Dear Shareholder,

"Although we anticipated that 2014 would be a particularly difficult and complex year for PMI, our performance in several critical areas of the business was extremely positive."

We aimed to address specific challenges in key markets, such as Italy, Japan and the Philippines, while also investing in a number of strategic initiatives, including the pilot launches of our Reduced-Risk Product(1) *iQOS* and the roll-out of the new *Marlboro* 2.0 Architecture (both featured later in this Annual Report) as well as the optimization of our global manufacturing footprint. In addition, we faced an operating environment of continued macro-economic weakness and an unprecedented currency headwind.

Within this context, we delivered a solid currency-neutral performance in 2014, achieving adjusted diluted earnings per share (EPS) growth of 7.8%. This result exceeded the 6.5% to 7.5% currency-neutral guidance that we provided last November, due mainly to better-than-expected performances in the European Union (EU) and Eastern Europe, Middle East & Africa (EEMA) Regions. In addition, we made very substantial progress in addressing our market-specific challenges and successfully executed our strategic initiatives.

2014 Results

Cigarette volume of 856.0 billion units in 2014 was down by 2.8%, excluding acquisitions, versus the prior year. The decline primarily reflects the impact of lower cigarette industry volume in all Regions and unfavorable inventory movements, particularly in Asia, partially offset by market share growth in the EU, EEMA and Latin America & Canada (LA&C) Regions.

Reported net revenues, excluding excise taxes, of $29.8 billion declined by 4.6% versus 2013. Excluding currency and acquisitions, net revenues grew by 2.0%. Adverse volume/mix, due mainly to total industry volume declines, eroded a significant portion of our favorable pricing variance, which at $1.9 billion was in line with our historical average.

Adjusted Operating Companies Income (OCI) of $12.6 billion declined by 10.5% versus 2013. Excluding currency and acquisitions, adjusted OCI was flat.

(1) Reduced-Risk Products (RRPs) is the term the company uses to refer to products with the potential to reduce individual risk and population harm in comparison to smoking combustible cigarettes.

We exceeded our productivity target of $300 million last year. Both manufacturing and procurement-related productivity savings helped to partially offset the impact of higher leaf and clove prices on our manufacturing costs. In 2015, we anticipate that our productivity and cost-savings programs, combined with savings associated with the manufacturing footprint restructuring implemented last year, should result in a total company cost-base increase, excluding RRPs and currency, of approximately 1%.

Adjusted diluted EPS of $5.02 declined by 7.0% versus 2013, with currency representing a considerable headwind of $0.80 per share. Excluding currency, adjusted diluted EPS increased by 7.8%.

Free cash flow of $6.6 billion declined by 26.3% versus 2013. Excluding currency, free cash flow was down by 7.9%, notably due to an increase in working capital requirements (largely due to the timing of excise payments) and higher cash payments related to restructuring costs.

Our market share performance in 2014 was strong despite significant price competition in several countries, notably Australia and the Philippines. We registered a growing or stable share in 19 of our top-30 OCI markets. Importantly, we stabilized our share in Japan, which augurs well for 2015. Total PMI share, excluding China and the U.S., grew by 0.3 percentage points to 28.6%, with the highest-ever share progression in the EU Region, up by 1.0 percentage point, as well as increases in the LA&C and EEMA Regions, up by 0.4 and 0.3 percentage points, respectively. Overall, we continued to effectively manage the delicate balance between share and OCI growth within the context of a difficult operating environment.

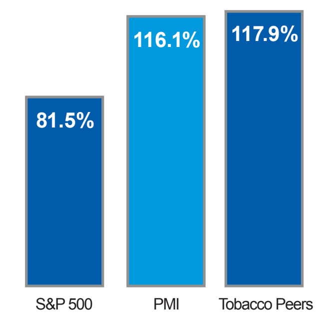
The strong market share results were driven by our robust brand portfolio, led by *Marlboro*. In 2014, the brand gained 0.3 share points in both the EU and EEMA Regions, while it held share in the Asia and LA&C Regions. This impressive overall performance was driven by the highly successful initial roll-out of the 2.0 Architecture, a continued stream of product innovation and the further expansion of the Be *Marlboro* global marketing campaign.

André Calantzopoulos
Chief Executive Officer

Louis C. Camilleri
Chairman of the Board

Our stable of other key international brands also contributed to market share strength in 2014. Of particular note was the continued strong performance of above-premium *Parliament*, whose volume grew by 5.6% versus 2013. *Chesterfield* also performed exceptionally well, with volume growth of 22.6% over the same period. This growth was driven by the EU Region, where *Chesterfield* now ranks as the third-largest cigarette industry brand by volume, behind *Marlboro* and *L&M*.

2008-2014 Total Shareholder Return — US$*



*March 28, 2008, to December 31, 2014

In U.S. dollar terms, our total shareholder return (TSR) for 2014 of -2.1% trailed that of our Tobacco Peers (15.2%), the S&P 500 (13.7%) and our Compensation Survey Group (4.5%). In U.S. dollar terms, our TSR since the spin-off in 2008 through December 31, 2014, of 116.1% was above that of our Compensation Survey Group (82.2%) and the S&P 500 (81.5%), though marginally below that of our Tobacco Peers (117.9%). Regretfully, the significant currency headwind that we faced last year, which persists into 2015, clearly had a major adverse impact on our TSRs for both periods.

We nevertheless continued to prioritize the generous return of cash to our shareholders in 2014, while preserving our single-A credit rating. This was evidenced by our 6.4% dividend increase last September, to an annualized rate of $4.00 per share, and our share repurchases of $3.8 billion. We remain the clear leader among our Tobacco Peers with regard to the absolute level of cash returned to shareholders since 2008.

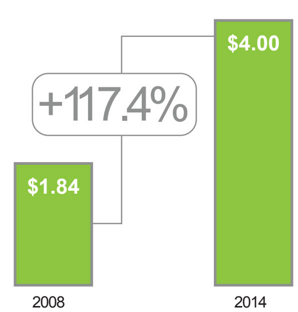
We successfully completed a number of capital market transactions in 2014 while maintaining our superior credit ratings. We issued an aggregate of $5.7 billion in bonds at favorable interest rates, thereby reducing the weighted-average all-in financing cost of our total debt to 3.2%, down by 0.3 percentage points versus 2013. The average time to maturity of our long-term debt portfolio was 10.8 years at the end of 2014, in line with the level for the prior year.

The Fiscal, Regulatory and Illicit Trade Environment

Our continued strong pricing was supported by an excise tax environment that remained broadly rational. Recent examples of markets that have improved excise tax structures and/or implemented multi-year tax plans include France, Indonesia, Italy, Russia, Spain and Turkey. One notable exception, however, is South Korea, where the government implemented a substantial excise tax increase at the start of 2015. While an increase was long overdue, the most recent one having occurred in 2004, the magnitude – at 120% – will be disruptive given its impact on the average retail selling price. Additionally, there remain a number of key markets where we see opportunities for further improvements in fiscal structures, including the reduction of the tax-yield gap between manufactured cigarettes and fine-cut products.

Following its adoption last year, we sought – and were granted – the right to challenge the European Union Tobacco Products Directive (TPD) before the Court of Justice of the European Union (CJEU). The challenge covers whether the TPD complies with EU treaties in three specific areas – Legal Competence, Fundamental Rights and Delegated Acts – and we expect the CJEU to issue a judgment within two years. In parallel, we are working to ensure that EU Member States transpose the TPD into national legislation without additional unreasonable restrictions and with appropriate regulatory frameworks for RRPs.

Seven Consecutive Dividend Increases Since the Spin-Off



Plain packaging continued to loom as a longer-term regulatory challenge in certain markets in 2014. The U.K. and Ireland, for example, separately notified the EU of their intent to introduce plain packaging legislation. After a mandatory "standstill" period following the submission of detailed opinions by other EU Member States, the U.K. Government announced in January this year its plan to move forward. In Ireland, a Plain Packaging Bill has progressed through Parliament, but has not yet come into effect. While we maintain an ongoing dialogue with regulators and hope that reason will ultimately prevail, we will consider all available options, including litigation, to ensure the protection of our intellectual property.

With respect to our Bilateral Investment Treaty claim concerning plain packaging in Australia, the arbitration continues to proceed in accordance with the Tribunal's timeline. Last month the Tribunal held a hearing on purely jurisdictional matters and should issue its ruling in the fall. Separately, the World Trade Organization (WTO) has stated that a decision on the consolidated challenge filed against Australia by various members will be announced in the second part of 2016 at the earliest. A potential appellate process would continue into 2017 before final WTO resolution.

Illicit trade continued to be a challenge for both the industry and governments in 2014, though we saw signs of overall stabilization driven by recent progress in a number of markets. We remain committed to combatting illicit trade through our dedicated organization, our renewed agreement with Interpol and increased collaboration with authorities around the world. Our efforts address both adult smokers and the entire supply chain of illicit manufacturers. Australia, the Philippines and Turkey remain priority markets.

Last year we saw initial progress on the RRP regulatory and fiscal fronts, notably in the U.S., the EU Region and Japan, and engaged in ongoing dialogue on RRPs with a wide range of regulators and other stakeholders. In particular, we advocated for an appropriate fiscal landscape for *iQOS* and witnessed positive developments in Japan and Italy, where *Marlboro HeatSticks* are subject to lower effective excise tax rates compared to cigarettes. While regulatory and fiscal discussions advanced at a pace slower than we would have liked, we believe that these topics will become increasingly important to – and thus progressively receive attention from – governments around the world.

Business Development and Manufacturing Footprint Optimization

We successfully completed a number of value-enhancing business development initiatives in 2014, most notably the change to our new business structure in Egypt and the acquisition of Nicocigs Limited, a leading U.K.-based e-vapor company. In addition, our 2013 business development initiatives in both Algeria and Russia met or exceeded our strategic and financial objectives for 2014.

Last year we undertook a major optimization of our global manufacturing footprint, notably in Australia and the Netherlands. While the decision to close facilities was not easy – particularly given the impact on our employees – we believe that these changes put PMI on a more efficient operational footing. All closures proceeded seamlessly, and we were able to reallocate volumes in a very efficient manner with virtually no operational disruptions.

“We believe that this innovation and, more broadly, our entire RRP portfolio represent our greatest growth opportunity and a potential public health breakthrough.”

See Page 6 for Full Story.

Research & Development

We opened a groundbreaking new chapter in the history of our company in 2014 with the commercialization of *iQOS* in Nagoya, Japan, and Milan, Italy. We believe that this innovation and, more broadly, our entire RRP portfolio represent our greatest growth opportunity and a potential public health breakthrough.

Although it is still too early for a comprehensive quantitative assessment, we are pleased that both adult smoker and trade responses have been very positive and that the performance of *iQOS* has met or exceeded key indicators that we established. These include promising preliminary awareness and market penetration rates in both pilot cities. Furthermore, the *iQOS* flagship store concept, as currently tested in Nagoya, is a success, our logistics chain is working well, and both product defect and return rates are much lower than we had anticipated.

Given the positive initial performance of *iQOS* and *Marlboro HeatSticks*, we are confirming our plans to commence national expansion in Japan and Italy, as well as pilot or national launches in additional markets, later this year. These launches will be supported by new *HeatStick* variants and a new release of *iQOS* that incorporates feedback from the pilot markets and features a variety of colors and textures to broaden the product’s appeal amongst adult smokers.

In 2014, we inaugurated our pilot RRP production facility in Bologna, Italy, and broke ground on our first manufacturing facility for larger scale production of RRPs, which is expected to be fully operational by the end of 2016. We also advanced, as planned, with our *iQOS* clinical trials and made progress on our other RRP platforms. Platform 2, our second heat-not-burn product, remains on schedule for pilot launches in 2016, while we continue progressing with the development and preclinical testing of Platform 3, a nicotine-containing aerosol product based on acquired technology. Additionally, we will launch *Solaris*, a Platform 4 e-vapor product, this month in Spain. Thanks to the strategic framework agreement we established with Altria Group, Inc. in December of 2013, this product features Nu Mark’s *FourDraw* Technology used in its line-up of *MarkTen* e-vapor products in the U.S. Finally, we continue the development of the next generation of Platform 4 e-vapor product offerings.

Environment, Health & Safety

We made further progress on the Environment, Health & Safety front in 2014. As discussed in more detail later in this Report, we were again recognized by CDP (formerly the Carbon Disclosure Project) for our success in reducing the environmental footprint of our supply chain. We were also recognized for our Agricultural Labor Practices program that, alongside our partnership with the non-profit organization Verité, was featured by the United States Department of Labor as an example of “leadership and good practice” in the fight against child labor. Further, in October 2014 we received the International Fleet Safety Award from Fleet Europe, which recognized the continued progress that we have made in the important area of vehicle safety through a focus on safety leadership, training and local programs.

The Organization

In October of last year, we updated our existing Code of Conduct which we now call our Guidebook for Success. The guidebook highlights the fundamental beliefs and attributes that unite and guide us in pursuing the company’s goals in a manner consistent with laws and regulations. We believe it is clearer, more accessible to employees and better suits our organization and the unique challenges that we face as part of the tobacco industry.

Enhancing organizational effectiveness remained a top priority in 2014. During last year’s management meeting, we outlined the key areas that will be instrumental for our continued success and shared PMI’s seven new key behaviors – learning, collaboration, entrepreneurship, agility, communication, impact and leading – which will be at the center of everything we do. We also continued to invest in the very important area of diversity within the organization, which is critical to improving the long-term effectiveness of our company, and introduced an updated employee performance appraisal tool that greatly streamlines the existing process.

Finally, we believe that the relationship between management and the Board continues to be governed by total transparency and a very positive atmosphere. We welcomed three new Board members – Werner Geissler, Jun Makihara and Frederik Paulsen – and believe that their diverse backgrounds and considerable experience will further bolster an already formidable Board.

The Year Ahead

We continue to rise as an organization to overcome the significant challenges that we face and are doing our utmost to mitigate their impact while maintaining an uncompromising commitment to invest for the long term. The key strategic initiatives that we undertook last year will enable us to grow our business in the years to come and therefore continue to generously reward our shareholders. We remain steadfast in our aim to return around 100% of our free cash flow to our shareholders. Given the recent extreme currency volatility, we are focused on managing our cash flow prudently and on maintaining our financial flexibility for business development opportunities. As we look to the future, we are very excited by the potential for our RRP portfolio to spark a transformation in the tobacco industry as we know it and for our great company to lead the way forward.

None of our achievements would have been possible without the unfailing commitment, determination and creativity of our wonderful employees. We thank them wholeheartedly on your and our behalf.

André Calantzopoulos,
Chief Executive Officer

Louis C. Camilleri,
Chairman of the Board

March 6, 2015