

Philip Morris International Inc.  
Form 10-Q  
October 26, 2017  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q  
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the quarterly period ended September 30, 2017  
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 001-33708  
Philip Morris  
International  
Inc.

(Exact name of registrant as specified in its charter)

Virginia 13-3435103  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

120 Park Avenue 10017  
New York, New York  
(Address of principal executive offices) (Zip Code)

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

Former name, former address and former fiscal year, if changed since last report

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Edgar Filing: Philip Morris International Inc. - Form 10-Q

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

At October 23, 2017, there were 1,553,202,587 shares outstanding of the registrant's common stock, no par value per share.

-1-

---

Table of ContentsPHILIP MORRIS INTERNATIONAL INC.  
TABLE OF CONTENTS

	Page No.
<b>PART I - <u>FINANCIAL INFORMATION</u></b>	
Item 1. <u>Financial Statements (Unaudited)</u>	
Condensed Consolidated Balance Sheets at September 30, 2017 and December 31, 2016	3 – 4
Condensed Consolidated Statements of Earnings for the Nine Months Ended September 30, 2017 and 2016	5
Three Months Ended September 30, 2017 and 2016	6
Condensed Consolidated Statements of Comprehensive Earnings for the Nine Months Ended September 30, 2017 and 2016	7
Three Months Ended September 30, 2017 and 2016	8
Condensed Consolidated Statements of Stockholders' (Deficit) Equity for the Nine Months Ended September 30, 2017 and 2016	9
Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2017 and 2016	10 – 11
Notes to Condensed Consolidated Financial Statements	12 – 37
Item 2. <u>Management's Discussion and Analysis of Financial     Condition and Results of Operations</u>	38 – 81
Item 4. <u>Controls and Procedures</u>	82
<b>PART II - <u>OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	83
Item 1A. <u>Risk Factors</u>	83
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	84
Item 6. <u>Exhibits</u>	85
<u>Signature</u>	86
In this report, "PMI," "we," "us" and "our" refer to Philip Morris International Inc. and its subsidiaries.	

Table of Contents

## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements.

## Philip Morris International Inc. and Subsidiaries

## Condensed Consolidated Balance Sheets

(in millions of dollars)

(Unaudited)

	September 30, 2017	December 31, 2016
<b>ASSETS</b>		
Cash and cash equivalents	\$ 7,667	\$ 4,239
Receivables (less allowances of \$43 in 2017 and \$42 in 2016)	3,985	3,499
Inventories:		
Leaf tobacco	2,678	2,498
Other raw materials	1,512	1,569
Finished product	4,093	4,950
	8,283	9,017
Other current assets	924	853
Total current assets	20,859	17,608
Property, plant and equipment, at cost	13,972	12,360
Less: accumulated depreciation	7,115	6,296
	6,857	6,064
Goodwill (Note 4)	7,681	7,324
Other intangible assets, net (Note 4)	2,501	2,470
Investments in unconsolidated subsidiaries (Note 14)	1,080	1,011
Deferred income taxes	1,138	859
Other assets	1,835	1,515
<b>TOTAL ASSETS</b>	<b>\$ 41,951</b>	<b>\$ 36,851</b>

See notes to condensed consolidated financial statements.

Continued

Table of Contents

Philip Morris International Inc. and Subsidiaries  
Condensed Consolidated Balance Sheets (Continued)  
(in millions of dollars, except share data)  
(Unaudited)

	September 30, 2017	December 31, 2016
<b>LIABILITIES</b>		
Short-term borrowings (Note 10)	\$ 2,905	\$ 643
Current portion of long-term debt (Note 10)	3,005	2,573
Accounts payable	1,973	1,666
Accrued liabilities:		
Marketing and selling	680	575
Taxes, except income taxes	5,491	6,204
Employment costs	825	800
Dividends payable	1,669	1,621
Other	1,503	1,553
Income taxes	463	832
Total current liabilities	18,514	16,467
Long-term debt (Note 10)	28,065	25,851
Deferred income taxes	1,037	1,897
Employment costs	2,868	2,800
Other liabilities	1,100	736
Total liabilities	51,584	47,751
Contingencies (Note 8)		
<b>STOCKHOLDERS' (DEFICIT) EQUITY</b>		
Common stock, no par value (2,109,316,331 shares issued in 2017 and 2016)	—	—
Additional paid-in capital	1,942	1,964
Earnings reinvested in the business	30,831	30,397
Accumulated other comprehensive losses	(8,797)	(9,559)
	23,976	22,802
Less: cost of repurchased stock (556,120,940 and 557,930,784 shares in 2017 and 2016, respectively)	35,383	35,490
Total PMI stockholders' deficit	(11,407)	(12,688)
Noncontrolling interests	1,774	1,788
Total stockholders' deficit	(9,633)	(10,900)
<b>TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY</b>	<b>\$ 41,951</b>	<b>\$ 36,851</b>

See notes to condensed consolidated financial statements.

Table of Contents

Philip Morris International Inc. and Subsidiaries  
 Condensed Consolidated Statements of Earnings  
 (in millions of dollars, except per share data)  
 (Unaudited)

	For the Nine Months Ended September 30,	
	2017	2016
Net revenues	\$56,513	\$55,764
Cost of sales	7,431	6,892
Excise taxes on products	36,059	36,050
Gross profit	13,023	12,822
Marketing, administration and research costs	4,773	4,563
Amortization of intangibles	65	56
Operating income	8,185	8,203
Interest expense, net	655	690
Earnings before income taxes	7,530	7,513
Provision for income taxes	2,042	2,110
Equity (income)/loss in unconsolidated subsidiaries, net	(57 )	(72 )
Net earnings	5,545	5,475
Net earnings attributable to noncontrolling interests	204	219
Net earnings attributable to PMI	\$5,341	\$5,256
Per share data (Note 6):		
Basic earnings per share	\$3.43	\$3.38
Diluted earnings per share	\$3.43	\$3.38
Dividends declared	\$3.15	\$3.08

See notes to condensed consolidated financial statements.

Table of Contents

Philip Morris International Inc. and Subsidiaries  
Condensed Consolidated Statements of Earnings  
(in millions of dollars, except per share data)  
(Unaudited)

	For the Three Months Ended September 30,	
	2017	2016
Net revenues	\$20,638	\$19,935
Cost of sales	2,735	2,432
Excise taxes on products	13,165	12,953
Gross profit	4,738	4,550
Marketing, administration and research costs	1,649	1,554
Amortization of intangibles	21	19
Operating income	3,068	2,977
Interest expense, net	223	220
Earnings before income taxes	2,845	2,757
Provision for income taxes	812	764
Equity (income)/loss in unconsolidated subsidiaries, net	(12 )	(35 )
Net earnings	2,045	2,028
Net earnings attributable to noncontrolling interests	75	90
Net earnings attributable to PMI	\$1,970	\$1,938
Per share data (Note 6):		
Basic earnings per share	\$1.27	\$1.25
Diluted earnings per share	\$1.27	\$1.25
Dividends declared	\$1.07	\$1.04

See notes to condensed consolidated financial statements.

Table of Contents

Philip Morris International Inc. and Subsidiaries  
 Condensed Consolidated Statements of Comprehensive Earnings  
 (in millions of dollars)  
 (Unaudited)

	For the Nine Months Ended September 30,	
	2017	2016
Net earnings	\$5,545	\$5,475
Other comprehensive earnings (losses), net of income taxes:		
Change in currency translation adjustment:		
Unrealized gains (losses), net of income taxes of \$790 in 2017 and \$131 in 2016	631	544
(Gains)/losses transferred to earnings, net of income taxes of \$- in 2017 and \$- in 2016	(2	) —
Change in net loss and prior service cost:		
Net losses and prior service costs, net of income taxes of \$- in 2017 and \$3 in 2016	—	(10
Amortization of net losses, prior service costs and net transition costs, net of income taxes of (\$31) in 2017 and (\$27) in 2016	166	164
Change in fair value of derivatives accounted for as hedges:		
Gains (losses) recognized, net of income taxes of \$7 in 2017 and \$31 in 2016	(48	) (184
(Gains) losses transferred to earnings, net of income taxes of \$1 in 2017 and (\$6) in 2016	4	19
Total other comprehensive earnings (losses)	751	533
Total comprehensive earnings	6,296	6,008
Less comprehensive earnings attributable to:		
Noncontrolling interests	193	239
Comprehensive earnings attributable to PMI	\$6,103	\$5,769

See notes to condensed consolidated financial statements



Table of Contents

Philip Morris International Inc. and Subsidiaries  
 Condensed Consolidated Statements of Comprehensive Earnings  
 (in millions of dollars)  
 (Unaudited)

	For the Three Months Ended September 30,	
	2017	2016
Net earnings	\$2,045	\$2,028
Other comprehensive earnings (losses), net of income taxes:		
Change in currency translation adjustments:		
Unrealized gains (losses), net of income taxes of \$244 in 2017 and \$84 in 2016	201	6
(Gains) losses transferred to earnings, net of income taxes of \$- in 2017 and \$- in 2016	(2	) —
Change in net loss and prior service cost:		
Amortization of net losses, prior service costs and net transition costs, net of income taxes of (\$12) in 2017 and (\$10) in 2016	55	54
Change in fair value of derivatives accounted for as hedges:		
Gains (losses) recognized, net of income taxes of (\$1) in 2017 and \$1 in 2016	5	(11 )
(Gains) losses transferred to earnings, net of income taxes of \$- in 2017 and (\$3) in 2016	6	16
Total other comprehensive earnings (losses)	265	65
Total comprehensive earnings	2,310	2,093
Less comprehensive earnings attributable to:		
Noncontrolling interests	67	89
Comprehensive earnings attributable to PMI	\$2,243	\$2,004

See notes to condensed consolidated financial statements

Table of Contents

Philip Morris International Inc. and Subsidiaries  
 Condensed Consolidated Statements of Stockholders' (Deficit) Equity  
 For the Nine Months Ended September 30, 2017 and 2016  
 (in millions of dollars, except per share amounts)  
 (Unaudited)

	PMI Stockholders' (Deficit) Equity						
	Additional Common Paid-in Stock Capital	Earnings Reinvested in the Business	Accumulated Other Comprehensive Loss	Cost of Repurchased Stock	Noncontrolling Interests		Total
Balances, January 1, 2016	\$-1,929	\$ 29,842	\$ (9,402 )	\$ (35,613 )	\$ 1,768		\$(11,476)
Net earnings		5,256			219		5,475
Other comprehensive earnings (losses), net of income taxes			513		20		533
Issuance of stock awards	8			121			129
Dividends declared (\$3.08 per share)		(4,793 )					(4,793 )
Payments to noncontrolling interests Other					(187 )		(187 )
	(3 )				5		2
Balances, September 30, 2016	\$-1,934	\$ 30,305	\$ (8,889 )	\$ (35,492 )	\$ 1,825		\$(10,317)
Balances, January 1, 2017	\$-1,964	\$ 30,397	\$ (9,559 )	\$ (35,490 )	\$ 1,788		\$(10,900)
Net earnings		5,341			204		5,545
Other comprehensive earnings (losses), net of income taxes			762		(11 )		751
Issuance of stock awards	(12 )			107			95
Dividends declared (\$3.15 per share)		(4,907 )					(4,907 )
Payments to noncontrolling interests Other					(222 )		(222 )
	(10 )				15		5
Balances, September 30, 2017	\$-1,942	\$ 30,831	\$ (8,797 )	\$ (35,383 )	\$ 1,774		\$(9,633 )

See notes to condensed consolidated financial statements.

Table of Contents

Philip Morris International Inc. and Subsidiaries  
 Condensed Consolidated Statements of Cash Flows  
 (in millions of dollars)  
 (Unaudited)

	For the Nine Months Ended September 30, 2017    2016	
<b>CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>		
Net earnings	\$5,545	\$5,475
Adjustments to reconcile net earnings to operating cash flows:		
Depreciation and amortization	632	548
Deferred income tax (benefit) provision	(355 )	50
Asset impairment and exit costs, net of cash paid	(8 )	(26 )
Cash effects of changes:		
Receivables, net	(118 )	(398 )
Inventories	1,243	1,245
Accounts payable	247	180
Income taxes	(420 )	(259 )
Accrued liabilities and other current assets	(718 )	(985 )
Pension plan contributions	(52 )	(80 )
Other	(5 )	178
Net cash provided by operating activities	5,991	5,928
<b>CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>		
Capital expenditures	(995 )	(734 )
Investments in unconsolidated subsidiaries	(40 )	(26 )
Net investment hedges and other	(1,257 )	(183 )
Net cash used in investing activities	(2,292 )	(943 )

See notes to condensed consolidated financial statements.

Continued

- 10-

---

Table of Contents

Philip Morris International Inc. and Subsidiaries  
 Condensed Consolidated Statements of Cash Flows (Continued)  
 (in millions of dollars)  
 (Unaudited)

	For the Nine Months Ended September 30, 2017 2016	
<b>CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>		
Short-term borrowing activity by original maturity:		
Net issuances (repayments) - maturities of 90 days or less	\$646	\$(55 )
Issuances - maturities longer than 90 days	1,634	—
Long-term debt proceeds	3,721	3,536
Long-term debt repaid	(2,053)	(2,072)
Dividends paid	(4,854)	(4,759)
Sale (purchase) of subsidiary shares to/(from) noncontrolling interests	5	5
Other	(331 )	(215 )
Net cash used in financing activities	(1,232)	(3,560)
Effect of exchange rate changes on cash and cash equivalents	961	42
Cash and cash equivalents:		