Philip Morris International Inc.
Form DEF 14A
March 21, 2019
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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
- Definitive Additional Materials
- Soliciting Material Under Rule 14a-12

Philip Morris International Inc.

(Name of Registrant as Specified in Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

No fee required.

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(1) Title of each class of securities to which transaction applies:

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(1) Amount previously paid:

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

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(3) Filing Party:

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(4) Date Filed: March 21, 2019

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2019 PROXY STATEMENT

And Notice of Annual Meeting of Shareholders

To be held on Wednesday, May 1, 2019

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March 21, 2019

Dear Fellow Shareholder,

You are cordially invited to join us at the 2019 Annual Meeting of Shareholders of Philip Morris International Inc. (PMI or the Company) to be held on Wednesday, May 1, 2019, at 9:00 a.m., in the Empire State Ballroom at the Grand Hyatt New York, 109 East 42nd Street, New York, New York.

At this year s meeting, we will vote on the election of twelve directors, an advisory say-on-pay vote approving executive compensation, and the ratification of the selection of PricewaterhouseCoopers SA as the Company s independent auditors. 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. **All attendees must present an admission ticket and government-issued photographic identification. To request an admission ticket, please follow the instructions set forth on page 60 in response to Question 4**.

The meeting facilities will open at 7:30 a.m. on May 1, 2019. 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.

Sadly, Sergio Marchionne, who served on our Board since our spin-off in 2008, passed away last year. Sergio was an invaluable member of our Board, with boundless energy, sage advice and deep perception, always holding us by his example to the highest of standards. In short, he was an ideal director. We will miss him dearly.

Dr. Harold Brown retired from the Board last year and, sadly, passed away earlier this year. During his distinguished career, Harold served his country as Secretary of the U.S. Air Force, Secretary of Defense, President of the California Institute of Technology, and in other capacities too numerous to mention. Our Company was fortunate to have Harold as a member of the Board of Directors. His intellect, drive, breadth of experience, integrity, sense of humor, and sheer generosity of spirit are irreplaceable.

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,

LOUIS C. CAMILLERI

Sincerely,

ANDRÉ CALANTZOPOULOS

CHAIRMAN OF THE BOARD CHIEF EXECUTIVE OFFICER

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

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PHILIP MORRIS INTERNATIONAL INC.

NOTICE OF 2019 ANNUAL MEETING OF SHAREHOLDERS

Date and Time	9:00 a.m. on Wednesday, May 1, 2019
Place	Empire State Ballroom Grand Hyatt New York 109 East 42nd Street New York, New York
Items of Business	(1) To elect twelve directors. (2) To vote on an advisory resolution approving executive compensation. (3) To ratify the selection of PricewaterhouseCoopers SA as independent auditors for the Company for the fiscal year ending December 31, 2019. (4) To transact other business properly coming before the meeting.
Who Can Vote	Only shareholders of record of shares of common stock at the close of business on March 8, 2019 (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 8, 2019, there were 1,555,794,746 shares of common stock issued and outstanding.
Voting of Proxies and Deadline for Receipt	All properly executed written proxies, and all properly completed proxies submitted by telephone or Internet, that are delivered pursuant to this solicitation will be voted at the meeting in accordance with the directions given in the proxy, unless the proxy is revoked before the meeting. Proxies submitted by telephone or Internet must be received by 11:59 p.m., EDT, on April 30, 2019.
2018 Annual Report	A copy of our 2018 Annual Report is enclosed.
Date of Mailing	This notice and the proxy statement are first being mailed to shareholders on or about March 21, 2019.

Jerry Whitson

Deputy General Counsel and Corporate Secretary

March 21, 2019

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 60 IN RESPONSE TO QUESTION 4.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to be held

on May 1, 2019: The Company s Proxy Statement and 2018 Annual Report are available at

www.pmi.com/investors.

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GLOSSARY OF TERMS

Financial Terms:

Net revenues exclude excise taxes.

Operating Income, or OI, is defined as gross profit minus operating expenses.

Adjusted OI is defined as reported OI adjusted for asset impairment and exit costs and other special items.

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 and exit costs and other special items.

EPS stands for Earnings Per Share.

Adjusted Diluted EPS is defined as reported diluted EPS adjusted for asset impairment and exit costs, tax items and other special items.

Operating cash flow is defined as net cash provided by operating activities.

Other Terms:

Reduced-risk products (RRPs) is the term we use to refer to products that present, are likely to present, or have the potential to present less risk of harm to smokers who switch to these products versus continued smoking. We have a range of RRPs in various stages of development, scientific assessment and commercialization. Because our RRPs do not burn tobacco, they produce an aerosol that contains far lower quantities of harmful and potentially harmful constituents than found in cigarette smoke.

NEOs are Named Executive Officers and include our Chief Executive Officer, or CEO, our Chief Financial Officer, or CFO, and the three other most highly compensated officers serving in 2018.

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. a
subsidiaries.

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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.

2018 Business Performance Highlights

We achieved robust results from our combustible tobacco portfolio and nearly doubled our in-market sales of *IQOS* heated tobacco units driven by growth in all *IQOS* markets. However, we performed well below our ambitious growth targets for net revenues and adjusted operating income. This shortfall was primarily due to the unexpected slowdown in the rate of smokers switching to *IQOS* in Japan and related distributor inventory adjustments and, to a lesser extent, the move to highly inflationary accounting in Argentina. Our share of Top 30 OI markets was also below target. However, our adjusted diluted EPS growth exceeded our target, aided by a lower effective tax rate and lower net interest expense as a result of U.S. tax reform. Our operating cash flow growth also exceeded the target.

We are naturally disappointed in the underperformance of certain of our ambitious financial growth targets. However, as further discussed on page 31, we made very good progress in 2018 on our strategic initiatives and transformation, and we have established a solid foundation from which to deliver better performance in 2019 and beyond.

2018 Performance Targets and Results

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PROXY STATEMENT SUMMARY

Investor Outreach

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 2018, we met with 53 of our top 100 institutional investors, representing 69% of our available global shareholder base (which excludes index and pension funds that do not meet with management), to discuss our business and environmental, social and governance issues. In addition to these regular Investor Relations engagements, we invited 82 of our largest shareholders, holding approximately 60% of our outstanding shares, to participate in individual conference calls to discuss executive compensation and corporate governance. These engagements provided us a better understanding of our shareholders priorities, perspectives and positions. We reported the substance of these engagements to our Compensation and Leadership Development Committee, our Nominating and Corporate Governance Committee, and our entire Board of Directors.

In September 2018, we held our biennial Investor Day, which was attended in person by sell-side analysts and by representatives of the holders of approximately 39% of our available global shareholder base. All shareholders were able to view the presentations by webcast. During this conference, shareholders received detailed presentations about our business and had the opportunity to meet with and ask questions of our senior management team. Before the conference, we commissioned an independent third party to survey sell-side analysts and institutional shareholders on a number of topics, including those they most wished to see addressed at the conference and any additional messages they wished to convey to management. The survey results were reported to us anonymously and addressed in the presentations. We reported the results of this conference to our Finance Committee and to our entire Board of Directors.

Our Focus on Sustainability

As part of our continued focus on sustainability, the Board in 2018 added oversight of our sustainability strategies and performance to the charter of the Board s Nominating and Corporate Governance Committee. Our 2018 Annual Report reviews how we have refined our sustainability strategy to align with societal expectations. In 2018, we made the CDP Climate A list for the fifth year in a row and also earned a place on CDP s Supplier Engagement leader board for the second consecutive year. The Company also improved its ranking in the 2018 SAM Corporate Sustainability Assessment, an annual evaluation of companies sustainability practices.

EQUAL-SALARY Certification

Earlier this year, we became the first multinational company to receive a global EQUAL-SALARY certification from the EQUAL-SALARY Foundation. This achievement is an important building block on the road to creating a more inclusive gender-balanced workplace.

Shareholder Proposal

Trinity Health, together with other co-proponents, submitted a shareholder proposal for inclusion in this proxy statement requesting the Board of Directors to review the Company s adherence to its policies aimed at discouraging smoking among young people and to report the results of that review to shareholders by November 2019. The Company agreed to the request and the proponents withdrew the proposal.

2019 Shareholder Vote Recommendations

The Board of Directors makes the following recommendations to shareholders:

		Board s Recommendation	Page
Item 1:	**Election of Directors**	**FOR each nominee**	**13**
Item 2:	**Advisory Vote Approving Executive Compensation**	**FOR**	**54**
Item 3:	**Ratification of the Selection of Independent Auditors for 2019**	**FOR**	**57**

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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 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 2018. 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 2018, all nominees for director then in office attended at least 75% of the aggregate number of meetings of the Board and all Committees on which they served, and all but one of the nominee directors attended the 2018 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 two-day session. The Board regularly receives presentations on the Company s longer-term objectives and plans.

Governance Guidelines, Policies and Codes

The Board has adopted Corporate Governance Guidelines and a code of conduct known as the *Guidebook for Success*, 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, chief operating 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/our-business/about-us, 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 websites 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 C. Camilleri serves as our non-executive 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 with 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. The Board also 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;

serve as liaison between the Chief Executive Officer and the non-management directors;

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BOARD OPERATIONS AND GOVERNANCE

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/our-business/about-us. 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 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 2018 from Philip Morris International Inc. or its subsidiaries, other than compensation received as a director.

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BOARD OPERATIONS AND GOVERNANCE

Committees and 2018 Meetings	Current Members	Purpose, Authority and Responsibilities
AUDIT Meetings: 8	**- Jennifer Li (Chair)** - Massimo Ferragamo - Werner Geissler - Jun Makihara - Lucio A. Noto - 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; review financial risk assessment and management; oversee cybersecurity risk assessment and management and compliance with privacy regulation;

		oversee the risk management of excessive or discriminatory taxation; oversee the risk management of illicit trade; oversee the risk management of manufacturing and supply chain disruption; oversee the risk management of climate change, pandemics and natural disasters; oversee the management of the risk that credibility and reputational issues may stand in the way of promoting the benefits of RRPs as a necessary pillar of tobacco control and impair their commercial success; 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 AND LEADERSHIP DEVELOPMENT Meetings: 5	**- Werner Geissler (Chair)** - Lisa A. Hook - Lucio A. Noto - Robert B. Polet - Stephen M. Wolf	**Purpose:** discharge the Board s responsibilities relating to executive compensation; produce a report for inclusion in the proxy statement; and review succession plans for the CEO and other senior executives. **Authority and Responsibilities:** review and approve the Company s overall compensation philosophy and design; review and approve corporate goals and objectives relevant to the

compensation of the CEO, evaluate his performance and determine and approve his compensation;

review and approve the compensation of all executive officers;

recommend to the Board compensation plans and administer and make awards under such plans and review the cumulative effect of its actions;

monitor compliance by executives with our 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 the management of the risk that the Company is unable to attract and retain the necessary talent with the right degree of diversity, experience and skills to achieve its ongoing business transformation;

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.

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BOARD OPERATIONS AND GOVERNANCE

Committees and 2018 Meetings	Current Members	Purpose, Authority and Responsibilities
FINANCE Meetings: 4	**- Jun Makihara (Chair)** - Massimo Ferragamo - Werner Geissler - Lisa A. Hook - Jennifer Li - Kalpana Morparia - Lucio A. Noto - Frederik Paulsen - Robert B. Polet - Stephen M. Wolf	**Purpose, Authority and Responsibilities:** monitor the Company s financial performance and condition; oversee sources and uses of cash flow and capital structure; advise the Board on dividends, share repurchases and other financial matters; advise the Board on the Company s long-term financing plans, short-term financing plans and credit facilities; oversee the management of the Company s cash management function; oversee the management of the Company s pension plans, including funded status and performance; oversee the management of the Company s investor relations and stock market performance; oversee the management of the risk that certain new market entrants may alienate consumers from our RRP products through marketing campaigns and messaging and inferior product satisfaction, while not relying on substantiated science and appropriate R&D protocols and standards; oversee the management of the risks to the Company s pricing

		strategies; oversee the risk that failure to effectively implement or integrate business development initiatives could impair the achievement of our strategic objectives; oversee the management of the risks of currency exchange rate volatility and convertibility; and oversee the management of the risks of global macro-economic uncertainty.
NOMINATING AND CORPORATE GOVERNANCE Meetings: 4	**- Kalpana Morparia (Chair)** - Massimo Ferragamo - Jennifer Li - Lucio A. Noto - Robert B. Polet - Stephen M. Wolf	**Purpose:** identify qualified candidates for Board membership; recommend nominees for election at the annual meeting; advise the Board on corporate governance and sustainability matters; and oversee self-evaluation of the Board and each Committee. **Authority and Responsibilities:** review qualifications of prospective candidates for director; consider performance of incumbent directors; oversee the Company s sustainability strategies and performance and advise the Board on sustainability matters; make recommendations to the Board regarding director independence and the function, composition and structure of the Board and its Committees;

		oversee the Company s lobbying and trade association activities and expenditures;
		oversee the management of the risk that credibility and reputational issues may stand in the way of promoting the benefits of RRPs as a necessary pillar of tobacco control and impair their commercial success;
		recommend corporate governance guidelines; and
		review director compensation.
PRODUCT INNOVATION AND REGULATORY AFFAIRS Meetings: 3	**- Frederik Paulsen (Chair)** - Massimo Ferragamo - Werner Geissler - Lisa A. Hook - Jun Makihara - Kalpana Morparia - Robert B. Polet - Stephen M. Wolf	**Purpose:** oversee the research and development of new products and to improve existing products, with a particular focus on RRPs; and monitor and review key legislative, regulatory and public policy issues and trends related to the research and development of RRPs. **Authority and Responsibilities:** monitor the Company s internal scientific research, including the Company s efforts to substantiate the risk-reduction potential of its RRPs through rigorous scientific methodologies, as well as the external body of scientific research relevant to the Company s present and future RRPs; monitor the Company s development of innovative RRPs; monitor the Company s management of its intellectual property; monitor evolving risks affecting the Company s research and development, which may include the risk that the regulatory environment will not differentiate between combustible products and RRPs, will limit consumer access to RRPs or to accurate information about their risks and benefits, and will limit the opportunity to switch smokers to RRPs; and risks associated with

changes in consumer perceptions and preferences regarding RRPs; and

make recommendations to the Board regarding significant R&D projects and budgets.

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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. Management has identified and prioritized key enterprise 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 has established a Corporate Risk Governance Committee (CRGC) comprising the Chief Operating Officer, the Chief Financial Officer, the Vice President and Controller, the Vice President, Corporate Audit, and the Vice President, Chief Ethics & Compliance Officer. Ownership of each of the prioritized risks is assigned to a member of senior management, and oversight of the management of each risk is assigned to a particular Board Committee or to the full Board. Management reports on these risks to the appropriate Committee and to the full Board throughout the year. The risk management oversight by each Committee is indicated in the chart on pages 9 and 10. 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.

In 2018, the Company conducted a full-scale reassessment of the strategic enterprise risk management program that had been adopted in 2015. As part of the reassessment, management rationalized the list of strategic enterprise risks to eliminate overlap and to converge the focus. It revised the descriptions of various risks and identified new ones. It requalified the new list based on the four risk dimensions described above. Management updated the Board on the progress of the reassessment throughout 2018.

PMI Risk Assessment, Management and Oversight

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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.

Strong 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:

Majority voting standard for uncontested election of directors (page 14)	Rigorous share ownership requirements and anti-hedging and anti-pledging policies (page 38)
Proxy access by-laws (page 13)	Post-termination share holding requirement (page 38)
Non-management directors elect Presiding Director annually (pages 7-8)	No tax gross-up on limited perquisites

Directors may be removed with or without cause	Double-trigger vesting policy on change in control (page 51)
Non-management directors meet regularly without management being present	Board committee oversight of political spending and lobbying (page 10)
No poison pill rights plan	Board committee oversight of sustainability strategies and performance (page 10)
Board-adopted clawback policy (page 38)	

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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, consumer-centricity, digital transformation 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 2020 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; Director Attributes, Diversity, Refreshment and Tenure

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 2018 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, business, and financial issues facing the Company, and that the Board as a whole provides a breadth of knowledge, international experience, intellectual rigor and willingness to face tough issues.

Our Board comprises a diverse group of individuals. Nine of the nominees, three 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. Three 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, one in 2015, one in 2016 and one in 2018. The average tenure of the Company s nominees is 6.8 years. As new Board members gain experience, the Board rotates its various committee chairmanships.

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.

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ELECTION OF DIRECTORS

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: Massimo Ferragamo, Werner Geissler, Lisa A. Hook, 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/our-business/about-us. Each of the above-named nominees qualifies as independent under these standards.

In making the determination that Mr. Camilleri is not independent, the Board considered the Company s relationship with Ferrari, which began in 1973, well before Mr. Camilleri became CEO of Ferrari in September 2018. The Company s Formula 1 sponsorship agreement and its renewals have been negotiated on an arms-length basis with executives of Ferrari prior to Mr. Camilleri s becoming CEO of Ferrari. The Nominating and Corporate Governance Committee has reviewed the sponsorship as a Related Person Transaction (see page 58) 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, 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, 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.

The Board recommends a vote FOR each of

the nominees identified below.

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ELECTION OF DIRECTORS

Director Nominees

nee	Director Since	Nationality	Independent	Current Committee Membership: Audit	Compensation and Leadership Development	Finance	Nominating and Corporate Governance	P Inn Reg A
zopoulos)	2013	Greece/Switzerland						
C. Camilleri rman)	2008	UK						
mo gamo	2016	Italy						
r Geissler	2015	Germany			Chair			

A. Hook	2018	USA				
er Li	2010	China	Chair			
akihara	2014	Japan		Chair		
na Morparia	2011	India			Chair	
A. Noto ding Director)	2008	USA				
rik Paulsen	2014	Sweden				
t B. Polet	2011	Netherlands				
en M. Wolf	2008	USA				

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ELECTION OF DIRECTORS

Director Qualifications

Our Board is a diverse, highly engaged group that provides strong, effective oversight of our Company. Both individually and collectively, our directors have the qualifications, skills and experience needed to inform and oversee the Company s long-term strategic growth. Each director has senior executive experience, in many cases with large, complex organizations with significant global operations. Several directors have leadership experience in the global consumer products sector, and others bring expertise regarding information technology, cybersecurity, digital transformation, sustainability, and environmental, social and governance matters. These and the other skills and attributes discussed below are key considerations in evaluating the composition of our Board and inform our Board succession planning and director selection process.

High Integrity	Strength of Character and Judgment	Intellectual/Analytical Skills
Proven Record of Success	Corporate Governance Experience	Strategic Planning
Leadership	Talent Management/Succession Planning	Risk Assessment and Oversight
Understanding our Global Business and Markets	Diversity of Perspectives	

Our director nominees individual experiences, qualifications, attributes and skills are highlighted in the following matrix. The matrix is intended as a high-level summary and not an exhaustive list of each nominee s skills or contributions to the Board. Further biographical information about each director standing for re-election is set forth on the following pages.

EXPERIENCE
Senior Executive

Tobacco Industry

Global Consumer-Centric Engagement

Operations

Information Technology and Privacy

Sustainability/Corporate Responsibility

Risk Assessment and Oversight

CFO or Banking

Civic Leadership

Global Pharmaceutical

Marketing and Retail

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ELECTION OF DIRECTORS

Director Nominees

ANDRÉ CALANTZOPOULOS

Primary Occupation:

Chief Executive Officer

Director since:

2013

Age: 61

Professional Experience:

Mr. Calantzopoulos became our Chief Executive Officer in May 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:

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, leading the Company with his bold vision of a smoke-free future and through its related evolution into a consumer-centric technology and science-driven business.

LOUIS C. CAMILLERI

Primary Occupation:

Chief Executive Officer, Ferrari N.V.

Director since:

2008

Age: 64

Professional Experience:

Mr. Camilleri is our non-executive Chairman, having served as our Chairman and Chief Executive Officer from our spin-off in 2008 until May 2013. 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. Mr. Camilleri became chief executive officer of Ferrari N.V. in September 2018.

Other Directorships and Associations:

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 2009 to 2011. Mr. Camilleri was a director of Kraft Foods Inc. from 2001 to 2007 and was Kraft s Chairman from 2002 to 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.

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ELECTION OF DIRECTORS

MASSIMO FERRAGAMO

Primary Occupation:

Chairman,

Ferragamo USA Inc.

Director since:

2016

Age: 61

Professional Experience:

Mr. Ferragamo has served as Chairman of Ferragamo USA Inc. since 2000, having previously served as President of that company since 1985. Mr. Ferragamo is also Vice President of the Lungarno Hotel Group and Executive Vice President of the Ferragamo Foundation.

Other Directorships and Associations:

Mr. Ferragamo is a director of Ferragamo Finanziaria S.p.A. Mr. Ferragamo served on the board of directors of Yum! Brands, Inc. from 1997 until 2016.

PMI Board Committees:

Mr. Ferragamo is a member of the Audit, Finance, Nominating and Corporate Governance, and Product Innovation and Regulatory Affairs Committees.

Director Qualifications:

Mr. Ferragamo s entrepreneurial spirit and deep experience in the global luxury consumer products retail business complement the considerable expertise of our Board of Directors.

WERNER GEISSLER

Primary Occupation:

Operating Partner, Advent International

Director since:

2015

Age: 65

Professional Experience:

Mr. Geissler became an Operating Partner of Advent International in 2015. He previously served as Vice Chairman and Special Advisor to the Chairman and CEO of Procter and Gamble until his retirement in January 2015. 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.

Other Directorships and Associations:

Mr. Geissler is a director of The Goodyear Tire & Rubber Company.

PMI Board Committees:

Mr. Geissler is Chair of the Compensation and Leadership Development Committee and a member of the Audit, 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. His deep senior executive experience serves him well as Chair of the Compensation and Leadership Development Committee.

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ELECTION OF DIRECTORS

LISA A. HOOK

Primary Occupation:

Businesswoman

Director since:

2018

Age: 60

Professional Experience:

Ms. Hook served as Chief Executive Officer of Neustar, Inc. from October 2010, as a member of its Board from November 2010, and as President from January 2008. She retired from Neustar in July 2018. Ms. Hook served as President and Chief Executive Officer of Sunrocket, Inc. from 2006 to 2007, and held several executive-level posts at America Online, Inc. from 2001 to 2004. Previously, she was a partner at Brera Capital Partners, a global private equity investment firm, managing director of Alpine Capital Group, LLC., an investment banking firm, an executive at Time Warner, Inc., a legal advisor to the Chairman of the Federal Communications Commission, and a senior attorney at Viacom International, Inc.

Other Directorships and Associations:

Ms. Hook serves on the board of Worldpay, Inc., a payment processing firm. Ms. Hook served as Senior Independent Director of RELX PLC and RELX NV, providers of information solutions, from 2006 to 2016. Previously, she served as a director of Covad Communications, Time Warner Telecom, Inc., and National Geographic Ventures. In 2012, she was appointed by President Obama to serve on the National Security Telecommunications Advisory Committee.

PMI Board Committees:

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

Director Qualifications:

With her experience as CEO of a company whose holistic understanding of identity is key to deploying actionable insights that grow and guard many of the world s largest corporations,

Ms. Hook brings to the Board valuable experience as the Company is transitioning to a consumer-centric, highly digitalized business model.

JENNIFER LI

Primary Occupation:

Chief Executive Officer and Managing Partner, Changcheng Investment Partners

Director since:

2010

Age: 51

Professional Experience:

Ms. Li currently serves as Chief Executive Officer and Managing Partner, Changcheng Investment Partners, the newly initiated growth fund of Baidu, Inc. Previously, she served as Chief Executive Officer and General Managing Director of Baidu Capital. Ms. Li joined Baidu, Inc., the largest Internet search engine in China and the third-largest independent search engine in the world, in 2008, as Chief Financial Officer, responsible for a wide range of corporate functions, including Finance, Human Resources, International Operations, Marketing, Communications and Purchasing. 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.

Other Directorships and Associations:

Ms. Li is a director of Flex Ltd., ABB Ltd. and HSBC, Asia.

PMI Board Committees:

Ms. Li is the Chair of the Audit Committee and a member of the Finance and Nominating and Corporate Governance Committees.

Director Qualifications:

Ms. Li draws upon her strong financial and accounting expertise as Chair of the Audit Committee, and her experience in a fast-growing, high-tech business and Asian background strengthen the Board s depth and global perspective.

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ELECTION OF DIRECTORS

JUN MAKIHARA

Primary Occupation:

Retired Businessman

Director since:

2014

Age: 61

Professional Experience:

Mr. Makihara was employed at Goldman, Sachs & Co. from 1981 to 2000, during which time he was a General Partner for six years, working in New York, Los Angeles, and Tokyo. During his tenure in Tokyo, he was co-head of the Investment Banking Group and the Japanese Equities Group and also served as co-branch manager. Subsequently, he was Chairman of Neoteny Co., Ltd., a Japanese venture incubator, until 2015.

Other Directorships and Associations:

Mr. Makihara is a director of Monex Group, Inc. and Shinsei Bank, Ltd. He is a trustee of the Protestant Episcopal Cathedral Foundation 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.

PMI Board Committees:

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

Director Qualifications:

Mr. Makihara brings his deep experience in finance to his position as Chair of the Finance Committee, and the Board benefits from his entrepreneurial spirit and a thorough knowledge of business in Asia, which is of great importance to the Company s business.

KALPANA MORPARIA

Primary Occupation:

Chief Executive Officer, South and South East Asia, J.P. Morgan Chase

Director since:

2011

Age: 69

Professional Experience:

Ms. Morparia assumed her current position in April 2016, having previously served as CEO of J.P. Morgan India since 2008. She 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 2007 and the Vice Chair of ICICI s insurance and asset management business from 2007 to 2008.

Other Directorships and Associations:

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

PMI Board Committees:

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

Director Qualifications:

With her strong executive leadership experience in finance, and her deep knowledge of international business, Ms. Morparia provides a keen perspective on economies in Asia, while her legal background and deep experience in highly regulated industries serve her well as Chair of the Nominating and Corporate Governance Committee.

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ELECTION OF DIRECTORS

LUCIO A. NOTO

Primary Occupation:

Managing Partner, Midstream Partners, LLC

Director since:

2008

Age: 80

Professional Experience:

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

Other Directorships and Associations:

Mr. Noto is a director of Penske Automotive Group, Inc. 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.

PMI Board Committees:

Mr. Noto is the Presiding Director and a member of the Audit, 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 role as a member of the Audit Committee and a strong hands-on approach as Presiding Director.

FREDERIK PAULSEN

Professional Experience:

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

Primary Occupation:

Chairman, Ferring Group

Other Directorships and Associations:

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

Director since:

2014

PMI Board Committees:

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

Age: 68

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.

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ELECTION OF DIRECTORS

ROBERT B. POLET

Primary Occupation:

Chairman, Rituals Cosmetics Enterprise B.V.

Director since:

2011

Age: 63

Professional Experience:

Mr. Polet is currently serving as Chairman of Rituals Cosmetics Enterprise B.V. He was Chairman of Safilo Group S.p.A. from 2011 to 2017, and President, Chief Executive Officer and Chairman of the Management Board of the Gucci Group from 2004 to 2011. Previously, Mr. Polet spent 26 years in the Unilever Group in a variety of executive roles, including President of Unilever s Worldwide Ice Cream and Frozen Foods division, Chairman of Unilever Malaysia, Chairman of Van den Bergh and Executive Vice President of Unilever s European Home and Personal Care division.

Other Directorships and Associations:

Mr. Polet is a director of Safilo Group S.p.A., William Grant & Sons Limited and Arica Holding B.V.

PMI Board Committees:

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

Director Qualifications:

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

STEPHEN M. WOLF

Primary Occupation:

Managing Partner, Alpilles, LLC

Director since:

2008

Age: 77

Professional Experience:

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

Other Directorships and Associations:

Mr. Wolf is Chairman of the Advisory Board of Trilantic Capital Partners and served as Chairman of R.R. Donnelley & Sons Company from 2004 to 2014. Mr. Wolf served as a director of Altria Group, Inc. from 1993 to 2008 and as a director of Fiat Chrysler Automobiles N.V. from 2009 to 2017. He is a trustee emeritus of the Brookings Institute.

PMI Board Committees:

Mr. Wolf is a member of the Audit, Compensation and Leadership Development, Finance, Nominating and Corporate Governance, and 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 strong counsel on a wide array of matters.

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COMPENSATION OF DIRECTORS

Compensation Philosophy

Directors who are full-time employees of the Company receive no additional compensation for services as a director. 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.

Compensation

At his request, Dr. Paulsen serves as a director without compensation. The compensation of all other non-employee directors is set forth in the accompanying chart.

Directors Compensation

PMI s non-employee directors compensation for 2018 was set at the following levels and continues in effect for 2019:

Annual cash retainer:	**$ 125,000**
Annual equity award:	**$ 175,000**
Chairman s incremental cash retainer:	**$ 400,000**
Presiding Director cash retainer:	**$ 25,000**
Committee Chair cash retainer:	**$ 35,000**
Committee member cash retainer:	**None**
Committee meeting fees:	**None**
Stock Options:	**None**

Share Retention Requirement

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 38).

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COMPENSATION OF DIRECTORS

The following table presents the compensation received by the non-employee directors for fiscal year 2018.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	All Other Compensation ($)	Total ($)
Harold Brown	121,333	175,000	-	296,333
Louis C. Camilleri[(a)]	525,000	175,000	-	700,000
Massimo Ferragamo	125,000	175,000	-	300,000
Werner Geissler	160,000	175,000	-	335,000
Lisa A. Hook	80,903	175,000	-	255,903
Jennifer Li	160,000	175,000	-	335,000

Jun Makihara	160,000	175,000	-	335,000
Sergio Marchionne	71,181	175,000	-	246,181
Kalpana Morparia	160,000	175,000	-	335,000
Lucio A. Noto	150,000	175,000	-	325,000
Frederik Paulsen[(b)]	-	-	-	-
Robert B. Polet	125,000	175,000	-	300,000
Stephen M. Wolf	125,000	175,000	-	300,000

(a) For reasons of security and personal safety, prior to his becoming CEO of Ferrari N.V. in September 2018, PMI required Mr. Camilleri to use Company aircraft for all travel. Mr. Camilleri reimbursed the Company for his personal use of Company aircraft in an amount equal to the aggregate incremental cost of such use at the maximum amount allowed under federal aviation regulations.

(b) 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.

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STOCK OWNERSHIP INFORMATION

Ownership of Equity Securities

The following table shows the number of shares of common stock beneficially owned as of March 8, 2019, 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 Nature of Beneficial Ownership[1]
André Calantzopoulos	794,901
Louis C. Camilleri	502,687
Massimo Ferragamo	5,059
Marc S. Firestone	205,295
Werner Geissler	60,222

Lisa A. Hook	2,274
Martin G. King	155,985
Jennifer Li	63,323
Jun Makihara	13,527
Kalpana Morparia	14,426
Lucio A. Noto	104,863
Jacek Olczak	252,504
Frederik Paulsen	
Robert B. Polet	15,955
Stephen M. Wolf	90,127

Miroslaw Zielinski	237,013
Group (32 persons)	3,247,147

(1) Includes shares of deferred stock as follows: Mr. Calantzopoulos, 135,280; Mr. Camilleri, 46,687; Mr. Ferragamo, 5,059; Mr. Firestone, 41,870; Ms. Hook, 2,234; Mr. King, 20,910; Mr. Makihara, 10,167; Mr. Noto, 65,285; Mr. Olczak, 41,910; Mr. Wolf, 66,805; Mr. Zielinski, 32,710; and group, 677,057. Also includes 17,085 shares as to which beneficial ownership is disclaimed by Mr. Noto (shares held by spouse) and 22,196 shares held in trust as to which he has not disclaimed beneficial ownership. Also includes 1,360 shares as to which beneficial ownership is disclaimed by Mr. Makihara (shares held by spouse).

In addition to the shares shown in the table above, as of March 8, 2019, those directors who participate in the Company s director deferred fee program had the following PMI share equivalents allocated to their accounts: Mr. Ferragamo, 2,989; Mr. Makihara, 8,260; Mr. Noto, 98,625; and Mr. Wolf, 32,076. See Compensation of Directors on page 24 for a description of the deferred fee program for directors.

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STOCK OWNERSHIP INFORMATION

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

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned	Percent of Common Stock Outstanding on March 8, 2019
BlackRock, Inc. 55 East 52nd Street New York, NY 10055	95,049,723[1]	6.11%
The Vanguard Group 100 Vanguard Blvd. Malvern, PA 19355	122,461,429[2]	7.87%

(1) According to a Schedule 13G/A, dated February 5, 2019, filed with the U.S. Securities and Exchange Commission on February 6, 2019, by BlackRock, Inc. presenting the number of shares as of December 31, 2018.

(2) According to a Schedule 13G/A, dated February 11, 2019, filed with the U.S. Securities and Exchange Commission on February 11, 2019, by The Vanguard Group presenting the number of shares as of December 31, 2018.

Section 16(a) Beneficial Ownership Reporting Compliance

The Company believes that during 2018 all reports for the Company s executive officers and directors that were required to be filed under Section 16 of the Exchange Act were filed on a timely basis.

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COMPENSATION DISCUSSION AND ANALYSIS

Executive Summary

Our Compensation Discussion and Analysis outlines the design of our executive compensation program components, the objectives and principles upon which they are based, our 2018 performance and the resulting decisions of the Compensation and Leadership Development Committee to reflect that performance in setting compensation for our CEO, 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/our-business/about-us. The members of the Committee are: Werner Geissler (Chair), Lisa A. Hook, Lucio A. Noto, Robert B. Polet and Stephen M. Wolf. The Committee met five times in 2018. 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. Each component of our 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 against pre-defined objectives;

to support long-term business growth, superior financial results, sustainability efforts, 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 Company s share price at any given time to the detriment of PMI s long-term strategic goals; and

an optimal balance of equity compensation comprising both performance-based and time-based awards, without using stock options, and with significant share ownership requirements, to align the interests of executives and shareholders while remaining mindful of the potentially dilutive nature of equity compensation on shareholder value.

In 2015, the Committee substantially revamped our executive compensation program. Our shareholders have overwhelmingly supported the new compensation program, approving our 2018 say-on-pay proposal by a vote of 97.14% and our 2017 Performance Incentive Plan by a vote of 96.18%. Based on this support and its own satisfaction with the current compensation program, the Committee determined not to make any substantial modifications to the program in 2019.

The Committee reviews local market and Peer Group (see page 37) data, but does not target 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.

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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 for salary grades 26 and above. See page 29 for the target compensation mix of our NEOs in 2018. The key characteristics and key objectives of each component of our compensation program as it applies to our NEOs are as follows:

Component	Key Characteristics	Key Objective
Base Salary	Fixed component of compensation reflecting the scope of the executive s role, performance and market pay practices.	Intended to provide sufficient competitive base pay to attract, develop and retain world-class leaders.
Incentive Compensation (IC) Awards	Annual performance-based variable cash award for meeting or exceeding performance goals pre-established by the Committee. The Company s incentive compensation business rating is determined by a fixed formula that measures the Company s results against performance targets pre-established and pre-weighted by the Committee (see pages 31-32). The final award is determined by multiplying the executive s base salary by the IC performance 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.
Equity Awards	Long-term variable equity awards contribute to all six of the Committee s program design objectives	Intended to motivate our executives to produce results

	while minimizing share dilution and protecting against excessive risk taking.	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 for the most recently completed year, plus or minus ten percentage points.	
	for the February 2019 award, 60% of the award was in the form of PSUs that vest at the end of the 2019-2021 performance cycle in amounts that depend on the degree to which pre-established and pre-weighted performance goals are achieved or exceeded (see pages 33-35).	
	40% of the February 2019 award was granted in the form of RSUs that vest at the end of the three-year cycle (assuming continued employment).	

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COMPENSATION DISCUSSION AND ANALYSIS

Target Compensation Mix

Other than the CEO, all of our NEOs are in salary grades 25 and 26. Our CEO is the only employee in salary grade 28, and no employee is in salary grade 27. The target compensation mix for 2018 and for 2019 is shown in the following chart:

In February 2019, the Committee granted PSUs for the 2019-2021 performance cycle and RSUs. It also established performance targets for the 2019 annual incentive compensation awards that are payable in February 2020. Award targets as a percentage of base salary for our named executive officers are as follows:

	2019 Cash Incentive Target as % of Base Salary [1]	2019-21 PSUs Target as % of Base Salary (60% of total Equity Award) [2]	2019 RSUs Target as % of Base Salary (40% of total Equity Award) [3]
André Calantzopoulos (CEO)	200%	360%	240%
Marc S. Firestone	125%	165%	110%
Martin G. King	100%	105%	70%
Jacek Olczak	125%	165%	110%

Miroslaw Zielinski	125%	165%	110%

(1) Possible award range is between 0% and 225% of target.

(2) Possible award grant range is between 0% and 150% of target; between 0% and 200% of PSUs granted may vest, depending on performance versus criteria established at the time of grant.

(3) Possible award grant range is between 0% and 150% of target.

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Use of Equity Awards Versus Stock Options: Equity awards are made in the form of RSUs and PSUs, rather than stock options, because these forms of awards:

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

- require the use of substantially fewer shares than stock options to deliver equivalent value, resulting in an annual Company run rate (the sum of all director stock awards and RSUs granted during the period, plus the number of all PSUs vested during the period, divided by the weighted average number of shares outstanding during the period) in 2018 of 0.08% and a total 2018 year-end overhang (number of unvested RSUs plus unvested PSUs at target as a percentage of all shares outstanding at year-end) of 0.29%.

Our run rate and overhang each compares favorably to those of our Peer Group.

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COMPENSATION DISCUSSION AND ANALYSIS

2018 Company Performance and Targets

The Committee determined the 2018 cash incentive award performance rating based on 2018 results versus performance metrics pre-established by the Committee and defined on page 32. Each of the financial targets set by the Committee reflected appropriately ambitious performance goals.

2018 Results: We achieved robust results from our combustible tobacco portfolio and nearly doubled our in-market sales of *IQOS* heated tobacco units driven by growth in all *IQOS* markets. However, we performed well below our ambitious growth targets for net revenues and adjusted operating income. This shortfall was primarily due to the unexpected slowdown in the rate of smokers switching to *IQOS* in Japan and related distributor inventory adjustments and, to a lesser extent, the move to highly inflationary accounting in Argentina. Our share of Top 30 OI markets was also below target. However, our adjusted diluted EPS growth exceeded our target, aided by a lower effective tax rate and lower net interest expense as a result of U.S. tax reform. Our operating cash flow growth also exceeded the target.

Share of Top 30 OI Markets: We registered a growing or stable market share in 16 of our Top 30 OI markets, below our target of 18 markets. Our global market share, excluding China and the U.S., grew by 0.5 percentage points. *Marlboro* maintained its share of the cigarette market of 9.7%, excluding China and the U.S., despite the disproportionate impact of consumers switching from *Marlboro* cigarettes to *IQOS* heated tobacco units and the impact of sizable volume contraction in Saudi Arabia in the first half of the year. *Marlboro* remains the number one global brand. Heated tobacco units for the full year reached 1.6% of the total international tobacco market, excluding China and the U.S., an increase of 0.8 percentage points from 2017.

Net Revenues: Net revenues of $29.6 billion reflected constant currency growth of 3.4%, below our ambitious target of 9.1%. This result was primarily due to lower-than-anticipated *IQOS* consumer acquisition in Japan and related distributor inventory adjustments.

Adjusted OI: Adjusted OI of $11.4 billion reflected a constant currency increase of 0.1%, well below our target of 7.6% growth, reflecting the same factors that impacted net revenues.

Adjusted Diluted EPS: Our 10.4% adjusted diluted EPS growth, excluding currency, surpassed our target of 8.5%.

Operating Cash Flow: Operating cash flow, excluding currency, increased 8.9%, above our target of 6.9%.

The Committee also rated our performance on the following key strategic initiatives that the Committee pre-set in February 2018, based on a ratings range of 0-70 if key initiatives were missed, 80-120 if they were mostly or all accomplished, and 130-150 if they were mostly or all exceeded:

Commercialize *IQOS* and other RRP platforms, applying learnings to achieve planned growth and conversion targets;

Develop commercially viable, scientifically substantiated, and differentiated RRPs and related ecosystems that accelerate our vision towards a smoke-free future;

Develop our brand portfolio, including *Marlboro*, with selective innovation and expansion into the low/super low segments;

Deploy our new operating model while reinforcing the new ways of working and fostering diversity to enrich our talent pool, enabling rapid progress towards a truly consumer-centric company;

Accelerate and develop our external engagement and communications capabilities to ensure further progress towards establishing credibility, awareness and trust with both consumers and external stakeholders;

Progress significantly in obtaining regulatory and fiscal measures that accelerate consumer conversion from combustible cigarettes to RRPs;

Optimize our global value chain in combustible products and develop a cost effective and agile value chain for RRPs, while judiciously managing and ensuring efficient use of our resources; and

Leverage, integrate and prioritize new and existing digital capabilities to accelerate and enhance our transformation and consumer experience.

As a result of this evaluation, the Committee concluded that the Company had accomplished almost all of its strategic objectives and it assigned a strategic initiatives rating of 115.

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IC Performance Rating: The Committee employed the following pre-established matrix that assigned a rating of 100 correlating to attaining the targeted performance. Ratings for each factor can range from 0 to 150. The percentages indicated for net revenues, adjusted OI, adjusted diluted EPS, and operating cash flow represent growth versus 2017 results. Actual results are shown in the blue boxes.

2018 IC Performance Versus Target

					Target								
	0 ...	**40 ...**	**60**	**70**	**80**	**90**	**100**	**110**	**119**	**120**	**130**	**133**	**140**
(a)													
Share (Top 30 OI[(b)])	<8	8	10	12	14	16	18	20		22	24		27
enues[(c)]	<6.2%	6.2%	7.0%	7.3%	7.7%	8.0%	9.1%	9.6%		9.9%	10.3%		10.6%
l OI[(d)]	<3.8%	3.8%	4.7%	5.2%	5.7%	6.2%	7.6%	8.3%		8.7%	9.2%		9.7%

l Diluted EPS[e]	<4.2%	4.2%	5.3%	5.8%	6.4%	6.9%	8.5%	9.2%	9.7%	10.2%	10.4%	10.8%
g Cash Flow[f]	<0.9%	0.9%	3.3%	4.1%	4.9%	5.7%	6.9%	8.1%	8.9%	9.0%	9.9%	11.1%
Initiatives												
	< Key initiatives missed >					< Mostly all accomplished >					< Majority / all exceede	
	0 - 70					80 - 120					130 - 150	

[a] For a reconciliation of non-GAAP to the most directly comparable GAAP financial measures see Exhibit B to this proxy statement.

[b] Number of top 30 OI markets in which share was growing or stable.

[c] Excluding excise taxes, currency and acquisitions.

[d] Excluding currency and acquisitions.

[e] Excluding currency.

[f] Net cash provided by operating activities, excluding currency.

Our performance rating for each factor was weighted in accordance with the pre-established formula shown below to produce an overall IC performance rating of 81.15, which the Committee rounded to 80.

2018 IC Performance Rating

Measure	**Performance Rating**	**Weight**	**Weighted Performance Rating**

Market Share (Top 30 OI Markets)	90	15%	13.50
Net Revenues	0	15%	0.00
Adjusted OI	0	15%	0.00
Adjusted Diluted EPS	133	20%	26.60
Operating Cash Flow	119	20%	23.80
Strategic Initiatives	115	15%	17.25

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In addition to certifying the IC performance rating, the Committee rated each executive officer s personal performance during 2018. Individual ratings can range from 0% to 150%. To assure a disciplined, fair and equitable assessment, individual performance ratings were calibrated to reflect each executive s contribution to the overall results of the Company. Application of the following formula then determined the cash incentive award for each named executive officer in 2018.

Incentive Compensation Award Formula

IC Award	=	**Base Salary**	X	**Individual Target % (varies by grade)**	X	**IC Performance Rating (0%-150%)**	X	**Individual Rating (0%-150%)**

2019 Incentive Compensation (IC) Awards: For 2019, the Committee retained the six performance metrics used in 2018 and it set performance targets for those metrics. Each of the 2019 financial performance targets reflects the Company s 2019 budget approved by the Board, with a performance factor of 100 equating to achieving budgeted results. The Committee also established key strategic initiatives to measure our performance. The full range of potential results is reflected in a pre-established matrix that will generate an overall IC performance rating for 2019. In addition to pre-establishing a formula for grading our results against the performance factors, the Committee pre-established the weights for each factor.

Long-Term Equity Awards: The Committee establishes the equity award target opportunity for our CEO and each other NEO based on Company targets by salary grade, which are unchanged from the levels established in 2014, and the individual s performance rating for this award. The Committee grants the individual 60% of the award opportunity in the form of performance-based PSUs and 40% in the form of time-based RSUs.

Equity Award Grant Formula

Equity Award Target Opportunity	=	**Base Salary**	X	**Individual Target % (varies by grade)**	X	**Individual Rating (0%-150%)**

(60% PSU & 40% RSU)

PSU Performance Metrics: In February 2016, the Committee established three metrics for determining the number of PSUs that would vest at the end of the 2016-2018 performance cycle. The first measure, weighted 50%, was the Company s Total Shareholder Return during the three-year cycle relative to the Peer Group and on an absolute basis. The second measure, weighted 30%, was the Company s currency-neutral compound annual adjusted operating companies income growth rate over the cycle, excluding acquisitions. The final measure, weighted 20%, was the Company s performance against specific volume and market share measures of PMI s innovation for both RRPs and cigarettes during the performance cycle.

The aggregate of the weighted performance factors for the three metrics determined the percentage of PSUs that vested at the end of the three-year performance cycle. Each vested PSU entitles the participant to one share of common stock. An aggregate weighted PSU performance factor of 100 would result in the targeted number of PSUs being vested. The minimum percentage of PSUs that would vest was zero, while the maximum was twice the targeted number.

TSR Performance Factor. The TSR performance factor, which determined 50% of the PSU payout, was calculated based on the Company s three-year rolling TSR versus the Company s Peer Group (see page 37). To adjust for market volatility, the TSR calculations are based on the average of the 20 trading days immediately before the start of the performance cycle and the last 20 trading days of the performance cycle. To reflect that several members of the Peer Group are primarily listed on foreign stock exchanges and report their financial results in different currencies, the Company measures the TSRs for those companies by using the price performance of their publicly traded American Depository Receipts (U.S. ADRs). The use of U.S. ADRs avoids the need to adjust the TSRs of non-U.S. Peers to reflect currency changes, and increases transparency by enabling shareholders to directly observe such TSRs. In addition to evaluating our relative TSR, if the Company s absolute TSR for a performance cycle is zero or less, the Committee will cap the TSR performance factor at

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target or less. This approach would limit rewards for a performance cycle in which we performed in line with, or better than, the Peer Group, but shareholders did not realize a positive return. The TSR performance factor for the 2016-2018 performance cycle was calculated relative to the Peer Group in accordance with the following schedule:

	PMI TSR as a Percentile of Peer Group	Performance Factor	Actual	Rating
Below Threshold	Below 25th percentile	0%		
Threshold	25th percentile	50%		
			35th percentile	70%
Target	50th percentile	100%		
Maximum	85th percentile and above	200%		

Adjusted Currency-Neutral Operating Companies Income Growth Performance Factor. The adjusted operating companies income growth performance factor for the 2016-2018 performance cycle, which determined 30% of the PSU performance factor, was the compound annual growth rate of the Company s adjusted operating companies income (excluding currency and acquisitions) as shown below:

Three-Year Adjusted OCI CAGR (excluding currency and acquisitions)

	Result	Performance Factor	Actual	Rating
Below Threshold	<4%	0%		
Threshold	4%	50%		
			5.8%	80%
Target	7%	100%		
Maximum	³11%	200%		

Innovation Performance Factor. The innovation performance factor for the 2016-2018 performance cycle had two components, each of which determined 10% of the PSU performance factor: RRP unit volume growth; and share growth within the menthol, low tar, and slims combustible segments, calculated in accordance with the following schedules:

RRP Volume (billions of units)	Result	Performance Factor	Actual	Rating
Below Threshold	<21.0	0%		
Threshold	21.0	50%		
Target	26.0	100%		
			41.5	197%
Maximum	³42.0	200%		

Combustible Segment Share Growth	Result	Performance Factor	Actual	Rating
Below Threshold	<0.00%	0%	(1.5)%	0%
Threshold	0.00%	50%		
Target	1.00%	100%		
Maximum	³2.5%	200%		

Performance Rating for 2016-2018 PSU Cycle. The overall performance rating for the 2016-2018 PSU award cycle was 79, which the Committee rounded to 80.

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2019-2021 PSU Performance Cycle. For the 2019-2021 PSU Performance Cycle, the Committee retained the Company s performance factors employed for the 2016-2018 cycle except that it changed adjusted OCI to adjusted OI, consistent with our financial reporting. The Committee retained the TSR performance factors at the same levels shown on the previous page for the 2016-2018 PSU Performance Cycle. It set three-year Adjusted OI compound annual growth rate performance factors at 0% for growth below 4%, 50% for growth at the threshold level of 4%, 100% for growth at the target level of 7.5%, and 200% for growth at or above 10%. The Committee also established RRP unit shipment volume targets at what it believes are appropriately ambitious levels that reflect the Board-approved three-year plan.

The Committee weighted the 2019-2021 performance factors as follows: TSR, 50%; Adjusted OI Growth, 30%; and RRP unit shipment volume, 20%.

PSU Vesting Mechanics. At the end of the three-year performance cycle, the Company s performance factor for each of the three metrics will be calculated and then weighted, resulting in an overall PSU performance factor from 0-200%. This percentage will be applied to the executive s target PSU award to determine the number of shares of common stock to be issued to the executive.

The Committee may adjust the PSU performance metrics if appropriate to reflect significant unplanned acquisitions or dispositions.

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2018 Individual Performance and Compensation Decisions

The 2018 performance ratings of each named executive officer reflect the fact that the Company performed below certain of our ambitious financial growth targets, but also the fact that this shortfall was primarily due to an unexpected slowdown in the rate of smokers switching to *IQOS* in a single market.

André Calantzopoulos, Chief Executive Officer: The Committee assigned Mr. Calantzopoulos an individual performance rating for 2018 of 95% for the incentive compensation award and a rating of 105% for the equity award. As a result, Mr. Calantzopoulos received an annual incentive compensation award of CHF 2,299,850, or $2,295,549 based on the conversion rate on the date of the award. The Committee did not increase Mr. Calantzopoulos s base salary for 2019.

Mr. Calantzopoulos s performance rating for the incentive compensation award reflects the Committee s view that under his leadership the Company achieved robust results in its cigarette business and nearly doubled its heated tobacco unit in-market sales volume, but fell short of certain financial targets. The Company also made excellent progress on its strategic initiatives as described on page 31.

Mr. Calantzopoulos s individual performance rating for the equity award reflects that the Company achieved important milestones in the development of RRPs on many fronts: product development, commercialization, scientific substantiation, third-party engagement and the regulatory and fiscal environment. Mr. Calantzopoulos s equity rating also reflects his decisive leadership in the Company s external and internal transformation to an organization that is consumer-centric and digitally driven and well on the way to a future built on smoke-free products.

Other Named Executive Officers:

Marc S. Firestone: Mr. Firestone served as President, External Affairs and General Counsel in 2018. His incentive compensation and equity awards were each based on an individual performance rating of 105% and recognize his widespread contributions to the Company s results and inspiring leadership of our Law and Corporate Affairs

Departments. These ratings reflect his critical role in numerous regulatory, litigation and compliance strategic initiatives, notably his contribution to our continued progress in the regulatory and fiscal framework for RRPs and his insightful guidance of our external affairs initiatives and our strong compliance culture.

Martin G. King: Mr. King served as Chief Financial Officer in 2018. His incentive compensation award was based on an individual performance rating of 85% and his equity award on an individual performance rating of 90%. These ratings recognize Mr. King s leadership and contributions to the management of our balance sheet, and the continued focus on process change optimization in the context of our RRP business transformation, as well as effective

productivity and cost savings initiatives. He assured timely and transparent communication of our strategies and results to the investment community and played a critical role in the implementation of numerous cross-functional strategic initiatives.

Jacek Olczak: Mr. Olczak served as our Chief Operating Officer in 2018. His incentive compensation award was based on an individual performance rating of 100% and his equity award on an individual performance rating of 110%. These ratings reflect the Committee s view that Mr. Olczak performed capably during his first year as the Company s COO, playing a leading role in the Company s transformation and its strong performance in the cigarette business.

Effective April 1, 2019, the Committee increased Mr. Olczak s base salary by CHF 179,994, to CHF 1,200,000 ($1,197,756 based on the conversion rate on the date of the Committee s decision).

Miroslaw Zielinski: Mr. Zielinski served as President, Science and Innovation in 2018. His incentive compensation and equity awards were each based on an individual performance rating of 85%. These ratings reflect his invaluable strategic contributions to the development of RRPs, the significant progress in scientific substantiation of our RRP platforms, the implementation of highly innovative route-to-market models, the development of novel adult consumer engagement platforms, and his critical contributions to the Company s long-term strategies.

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Additional Compensation Policies and Processes

Peer Group: The Committee uses a single customized peer group both to benchmark its compensation programs and to compare its TSR when calculating the Company s PSU performance factor. The following 19 companies, selected in 2015 on the basis of their global presence, focus on consumer products, and similarity to the Company in terms of net revenues and market capitalization, constitute our Peer Group*:

Altria Group, Inc.	Kimberly-Clark Corporation
Anheuser-Busch InBev SA/NV	The Kraft Heinz Company
British American Tobacco p.l.c.	McDonald s Corp.
The Coca-Cola Company	Mondelēz International, Inc.
Colgate-Palmolive Co.	Nestlé S.A.
Diageo plc	PepsiCo, Inc.
Heineken N.V.	The Procter & Gamble Company
Imperial Brands PLC	Roche Holding AG
Japan Tobacco Inc.	Unilever NV and PLC
Johnson & Johnson	

*Reynolds American Inc. was removed from the Peer Group following its acquisition by British American Tobacco p.l.c. on July 25, 2017.

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Factors Mitigating Against Possible Adverse Consequences of Our Compensation Program: Several elements of our compensation program protect against the possibility that compensation incentives might cause employees to take risks that could materially adversely affect the Company. First, we do not have different incentive compensation award programs for particular business units or functions. Our annual incentive compensation and equity awards apply to management employees worldwide, and the award pools for each of those programs are based on company-wide performance measures that cannot be unduly influenced by a particular business unit or group. Second, all employees are rated on the same scale within general guidelines set by the Committee. These ratings are based on individual performance criteria so that no particular group of employees will all receive the same rating. Third, both the company-wide and the individual performance measures are subject to maximum levels that limit the amount of awards.

Furthermore, with respect to the long-term equity component of our compensation program, RSUs generally vest only after three years from the date of grant, and PSUs generally vest to the extent pre-established targets are achieved over a three-year performance cycle. In addition, our executives are subject to share ownership requirements and comprehensive anti-hedging, anti-pledging and clawback policies described in the following four sections.

Share Ownership Requirements: The Company has for several years set share ownership requirements for executives at levels that are among the highest for publicly owned companies. Unvested units of the Company s PSU equity award do not count towards the ownership requirement. The required share ownership level is shown below:

NEOs	Multiple of base salary
Salary grade 28	15 times
Salary grade 27	9 times
Salary grade 26	6 times
Salary grade 25	5 times

Executives are required to meet their ownership levels within five years of joining PMI or within three years of a promotion. The Committee reviews each executive officer s compliance with the requirements on an annual basis. As of December 31, 2018, all of our named executive officers met or exceeded the applicable requirements.

The Company also imposes share retention requirements on non-employee directors. (See page 23).

Post-Termination Share Holding Period: In addition to these longstanding and rigorous share ownership requirements, the Committee has determined that if any equity award held by an executive officer under the 2017 Performance Incentive Plan vests on an accelerated basis upon such officer s termination of employment for any reason other than death or disability, the shares acquired must be held for at least one year following such termination.

Anti-Hedging and Anti-Pledging Policies: The Company s anti-hedging policy prohibits directors, executive officers and other designated employees from purchasing any financial instrument or otherwise engaging in any transaction that is designed to hedge or offset any decrease in the market value of the Company s shares held by them directly or indirectly, including prepaid variable forward contracts, equity swaps, collars and exchange funds, and other transactions with comparable economic consequences. The foregoing does not prohibit trading in broad-based index funds.

Directors, executive officers and designated employees are also prohibited from engaging in short sales related to the Company s shares.

The Company s anti-pledging policy prohibits directors and executive officers from pledging the Company s shares, including holding shares in a margin account.

Clawback Policy Regarding the Adjustment or Recovery of Compensation: Under our Board-approved policy and as set forth in each named executive officer s equity award agreement, if the Board or an appropriate Committee of the Board determines that, as a result of fraud, misconduct, a restatement of our financial statements, or a significant write-off not in the ordinary course affecting our financial statements, an executive has received more compensation than would have otherwise been paid, the Board or Committee shall take action as it deems necessary or appropriate to address the events that gave rise to the fraud, misconduct, write-off or restatement and to prevent its recurrence. Such action may include, to the extent permitted by applicable law, requiring partial or full reimbursement of any incentive compensation paid to the executive, causing the partial or full cancellation of equity awards, adjusting the future compensation of such executive, and dismissing or taking legal action against the executive, in

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COMPENSATION DISCUSSION AND ANALYSIS

each case as the Board or Committee determines to be in the best interests of the Company.

Role of the Committee in Executive Compensation: The role of the Committee is to discharge the Board s responsibilities relating to executive compensation matters. In this regard, the Committee is responsible for the development and administration of our executive compensation and benefits program, in furtherance of which the Committee has the authority and responsibility to:

- review and approve corporate goals and objectives relevant to the compensation of the CEO, to evaluate the performance of the CEO in light of these goals and objectives, and determine and approve the compensation of the CEO based on this evaluation;
- set senior executive compensation and make recommendations to the Board with respect to incentive compensation plans and equity-based plans, administer and make awards under such plans and review the cumulative effect of its actions;
- review and approve compensation of all executive officers;
- oversee the management of risks related to compensation design and payout;
- monitor compliance by executives with the Company s share ownership requirements; and
- review and assist the Board with the development of executive succession plans.

In fulfilling these duties, the Committee is supported by our Senior Vice President, People & Culture and his department, the Committee s executive compensation consultant and other outside legal, financial and compensation counsel, where appropriate.

Role of the CEO in Executive Compensation: Our CEO makes recommendations to the Committee with respect to the compensation of executive officers other than himself. The Committee reviews and discusses the compensation of these officers with the CEO, and the Committee makes the final compensation decisions with respect to these executive officers. The CEO makes no recommendation and has no role in setting any aspect of his own compensation; he does not attend any Committee meetings when any element of his compensation is discussed.

Role of Compensation Consultants: During 2018, the Committee retained the services of Frederic W. Cook & Co., an independent compensation consulting firm, to advise the Committee with respect to the compensation of the CEO

and other executives. In addition, Cook provided the Committee with input into the design of our compensation and benefit programs and evolving regulatory and executive compensation market trends.

Consistent with the requirements of its charter, the Committee has reviewed and considered:

- the services the senior advisor of the Cook consulting team performed for the Committee during 2018;
- the fees paid by the Company as a percentage of Frederic W. Cook & Co. s total revenue;
- the senior advisor s ownership of the Company s stock (he has no such ownership);
- the conflicts of interest policies and procedures of Frederic W. Cook & Co.;
- the relationships among PMI, its executive officers and the Committee members, and Frederic W. Cook & Co.; and
- the quality and objectivity of the services provided to the Committee.

Other than obtaining advice on executive and director compensation, the Company has no relationship with the senior advisor or his firm, and the Committee regards them as independent.

Compensation and Leadership Development Committee Interlocks and Insider Participation: No member of the Committee at any time during 2018 had any relationship with the Company that would be required to be disclosed as a related person transaction or as a compensation committee interlock.

Policy with Respect to Qualifying Compensation for Deductibility: Our ability to deduct compensation paid to individual officers who are covered by Section 162(m) of the U.S. Internal Revenue Code is generally limited to $1.0 million annually. However, we do not expect any impact from Section 162(m) because none of our covered officers is or is currently expected to be on our U.S. payroll.

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Compensation and Leadership Development Committee Report

The Compensation and Leadership Development Committee has reviewed and discussed the Compensation Discussion and Analysis contained on pages 27 through 53 of this proxy statement with management. Based on its review and discussions with management, the Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement.

Compensation and Leadership Development Committee:

Werner Geissler, Chair

Lisa A. Hook

Lucio A. Noto

Robert B. Polet

Stephen M. Wolf

The information contained in the report above shall not be deemed to be soliciting material or to be filed with the Securities and Exchange Commission or subject to Regulation 14A or 14C or the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent specifically incorporated by reference therein.

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COMPENSATION DISCUSSION AND ANALYSIS

Summary Compensation Table

The following table sets forth information concerning the cash and non-cash compensation awarded by PMI to our named executive officers: the Chief Executive Officer, Chief Financial Officer and the three most highly compensated officers serving as executive officers on December 31, 2018. These amounts are based on the compensation earned by these officers while employed by PMI for each year.

Name and Principal Position	Year	Salary[1] ($)	Stock Awards[2] ($)	Non-Equity Incentive Plan Compensation[3] ($)	Change in Pension Value[4] ($)	All Other Compensation[5] ($)	Total Compensation ($)
André Calantzopoulos, Chief Executive Officer	2018	1,549,551	11,704,916	2,336,771	285,598	57,399	15,934,235
	2017	1,530,834	11,243,223	3,258,558	2,759,467	185,419	18,977,501
	2016	1,501,552	11,092,956	3,507,393	1,839,863	182,561	18,124,325
Marc S. Firestone, President, External Affairs & General Counsel	2018	1,043,393	3,617,432	1,088,204	454,061	29,412	6,232,502
	2017	1,031,766	3,491,027	1,503,702	798,471	23,391	6,848,357
	2016	1,015,680	3,157,371	1,552,548	662,383	19,238	6,407,220

Martin G. King, Chief Financial Officer	2018	866,819	1,907,983	583,824	301,386	196,074	3,856,086
	2017	856,111	1,833,565	996,575	2,087,765	511,613	6,285,629
	2016	842,239	1,507,449	1,024,674	1,676,224	1,043,628	6,094,214
Jacek Olczak, Chief Operating Officer	2018	1,047,291	3,453,956	1,036,385	515,035	17,643	6,070,310
	2017	987,485	3,474,914	1,435,894	1,415,464	17,620	7,331,377
	2016	971,563	3,286,679	1,545,518	1,295,084	20,746	7,119,590
Miroslaw Zielinski, President, Science & Innovation	2018	969,022	3,351,990	816,155	194,717	5,879	5,337,763
	2017	958,037	2,323,443	1,393,139	1,487,607	5,185	6,167,411
	2016	943,738	2,112,721	1,298,724	1,156,579	14,960	5,526,722

(1) The 2018 base salaries are converted to U.S. dollars using an average conversion rate for 2018 of $1.00 = 0.9785 CHF. Average conversion rates for 2017 and 2016 were $1.00 = 0.9849 CHF and 0.9852 CHF, respectively. Year-to-year variations in the salaries and other amounts reported for our officers result in part from year-to-year variations in exchange rates.

(2) The amounts shown in this column represent stock awards granted in February of each year based on the prior year s performance, with the aggregate grant date fair value of stock awards computed in accordance with FASB ASC Topic 718. The number of shares awarded in 2018, together with the grant date values of each award, is disclosed in the Grants of Plan-Based Awards During 2018 table on page 43.

The assumptions used in the calculation of the grant date fair value of PSUs awarded in 2018 under the 2017 Performance Incentive Plan are described in Item 8, Note 9. *Stock Plans* to the consolidated financial statements contained in our 2018 Form 10-K. The table below provides the grant date fair value of PSUs awarded in 2018 for each of our NEOs, assuming the maximum level performance is achieved.

Name	2018 PSUs Maximum Value at 200% ($)
André Calantzopoulos	14,528,974
Marc S. Firestone	4,490,055
Martin G. King	2,368,043
Jacek Olczak	4,287,958
Miroslaw Zielinski	4,160,550

(3) The 2018, 2017 and 2016 annual incentive compensation awards are converted to U.S. dollars using year-end conversion rates of $1.00 = 0.9842 CHF, 0.9751 CHF and 1.0185 CHF, respectively.

(4) The amounts shown reflect the change in the present value of benefits under the pension plans listed in the Pension Benefits table. The lower increases in present pension value in 2018 for the pension plans in Switzerland were mainly driven by the mandated use of higher interest rates to discount projected future benefits and the impact of exchange rates between USD and CHF.

(5) Details of All Other Compensation for each of the named executive officers appear on the following page.

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All Other Compensation

Name and Principal Position	Year	International Assignments[a] ($)	Personal Use of Company Aircraft [b] ($)	Car Expenses[c] ($)	Tax Preparation Services[d] ($)	Totals ($)
André Calantzopoulos, Chief Executive Officer	2018	-	36,026	19,840	1,533	57,399
	2017	-	149,936	33,960	1,523	185,419
	2016	-	149,114	31,924	1,523	182,561
Marc S. Firestone, President, External Affairs & General Counsel	2018	-	-	17,830	11,582	29,412
	2017	-	-	13,492	9,899	23,391
	2016	-	-	8,722	10,516	19,238
Martin G. King, Chief Financial Officer	2018	169,667	-	26,407	-	196,074
	2017	480,576	-	31,037	-	511,613
	2016	1,013,498	-	30,130	-	1,043,628

Jacek Olczak,	2018	-	-	17,643	-	17,643
Chief Operating Officer	2017	-	-	17,620	-	17,620
	2016	-	-	20,746	-	20,746
Miroslaw Zielinski,	2018	-	-	1,967	3,912	5,879
President, Science & Innovation	2017	-	-	1,268	3,917	5,185
	2016	-	-	11,407	3,553	14,960

(a) The amounts shown include payments or reimbursements made pursuant to PMI s Long-Term Assignment Guidelines, which are designed to facilitate the relocation of employees to positions in other countries by covering expenses over and above those that the employees would have incurred had they remained in their home countries. International assignments and relocations provide a key means for the Company to meet its global employee development and resource needs, and the Long-Term Assignment Guidelines ensure that employees have the necessary financial support to help meet cost differences associated with these assignments. The Long-Term Assignment Guidelines cover housing, home leave, relocation, education expenses and tax equalization, as well as other program allowances. Currently, there are approximately 910 participants in the program.

(b) For reasons of security and personal safety, PMI requires Mr. Calantzopoulos 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. Calantzopoulos 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.

(c) Amounts shown for Mr. Calantzopoulos include the incremental cost of personal use of driver services that PMI provided for reasons of security and personal safety. With respect to Messrs. Calantzopoulos, Firestone, King, Olczak, and Zielinski, amounts include the cost, amortized over a five-year period, of a vehicle, including insurance, maintenance, repairs and taxes. Executives are responsible for their own taxes on any imputed taxable income resulting from car expenses.

(d) The tax preparation services are pursuant to PMI policies that apply to all Swiss payroll-based management employees.

The following are the specific amounts paid by the Company under the Long-Term Assignment Guidelines:

Name and Principal Position	Year	Housing ($)	Home Leave ($)	Relocation ($)	Tax Equalization[(a)] ($)	Other Program Allowances[(b)] ($)	Totals ($)
Martin G. King, Chief Financial Officer	2018	-	-	154,449	-	15,218	169,667
	2017	364,796	18,300	26,806	-	70,674	480,576
	2016	415,335	20,781	-	506,000	71,382	1,013,498

Amounts that were paid or incurred in currency other than U.S. dollars are converted to U.S. dollars using average conversion rates for 2018 of $1.00 = 0.9785 CHF and $1.00 = 7.8378 HKD.

(a) The tax equalization payments made pursuant to PMI s Long-Term Assignment Guidelines are to ensure that an assignee s income tax liability is approximately the same as if he or she had not accepted a long-term international assignment. Payments for tax equalization often occur in years following the actual tax year. The Company has covered the excess taxes on behalf of Mr. King pursuant to our assignment tax principle.

(b) Other Program Allowances include tax preparation services paid by the Company under the Long-Term Assignment Guidelines.

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Grants of Plan-Based Awards During 2018

		Estimated Possible Payouts Under Non-Equity Annual Incentive Plan[1]			Estimated Future Payouts Under Equity Incentive Plan[2]			All Other Stock Awards:	
Name and Principal Position	Grant Date	Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)	Number of Shares of Stock or Units[3] (#)	Grant Date Fair Value of Stock Awards ($)
André Calantzopoulos,	2018	0	3,074,694	6,918,062					
	2/8/2018				33,070	66,140	132,280		7,264,487
Chief Executive Officer	2/8/2018							44,100	4,440,429
Marc S. Firestone,	2018	0	1,295,476	2,914,821					
	2/8/2018				10,220	20,440	40,880		2,245,027
President, External Affairs & General Counsel	2/8/2018							13,630	1,372,405
Martin G. King,	2018	0	858,569	1,931,780					
	2/8/2018				5,390	10,780	21,560		1,184,021
Chief Financial Officer	2/8/2018							7,190	723,962

Jacek Olczak,	2018	0	1,295,476	2,914,821					
	2/8/2018				9,760	19,520	39,040		2,143,979
Chief Operating Officer	2/8/2018							13,010	1,309,977
Miroslaw Zielinski,	2018	0	1,200,225	2,700,506					
	2/8/2018				9,470	18,940	37,880		2,080,275
President, Science & Innovation	2/8/2018							12,630	1,271,715

(1) The estimated possible payouts are converted to U.S. dollars using the conversion rate on December 31, 2018, of $1.00 = 0.9842 CHF. The numbers in these columns represent the range of potential cash awards as of the time of the grant. Actual awards paid under these plans for 2018 are found in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table.

(2) On February 8, 2018, each of our named executive officers received 60% of his targeted equity award in the form of PSUs. The target number of PSUs awarded was based on the grant date fair market value, determined by using the average of the high and the low trading prices of PMI stock on that date of $100.69. The closing price of PMI stock on that date was $100.39. These equity awards are scheduled to vest on February 17, 2021, to the extent performance goals pre-established and pre-weighted by the Committee are achieved. For the 2018-2020 performance cycle the performance goals are based on TSR, compound annual adjusted OI growth rate and RRP volume. Dividend equivalents will be payable at vesting only on the earned shares.

The numbers in these columns represent the potential number of PSUs that can vest at three different levels of performance. Threshold assumes achievement of a threshold performance level for each of the three pre-established performance goals resulting in the vesting of 50% of the target number of PSUs. The vesting percentage can be zero if none of the threshold levels is achieved.

(3) On February 8, 2018, each of our named executive officers received 40% of his targeted equity award in the form of RSUs. The number of RSUs awarded was based on the grant date fair market value, determined by using the average of the high and the low trading prices of PMI stock on that date of $100.69. The closing price of PMI stock on that date was $100.39. These equity awards are scheduled to vest on February 17, 2021. Dividend equivalents are payable on a quarterly basis throughout the vesting restriction period.

On February 7, 2019, the following named executive officers received equity awards that will vest (subject to the conditions of the awards) on February 16, 2022, as follows: Mr. Calantzopoulos, 49,310 RSUs, 73,960 PSUs; Mr. Firestone, 15,240 RSUs, 22,850 PSUs; Mr. King, 6,890 RSUs, 10,330 PSUs; Mr. Olczak, 15,960 RSUs, 23,940 PSUs; and Mr. Zielinski, 11,430 RSUs, 17,140 PSUs. The amount of these awards was determined based on 2018 individual performance and targeted award levels by salary grade and then split between PSUs (60%) and RSUs (40%).

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Outstanding Equity Awards as of December 31, 2018

		Stock Awards			
		RSUs		PSUs	
Name and Principal Position	Stock Award Grant Date[1]	Number of Units that Have not Vested[1][2] (#)	Market Value of Units that Have not Vested[3] ($)	Number of Unearned Units that Have not Vested[1][4] (#)	Market or Payout Value of Unearned Units that Have not Vested[3] ($)
André Calantzopoulos, Chief Executive Officer	2/8/2018			66,140	4,415,506
	2/8/2018	44,100	2,944,116		
	2/2/2017			62,800	4,192,528
	2/2/2017	41,870	2,795,241		
	2/4/2016			71,040	4,742,630

	2/4/2016	47,360	3,161,754		
Marc S. Firestone, President, External Affairs & General Counsel	2/8/2018			20,440	1,364,574
	2/8/2018	13,630	909,939		
	2/2/2017			19,500	1,301,820
	2/2/2017	13,000	867,880		
	2/4/2016			20,220	1,349,887
	2/4/2016	13,480	899,925		
Martin G. King, Chief Financial Officer	2/8/2018			10,780	719,673
	2/8/2018	7,190	480,004		
	2/2/2017			10,240	683,622

	2/2/2017	6,830	455,971		
	2/4/2016			9,650	644,234
	2/4/2016	6,440	429,934		
Jacek Olczak, Chief Operating Officer	2/8/2018			19,520	1,303,155
	2/8/2018	13,010	868,548		
	2/2/2017			19,410	1,295,812
	2/2/2017	12,940	863,874		
	2/4/2016			21,050	1,405,298
	2/4/2016	14,030	936,643		
Miroslaw Zielinski, President, Science & Innovation	2/8/2018			18,940	1,264,434

		2/8/2018	12,630	843,179	
		2/2/2017			12,980	866,545
		2/2/2017	8,650	577,474	
		2/4/2016			13,530	903,263
		2/4/2016	9,020	602,175	

(1) These awards vest according to the following schedule:

Grant Date	Grant Type	Vesting Schedule
2/8/2018	PSU	Award vests between 0-200% on 2/17/2021 upon certification of the achievement of performance goals pre-established by the Committee.
2/8/2018	RSU	100% of award vests on 2/17/2021.
2/2/2017	PSU	Award vests between 0-200% on 2/19/2020 upon certification of the achievement of performance goals pre-established by the Committee.
2/2/2017	RSU	100% of award vests on 2/19/2020.
2/4/2016	PSU	Award vested at 80% on 2/20/2019 based upon certification of the achievement of performance goals pre-established by the Committee.
2/4/2016	RSU	100% of award vested on 2/20/2019.

Upon normal retirement or upon separation from employment by mutual agreement after reaching age 58, outstanding RSUs will vest immediately, while outstanding PSUs will vest at the end of the relevant three-year performance cycle to the extent performance goals are met. Upon death or disability, all outstanding RSUs will vest and all outstanding PSUs will vest at 100% of target. In all other cases, the extent of vesting or forfeiture will be subject to the Committee s discretion.

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(2) Dividend equivalents paid in 2018 on outstanding RSUs for each of our named executive officers were as follows: Mr. Calantzopoulos, $645,962; Mr. Firestone, $201,603; Mr. King, $100,593; Mr. Olczak, $196,705; and Mr. Zielinski, $143,144.

(3) Based on the closing market price of PMI common stock on December 31, 2018, of $66.76.

(4) Amount assumes target performance goals are achieved. The actual number of units that vest will range between 0% and 200% depending on actual performance during the performance cycle.

Stock Option Exercises [1] and Stock Vested During 2018

	Stock Awards	
Name and Principal Position	**Number of Shares Acquired on Vesting (#)**	**Value Realized on Vesting ($)**
André Calantzopoulos, Chief Executive Officer	98,940	10,291,244

Marc S. Firestone, President, External Affairs & General Counsel	36,870	3,835,033
Martin G. King, Chief Financial Officer	16,960	1,764,094
Jacek Olczak, Chief Operating Officer	32,240	3,353,444
Miroslaw Zielinski, President, Science & Innovation	21,700	2,257,126

(1) The Company does not issue stock options.
On February 20, 2019, vesting restrictions lapsed for the following RSUs granted in 2016: Mr. Calantzopoulos, 47,360 shares; Mr. Firestone, 13,480 shares; Mr. King, 6,440 shares; Mr. Olczak, 14,030 shares; and Mr. Zielinski, 9,020 shares.

On February 20, 2019, the PSUs granted in 2016 to each of the named executive officers vested at an overall performance factor of 80% (as certified by the Committee) as follows: Mr. Calantzopoulos, 56,832 shares; Mr. Firestone, 16,176 shares; Mr. King, 7,720 shares; Mr. Olczak, 16,840 shares; and Mr. Zielinski, 10,824 shares.

Dividend equivalents paid in 2019 on vested PSUs for each of our named executive officers were as follows: Mr. Calantzopoulos, $729,155; Mr. Firestone, $207,539; Mr. King, $99,048; Mr. Olczak, $216,058; and Mr. Zielinski, $138,872.

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Pension Benefits

The Pension Benefits table and the Non-Qualified Deferred Compensation table below generally reflect amounts accumulated as a result of the NEOs service over their full careers with us, our prior parent company and affiliates. The increments related to 2018 are reflected in the Change in Pension Value column of the Summary Compensation Table on page 41. Our plans providing pension benefits are described below in the Pension Benefits table, and our defined contribution plans are described in the Non-Qualified Deferred Compensation table on page 50.

Name and Principal Position	Plan Name	Number of Years of Credited Service[1] (#)	Present Value of Accumulated Benefits[2][3] ($)	Payments During Last Fiscal Year ($)
André Calantzopoulos, Chief Executive Officer	Pension Fund of Philip Morris in Switzerland	37.00	17,732,375	-
	IC Pension Plan of Philip Morris in Switzerland	13.92	2,679,058	-
	Supplemental Plan of Philip Morris in Switzerland	13.00	7,966,848	-
Marc S. Firestone, President, External Affairs & General Counsel	Pension Fund of Philip Morris in Switzerland	6.75	2,572,032	-
	IC Pension Plan of Philip Morris in Switzerland	5.92	230,543	-
	Supplemental Plan of Philip Morris in Switzerland	6.75	1,057,944	-
Martin G. King, Chief Financial Officer	Pension Fund of Philip Morris in Switzerland	13.58	4,361,075	-
	IC Pension Plan of Philip Morris in Switzerland	12.92	696,476	-
	Supplemental Plan of Philip Morris in Switzerland	10.00	1,157,637	-
	Retirement Plan for Salaried Employees	14.00	847,747	-
	Benefit Equalization Plan (BEP)	14.00	5,122,050	-

Jacek Olczak, Chief Operating Officer	Pension Fund of Philip Morris in Switzerland	29.00	10,118,596	-
	IC Pension Plan of Philip Morris in Switzerland	12.92	699,005	-
	Supplemental Plan of Philip Morris in Switzerland	10.00	2,819,087	-
Miroslaw Zielinski, President, Science & Innovation	Pension Fund of Philip Morris in Switzerland	33.00	11,170,419	-
	IC Pension Plan of Philip Morris in Switzerland	13.92	1,189,266	-
	Supplemental Plan of Philip Morris in Switzerland	13.00	2,340,517	-

(1) As of December 31, 2018, each named executive officer s total years of service with PMI or its affiliates were as follows: Mr. Calantzopoulos, 33.92 years; Mr. Firestone, 6.71 years; Mr. King, 27.58 years; Mr. Olczak, 25.79 years; and Mr. Zielinski, 27.33 years. The years shown in this column are the years credited under the named plan for purposes of benefit accrual. Additional years may count for purposes of vesting or early retirement eligibility. Differences between each named executive officer s total service and the credited service shown for each plan result from transfers between entities sponsoring various plans. Mr. King s credited service under the U.S. plans reflects his prior service as a U.S. payroll-based employee. While such credited service is now frozen, he continues to earn eligibility and vesting service and increases in his benefit due to increases in his compensation as a result of his continued service with PMI. The Pension Fund of Philip Morris in Switzerland allows employees to purchase additional service credit with contributions from their own funds, and Messrs. Calantzopoulos, Olczak, and Zielinski have purchased 3.08, 15.67, and 13.83 years, respectively, without any Company contribution.

(2) The amounts shown in this column for pension plans in Switzerland are based on a 60% joint and survivor annuity commencing at age 62 (the earliest date on which, assuming continued employment, the individual would be eligible for benefits that are not reduced for early commencement) and the following actuarial assumptions: discount rate 0.83%, mortality table LPP 2015 (fully generational) for expected improvements in mortality and interest rate on account balances of 3.4%. Present value amounts in Swiss francs are converted to U.S. dollars using the conversion rate on December 31, 2018, of $1.00 = 0.9842 CHF.

The amounts shown in this column for Mr. King s U.S. pension benefits are based on a single life annuity (or, for the BEP, a lump sum payment) using the same assumptions applied for year-end 2018 financial disclosure under FASB ASC Topic 715 (discount rate 4.30%, BEP lump sum rate 3.80%, mortality table fully generational RP 2018 with MP 2018 projection and IRS 2019 table for the BEP), except that in accordance with SEC requirements, benefits are assumed to commence at the earliest date on which, assuming continued employment, the individual would be eligible for benefits that are not reduced for early commencement.

Like all present value amounts, the amounts shown in this column change as the interest rate used to discount projected future benefits is adjusted, with lower interest rates producing higher present values and higher interest rates producing lower present values.

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(3) In addition to the benefits reflected in this column, we generally provide a survivor income benefit allowance, or SIB allowance, to the surviving spouse and children of U.S. payroll-based employees who die while covered by our Retirement Plan for Salaried Employees. Following the death of a retiree who was married at the time of retirement and whose retirement benefits are being paid as a single life annuity, the surviving spouse becomes entitled to a SIB allowance commencing four years after the retiree s death, in an amount equal to the amount the spouse would have received if the participant had elected to receive monthly payments under the Retirement Plan in the form of a 50% joint and survivor annuity. The present value of the post-retirement SIB benefits for Mr. King, assuming his spouse survives him, is $43,659. There is no SIB allowance under the BEP because the BEP benefit is only available as a lump sum.

The surviving spouse of a participant who dies prior to retirement and prior to age 61 becomes entitled to receive 25% of the base salary of the deceased employee commencing four years after the participant s death, provided the spouse has not remarried, and continuing until the deceased employee would have reached age 65. At that time, the surviving spouse receives the same survivor benefit he or she would have received if the deceased employee continued to work until age 65 earning the same base salary as in effect at the time of death. These benefits are reduced by any death benefits payable from the Retirement Plan. If there is no surviving spouse, SIB allowances for each child equal 10% of the base salary of the deceased employee (to a maximum of 30% of base salary), become payable monthly beginning four years after the employee s death, and continue until the child reaches age 25 if a full-time student (age 19 if not).

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Retirement Plans for U.S. Payroll-Based Employees

Pensions for our U.S. payroll-based employees are payable from the tax-qualified Retirement Plan and non-qualified supplemental plans. These plans recognize the employees prior service with companies with which we were previously affiliated.

Mr. King, who is a former U.S. payroll-based employee, has accrued benefits under the tax-qualified Retirement Plan and the non-qualified supplemental Benefit Equalization Plan (BEP). The provisions of these two plans are described below.

The BEP provides both supplemental pension benefits and supplemental deferred profit-sharing benefits. The provisions of the BEP relating to deferred profit-sharing benefits are described following the Non-Qualified Deferred Compensation table.

Retirement Plan for Salaried Employees

The tax-qualified Retirement Plan is a non-contributory plan maintained for the benefit of our U.S. payroll-based salaried employees hired before January 1, 2009. Subject to tax law limits, the pension formula generally applicable under the Retirement Plan provides for lifetime benefits following termination of employment equal to (a) 1.75% of the employee s average compensation (the sum of annual salary and annual incentive compensation award in the 60 consecutive months during the employee s last 120 months of service that, when divided by five, produces the highest average), minus (b) 0.30% of such compensation up to the applicable Social Security-covered compensation amount, times (c) years of credited service (up to a maximum of 35). Social Security-covered compensation is generally an amount equal to the average of the Social Security taxable wage bases for the 35-year period that ends in the year the participant reaches age 65. The resulting benefit is expressed as a single life annuity payable commencing at normal retirement age.

Employees who terminate employment before age 55 with vested benefits may commence receiving payment of their accrued pensions after attaining age 55, with reductions for early commencement of 6% for each year by which commencement precedes age 65. For an employee who terminates employment after age 55, the reduction for early commencement is generally 6% for each year by which commencement precedes age 60. If an employee has 30 years of service and is age 55 or older, or is 60 or older with 5 years of service, the annuity immediately payable on early retirement is 100% of that payable at normal retirement age.

Benefit Equalization Plan (BEP)

The tax law applicable to the funded tax-qualified Retirement Plan limits the annual compensation that can be taken into account in determining the five-year average compensation under the plan. As a result of this and certain other tax limits, only a portion of the benefits calculated under the Retirement Plan formula can be paid to affected employees from the Retirement Plan. To compensate for the loss of these benefits under the funded tax-qualified plan, eligible employees accrue supplemental benefits under non-qualified plans. Generally, the supplemental pension benefits

accrued under the BEP equal the difference between (a) the pension benefits determined under the Retirement Plan provisions described above, disregarding the tax law limits, and (b) the benefits that can be provided from the Retirement Plan after taking the tax law limits into account.

Retirement Plans for Swiss Payroll-Based Employees

Pensions for our Swiss payroll-based employees are payable from a funded defined benefit pension plan and incentive compensation (IC) pension plan qualifying for favorable treatment under Swiss law. To the extent that Swiss tax or other limitations do not allow paying the full pension under the qualified plans, the balance is expected to be payable under a supplemental pension plan.

Pension Fund of Philip Morris in Switzerland

With limited exceptions, all Swiss payroll-based employees over 25 years of age become immediately covered by the Pension Fund of Philip Morris in Switzerland, a broad-based contributory-funded plan providing defined retirement, disability and death benefits up to limits prescribed under Swiss law. Retirement benefits are expressed as an annuity at normal retirement age equal to 1.8% of the participant s five-year average pensionable salary (base salary minus two-thirds of the maximum social security benefits of CHF 28,200 in 2018) multiplied by years of credited service (to a maximum of 40 to 41 years, depending on the employee s date of birth). Effective April 1, 2015, employees between the ages of 25 and 34 contribute 6% of their pensionable salary to the Fund, and the contribution increases to 7% for employees between the ages of 35 and 54 and 8% for employees between the ages of 55 and 65. Subject to certain conditions, participants may elect to receive pension benefits entirely or partially in a lump sum. For determining lump sum values, a discount rate of 4% and the LPP 2015 mortality table are used. The LPP mortality table is a commonly used mortality table in Switzerland. For an employee who completes 30 years of service and retires at age 62, this translates into payments equivalent to a pension of 54% of five years annual

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average pensionable salary. For an employee with 40 years of credited service at age 65, this replacement ratio is approximately 72% of average salary. Participants may retire and commence benefits as early as age 58; however, for each year that retirement precedes age 62, the 1.8% multiplier used to calculate the amount of the retirement pension is reduced by 0.06% (at age 58 the multiplier is 1.56%). Swiss law permits participants in a pension plan to make additional voluntary contributions to the pension plan to compensate for missing years of credited service.

If an employee terminates employment with us before age 58, the lump sum value of the pension calculated using the termination lump sum factors is transferred either to a new pension fund or to a blocked bank account until early retirement age is reached. An employee who is age 50 or over upon termination of employment can elect under certain conditions to remain in the plan as an external member. In this case, neither the employee nor the employer can contribute any further funds. At the age of 58, the former employee must then elect to take retirement in the form of an annuity, a lump sum or a mix of both.

IC Pension Plan of Philip Morris in Switzerland

Swiss payroll-based employees in salary grades 14 and above who are eligible to participate in the annual incentive compensation award program described above are also eligible to participate in the IC Pension Plan of Philip Morris in Switzerland, a funded plan which, for the named executive officers, provides for participant contributions of up to 1.5% of pensionable salary (as defined above), subject to maximum Swiss pension law limits, and an equal matching contribution from the employer. As with the pension plan, participants may make additional voluntary contributions subject to certain terms and conditions.

Benefits ultimately received depend on interest rates set by the Pension Board of the plan (which consists of members appointed by the employer and an equal number selected by participants in the plan) and are payable in a lump sum or as an annuity. The plan guarantees that there is no loss of principal on either the employee contributions or the Company match. In 2018,

the assets of the funds had a negative performance of 7.2%, and no interest was credited on plan balances.

If an employee terminates employment with the Company before age 58, the employee s account value is transferred to either a new pension fund or to a blocked bank account until early retirement age is reached. An employee who is age 50 or over upon termination of employment can elect under certain conditions to remain in the plan as an external member. In this case, neither the employee nor the employer can contribute any further funds to the plan although interest does accrue on the account balance. At the age of 58, the former employee must then elect to take retirement in the form of an annuity, a lump sum payment or a mix of both.

Supplemental Plan of Philip Morris in Switzerland

For some Swiss payroll-based employees, including our NEOs, the laws and regulations applicable to the Pension Fund of Philip Morris in Switzerland and the IC Pension Plan of Philip Morris in Switzerland limit the benefits that can be provided under those plans. For these employees, we maintain a Supplemental Plan under which an amount is

calculated and deposited annually in a Swiss foundation to make up for the difference between the full pension an employee would have received had these plans not been subject to such limitations (assuming the employee becomes entitled to benefits from the Supplemental Plan). However, the annual deposits do not serve to increase the amount that an individual would have received absent such limits. In determining the amount of the annual deposit, the actuarial assumptions used are the same as those described above for the Pension Fund of Philip Morris in Switzerland.

In the event of a Supplemental Plan participant s termination of employment from the Company, if the Foundation Board determines in its sole discretion that he or she is entitled to a benefit, the Supplemental Plan benefit is paid in a lump sum at the time that benefits first become payable to the participant under the Pension Fund of Philip Morris in Switzerland and the IC Pension Plan of Philip Morris in Switzerland. As the Supplemental Plan is not a tax-qualified plan, the benefits from this plan, when paid, are adjusted for the loss of favorable tax-qualified plan treatment.

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COMPENSATION DISCUSSION AND ANALYSIS

Non-Qualified Deferred Compensation

Name and Principal Position	Plan Name	Executive Contributions in 2018 ($)	Registrant Contributions in 2018 ($)	Aggregate Earnings in 2018[1] ($)	Aggregate Withdrawals/ Distribution ($)	Aggregate Balance as of December 31, 2018 ($)
Martin G. King, Chief Financial Officer	Benefit Equalization Plan (BEP), Deferred Profit-Sharing	0	0	396	0	20,618

(1) The amount in this column consists of amounts credited as earnings for 2018 on account balances attributable to the prior participation under the defined contribution portion of the BEP. This amount does not constitute above-market earnings and, accordingly, is not included in amounts reported in the Summary Compensation Table on page 41.

Deferred Profit-Sharing and Benefit Equalization Plan

For U.S. payroll-based employees, we provide non-qualified defined contribution benefits supplementing the benefits provided under our tax-qualified Deferred Profit-Sharing Plan for Salaried Employees, or DPS. Under the DPS, contributions are made on behalf of each participant for each year. Currently, none of our named executive officers is eligible for DPS contributions.

As is the case for the Retirement Plan, the applicable U.S. tax law limits the amount of compensation ($275,000 for 2018) that can be taken into account under the tax-qualified DPS for any year and imposes other limits on the amounts that can be allocated to individuals under the DPS. A DPS participant whose salary was more than the compensation limit or who was otherwise affected by tax law limits is entitled to a supplemental profit-sharing benefit in an amount generally equal to the

additional benefits the participant would have received under the DPS but for the application of the tax law limits.

The funds accumulated in the DPS portion of BEP for Mr. King reflect the contributions while he was a U.S. payroll-based employee.

The DPS fund used as an earnings measure under this portion of the BEP is invested in a variety of high-quality fixed-income instruments with strong credit ratings and, for 2018, produced earnings at a rate of approximately 2.0%. Participants typically receive their supplemental profit-sharing benefits upon termination of employment in a lump sum or, if elected in advance, as a deferred lump sum payment or in installments over a number of years not to exceed their life expectancy.

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COMPENSATION DISCUSSION AND ANALYSIS

Employment Contracts, Termination of Employment and Change in Control Arrangements

As a general matter, PMI has not utilized special employment contracts for its named executive officers. However, our Swiss payroll-based executive officers are covered by contracts, which do not include change in control provisions.

Our 2018 equity compensation awards were granted under the 2017 Performance Incentive Plan. That plan includes a double-trigger feature. Under the plan, outstanding equity awards will not accelerate or vest if the entity acquiring PMI agrees to replace the award with a time-based equity award of equivalent value. For this purpose, the value of outstanding PSUs would be determined based on actual performance through the date of the change in control if more than one-half of the performance cycle has elapsed and such performance is determinable. Otherwise, the value of the outstanding PSUs will be based on the assumption that target performance had been achieved. If outstanding equity awards are not replaced, the outstanding RSUs would fully vest, and the value of outstanding PSUs would be determined as set forth above and both be payable immediately in cash. Fully earned but unpaid annual incentive compensation awards would become payable.

If outstanding equity awards are replaced as described above but, within two years after the change in control, the employee s employment is terminated involuntarily and other than for cause or the employee terminates employment for good reason, the replacement awards would fully vest.

Under PMI s 2017 Performance Incentive Plan, a change in control occurs: (i) upon an acquisition of 20% or more of either PMI s common stock or the voting power of PMI s voting securities, excluding certain acquisitions involving PMI or its affiliates or where PMI s beneficial owners continue to meet certain ownership thresholds; (ii) when members of the PMI Board as of the effective date of PMI s 2017 Performance Incentive Plan, or thereafter nominated or elected by such members, cease to constitute a majority of the PMI Board; (iii) upon certain reorganizations, mergers, share exchanges and consolidations involving PMI; or (iv) upon the liquidation or dissolution, or sale of substantially all of the assets of PMI, with limited exceptions.

Our 2016 and 2017 equity compensation awards were granted under PMI s 2012 Performance Incentive Plan, which also includes a double-trigger feature. Under that plan, the changes to vest or pay applicable awards occur immediately upon a change in control only if the entity acquiring PMI does not agree to assume or replace the awards. In addition, if the acquiring entity agrees to assume or replace the awards, but an employee s employment is terminated involuntarily and other than for cause or the employee terminates employment for good reason within two years after the change in control, the applicable awards will become vested or be payable upon the employee s termination of employment as follows:

the restrictions on outstanding RSUs would lapse;

outstanding PSUs would vest on a pro-rata basis at target and be payable in cash;

unless otherwise determined by the Compensation and Leadership Development Committee, equity awards would be cashed out at the change in control price; and

fully earned but unpaid annual incentive compensation awards would become payable.

The definition of change in control in the 2012 Plan is similar to that in the 2017 Plan.

The amounts in the accompanying table are estimates of the amounts that would have become payable on a change in control of PMI, calculated as if a change in control occurred on December 31, 2018, applying certain assumptions. For outstanding equity awards granted under the 2012 Performance Incentive Plan, we have assumed that the awards become vested and payable as of December 31, 2018, either because the acquirer did not assume or replace the awards or because the employee s employment was involuntarily terminated. For outstanding equity awards granted under the 2017 Performance Incentive Plan and annual cash incentive awards, we have assumed that the outstanding awards became vested and payable as of December 31, 2018, because they were not replaced by the acquirer or employment was involuntarily terminated.

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COMPENSATION DISCUSSION AND ANALYSIS

Name	Unvested PSUs[1] ($)	Unvested RSUs[1] ($)	Completed 2018 Annual Incentive Compensation Award Cycle[2] ($)	Total ($)
André Calantzopoulos	11,953,155	8,901,111	3,074,694	23,928,960
Marc S. Firestone	3,582,341	2,677,744	1,295,476	7,555,561
Martin G. King	1,819,655	1,365,909	858,569	4,044,133
Jacek Olczak	3,572,328	2,669,065	1,295,476	7,536,869
Miroslaw Zielinski	2,745,394	2,022,828	1,200,225	5,968,447

(1) Assumes the change in control price is equal to the closing market price of PMI on December 31, 2018, of $66.76. The value of unvested PSUs granted under the 2012 Performance Incentive Plan assumes target number of shares awarded prorated for the amount of time lapsed in the performance cycle. The value of unvested PSUs granted under the 2017 Performance Incentive Plan assumes target number of shares awarded (because less than half of the performance cycle had lapsed and actual performance was not determinable).

(2) Assumes target award payable under our annual incentive compensation award program for a full year. Amounts are converted to U.S. dollars using the conversion rate on December 31, 2018, of $1.00 = 0.9842 CHF.

Benefits payable under PMI s qualified pension and profit-sharing plans and supplemental plans are discussed above. None of those plans provides PMI s executive officers with an additional enhancement, early vesting or other benefit in the event of a change in control or

termination of employment, except for certain plan provisions applicable to all plan participants that ensure vesting and continuation of profit-sharing contributions for the year of a change in control and the following two years. Mr. King is already fully vested under these plans. Similarly, no enhanced provisions apply to the above-named executive officers with respect to continued medical, life insurance or other insurance coverage following termination of employment, whether or not in connection with a change in control.

Involuntary Separation Without Cause

In the event of involuntary separation without cause, a severance payment is typically determined as a multiple of monthly base salary. The amount of severance paid varies based on a number of factors, including the circumstances of the termination and the executive s years of service.

Voluntary Early Retirement or Retirement

In the event of voluntary early retirement or retirement, a retirement allowance is typically determined based on the annual base salary midpoint for the executive s grade. The amount varies based on a number of factors, including the circumstances of retirement and the executive s years of service.

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COMPENSATION DISCUSSION AND ANALYSIS

Pay Ratio

About Our Workforce

At December 31, 2018, we employed approximately 77,400 people worldwide. As our manufacturing and sales activities are outside of the U.S., 99.8% of our employees (or approximately 77,240) are located outside of the U.S. Approximately 67% of our employees are located in non-OECD countries, which tend to be lesser developed countries with lower wages than OECD countries. Approximately 35% of our workforce is in Indonesia. The national average annual net salary is approximately $2,400 in that country.(1) Approximately 65% of our overall workforce is covered by collective labor agreements, and approximately 78% of our workforce in non-OECD countries is covered by collective labor agreements.

Our Pay Ratio

Given our global footprint, and in accordance with the regulatory guidance, we have determined that the cost-of-living adjusted ratio based on the purchasing power parity index (or PPP) reflects the differences in the living and economic conditions of approximately 90 countries where our employees reside.(2) The PPP conversion factor represents the number of units of local currency that can buy a basket of goods that 1 CHF would buy in Switzerland, where our CEO resides. The total PPP-adjusted compensation for our median employee residing in Indonesia is approximately CHF 49,875.(3) Comparing this employee s total PPP-adjusted compensation to the total compensation of our CEO in 2018, our adjusted pay ratio is 308:1.(4)

Had we not used the PPP adjustment, our median employee s total 2018 compensation would have been approximately $18,890. Comparing this employee s total compensation to the total compensation of our CEO set forth in the Summary Compensation Table on page 41,

the ratio would be 843:1. For reference, the ratio of the CEO s total compensation to that of our median employee in Switzerland is 83:1. At December 31, 2018, we employed approximately 3,235 people in Switzerland, including approximately 310 in our factory and 750 in our R&D facility in Neuchâtel.

PMI as an Employer

We are the first multinational company to receive a global EQUAL-SALARY certification from the EQUAL-SALARY Foundation.

This year, the Top Employer Institute recognized us as a Global Top Employer for the third consecutive year. Additionally, we have been awarded Top Employer Middle East 2019, Top Employer Africa 2019, Top Employer

Europe 2019, Top Employer North America 2019, and Top Employer Latin America 2019. The Top Employer Institute also granted us a Top Employer certification in 49 countries worldwide, including Indonesia.

(1) http://www.bi.go.id/sdds/default.asp#RealSector.

(2) The PPP conversion factor is described at http://data.worldbank.org. The PPP indices are publicly available in the jurisdictions where our employees reside, with limited exceptions.

(3) This represents the median of the total compensation of all employees. As there was no significant change in our employee population, or compensation arrangements, this median employee (selected in October 2017) is the same as the one described in our 2018 proxy statement, filed with the U.S. Securities and Exchange Commission on March 29, 2018.

(4) To identify a median employee in the above calculations, we analyzed base salary information because that is the only pay element applied consistently throughout our global workforce.

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ADVISORY VOTE APPROVING EXECUTIVE COMPENSATION

The Compensation Discussion and Analysis section discusses in detail how our compensation programs support our business and financial objectives, how they work and are administered under the direction of our independent Compensation and Leadership Development Committee, and how the Committee s decisions concerning the 2018 compensation of our executive officers were directly tied to our performance.

Pursuant to Section 14A of the Exchange Act, we are asking our shareholders to indicate their support for our named executive officer compensation as described in this proxy statement. This annual say-on-pay vote gives our shareholders the opportunity to express their views on our NEOs compensation at each Annual Meeting of Shareholders. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our named executive officers and the philosophy, policies and practices described in this proxy statement. Accordingly, we will ask our shareholders to vote

FOR the following resolution at the Annual Meeting:

RESOLVED, that the Company s shareholders approve, on an advisory basis, the compensation of the named executive officers, as disclosed in the Company s Proxy Statement for the 2019 Annual Meeting of Shareholders pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the Summary Compensation Table and the other related tables and disclosures.

This say-on-pay vote is advisory and, therefore, not binding on the Company, the Compensation and Leadership Development Committee or the Board of Directors. The Board and the Committee value the opinions of our shareholders and will review the voting results when making future decisions regarding executive compensation.

The Board recommends a vote FOR the resolution approving the compensation of

our named executive officers.

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AUDIT COMMITTEE MATTERS

Audit Committee Report for the Year Ended December 31, 2018

To Our Shareholders:

Management has the primary responsibility for the financial statements and the reporting process, including the systems of internal accounting control. The Audit Committee monitors the Company s financial reporting processes and systems of internal accounting control, the independence and the performance of the independent auditors, and the performance of the internal auditors. The Audit Committee has the sole authority for appointing, compensating and overseeing the work of the independent auditors.

The Audit Committee has received representations from management that the Company s consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, and the Audit Committee has reviewed and discussed the consolidated financial statements with management and the independent auditors. The Audit Committee has discussed with the independent auditors, including in executive sessions without the presence of management, the independent auditors evaluation of the accounting principles, practices and judgments applied by management, the adequacy of the Company s financial reporting processes, controls and procedures, and the Audit Committee has discussed any items required to be communicated to it by the independent auditors in accordance with regulations promulgated by the U.S. Securities and Exchange Commission, the Public Company Accounting Oversight Board and the Independence Standards Board.

The Audit Committee has received from the independent auditors written disclosures and a letter required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant s communications with the Audit Committee concerning their independence and has discussed with the independent auditors the auditors independence from the Company and its management. The Audit Committee has pre-approved all audit and permissible non-audit services provided by the independent auditors and the fees for those services. As part of this process,

the Audit Committee has reviewed the audit fees of the independent auditors. It has also reviewed non-audit services and fees to assure compliance with regulations prohibiting the independent auditors from performing specified services that might impair their independence, as well as compliance with the Company s and the Audit Committee s policies.

The Audit Committee discussed with the Company s internal auditors and independent auditors the overall scope of and plans for their respective audits. The Audit Committee has met with the internal auditors and the independent auditors, separately and together, with and without management present, to discuss the Company s financial reporting processes and internal control over financial reporting and overall control environment. The Audit Committee has reviewed significant audit findings prepared by the independent auditors and those prepared by the internal auditors, together with management s responses.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors the inclusion of the audited consolidated financial statements in the Company s Annual Report on Form

10-K for the year ended December 31, 2018.

Audit Committee:

Jennifer Li, Chair

Massimo Ferragamo

Werner Geissler

Jun Makihara

Lucio A. Noto

Stephen M. Wolf

The information contained in the report above shall not be deemed to be soliciting material or to be filed with the Securities and Exchange Commission or subject to Regulation 14A or 14C or the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent specifically incorporated by reference therein.

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AUDIT COMMITTEE MATTERS

Independent Auditors Fees

Aggregate fees, including out-of-pocket expenses, paid to our independent auditors, PricewaterhouseCoopers SA, consisted of the following (in millions):

	2018	2017
Audit Fees[1]	$ 19.33	$ 19.64
Audit-Related Fees[2]	1.01	0.88
Tax Fees[3]	3.51	4.15
All Other Fees[4]	1.60	1.18
TOTAL	**$ 25.45**	**$ 25.85**

(1) Fees and expenses associated with professional services in connection with (i) the audit of the Company s consolidated financial statements and internal control over financial reporting, including statutory audits of the financial statements of the Company s affiliates; (ii) reviews of the Company s unaudited condensed consolidated interim financial statements; and (iii) reviews of documents filed with the Securities and Exchange Commission.

(2) Fees and expenses for professional services for audit-related services, which include due diligence related to acquisitions and divestitures, employee benefit plan audits, accounting consultations and procedures relating to various other audit and special reports.

(3) Fees and expenses for professional services in connection with U.S. and foreign tax compliance assistance, consultation and advice on various foreign tax matters, transfer pricing documentation for compliance purposes and advice relating to customs and duties compliance matters.

(4) Fees and expenses for professional services relating to market analysis and other professional services.

Pre-Approval Policy

The Audit Committee s policy is to pre-approve all audit and permissible non-audit services provided by the independent auditors. These services may include audit services, audit-related services, tax services and other services. Pre-approval is detailed as to the particular service or category of service and is subject to a specific budget. The Audit Committee requires the independent auditors to report on the actual fees charged for each category of service at Audit Committee meetings throughout the year.

During the year, circumstances may arise when it may become necessary to engage the independent auditors for additional services not contemplated in the original pre-approval. In those instances, the Audit Committee requires specific pre-approval before engaging the independent auditors. The Audit Committee has delegated pre-approval authority to the Chair of the Audit Committee for those instances when pre-approval is needed prior to a scheduled Audit Committee meeting. The Chair of the Audit Committee must report on such approvals at the next scheduled Audit Committee meeting.

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RATIFICATION OF THE SELECTION OF INDEPENDENT AUDITORS

The Audit Committee has selected PricewaterhouseCoopers SA (PwC) as the Company s independent auditors for the fiscal year ending December 31, 2019, and has directed that management submit the selection of independent auditors to shareholders for ratification at the Annual Meeting. Representatives of PwC are expected to be present at the meeting, will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

In determining to reappoint PwC, the Audit Committee considered a number of factors, including the following:

- PwC has served as the Company s independent auditors since we became an independent company in 2008;
- The results of the Audit Committee s evaluation of PwC s qualifications, performance, independence and quality control procedures;
- The Audit Committee s belief that PwC s deep knowledge of the Company and the Company s information technology and systems platforms better equips it to focus the audit work where it is most needed, enhances the quality of risk-based reviews, and enables it to design and implement a superior audit plan and to effectively test for control weaknesses;
- The Audit Committee s belief that PwC has the capability and expertise and professionals in the many countries that are necessary to conduct a quality audit of our worldwide business;
- The Audit Committee reviews and evaluates the lead partner and senior auditors on the account and selects the incoming lead partner when the outgoing lead partner rotates off the account;
- External data relating to audit quality and performance, including the Public Company Accounting Oversight Board s reports on PwC and its peer firms; and
- The appropriateness of PwC s fees.

Shareholder ratification of the selection of PwC as the Company s independent auditors is not required by the Company s by-laws or otherwise. However, we are submitting the selection of PwC to the shareholders for ratification as a matter of good corporate practice. If the shareholders fail to ratify the selection, the Audit Committee will reconsider whether or not to retain PwC. Even if the selection is ratified, the Audit Committee in its discretion may direct the appointment of a different independent audit firm at any time during the year if it is determined that such a

change would be in the best interests of the Company and its shareholders.

The Board recommends a vote FOR the ratification of the selection of PricewaterhouseCoopers SA as the Company s independent auditors.

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RELATED PERSON TRANSACTIONS AND CODE OF CONDUCT

The Board has adopted a policy, which is available on the Company s website, at www.pmi.com/our-business/about-us, that requires our executive officers, directors and nominees for director to promptly notify the Corporate Secretary in writing of any transaction in which (i) the amount exceeds $120,000; (ii) the Company is, was or is proposed to be a participant; and (iii) such person or such person s immediate family members (Related Persons) has, had or may have a direct or indirect material interest (a Related Person Transaction). The Corporate Secretary, in consultation with outside counsel, to the extent appropriate, shall determine whether a potential transaction with a Related Person constitutes a Related Person Transaction requiring review under the policy (including whether the Company or the Related Person has a material interest, based on a review of all facts and circumstances). If the Corporate Secretary determines that the proposed transaction constitutes a Related Person Transaction or it would be beneficial to further review the transaction, then, in either case, the transaction will be referred to the CEO or the Nominating and Corporate Governance Committee of the Board. In deciding whether to approve or ratify the Related Person Transaction, the reviewer is required to consider all relevant facts and circumstances. Based on the review of such facts and circumstances, the reviewer will approve, ratify or disapprove the Related Person Transaction. The reviewer will approve or ratify a Related Person Transaction only if it is determined that the transaction is not opposed to

the best interests of the Company. All determinations by the CEO and Corporate Secretary must be reported to the Committee at its next meeting. In addition to this policy, the Code of Business Conduct and Ethics for Directors (the Director Code), which is available on our website, at www.pmi.com/our-business/about-us, has specific provisions addressing actual and potential conflicts of interest. The Director Code specifies: Our directors have an obligation to act in the best interest of the Company. All directors should endeavor to avoid situations that present a potential or actual conflict between their interest and the interest of the Company. The Director Code defines conflict of interest to include any instance in which (i) a person s private interest interferes in any way, or even appears to interfere, with the interest of the Company, including its subsidiaries and affiliates; (ii) a director or a director s family member takes an action or has an interest that may make it difficult for that director to perform his or her work objectively and effectively; and (iii) a director (or his or her family member) receives improper personal benefits as a result of the director s position in the Company.

Similarly, our policies require all officers and employees of the Company to avoid situations where the officer s or employee s personal, financial or political activities have the potential of interfering with his or her loyalty and objectivity to the Company.

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AVAILABILITY OF REPORTS, OTHER MATTERS AND 2020 ANNUAL MEETING

AVAILABILITY OF FORM 10-K AND ANNUAL REPORT TO SHAREHOLDERS

We are required to provide an Annual Report to shareholders who receive this proxy statement. We will also provide copies of the Annual Report to brokers, dealers, banks, voting trustees and their nominees for the benefit of their beneficial owners of record. Additional copies of the Annual Report, along with copies of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, are available without charge to shareholders upon written request to the Company s Corporate Secretary at 120 Park Avenue, New York, New York 10017-5579. You may review the Company s filings with the U.S. Securities and Exchange Commission by visiting our website at www.pmi.com/investors. The information on our websites is not, and shall not be deemed to be, a part of this report or incorporated into any other filings we make with the SEC.

OTHER MATTERS

Management knows of no other business that will be presented to the meeting for a vote. If other matters properly come before the meeting, the persons named as proxies will vote on them in accordance with their best judgment.

The cost of this solicitation of proxies will be paid by us. In addition to the use of the mail, some of the officers and regular employees of the Company may solicit proxies by telephone and will request brokerage houses, banks and other custodians, nominees and fiduciaries to forward soliciting material to the beneficial owners of common stock held of record by such persons. We will reimburse such persons for expenses incurred in forwarding such soliciting material. It is contemplated that additional solicitation of proxies will be made in the same manner under the engagement and direction of D.F. King & Co., Inc., 48 Wall Street, New York, NY 10005, at an anticipated cost of $24,000, plus reimbursement of out-of-pocket expenses.

2020 ANNUAL MEETING

Shareholders wishing to suggest candidates to the Nominating and Corporate Governance Committee for consideration as directors must submit a written notice to the Corporate Secretary of the Company. Our by-laws set forth the procedures a shareholder must follow to nominate directors or to bring other business before shareholder meetings. For a shareholder to nominate a candidate for director at the 2020 Annual Meeting, presently anticipated to be held on May 6, 2020, notice of the nomination must be received by the Company between October 23 and November 22, 2019. The notice must describe various matters regarding the nominee, including name, address, occupation and shares held. The Nominating and Corporate Governance Committee will consider any nominee properly presented by a shareholder and will make a recommendation to the Board. After full consideration by the Board, the shareholder presenting the nomination will be notified of the Board s conclusion. For a shareholder to bring other matters before the 2020 Annual Meeting and to include a matter in the Company s proxy statement and proxy for that meeting, notice must be received by the Company between October 23 and November 22, 2019. The notice must include a description of the proposed business, the reasons therefor and other specified matters. In each case, the notice must be timely given to the Corporate Secretary of the Company, whose address is 120 Park Avenue, New York, New York 10017-5579. Any shareholder desiring a copy of the Company s by-laws (which are posted on our website at www.pmi.com/our-business/about-us) will be furnished one without charge upon written request to the

Corporate Secretary.

Jerry Whitson

Deputy General Counsel and Corporate Secretary

March 21, 2019

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EXHIBIT A: QUESTIONS & ANSWERS

1. WHAT IS A PROXY?

It is your legal designation of another person to vote the stock you own. That other person is called a proxy. If you designate someone as your proxy in a written document, that document also is called a proxy or a proxy card. André Calantzopoulos, Louis C. Camilleri and Jerry Whitson have each been designated as proxies for the 2019 Annual Meeting of Shareholders.

2. WHAT IS THE RECORD DATE AND WHAT DOES IT MEAN?

The Record Date for the 2019 Annual Meeting of Shareholders is March 8, 2019. The Record Date is established by the Board of Directors as required by Virginia law. Shareholders of record (registered shareholders and street name holders) at the close of business on the Record Date are entitled to:

a) receive notice of the meeting; and

b) vote at the meeting and any adjournments or postponements of the meeting.

3. WHAT IS THE DIFFERENCE BETWEEN A REGISTERED SHAREHOLDER AND A SHAREHOLDER WHO HOLDS STOCK IN STREET NAME?

If your shares of stock are registered in your name on the books and records of our transfer agent, you are a registered shareholder.

If your shares of stock are held for you in the name of a broker or bank, then your shares are held in street name. The organization holding your shares of stock is considered the shareholder of record for purposes of voting at the Annual Meeting. The answer to Question 15 describes brokers discretionary voting authority and when your broker or bank is permitted to vote your shares of stock without instruction from you.

4. HOW DO I OBTAIN ADMISSION TO THE MEETING?

To obtain admission to the meeting, you must have an admission ticket. Because seating is limited, you may bring only one immediate family member as a guest. In addition, all meeting attendees must present government-issued photographic identification at the meeting. Please submit your request for an admission ticket by Friday, April 12, 2019, by sending an e-mail to asmticket@pmi.com or by mailing or faxing a request to the Company s Corporate Secretary at 120 Park Avenue, New York, New York 10017-5579; facsimile: 1-877-744-5412 (from within the United States) or 1-212-687-3188 (from outside the United States). Please include the following information with your ticket request:

a) your name and mailing address;

b) whether you need special assistance at the meeting;

c) the name of your immediate family member, if one will accompany you; and

d) if your shares are held for you in the name of your broker or bank, evidence of your stock ownership (such as a letter from your broker or bank or a photocopy of a current brokerage or other account statement) as of March 8, 2019.

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EXHIBIT A: QUESTIONS & ANSWERS

5. WHAT ARE THE DIFFERENT METHODS THAT I CAN USE TO VOTE MY SHARES OF COMMON STOCK?

a) In Writing: All shareholders of record can vote by mailing their completed and signed proxy card (in the case of registered shareholders) or their completed and signed voting instruction form (in the case of street name holders).

b) By Telephone and Internet Proxy: All shareholders of record also can vote their shares of common stock by touch-tone telephone using the telephone number on the proxy card, or by Internet, using the procedures and instructions described on the proxy card and other enclosures. Street name holders of record may vote by telephone or Internet if their brokers or banks make those methods available. If that is the case, each broker or bank will enclose instructions with the proxy statement. The telephone and Internet voting procedures, including the use of control numbers, are designed to authenticate shareholders identities, to allow shareholders to vote their shares, and to confirm that their instructions have been properly recorded. Proxies submitted by Internet or telephone must be received by 11:59 p.m., EDT, on April 30, 2019.

c) In Person: All shareholders may vote in person at the meeting (unless they are street name holders without a legal proxy).

6. HOW CAN I REVOKE A PROXY?

You can revoke a proxy prior to the completion of voting at the meeting by:

a) giving written notice to the Corporate Secretary of the Company;

b) delivering a later-dated proxy; or

c) voting in person at the meeting.

7. ARE VOTES CONFIDENTIAL? WHO COUNTS THE VOTES?

We have established and will maintain a practice of holding the votes of individual shareholders in confidence except: (a) as necessary to meet applicable legal requirements and to assert or defend claims for or against the Company; (b) in case of a contested proxy solicitation; (c) if a shareholder makes a written comment on the proxy card or

otherwise communicates his or her vote to management; or (d) to allow the independent inspectors of election to certify the results of the vote. We will retain an independent tabulator to receive and tabulate the proxies and independent inspectors of election to certify the results.

8. WHAT ARE THE CHOICES WHEN VOTING ON DIRECTOR NOMINEES, AND WHAT VOTE IS NEEDED TO ELECT DIRECTORS?

Shareholders may:

a) vote in favor of a nominee;

b) vote against a nominee; or

c) abstain from voting on a nominee.

Directors will be elected by a majority of the votes cast, which will occur if the number of votes cast FOR a director nominee exceeds the number of votes AGAINST that nominee. See Election of Directors Majority Vote Standard in Uncontested Elections on page 14.

The Board recommends a vote FOR all of the nominees.

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EXHIBIT A: QUESTIONS & ANSWERS

9. WHAT ARE THE CHOICES WHEN VOTING ON THE ADVISORY SAY-ON-PAY RESOLUTION APPROVING THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS?

Shareholders may:

a) vote in favor of the resolution;

b) vote against the resolution; or

c) abstain from voting on the resolution.

The resolution will be approved if the votes cast FOR exceed the votes cast AGAINST.

The Board recommends a vote FOR this resolution.

The advisory vote on this matter is non-binding. However, the Board of Directors and the Compensation and Leadership Development Committee value the opinions of our shareholders and will consider the outcome of the vote when making future executive compensation decisions.

10. WHAT ARE THE CHOICES WHEN VOTING ON THE RATIFICATION OF THE SELECTION OF PRICEWATERHOUSECOOPERS SA AS THE COMPANY S INDEPENDENT AUDITORS, AND WHAT VOTE IS NEEDED TO RATIFY THEIR SELECTION?

Shareholders may:

a) vote in favor of the ratification;

b) vote against the ratification; or

c) abstain from voting on the ratification.

The selection of the independent auditors will be ratified if the votes cast FOR exceed the votes cast AGAINST.

The Board recommends a vote FOR this proposal.

11. WHAT IF A SHAREHOLDER DOES NOT SPECIFY A CHOICE FOR A MATTER WHEN RETURNING A PROXY?

Shareholders should specify their choice for each matter on the enclosed proxy. If no specific instructions are given, proxies that are signed and returned will be voted FOR the election of all director nominees, FOR the advisory say-on-pay resolution approving the compensation of our named executive officers, and FOR the proposal to ratify the selection of PricewaterhouseCoopers SA as the Company s independent auditors.

12. WHO IS ENTITLED TO VOTE?

You may vote if you owned stock as of the close of business on March 8, 2019. Each share of common stock is entitled to one vote. As of March 8, 2019, the Company had 1,555,794,746 shares of common stock outstanding.

13. HOW DO I VOTE IF I PARTICIPATE IN THE DIVIDEND REINVESTMENT PLAN?

The proxy card you have received includes your dividend reinvestment plan shares. You may vote your shares through the Internet, by telephone or by mail, all as described on the enclosed proxy card.

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EXHIBIT A: QUESTIONS & ANSWERS

14. WHAT DOES IT MEAN IF I RECEIVE MORE THAN ONE PROXY CARD?
It means that you have multiple accounts with brokers and/or our transfer agent. Please vote all of these shares. We recommend that you contact your broker and/or our transfer agent to consolidate as many accounts as possible under the same name and address. Our transfer agent is Computershare Trust Company, N.A., P.O. Box 43078, Providence, RI 02940-3078 or you can reach Computershare at 1-877-745-9350 (from within the United States or Canada) or 1-781-575-4310 (from outside the United States or Canada), or via e-mail at pmi@computershare.com.

15. WILL MY SHARES BE VOTED IF I DO NOT PROVIDE MY PROXY?
If you are a street name holder of shares, you should have received a voting instruction form with the proxy statement sent from your broker or bank. Your shares held in street name may be voted only on certain routine matters when you do not provide your broker or bank with voting instructions. For example, the ratification of the selection of PricewaterhouseCoopers SA as independent auditors of the Company is considered a routine matter for which brokers or banks may vote uninstructed shares. When a proposal is not a routine matter (such as the election of director nominees and say-on-pay advisory votes) and the broker or bank has not received voting instructions from the street name holder with respect to that proposal, that broker or bank cannot vote the shares on that proposal. This is called a broker non-vote. Therefore, it is important that you provide instructions to your broker or bank with respect to your vote on these non-routine matters.

16. ARE ABSTENTIONS AND BROKER NON-VOTES COUNTED?
Abstentions will not be included in the vote totals for any matter. Broker non-votes will not be included in vote totals and will not affect the outcome of the vote.

17. MAY SHAREHOLDERS ASK QUESTIONS AT THE MEETING?
Yes. The Chairman will answer shareholders questions of general interest during a designated portion of the meeting. In order to provide an opportunity for everyone who wishes to speak, shareholders will be limited to two minutes. Shareholders may speak a second time only after all others who wish to speak have had their turn. When speaking, shareholders must direct questions and comments to the Chairman and confine their remarks to matters that relate directly to the business of the meeting.

18. HOW MANY VOTES MUST BE PRESENT TO HOLD THE MEETING?
Your shares are counted as present at the meeting if you attend the meeting and vote in person or if you properly return a proxy by Internet, telephone or mail. In order for us to conduct our meeting, a majority of our outstanding shares of common stock as of March 8, 2019, must be present in person or by proxy at the meeting. This is referred to

as a quorum. Abstentions and shares of record held by a broker, bank or other agent (Broker Shares) that are voted on any matter are included in determining the number of votes present. Broker Shares that are not voted on any matter will not be included in determining whether a quorum is present.

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EXHIBIT B: RECONCILIATIONS

PHILIP MORRIS INTERNATIONAL INC.

and Subsidiaries

Reconciliation of Non-GAAP Measures

Adjustments to Net Revenues for the Impact of Currency and Acquisitions

For the Years Ended December 31,

($ in millions)

(Unaudited)

	Net Revenues	Less Currency	Less Acquisitions	Net Revenues excluding Currency & Acquisitions	% Change in Net Revenues Total	% Change in Net Revenues Excluding Currency	% Change in Net Revenues Excluding Currency & Acquisitions
2018 Reconciliation:							
European Union	$ 9,298	$ 489	$ -	$ 8,809	11.8 %	5.9 %	5.9 %
Eastern Europe	2,921	(118)	-	3,039	7.7 %	12.1 %	12.1 %
Middle East & Africa	4,114	(193)	-	4,307	3.2 %	8.0 %	8.0 %
South & Southeast Asia	4,656	(244)	-	4,900	5.4 %	10.9 %	10.9 %
East Asia & Australia	5,580	62	-	5,518	(12.4)%	(13.4)%	(13.4)%
Latin America & Canada	3,056	(99)	-	3,155	3.9 %	7.3 %	7.3 %
Total	**$ 29,625**	**$ (103)**	**$ -**	**$ 29,728**	**3.1 %**	**3.4 %**	**3.4 %**
2017 Reconciliation:							
European Union	$ 8,318						
Eastern Europe	2,711						
Middle East & Africa	3,988						
South & Southeast Asia	4,417						
East Asia & Australia	6,373						
Latin America & Canada	2,941						

Total	**$ 28,748**

Adjustments to Operating Income for the Impact of Currency and Acquisitions

For the Years Ended December 31,

($ in millions)

(Unaudited)

	Operating Income	Less Currency	Less Acquisitions	Operating Income excluding Currency & Acquisitions	% Change in Operating Income		
					Total	Excluding Currency	Excluding Currency & Acquisitions
2018 Reconciliation:							
European Union	$ 4,105	$ 308	$ -	$ 3,797	11.2 %	2.9 %	2.9 %
Eastern Europe	902	(101)	-	1,003	1.7 %	13.1 %	13.1 %
Middle East & Africa	1,627	(263)	-	1,890	(13.6)%	0.3 %	0.3 %
South & Southeast Asia	1,747	(124)	-	1,871	15.4 %	23.6 %	23.6 %
East Asia & Australia	1,851	(2)	-	1,853	(29.0)%	(28.9)%	(28.9)%
Latin America & Canada	1,145	(32)	-	1,177	14.8 %	18.1 %	18.1 %
Total	**$ 11,377**	**$ (214)**	**$ -**	**$ 11,591**	**(1.8)%**	**0.1 %**	**0.1 %**
2017 Reconciliation:							
European Union	$ 3,691						
Eastern Europe	887						
Middle East & Africa	1,884						
South & Southeast Asia	1,514						
East Asia & Australia	2,608						
Latin America & Canada	997						
Total	**$ 11,581**						

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EXHIBIT B: RECONCILIATIONS

Reconciliation of Reported Operating Income to Adjusted Operating Income,

excluding Currency and Acquisitions

For the Years Ended December 31,

($ in millions)

(Unaudited)

	Operating Income	Less Asset Impairment & Exit Costs	Adjusted Operating Income	Less Currency	Less Acquisitions	Adjusted Operating Income excluding Currency & Acquisitions	% Change in Adjusted Operating Incon Adjust exclud Currenc Acquisit
8 Reconciliation:							
ropean Union	$ 4,105	$ -	$ 4,105	$ 308	$ -	$ 3,797	11.2 % 2.9
tern Europe	902	-	902	(101)	-	1,003	1.7 % 13.1
ddle East & Africa	1,627	-	1,627	(263)	-	1,890	(13.6)% 0.3
uth & Southeast a	1,747	-	1,747	(124)	-	1,871	15.4 % 23.6
t Asia & Australia	1,851	-	1,851	(2)	-	1,853	(29.0)% (28.9
in America & nada	1,145	-	1,145	(32)	-	1,177	14.8 % 18.1
tal	**$ 11,377**	**$ -**	**$ 11,377**	**$ (214)**	**$ -**	**$ 11,591**	**(1.8)% 0.1**
7 Reconciliation:							
ropean Union	$ 3,691	$ -	$ 3,691				
tern Europe	887	-	887				
ddle East & Africa	1,884	-	1,884				
uth & Southeast a	1,514	-	1,514				
t Asia & Australia	2,608	-	2,608				
	997	-	997				

in America & nada			
tal	**$ 11,581**	**$ -**	**$ 11,581**

Reconciliation of Reported Diluted EPS to Adjusted Diluted EPS

and Adjusted Diluted EPS, excluding Currency

For the Years Ended December 31,

(Unaudited)

	2018	2017	% Change
Reported Diluted EPS	**$ 5.08**	**$ 3.88**	**30.9%**
Adjustments:			
Asset impairment and exit costs	-	-	
Tax items	0.02	0.84	
Adjusted Diluted EPS	**$ 5.10**	**$ 4.72**	**8.1%**
Less:			
Currency impact	(0.11)		
Adjusted Diluted EPS, excluding Currency	**$ 5.21**	**$ 4.72**	**10.4%**

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EXHIBIT B: RECONCILIATIONS

Reconciliation of Operating Cash Flow to Operating Cash Flow, excluding Currency

For the Years Ended December 31,

($ in millions)

(Unaudited)

	2018	2017	% Change
Net cash provided by operating activities (operating cash flow)	**$ 9,478**	**$ 8,912**	**6.4%**
Less:			
Currency impact	(223)		
Net cash provided by operating activities (operating cash flow), excluding currency	**$ 9,701**	**$ 8,912**	**8.9%**

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2019 PROXY STATEMENT

And Notice of Annual Meeting of Shareholders

To be held on Wednesday, May 1, 2019

Printed on Recycled Paper

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