues, adjusted OCI and adjusted diluted EPS represent targeted and actual growth versus 2013 results.

Measure [(1)]	Target Range	Actual Results
Cigarette Volume [(2)]	-2.8% to -1.8%	-2.8%
Share of Top 30 OCI Markets [(3)]	Growing or Stable in 15-17 Markets	Growing or Stable in 19 Markets
Net Revenues [(4)]	1.9% to 2.9%	2.0%
Adjusted OCI [(5)]	0.5% to 2.1%	flat
Adjusted Diluted EPS [(6)]	6.6% to 8.6%	7.8%
Free Cash Flow [(6)(7)]	$7.0 to $8.0 billion	$7.3 billion

(1) For a reconciliation of non-GAAP to GAAP financial measures see Exhibit B to this proxy statement.

(2) Excluding acquisitions.

(3) Operating Companies Income (Operating Income, excluding general corporate expenses and the amortization of intangibles, plus equity (income)/loss in unconsolidated subsidiaries, net).

(4) Excluding excise taxes, currency and acquisitions.

(5) Excluding currency and acquisitions.

(6) Excluding currency.

(7) Net cash provided by operating activities less capital expenditures.

We met or exceeded five of our performance target ranges for 2014 and narrowly missed one, despite facing a number of specific challenges in key markets such as Italy, Japan and the Philippines, investing in the launch of Reduced-Risk Products, rolling out the *Marlboro* 2.0 Architecture, and undertaking a major optimization of our manufacturing footprint, all within an operating environment of continued macro-economic weakness, significant market declines in Russia and the EU, and consumer down-trading across many geographies. We also encountered unanticipated geopolitical problems in the EEMA region.

Within this context, we effectively used every business lever under our control to deliver a solid currency neutral financial performance. Importantly, we continued to strengthen our business fundamentals as witnessed by

the broad-based share gains of our industry-leading portfolio. We made substantial progress in addressing our specific market challenges and achieved currency neutral adjusted earnings per share growth of 7.8%, within our target range.

Cigarette Volume (excluding acquisitions): fell by 2.8% in 2014, within our performance target range of minus 2.8% to minus 1.8%. The decline was driven by total market declines, notably in Russia, the Philippines, Japan, Poland, Kazakhstan and France, and the impact of unfavorable inventory movements, predominantly in Japan, Russia and the Middle East, but partially offset by market share gains in both the EU and EEMA Regions. Our volume performance was hindered by the Asia Region, driven by lower market share in Japan, a lower total duty-paid market in the Philippines, and temporary share weakness in Indonesia.

Share of Top 30 OCI Markets: Our market share performance was strong, with 19 of our top-30 income markets registering growing or stable share, exceeding our target range of 15-17 markets, despite significant price competition at the low end of the market in several markets, most notably Mexico, Ukraine, Australia, and Turkey.

Net Revenues (excluding excise taxes, currency and acquisitions): Net revenues of $29.8 billion, reflecting constant currency growth, excluding acquisitions, of 2.0% versus 2013, fell within our performance target range of 1.9% to 2.9%. This result reflected the severely adverse volume/mix that eroded a significant portion of our favorable pricing.

Adjusted OCI (excluding currency and acquisitions): Constant currency adjusted OCI, excluding acquisitions, was flat versus 2013 and below our target performance range of 0.5% to 2.1% growth, a result driven by adverse volume/mix and higher manufacturing costs that offset strong pricing. Three markets weighed heavily: Australia, Indonesia and Japan, which more than offset the above-target performance of both the EU and EEMA Regions.

Adjusted Diluted EPS (excluding currency): Our 7.8% constant currency growth fell within the performance target range of 6.6% to 8.6% growth.

Free Cash Flow: Free cash flow of $7.3 billion, excluding the impact of changes in currency exchange rates from the rates assumed in establishing the free cash flow performance target range, fell within the target range of $7.0 to $8.0 billion.

Table of Contents

COMPENSATION DISCUSSION AND ANALYSIS

In addition to these six quantitative performance measures, the Committee also evaluated our performance qualitatively on the following key strategic initiatives:

- our commercialization of *iQOS*, via pilot launches in Nagoya, Japan, and Milan, Italy, represented a major milestone in our efforts to provide adult smokers innovative Reduced-Risk Products, and capped a year of great progress with respect to the commercialization, scientific evolution and regulation of these products;
- the beginning of a bold new chapter for the *Marlboro* brand, following the initial roll-out of Architecture 2.0, which has reinforced the brand s visual identity through a modern, minimalistic and soft tactile effect pack, while enhancing the smoking experience through the new *Firm Filter* technology, and through a continued stream of innovations, resulting in the brand s overall robust performance;
- addressing decisively our market share issue in Japan;
- the continued transformation of our commercial organization, which is on track for completion in 2015, to create a new strategic framework for adult consumer-focused marketing and sales and improved trade engagement, which has resulted in favorable share performance across most markets and a sustainable competitive advantage;
- a significant optimization of our global manufacturing footprint through facility rationalization in the Netherlands, Australia, Canada and Indonesia;
- sustained progress towards improving tax structures, which continued to gain momentum in most of the world;
- the successful completion of key business development initiatives, including the acquisition of Nicocigs (a leading UK-based e-vapor company);
- our continued efforts to pursue comprehensive, evidence-based regulation governing the manufacture, marketing, sale, use and taxation of tobacco products, but also acknowledging intensifying regulatory challenges;
- our continuation of a comprehensive plan to further improve organizational effectiveness;
- surpassing our 2014 gross productivity and cost savings target of $300 million;

- our efforts and results in improving our safety record, which were recognized by our being awarded the International Fleet Safety Award from Fleet Europe;

- our continued efforts and results in improving our environmental record, particularly noting that we were recognized as a Climate Performance Leader by the Carbon Disclosure Project in 2014;

- our continued progress in addressing child and migrant labor issues associated with tobacco farming;

- our continued progress in nurturing and developing our talent pool and future leadership and increasing our diversity; and

- our robust control, compliance and integrity programs.

The Committee also considered our setbacks, including lower-than-expected profitability in Australia as we responded to aggressive discounting at the low end of that market, lower-than-expected share growth in Indonesia, the continued practice of a local competitor in the Philippines to underdeclare its volume for excise tax purposes, and the impact of the strong dollar on our reported results.

Table of Contents

COMPENSATION DISCUSSION AND ANALYSIS

Analysis of 2014 Stock Business Rating: For purposes of determining the Company performance rating for equity awards, the Committee considered total shareholder return (TSR) relative to the returns of our Compensation Survey Group, our tobacco peer group and the S&P 500 Index. While the Committee assesses the Company s annual performance each year to set annual incentive compensation awards, it takes a longer-term view and considers our TSR over a rolling three-year period to set equity awards. From January 1, 2012, through December 31, 2014, as shown in the table below, our TSR was 17.5%, substantially below the TSR of our tobacco peer group, our Compensation Survey Group, and the S&P 500 Index. Our TSR performance has suffered significantly from severe currency headwinds as a result of the strength of the U.S. dollar. The impact on PMI is disproportionate not only to the major American tobacco companies with pure U.S. dollar earnings, but also to the other comparator groups. Our cumulative adverse currency impact on reported diluted EPS over the three-year period was $1.37. In addition, our period-end stock price reflects investor sentiment regarding the continued strengthening of the U.S. dollar, as well as the continued weakness of the Russian ruble, in 2015. Taking all these considerations into account, the Committee assigned the Company a stock business rating in 2014 of 85, the lowest rating since our spin-off in 2008.

Source: FactSet.

Note: Peer groups represent the market weighted average return of the group.

(1) The tobacco peer group consists of Altria, BAT, Imperial Tobacco, Japan Tobacco, Lorillard and Reynolds American.

(2) The PMI Compensation Survey Group consists of the following companies with substantial global sales that are direct competitors; or have similar market capitalization; or are primarily focused on consumer products (excluding high technology and financial services); and are companies for which comparative executive compensation data are readily available: Bayer AG, British American Tobacco p.l.c., The Coca-Cola Company, Diageo plc, GlaxoSmithKline, Heineken N.V., Imperial Tobacco Group PLC, Johnson & Johnson, McDonald s Corp., Mondelēz International, Inc., Nestlé S.A., Novartis AG, PepsiCo, Inc., Pfizer Inc., Roche Holding AG, Unilever NV and PLC and Vodafone Group Plc. Compensation Survey Group TSR weights Mondelēz s TSR at 65% of Kraft s market capitalization on January 1, 2012, based on Mondelēz s initial market capitalization relative to the combined market capitalization of Mondelēz and Kraft on October 2, 2012, reflecting the split of those two companies via a spin-off.

Table of Contents

COMPENSATION DISCUSSION AND ANALYSIS

Alternative CEO Pay Disclosure: The chart below illustrates the total direct compensation paid to our CEO with respect to performance in 2012, 2013 and 2014, together with the Company s rolling three-year TSRs and IC business ratings for such periods. Effective immediately after the 2013 Annual Meeting of Shareholders, Mr. Calantzopoulos succeeded Mr. Camilleri as CEO. The compensation amounts included in the chart for 2013 are the amounts earned by Mr. Calantzopoulos in his capacity as CEO, annualized to show what his 2013 compensation would have been had he been CEO for the entire year, rather than the proration actually applied. The chart is not a substitute for the SEC required disclosure included in the Summary Compensation Table on page 42. The Summary Compensation Table, in accordance with SEC rules, reflects the equity award paid in the year shown but determined with respect to the prior year s performance (i.e., the amount of the equity award paid in 2014 is based on 2013 performance). In contrast, the following chart reflects the equity awards granted for the performance year and is intended to convey the decisions of the Committee with respect to linking the components of total direct compensation to a given year s performance.

(1) The following table sets forth the amount for each component of total direct compensation shown in the chart above. 2012 reflects compensation paid to the Company s former CEO. 2013 reflects annualized total direct compensation for Mr. Calantzopoulos in his capacity as CEO, which is denominated in Swiss francs and has been converted to USD at an average exchange rate for 2013 of $1.00 = 0.9268 CHF. 2014 total direct compensation has been converted to USD at an average rate for 2014 of $1.00 = 0.9155 CHF.