Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations.*

The following discussion should be read in conjunction with the other sections of this Annual Report on Form 10-K, including the consolidated financial statements and related notes contained in Item 8, and the discussion of risks and cautionary factors that may affect future results in Item 1A. *Risk Factors*.

Description of Our Company

We are a holding company whose subsidiaries and affiliates, and their licensees, are engaged in the manufacture and sale of cigarettes, other tobacco products and other nicotine-containing products in markets outside the United States of America. We manage our business in four segments:

- European Union;
- Eastern Europe, Middle East & Africa ("EEMA");
- Asia; and
- Latin America & Canada.

Our products are sold in more than 180 markets, and in many of these markets they hold the number one or number two market share position. We have a wide range of premium, mid-price and low-price brands. Our portfolio comprises both international and local brands.

We use the term net revenues to refer to our operating revenues from the sale of our products, net of sales and promotion incentives. Our net revenues and operating income are affected by various factors, including the volume of products we sell, the price of our products, changes in currency exchange rates and the mix of products we sell. Mix is a term used to refer to the proportionate value of premium-price brands to mid-price or low-price brands in any given market (product mix). Mix can also refer to the proportion of shipment volume in more profitable markets versus shipment volume in less profitable markets (geographic mix). We often collect excise taxes from our customers and then remit them to governments, and, in those circumstances, we include the excise taxes in our net revenues and in excise taxes on products. Our cost of sales consists principally of tobacco leaf, non-tobacco raw materials, labor and manufacturing costs.

Our marketing, administration and research costs include the costs of marketing and selling our products, other costs generally not related to the manufacture of our products (including general corporate expenses), and costs incurred to develop new products. The most significant components of our marketing, administration and research costs are marketing and sales expenses and general and administrative expenses.

Philip Morris International Inc. is a legal entity separate and distinct from our direct and indirect subsidiaries. Accordingly, our right, and thus the right of our creditors and stockholders, to participate in any distribution of the assets or earnings of any subsidiary is subject to the prior rights of creditors of such subsidiary, except to the extent that claims of our company itself as a creditor may be recognized. As a holding company, our principal sources of funds, including funds to make payment on our debt securities, are from the receipt of dividends and repayment of debt from our subsidiaries. Our principal wholly owned and majority-owned subsidiaries currently are not limited by long-term debt or other agreements in their ability to pay cash dividends or to make other distributions with respect to their common stock.

Certain prior years' amounts have been reclassified to conform with the current year's presentation. In the fourth quarter of 2015, to further align with the Member State composition of the European Union, PMI transferred the management of its operations in Bulgaria, Croatia, Romania and Slovenia from its EEMA segment to its European Union segment, resulting in the reclassification of prior year amounts between the two segments. The changes did not have an impact on our consolidated financial position, results of operations or cash flows in any of the periods presented.

Executive Summary

The following executive summary provides significant highlights from the Discussion and Analysis that follows.

- **Consolidated Operating Results –** The changes in our reported diluted earnings per share ("diluted EPS") for the year ended December 31, 2015, from the comparable 2014 amounts, were as follows:

		Diluted EPS	% Growth
For the year ended December 31, 2014	$	4.76	
2014 Asset impairment and exit costs		0.26	
2014 Tax items		—	
Subtotal of 2014 items		0.26	
2015 Asset impairment and exit costs		(0.03)	
2015 Tax items		0.03	
Subtotal of 2015 items		—	
Currency		(1.20)	
Interest		(0.01)	
Change in tax rate		0.04	
Impact of lower shares outstanding and share-based payments		0.04	
Operations		0.53	
For the year ended December 31, 2015	$	4.42	(7.1)%

See the discussion of events affecting the comparability of statement of earnings amounts in the Consolidated Operating Results section of the following Discussion and Analysis.

- **Asset Impairment and Exit Costs –** During 2015, we recorded pre-tax asset impairment and exit costs of $68 million ($52 million after tax or $0.03 per share) related to severance costs for the organizational restructuring in the European Union segment. During 2014, we recorded pre-tax asset impairment and exit costs of $535 million ($409 million after tax or $0.26 per share) related to the factory closures in the Netherlands, Australia and Canada and the restructuring of the U.S. leaf purchasing model.

  On April 4, 2014, we announced the initiation by our affiliate Philip Morris Holland B.V. ("PMH") of consultations with employee representatives on a proposal to discontinue cigarette production at its factory located in Bergen op Zoom, the Netherlands. PMH reached an agreement with the trade unions and their members on a social plan and ceased cigarette production on September 1, 2014. During 2014, we recorded pre-tax asset impairment and exit costs of $489 million. For further details, see the *Asset Impairment and Exit Costs* section of the following *Discussion and Analysis*.

- **Income Taxes –** Our effective income tax rate for 2015 decreased by 1.1 percentage points to 28.0%. The effective tax rate for 2014 was unfavorably impacted by the above asset impairment and exit costs related to the factory closures. The 2015 tax items that increased our diluted EPS by $0.03 per share in the table above represents a reduction in unrecognized tax benefits of $41 million following the conclusion of the IRS examinations of Altria Group, Inc.'s ("Altria") consolidated tax returns for the years 2007 and 2008 and PMI's consolidated tax returns for the years 2009 through 2011. Prior to March 28, 2008, PMI was a wholly owned subsidiary of Altria. The change in tax rate that increased our diluted EPS by $0.04 per share in the table above was primarily due to earnings mix by taxing jurisdiction and repatriation cost differences.

- **Currency –** The unfavorable currency impact during 2015 results from the strengthening of the U.S. dollar, especially against the Argentine peso, Australian dollar, Canadian dollar, Euro, Indonesian rupiah, Japanese yen, Mexican peso, Russian ruble, Turkish lira and the Ukrainian hryvnia. This unfavorable currency movement has impacted our profitability across our primary revenue markets and local currency cost bases.

- **Interest –** The unfavorable impact of interest was due primarily to higher average debt levels, partially offset by lower average interest rates on debt.

- **Lower Shares Outstanding and Share-Based Payments –** The favorable diluted EPS impact was due to the repurchase of our common stock in 2014 pursuant to our share repurchase program.

- **Operations –** The increase in diluted EPS of $0.53 from our operations in the table above was due to the following segments:

  - EEMA: Higher pricing, partially offset by higher marketing, administration and research costs, unfavorable volume/mix and higher manufacturing costs;

  - Latin America & Canada: Higher pricing, partially offset by unfavorable volume/mix, higher manufacturing costs and higher marketing, administration and research costs;

  - European Union: Higher pricing and lower manufacturing costs, partially offset by higher marketing, administration and research costs and unfavorable volume/mix; and

  - Asia: Higher pricing, partially offset by higher marketing, administration and research costs, unfavorable volume/mix and higher manufacturing costs.

For further details, see the *Consolidated Operating Results* and *Operating Results by Business Segment* sections of the following *Discussion and Analysis*.

• **2016 Forecasted Results –** On February 4, 2016, we announced our forecast for 2016 full-year reported diluted EPS to be in a range of $4.25 to $4.35, at prevailing exchange rates at that time, versus $4.42 in 2015. Excluding an unfavorable currency impact, at then-prevailing rates, of approximately $0.60 per share for the full-year 2016, the reported diluted earnings per share range represents an increase of approximately 10% to 12% versus adjusted diluted earnings per share of $4.42 in 2015. This forecast does not include any share repurchases in 2016. The company will revisit the potential for repurchases as the year unfolds, depending on the currency environment. We estimate 2016 international cigarette volume, excluding the People's Republic of China and the U.S., to decline by approximately 2.0%-2.5%, in line with the estimated decline of 2.4% in 2015.

We calculated 2015 adjusted diluted EPS as reported diluted EPS of $4.42, plus the $0.03 per share charge related to asset impairment and exit costs, less the $0.03 per share benefit related to discrete tax items.

Adjusted diluted EPS is not a measure under accounting principles generally accepted in the United States of America ("U.S. GAAP"). We define adjusted diluted EPS as reported diluted EPS adjusted for asset impairment and exit costs, discrete tax items and unusual items. We believe it is appropriate to disclose this measure as it represents core earnings, improves comparability and helps investors analyze business performance and trends. Adjusted diluted EPS should be considered neither in isolation nor as a substitute for reported diluted EPS prepared in accordance with U.S. GAAP.

This 2016 guidance excludes the impact of future acquisitions, unanticipated asset impairment and exit cost charges, future changes in currency exchange rates and any unusual events. The factors described in Item 1A. *Risk Factors* represent continuing risks to this forecast.

Discussion and Analysis

Critical Accounting Estimates

Item 8, Note 2. *Summary of Significant Accounting Policies* to our consolidated financial statements includes a summary of the significant accounting policies and methods used in the preparation of our consolidated financial statements. In most instances, we must use a particular accounting policy or method because it is the only one that is permitted under U.S. GAAP.

The preparation of financial statements requires that we use estimates and assumptions that affect the reported amounts of our assets, liabilities, net revenues and expenses, as well as our disclosure of contingencies. If actual amounts differ from previous estimates, we include the revisions in our consolidated results of operations in the period during which we know the actual amounts. Historically, aggregate differences, if any, between our estimates and actual amounts in any year have not had a significant impact on our consolidated financial statements.

The selection and disclosure of our critical accounting estimates have been discussed with our Audit Committee. The following is a discussion of the more significant assumptions, estimates, accounting policies and methods used in the preparation of our consolidated financial statements:

• **Revenue Recognition -** We recognize revenue when persuasive evidence of an arrangement exists, delivery of product has occurred, the sales price is fixed or determinable and collectability is reasonably assured. For our company, this means that revenue is recognized when title and risk of loss is transferred to our customers. Title transfers to our customers upon shipment or upon receipt at the customer's location as determined by the sales terms for each transaction. The company estimates the cost of sales returns based on historical experience, and these estimates are normally immaterial.

• **Goodwill and Non-Amortizable Intangible Assets Valuation -** We test goodwill and non-amortizable intangible assets for impairment annually or more frequently if events occur that would warrant such review. We perform our annual impairment analysis in the first quarter of each year. While the company has the option to perform a qualitative assessment for both goodwill and non-amortizable intangible assets to determine if it is more likely than not that an impairment exists, the company elects to perform the quantitative assessment for our annual impairment analysis. The impairment analysis involves comparing the fair value of each reporting unit or non-amortizable intangible asset to the carrying value. If the carrying value exceeds the fair value, goodwill or a non-amortizable intangible asset is considered impaired. To determine the fair value of goodwill, we primarily use a discounted cash flow model, supported by the market approach using earnings multiples of comparable global and local companies within the tobacco industry. At December 31, 2015, the carrying value of our goodwill was $7.4 billion, which is related to ten reporting units, each of which is comprised of a group of markets with similar economic characteristics. The estimated fair value of our ten reporting units exceeded the carrying value as of December 31, 2015. To determine the fair value of non-amortizable intangible assets, we primarily use a discounted cash flow model applying the relief-from-royalty method. We concluded that the fair value of our non-amortizable intangible assets exceeded the carrying value, and any reasonable movement in the assumptions would not result in an impairment. These discounted cash flow models include management assumptions relevant for forecasting operating cash flows, which are subject to changes in business conditions, such as volumes and prices, costs to produce, discount rates and estimated capital needs. Management considers historical experience and all available information at the time the fair values are estimated, and we believe these assumptions are consistent with the assumptions a hypothetical marketplace participant would use. Since the March 28, 2008, spin-off from Altria, we have not recorded a charge to earnings for an impairment of goodwill or non-amortizable intangible assets.

• **Marketing and Advertising Costs -** We incur certain costs to support our products through programs which include advertising, marketing, consumer engagement and trade promotions. The costs of our advertising and marketing programs are expensed in accordance with U.S. GAAP. Recognition of the cost related to our consumer engagement and trade promotion programs contain uncertainties due to the judgment required in estimating the potential performance and compliance for each program. For volume-based incentives provided to customers, management continually assesses and estimates, by customer, the likelihood of the customer achieving the specified targets and records the reduction of revenue as the sales are made. For other trade promotions, management relies on estimated utilization rates that have been developed from historical experience. Changes in the assumptions used in estimating the cost of any individual marketing program would not result in a material change in our financial position, results of operations or operating cash flows. We have not made any material changes in the accounting methodology used to estimate our marketing programs during the past three years.

• **Employee Benefit Plans -** As discussed in Item 8, Note 13. *Benefit Plans* to our consolidated financial statements, we provide a range of benefits to our employees and retired employees, including pensions, postretirement health care and postemployment benefits (primarily severance). We record annual amounts relating to these plans based on calculations specified by U.S. GAAP. These calculations include various actuarial assumptions, such as discount rates, assumed rates of return on plan assets, compensation increases, mortality, turnover rates and health care cost trend rates. We review actuarial assumptions on an annual basis and make modifications to the assumptions based on current rates and trends when it is deemed appropriate to do so. As permitted by U.S. GAAP, any effect of the modifications is generally amortized over future periods. We believe that the assumptions utilized in calculating our obligations under these plans are reasonable based upon our historical experience and advice from our actuaries.

Weighted-average discount rate assumptions for pensions and postretirement plans are as follows:

	2015	2014
U.S. pension plans	**4.30%**	3.95%
Non-U.S. pension plans	**1.68%**	1.92%
Postretirement plans	**4.45%**	4.20%

We anticipate that assumption changes, coupled with decreased amortization of deferred losses, will decrease 2016 pre-tax U.S. and non-U.S. pension and postretirement expense to approximately $209 million as compared with approximately $240 million in 2015, excluding amounts related to early retirement programs. The anticipated decrease is primarily due to lower amortization of deferred losses in the Netherlands due to a change in the amortization period.

Weighted-average expected rate of return and discount rate assumptions have a significant effect on the amount of expense reported for the employee benefit plans. A fifty-basis-point decrease in our discount rate would increase our 2016 pension and postretirement expense by approximately $52 million, and a fifty-basis-point increase in our discount rate would decrease our 2016 pension and postretirement expense by approximately $44 million. Similarly, a fifty-basis-point decrease (increase) in the expected return on plan assets would increase (decrease) our 2016 pension expense by approximately $30 million. See Item 8, Note 13. *Benefit Plans* to our consolidated financial statements for a sensitivity discussion of the assumed health care cost trend rates.

• **Income Taxes -** Income tax provisions for jurisdictions outside the United States, as well as state and local income tax provisions, are determined on a separate company basis, and the related assets and liabilities are recorded in our consolidated balance sheets.

The extent of our operations involves dealing with uncertainties and judgments in the application of complex tax regulations in a multitude of jurisdictions. The final taxes paid are dependent upon many factors, including negotiations with taxing authorities in various jurisdictions and resolution of disputes arising from federal, state, and international tax audits. In accordance with the authoritative guidance for income taxes, we evaluate potential tax exposures and record tax liabilities for anticipated tax audit issues based on our estimate of whether, and the extent to which, additional taxes will be due. We adjust these reserves in light of changing facts and circumstances; however, due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the tax liabilities. If our estimate of tax liabilities proves to be less than the ultimate assessment, an additional charge to expense would result. If payment of these amounts ultimately proves to be less than the recorded amounts, the reversal of the liabilities would result in tax benefits being recognized in the period when we determine the liabilities are no longer necessary.

The effective tax rates used for interim reporting are based on our full-year geographic earnings mix projections and cash repatriation plans. Changes in currency exchange rates, earnings mix by taxing jurisdiction or in cash repatriation plans could have an impact on the effective tax rates, which we monitor each quarter. Significant judgment is required in determining income tax provisions and in evaluating tax positions.

Prior to the spin-off of PMI by Altria, we were a wholly owned subsidiary of Altria. We participated in a tax-sharing agreement with Altria for U.S. tax liabilities, and our accounts were included with those of Altria for purposes of its U.S. federal income tax return. Under the terms of the agreement, taxes were computed on a separate company basis. To the extent that we generated foreign tax credits, capital losses and other credits that could not be utilized on a separate company basis, but were utilized in Altria’s consolidated U.S. federal income tax return, we would recognize the resulting benefit in the calculation of our provision for income taxes. We made payments to, or were reimbursed by, Altria for the tax effects resulting from our inclusion in Altria’s consolidated United States federal income tax return. On the date of the spin-off of PMI by Altria, we entered into a Tax Sharing Agreement with Altria. The Tax Sharing Agreement generally governs Altria’s and our respective rights, responsibilities and obligations for pre-distribution periods and for potential taxes on the spin-off of PMI by Altria. With respect to any potential tax resulting from the spin-off of PMI by Altria, responsibility for the tax will be allocated to the party that acted (or failed to act) in a manner that resulted in the tax. Beginning March 31, 2008, we were no longer a member of the Altria consolidated tax return group, and we filed our own U.S. federal consolidated income tax return. In the third quarter of 2015, the IRS examination of Altria's consolidated tax returns for the years 2007-2008 was concluded with no tax adjustments to PMI.

For further details, see Item 8, Note 11. *Income Taxes* to our consolidated financial statements.

• **Hedging -** As discussed below in “Market Risk,” we use derivative financial instruments principally to reduce exposures to market risks resulting from fluctuations in foreign currency exchange and interest rates by creating offsetting exposures. For derivatives to which we have elected to apply hedge accounting, gains and losses on these derivatives are initially deferred in accumulated other comprehensive losses on the consolidated balance sheet and recognized in the consolidated statement of earnings in the periods when the related hedged transactions are also recognized in operating results. If we had elected not to use the hedge accounting provisions, gains (losses) deferred in stockholders’ (deficit) equity would have been recorded in our net earnings for these derivatives.

• **Contingencies -** As discussed in Item 8, Note 21. *Contingencies* to our consolidated financial statements, legal proceedings covering a wide range of matters are pending or threatened against us, and/or our subsidiaries, and/or our indemnitees in various jurisdictions. We and our subsidiaries record provisions in the consolidated financial statements for pending litigation when we determine that an unfavorable outcome is probable and the amount of the loss can be reasonably estimated. The variability in pleadings in multiple jurisdictions, together with the actual experience of management in litigating claims, demonstrate that the monetary relief that may be specified in a lawsuit bears little relevance to the ultimate outcome. Much of the tobacco-related litigation is in its early stages, and litigation is subject to uncertainty. At the present time, while it is reasonably possible that an unfavorable outcome in a case may occur, after assessing the information available to it: (i) management has not concluded that it is probable that a loss has been incurred in any of the pending tobacco-related cases; (ii) management is unable to estimate the possible loss or range of loss for any of the pending tobacco-related cases; and (iii) accordingly, no estimated loss has been accrued in the consolidated financial statements for unfavorable outcomes in these cases, if any. Legal defense costs are expensed as incurred.

Consolidated Operating Results

Our cigarette volume, net revenues, excise taxes on products and operating companies income by segment were as follows:

(in millions)	2015	2014	2013
Cigarette Volume			
European Union	**194,589**	194,746	194,464
Eastern Europe, Middle East & Africa	**279,411**	278,374	287,094
Asia	**281,350**	288,128	301,324
Latin America & Canada	**91,920**	94,706	97,287
Total cigarette volume	**847,270**	855,954	880,169

(in millions)	2015	2014	2013
Net Revenues			
European Union	**$ 26,563**	$ 30,517	$ 29,656
Eastern Europe, Middle East & Africa	**18,328**	20,469	19,342
Asia	**19,469**	19,255	20,987
Latin America & Canada	**9,548**	9,865	10,044
Net revenues	**$ 73,908**	$ 80,106	$ 80,029

(in millions)	2015	2014	2013
Excise Taxes on Products			
European Union	**$ 18,495**	$ 21,370	$ 20,770
Eastern Europe, Middle East & Africa	**10,964**	11,855	10,866
Asia	**11,266**	10,527	10,486
Latin America & Canada	**6,389**	6,587	6,690
Excise taxes on products	**$ 47,114**	$ 50,339	$ 48,812

(in millions)	2015	2014	2013
Operating Income			
Operating companies income:			
European Union	**$ 3,576**	$ 3,815	$ 4,309
Eastern Europe, Middle East & Africa	**3,425**	4,033	3,708
Asia	**2,886**	3,187	4,622
Latin America & Canada	**1,085**	1,030	1,134
Amortization of intangibles	**(82)**	(93)	(93)
General corporate expenses	**(162)**	(165)	(187)
Less:			
Equity (income)/loss in unconsolidated subsidiaries, net	**(105)**	(105)	22
Operating income	**$ 10,623**	$ 11,702	$ 13,515

As discussed in Item 8, Note 12. *Segment Reporting* to our consolidated financial statements, we evaluate segment performance and allocate resources based on operating companies income, which we define as operating income, excluding general corporate expenses and amortization of intangibles, plus equity (income)/loss in unconsolidated subsidiaries, net. We believe it is appropriate to disclose this measure to help investors analyze the business performance and trends of our various business segments.

References to total international cigarette market, total cigarette market, total market and market shares throughout this *Discussion and Analysis* reflect our best estimates of tax-paid volumes based on a number of internal and external sources.

The following events that occurred during 2015, 2014 and 2013 affected the comparability of our statement of earnings amounts:

• **Asset Impairment and Exit Costs –** For the years ended December 31, 2015, 2014 and 2013, pre-tax asset impairment and exit costs by segment were as follows:

(in millions)	**2015**	2014	2013
Separation programs:			
European Union	**$ 68**	$ 351	$ 13
Eastern Europe, Middle East & Africa	**—**	2	14
Asia	**—**	35	19
Latin America & Canada	**—**	3	5
Total separation programs	**68**	391	51
Contract termination charges:			
Eastern Europe, Middle East & Africa	**—**	—	250
Asia	**—**	—	8
Total contract termination charges	**—**	—	258
Asset impairment charges:			
European Union	**—**	139	—
Latin America & Canada	**—**	5	—
Total asset impairment charges	**—**	144	—
Asset impairment and exit costs	**$ 68**	$ 535	$ 309

For further details, see Item 8, Note 5. *Asset Impairment and Exit Costs* to our consolidated financial statements.

• **Acquisitions and Other Business Arrangements –** For further details, see Item 8, Note 6. *Acquisitions and Other Business Arrangements* to our consolidated financial statements.

2015 compared with 2014

The following discussion compares our consolidated operating results for the year ended December 31, 2015, with the year ended December 31, 2014.

Our cigarette shipment volume was down by 1.0%, excluding acquisitions, reflected declines in:

- Asia, mainly due to Korea, Pakistan and the Philippines; and
- Latin America & Canada, mainly due to Argentina, Brazil, Ecuador and Mexico;

partially offset by growth in:

- EEMA, notably Egypt, Saudi Arabia and Turkey, partially offset by Kazakhstan and Ukraine.

Total cigarette volume in the European Union was essentially flat, with declines in Greece, Italy and the United Kingdom largely offset by growth in France, Germany and Spain.

For the year ended December 31, 2015, estimated inventory movements were favorable, driven principally by a favorable comparison in Japan as a result of the 2014 correction of distributor inventory movements partly related to the VAT increase of April 2014. Excluding these estimated inventory movements, our total cigarette shipment volume decreased by 1.6%, excluding acquisitions.

Our cigarette market share increased in a number of key markets, including Argentina, Austria, Belgium, Egypt, France, Germany, Indonesia, Korea, the Netherlands, the Philippines, Poland, Russia, Saudi Arabia, Spain and Switzerland.

Our cigarette shipment volume by brand is shown in the table below:

PMI Cigarette Shipment Volume by Brand (Million Units)

	Full-Year		
	2015	**2014**	**Change**
Marlboro	**285,583**	282,997	0.9 %
L&M	**97,884**	94,168	3.9 %
Parliament	**44,879**	47,199	(4.9)%
Bond Street	**43,608**	43,585	0.1 %
Chesterfield	**41,397**	42,144	(1.8)%
Philip Morris	**35,815**	31,948	12.1 %
Lark	**28,828**	28,473	1.2 %
Others	**269,276**	285,440	(5.7)%
Total PMI	**847,270**	855,954	(1.0)%

The increase in cigarette shipment volume of *Marlboro* reflected growth in: the European Union, notably France, Germany and Spain, partly offset by Italy and the United Kingdom; EEMA, notably Saudi Arabia and Turkey, partly offset by North Africa and Ukraine; and Asia, notably the Philippines and Vietnam, partly offset by Japan and Korea. Cigarette shipment volume of *Marlboro* decreased in Latin America & Canada, mainly due to Argentina, Brazil and Mexico, partly offset by Colombia.

The increase in cigarette shipment volume of *L&M* was predominantly driven by growth in EEMA, notably Egypt, Turkey and Ukraine, partly offset by Russia. The decrease in cigarette shipment volume of *Parliament* was primarily due to Kazakhstan, Korea, Russia and Ukraine, partly offset by Japan and Turkey. Cigarette shipment volume of *Bond Street* was essentially flat, with growth, notably driven by Australia, Russia and Serbia, largely offset by declines in the European Union, Kazakhstan and Ukraine. The decrease in cigarette shipment volume of *Chesterfield* was due to EEMA, mainly Russia, Turkey and Ukraine, partly offset by the European Union, mainly the Czech Republic, Italy and Poland, and by Latin America & Canada, mainly Mexico. The increase in cigarette shipment volume of *Philip Morris* primarily reflects the morphing of *Diana* in Italy. The increase in cigarette shipment volume of *Lark* was principally driven by Japan, partly offset by Korea.

Our other tobacco products ("OTP") primarily include tobacco for roll-your-own and make-your-own cigarettes, pipe tobacco, cigars and cigarillos. Total shipment volume of OTP, in cigarette equivalent units, increased by 1.0%.

Total shipment volume for cigarettes and OTP, in cigarette equivalent units, decreased by 1.0%, excluding acquisitions.

Our net revenues and excise taxes on products were as follows:

	For the Years Ended December 31,			
(in millions)	**2015**	**2014**	**Variance**	**%**
Net revenues	**$ 73,908**	$ 80,106	$ (6,198)	(7.7)%
Excise taxes on products	**47,114**	50,339	(3,225)	(6.4)%
Net revenues, excluding excise taxes on products	**$ 26,794**	$ 29,767	$ (2,973)	(10.0)%

Net revenues, which include excise taxes billed to customers, decreased by $6.2 billion (7.7%). Excluding excise taxes, net revenues decreased by $3.0 billion (10.0%) to $26.8 billion. This decrease was due primarily to:

- unfavorable currency ($4.7 billion) and
- unfavorable volume/mix ($325 million), partly offset by
- price increases ($2.1 billion).

Currency movements decreased net revenues by $13.5 billion and net revenues, excluding excise taxes on products, by $4.7 billion. The $4.7 billion decrease was due primarily to the Argentine peso, Australian dollar, Canadian dollar, Euro, Indonesian rupiah, Japanese yen, Mexican peso, Russian ruble, Turkish lira and the Ukrainian hryvnia.

Net revenues include $1.8 billion in 2015 and $2.0 billion in 2014 related to sales of OTP. These net revenue amounts include excise taxes billed to customers. Excluding excises taxes, net revenues for OTP were $673 million in 2015 and $753 million in 2014.

Excise taxes on products decreased by $3.2 billion (6.4%), due primarily to:

- favorable currency ($8.8 billion), partly offset by
- higher excise taxes resulting from changes in retail prices and tax rates ($5.4 billion) and
- higher excise taxes resulting from volume/mix ($142 million).

Governments have consistently increased excise taxes in most of the markets in which we operate. As discussed in *Business Environment*, we expect excise taxes to continue to increase.

Our cost of sales; marketing, administration and research costs; and operating income were as follows:

	For the Years Ended December 31,			
(in millions)	**2015**	**2014**	**Variance**	**%**
Cost of sales	**$ 9,365**	$ 10,436	$ (1,071)	(10.3)%
Marketing, administration and research costs	**6,656**	7,001	(345)	(4.9)%
Operating income	**10,623**	11,702	(1,079)	(9.2)%

Cost of sales decreased by $1.1 billion (10.3%), due primarily to:

- favorable currency ($1.4 billion), partly offset by
- higher manufacturing costs ($166 million) and
- higher cost of sales resulting from volume/mix ($148 million).

Marketing, administration and research costs decreased by $345 million (4.9%), due primarily to:

- favorable currency ($979 million), partly offset by
- higher expenses ($628 million, primarily higher marketing and selling expenses).

Operating income decreased by $1.1 billion (9.2%). This decrease was due primarily to:

- unfavorable currency ($2.3 billion),
- higher marketing, administration and research costs ($628 million),
- unfavorable volume/mix ($473 million) and

- higher manufacturing costs ($166 million), partly offset by
- price increases ($2.1 billion) and
- lower pre-tax charges for asset impairment and exit costs ($467 million).

On February 5, 2015, we announced that our productivity and cost savings initiatives would include, but were not limited to, the continued enhancement of production processes, the harmonization of tobacco blends, the streamlining of product specifications and number of brand variants, supply chain improvements and overall spending efficiency across the company. We anticipated that these initiatives, combined with savings associated with the manufacturing footprint restructuring implemented in 2014, notably in Australia and the Netherlands, should result in a total company cost-base increase, excluding RRPs and currency, of approximately 1%. In 2015, we decided to deploy additional investments, some of which will not recur in 2016, to support the strong momentum of our cigarette brand portfolio and accelerate the geographic expansion of *iQOS*. This resulted in a constant currency total cost-base increase of 3.6% excluding RRPs, or 5.3% including RRPs.

In 2016, we expect our total cost base including RRPs to increase by approximately 1%, excluding currency, reflecting productivity and cost-savings programs, coupled with moderating prices for key inputs, such as tobacco leaf, clove and non-tobacco materials.

Our effective tax rate decreased by 1.1 percentage points to 28.0%. The 2015 effective tax rate was unfavorably impacted by changes to repatriation assertions on certain foreign subsidiary historical earnings ($58 million), partially offset by a reduction in unrecognized tax benefits of $41 million following the conclusion of the IRS examinations of Altria's consolidated tax returns for the years 2007 and 2008 and PMI's consolidated tax returns for the years 2009 through 2011. Prior to March 28, 2008, PMI was a wholly owned subsidiary of Altria. The 2014 effective tax rate was unfavorably impacted by the asset impairment and exit costs related to the factory closures. The effective tax rate is based on our full-year earnings mix by taxing jurisdiction and cash repatriation plans. Changes in our cash repatriation plans could have an impact on the effective tax rate, which we monitor each quarter. Significant judgment is required in determining income tax provisions and in evaluating tax positions. Based upon tax regulations in existence at December 31, 2015, and our cash repatriation plans, we estimate that our 2016 effective tax rate will be approximately 28%.

We are regularly examined by tax authorities around the world, and we are currently under examination in a number of jurisdictions. It is reasonably possible that within the next twelve months certain tax examinations will close, which could result in a change in unrecognized tax benefits along with related interest and penalties. An estimate of any possible charge cannot be made at this time.

Net earnings attributable to PMI of $6.9 billion decreased by $620 million (8.3%). This decrease was due primarily to lower operating income as discussed above, partially offset by a lower effective tax rate. Diluted and basic EPS of $4.42 decreased by 7.1%. Excluding an unfavorable currency impact of $1.20, diluted EPS increased by 18.1%.

2014 compared with 2013

The following discussion compares our consolidated operating results for the year ended December 31, 2014, with the year ended December 31, 2013.

Our cigarette shipment volume of 856.0 billion units decreased by 2.8%, excluding acquisitions, or 24.3 billion units. The decline in our cigarette shipment volume was due primarily to:

- EEMA, principally Kazakhstan, Russia and Ukraine, partially offset by Algeria and Turkey;

- Asia, predominantly Japan, reflecting a lower total market, lower market share and the unfavorable impact of an adjustment in distributor inventories, as well as Australia, Indonesia and Pakistan; and

- Latin America & Canada, principally Canada and Mexico.

The overall declines were partially offset by:

- the positive impact of market share growth in the European Union, EEMA and Latin America & Canada Regions; and

- cigarette shipment volume in the European Union, which was slightly positive.

Our market share increased, or was flat in a number of key markets, including Algeria, Argentina, Austria, Canada, France, Germany, Italy, Korea, the Netherlands, Poland, Russia, Saudi Arabia, Spain, Switzerland and the United Kingdom.

Our cigarette shipment volume by brand is shown in the table below:

PMI Cigarette Shipment Volume by Brand (Million Units)

	Full-Year 2014	2013	Change
Marlboro	282,997	291,090	(2.8)%
L&M	94,168	95,004	(0.9)%
Parliament	47,199	44,684	5.6 %
Bond Street	43,585	44,869	(2.9)%
Chesterfield	42,144	34,377	22.6 %
Philip Morris	31,948	34,996	(8.7)%
Lark	28,473	28,842	(1.3)%
Others	285,440	306,307	(6.8)%
Total PMI	855,954	880,169	(2.8)%

The decrease in cigarette shipment volume of *Marlboro* reflected declines in: the European Union, notably France, Italy and Poland, partly offset by the Czech Republic and Spain; EEMA, notably in Egypt, Russia and Ukraine, partly offset by Algeria and Saudi Arabia; Asia, due almost entirely to Japan, partly offset by the Philippines; and Latin America & Canada, due predominantly to Mexico. The overall decline was partially offset by the positive impact of market share growth in the European Union and EEMA Regions. Market share of *Marlboro* in Asia and Latin America & Canada was essentially flat.

The decrease in cigarette shipment volume of *L&M* was due primarily to EEMA, notably Saudi Arabia and Turkey, partially offset by slightly increased or essentially flat shipments in the three other Regions. The increase in cigarette shipment volume of *Parliament* was driven by growth in all Regions and notably in Turkey. The decrease in cigarette shipment volume of *Bond Street* was due predominantly to Kazakhstan, Serbia and Ukraine, partially offset by Australia and Russia. The increase in cigarette shipment volume of *Chesterfield* was driven by growth in all Regions and notably in Italy, Poland and Turkey, partly offset by Russia and Ukraine. The decrease in cigarette shipment volume of *Philip Morris* was due almost entirely to Japan, principally reflecting the morphing to *Lark*, partly offset by growth in the three other Regions. The decrease in cigarette shipment volume of *Lark* was due predominantly to Turkey, partly offset by Japan (including the impact of the morphing of *Philip Morris*).

Total shipment volume of OTP, in cigarette equivalent units, increased by 3.4% to 33.8 billion cigarette equivalent units, mainly due to growth in the fine cut category, notably in Belgium, the Czech Republic, Hungary and Poland, partially offset by France and Germany.

Total shipment volume for cigarettes and OTP, in cigarette equivalent units, was down by 2.5%.

Our net revenues and excise taxes on products were as follows:

(in millions)	For the Years Ended December 31, 2014	2013	Variance	%
Net revenues	$ 80,106	$ 80,029	$ 77	0.1 %
Excise taxes on products	50,339	48,812	1,527	3.1 %
Net revenues, excluding excise taxes on products	$ 29,767	$ 31,217	$ (1,450)	(4.6)%

Net revenues, which include excise taxes billed to customers, increased by $77 million (0.1%). Excluding excise taxes, net revenues decreased by $1,450 million (4.6%) to $29.8 billion. This decrease was due to:

- unfavorable currency ($2.1 billion) and
- unfavorable volume/mix ($1.3 billion), partly offset by
- price increases ($1.9 billion) and
- the impact of acquisitions ($13 million).

Currency movements decreased net revenues by $5.3 billion and net revenues, excluding excise taxes on products, by $2.1 billion, due primarily to the Argentine peso, Indonesian rupiah, Japanese yen, Russian ruble, Turkish lira and the Ukrainian hryvnia, partially offset by the Euro.

Net revenues include $2.0 billion in 2014 and $1.9 billion in 2013 related to sales of OTP. These net revenue amounts include excise taxes billed to customers. Excluding excises taxes, net revenues for OTP were $753 million in 2014 and $739 million in 2013.

Excise taxes on products increased by $1.5 billion (3.1%), due primarily to:

- higher excise taxes resulting from changes in retail prices and tax rates ($5.5 billion), partly offset by
- favorable currency ($3.3 billion) and
- volume/mix ($755 million).

Our cost of sales; marketing, administration and research costs; and operating income were as follows:

	For the Years Ended December 31,			
(in millions)	**2014**	**2013**	**Variance**	**%**
Cost of sales	$ 10,436	$ 10,410	$ 26	0.2 %
Marketing, administration and research costs	7,001	6,890	111	1.6 %
Operating income	11,702	13,515	(1,813)	(13.4)%

Cost of sales increased by $26 million (0.2%), due to:

- higher manufacturing costs ($545 million, principally in Egypt, due to the impact of the change to our new business structure; in Indonesia, due to higher distribution and manufacturing costs; investments related to the launch and commercialization of the company's Reduced-Risk Product, *iQOS;* and ongoing costs related to the factory closure in Australia and the decision to discontinue cigarette production in the Netherlands). For further details on our change in business structure in Egypt, see the *Acquisitions and Other Business Arrangements* section of this *Discussion and Analysis* and
- the impact of acquisitions ($8 million), partially offset by
- favorable currency ($380 million) and
- volume/mix ($147 million).

Marketing, administration and research costs increased by $111 million (1.6%), due to:

- higher expenses ($340 million, primarily higher marketing and selling expenses) and
- the impact of acquisitions ($15 million), partly offset by
- favorable currency ($244 million).

Operating income decreased by $1.8 billion (13.4%). This decrease was due primarily to:

- unfavorable currency ($1.5 billion),
- unfavorable volume/mix ($1.1 billion),
- higher manufacturing costs ($545 million),
- higher marketing, administration and research costs ($340 million) and
- higher pre-tax charges for asset impairment and exit costs ($226 million, primarily related to the decision to discontinue cigarette production in the Netherlands), partly offset by
- price increases ($1.9 billion).

Interest expense, net, of $1.1 billion increased by $79 million, due primarily to higher average debt levels, partially offset by lower average interest rates on debt.

Our effective tax rate decreased by 0.2 percentage points to 29.1%. The 2014 effective tax rate was unfavorably impacted by the asset impairment and exit costs related to the factory closures. The 2013 effective tax rate was unfavorably impacted by the additional expense associated with the American Taxpayer Relief Act of 2012 ($17 million) and the enactment of tax law changes in Mexico ($14 million).

Equity (income)/loss in unconsolidated subsidiaries, net, of $(105) million increased by $127 million, due primarily to higher earnings from our investments in North Africa and Russia, which are reflected in the EEMA segment.

Net earnings attributable to PMI of $7.5 billion decreased by $1.1 billion (12.6%). This decrease was due primarily to an unfavorable currency impact on operating income and higher interest expense, net. Diluted and basic EPS of $4.76 decreased by 9.5%. Excluding an unfavorable currency impact of $0.80, diluted EPS increased by 5.7%.

Operating Results by Business Segment

Business Environment

Taxes, Legislation, Regulation and Other Matters Regarding the Manufacture, Marketing, Sale and Use of Tobacco Products

The tobacco industry and our business face a number of challenges that may adversely affect our business, volume, results of operations, cash flows and financial position. These challenges, which are discussed below and in Item 1A. *Risk Factors*, include:

- fiscal challenges, such as excise tax increases and discriminatory tax structures;
- actual and proposed extreme regulatory requirements, including regulation of the packaging, marketing and sale of tobacco products, as well as the products themselves, that may reduce our competitiveness, eliminate our ability to communicate with adult smokers, ban certain of our products, limit our ability to differentiate our products from those of our competitors, and interfere with our intellectual property rights;
- illicit trade in cigarettes and other tobacco products, including counterfeit, contraband and so-called "illicit whites";
- intense competition, including from non-tax paid volume by certain local manufacturers;
- pending and threatened litigation as discussed in Item 3 and Item 8, Note 21. *Contingencies*; and
- governmental investigations.

• **FCTC:** The World Health Organization's ("WHO") Framework Convention on Tobacco Control ("FCTC"), an international public health treaty with the objective of reducing tobacco use, drives much of the regulation that shapes the business environment in which we operate. The treaty, to which 179 countries and the European Union are Parties, requires Parties to have in place various tobacco control measures and recommends others.

We support many of the regulatory policies required by the FCTC, including measures that strictly prohibit the sale of tobacco products to minors, limit public smoking, require health warnings on tobacco packaging, and regulate product content to prevent increased adverse health effects of smoking. We advocate measures that establish a regulatory framework for Reduced-Risk Products. We also support the use of tax and price policies to achieve public health objectives, as long as such policies are not discriminatory or excessive, and do not result in increased illicit trade.

However, the FCTC governing body, the Conference of the Parties ("CoP"), has adopted non-binding guidelines and policy recommendations related to certain articles of the FCTC, some of which we strongly oppose, including extreme measures such as point-of-sale display bans, plain packaging, bans on all forms of communications with adult smokers, ingredient restrictions or bans based on the concepts of palatability or attractiveness and excessive taxation. Among other things, these measures would limit our ability to differentiate our products and disrupt competition, are not based on sound evidence of a public health benefit, are likely to lead to adverse consequences, such as increased illicit trade and, in some cases, result in the expropriation of our trademarks and violate international treaties.

It is not possible to predict whether or to what extent measures recommended in the FCTC guidelines will be implemented. In some instances where these extreme measures have been adopted by national governments, we have commenced legal proceedings challenging them.

• **Excise, Sales and Other Taxes:** Excessive and disruptive tax increases and discriminatory tax structures are expected to continue to have an adverse impact on our profitability, due to lower consumption and consumer down-trading from premium to non-premium, discount, other low-price or low-taxed tobacco products, such as fine cut tobacco and illicit products. In addition, in certain jurisdictions, our products are subject to tax structures that discriminate against premium-price products and manufactured cigarettes. We believe that such tax structures undermine public health by encouraging consumers to turn to the illicit trade for cheaper tobacco products and ultimately undercut government revenue objectives, disrupt the competitive environment, and encourage criminal activity. Other jurisdictions have imposed, or are seeking to impose, levies or other taxes on tobacco companies. We oppose such extreme and discriminatory tax measures.

- **EU Tobacco Products Directive:** In April 2014, the EU adopted the text of a significantly revised EU Tobacco Products Directive that, among other things, provides for:

  - health warnings covering 65% of the front and back panels of packs, with specific health warning dimensions that will in effect prohibit various pack formats, such as certain packs for slim cigarettes, even though the agreed text does not ban slim cigarettes. Member States would also have the option to further standardize tobacco packaging, including, under certain conditions, by introducing plain packaging;
  - a ban on packs of fewer than 20 cigarettes;
  - a ban on characterizing flavors in some tobacco products, with a transition period for menthol expiring in May 2020;
  - security features and tracking and tracing measures, including tracking at pack level down to retail as from May 2019, which we believe will most likely not provide any incremental benefit in the fight against illicit trade, but have the potential to increase operational expenses if excessive implementing regulation is enacted; and
  - a framework for the regulation of novel tobacco products and e-cigarettes (except for those found to be medicines or medical devices), including requirements for health warnings and information leaflets, prohibiting product packaging text related to reduced risk, and introducing notification requirements in advance of commercialization.

The revised Directive entered into force in May 2014. Member States are required to implement the Directive by May 2016.

In June 2014, two of our subsidiaries filed papers in the English High Court seeking judicial review of whether the Directive complies with existing EU Treaties. In November 2014, the English High Court referred the case to the Court of Justice of the European Union ("CJEU") and requested that the CJEU issue a judgment by May 2016. In July 2014, the government of Poland filed a complaint with the CJEU challenging the validity of various provisions in the Directive that ban menthol cigarettes. The CJEU conducted hearings in both proceedings in September and October 2015. In December 2015, the Advocate General of the CJEU issued opinions in both proceedings advising that the Directive complies with EU law. These opinions are not binding on the CJEU, which is expected to issue its judgment by May 2016. It is not possible to predict the outcome of these legal proceedings.

- **Plain Packaging:** Plain packaging regulation bans the use of branding, logos and colors on packaging of tobacco products other than the brand name and variant, which may be printed only in specified locations and in a uniform font. Similarly, the brand name and variant may be printed on individual cigarettes only in specified locations and in a uniform font or not at all.

To date, only Australia has implemented plain packaging.

France, Ireland and the U.K. have adopted plain packaging legislation, with implementation scheduled to begin no later than May 2016 and full compliance at retail required as of November 2016 in France and as of May 2017 in Ireland and the U.K. In Ireland, implementation is subject to a Ministerial Commencement Order, which has yet to be issued.

In May 2015, three of our subsidiaries filed papers in the English High Court seeking judicial review of the U.K.'s plain packaging legislation. The English High Court held a hearing in December 2015 and indicated that it would issue its judgment in February or March 2016. It is not possible to predict the outcome of these legal proceedings.

In other countries, including Hungary, New Zealand and Norway, proposals to implement plain packaging are in various stages of the legislative process. Additionally, several countries, including Canada, Finland, Singapore and Turkey, are considering plain packaging, but no legislative proposals have been published. It is not possible to predict whether any of these countries will implement plain packaging.

Australia's plain packaging legislation triggered three legal challenges. First, major tobacco manufacturers, including our Australian subsidiary, challenged the legislation's constitutionality in the High Court of Australia. Although the High Court found the legislation constitutional, a majority of the Justices concluded that plain packaging deprives tobacco manufacturers of their property, raising serious questions about the legality of similar proposals in other jurisdictions. Second, our Hong Kong subsidiary initiated arbitration proceedings against the Australian government pursuant to the Hong Kong-Australia Bilateral Investment Treaty and was seeking substantial compensation for the deprivation of its investments in Australia. In December 2015, the tribunal hearing the case declined jurisdiction to hear the merits of our subsidiary's claim. The tribunal's decision, which is final, does not address the legality or effectiveness of Australia's plain packaging legislation. Third, several countries have initiated World Trade Organization ("WTO") dispute settlement proceedings against Australia. It is not possible to predict the outcome of these legal proceedings.

We oppose plain packaging because it expropriates our valuable intellectual property by taking away our trademarks and moves the industry much closer to a commodity business where there is no distinction among brands, and, therefore, the ability to compete for adult smoker market share is greatly reduced. Several studies, including industry-commissioned studies as well as data released by Australian state governments, show that there is no sound basis to conclude that the implementation of plain packaging in Australia has had any impact on smoking prevalence among adults or youth. Data from Australia also appear to confirm that, since the implementation of plain packaging, down-trading to lower price and lower margin brands has accelerated and illicit trade has increased.

In the event any particular jurisdiction adopts plain packaging regulation, we will consider all available options, including litigation, to ensure the protection of our intellectual property.

- **Restrictions and Bans on the Use of Ingredients:** Currently, the WHO and others in the public health community recommend restrictions or total bans on the use of some or all ingredients in tobacco products, including menthol. Some regulators have considered and rejected such proposals, while others have proposed and, in a few cases, adopted restrictions or bans. In particular, as mentioned above, the European Union has banned characterizing flavors in tobacco products, subject to an exemption until May 2020 for menthol. Other countries may follow the EU's approach. For instance, Turkey has banned menthol as of May 2020. More sweeping ingredient bans have been adopted by Canada and Brazil.

While the Canadian ingredient ban exempts menthol on the national level, some Canadian provinces have adopted or are in the process of adopting menthol bans.

The Brazil ingredients ban, which, as originally drafted, would prohibit the use of virtually all ingredients with flavoring or aromatic properties, is not in force due to a legal challenge by a tobacco industry union, of which our Brazilian subsidiary is a member. It is not possible to predict the outcome of this legal proceeding.

Broad restrictions and ingredient bans would require us to reformulate our American Blend tobacco products and could reduce our ability to differentiate these products in the market in the long term. Menthol bans would eliminate the entire category of mentholated tobacco products. We oppose broad bans or sweeping restrictions on the use of ingredients, as they are often based on the subjective and scientifically unsupported notion that ingredients make tobacco products more “attractive” or “palatable” and therefore could encourage tobacco consumption, and also because prohibiting entire categories of cigarettes, such as menthol, is likely to lead to a massive increase in illicit trade.

Many countries have enacted or proposed legislation or regulations that require cigarette manufacturers to disclose to governments and to the public the ingredients used in the manufacture of tobacco products and, in certain cases, to provide toxicological information about those ingredients. We have made, and will continue to make, full disclosures where adequate assurances of trade secret protection are provided.

- **Bans on Display of Tobacco Products at Retail:** In a few of our markets, governments have banned or propose to ban the display of tobacco products at the point of retail sale. Other countries have rejected display ban proposals. We oppose display bans because they restrict competition by favoring established brands and encourage illicit trade, while not reducing smoking or otherwise benefiting public health. In some markets, our subsidiaries and, in some cases, individual retailers have commenced legal proceedings to overturn display bans.

- **Health Warning Requirements:** In most countries, governments require large and often graphic health warnings covering at least 30% of the front and back of cigarette packs (the size mandated by the FCTC). A growing number of countries require warnings covering 50% of the front and back of the pack, and a small number of countries require larger warnings, such as Australia (75% front and 90% back), Mexico (30% front and 100% back), Uruguay (80% front and back) and Canada (75% front and back).

In March 2013, the Ministry of Public Health in Thailand issued a regulation mandating health warnings covering 85% of the front and back of cigarette packs. While a lower court suspended this requirement pending the outcome of legal challenges by two of our affiliates, Thailand’s Supreme Administrative Court subsequently overturned this order and allowed the regulation to be implemented during the pendency of our affiliates’ claims. The legal challenges by our affiliates are still pending. It is not possible to predict the outcome of these proceedings.

We support health warning requirements designed to inform consumers of the risks of smoking. Where health warnings are not required, we place them on packaging voluntarily in the official language or languages of the country. We defer to governments on the content of warnings except for content that vilifies tobacco companies or does not fairly represent the actual effects of smoking. However, we oppose excessively large health warnings, i.e., larger than 50%. The data show that disproportionately increasing the size of health warnings does not effectively reduce tobacco consumption. Yet, such health warnings impede our ability to compete in the market by leaving insufficient space for our distinctive trademarks and pack designs.

- **Other Packaging Restrictions:** Some governments have passed, or are seeking to pass, restrictions on packaging and labeling, including standardizing the shape, format and layout of packaging, as well as imposing broad restrictions on how the space left for branding and product descriptions can be used. Examples include prohibitions on: (1) the use of colors that are alleged to suggest that one brand is less harmful than others, (2) specific descriptive phrases deemed to be misleading, including, for example, "premium," "full flavor," "international," "gold," "silver," and "menthol" and (3) in one country, all but one variant per brand. We oppose broad packaging restrictions because they unnecessarily limit brand and product differentiation, are anticompetitive, prevent us from providing consumers with information about our products, unduly restrict our intellectual property rights, and violate international trade agreements. In some instances, we have commenced litigation challenging such regulations. It is not possible to predict the outcome of these proceedings.

- **Bans and Restrictions on Advertising, Marketing, Promotions and Sponsorships:** For many years, the FCTC has called for, and countries have imposed, partial or total bans on tobacco advertising, marketing, promotions and sponsorships, including bans and restrictions on advertising on radio and television, in print and on the Internet. The FCTC also requires disclosure of expenditures on advertising, promotion and sponsorship where such activities are not prohibited. The FCTC guidelines recommend that governments adopt extreme and sweeping prohibitions, including all forms of communication to adult smokers. Where restrictions on advertising prevent us from communicating directly and effectively with adult smokers, they impede our ability to compete in the market. For this reason and because we believe that the available evidence does not show that marketing restrictions effectively reduce smoking, we oppose complete bans on advertising and communication that do not allow manufacturers to communicate directly and effectively with adult smokers.

- **Restrictions on Product Design:** Anti-tobacco organizations and some regulators are calling for the further standardization of tobacco products by requiring, for example, that cigarettes have a certain minimum diameter, which amounts to a ban on slim cigarettes, or requiring the use of standardized filter and cigarette paper designs. We oppose such restrictions because they limit our ability to differentiate our products and because we believe that there is no correlation, let alone a causal link, between product design variations and smoking rates, nor is there any scientific evidence that these restrictions would improve public health.

Reduced cigarette ignition propensity ("RCIP") standards recommended by the FCTC guidelines, have been adopted in several of our markets (e.g., Australia, Canada, South Africa, South Korea, and the EU), and are being considered in several others. While the available evidence (namely, from two provinces in Canada, the State of New York and Sweden) so far suggests that the implementation of RCIP standards did not result in the predicted reduction of smoking-related fires, RCIP standards do increase production costs.

- **Restrictions on Public Smoking:** The pace and scope of public smoking restrictions have increased significantly in most of our markets. Many countries around the world have adopted, or are likely to adopt, regulations that restrict or ban smoking in public and/or work places, restaurants, bars and nightclubs. Some public health groups have called for, and some countries, regional governments and municipalities have adopted or proposed, bans on smoking in outdoor places, as well as bans on smoking in cars (typically, when minors are present) and private homes. The FCTC requires Parties to adopt restrictions on public smoking, and the guidelines call for broad bans in all indoor public places but limit their recommendations on private-place smoking, such as in cars and homes, to increased education on the risk of exposure to environmental tobacco smoke.

While we believe outright bans are appropriate in many public places, such as schools, playgrounds, youth facilities, and many indoor public places, governments can and should seek a balance between the desire to protect non-smokers from environmental tobacco smoke and allowing adults who choose to smoke to do so. Owners of restaurants, bars, cafes, and other entertainment establishments should have the flexibility to permit, restrict, or prohibit smoking, and workplaces should be permitted to provide designated smoking rooms for adult smokers. Finally, we oppose bans on smoking outdoors (beyond places and facilities for children) and in private places.

- **Restrictions on the Sale of Innovative Tobacco Products**: Some governments have passed, or are seeking to pass, regulations that ban the sale of e-cigarettes or "emerging" tobacco products, including novel tobacco or nicotine products, such as smokeless tobacco - where no combustion takes place and no smoke is produced - dissolvable tobacco products or nicotine, and nicotine delivery systems (i.e., e-vapor products). These regulations might foreclose consumer access even to products that might be shown to present significantly less risk of harm than existing products. We oppose such blanket bans of products that may have the potential to reduce the harm of smoking. By contrast, we support regulation that sets strict standards and propels innovation to benefit consumer and public health.

- **Other Regulatory Issues:** Some regulators are considering, or in some cases have adopted, regulatory measures designed to reduce the supply of tobacco products. These include regulations intended to reduce the number of retailers selling tobacco by, for example, reducing the overall number of tobacco retail licenses available or banning the sale of tobacco within arbitrary distances of certain public facilities. We oppose such measures because they stimulate illicit trade and could arbitrarily deprive business owners and their employees of their livelihood with no indication that such restrictions would improve public health.

Regulators in some countries have also called for the exclusion of tobacco from certain basic provisions of trade and investment agreements. The Trans-Pacific Partnership Agreement ("TPP") includes a provision that denies "investors," as defined in the TPP, access to the Investor State Dispute Settlement Mechanism to challenge "tobacco control measures." None of the 12 parties to this agreement has yet ratified it. If this carve-out enters into force, we believe it would constitute unfair discrimination against a legal industry, be at odds with fundamental principles of international investment protection, and constitute a dangerous precedent for many other sectors.

In a limited number of markets, most notably Argentina and Japan, we are dependent on governmental approvals that may limit our pricing flexibility.

- **Illicit Trade:** The illicit tobacco trade creates a cheap and unregulated supply of tobacco products, undermines efforts to reduce smoking, especially among youth, damages legitimate businesses, stimulates organized crime, increases corruption and reduces government tax revenue. Illicit trade may account for as much as 10% of global cigarette consumption; this includes counterfeit, contraband and the growing problem of "illicit whites," which are cigarettes legally produced in one jurisdiction for the sole purpose of being exported and illegally sold in another jurisdiction where they have no legitimate market. We estimate that illicit trade in the European Union accounted for more than 10% of total cigarette consumption in 2015.

A number of jurisdictions are considering regulatory measures and government action to prevent illicit trade. In November 2012, the FCTC adopted the Protocol to Eliminate Illicit Trade in Tobacco Products (the "Protocol"), which includes supply chain control measures, such as licensing of manufacturers and distributors, enforcement in free trade zones, controls on duty free and Internet sales and the implementation of tracking and tracing technologies. To date, 54 countries have signed the Protocol and 13 countries have ratified it. The Protocol will come into force once the fortieth country ratifies it, after which countries must implement its measures via national legislation. It is not possible to predict whether other countries will sign or ratify the Protocol.

Additionally, we and our subsidiaries have entered into cooperation agreements with governments and authorities to support their anti-illicit trade efforts. For example, in 2004, we entered into a 12-year cooperation agreement with the EU and its member states that provides for cooperation with European law enforcement agencies on anti-contraband and on anti-counterfeit efforts. Under the terms of this agreement we make financial contributions of approximately $75 million per year (recorded as an expense in cost of sales when product is shipped) to support these efforts. We are also required to pay the excise taxes, VAT and customs duties on qualifying seizures of up to 450 million genuine PMI products in the EU in a given year, and five times the applicable taxes and duties if seizures exceed this threshold in a given year. To date, our payments for product seizures have been immaterial.

In 2009, our Colombian subsidiaries entered into an Investment and Cooperation Agreement with the national and regional governments of Colombia to promote investment in, and cooperation on, anti-contraband and anti-counterfeit efforts. The agreement provides $200 million in funding over a 20-year period to address issues such as combating the illegal cigarette trade and increasing the quality and quantity of locally grown tobacco.

- **Reduced-Risk Products:** We use the term Reduced-Risk Products ("RRPs") to refer to products with the potential to reduce individual risk and population harm in comparison to smoking cigarettes. Our RRPs are in various stages of development and commercialization, and we are conducting extensive and rigorous scientific studies to determine whether we can support claims for such products of reduced exposure to harmful and potentially harmful constituents in smoke and, ultimately, claims of reduced disease risk when compared to smoking cigarettes. Before making any such claims, we will rigorously evaluate the full set of data from the relevant scientific studies to determine whether they substantiate reduced exposure or risk. Any such claims may also be subject to government review and approval, as is the case in the United States today. We draw upon a team of world-class scientists and engineers from a broad spectrum of scientific disciplines, and our efforts are guided by the following three key objectives:

  - to develop RRPs that provide adult smokers the taste, sensory experience, nicotine delivery profile and ritual characteristics that are similar to those currently provided by cigarettes;
  - to substantiate the reduction of risk for the individual adult smoker and the reduction of harm to the population as a whole, based on robust scientific evidence derived from well-established assessment processes; and

- to advocate for the development of science-based regulatory frameworks for the development and commercialization of RRPs, including the communication to adult smokers of scientifically substantiated reduced exposure or reduced risk claims.

Our product development is based on the elimination of combustion via tobacco heating and other innovative systems for aerosol generation, which we believe is the most promising path to reduce risk.

Our approach to individual risk assessment is to use cessation as the benchmark, because the short-term and long-term effects of smoking cessation on risk reduction are well known.

Four RRP platforms are in various stages of development and commercialization readiness:

- *Platform 1*, as discussed below, uses a precisely controlled heating device that we are commercializing under the *iQOS* brand name, into which a specially designed tobacco product under the *Marlboro*, *Parliament* and *HeatSticks* brand names is inserted and heated to generate an aerosol. Six short-term clinical studies have been completed. The study results show a substantial reduction in relevant biomarkers of exposure to harmful or potentially harmful constituents ("HPHCs") in adult consumers who switched to *iQOS* compared to adult consumers who continued to smoke cigarettes over a five-day period. The conduct phase of two three-month clinical reduced-exposure studies conducted in Japan and the United States of America has also been completed, and the final reports are expected shortly. In these studies we observed reduction in 15 HPHCs in those who switched to *iQOS* compared to those who either continued to smoke cigarettes or quit smoking for the duration of the study. The reductions measured in those who switched to *iQOS* approached those that were observed in study participants who quit smoking for the duration of the study. We also initiated a 6+6 month exposure response study in December 2014, and anticipate the results regarding the first six-month term in the first quarter of 2017.

- *Platform 2* uses a pressed carbon heat source to generate an aerosol by heating tobacco. Clinical testing of Platform 2 started in the second quarter of 2015.

- *Platform 3* is based on technology we acquired from Professor Jed Rose of Duke University and his co-inventors in May 2011. This product creates an aerosol of nicotine salt formed by the chemical reaction of nicotine with a weak organic acid and replicates the feel and ritual of smoking. We are exploring two routes for this platform, one with electronics and one without. We have begun pre-clinical and clinical testing of this product.

- *Platform 4* covers e-vapor products, which are battery-powered devices that produce an aerosol by vaporizing a liquid nicotine solution. Our e-vapor products comprise devices using current generation technology, and we are working on developing the next generation of e-vapor technologies to address the challenges presented by the e-vapor products currently on the market, ranging from consumer satisfaction to manufacturing processes and product consistency.

We are also developing other potential product platforms.

We are proceeding with the commercialization of RRPs. In January 2014, we announced an investment of up to €500 million over three years in our first manufacturing facility in the European Union and an associated pilot plant near Bologna, Italy, to produce our RRPs. The factory is designed to produce up to 30 billion units and is expected to become operational by the end of the first quarter of 2016. It will initially manufacture Platform 1 tobacco sticks (*HeatSticks*).

In the United States of America, an established regulatory framework for assessing "Modified Risk Tobacco Products" exists under the jurisdiction of the Food and Drug Administration ("FDA"). We expect that future FDA actions are likely to influence the regulatory approach of other interested governments. Our assessment approach and the studies conducted to date reflect the rigorous evidentiary package contemplated in the FDA's Draft Guidance for Modified Risk Tobacco Product Applications (2012). We have shared our approach and studies with the FDA's Center for Tobacco Products. In parallel, we are engaging with regulators in several EU member states, as well as in a number of other countries. We plan to submit a Modified Risk Tobacco Product application for Platform 1 late in 2016.

As we work to develop evidence to substantiate the risk reduction potential of our products, we will review our ability to make claims of reduced exposure or risk based on applicable laws and regulations and, as we are already doing, engage with regulators and share the evidence with them. We are also engaging with the scientific community, sharing our assessment approach and the results we have generated. There can be no assurance that we will succeed in our efforts or that regulators will permit the marketing of our RRPs with substantiated claims of reduced formation, exposure, individual risk or population harm.

In 2014, we introduced the *iQOS* system in pilot city launches in Nagoya, Japan, and in Milan, Italy. We commenced national expansion in Japan in September 2015. We launched *iQOS* in Switzerland in August 2015 and started pilot city launches in Moscow, Lisbon and

Bucharest in November 2015. We also started our gradual expansion in Italy, beginning with Rome and Turin. To date, the product has not been marketed with claims of reduced risk.

In December 2013, we established a strategic framework with Altria under which Altria will make available its e-vapor products exclusively to us for commercialization outside the United States of America, and we will make available two of our RRPs exclusively to Altria for commercialization in the United States of America. In March 2015, we launched *Solaris*, a Platform 4 e-vapor product licensed from Altria, in Spain. In December 2015, we introduced *Solaris* in Israel.

In July 2015, we extended the strategic framework with Altria to include a Joint Research, Development and Technology Sharing Agreement. The additional agreement provides the framework under which PMI and Altria will collaborate to develop the next generation of e-vapor products for commercialization in the United States of America by Altria and in markets outside the United States of America by PMI. The collaboration between PMI and Altria in this endeavor is enabled by exclusive technology cross licenses and technical information sharing. The agreements also provide for cooperation on the scientific assessment of, and for the sharing of improvements to, the existing generation of licensed products.

In June 2014, we acquired 100% of Nicocigs Limited, a leading U.K.-based e-vapor company whose principal brand is *Nicolites*. This acquisition provided PMI with immediate access to, and a significant presence in, the U.K. e-vapor market.

- **Other Legislation, Regulation or Governmental Action:** In Argentina, the National Commission for the Defense of Competition issued a resolution in May 2010 in which it found that our affiliate's establishment in 1997 of a system of exclusive zonified distributors ("EZDs") in Buenos Aires city and region was anticompetitive, despite having issued two prior decisions (in 1997 and 2000) in which it had found the establishment of the EZD system was not anticompetitive. In February 2016, the Commission closed the investigation without finding any fault on the part of our affiliate. This decision might be appealed.

In Germany, in October 2013, the Administrative District Office Munich, acting under the policy supervision of the Bavarian Ministry of Health and Environment, sent our German affiliate an order alleging that certain components of its *Marlboro* advertising campaign do not comply with the applicable tobacco advertising law, and requiring our affiliate to stop this particular campaign throughout Germany. Our affiliate filed a challenge in the Munich Administrative Court, which was granted in part and denied in part. At an appeals hearing in April 2014, before the Bavarian Higher Administrative Court, the parties agreed that our affiliate could continue the campaign with certain limitations on image visuals and text slogans for the duration of the court proceedings. In April 2015, the Administrative District Office Munich issued a revised order, which again required our affiliate to stop using core elements of this particular campaign within one to three months from the effective date of the order. Our affiliate again challenged the order in the Munich Administrative Court, and, in October 2015, the first instance court nullified the order. The Administrative District Office Munich can appeal this decision.

It is not possible to predict what, if any, additional legislation, regulation or other governmental action will be enacted or implemented relating to the manufacturing, advertising, sale or use of tobacco products, or the tobacco industry generally. It is possible, however, that legislation, regulation or other governmental action could be enacted or implemented that might materially affect our business, volume, results of operations, cash flows and financial position.

Governmental Investigations

From time to time, we are subject to governmental investigations on a range of matters. The Department of Special Investigations ("DSI") of the government of Thailand has been conducting an investigation into alleged underpayment by Philip Morris (Thailand) Limited ("PM Thailand") of customs duties and excise taxes of approximately $1.8 billion, relating to imports from Indonesia covering the period 2000-2003. PM Thailand has been cooperating with the Thai authorities and believes that its declared import prices are in compliance with the Customs Valuation Agreement of the WTO and Thai law.

Additionally, in November 2010, a WTO panel issued its decision in a dispute relating to facts that arose from August 2006 between the Philippines and Thailand concerning a series of Thai customs and tax measures affecting cigarettes imported by PM Thailand into Thailand from the Philippines (see Item 3, *Legal Proceedings, Other Litigation* for additional information). The WTO panel decision, which was upheld by the WTO Appellate Body, concluded that Thailand had no basis to find that PM Thailand's declared customs values and taxes paid were too low, as alleged by the DSI in 2009. The decision also created obligations for Thailand to revise its laws, regulations, or practices affecting the customs valuation and tax treatment of future cigarette imports. Thailand agreed in September 2011 to fully comply with the decision by October 2012. The Philippines contends that to date Thailand has not fully complied and is pursuing bilateral discussions with Thailand to address the outstanding issues. The Philippines has repeatedly expressed concerns with ongoing investigations by Thailand of PM Thailand, including those that led to the criminal charges described in Item 3, *Legal Proceedings, Other Litigation*, noting that these investigations appear to be based on grounds not supported by WTO customs valuation rules and inconsistent with several decisions already taken by Thai Customs and other Thai governmental agencies.

Acquisitions and Other Business Arrangements

In July 2015, we dissolved our exclusive joint venture agreement with Swedish Match AB ("SWMA") to commercialize Swedish snus and other smoke-free tobacco products worldwide, outside of Scandinavia and the United States. The dissolution, mutually agreed with SWMA, means that both companies will now focus on independent strategies for the commercialization of these products, and the trademarks and intellectual property licensed to the joint venture by the companies will revert to their original owners. The dissolution of this agreement was not material to our consolidated financial position, results of operations or cash flows in any of the periods presented.

On January 30, 2014, the Indonesian Stock Exchange (“IDX”) adopted a regulation requiring all listed public companies to have at least a 7.5% public shareholding by January 30, 2016. In order to comply with this requirement, our subsidiary PT HM Sampoerna Tbk. (“Sampoerna”), of which we held a 98.18% interest, conducted a rights issue. The exercise price for the rights was set at Rp. 77,000 per share, a 1.349% premium to the closing price on the IDX as of September 30, 2015. In connection with the rights issue, PT Philip Morris Indonesia (“PMID”), a fully consolidated subsidiary of PMI, sold 264,209,711 of the rights to third-party investors. Delivery of the rights sold took place on October 26, 2015. The total net proceeds from the rights issue were $1.5 billion at prevailing exchange rates on the closing date. The sale of the rights resulted in an increase to our additional paid-in capital of $1.1 billion.

In June 2014, we acquired 100% of Nicocigs Limited, a leading U.K.-based e-vapor company, for the final purchase price of $103 million, net of cash acquired, with additional contingent payments of up to $77 million, primarily relating to performance targets over a three-year period. As of December 31, 2015, PMI does not anticipate that the performance targets will be met. For additional information, see Item 8, Note 16. *Fair Value Measurements* to our consolidated financial statements. The effect of this acquisition was not material to our consolidated financial position, results of operations or cash flows in any of the periods presented.

In the fourth quarter of 2013, as part of our initiative to enhance profitability and growth in North African and Middle Eastern markets, we decided to restructure our business in Egypt. The new business model entails a new contract manufacturing agreement with our long-standing, strategic business partner, Eastern Company S.A.E., the creation of a new PMI affiliate in Egypt and a new distribution agreement with Trans Business for Trading and Distribution LLC. To accomplish this restructuring and to ensure a smooth transition to the new model, we recorded, in the fourth quarter of 2013, a charge to our 2013 full-year reported diluted EPS of approximately $0.10 to reflect the discontinuation of existing contractual arrangements.

In September 2013, Grupo Carso, S.A.B. de C.V. ("Grupo Carso") sold to us its remaining 20% interest in our Mexican tobacco business for $703 million. As a result, we now own 100% of the Mexican tobacco business. A former director of PMI, whose term expired at the Annual Meeting of Shareholders in May 2015, had an affiliation with Grupo Carso. The final purchase price was subject to an adjustment based on the actual performance of the Mexican tobacco business over the three-year period ending two fiscal years after the closing of the purchase. In May 2015, we received a payment of $113 million from Grupo Carso as the final purchase price adjustment. This resulted in a total net purchase price of $590 million. In addition, we agreed to pay a dividend of approximately $38 million to Grupo Carso related to the earnings of the Mexican tobacco business for the nine months ended September 30, 2013. In March 2014, the dividend was declared and paid. The purchase of the remaining 20% interest resulted in a net decrease to our additional paid-in capital of $559 million.

See Item 8, Note 6. *Acquisitions and Other Business Arrangements* to our consolidated financial statements for additional information.

Investments in Unconsolidated Subsidiaries

On September 30, 2013, we acquired a 49% equity interest in United Arab Emirates-based Emirati Investors-TA (FZC) (“EITA”), formerly Arab Investors-TA (FZC), for approximately $625 million. As a result of this transaction, we hold an approximate 25% economic interest in Société des Tabacs Algéro-Emiratie (“STAEM”), an Algerian joint venture which is 51% owned by EITA and 49% by the Algerian state-owned enterprise Société Nationale des Tabacs et Allumettes SpA. STAEM manufactures and distributes under license some of our brands. The initial investment in EITA was recorded at cost and is included in investments in unconsolidated subsidiaries on the consolidated balance sheets.

On December 12, 2013, we acquired from Megapolis Investment BV a 20% equity interest in Megapolis Distribution BV, the holding company of CJSC TK Megapolis ("Megapolis"), our distributor in Russia, for a purchase price of $760 million. An additional payment of up to $100 million, which is contingent on Megapolis's operational performance over the four fiscal years following the closing of the transaction, will also be made by us if the performance criteria are satisfied. We have also agreed to provide Megapolis Investment BV with a $100 million interest-bearing loan. We and Megapolis Investment BV have agreed to set off any future contingent payments owed by us against the future repayments due under the loan agreement. Any loan repayments in excess of the contingent consideration earned by the performance of Megapolis are due to be repaid, in cash, to us on March 31, 2017. At December 31, 2013, we recorded a $100 million asset related to the loan receivable and a discounted liability of $86 million related to the contingent consideration. The initial investment in Megapolis was recorded at cost and is included in investments in unconsolidated subsidiaries on the consolidated balance sheets.

See Item 8, Note 4. *Investments in Unconsolidated Subsidiaries* to our consolidated financial statements for additional information.

Asset Impairment and Exit Costs

In November 2015, we commenced the implementation of a restructuring program within our European Union segment. The program is expected to be completed by the end of 2017. In total, we expect to incur a total pre-tax charge of approximately $93 million for the program. During 2015, we recorded pre-tax exit costs of $68 million related to employee separation costs. In addition, as part of the total program, up to $25 million of pre-tax implementation costs, primarily related to costs for the project team and notice period payments, will be reflected in cost of sales and marketing, administration and research costs in our consolidated statement of earnings.

On April 4, 2014, we announced the initiation by our affiliate, Philip Morris Holland B.V. ("PMH"), of consultations with employee representatives on a proposal to discontinue cigarette production at its factory located in Bergen op Zoom, the Netherlands. PMH reached an agreement with the trade unions and their members on a social plan, and ceased cigarette production on September 1, 2014. In total, we have incurred a total pre-tax charge of approximately $549 million for the program. During 2014, we recorded pre-tax asset impairment and exit costs of $489 million. This amount included employee separation costs of $343 million, asset impairment costs of $139 million and other separation costs of $7 million. In addition, as part of the total program, approximately $60 million of pre-tax implementation costs, primarily related to notice period payments, have been reflected in cost of sales and marketing, administration and research costs in our consolidated statement of earnings, of which $50 million were recognized during 2014. Excluding asset impairment costs, substantially all of these charges have resulted in cash expenditures. The program has been substantially completed as of December 31, 2015.

Trade Policy

We are subject to various trade restrictions imposed by the United States of America and countries in which we do business (“Trade Sanctions”), including the trade and economic sanctions administered by the U.S. Department of the Treasury's Office of Foreign Assets Control and the U.S. Department of State. It is our policy to comply fully with these Trade Sanctions.

Tobacco products are agricultural products under U.S. law and are not technological or strategic in nature. From time to time we make sales in countries subject to Trade Sanctions, either where they do not apply to our business or pursuant to either exemptions or licenses granted under the applicable Trade Sanctions.

A subsidiary sells products to distributors that in turn sell those products to duty free customers that supply U.N. peacekeeping forces around the world, including those in the Republic of the Sudan. We do not believe that these exempt sales of our products for ultimate resale in the Republic of the Sudan, which are de minimis in volume and value, present a material risk to our shareholders, our reputation or the value of our shares. We have no employees, operations or assets in the Republic of the Sudan.

To our knowledge, none of our commercial arrangements results in the governments of any country identified by the U.S. government as a state sponsor of terrorism, nor entities controlled by those governments, receiving cash or acting as intermediaries in violation of U.S. laws.

We do not sell products in Cuba, Iran, North Korea and Syria.

Certain states within the U.S. have enacted legislation permitting state pension funds to divest or abstain from future investment in stocks of companies that do business with certain countries that are sanctioned by the U.S. We do not believe such legislation has had a material effect on the price of our shares.

2015 compared with 2014

The following discussion compares operating results within each of our reportable segments for 2015 with 2014.

European Union:

European Union	**For the Years Ended December 31,**				
(in millions)	**2015**	**2014**	**Variance**	**%**
Net revenues	$ **26,563**	$ 30,517	$ (3,954)	(13.0)%
Excise taxes on products	**18,495**	21,370	(2,875)	(13.5)%
Net revenues, excluding excise taxes on products	**8,068**	9,147	(1,079)	(11.8)%
Operating companies income	**3,576**	3,815	(239)	(6.3)%

Net revenues, which include excise taxes billed to customers, decreased by $4.0 billion. Excluding excise taxes, net revenues decreased by $1.1 billion, due primarily to:

- unfavorable currency ($1.5 billion) and
- unfavorable volume/mix ($29 million), partly offset by
- price increases ($442 million).

The net revenues of the European Union segment include $1.5 billion in 2015 and $1.6 billion in 2014 related to sales of OTP. Excluding excise taxes, OTP net revenues for the European Union segment were $509 million in 2015 and $573 million in 2014.

Operating companies income decreased by $239 million during 2015. This decrease was due primarily to:

- unfavorable currency ($857 million),
- higher marketing, administration and research costs ($242 million) and
- unfavorable volume/mix ($47 million), partly offset by
- price increases ($442 million),
- lower pre-tax charges for asset impairment and exit costs ($422 million, primarily due to the non-recurrence of the 2014 pre-tax charge related to the decision to discontinue cigarette production in the Netherlands) and
- lower manufacturing costs ($46 million).

European Union - Industry Volume

The estimated total cigarette market in the European Union of 507.9 billion units decreased by 0.9%. The net impact of estimated trade inventory movements was neutral. The moderate decline of the estimated total cigarette market reflected, in certain key geographies, improving economies, a decrease in the prevalence of illicit trade, lower out-switching to the fine cut category and a lower prevalence of e-vapor products.

The estimated total OTP market in the European Union of 164.9 billion cigarette equivalent units decreased by 0.3%. The total fine cut market was flat at 143.9 billion cigarette equivalent units.

European Union - Shipment Volume and Market Share

Cigarette shipment volume and market share performance by brand are shown in the tables below:

European Union Cigarette Shipment Volume by Brand (Million Units)

	Full-Year		
	2015	**2014**	**Change**
Marlboro	**95,588**	94,537	1.1 %
L&M	**35,010**	34,943	0.2 %
Chesterfield	**28,278**	27,100	4.3 %
Philip Morris	**14,205**	10,224	38.9 %
Others	**21,508**	27,942	(23.0)%
Total EU	**194,589**	194,746	(0.1)%

European Union Cigarette Market Shares by Brand

	Full-Year		
	2015	**2014**	**Change p.p.**
Marlboro	**18.9%**	18.7%	0.2
L&M	**6.9%**	6.8%	0.1
Chesterfield	**5.8%**	5.6%	0.2
Philip Morris	**3.2%**	3.2%	—
Others	**3.5%**	3.9%	(0.4)
Total EU	**38.3%**	38.2%	0.1

Our cigarette shipment volume of 194.6 billion units decreased by 0.1%, or by 0.4% excluding favorable net trade inventory movements, mainly in Italy. Market share increased by 0.1 point to 38.3%, with gains notably in France, Germany, Poland and Spain largely offset by the Czech Republic, Greece, Italy and Portugal.

Our shipments of OTP of 23.4 billion cigarette equivalent units increased by 2.2%. Our total OTP market share increased by 0.2 points to 14.2%.

European Union - Market Discussions

In **France**, estimated industry size, our cigarette shipment volume and market share performance are shown in the table below.

	France Key Market Data		
	Full-Year		
	2015	**2014**	**Change % / p.p.**
Total Cigarette Market (billion units)	**45.5**	45.0	1.0%
PMI Shipments (million units)	**18,943**	18,563	2.0%
PMI Cigarette Market Share			
Marlboro	**25.9%**	25.1%	0.8
Philip Morris	**9.5%**	9.4%	0.1
Chesterfield	**3.3%**	3.4%	(0.1)
Others	**2.9%**	3.1%	(0.2)
Total	**41.6%**	41.0%	0.6

The increase in the estimated total cigarette market reflected its general recovery since the second half of 2014 and a lower prevalence of e-vapor products and illicit trade. The increase in our cigarette shipment volume mainly reflected market share growth, notably of premium brands *Marlboro*, benefiting from a round retail price point of €7.00 per pack and the launch of *Marlboro 25s* in the first quarter of 2015, and *Philip Morris*. The estimated total industry fine cut category of 14.5 billion cigarette equivalent units increased by 6.9%. Our market share of the category decreased by 1.2 points to 25.0%.

In **Germany**, estimated industry size, our cigarette shipment volume and market share performance are shown in the table below.

	Germany Key Market Data		
	Full-Year		
	2015	**2014**	**Change % / p.p.**
Total Cigarette Market (billion units)	**80.0**	80.4	(0.4)%
PMI Shipments (million units)	**29,778**	29,411	1.2 %
PMI Cigarette Market Share			
Marlboro	**22.1%**	21.7%	0.4
L&M	**11.9%**	11.8%	0.1
Chesterfield	**1.7%**	1.7%	—
Others	**1.5%**	1.4%	0.1
Total	**37.2%**	36.6%	0.6

The decline of the estimated total cigarette market was partly due to the impact of price increases, partially offset by a lower prevalence of illicit trade. The increase in our cigarette shipment volume principally reflected market share growth, driven by *Marlboro*, mainly reflecting the positive impact of the new Architecture 2.0, and *L&M*, benefiting from a rounded retail price point of €5.00 per pack of 19s. The estimated total industry fine cut category of 41.0 billion cigarette equivalent units decreased by 0.5%. Our market share of the category decreased by 0.2 points to 12.7%.

In **Italy**, estimated industry size, our cigarette shipment volume and market share performance are shown in the table below.

	Italy Key Market Data		
	Full-Year		
	2015	**2014**	**Change % / p.p.**
Total Cigarette Market (billion units)	**73.8**	74.4	(0.8)%
PMI Shipments (million units)	**39,717**	40,439	(1.8)%
PMI Cigarette Market Share			
Marlboro	**24.6%**	25.7%	(1.1)
Chesterfield	**11.0%**	9.2%	1.8
Philip Morris	**9.2%**	10.4%	(1.2)
Others	**8.9%**	9.6%	(0.7)
Total	**53.7%**	54.9%	(1.2)

The moderate decrease in the estimated total cigarette industry was driven by an improved macro-economic environment and a lower prevalence of illicit trade and e-vapor products. Excluding the favorable net impact of estimated trade inventory movements, our cigarette shipment volume declined by 2.9%, mainly reflecting market share loss, notably of: *Marlboro*, largely due to its price increase in the first quarter of 2015 to €5.20 per pack from its round retail price point of €5.00 per pack; and *Philip Morris*, including the morphed *Diana* that had been impacted by the growth of the super-low price segment; partly offset by super-low price *Chesterfield*. The estimated total industry fine cut category of 6.4 billion cigarette equivalent units increased by 5.1%. Our market share of the category decreased by 0.4 points to 41.1%.

In **Poland**, estimated industry size, our cigarette shipment volume and market share performance are shown in the table below.

	Poland Key Market Data		
	Full-Year		
	2015	**2014**	**Change % / p.p.**
Total Cigarette Market (billion units)	**41.1**	42.1	(2.3)%
PMI Shipments (million units)	**16,763**	16,630	0.8 %
PMI Cigarette Market Share			
Marlboro	**11.4%**	11.2%	0.2
L&M	**18.1%**	18.2%	(0.1)
Chesterfield	**8.6%**	7.6%	1.0
Others	**2.7%**	3.1%	(0.4)
Total	**40.8%**	40.1%	0.7

The decrease in the estimated total cigarette market reflected the impact of price increases and an increase in the prevalence of illicit products, partly offset by a lower prevalence of e-vapor products. The increase in our cigarette shipment volume reflected higher market share, driven by *Marlboro*, partly reflecting the positive impact of the new Architecture 2.0, and *Chesterfield*, benefiting from its super-slims variants, partly offset by declines from super-low price brands. The estimated total industry fine cut category of 4.0 billion cigarette equivalent units increased by 11.0%, mainly reflecting the retail price impact of excise tax restructuring on the cigar and cigarillo categories that drove higher in-switching to the fine cut category, as well as a lower prevalence of illicit OTP. Our market share of the category decreased by 3.3 points to 31.4%, mainly due to increased price competition at the bottom end of the market.

In **Spain**, estimated industry size, our cigarette shipment volume and market share performance are shown in the table below.

	Spain Key Market Data		
	Full-Year		
	2015	2014	Change % / p.p.
Total Cigarette Market (billion units)	**46.7**	47.0	(0.6)%
PMI Shipments (million units)	**15,435**	14,879	3.7 %
PMI Cigarette Market Share			
Marlboro	**17.0%**	15.9%	1.1
Chesterfield	**9.1%**	9.2%	(0.1)
L&M	**5.8%**	6.1%	(0.3)
Others	**1.5%**	0.9%	0.6
Total	**33.4%**	32.1%	1.3

The decrease in the total cigarette market mainly reflected the impact of price increases, partly offset by an improving economy, and a lower prevalence of illicit trade and e-vapor products. The increase in our cigarette shipment volume principally reflected higher market share, driven mainly by *Marlboro*, benefiting from a round price point in the vending channel, the new Architecture 2.0, and an improving economy. The estimated total industry fine cut category of 9.5 billion cigarette equivalent units decreased by 2.1%. Our market share of the fine cut category decreased by 1.3 points to 13.5%.

Eastern Europe, Middle East & Africa:

Eastern Europe, Middle East & Africa	For the Years Ended December 31,			
(in millions)	**2015**	**2014**	**Variance**	**%**
Net revenues	**$ 18,328**	$ 20,469	$ (2,141)	(10.5)%
Excise taxes on products	**10,964**	11,855	(891)	(7.5)%
Net revenues, excluding excise taxes on products	**7,364**	8,614	(1,250)	(14.5)%
Operating companies income	**3,425**	4,033	(608)	(15.1)%

Net revenues, which include excise taxes billed to customers, decreased by $2.1 billion. Excluding excise taxes, net revenues decreased by $1.3 billion, due primarily to:

- unfavorable currency ($1.8 billion) and
- unfavorable volume/mix ($53 million), partly offset by
- price increases ($637 million).

Operating companies income decreased by $608 million during 2015. This decrease was due primarily to:

- unfavorable currency ($938 million),
- higher marketing, administration and research costs ($175 million),
- unfavorable volume/mix ($123 million) and
- higher manufacturing costs ($54 million), partially offset by
- price increases ($637 million) and
- higher equity income from unconsolidated subsidiaries ($44 million).

Eastern Europe Middle East & Africa - PMI Cigarette Shipment Volume

Our cigarette shipment volume of 279.4 billion units increased by 0.4%, driven notably by Egypt, Saudi Arabia and Turkey, partially offset by Kazakhstan and Ukraine. Excluding favorable net estimated trade inventory movements, our cigarette shipment volume was essentially flat. Our cigarette shipment volume of premium brands decreased by 0.6%, mainly due to *Parliament*, down by 3.2% to 33.6 billion units, mainly due to Kazakhstan, Russia and Ukraine, partly offset by Turkey, partly offset by growth from *Marlboro*, up by 0.7% to 80.7 billion units, driven by Saudi Arabia and Turkey, partly offset by North Africa and Ukraine. Our cigarette shipment volume of *L&M* increased by 8.4% to 51.2 billion units, driven notably by Egypt, Turkey and Ukraine, partly offset by Russia.

Eastern Europe Middle East & Africa - Market Discussions

In **North Africa** (defined as Algeria, Egypt, Libya, Morocco and Tunisia), estimated industry size, our cigarette shipment volume and market share performance are shown in the table below.

	North Africa Key Market Data		
	Full-Year		
	2015	**2014**	**Change % / p.p.**
Total Cigarette Market (billion units)	**138.5**	143.3	(3.4)%
PMI Shipments (million units)	**38,111**	37,782	0.9 %
PMI Cigarette Market Share			
Marlboro	**13.7%**	15.3%	(1.6)
L&M	**11.9%**	8.9%	3.0
Others	**2.3%**	1.9%	0.4
Total	**27.9%**	26.1%	1.8

The decline of the estimated total market was principally due to Egypt, reflecting the impact of excise tax-driven price increases. The increase in our cigarette shipment volume was primarily driven by Egypt, reflecting higher market share, mainly of *L&M*, resulting from improved territorial coverage and brand building activities, partly offset by Algeria and Tunisia.

In **Russia**, estimated industry size, our cigarette shipment volume and market share performance, as measured by Nielsen, are shown in the table below.

	Russia Key Market Data		
	Full-Year		
	2015	**2014**	**Change % / p.p.**
Total Cigarette Market (billion units)	**294.5**	314.1	(6.2)%
PMI Shipments (million units)	**84,422**	84,948	(0.6)%
PMI Cigarette Market Share			
Marlboro	**1.4%**	1.6%	(0.2)
Parliament	**3.9%**	3.7%	0.2
Bond Street	**8.4%**	7.7%	0.7
Others	**14.7%**	14.5%	0.2
Total	**28.4%**	27.5%	0.9

The decline of the estimated total cigarette market was mainly due to the unfavorable impact of excise tax-driven price increases and lower consumer purchasing power as a result of a weak economy. The decrease in our cigarette shipment volume mainly reflected the lower total market, largely offset by market share gains, primarily by premium *Parliament*, low-price *Bond Street*, notably its *Compact* 7.0 variant, and super-low price *Next* in "Others."

In **Turkey**, estimated industry size, our cigarette shipment volume and market share performance, as measured by Nielsen, are shown in the table below.

	Turkey Key Market Data		
	Full-Year		
	2015	**2014**	**Change % / p.p.**
Total Cigarette Market (billion units)	**103.2**	94.7	9.0%
PMI Shipments (million units)	**49,014**	46,309	5.8%
PMI Cigarette Market Share			
Marlboro	**9.5%**	8.6%	0.9
Parliament	**11.6%**	11.2%	0.4
Lark	**7.6%**	9.0%	(1.4)
Others	**15.1%**	15.2%	(0.1)
Total	**43.8%**	44.0%	(0.2)

The increase in the estimated total cigarette market mainly reflected a significantly lower prevalence of illicit trade. The increase in our cigarette shipment volume was driven by a higher total market. The decline in our market share was mainly due to low-price *Lark*, reflecting the impact of price repositioning by our principal competitor in May 2014, partly offset by *Marlboro*, notably its *Touch* 7.0 variants, and *Parliament*, benefiting from the growth of *Parliament Night Blue KS*, the leading SKU sold on the market, and from up-trading from the mid-price segment.

In **Ukraine**, estimated industry size, our cigarette shipment volume and market share performance, as measured by Nielsen, are shown in the table below.

	Ukraine Key Market Data		
	Full-Year		
	2015	2014	Change % / p.p.
Total Cigarette Market (billion units)	**70.6**	69.7	1.3 %
PMI Shipments (million units)	**19,195**	23,273	(17.5)%
PMI Cigarette Market Share			
Marlboro	**3.8%**	4.9%	(1.1)
Parliament	**2.9%**	3.1%	(0.2)
Bond Street	**8.3%**	8.9%	(0.6)
Others	**15.1%**	15.8%	(0.7)
Total	**30.1%**	32.7%	(2.6)

The increase in the estimated total market was mainly driven by a lower prevalence of illicit trade. The decrease in our cigarette shipment volume largely reflected lower market share, primarily due to *Marlboro*, reflecting the impact of widened price gaps, and *Bond Street*, mainly resulting from competitive price pressure in the low-price segment.

Asia:

Asia	For the Years Ended December 31,			
(in millions)	**2015**	**2014**	**Variance**	**%**
Net revenues	**$ 19,469**	$ 19,255	$ 214	1.1 %
Excise taxes on products	**11,266**	10,527	739	7.0 %
Net revenues, excluding excise taxes on products	**8,203**	8,728	(525)	(6.0)%
Operating companies income	**2,886**	3,187	(301)	(9.4)%

Net revenues, which include excise taxes billed to customers, increased by $214 million. Excluding excise taxes, net revenues decreased by $525 million, due to:

- unfavorable currency ($875 million) and
- unfavorable volume/mix ($100 million), partly offset by
- price increases ($450 million).

Operating companies income decreased by $301 million during 2015. This decrease was due primarily to:

- unfavorable currency ($388 million),
- higher marketing, administration and research costs ($165 million),
- unfavorable volume/mix ($162 million) and
- higher manufacturing costs ($70 million), partly offset by
- price increases ($450 million) and
- the non-recurrence of the 2014 pre-tax charges for asset impairment and exit costs ($35 million) due to the factory closure in Australia.

Asia - PMI Cigarette Shipment Volume

Our cigarette shipment volume of 281.4 billion units decreased by 2.4%, mainly due to: Korea; Pakistan, reflecting a lower total estimated market resulting from the June and December 2015 excise tax-driven price increases, coupled with an increase in the prevalence of illicit trade and lower market share; and the Philippines. Excluding distributor inventory movements in Japan, reflecting a favorable comparison in 2015 resulting from the correction in 2014 of distributor inventory movements related to the VAT increase of April 2014, our cigarette shipment volume decreased by 3.1%.

Our cigarette shipment volume of *Marlboro* of 73.5 billion units increased by 3.0%, mainly driven by the Philippines and Vietnam, partly offset by Japan and Korea. Cigarette shipment volume of *Parliament* of 9.4 billion units decreased by 11.5%, primarily due to Korea, partly offset by Japan. Cigarette shipment volume of *Lark* of 18.3 billion units increased by 3.3%, principally driven by Japan, partly offset by Korea.

Asia - Market Discussions

In **Indonesia**, estimated industry size, our cigarette shipment volume, market share and segmentation performance are shown in the tables below.

	Indonesia Key Market Data		
	Full-Year		
	2015	**2014**	**Change % / p.p.**
Total Cigarette Market (billion units)	**314.0**	314.0	—%
PMI Shipments (million units)	**109,840**	109,694	0.1%
PMI Cigarette Market Share			
Sampoerna A	**14.9%**	14.4%	0.5
Dji Sam Soe	**7.0%**	6.3%	0.7
U Mild	**4.8%**	5.4%	(0.6)
Others	**8.3%**	8.8%	(0.5)
Total	**35.0%**	34.9%	0.1

Indonesia Segmentation Data			
	Full-Year		
	2015	2014	Change p.p.
Segment % of Total Market			
Hand-Rolled Kretek (SKT)	**18.7%**	20.1%	(1.4)
Machine-Made Kretek (SKM)	**75.1%**	73.5%	1.6
Whites (SPM)	**6.2%**	6.4%	(0.2)
Total	**100.0%**	100.0%	—
PMI % Share of Segment			
Hand-Rolled Kretek (SKT)	**39.2%**	39.0%	0.2
Machine-Made Kretek (SKM)	**30.1%**	29.9%	0.2
Whites (SPM)	**80.9%**	79.7%	1.2

The estimated total cigarette market was essentially flat, reflecting a soft economic environment. The slight increase in our market share reflected a strong performance from our machine-made kretek brands, notably *Sampoerna A*, *Dji Sam Soe Magnum* and *Dji Sam Soe Magnum Blue*, largely offset by *U Mild*, and a decline in our hand-rolled kretek portfolio, notably due to *Sampoerna Hijau* in "Others," down by 0.4 points to 3.0%.

In **Japan**, estimated industry size, our cigarette shipment volume and market share performance are shown in the table below.

Japan Key Market Data			
	Full-Year		
	2015	2014	Change % / p.p.
Total Cigarette Market (billion units)	**182.3**	186.2	(2.1)%
PMI Shipments (million units)	**45,690**	45,556	0.3 %
PMI Cigarette Market Share			
Marlboro	**11.3%**	11.6%	(0.3)
Parliament	**2.3%**	2.2%	0.1
Lark	**9.9%**	10.0%	(0.1)
Others	**1.8%**	2.1%	(0.3)
Total	**25.3%**	25.9%	(0.6)

The decrease of the estimated total cigarette market moderated to 2.1%. Excluding estimated inventory movements, driven principally by a favorable comparison as a result of the 2014 correction of distributor inventory movements partly related to the VAT increase of April 2014, our cigarette shipment volume decreased by 4.3%. The decline was mainly due to a lower total market, and lower market share principally reflecting the impact of competitive retail price and new menthol taste product offerings.

In **Korea**, estimated industry size, our cigarette shipment volume and market share performance are shown in the table below.

	Korea Key Market Data		
	Full-Year		
	2015	**2014**	**Change % / p.p.**
Total Cigarette Market (billion units)	**67.3**	88.1	(23.6)%
PMI Shipments (million units)	**14,201**	17,346	(18.1)%
PMI Cigarette Market Share			
Marlboro	**9.6%**	7.8%	1.8
Parliament	**7.2%**	7.1%	0.1
Virginia S.	**3.8%**	4.1%	(0.3)
Others	**0.6%**	0.7%	(0.1)
Total	**21.2%**	19.7%	1.5

The decline of the estimated total cigarette market reflected the impact of the January 2015 excise tax increase and related retail price increases. Excluding the impact of estimated inventory movements associated with the timing of the excise tax increase, the total cigarette market declined by approximately 17.3%. The decline in our cigarette shipment volume reflected the lower estimated total market, partly offset by share growth, driven by *Marlboro*, benefiting from the positive impact of pricing for our principal domestic competitor's main brands.

In the **Philippines**, estimated industry size, our cigarette shipment volume and market share performance, as measured by Nielsen, are shown in the table below. Data for the total cigarette market have been restated to reflect estimated total market consumption compared to the previous methodology of reporting only estimated tax-paid industry volumes.

	Philippines Key Market Data		
	Full-Year		
	2015	**2014**	**Change % / p.p.**
Total Cigarette Market (billion units)	**90.2**	94.9	(4.9)%
PMI Shipments (million units)	**66,236**	68,358	(3.1)%
PMI Cigarette Market Share			
Marlboro	**21.1%**	18.4%	2.7
Fortune	**31.1%**	30.4%	0.7
Jackpot	**9.9%**	10.7%	(0.8)
Others	**11.3%**	12.5%	(1.2)
Total	**73.4%**	72.0%	1.4

Estimated total consumption decreased by 4.9%, mainly due to the impact of price increases. The decline in our cigarette shipment volume reflected the lower total market combined with lower consumption of our low and super-low price brands, following price increases in late 2014 and early 2015, partly offset by higher market share, driven by adult smoker uptrading to *Marlboro*, combined with market share growth of *Fortune*, reflecting the narrowing of retail price gaps with brands at the bottom end of the market.

Latin America & Canada:

Latin America & Canada	**For the Years Ended December 31,**			
(in millions)	**2015**	**2014**	**Variance**	**%**
Net revenues	**$ 9,548**	$ 9,865	$ (317)	(3.2)%
Excise taxes on products	**6,389**	6,587	(198)	(3.0)%
Net revenues, excluding excise taxes on products	**3,159**	3,278	(119)	(3.6)%
Operating companies income	**1,085**	1,030	55	5.3 %

Net revenues, which include excise taxes billed to customers, decreased by $317 million. Excluding excise taxes, net revenues decreased by $119 million, due primarily to:

- unfavorable currency ($505 million) and
- unfavorable volume/mix ($143 million), partly offset by
- price increases ($525 million).

Operating companies income increased by $55 million during 2015. This increase was due primarily to:

- price increases ($525 million), partly offset by
- unfavorable currency ($210 million),
- unfavorable volume/mix ($141 million),
- higher manufacturing costs ($88 million) and
- higher marketing, administration and research costs ($42 million).

Latin America & Canada - PMI Cigarette Shipment Volume and Market Share

Our cigarette shipment volume of 91.9 billion units decreased by 2.9%, mainly due to Argentina, Brazil, Canada and Mexico. Although shipment volume of *Marlboro* of 35.8 billion units decreased by 3.2%, our Regional market share increased by 0.2 points to an estimated 15.2%. Market share of *Marlboro* increased notably in Brazil and Colombia, by 0.3 and 1.1 points to 9.5% and 9.0%, respectively. Shipment volume of *Philip Morris* of 19.4 billion units increased by 1.7%, driven mainly by Canada.

Latin America & Canada - Market Discussions

In **Argentina**, estimated industry size, our cigarette shipment volume and market share performance are shown in the table below.

	Argentina Key Market Data		
	Full-Year		
	2015	**2014**	**Change % / p.p.**
Total Cigarette Market (billion units)	**40.8**	41.9	(2.5)%
PMI Shipments (million units)	**31,910**	32,323	(1.3)%
PMI Cigarette Market Share			
Marlboro	**24.3%**	24.3%	—
Parliament	**2.1%**	2.2%	(0.1)
Philip Morris	**44.7%**	43.4%	1.3
Others	**7.1%**	7.3%	(0.2)
Total	**78.2%**	77.2%	1.0

The decline of the estimated total cigarette market was mainly due to the impact of price increases and a challenging economic environment. The decrease in our shipment volume was mainly due to a lower estimated total market, partly offset by market share growth, driven primarily by *Philip Morris*, reflecting the positive impact of the brand's capsule variants. Our share of the growing capsule segment, representing 16.4% of the total market, grew by 4.4 points to 73.5%.

In **Canada**, estimated industry size, our cigarette shipment volume and market share performance are shown in the table below.

	Canada Key Market Data		
	Full-Year		
	2015	**2014**	**Change % / p.p.**
Total Cigarette Market (billion units)	**26.7**	27.3	(2.3)%
PMI Shipments (million units)	**9,926**	10,275	(3.4)%
PMI Cigarette Market Share			
Belmont	**3.3%**	3.0%	0.3
Canadian Classics	**10.3%**	10.4%	(0.1)
Next	**10.6%**	10.6%	—
Others	**13.1%**	13.6%	(0.5)
Total	**37.3%**	37.6%	(0.3)

The estimated total cigarette market decreased by 2.3%. Excluding the favorable impact of estimated competitors' trade inventory movements, the total market declined by 4.6%, mainly due to the impact of tax-driven price increases. The decrease in our cigarette shipment volume was principally due to a lower estimated total market. Our market share was also negatively impacted by the above-mentioned estimated competitors' trade inventory movements.

In **Mexico**, estimated industry size, our cigarette shipment volume and market share performance are shown in the table below.

	Mexico Key Market Data		
	Full-Year		
	2015	**2014**	**Change % / p.p.**
Total Cigarette Market (billion units)	**33.6**	33.5	0.4 %
PMI Shipments (million units)	**23,246**	23,861	(2.6)%
PMI Cigarette Market Share			
Marlboro	**48.1%**	49.7%	(1.6)
Delicados	**10.7%**	11.1%	(0.4)
Benson & Hedges	**4.6%**	5.2%	(0.6)
Others	**5.8%**	5.3%	0.5
Total	**69.2%**	71.3%	(2.1)

The estimated total cigarette market increased by 0.4%. Excluding the unfavorable impact of estimated trade inventory movements, the total market increased by 2.8%, primarily reflecting a lower prevalence of illicit trade. The decrease in our cigarette shipment volume was mainly driven by: lower market share, mainly due to *Marlboro,* reflecting adult smoker down-trading; and the timing of price increases by our principal competitor in the first quarter of 2015; partly offset by gains for certain low-price local trademark brands.

2014 compared with 2013

The following discussion compares operating results within each of our reportable segments for 2014 with 2013.

European Union:

European Union (in millions)	**For the Years Ended December 31, 2014**	**2013**	**Variance**	**%**
Net revenues	$ 30,517	$ 29,656	$ 861	2.9 %
Excise taxes on products	21,370	20,770	600	2.9 %
Net revenues, excluding excise taxes on products	9,147	8,886	261	2.9 %
Operating companies income	3,815	4,309	(494)	(11.5)%

Net revenues, which include excise taxes billed to customers, increased by $861 million. Excluding excise taxes, net revenues increased by $261 million, due to:

- price increases ($134 million),
- favorable currency ($126 million) and
- the impact of acquisitions ($11 million), partly offset by
- unfavorable volume/mix ($10 million).

The net revenues of the European Union segment include $1.7 billion in 2014 and $1.5 billion in 2013 related to sales of OTP. Excluding excise taxes, OTP net revenues for the European Union segment were $574 million in 2014 and $544 million in 2013.

Operating companies income decreased by $494 million during 2014. This decrease was due primarily to:

- higher pre-tax charge for asset impairment and exit costs ($477 million, primarily related to the decision to discontinue cigarette production in the Netherlands in 2014),
- higher marketing, administration and research costs ($101 million),
- higher manufacturing costs ($44 million) and
- unfavorable volume/mix ($42 million), partly offset by
- price increases ($134 million) and
- favorable currency ($39 million).

European Union - Industry Volume

The total estimated cigarette market in the European Union of 512.5 billion units decreased by 3.1%, due primarily to the impact of tax-driven price increases and the unfavorable economic and employment environment, partly offset by: the subdued performance of the e-vapor category; less out-switching to fine cut products; a reduction in the consumption of illicit products in several markets; and lower than historical average pricing, mainly in Italy.

The total OTP market in the European Union of 165.4 billion cigarette equivalent units increased by 1.3%, reflecting a larger total fine cut market, up by 1.2% to 143.9 billion cigarette equivalent units.

European Union - Shipment Volume and Market Share

Cigarette shipment volume and market share performance by brand are shown in the tables below:

European Union Cigarette Shipment Volume by Brand (Million Units)

	Full-Year		
	2014	**2013**	**Change**
Marlboro	94,537	96,069	(1.6)%
L&M	34,943	34,985	(0.1)%
Chesterfield	27,100	19,707	37.5 %
Philip Morris	10,224	9,768	4.7 %
Others	27,942	33,935	(17.7)%
Total EU	194,746	194,464	0.1 %

European Union Cigarette Market Shares by Brand

	Full-Year		
	2014	**2013**	**Change p.p.**
Marlboro	18.7%	18.3%	0.4
L&M	6.8%	6.7%	0.1
Chesterfield	5.6%	4.5%	1.1
Philip Morris	3.2%	3.5%	(0.3)
Others	3.9%	4.2%	(0.3)
Total EU	38.2%	37.2%	1.0

Our cigarette shipment volume of 194.7 billion units increased by 0.1%, predominantly reflecting improved market share that increased by 1.0 share point to 38.2%.

While shipment volume of *Marlboro* decreased, mainly due to a lower total market, market share increased driven notably by the Czech Republic, Germany, Italy and Spain, partly offset by France and Poland. While cigarette shipment volume of *L&M* was essentially flat, market share increased slightly, driven notably by Germany, partly offset by Poland. Cigarette shipment volume of *Chesterfield* increased, and market share increased, driven notably by Italy and Poland. Cigarette shipment volume of *Philip Morris* increased, driven notably by Latvia, Lithuania, the Slovak Republic and Spain.

Our shipments of OTP of 22.9 billion cigarette equivalent units increased by 6.4%, driven principally by higher share. Our OTP total market share was 14.0%, up by 0.6 share points, reflecting gains in the fine cut category: notably in the Czech Republic, up by 7.8 share points to 26.5%; Hungary, up by 6.4 share points to 18.3%; Italy, up by 3.9 share points to 41.5%; and Poland, up by 11.2 share points to 34.7%; partly offset by France, down by 0.7 share points to 26.2%; Germany down by 1.3 share points to 12.9%, and Portugal, down by 5.4 share points to 26.5%.

European Union - Market Discussions

In **France**, estimated industry size, our cigarette shipment volume and market share performance are shown in the table below.

	France Key Market Data		
	Full-Year		
	2014	**2013**	**Change % / p.p.**
Total Cigarette Market (billion units)	45.0	47.5	(5.3)%
PMI Shipments (million units)	18,563	19,123	(2.9)%
PMI Cigarette Market Share			
Marlboro	25.1%	24.7%	0.4
Philip Morris	9.4%	9.1%	0.3
Chesterfield	3.4%	3.4%	—
Others	3.1%	3.0%	0.1
Total	41.0%	40.2%	0.8

The total cigarette market decreased, mainly reflecting the impact of price increases in January 2014, the increased incidence of e-vapor products and a weak economy. The decrease in our cigarette shipment volume was mainly driven by the lower total market, partially offset by our market share increase, mainly driven by the growth of *Marlboro*, *L&M (*up by 0.1 share point to 2.6%) and premium *Philip Morris*. The estimated total industry fine cut category of 13.6 billion cigarette equivalent units decreased by 2.2%. Our market share of the category decreased by 0.7 share points to 26.2%.

In **Germany**, estimated industry size, our cigarette shipment volume and market share performance are shown in the table below.

	Germany Key Market Data		
	Full-Year		
	2014	**2013**	**Change % / p.p.**
Total Cigarette Market (billion units)	80.4	79.6	0.9%
PMI Shipments (million units)	29,411	28,838	2.0%
PMI Cigarette Market Share			
Marlboro	21.7%	22.0%	(0.3)
L&M	11.8%	10.9%	0.9
Chesterfield	1.7%	1.7%	—
Others	1.4%	1.6%	(0.2)
Total	36.6%	36.2%	0.4

The total cigarette market increased, mainly reflecting the net favorable impact of estimated trade purchases and a lower incidence of illicit trade. Excluding the impact of these estimated inventory movements, the total cigarette market was essentially flat. The increase in our cigarette shipment volume mainly reflected market share growth, driven by *L&M*. The estimated total industry fine cut category of 41.2 billion cigarette equivalent units decreased by 1.0%. Our market share of the category decreased by 1.3 share points to 12.9%.

In **Italy**, estimated industry size, PMI cigarette shipment volume and market share performance are shown in the table below.

	Italy Key Market Data		
	Full-Year		
	2014	**2013**	**Change % / p.p.**
Total Cigarette Market (billion units)	74.4	74.0	0.5%
PMI Shipments (million units)	40,439	38,920	3.9%
PMI Cigarette Market Share			
Marlboro	25.7%	26.4%	(0.7)
Chesterfield	9.2%	3.5%	5.7
Philip Morris	10.4%	13.2%	(2.8)
Others	9.6%	10.0%	(0.4)
Total	54.9%	53.1%	1.8

The total cigarette market increased, partly reflecting a lower incidence of e-vapor products. The increase in our cigarette shipment volume was driven by our market share increase, notably *Chesterfield,* partly offset by *Marlboro,* and *Philip Morris* (including the morphed *Diana* in the low-price segment) that had been impacted by the growth of the super-low price segment. The estimated total industry fine cut category of 6.1 billion cigarette equivalent units increased by 1.6%. Our market share of the category increased by 3.9 share points to 41.5%.

In **Poland**, estimated industry size, our cigarette shipment volume and market share performance are shown in the table below.

	Poland Key Market Data		
	Full-Year		
	2014	2013	Change % / p.p.
Total Cigarette Market (billion units)	42.1	46.6	(9.8)%
PMI Shipments (million units)	16,630	17,079	(2.6)%
PMI Cigarette Market Share			
Marlboro	11.2%	11.5%	(0.3)
L&M	18.2%	17.8%	0.4
Chesterfield	7.6%	5.6%	2.0
Others	3.1%	3.3%	(0.2)
Total	40.1%	38.2%	1.9

In Poland, the total estimated cigarette market decreased, reflecting the prevalence of e-cigarettes, illicit trade and non-duty paid OTP products. The decrease in our cigarette shipment volume reflected the lower total market, partially offset by our market share increase, driven by *L&M* and *Chesterfield*. The estimated total industry fine cut category of 3.6 billion cigarette equivalent units increased by 7.7%, and our market share of the category increased by 11.2 share points to 34.7%.

In **Spain**, estimated industry size, our cigarette shipment volume and market share performance are shown in the table below.

	Spain Key Market Data		
	Full-Year		
	2014	2013	Change % / p.p.
Total Cigarette Market (billion units)	47.0	47.7	(1.5)%
PMI Shipments (million units)	14,879	14,606	1.9 %
PMI Cigarette Market Share			
Marlboro	15.9%	14.8%	1.1
Chesterfield	9.2%	9.3%	(0.1)
L&M	6.1%	6.3%	(0.2)
Others	0.9%	0.8%	0.1
Total	32.1%	31.2%	0.9

The total cigarette market decreased, mainly due to a deceleration in adult smoker down-trading to fine cut, e-vapor and illicit products. Our cigarette shipment volume increased, reflecting our market share growth, notably *Marlboro* and *Philip Morris* in "Others" (up by 0.3 share points to 0.9%). The estimated total industry fine cut category of 9.7 billion cigarette equivalent units decreased by 9.8%, partly reflecting lower consumption resulting from further tax harmonization with cigarettes following the July 2013 and July 2014 price increases. Our market share of the fine cut category increased by 1.0 share point to 14.8%.

Eastern Europe, Middle East & Africa:

Eastern Europe, Middle East & Africa (in millions)	**For the Years Ended December 31, 2014**	**2013**	**Variance**	**%**
Net revenues	$ 20,469	$ 19,342	$ 1,127	5.8%
Excise taxes on products	11,855	10,866	989	9.1%
Net revenues, excluding excise taxes on products	8,614	8,476	138	1.6%
Operating companies income	4,033	3,708	325	8.8%

Net revenues, which include excise taxes billed to customers, increased by $1.1 billion. Excluding excise taxes, net revenues increased by $138 million, due primarily to:

- price increases ($1.1 billion), partly offset by
- unfavorable currency ($765 million) and
- unfavorable volume/mix ($231 million).

Operating companies income increased by $325 million during 2014. This increase was due primarily to:

- price increases ($1.1 billion),
- lower pre-tax charges for asset impairment and exit costs ($262 million) and
- higher equity income in unconsolidated subsidiaries ($135 million), partly offset by
- unfavorable currency ($613 million),
- higher manufacturing costs ($250 million, principally related to the impact of the change to our new business structure in Egypt),
- unfavorable volume/mix ($206 million) and
- higher marketing, administration and research costs ($128 million).

Eastern Europe Middle East & Africa - PMI Cigarette Shipment Volume

Our cigarette shipment volume in EEMA decreased by 3.0% to 278.4 billion units, mainly due to Kazakhstan, Russia, Serbia and Ukraine, partly offset by Algeria, Saudi Arabia and Turkey. Our cigarette shipment volume of premium brands increased by 1.0%, driven by *Parliament*, up by 6.9% to 34.7 billion units, partly offset by *Marlboro*, down by 1.1% to 80.1 billion units.

Eastern Europe Middle East & Africa - Market Discussions

In **North Africa**, estimated industry size, our cigarette shipment volume and market share performance are shown in the table below.

	North Africa Key Market Data		
	Full-Year		
	2014	2013	Change % / p.p.
Total Cigarette Market (billion units)	143.3	138.7	3.4%
PMI Shipments (million units)	37,782	36,849	2.5%
PMI Cigarette Market Share			
Marlboro	15.3%	15.3%	—
L&M	8.9%	9.1%	(0.2)
Others	1.9%	2.1%	(0.2)
Total	26.1%	26.5%	(0.4)

The estimated total cigarette market increased, driven by Algeria, Egypt and Tunisia, partially offset by Libya and Morocco. Our cigarette shipment volume increased, driven largely by *Marlboro* in Algeria and *L&M* in Egypt.

In **Russia**, estimated industry size, our cigarette shipment volume and market share performance, as measured by Nielsen, are shown in the table below.

	Russia Key Market Data		
	Full-Year		
	2014	2013	Change % / p.p.
Total Cigarette Market (billion units)	314.1	346.4	(9.3)%
PMI Shipments (million units)	84,948	88,021	(3.5)%
PMI Cigarette Market Share			
Marlboro	1.6%	1.7%	(0.1)
Parliament	3.7%	3.4%	0.3
Bond Street	7.7%	6.5%	1.2
Others	14.5%	14.6%	(0.1)
Total	27.5%	26.2%	1.3

The total cigarette market decreased, mainly due to the unfavorable impact of tax-driven price increases and a weak economy. Our cigarette shipment volume decrease mainly reflected the lower total market, partially offset by market share growth. Shipment volume of our premium portfolio decreased by 2.5%, mainly due to *Marlboro,* down by 13.6%, partially offset by *Parliament*, up by 1.6%. In the mid-price segment, shipment volume decreased by 9.1%, mainly due to *Chesterfield*, down by 18.6%. In the low-price segment, shipment volume decreased by 1.4%, mainly due to *Optima* and *Apollo Soyuz*, down by 16.3% and 8.5%, respectively, partly offset by *Bond Street*, up by 2.5%. Our market share, as measured by Nielsen, was up, mainly driven by *Bond Street* and *L&M* (up by 0.3 share points to 3.1%), partially offset by *Chesterfield* (down by 0.2 share points to 2.8%).

In **Turkey**, estimated industry size, our cigarette shipment volume and market share performance, as measured by Nielsen, are shown in the table below.

	Turkey Key Market Data		
	Full-Year		
	2014	2013	Change % / p.p.
Total Cigarette Market (billion units)	94.7	91.7	3.3%
PMI Shipments (million units)	46,309	45,247	2.3%
PMI Cigarette Market Share			
Marlboro	8.6%	8.9%	(0.3)
Parliament	11.2%	10.0%	1.2
Lark	9.0%	11.4%	(2.4)
Others	15.2%	15.2%	—
Total	44.0%	45.5%	(1.5)

The total cigarette market increased, primarily reflecting an increase in the adult population. Our market share, as measured by Nielsen, decreased, mainly due to: *Marlboro,* mid-price *Muratti (*down by 1.4 share points to 5.5%), low-price *L&M* (down by 0.9 share points to 6.4%) and low-price *Lark*, partly offset by premium *Parliament*, and low-price *Chesterfield* (up by 2.3 share points to 3.1%).

In **Ukraine**, estimated industry size, our cigarette shipment volume and market share performance, as measured by Nielsen, are shown in the table below.

	Ukraine Key Market Data		
	Full-Year		
	2014	2013	Change % / p.p.
Total Cigarette Market (billion units)	69.7	70.7	(1.4)%
PMI Shipments (million units)	23,273	25,526	(8.8)%
PMI Cigarette Market Share			
Marlboro	4.9%	5.5%	(0.6)
Parliament	3.1%	3.3%	(0.2)
Bond Street	8.9%	8.8%	0.1
Others	15.8%	15.9%	(0.1)
Total	32.7%	33.5%	(0.8)

The total cigarette market decreased, mainly reflecting the impact of price increases in 2014 and business disruption due to the political instability in the east of the country, partially offset by a lower prevalence of illicit trade. Our market share, as measured by Nielsen, decreased, mainly due to: *Marlboro, Parliament, Chesterfield* (down by 0.9 share points to 5.0%) and *Optima* (down by 0.8 share points to 1.0%), partly offset by growth from low-price *President* (up by 2.2 share points to 5.0%).

Asia:

Asia (in millions)	For the Years Ended December 31, 2014	 2013	Variance	%
Net revenues	$ 19,255	$ 20,987	$ (1,732)	(8.3)%
Excise taxes on products	10,527	10,486	41	0.4 %
Net revenues, excluding excise taxes on products	8,728	10,501	(1,773)	(16.9)%
Operating companies income	3,187	4,622	(1,435)	(31.0)%

Net revenues, which include excise taxes billed to customers, decreased by $1.7 billion. Excluding excise taxes, net revenues decreased by $1.8 billion due to:

- unfavorable currency ($1.0 billion) and
- unfavorable volume/mix ($906 million), partly offset by
- price increases ($155 million).

Operating companies income decreased by $1.4 billion during 2014. This decrease was due primarily to:

- unfavorable volume/mix ($746 million),
- unfavorable currency ($656 million),
- higher manufacturing costs ($181 million, principally in Indonesia driven mainly by higher clove prices and cost related to the transition from hand-rolled to machine-made kretek cigarette production) and
- higher pre-tax charges for asset impairment and exit costs ($8 million, principally due to the factory closure in Australia), partly offset by
- price increases ($155 million).

Asia - PMI Cigarette Shipment Volume

Our cigarette shipment volume of 288.1 billion units decreased by 4.4%, due primarily to: the unfavorable impact of an adjustment in distributor inventories in Japan; lower total market and share in Australia, mainly reflecting the impact of excise tax-driven price increases and competitive pricing in the deep discount segment, Japan and Pakistan, and lower share in Indonesia.

Shipment volume of *Marlboro* of 71.4 billion units decreased by 5.3%, due almost entirely to Japan, partly offset by the Philippines. Shipment volume of *Parliament* of 10.7 billion units increased by 1.8%, driven by Korea. Shipment volume of *Lark* of 17.7 billion units increased by 7.4%, driven mainly by Japan (including the morphed *Philip Morris*).

Asia - Market Discussions

In **Indonesia**, estimated industry size, our cigarette shipment volume, market share and segmentation performance are shown in the tables below.

	Indonesia Key Market Data		
	Full-Year		
	2014	2013	Change % / p.p.
Total Cigarette Market (billion units)	314.0	308.0	1.9 %
PMI Shipments (million units)	109,694	111,332	(1.5)%
PMI Cigarette Market Share			
Sampoerna A	14.4%	14.4%	—
Dji Sam Soe	6.3%	6.8%	(0.5)
U Mild	5.4%	4.4%	1.0
Others	8.8%	10.6%	(1.8)
Total	34.9%	36.2%	(1.3)

	Indonesia Segmentation Data		
	Full-Year		
	2014	2013	Change p.p.
Segment % of Total Market			
Hand-Rolled Kretek (SKT)	20.1%	23.6%	(3.5)
Machine-Made Kretek (SKM)	73.5%	69.7%	3.8
Whites (SPM)	6.4%	6.7%	(0.3)
Total	100.0%	100.0%	—
PMI % Share of Segment			
Hand-Rolled Kretek (SKT)	39.0%	43.9%	(4.9)
Machine-Made Kretek (SKM)	29.9%	29.5%	0.4
Whites (SPM)	79.7%	77.7%	2.0

Our market share decreased, predominantly due to *Sampoerna Hijau* in "Others" (down by 0.9 share points to 3.4%), mainly reflecting the decline of the total hand-rolled kretek segment, and the hand-rolled, full-flavor variants of *Dji Sam Soe* in the premium segment, which decreased by 1.5 share points to 4.2%, mainly due to a retail price change ahead of competition. The decline in our market share was partly offset by machine-made mid-price *U Mild*, and machine-made *Dji Sam Soe Magnum* and *Dji Sam Soe Magnum Blue*, up by a combined 1.0 share point to 2.1%. While market share of *Marlboro* decreased by 0.1 share point to 5.1% (in "Others"), its share of the "white" cigarettes segment increased by 2.0 share points to 79.7%.

In **Japan**, estimated industry size, our cigarette shipment volume and market share performance are shown in the table below.

	Japan Key Market Data		
	Full-Year		
	2014	2013	Change % / p.p.
Total Cigarette Market (billion units)	186.2	192.6	(3.4)%
PMI Shipments (million units)	45,556	52,997	(14.0)%
PMI Cigarette Market Share			
Marlboro	11.6%	12.1%	(0.5)
Parliament	2.2%	2.2%	—
Lark	10.0%	10.0%	—
Others	2.1%	2.4%	(0.3)
Total	25.9%	26.7%	(0.8)

The total cigarette market decreased, partly reflecting the unfavorable impact of the consumption tax-driven retail price increases of April 1, 2014. Our cigarette shipment volume decreased, principally due to the unfavorable impact of an adjustment in distributor inventories and a lower total market and share. Excluding the impact of these inventory movements, our cigarette shipment volume decreased by 5.8%.

In **Korea**, estimated industry size, our cigarette shipment volume and market share performance are shown in the table below.

	Korea Key Market Data		
	Full-Year		
	2014	2013	Change % / p.p.
Total Cigarette Market (billion units)	88.1	88.4	(0.4)%
PMI Shipments (million units)	17,346	17,160	1.1 %
PMI Cigarette Market Share			
Marlboro	7.8%	7.7%	0.1
Parliament	7.1%	6.9%	0.2
Virginia S.	4.1%	4.1%	—
Others	0.7%	0.7%	—
Total	19.7%	19.4%	0.3

The estimated total cigarette market slightly decreased by 0.4%. Excluding favorable estimated trade inventory movements, the total cigarette market decreased by approximately 3.8%. The increase in our cigarette shipment volume was mainly driven by higher market share, notably *Parliament*.

In the **Philippines**, estimated industry size, our cigarette shipment volume and market share performance, as measured by Nielsen, are shown in the table below. Data for the total cigarette market have been restated to reflect estimated total market consumption compared to the previous methodology of reporting only estimated tax-paid industry volumes.

	Philippines Key Market Data		
	Full-Year		
	2014	2013	Change % / p.p.
Total Cigarette Market (billion units)	94.9	91.0	4.4 %
PMI Shipments (million units)	68,358	68,479	(0.2)%
PMI Cigarette Market Share			
Marlboro	18.4%	20.3%	(1.9)
Fortune	30.4%	31.3%	(0.9)
Jackpot	10.7%	6.6%	4.1
Others	12.5%	17.0%	(4.5)
Total	72.0%	75.2%	(3.2)

The estimated total consumption increased, driven by the growth of the low and super-low price segments reflecting the prevalence of domestic non-duty-paid products. Our cigarette shipment volume decreased, mainly due to a lower market share.

Latin America & Canada:

Latin America & Canada (in millions)	For the Years Ended December 31, 2014	2013	Variance	%
Net revenues	$ 9,865	$ 10,044	$ (179)	(1.8)%
Excise taxes on products	6,587	6,690	(103)	(1.5)%
Net revenues, excluding excise taxes on products	3,278	3,354	(76)	(2.3)%
Operating companies income	1,030	1,134	(104)	(9.2)%

Net revenues, which include excise taxes billed to customers, decreased by $179 million . Excluding excise taxes, net revenues decreased by $76 million, due primarily to:

- unfavorable currency ($431 million) and
- unfavorable volume/mix ($127 million), partly offset by
- price increases ($481 million).

Operating companies income of $1.0 billion decreased by $104 million during 2014. This decrease was due primarily to:

- unfavorable currency ($243 million),
- unfavorable volume/mix ($133 million),
- higher marketing, administration and research costs ($135 million) and
- higher manufacturing costs ($70 million), partly offset by
- price increases ($481 million).

Latin America & Canada - PMI Cigarette Shipment Volume and Market share

Our cigarette shipment volume of 94.7 billion units decreased by 2.7%, principally due to a lower total market, predominantly in Canada and Mexico. While shipment volume of *Marlboro* of 37.0 billion units decreased by 4.3%, due predominantly to Mexico, its market share was up in Argentina, Brazil and Colombia by 0.2, 0.5 and 1.0 share points to 24.3%%, 9.2% and 7.9%, respectively. Shipment volume of *Philip Morris* of 19.1 billion units increased by 2.1%, driven mainly by Argentina.

Latin America & Canada - Market Discussions

In **Argentina**, estimated industry size, our cigarette shipment volume and market share performance are shown in the table below.

	Argentina Key Market Data		
	Full-Year		
	2014	**2013**	**Change % / p.p.**
Total Cigarette Market (billion units)	41.9	42.5	(1.6)%
PMI Shipments (million units)	32,323	32,384	(0.2)%
PMI Cigarette Market Share			
Marlboro	24.3%	24.1%	0.2
Parliament	2.2%	2.1%	0.1
Philip Morris	43.4%	41.7%	1.7
Others	7.3%	8.3%	(1.0)
Total	77.2%	76.2%	1.0

The decrease in our cigarette shipment volume was primarily driven by a lower total market, largely offset by market share growth. Our market share growth was driven by *Marlboro* and mid-price *Philip Morris*, reflecting the positive impact of its capsule variants, partly offset by low-price *Next* in "Others" (down by 0.6 share points to 2.0%).

In **Canada**, estimated industry size, our cigarette shipment volume and market share performance are shown in the table below.

	Canada Key Market Data		
	Full-Year		
	2014	**2013**	**Change % / p.p.**
Total Cigarette Market (billion units)	27.3	28.9	(5.5)%
PMI Shipments (million units)	10,275	10,769	(4.6)%
PMI Cigarette Market Share			
Belmont	3.0%	2.6%	0.4
Canadian Classics	10.4%	10.1%	0.3
Next	10.6%	9.9%	0.7
Others	13.6%	14.6%	(1.0)
Total	37.6%	37.2%	0.4

The total cigarette market decreased, mainly due to the impact of both federal and provincial tax-driven price increases during the first half of the year. The decrease in our cigarette shipment volume was driven by the lower total market, partially offset by market share growth, notably *Belmont, Canadian Classics* and *Next*, partially offset by *Number 7* (down by 0.2 share points to 4.0%) and *Accord* (down by 0.5 share points to 2.4%).

In **Mexico**, estimated industry size, our cigarette shipment volume and market share performance are shown in the table below.

Mexico Key Market Data			
	Full-Year		
	2014	2013	Change % / p.p.
Total Cigarette Market (billion units)	33.5	34.6	(3.2)%
PMI Shipments (million units)	23,861	25,423	(6.1)%
PMI Cigarette Market Share			
Marlboro	49.7%	52.3%	(2.6)
Delicados	11.1%	11.2%	(0.1)
Benson & Hedges	5.2%	5.5%	(0.3)
Others	5.3%	4.5%	0.8
Total	71.3%	73.5%	(2.2)

The total cigarette market decreased, primarily reflecting unfavorable estimated trade inventory movements compared to 2013. Excluding the impact of these inventory movements, the total cigarette market is estimated to have declined by approximately 0.5%. Our cigarette shipment volume decreased, driven by the lower total market and market share decline, notably due to *Marlboro* and *Benson & Hedges,* reflecting consumer down-trading. Our share of the premium price segment was up by 1.3 share points to 92.0%.

Financial Review

- **Net Cash Provided by Operating Activities**

Net cash provided by operating activities of $7.9 billion for the year ended December 31, 2015, increased by $126 million from the comparable 2014 period. The change was due primarily to net earnings growth (excluding unfavorable currency of $1.9 billion) and working capital initiatives.

Excluding currency, the favorable movements in working capital were due primarily to the following:

- more cash provided by accounts receivable, primarily due to the timing of sales and cash collections (including the sale of accounts receivable in 2015 to unaffiliated financial institutions as disclosed in Item 8. Note 23. *Sale of Accounts Receivable*); and
- less cash used for accrued liabilities and other current assets, primarily due to the timing of payments for excise taxes; partially offset by
- more cash used for inventories, primarily related to higher finished goods inventories.

Net cash provided by operating activities of $7.7 billion for the year ended December 31, 2014, decreased by $2.4 billion from the comparable 2013 period. The decrease was due primarily to lower net earnings (primarily related to unfavorable currency movements), an increase in our working capital requirements, and higher cash payments related to exit costs.

The unfavorable movements in working capital were due primarily to the following:

- more cash used for accrued liabilities and other current assets, largely due to the timing of payments for excise taxes, partially offset by
- more cash provided by inventories, primarily related to lower leaf tobacco and finished goods inventories.

- **Net Cash Used in Investing Activities**

Net cash used in investing activities of $708 million for the year ended December 31, 2015, decreased by $288 million from the comparable 2014 period, due primarily to lower capital expenditures and purchases of businesses in 2014.

Net cash used in investing activities of $996 million for the year ended December 31, 2014, decreased by $1.7 billion from the comparable 2013 period, due primarily to less cash spent on investments in unconsolidated subsidiaries and higher cash collateral received from derivatives designated as net investment hedges, partially offset primarily by the purchase of Nicocigs Limited.

In June 2014, we acquired 100% of Nicocigs Limited, a leading U.K.-based e-vapor company, for the final purchase price of $103 million, net of cash acquired. For further details, see Item 8, Note 6. *Acquisitions and Other Business Arrangements* to our consolidated financial statements.

As previously discussed, on September 30, 2013, we acquired a 49% equity interest in United Arab Emirates-based Arab Investors-TA (FZC) for approximately $625 million. On December 12, 2013, we acquired from Megapolis Investment BV a 20% equity interest in Megapolis Distribution BV, the holding company of CJSC TK Megapolis, our distributor in Russia, for a purchase price of $760 million. For further details, see Item 8, Note 4. *Investments in Unconsolidated Subsidiaries* to our consolidated financial statements.

Our capital expenditures were $960 million in 2015, $1.2 billion in 2014 and $1.2 billion in 2013. The 2015 expenditures were primarily related to investments in RRPs, productivity-enhancing programs, and equipment for new products. We expect total capital expenditures in 2016 of approximately $1.1 billion (including additional capital expenditures related to our ongoing investment in RRPs), to be funded by operating cash flows.

- **Net Cash Used in Financing Activities**

During 2015, net cash used in financing activities was $4.7 billion, compared with net cash used in financing activities of $6.8 billion during 2014 and $8.2 billion in 2013.

The 2015 change was due primarily to the cash used in 2014 to repurchase our common stock pursuant to our share repurchase program, as well as the 2015 net proceeds received from the sale of subsidiary shares to noncontrolling interests, partially offset by lower net cash proceeds in 2015 from long-term debt.

On January 30, 2014, the Indonesian Stock Exchange ("IDX") adopted a regulation requiring all listed public companies to have at least a 7.5% public shareholding by January 30, 2016. In order to comply with this requirement, our subsidiary PT HM Sampoerna Tbk. ("Sampoerna"), of which we held a 98.18% interest, conducted a rights issue. In connection with the rights issue, PT Philip Morris Indonesia ("PMID"), a fully consolidated subsidiary of PMI, sold 264,209,711 of the rights to third party investors. Delivery of the rights sold took place on October 26, 2015. The total net proceeds from the rights issue were $1.5 billion at prevailing exchange rates on the closing date. For further details, see Item 8, Note 6. *Acquisitions and Other Business Arrangements* to our consolidated financial statements.

During 2014, we used a total of $13.2 billion to repurchase our common stock, pay dividends and repay debt. These uses were partially offset by proceeds from our debt offerings and short-term borrowings in 2014 of $6.6 billion. During 2013, we used a total of $17.1 billion to repurchase our common stock, pay dividends, repay debt and purchase subsidiary shares from noncontrolling interests. These uses were partially offset by proceeds from our debt offerings and short-term borrowings in 2013 of $9.2 billion.

In September 2013, Grupo Carso sold us its remaining 20% interest in our Mexican tobacco business for $703 million. As a result, we own 100% of our Mexican tobacco business. The final purchase price was subject to an adjustment based on the actual performance of the Mexican tobacco business over the three-year period ending two fiscal years after the closing of the purchase. In May 2015, PMI received a payment of $113 million from Grupo Carso as the final purchase price adjustment. This resulted in a total net purchase price of $590 million. For further details, see Item 8, Note 6. *Acquisitions and Other Business Arrangements* to our consolidated financial statements.

Dividends paid in 2015, 2014 and 2013 were $6.3 billion, $6.0 billion and $5.7 billion, respectively.

- **Debt and Liquidity**

We define cash and cash equivalents as short-term, highly liquid investments, readily convertible to known amounts of cash that mature within a maximum of three months and have an insignificant risk of change in value due to interest rate or credit risk changes. As a policy, we do not hold any investments in structured or equity-linked products. Our cash and cash equivalents are predominantly held in short-term bank deposits with institutions having a long-term rating of A- or better.

Credit Ratings **–** The cost and terms of our financing arrangements, as well as our access to commercial paper markets, may be affected by applicable credit ratings. On July 10, 2015, Fitch affirmed our long-term credit rating at "A" and short-term at "F1," but it revised our outlook to "Negative" from "Stable." We do not expect the Fitch negative outlook to have an impact on our borrowing costs. On July 17, 2015, Standard & Poor's affirmed our long-term credit rating at "A" and short-term at "A-1," as well as our "Stable" outlook. On August 19, 2015, Moody's affirmed our long-term credit rating at "A2" and short-term at "P-1," as well as our "Stable" outlook. At February 16, 2016, our credit ratings and outlook by major credit rating agencies were as follows:

	Short-term	Long-term	Outlook
Moody's	P-1	A2	Stable
Standard & Poor's	A-1	A	Stable
Fitch	F1	A	Negative

Credit Facilities **–** On October 1, 2015, PMI replaced its $3.5 billion multi-year revolving credit facility, expiring October 25, 2016, with a new $3.5 billion multi-year revolving credit facility, expiring October 1, 2020. On January 27, 2016, PMI entered into an agreement to amend and extend its existing $2.0 billion 364-day revolving credit facility, effective February 9, 2016, from February 9, 2016, to February 7, 2017. On January 27, 2016, PMI also entered into an agreement to extend the term of its existing $2.5 billion multi-year revolving credit facility, effective February 28, 2016, from February 28, 2020, to February 28, 2021.

At February 16, 2016, our committed credit facilities were as follows:

(in billions)

Type		Committed Credit Facilities
364-day revolving credit, expiring February 7, 2017	**$**	**2.0**
Multi-year revolving credit, expiring February 28, 2020 [1]		**2.5**
Multi-year revolving credit, expiring October 1, 2020		**3.5**
Total facilities	**$**	**8.0**

[1] Effective February 28, 2016, the term of our $2.5 billion multi-year revolving credit facility was extended from February 28, 2020, to February 28, 2021.

At February 16, 2016, there were no borrowings under the committed credit facilities, and the entire $8.0 billion of committed amounts were available for borrowing.

All banks participating in our committed credit facilities have an investment-grade long-term credit rating from the credit rating agencies. We continuously monitor the credit quality of our banking group, and at this time we are not aware of any potential non-performing credit provider.

Each of these facilities requires us to maintain a ratio of consolidated earnings before interest, taxes, depreciation and amortization ("consolidated EBITDA") to consolidated interest expense of not less than 3.5 to 1.0 on a rolling four-quarter basis. At December 31, 2015, our ratio calculated in accordance with the agreements was 10.5 to 1.0. These facilities do not include any credit rating triggers, material adverse change clauses or any provisions that could require us to post collateral. We expect to continue to meet our covenants. The terms "consolidated EBITDA" and "consolidated interest expense," both of which include certain adjustments, are defined in the facility agreements previously filed with the U.S. Securities and Exchange Commission.

In addition to the committed credit facilities discussed above, certain of our subsidiaries maintain short-term credit arrangements to meet their respective working capital needs. These credit arrangements, which amounted to approximately $2.9 billion at December 31, 2015, and $3.2 billion at December 31, 2014, are for the sole use of our subsidiaries. Borrowings under these arrangements amounted to $825 million at December 31, 2015, and $1.2 billion at December 31, 2014.

Commercial Paper Program – We have commercial paper programs in place in the U.S. and in Europe. At December 31, 2015 and December 31, 2014, we had no commercial paper outstanding.

Effective April 19, 2013, our commercial paper program in the U.S. was increased by $2.0 billion. As a result, our commercial paper programs in place in the U.S. and in Europe currently have an aggregate issuance capacity of $8.0 billion.

We expect that the existence of the commercial paper program and the committed credit facilities, coupled with our operating cash flows, will enable us to meet our liquidity requirements.

Sale of Accounts Receivable – To mitigate credit risk and enhance cash and liquidity management we sell trade receivables to unaffiliated financial institutions. These arrangements allow us to sell, on an ongoing basis, certain trade receivables without recourse. The trade receivables sold are generally short-term in nature and are removed from the consolidated balance sheets. We sell trade receivables under two types of arrangements, servicing and non-servicing.

PMI's operating cash flows were positively impacted by the amount of the trade receivables sold and derecognized from the consolidated balance sheets, which remained outstanding with the unaffiliated financial institutions. The trade receivables sold that remained outstanding under these arrangements as of December 31, 2015, 2014 and 2013 were $888 million, $120 million and $146 million, respectively. The net proceeds received are included in cash provided by operating activities in the consolidated statements of cash flows.

For further details, see Item 8, Note 23. *Sale of Accounts Receivable* to our consolidated financial statements.

Debt – Our total debt was $28.5 billion at December 31, 2015, and $29.5 billion at December 31, 2014. Our total debt is primarily fixed rate in nature. For further details, see Item 8, Note 7. *Indebtedness*. The weighted-average all-in financing cost of our total debt was 3.0% in 2015, compared to 3.2% in 2014. See Item 8, Note 16. *Fair Value Measurements* to our consolidated financial statements for a discussion of our disclosures related to the fair value of debt. The amount of debt that we can issue is subject to approval by our Board of Directors.

On February 21, 2014, we filed a shelf registration statement with the U.S. Securities and Exchange Commission, under which we may from time to time sell debt securities and/or warrants to purchase debt securities over a three-year period.

Our debt issuances in 2015 were as follows:

(in millions)

Type		Face Value	Interest Rate	Issuance	Maturity
U.S. dollar notes	[a]	$500	1.250%	August 2015	August 2017
U.S. dollar notes	[a]	$750	3.375%	August 2015	August 2025

[a] Interest on these notes is payable annually in arrears beginning in February 2016.

The net proceeds from the sale of the securities listed in the table above will be used for general corporate purposes.

The weighted-average time to maturity of our long-term debt was 10.8 years at the end of 2014 and 10.5 years at the end of 2015.

- **Off-Balance Sheet Arrangements and Aggregate Contractual Obligations**

We have no off-balance sheet arrangements, including special purpose entities, other than guarantees and contractual obligations discussed below.

Guarantees – At December 31, 2015, we were contingently liable for $0.7 billion of guarantees of our own performance, which were primarily related to excise taxes on the shipment of our products. There is no liability in the consolidated financial statements associated with these guarantees. At December 31, 2015, our third-party guarantees were insignificant.

Aggregate Contractual Obligations – The following table summarizes our contractual obligations at December 31, 2015:

		Payments Due			
	Total	**2016**	**2017-2018**	**2019-2020**	**2021 and Thereafter**
(in millions)					
Long-term debt [1]	$27,922	$2,405	$5,097	$4,745	$15,675
RBH Legal Settlement [2]	78	32	46	—	—
Colombian Investment and Cooperation Agreement [3]	107	15	12	12	68
Interest on borrowings [4]	10,786	883	1,566	1,236	7,101
Operating leases [5]	682	177	207	103	195
Purchase obligations [6]:					
Inventory and production costs	5,094	2,007	1,586	852	649
Other	1,568	1,049	467	50	2
	6,662	3,056	2,053	902	651
Other long-term liabilities [7]	336	27	75	25	209
	$46,573	$6,595	$9,056	$7,023	$23,899

(1) Amounts represent the expected cash payments of our long-term debt and capital lease obligations.

(2) Amounts represent the estimated future payments due under the terms of the settlement agreement. See Item 8, Note 19. *RBH Legal Settlement*, to our consolidated financial statements for more details regarding this settlement.

(3) Amounts represent the expected cash payments under the terms of the Colombian Investment and Cooperation Agreement. See Item 8, Note 18. *Colombian Investment and Cooperation Agreement* to our consolidated financial statements for more details regarding this agreement.

(4) Amounts represent the expected cash payments of our interest expense on our long-term debt, including the current portion of long-term debt. Interest on our fixed-rate debt is presented using the stated interest rate. Interest on our variable rate debt is estimated using the rate in effect at December 31, 2015. Amounts exclude the amortization of debt discounts, the amortization of loan fees and fees for lines of credit that would be included in interest expense in the consolidated statements of earnings.

(5) Amounts represent the minimum rental commitments under non-cancelable operating leases.

(6) Purchase obligations for inventory and production costs (such as raw materials, indirect materials and supplies, packaging, co-manufacturing arrangements, storage and distribution) are commitments for projected needs to be utilized in the normal course of business. Other purchase obligations include commitments for marketing, advertising, capital expenditures, information technology and professional services. Arrangements are considered purchase obligations if a contract specifies all significant terms, including fixed or minimum quantities to be purchased, a pricing structure and approximate timing of the transaction. Amounts represent the minimum commitments under non-cancelable contracts. Any amounts reflected on the consolidated balance sheet as accounts payable and accrued liabilities are excluded from the table above.

(7) Other long-term liabilities consist primarily of postretirement health care costs and accruals established for employment costs. The following long-term liabilities included on the consolidated balance sheet are excluded from the table above: accrued pension and postemployment costs, tax contingencies, insurance accruals and other accruals. We are unable to estimate the timing of payments (or contributions in the case of accrued pension costs) for these items. Currently, we anticipate making pension contributions of approximately $113 million in 2016, based on current tax and benefit laws (as discussed in Item 8, Note 13. *Benefit Plans* to our consolidated financial statements).

The E.C. agreement payments discussed below are excluded from the table above, as the payments are subject to adjustment based on certain variables, including our market share in the EU.

E.C. Agreement – As discussed in Item 8, Note 20. *E.C. Agreement*, in 2004, we entered into an agreement with the European Commission (acting on behalf of the European Community) that provides for broad cooperation with European law enforcement agencies on anti-contraband and anti-counterfeit efforts. This agreement has been signed by all 27 Member States. This agreement calls for payments that are to be adjusted based on certain variables, including our market share in the European Union in the year preceding payment. Because future additional payments are subject to these variables, we record these payments as an expense in cost of sales when product is shipped. In addition, we are also responsible to pay the excise taxes, VAT and customs duties on qualifying product seizures of up to 90 million cigarettes and are subject to payments of five times the applicable taxes and duties if qualifying product seizures exceed 90 million cigarettes in a given year. In October 2014, this agreement was amended and the threshold was increased to 450 million cigarettes in a given year. This modification was effective as of July 2012. To date, our annual payments related to product seizures have been immaterial. Total charges related to the E.C. Agreement of $79 million, $71 million and $81 million were recorded in cost of sales in 2015, 2014 and 2013, respectively.

- **Equity and Dividends**

As discussed in Item 8, Note 9. *Stock Plans* to our consolidated financial statements, during 2015, we granted 1.5 million shares of deferred stock awards to eligible employees at a weighted-average grant date fair value of $82.28 per share. Equity awards generally vest three or more years after the date of the award, subject to earlier vesting on death or disability or normal retirement, or separation from employment by mutual agreement after reaching age 58.

In May 2012, our stockholders approved the Philip Morris International Inc. 2012 Performance Incentive Plan (the "2012 Plan"). Under the 2012 Plan, we may grant to eligible employees restricted stock, restricted stock units and deferred stock units, performance-based cash incentive awards and performance-based equity awards. Up to 30 million shares of our common stock may be issued under the 2012 Plan. At December 31, 2015, shares available for grant under the 2012 plan were 23,249,430.

On August 1, 2012, we began repurchasing shares under a new three-year $18.0 billion share repurchase program that was authorized by our Board of Directors in June 2012. From August 1, 2012, through December 31, 2014, we repurchased 144.6 million shares of our common stock at a cost of $12.7 billion under this repurchase program. During 2015, we did not repurchase any shares under this program.

On February 4, 2016, we announced that we do not plan any share repurchases in 2016. We will revisit the potential for repurchases as the year unfolds, depending on the currency environment.

Dividends paid in 2015 were $6.3 billion. During the third quarter of 2015, our Board of Directors approved a 2.0% increase in the quarterly dividend to $1.02 per common share. As a result, the present annualized dividend rate is $4.08 per common share.

Market Risk

- ***Counterparty Risk -*** We predominantly work with financial institutions with strong short- and long-term credit ratings as assigned by Standard & Poor's and Moody's. These banks are also part of a defined group of relationship banks. Non-investment grade institutions are only used in certain emerging markets to the extent required by local business needs. We have a conservative approach when it comes to choosing financial counterparties and financial instruments. As such we do not invest or hold investments in any structured or equity-linked products. The majority of our cash and cash equivalents is currently invested in bank deposits maturing within less than 30 days.

We continuously monitor and assess the credit worthiness of all our counterparties.

- ***Derivative Financial Instruments -*** We operate in markets outside of the U.S., with manufacturing and sales facilities in various locations throughout the world. Consequently, we use certain financial instruments to manage our foreign currency and interest rate exposure. We use derivative financial instruments principally to reduce our exposure to market risks resulting from fluctuations in foreign exchange rates by creating offsetting exposures. We are not a party to leveraged derivatives and, by policy, do not use derivative financial instruments for speculative purposes.

See Item 8, Note 15. *Financial Instruments,* Item 8, Note 16. *Fair Value Measurements* and Item 8, Note 22. *Balance Sheet Offsetting* to our consolidated financial statements for further details on our derivative financial instruments and the related collateral arrangements.

- ***Value at Risk -*** We use a value at risk computation to estimate the potential one-day loss in the fair value of our interest-rate-sensitive financial instruments and to estimate the potential one-day loss in pre-tax earnings of our foreign currency price-sensitive derivative financial instruments. This computation includes our debt, short-term investments, and foreign currency forwards, swaps and options. Anticipated transactions, foreign currency trade payables and receivables, and net investments in foreign subsidiaries, which the foregoing instruments are intended to hedge, were excluded from the computation.

The computation estimates were made assuming normal market conditions, using a 95% confidence interval. We use a "variance/co-variance" model to determine the observed interrelationships between movements in interest rates and various currencies. These interrelationships were determined by observing interest rate and forward currency rate movements over the preceding quarter for determining value at risk at December 31, 2015 and 2014, and over each of the four preceding quarters for the calculation of average value at risk amounts during each year. The values of foreign currency options do not change on a one-to-one basis with the underlying currency and were valued accordingly in the computation.

The estimated potential one-day loss in fair value of our interest-rate-sensitive instruments, primarily debt, under normal market conditions and the estimated potential one-day loss in pre-tax earnings from foreign currency instruments under normal market conditions, as calculated in the value at risk model, were as follows:

	Pre-Tax Earnings Impact			
(in millions)	**At 12/31/15**	**Average**	**High**	**Low**
Instruments sensitive to:				
Foreign currency rates	**$65**	**$74**	**$96**	**$62**

	Fair Value Impact			
(in millions)	**At 12/31/15**	**Average**	**High**	**Low**
Instruments sensitive to:				
Interest rates	**$102**	**$120**	**$147**	**$102**

	Pre-Tax Earnings Impact			
(in millions)	**At 12/31/14**	**Average**	**High**	**Low**
Instruments sensitive to:				
Foreign currency rates	$39	$25	$39	$13

	Fair Value Impact			
(in millions)	**At 12/31/14**	**Average**	**High**	**Low**
Instruments sensitive to:				
Interest rates	$95	$69	$95	$55

The value at risk computation is a risk analysis tool designed to statistically estimate the maximum probable daily loss from adverse movements in interest and foreign currency rates under normal market conditions. The computation does not purport to represent actual losses in fair value or earnings to be incurred by us, nor does it consider the effect of favorable changes in market rates. We cannot predict actual future movements in such market rates and do not present these results to be indicative of future movements in market rates or to be representative of any actual impact that future changes in market rates may have on our future results of operations or financial position.

Contingencies

See Item 3 and Item 8, Note 21. *Contingencies* to our consolidated financial statements for a discussion of contingencies.

Cautionary Factors That May Affect Future Results

Forward-Looking and Cautionary Statements

We may from time to time make written or oral forward-looking statements, including statements contained in filings with the SEC, in reports to stockholders and in press releases and investor webcasts. You can identify these forward-looking statements by use of words such as "strategy," "expects," "continues," "plans," "anticipates," "believes," "will," "estimates," "intends," "projects," "goals," "targets" and other words of similar meaning. You can also identify them by the fact that they do not relate strictly to historical or current facts.

We cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties and inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Investors should bear this in mind as they consider forward-looking statements and whether to invest in or remain invested in our securities. In connection with the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995, we are identifying important factors that, individually or in the aggregate, could cause actual results and outcomes to differ materially from those contained in any forward-looking statements made by us; any such statement is qualified by reference to the following cautionary statements. We elaborate on these and other risks we face throughout this document, particularly in Item 1A. *Risk Factors,* and *Business Environment* of this section. You should understand that it is not possible to predict or identify all risk factors. Consequently, you should not consider the following to be a complete discussion of all potential risks or uncertainties. We do not undertake to update any forward-looking statement that we may make from time to time, except in the normal course of our public disclosure obligations.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk.*

The information called for by this Item is included in Item 7, *Market Risk*.