

Philip Morris International Inc.  
Form DEF 14A  
March 24, 2016  
**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

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))
- Definitive Proxy Statement
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**Philip Morris International Inc.**

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(Name of Registrant as Specified in Its Charter)

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Table of Contents

**2016 PROXY STATEMENT**

And Notice of Annual Meeting of Shareholders

To be held on Wednesday, May 4, 2016

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**Table of Contents**

March 24, 2016

Dear Fellow Shareholder,

You are cordially invited to join us at the 2016 Annual Meeting of Shareholders of Philip Morris International Inc. ( PMI or the Company ) to be held on Wednesday, May 4, 2016, at 9:00 a.m., in the Empire State Ballroom at the Grand Hyatt New York, 109 East 42<sup>nd</sup> 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 71 in response to Question 4.**

The meeting facilities will open at 7:30 a.m. on May 4, 2016. 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 2015 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.

Your vote is important. We 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 2016 ANNUAL MEETING OF SHAREHOLDERS**

|   |   |
|---|---|
| <b>Date and Time</b>                                  | 9:00 a.m. on Wednesday, May 4, 2016   |
| <b>Place</b>  | Empire State Ballroom<br><br>Grand Hyatt New York<br><br>109 East 42 <sup>nd</sup> Street<br><br>New York, New York 10017-5579  |
| <b>Items of Business</b>                              | (1) To elect twelve directors.<br><br>(2) To ratify the selection of PricewaterhouseCoopers SA as independent auditors for the Company for the fiscal year ending December 31, 2016.<br><br>(3) To vote on an advisory resolution approving executive compensation.<br><br>(4) To vote on two shareholder proposals, if properly presented at the meeting.<br><br>(5) To transact other business properly coming before the meeting.    |
| <b>Who Can Vote</b>                                   | Only shareholders of record of shares of common stock at the close of business on March 11, 2016 (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 11, 2016, there were 1,551,245,297 shares of common stock issued and outstanding. |
| <b>Voting of Proxies and<br/>Deadline for Receipt</b> | 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 3, 2016.                                       |
| <b>2015 Annual Report</b>                             | A copy of our 2015 Annual Report is enclosed.   |
| <b>Date of Mailing</b>                                | This notice and the proxy statement are first being mailed to shareholders on or about March 24, 2016.  |

**Jerry Whitson**

**Deputy General Counsel and Corporate Secretary**

**March 24, 2016**

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 71 IN RESPONSE TO QUESTION 4.

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to be held on May 4, 2016: The Company's Proxy Statement and 2015 Annual Report are available at**

**[www.pmi.com/investors](http://www.pmi.com/investors).**

**2** PMI 2016 Proxy Statement



**Table of Contents**

**TABLE OF CONTENTS**

|   |    |
|---|----|
| <u>Glossary of Terms</u>  | 4  |
| <u>Proxy Statement Summary</u>                                  | 5  |
| <u>Board Operations and Governance</u>                          | 10 |
| <u>Board Responsibility and Meetings</u>                        | 10 |
| <u>Governance Guidelines, Policies and Codes</u>                | 10 |
| <u>Leadership Structure</u>                                     | 10 |
| <u>Presiding Director</u>                                       | 10 |
| <u>Committees of the Board</u>                                  | 11 |
| <u>Board Risk Oversight</u>                                     | 14 |
| <u>Communications with the Board</u>                            | 15 |
| <u>Summary of Corporate Governance Practices</u>                | 16 |
| <u>Election of Directors</u>                                    | 17 |
| <u>Process for Nominating Directors</u>                         | 17 |
| <u>Recommendations of the Board</u>                             | 17 |
| <u>Independence of Nominees</u>                                 | 18 |
| <u>Majority Vote Standard in Uncontested Elections</u>          | 18 |
| <u>Director Nominees</u>  | 19 |
| <u>Compensation of Directors</u>                                | 27 |
| <u>Stock Ownership Information</u>                              | 29 |
| <u>Ownership of Equity Securities</u>                           | 29 |
| <u>Section 16(a) Beneficial Ownership Reporting Compliance</u>  | 30 |
| <u>Compensation Discussion and Analysis</u>                     | 31 |
| <u>Executive Summary</u>  | 31 |
| <u>Additional Compensation Policies and Processes</u>           | 44 |
| <u>Compensation and Leadership Development Committee Report</u> | 47 |
| <u>Summary Compensation Table</u>                               | 48 |
| <u>All Other Compensation</u>                                   | 49 |
| <u>Grants of Plan-Based Awards During 2015</u>                  | 51 |
| <u>Outstanding Equity Awards as of December 31, 2015</u>        | 52 |

|   |    |
|---|----|
| <u>Stock Option Exercises and Stock Vested During 2015</u>                                | 53 |
| <u>Pension Benefits</u>   | 54 |
| <u>Non-Qualified Deferred Compensation</u>  | 58 |
| <u>Deferred Profit-Sharing and Benefit Equalization Plan</u>                              | 58 |
| <u>Employment Contracts, Termination of Employment and Change in Control Arrangements</u> | 59 |
| <u>Audit Committee Matters</u>  | 61 |
| <u>Ratification of the Selection of Independent Auditors</u>                              | 63 |
| <u>Advisory Vote Approving Executive Compensation</u>                                     | 64 |
| <u>Shareholder Proposals</u>  | 65 |
| <u>Proposal 1</u>   | 65 |
| <u>Proposal 2</u>   | 66 |
| <u>Related Person Transactions and Code of Conduct</u>                                    | 69 |
| <u>Availability of Reports, Other Matters and 2017 Annual Meeting</u>                     | 70 |
| <u>Exhibit A: Questions &amp; Answers</u>   | 71 |
| <u>Exhibit B: Reconciliations</u>   | 75 |

**Table of Contents**

**GLOSSARY OF TERMS**

**Financial Terms:**

- § Net revenues exclude excise taxes.
  
- § Operating Companies Income, or OCI, is defined as operating income, excluding general corporate expenses and the amortization of intangibles, plus equity (income) or loss in unconsolidated subsidiaries, net.
  
- § Adjusted OCI is defined as reported OCI adjusted for asset impairment, exit and other costs.
  
- § OCI growth rates are on an adjusted basis.
  
- § EPS stands for Earnings Per Share.
  
- § Adjusted Diluted EPS is defined as reported diluted EPS adjusted for asset impairment and exit costs, discrete tax items and unusual items.
  
- § Free cash flow is defined as net cash provided by operating activities less capital expenditures.

**Other Terms:**

- § Reduced-Risk Products, or RRP, is the term we use to refer to products with the potential to reduce individual risk and population harm in comparison to smoking cigarettes. Our RRP are in various stages of development and commercialization, and we are conducting extensive and rigorous scientific studies to determine whether we can support claims for such products of reduced exposure to harmful and potentially harmful constituents in smoke, and ultimately claims of reduced disease risk, when compared to smoking cigarettes. Before making any such claims, we will rigorously evaluate the full set of data from the relevant scientific studies to determine whether they substantiate reduced exposure or risk. Any such claims may also be subject to government review and authorization, as is the case in the United States today.
  
- § NEOs are Named Executive Officers and include our Chief Executive Officer, or CEO, and the five most highly compensated officers serving in 2015.

§ PSUs are Performance Share Units.

§ RSUs are Restricted Share Units, and may be issued in the form of deferred share awards.

§ TSR stands for Total Shareholder Return.

§ In this proxy statement, PMI, the Company, we, us, and our refer to Philip Morris International Inc. and its subsidiaries.

§ We divide our markets into four geographic regions, which constitute our segments for financial reporting purposes:

The European Union, or EU, Region covers all the EU countries and also comprises Switzerland, Norway and Iceland, which are linked to the EU through trade agreements;

The Eastern Europe, Middle East & Africa, or EEMA, Region includes Eastern Europe, certain Balkan countries, Turkey, the Middle East and Africa and our international duty free business;

The Asia Region covers all other Asian markets as well as Australia, New Zealand and the Pacific Islands; and

The Latin America & Canada, or LA&C, Region covers the South American continent, Central America, Mexico, the Caribbean and Canada.

#### 4 PMI 2016 Proxy Statement

**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.

**2015 Business Performance Highlights**

As indicated below, despite continued global economic woes, we produced very strong currency-neutral results in 2015, comfortably exceeding all six of our performance targets. This performance was driven by our broad and balanced geographic footprint, and our industry-leading portfolio of international brands. The robust performance of *Marlboro* reflected the continued Architecture 2.0 roll-out, which is now deployed in approximately 100 markets and which propelled the world's leading cigarette brand to share gains in all four of our regions since 2013. At the same time, we accelerated investment in our Reduced-Risk Product, *iQOS*, which we launched in selected cities in Switzerland, Russia, Portugal and Romania, and expanded geographically in Japan and Italy. We also laid the groundwork for launching *iQOS* in up to fourteen additional markets in 2016.

**2015 Performance Targets and Results**

**Table of Contents****PROXY STATEMENT SUMMARY****2015 Executive Compensation Highlights**

Throughout the year, the Company engages in an extensive shareholder outreach program during which it seeks input on a range of matters, including executive compensation and corporate governance. In 2015, the Compensation and Leadership Development Committee substantially revamped our executive compensation program in response to specific concerns raised by certain institutional shareholders and to the 2015 shareholder vote of 63.3% in support of the advisory say-on-pay proposal, a level that the Committee believes was inadequate.

Historically, the Company's equity awards consisted solely of time-based restricted shares or restricted share units. Under the new equity program used to grant equity awards earlier this year, 60% of the equity award target opportunity for our CEO and our other named executive officers are in the form of Performance Share Units that vest after a three-year cycle only to the extent that pre-established weighted performance metrics are achieved. The balance of the equity award target opportunity is in the form of Restricted Share Units. The Committee also adopted a formulaic approach for determining annual cash incentive awards. The most significant changes are summarized in the following chart:

**OLD EQUITY PROGRAM****NEW EQUITY PROGRAM**

RSUs were granted based on a Company stock business rating set at the Committee's discretion based on its assessment of the Company's total shareholder return over the prior three-year period relative to comparator groups, and on the individual's performance rating, with vesting occurring automatically three years after grant (assuming continued employment).

The Committee establishes an equity award target opportunity for our CEO and each other NEO based on Company targets by salary grade and the executive's performance rating during the preceding year. The Committee then grants the executive 40% of the target opportunity in the form of RSUs and 60% in the form of PSUs. PSUs vest at the end of the three-year performance cycle only to the extent pre-established performance goals are achieved, with the vesting percentage determined by formula. These goals are relative and absolute TSR versus the Company's new Peer Group (weighted 50%), currency-neutral adjusted operating companies income growth (weighted 30%), and quantitative volume and market share targets that measure the success of PMI's innovation for both Reduced-Risk

Products and cigarettes (weighted 20%). (See pages 40 and 41.)

*Rationale: The vesting of PSUs is formulaic and based on pre-established performance metrics, thus strengthening the link between pay and performance by incentivizing executives to achieve our mid-term objectives. RSUs provide retention value, while minimizing dilution compared to stock options. Each form of equity award, together with our rigorous share ownership requirements (see page 45), strongly aligns the long-term interests of executives and shareholders.*

Dividend equivalents on RSUs were paid during the vesting period.

Dividend equivalents on RSUs will continue to be paid during the vesting period. Dividend equivalents on PSUs will be paid only at the end of the three-year performance cycle and only on shares that are earned.

*Rationale: The Committee believes it is appropriate to pay dividend equivalents only on that portion of a PSU grant that ultimately is earned because the Company met or exceeded its pre-established performance targets.*

## 6 PMI 2016 Proxy Statement

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**Table of Contents**

**PROXY STATEMENT SUMMARY**

**OLD CASH INCENTIVE PROGRAM**

The cash incentive award was set based on the Committee's quantitative and qualitative rating of performance, rather than on a fixed formula. Performance targets were pre-established, but they were not assigned specific weights, although typically they were given equal weight.

**NEW CASH INCENTIVE PROGRAM**

The cash incentive award will be set based on pre-established weighted performance metrics. These are share of top 30 OCI markets, constant currency net revenues growth, constant currency adjusted OCI growth, and progress against strategic initiatives, each weighted 15%, and constant currency adjusted diluted EPS growth and constant currency free cash flow growth, each weighted 20%. (See page 39.)

***Rationale:** The new fixed formula approach substantially limits the Committee's discretion in determining the Company's performance rating for cash incentive awards.*

**OLD TARGETED COMPENSATION LEVEL**

The old program was designed to deliver total direct compensation at the 75<sup>th</sup> percentile of the local market upon the attainment of targeted goals.

**NEW APPROACH**

Under the new program, the Committee reviews local market and Peer Group data, but no longer targets total direct compensation at a specific percentile of the market. Instead, the Committee will set total direct compensation at levels that it believes necessary to attract and retain talented executives in a controversial industry and remain competitive with other consumer product companies.

This new approach follows the Committee's decision, effective January 1, 2014, to reduce average total direct compensation (base salary, cash incentives and equity awards) by approximately 9-10% for our most senior



executives. It also follows a four-year freeze in base salaries of Swiss-based executive officers during 2013-2016, other than to reflect promotions.

***Rationale:** This change responds to concerns that targeting compensation levels above the 50<sup>th</sup> percentile of the market may have a ratcheting-up effect on the market.*

PMI 2016 Proxy Statement 7

**Table of Contents**

**PROXY STATEMENT SUMMARY**

**2015 Governance Highlights**

The Board continues to review and modify the Company's governance practices as warranted. Significant modifications in 2015 were as follows:

**Proxy Access.** The Board adopted a by-law to permit an eligible shareholder or group of shareholders who have owned 3% or more of PMI's shares for at least three years to nominate and include in our proxy statement director candidates to occupy up to 20% of the authorized Board seats.

**Director Share Ownership.** The Board adopted share ownership guidelines under which a non-employee director may not sell or otherwise dispose of PMI shares received pursuant to the annual share award (other than shares withheld from the grant to pay taxes) unless he or she continues after the disposition to own shares having an aggregate value of at least five times the then-current annual cash retainer. This requirement for director share ownership complements the rigorous share ownership guidelines the Company has had in place for executives since we became a public company. (See page 45.)

**Hedging and Pledging of Company Securities.** The Company enhanced its anti-hedging and anti-pledging rules. Directors and executive officers are not permitted to engage in the following types of transactions with respect to Company stock: short-term trading; short sales; hedging or other economically comparable transactions; holding the Company's shares in margin accounts; and pledging the Company's shares.

**Independent Oversight of Political Spending and Lobbying.** The Nominating and Corporate Governance Committee of the Board adopted a policy that requires periodic reporting by management to the Committee with respect to the Company's lobbying and trade association activities and expenditures.

\* \* \*

8 PMI 2016 Proxy Statement

**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, 2016, 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 NEOs' compensation at each Annual Meeting of Shareholders.

**Item 4 Shareholder Proposal on Human Rights Policy**

**Item 5 Shareholder Proposal on Mediation of Alleged Human Rights Violations**

**2016 Shareholder Vote Recommendations**

The Board of Directors makes the following recommendations to shareholders:

|  | <b>Board's Recommendation</b> | <b>Page</b> |
|--|-------------------------------|-------------|
| <b>Item 1: Election of Directors</b>                                 | <b>FOR each nominee</b>       | <b>18</b>   |
| <b>Item 2: Ratification of the Selection of Independent Auditors</b> | <b>FOR</b>                    | <b>63</b>   |

|   |                |           |
|---|----------------|-----------|
| <b>Item 3: Advisory Vote Approving Executive Compensation</b>                       | <b>FOR</b>     | <b>64</b> |
| <b>Item 4: Shareholder Proposal on Human Rights Policy</b>                          | <b>AGAINST</b> | <b>65</b> |
| <b>Item 5: Shareholder Proposal on Mediation of Alleged Human Rights Violations</b> | <b>AGAINST</b> | <b>66</b> |

## **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 2015. 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. During 2015, 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 attended the 2015 Annual Meeting of Shareholders.

The Board approves the Company's annual budget each year and receives updates of the Company's performance against the budget throughout the year. The Board also reviews and approves the Company's three-year plan each year, typically in a session lasting a day and a half. The Board also regularly receives presentations on the Company's longer-term objectives and plans.

#### **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 for 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](http://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 believes that no particular leadership structure is inherently superior to all others under all circumstances. It determines from time to time the structure that best serves the interests of the Company and its shareholders under the then-prevailing circumstances. Currently, Louis Camilleri serves as our Chairman, and André Calantzopoulos serves as our Chief Executive Officer.

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. Because he was an employee of the Company until December 31, 2014, Mr. Camilleri is not an independent Chairman. The Board has a Presiding Director as described immediately below.

### **Presiding Director**

The non-management directors elect at the annual organizational meeting one independent director as 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;
  
- § call meetings of the non-management directors as he or she deems necessary;

**Table of Contents**

**BOARD OPERATIONS AND GOVERNANCE**

- § 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 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 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](http://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 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 2015 from Philip Morris International Inc. or its subsidiaries, other than compensation received as a director.





**Table of Contents****BOARD OPERATIONS AND GOVERNANCE****Committees and****2015 Meetings****Current Members****Purpose, Authority and Responsibilities****AUDIT**

2015 Meetings: 9

**- Lucio A. Noto (Chair)**

- Werner Geissler

- Jennifer Li

- Jun Makihara

- 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;

§ oversee cybersecurity risk assessment and management;

§ review financial risk assessment and management;

§ oversee the risk management of excessive or discriminatory taxation;

§ oversee the risk management of illicit trade;

§ oversee the risk management of judicial and regulatory disregard for the rule of law; and

§ establish whistleblower procedures and review claims of improper conduct.

**COMPENSATION - Stephen M. Wolf (Chair) Purpose:**

**AND LEADERSHIP** - Harold Brown § discharge the Board's responsibilities relating to executive compensation;

**DEVELOPMENT** - Werner Geissler § produce a report for inclusion in the proxy statement; and  
- Lucio A. Noto

2015 Meetings: 5 - Robert B. Polet § 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 share ownership requirements;

§ review and assist with 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;

§ oversee the management of risks related to compensation design and payout;

§ oversee talent management, particularly with respect to diversity and inclusion and talent development throughout the organization;

§ 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**

**- Jennifer Li (Chair)**

**Purpose, Authority and Responsibilities:**

2015 Meetings: 4

- Harold Brown

§ monitor the Company's financial performance and condition;

- Werner Geissler

§ oversee sources and uses of cash flow and capital structure;

- Jun Makihara

- Sergio Marchionne

§ advise the Board on dividends, share repurchases and other financial matters;

- Kalpana Morparia

§ advise the Board on the Company's long-term financing plans, short-term financing plans and credit facilities;

- Lucio A. Noto

- Frederik Paulsen

§ oversee the management of the Company's cash management function;

- Robert B. Polet

§ oversee the management of the Company's pension plans, including funded status and performance;

- Stephen M. Wolf

§ oversee the management of the Company's investor relations and stock market performance;

§ oversee the management of the risks to the Company's competitive position;

§ oversee the management of the risks to the Company's pricing strategies; and

§ oversee the management of the risks of volatility in currency exchange rates.

**Table of Contents**

**BOARD OPERATIONS AND GOVERNANCE**

**Committees and**

**2015 Meetings**

**Current Members**

**Purpose, Authority and Responsibilities**

|  |  |  |
|--|--|--|
| <b>NOMINATING AND CORPORATE GOVERNANCE</b> | <p><b>- Kalpana Morparia (Chair)</b></p> <p>- Jennifer Li</p> <p>- Lucio A. Noto</p> <p>- Robert B. Polet</p> <p>- Stephen M. Wolf</p> | <p><b>Purpose:</b></p> <p>§ identify qualified candidates for Board membership;</p> <p>§ recommend nominees for election at the annual meeting;</p> <p>§ advise the Board on corporate governance matters; and</p> <p>§ oversee self-evaluation of the Board and each Committee.</p> |
|--|--|--|

**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 Committee;
- § oversee the Company's lobbying and trade association activities and expenditures;
- § recommend corporate governance guidelines; and
- § review director compensation.

|                               |   |  |
|-------------------------------|---|--|
| <b>PRODUCT INNOVATION AND</b> | <p><b>- Harold Brown (Chair)</b></p> <p>- Werner Geissler</p> | <p><b>Purpose:</b></p> <p>§ monitor and review the development of new product strategies, particular</p> |
|-------------------------------|---|--|

|                   |                     |   |
|-------------------|---------------------|---|
| <b>REGULATORY</b> | - Jun Makihara      | focus on Reduced-Risk Products.   |
| <b>AFFAIRS</b>    | - Sergio Marchionne |   |
|                   | - Kalpana Morparia  | <b>Authority and Responsibilities:</b>  |
| 2015 Meetings: 3  | - Frederik Paulsen  | § monitor and review key legislative, regulatory and public policy issues;  |
|                   | - Robert B. Polet   | § monitor and review the Company's programs on societal alignment issues;   |
|                   | - Stephen M. Wolf   | § oversee the management of the risks of changing consumer preferences and the Company's ability to communicate to consumers; |
|                   |                     | § oversee the management of the risks associated with the Company's efforts to develop and commercialize RRP's;               |
|                   |                     | § oversee the management of the risks associated with product diversification; and  |
|                   |                     | § meet with the Company's Scientific Advisory Board to review 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. During 2015, management conducted a reassessment of strategic enterprise risk. As part of this reassessment, the senior management team identified and prioritized key business risks based on four risk dimensions: the **impact** a risk could have on the organization if it occurs, the **likelihood** a risk will occur, the **velocity** with which a risk would affect the organization if it occurs, and the **interconnectivity** of a risk with other risks. As part of the risk management process, the Company established a Corporate Risk Governance Committee (CRGC) comprising the CFO, the Vice President and Controller, the Vice President, Corporate Audit, and the Vice President and Chief Compliance Officer. Ownership of each of the prioritized risks was assigned to a member of senior management, and oversight of the management of each risk was assigned to a particular Board Committee or to the full Board. Management presented its findings to the Board at its December meeting. The risk management oversight by each Committee is indicated in the chart on pages 12 and 13. The full Board oversees the management of risks relating to the Company's business plan and litigation, and it receives reports on risk management by each Committee. The roles of the various components of risk assessment, management and oversight are shown below.

**PMI Risk Assessment, Management and Oversight**

**Table of Contents**

**BOARD OPERATIONS AND GOVERNANCE**

**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.

PMI 2016 Proxy Statement 15

**Table of Contents**

**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 18);
- § under our **proxy access by-law**, an eligible shareholder or group of shareholders who have owned 3% or more of PMI's shares for at least three years may nominate and include in our proxy statement director candidates to occupy up to 20% of the authorized Board seats;
- § 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 10);
- § 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 45);
  
- § the Board has **adopted share ownership requirements and an anti-hedging policy** for directors and executives intended to align their interests with those of our shareholders and to protect against inappropriate risk taking (see page 45);
  
- § we **do not gross up** the limited perquisites we provide our named executive officers to offset their taxes on imputed income;
  
- § 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 59; and
  
- § the Board has established **independent oversight of political spending and lobbying** that requires periodic reporting by management to the Nominating and Corporate Governance Committee with respect to the Company's lobbying and trade association activities and expenditures.

## **Table of Contents**

### **ELECTION OF DIRECTORS**

#### **Process for Nominating Directors**

The Nominating and Corporate Governance Committee is responsible for identifying and evaluating candidates 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. These include 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 business and markets; the individual's professional expertise and educational background; and other factors, including nationality and gender, 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 long-term 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.

In identifying 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 in identifying candidates for director, gathering information about their background and experience, and acting as an intermediary with such candidates.

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 "2017 Annual Meeting."

In addition, our by-laws permit an eligible shareholder or group of shareholders who have owned 3% or more of PMI's shares for at least three years to nominate and include in our proxy statement director candidates to occupy up to 20% of the authorized Board seats.

#### **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 2015 Annual Meeting. 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. Ten different nationalities are represented, underscoring the global perspective of the Board taken as a whole.

The Board has experienced a healthy level of director refreshment since our spin-off in 2008. Five of the original directors continue to serve on the Board. Of the remaining members of the Board, one joined in 2010, two in 2011, one in 2013, two in 2014 and one in 2015. The average tenure of the Company's directors is 5.5 years.

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, 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](http://www.pmi.com/governance). Each of the above-named nominees qualifies as independent under these standards.

Due to the initial public offering by Ferrari N.V. and Mr. Marchionne's becoming the chairman of that company, the Company now measures the materiality of its sponsorship agreement with Ferrari against the gross revenues of Ferrari, rather than those of its much larger former parent, Fiat Chrysler Automobiles. As a result, Mr. Marchionne no longer qualifies as independent under the Company's categorical standards of director independence.

The sponsorship agreement with Ferrari began in 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. The Nominating and Corporate Governance Committee has reviewed the sponsorship as a Related Person Transaction (see page 69) and determined that it is in the best interests of the Company.

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, and recommend to the Board whether to accept or reject, the offer.

**18** PMI 2016 Proxy Statement

**Table of Contents****ELECTION OF DIRECTORS****Director Nominees**

| Nominee              | Director Since | Nationality          | Experience and Qualifications Highlights   | Current Committee Membership |   |         |                                     |   |
|----------------------|----------------|----------------------|--|------------------------------|---|---------|-------------------------------------|---|
|                      |                |                      |  | Independent Audit            | Compensation and Leadership Development | Finance | Nominating and Corporate Governance | Product Innovation and Regulatory Affairs |
| Harold Brown         | 2008           | USA                  | § Civic Leadership<br><br>§ Geopolitical and Governmental Affairs<br><br>§ Science and Technology<br><br>§ Academic and Research | ü                            | ü                                       | ü       |                                     | Chair                                     |
| André Kalantzopoulos | 2013           | Greece / Switzerland | § Senior Executive<br><br>§ Tobacco Industry<br><br>§ Operations<br><br>§ Global Business  |                              |   |         |                                     |   |
|                      | 2008           | UK                   |  |                              |   |         |                                     |   |

|                    |      |                |                            |   |   |   |       |   |  |
|--------------------|------|----------------|----------------------------|---|---|---|-------|---|--|
| Louis C. Camilleri |      |                | § Senior Executive         |   |   |   |       |   |  |
|                    |      |                | § Tobacco Industry         |   |   |   |       |   |  |
|                    |      |                | § Operations               |   |   |   |       |   |  |
|                    |      |                | § Financial                |   |   |   |       |   |  |
|                    |      |                | § Global Business          |   |   |   |       |   |  |
| Werner Weisler     | 2015 | Germany        | § Global Consumer Products |   |   |   |       |   |  |
|                    |      |                | § Senior Executive         | ü | ü | ü | ü     | ü |  |
|                    |      |                | § Operations               |   |   |   |       |   |  |
|                    |      |                | § Financial                |   |   |   |       |   |  |
|                    |      |                | § Civic Leadership         |   |   |   |       |   |  |
| Jennifer Li        | 2010 | China          | § Senior Executive         |   |   |   |       |   |  |
|                    |      |                | § Financial                | ü | ü |   | Chair | ü |  |
|                    |      |                | § Technology               |   |   |   |       |   |  |
|                    |      |                | § Global Business          |   |   |   |       |   |  |
| Jun Makihara       | 2014 | Japan          | § Global Business          | ü | ü |   | ü     | ü |  |
|                    |      |                | § Global Finance           |   |   |   |       |   |  |
| Sergio Marchionne  | 2008 | Italy / Canada | § Senior Executive         |   |   |   | ü     | ü |  |
|                    |      |                | § Financial                |   |   |   |       |   |  |
|                    |      |                | § Law                      |   |   |   |       |   |  |
|                    |      |                | § Global Automotive        |   |   |   |       |   |  |

|                  |      |        | Business                |                      |       |   |       |   |
|------------------|------|--------|-------------------------|----------------------|-------|---|-------|---|
| Kalpana Morparia | 2011 | India  | § Senior Executive      |                      |       |   |       |   |
|                  |      |        | § Global Finance        |                      |       |   |       |   |
|                  |      |        | § Law                   | ü                    |       | ü | Chair | ü |
|                  |      |        | § Risk                  |                      |       |   |       |   |
|                  |      |        | Management              |                      |       |   |       |   |
| Lucio A. Noto    | 2008 | USA    | § Senior Executive      |                      |       |   |       |   |
|                  |      |        | § Operations            | ü                    |       |   |       |   |
|                  |      |        | § Financial             | (Presiding Director) | Chair | ü | ü     | ü |
|                  |      |        | § Global Business       |                      |       |   |       |   |
| Frederik Aulsen  | 2014 | Sweden | § Global Pharmaceutical |                      |       |   |       |   |
|                  |      |        | § Senior Executive/     |                      |       |   |       |   |
|                  |      |        | Entrepreneur            | ü                    |       | ü |       | ü |
|                  |      |        | § Civic Leadership      |                      |       |   |       |   |
|                  |      |        | § Academic and Research |                      |       |   |       |   |



**Table of Contents**

**ELECTION OF DIRECTORS**

**Director Nominees**

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

**20** PMI 2016 Proxy Statement

**Table of Contents**

**ELECTION OF DIRECTORS**

**Director Nominees**

**HAROLD BROWN**

**Professional Experience:**

**Primary**

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 his retirement in 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.

**Occupation:**

Counselor, Center

for Strategic and  
International

Studies

**Other Directorships and Associations:**

Dr. Brown is a member of the board of directors of Chemical Engineering Partners, Inc. and is president emeritus and life trustee of the California Institute of Technology, a member of the North American Group of the Trilateral Commission and a trustee emeritus 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.

**Director since:**

2008

**PMI Board Committees:**

**Age:** 88

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

### Professional Experience:

**Primary**

**Occupation:**

Chief Executive Officer

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 EEMA Region.

### Director Qualifications:

**Director since:**

2013

**Age:** 58

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 adult 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**

**Professional Experience:**

**Primary**

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.

**Occupation:**

Chairman of the Board

**Director since:**

2008

**Other Directorships and Associations:**

**Age: 61**

Mr. Camilleri is a director of América Móvil, S.A.B. de C.V. and Ferrari N.V. He 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**

**Professional Experience:**

**Primary**

Mr. Geissler served as Vice Chairman and Special Advisor to the Chairman and 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 and Eastern Europe, Middle East and Africa, from 2004 to 2007, and Vice Chairman, Global Operations, from 2007 to 2014.

**Occupation:**

Operating Partner,

Advent International

**Other Directorships and Associations:**

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

**Director since:**

2015

**PMI Board Committees:**

**Age: 62**

Mr. Geissler is a member of the Audit, 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**

**Professional Experience:**

**Primary**

**Occupation:**

Chief Financial

Officer, Baidu, Inc.

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:** 48

**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**

**Professional Experience:**

**Primary**

**Occupation:**

Retired Businessman

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 until 2015.

**Other Directorships and Associations:**

**Director since:**

2014

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 S.A. from 2005 to 2014.

**Age:** 58

**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**

**Professional Experience:**

**Primary**

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 Ferrari N.V. and 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.

**Occupation:**

Chief Executive

Officer, Fiat Chrysler

Automobiles N.V.

**Other Directorships and Associations:**

Chairman, Ferrari  
N.V.

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

Chairman, CNH

**PMI Board Committees:**

Industrial N.V.

Mr. Marchionne serves on the Finance and Product Innovation and Regulatory Affairs Committees.

**Director since:**

2008

**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.

**Age:** 63



## KALPANA MORPARIA

### Professional Experience:

#### Primary

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.

#### Occupation:

Chief Executive

Officer, J.P. Morgan

India Private Ltd.

### Other Directorships and Associations:

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

#### Director since:

2011

### 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.

Age: 66

### 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**

**Professional Experience:**

**Primary**

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.

**Occupation:**

Managing Partner,  
Midstream

Partners, LLC

**Other Directorships and Associations:**

**Director since:**

2008

Mr. Noto is a director of Penske Automotive Group, Inc. 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, Commercial International Bank from 2006 to 2009 and RHJ International S.A. from 2011 to 2015.

**Age: 77**

**PMI Board Committees:**

Mr. Noto is the Presiding Director, the Chair of the Audit Committee and a member of the Compensation and Leadership Development, 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:**

**Primary**

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

**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:** 65

**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**

**Professional Experience:**

**Primary**

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.

**Occupation:**

Chairman, Safilo

Group S.p.A.

**Other Directorships and Associations:**

Chairman, Rituals BV Mr. Polet is a director of RELX Group plc and William Grant & Sons Limited.

Chairman, NSG

**PMI Board Committees:**

Apparel BV

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

**Director since:**

2011

**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.

**Age:** 60

**STEPHEN M. WOLF**

**Professional Experience:**

**Primary**

**Occupation:**

Managing Partner,  
Alpilles, LLC

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:**

**Director since:**

2008

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.

**Age:** 74

**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 Peer Group (discussed on page 44), considers the appropriateness of the form and amount of director compensation and makes recommendations to the Board concerning such compensation with a view to 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 Peer 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 or stock options.

Pursuant to the 2008 PMI Stock Compensation Plan for Non-Employee Directors, each non-employee director then in office (except for Dr. Paulsen) received an annual share award on May 6, 2015, of shares of common stock having a value of \$175,000 on the date of grant (2,098 shares of common stock with a value of \$83.435 per share). As a non-employee Chairman, Mr. Camilleri received an annual share award having a value of \$1.25 million.

**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 Peer Group.

|                                |                    |
|--------------------------------|--------------------|
| Annual cash retainer:          | <b>\$125,000</b>   |
| Annual equity award:           | <b>\$175,000</b>   |
| Chairman annual cash retainer: | <b>\$1,250,000</b> |
| Chairman annual equity award:  | <b>\$1,250,000</b> |
| Presiding Director retainer:   | <b>\$25,000</b>    |
| Committee Chair retainer:      | <b>\$35,000</b>    |
| Committee member retainer:     | <b>\$5,000</b>     |
| Committee meeting fees:        | <b>None</b>        |
| Stock Options:                 | <b>None</b>        |

The Chairman's compensation reflects the Committee's view of the value he brings to the Company, based on his deep knowledge of our business acquired during his 38 years of service to the Company and its former affiliates. It also reflects his substantial time commitment in fulfilling the duties of Chairman.

A non-employee director may not sell or otherwise dispose of PMI shares received pursuant to the annual share award (other than shares withheld from the grant to pay taxes) unless he or she continues after the disposition to own PMI shares having an aggregate value of at least five times the then-current annual cash retainer. The Company's anti-hedging and anti-pledging policies also apply to non-employee directors. (See page 45.)

**Table of Contents****COMPENSATION OF DIRECTORS**

The following table presents the compensation received by the non-employee directors for fiscal year 2015.

| <b>Name</b>                     | <b>Fees Earned<br/>or Paid in Cash</b> | <b>Stock<br/>Awards of</b> | <b>Personal Use<br/>of Company Airfare</b> | <b>Car<br/>Expense</b>    | <b>All<br/>Other<br/>Compensation</b> | <b>Total</b> |
|---------------------------------|--|----------------------------|--|---------------------------|---------------------------------------|--------------|
|                                 | <b>(\$)</b>                            | <b>(\$)</b>                | <b>(\$)<sup>(a)</sup></b>                  | <b>(\$)<sup>(b)</sup></b> | <b>(\$)</b>                           | <b>(\$)</b>  |
| Harold Brown                    | 175,000                                | 175,000                    | –  | –                         | –                                     | 350,000      |
| Louis C. Camilleri              | 1,250,000                              | 1,250,000                  | 179,742                                    | 30,334                    | –                                     | 2,710,076    |
| Werner Geissler <sup>(c)</sup>  | 140,333                                | 233,333                    | –  | –                         | –                                     | 373,666      |
| Jennifer Li                     | 175,000                                | 175,000                    | –  | –                         | –                                     | 350,000      |
| Jun Makihara                    | 140,000                                | 175,000                    | –  | –                         | –                                     | 315,000      |
| Sergio Marchionne               | 144,417                                | 175,000                    | –  | –                         | –                                     | 319,417      |
| Kalpana Morparia                | 175,000                                | 175,000                    | –  | –                         | –                                     | 350,000      |
| Lucio A. Noto                   | 200,333                                | 175,000                    | –  | –                         | –                                     | 375,333      |
| Frederik Paulsen <sup>(d)</sup> | –                                      | –                          | –  | –                         | –                                     | –            |
| Robert B. Polet                 | 145,000                                | 175,000                    | –  | –                         | –                                     | 320,000      |
| Stephen M. Wolf                 | 185,000                                | 175,000                    | –  | –                         | –                                     | 360,000      |



- (a) For reasons of security and personal safety, PMI requires Mr. Camilleri to use Company aircraft for all travel. The amounts shown are the incremental cost of personal use of Company aircraft to PMI and include the cost of trip-related crew hotels and meals, in-flight food and beverages, landing and ground handling fees, hourly maintenance contract costs, hangar or aircraft parking costs, fuel costs based on the average annual cost of fuel per hour flown, and other smaller variable costs. Fixed costs that would be incurred in any event to operate Company aircraft (e.g., aircraft purchase costs, depreciation, maintenance not related to personal trips, and flight crew salaries) are not included. Mr. Camilleri has agreed to reimburse the Company for his personal usage of Company aircraft to the extent that the aggregate incremental cost of such usage exceeds \$200,000 per fiscal year. He is responsible for his own taxes on any imputed taxable income resulting from personal use of Company aircraft.
- (b) The amount shown for Mr. Camilleri includes the incremental cost of personal use of driver services that PMI provided for reasons of security and personal safety. Mr. Camilleri is responsible for his own taxes on any imputed taxable income resulting from car expenses.
- (c) Mr. Geissler joined the Board on January 1, 2015 and received a prorated stock award for the period January 1, 2015 through May 5, 2015.
- (d) 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.

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 11, 2016, by each director, nominee for director and named executive officer, 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<br>Nature of<br>Beneficial<br>Ownership <sup>(1)</sup> |
|----------------------|---|
| Harold Brown         | 49,762  |
| André Calantzopoulos | 749,554   |
| Louis C. Camilleri   | 833,340   |
| Marc Firestone       | 202,179   |
| Werner Geissler      | 3,374   |
| Martin King          | 148,523   |
| Jennifer Li          | 15,182  |
| Jun Makihara         | 5,028   |
| Sergio Marchionne    | 61,832  |

|                    |           |
|--------------------|-----------|
| Kalpana Morparia   | 8,920     |
| Lucio A. Noto      | 91,456    |
| Jacek Olczak       | 224,403   |
| Matteo Pellegrini  | 268,888   |
| Frederik Paulsen   |           |
| Robert B. Polet    | 10,449    |
| Stephen M. Wolf    | 76,529    |
| Miroslaw Zielinski | 207,575   |
| Group (27 persons) | 3,817,796 |

<sup>(1)</sup> Includes shares of deferred stock as follows: Dr. Brown, 31,755; Mr. Calantzopoulos, 241,170; Mr. Camilleri, 15,526; Mr. Firestone, 93,860; Mr. King, 44,800; Mr. Makihara, 3,668; Mr. Noto, 51,878; Mr. Olczak, 84,500; Mr. Wolf, 53,207; Mr. Zielinski, 54,980; and group, 985,324. Also includes 17,085 shares as to which beneficial ownership is disclaimed by Mr. Noto (shares held by spouse). Also includes 1,360 shares as to which beneficial ownership is disclaimed by Mr. Makihara (shares held by spouse). Also includes 18,007 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 11, 2016, those directors who participate in the Company's director deferred fee program had the following PMI share equivalents allocated to their accounts: Mr. Makihara, 2,320; Mr. Noto, 81,387; and Mr. Wolf, 28,056. See Compensation of Directors on page 28 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.

| <b>Name and Address of Beneficial Owner</b>  | <b>Number of Shares Beneficially Owned</b> | <b>Percent of Common Stock Outstanding on March 11, 2016</b> |
|--|--|--|
| Capital Research Global Investors  | 82,643,113 <sup>(1)</sup>                  | 5.33%  |
| A division of Capital Research and Management Company (CRMC)<br>333 South Hope Street<br>Los Angeles, CA 90071 |  |  |
| Capital World Investors  | 85,672,531 <sup>(2)</sup>                  | 5.52%  |
| A division of Capital Research and Management Company (CRMC)<br>333 South Hope Street<br>Los Angeles, CA 90071 |  |  |
| BlackRock, Inc.  | 87,191,965 <sup>(3)</sup>                  | 5.62%  |
| 55 East 52 <sup>nd</sup> Street  |  |  |

New York, NY 10055

|                    |                           |       |
|--------------------|---------------------------|-------|
| The Vanguard Group | 94,208,305 <sup>(4)</sup> | 6.07% |
|--------------------|---------------------------|-------|

100 Vanguard Blvd.

Malvern, PA 19355

- (1) According to a Schedule 13G/A, dated February 9, 2016, filed with the U.S. Securities and Exchange Commission on February 16, 2016, by Capital Research Global Investors presenting the number of shares as of December 31, 2015.
- (2) According to a Schedule 13G, dated February 10, 2016, filed with the U.S. Securities and Exchange Commission on February 12, 2016, by Capital World Investors presenting the number of shares as of December 31, 2015.
- (3) According to a Schedule 13G/A, dated January 22, 2016, filed with the U.S. Securities and Exchange Commission on January 27, 2016, by BlackRock, Inc. presenting the number of shares as of December 31, 2015.
- (4) According to a Schedule 13G/A, dated February 10, 2016, filed with the U.S. Securities and Exchange Commission on February 11, 2016, by The Vanguard Group presenting the number of shares as of December 31, 2015.

**Section 16(a) Beneficial Ownership Reporting Compliance**

The Company believes that during 2015 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, except that Mr. Geissler’s initial filing inadvertently omitted 457 shares. Upon learning of this omission, Mr. Geissler promptly reported ownership of these shares.

**Table of Contents**

**COMPENSATION DISCUSSION AND ANALYSIS**

**Executive Summary**

Our Compensation Discussion and Analysis outlines the changes in the design of our executive compensation program components, the objectives and principles upon which they are based, our 2015 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 other named executive officers, 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](http://www.pmi.com/governance). The members of the Committee are: Stephen M. Wolf (Chair), Harold Brown, Werner Geissler, Lucio A. Noto and Robert B. Polet. The Committee met five times in 2015. 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. In 2015, the Committee adopted substantial changes to the program, as set forth in this Compensation Discussion and Analysis. Each component of our new program is designed to achieve one or more of the following objectives:

§ to support our ability to attract, develop and retain world-class leaders in a controversial industry;

§ 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;

§ to promote internal fairness and a disciplined assessment of performance; and

§ to align executive incentives with our risk management objectives.

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 both annual and long-term goals and objectives;

§ **a mix of cash and deferred equity compensation** that seeks to discourage actions that are solely driven by the share price at any given time to the detriment of PMI's long-term strategic goals; and

§ **an optimal balance of equity compensation**, without using stock options, and with significant share ownership requirements, to align the interests of executives and shareholders while remaining mindful of the potential dilutive nature of equity compensation on shareholder value.

Under our new compensation program, the Committee reviews local market and Peer Group data, but no longer targets total direct compensation at a specific percentile of the market. Instead, the Committee sets total direct compensation at levels that it believes necessary to attract and retain talented executives in a controversial industry and remain competitive with other consumer product companies.

**Table of Contents****COMPENSATION DISCUSSION AND ANALYSIS****Components of Our Total Direct Compensation Program**

The three components of total direct compensation are base salary, annual performance-based variable cash awards and variable 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. See page 34 for the target compensation mix of our NEOs in 2015. The key characteristics and key objectives of each component of our compensation program, as restructured in 2015, are as follows:

| <b>Component</b>                          | <b>Key Characteristics</b>  | <b>Key Objective</b>   |
|---|---|--|
| <b>Base Salary</b>                        | § 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.                  |
| <b>Incentive Compensation (IC) Awards</b> | § Annual performance-based variable cash award for meeting or exceeding pre-established performance goals.<br><br>§ Under our new program, the Company's incentive compensation business rating will be determined by a fixed formula that measures the Company's results against pre-established and pre-weighted performance targets (see page 39). The final award will be determined by multiplying the executive's base salary by the IC business rating and by the executive's IC target and individual performance rating. | § Intended to motivate executives to meet or exceed our performance goals and strategic objectives in a given fiscal year. |
| <b>Equity Awards</b>                      |   |  |



§ Long-term variable equity award that contributes to all six of the Committee's program design objectives while minimizing share dilution and protecting against excessive risk taking.

§ Intended to motivate our executives to produce results that enhance sustainable shareholder value and strengthen the Company over the long-term.

§ Amount of each award is determined by multiplying the executive's base salary by the target percentage for that salary grade, and then by the executive's individual performance rating, plus or minus 10 percentage points, for the most recently completed year.

for the 2016-2018 performance cycle, 60% of the award was granted in the form of PSUs that vest at the end of the cycle to the extent that pre-established and pre-weighted performance goals are achieved (see pages 40-41).

for the 2016-2018 performance cycle, 40% of the award was granted in the form of RSUs that vest at the end of the three-year cycle (assuming continued employment).