

Philip Morris International Inc.  
Form DEF 14A  
March 29, 2018  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the Securities**

**Exchange Act of 1934 (Amendment No. )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement  
Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))  
Definitive Proxy Statement  
Definitive Additional Materials  
Soliciting Material Under Rule 14a-12

**Philip Morris International Inc.**

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(Name of Registrant as Specified in Its Charter)

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

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Payment of Filing Fee (Check the appropriate box):

No fee required.

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

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

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(5) Total fee paid:

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(1) Amount previously paid:

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

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(3) Filing Party:

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**2018 PROXY STATEMENT**

And Notice of Annual Meeting of Shareholders

To be held on Wednesday, May 9, 2018

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March 29, 2018

Dear Fellow Shareholder,

You are cordially invited to join us at the 2018 Annual Meeting of Shareholders of Philip Morris International Inc. ( PMI or the Company ) to be held on Wednesday, May 9, 2018, at 9:00 a.m., in the Empire State Ballroom at the Grand Hyatt New York, 109 East 42<sup>nd</sup> Street, New York, New York.

At this year's meeting, we will vote on the election of fourteen directors, an advisory say-on-pay vote approving executive compensation, and the ratification of the selection of PricewaterhouseCoopers SA as the Company's independent auditors. There will also be a report on the Company's business, and shareholders will have an opportunity to ask questions.

We anticipate that a large number of shareholders will attend the meeting. Because seating is limited, you may bring only one immediate family member as a guest. **All attendees must present an admission ticket and government-issued photographic identification. To request an admission ticket, please follow the instructions set forth on page 61 in response to Question 4.**

The meeting facilities will open at 7:30 a.m. on May 9, 2018. We suggest you arrive early to facilitate your registration and security clearance. Those needing special assistance at the meeting are requested to write to the Company's Corporate Secretary at 120 Park Avenue, New York, New York 10017-5579. For your comfort and security, you will not be permitted to bring any packages, briefcases, large pocketbooks or bags into the meeting. Also, cellular and digital phones, audio tape recorders, laptops and other portable electronic devices, video and still cameras, pagers and pets will not be permitted into the meeting. We thank you in advance for your patience and cooperation with these rules, which assist us in conducting a safe and orderly meeting.

Attached you will find a notice of meeting and proxy statement that contains additional information about the meeting, including the methods that you can use to vote your proxy, such as the telephone or Internet. As we did last year, we are mailing to certain of our shareholders a Notice of Internet Availability of Proxy Materials. This Notice contains instructions on how to access our proxy statement and 2017 Annual Report to Shareholders and vote online. Those shareholders who do not receive the Notice will receive a paper copy of the proxy materials by mail. By furnishing this Notice, we are lowering costs and reducing the environmental impact of our Annual Meeting.

Your vote is important. We encourage you to sign and return your proxy card, or use telephone or Internet voting prior to the meeting, so that your shares of common stock will be represented and voted at the meeting even if you cannot attend.

Sincerely,

Sincerely,

LOUIS C. CAMILLERI

ANDRÉ CALANTZOPOULOS

CHAIRMAN OF THE BOARD

CHIEF EXECUTIVE OFFICER

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



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**PHILIP MORRIS INTERNATIONAL INC.**

**NOTICE OF 2018 ANNUAL MEETING OF SHAREHOLDERS**

<b>Date and Time</b>	9:00 a.m. on Wednesday, May 9, 2018
<b>Place</b>	Empire State Ballroom  Grand Hyatt New York  109 East 42 <sup>nd</sup> Street  New York, New York
<b>Items of Business</b>	(1) To elect fourteen directors.  (2) To vote on an advisory resolution approving executive compensation.  (3) To ratify the selection of PricewaterhouseCoopers SA as independent auditors for the Company for the fiscal year ending December 31, 2018.  (4) To transact other business properly coming before the meeting.
<b>Who Can Vote</b>	Only shareholders of record of shares of common stock at the close of business on March 16, 2018 (the Record Date ) are entitled to notice of and to vote at the meeting, or at any adjournments or postponements of the meeting. Each shareholder of record on the Record Date is entitled to one vote for each share of common stock held. On March 16, 2018, there were 1,554,464,977 shares of common stock issued and outstanding.
<b>Voting of Proxies and Deadline for Receipt</b>	All properly executed written proxies, and all properly completed proxies submitted by telephone or Internet, that are delivered pursuant to this solicitation will be voted at the meeting in accordance with the directions given in the proxy, unless the proxy is revoked before the meeting. Proxies submitted by telephone or Internet must be received by 11:59 p.m., EDT, on May 8, 2018.
<b>2017 Annual Report</b>	A copy of our 2017 Annual Report is enclosed.
<b>Date of Mailing</b>	This notice and the proxy statement are first being mailed to shareholders on or about March 29, 2018.

**Jerry Whitson**



**Deputy General Counsel and Corporate Secretary**

**March 29, 2018**

WE URGE EACH SHAREHOLDER TO PROMPTLY SIGN AND RETURN THE ENCLOSED PROXY CARD OR TO USE TELEPHONE OR INTERNET VOTING. SEE THE QUESTION AND ANSWER SECTION FOR INFORMATION ABOUT VOTING BY TELEPHONE OR INTERNET, HOW TO REVOKE A PROXY, AND HOW TO VOTE YOUR SHARES OF COMMON STOCK IN PERSON. PLEASE NOTE THAT YOU MUST OBTAIN AN ADMISSION TICKET IN ORDER TO ATTEND THE MEETING. TO OBTAIN AN ADMISSION TICKET, PLEASE FOLLOW THE INSTRUCTIONS SET FORTH ON PAGE 61 IN RESPONSE TO QUESTION 4.

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

**on May 9, 2018: The Company's Proxy Statement and 2017 Annual Report are available at**

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

**2** PMI 2018 Proxy Statement

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**GLOSSARY OF TERMS**

**Financial Terms:**

Net revenues exclude excise taxes.

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

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

Operating Companies Income, or OCI, is defined as operating income, excluding general corporate expenses and the amortization of intangibles, plus equity (income) or loss in unconsolidated subsidiaries, net.

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

EPS stands for Earnings Per Share.

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

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

**Other Terms:**

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

NEOs are Named Executive Officers and include our Chief Executive Officer, or CEO, our Chief Financial Officer, or CFO, and the three other most highly compensated officers serving in 2017.

PSUs are Performance Share Units.

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

TSR stands for Total Shareholder Return.

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

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**PROXY STATEMENT SUMMARY**

This proxy statement contains proposals to be voted on at our Annual Meeting and other information about our Company and our corporate governance practices. We provide below a brief summary of certain information contained in this proxy statement. The summary does not contain all of the information you should consider. Please read the entire proxy statement carefully before voting.

**2017 Business Performance Highlights**

In 2017, we delivered consistently strong results versus 2016 results on our key performance metrics, with net revenues growth exceeding the highest level we have achieved since our spin-off in 2008, reflecting a landmark year for our RRP, *IQOS*. We fell marginally short of ambitious adjusted OCI and adjusted diluted EPS growth targets, reflecting an unfavorable pricing environment in Russia, severe volume contraction in Saudi Arabia following a disruptive excise tax increase that doubled retail prices, as well as additional investments behind *IQOS*. Favorable pricing and judicious cost management in our combustible business also played an important role.

As further discussed on page 33, we made significant progress on our strategic initiatives. The most important achievement was our ongoing progress in commercializing *IQOS*. This performance was spearheaded by Japan and Korea, where *HeatSticks* and *HEETS* achieved respective shares of 13.9% and 5.5% during the fourth quarter, an unprecedented result despite capacity-driven constraints. By year-end, *IQOS* was available in key cities in 37 markets across all Regions and nationwide in Japan.

**2017 Performance Targets and Results**



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### **PROXY STATEMENT SUMMARY**

#### **Investor Outreach**

Throughout the year, the Company engages in an extensive shareholder outreach program during which it seeks input on a range of matters, including executive compensation and corporate governance. In 2015, the Compensation and Leadership Development Committee substantially revamped our executive compensation program. Our shareholders overwhelmingly supported the new compensation program, approving our 2017 say-on-pay proposal by a vote of 96.4% and our 2017 Performance Incentive Plan by a vote of 96.6%. Based on this support and its own satisfaction with the new compensation program, the Compensation and Leadership Development Committee has determined not to make any substantial modifications to the program at this time.

In 2017, we met with 61 of our top 100 institutional investors, representing 71% of our available global shareholder base (which excludes index and pension funds that do not meet with management), to discuss our business and environmental, social and governance issues. In addition to these regular Investor Relations engagements, we invited 62 of our largest shareholders, holding approximately 56% of our outstanding shares, to participate in individual conference calls to discuss executive compensation and corporate governance. These engagements provided us a better understanding of our shareholders' priorities, perspectives and positions. We reported the substance of these engagements to our Compensation and Leadership Development Committee, our Nominating and Corporate Governance Committee, and our entire Board of Directors.

The shareholders with whom we spoke overwhelmingly supported the new compensation program we instituted in 2015. They also commended the governance changes we have made, namely the proxy access by-law, the adoption of share retention guidelines for non-employee directors, the enhancements to the Company's anti-hedging and anti-pledging policies, and the formalization of the Nominating and Corporate Governance Committee's oversight of the Company's lobbying and trade association activities and expenditures.

#### **Our Focus on Sustainability**

As part of our continued focus on sustainability, the Board has added oversight of our sustainability strategies and performance to the charter of the Board's Nominating and Corporate Governance Committee. Our 2017 Annual Report outlines our approach to sustainability, and notes that in 2017 we made the CDP Climate A list for the fourth year in a row and achieved CDP A list status for both Water and Supplier Engagement for the first time. The 2017 Annual Report also highlights our continued efforts to support our Good Agricultural Practices program.

#### **2018 Shareholder Vote Recommendations**



The Board of Directors makes the following recommendations to shareholders:

	<b>Board's Recommendation</b>	<b>Page</b>
<b>Item 1: Election of Directors</b>		
	<b>FOR each nominee</b>	<b>14</b>
<b>Item 2: Advisory Vote Approving Executive Compensation</b>		
	<b>FOR</b>	<b>55</b>
<b>Item 3: Ratification of the Selection of Independent Auditors for 2018</b>		
	<b>FOR</b>	<b>58</b>

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**BOARD OPERATIONS AND GOVERNANCE**

**Board Responsibility and Meetings**

The primary responsibility of the Board of Directors is to foster the long-term success of the Company, consistent with its statutory duty to shareholders. The Board has responsibility for establishing broad corporate policies, setting strategic direction, and overseeing management, which is responsible for the day-to-day operations of the Company. In fulfilling this role, each director must exercise his or her good faith business judgment of the best interests of the Company.

The Board holds regular meetings, typically during the months of February, March, May, June, September and December, and additional meetings when necessary. The organizational meeting follows immediately after the Annual Meeting of Shareholders. The Board held six regular meetings and one special meeting in 2017. The Board meets in executive session regularly with no members of management being present. Directors are expected to attend Board meetings, the Annual Meeting of Shareholders and meetings of the Committees on which they serve, with the understanding that on occasion a director may be unable to attend.

During 2017, all nominees for director then in office attended at least 75% of the aggregate number of meetings of the Board and all Committees on which they served, and each of the nominee directors then in office attended the 2017 Annual Meeting of Shareholders.

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

**Governance Guidelines, Policies and Codes**

The Board has adopted Corporate Governance Guidelines. In 2014, the Audit Committee approved a substantial revision to the Company's Code of Conduct. The revised document, which was updated earlier this year, and is known as the *Guidebook for Success*, is an interactive, plain language tool that describes the fundamental beliefs and attributes that unite and guide us in pursuing PMI's goals, illustrates how to meet our commitments to these beliefs and attributes, and explains why it is critical to do so. The *Guidebook* applies to all employees, including the Company's principal executive officer, principal financial officer, and principal accounting officer or controller. The Board has also adopted a Code

of Business Conduct and Ethics that applies to directors. The Board has also adopted a policy with regard to reviewing certain transactions in which the Company is a participant and an officer, director or nominee for director has, had or may have a direct or indirect material interest. All of these documents are available free of charge on the Company's website, [www.pmi.com/governance](http://www.pmi.com/governance), and will be provided free of charge to any shareholder requesting a copy by writing to the Corporate Secretary, Philip Morris International Inc., 120 Park Avenue, New York, New York 10017-5579.

The information on the Company's websites is not, and shall not be deemed to be, a part of this proxy statement or incorporated into any other filings the Company makes with the U.S. Securities and Exchange Commission.

### **Leadership Structure**

The Board believes that no particular leadership structure is inherently superior to all others under all circumstances. It determines from time to time the structure that best serves the interests of the Company and its shareholders under the then-prevailing circumstances. Currently, Louis Camilleri serves as our non-executive Chairman, and André Calantzopoulos serves as our Chief Executive Officer.

As Chairman, Mr. Camilleri facilitates communication between the Board and management and assists the CEO with long-term strategy. He presides at all meetings of shareholders and of the Board and assists in the preparation of agendas and materials for Board meetings, working together with the Presiding Director, who approves the agendas before they are disseminated to the Board. Input is sought from all directors as to topics they wish to review. Mr. Camilleri ceased to be an employee of the Company on December 31, 2014, and the Board has determined that he now qualifies as independent under the listing standards of the New York Stock Exchange and Rule 10A-3 of the Securities Exchange Act of 1934, as amended (the Exchange Act). The Board also has a Presiding Director as described immediately below.

### **Presiding Director**

The non-management directors elect at the annual organizational meeting one independent director as the Presiding Director. The Presiding Director's responsibilities are to:

preside over executive sessions of the non-management directors and at all meetings at which the Chairman is not present;

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**BOARD OPERATIONS AND GOVERNANCE**

call meetings of the non-management directors as he or she deems necessary;

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

approve agendas and schedules for Board meetings;

advise the Chairman and the Chief Executive Officer of the Board's informational needs and approve information sent to the Board;

together with the Chairman of the Compensation and Leadership Development Committee, communicate goals and objectives to the Chief Executive Officer and the results of the evaluation of his performance; and

be available for consultation and communication if requested by major shareholders.

The Presiding Director is invited to attend all meetings of Committees of the Board. Lucio A. Noto currently serves as the Presiding Director.

**Committees of the Board**

The Board has established various standing Committees to assist with the performance of its responsibilities. These Committees and their current members are listed below. The Board designates the members of these

Committees and the Committee Chairs at its organizational meeting following the Annual Meeting of Shareholders, based on the recommendations of the Nominating and Corporate Governance Committee. The Board has adopted written charters for each of these Committees and these charters are available on the Company's website at [www.pmi.com/governance](http://www.pmi.com/governance). The Chair of each Committee develops the agenda for that Committee and determines the frequency and length of Committee meetings. Each Committee meets as often as it deems appropriate and each has sole authority to retain its own legal counsel, experts and consultants.

The Audit Committee, the Compensation and Leadership Development Committee, and the Nominating and Corporate Governance Committee each consists entirely of non-management directors, all of whom the Board has determined are independent within the meaning of the Exchange Act. The Board has determined that all members of the Audit Committee are financially literate and that Lucio A. Noto is an audit committee financial expert within the meaning set forth in the regulations of the Securities and Exchange Commission. No member of the Audit Committee, the Compensation and Leadership Development Committee or the Nominating and Corporate Governance Committee received any payments in 2017 from Philip Morris International Inc. or its subsidiaries, other than compensation received as a director.

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**BOARD OPERATIONS AND GOVERNANCE**

<b>Committees and 2017 Meetings</b>	<b>2017 Members</b>	<b>Purpose, Authority and Responsibilities</b>
<b>AUDIT</b>	<ul style="list-style-type: none"> <li>- <b>Jennifer Li (Chair)</b></li> <li>- Werner Geissler</li> <li>- Jun Makihara</li> <li>- Lucio A. Noto</li> <li>- Stephen M. Wolf</li> </ul>	<p><b>Purpose:</b> to assist the Board in its oversight of: the integrity of the financial statements and financial reporting processes and systems of internal control;</p> <p>the qualifications, independence and performance of the independent auditors; the internal audit function; and</p> <p>the Company's compliance with legal and regulatory requirements.</p> <p><b>Authority and Responsibilities:</b></p> <p>sole authority for appointing, compensating, retaining and overseeing the work of the independent auditors; evaluate the internal audit function;</p> <p>evaluate the compliance function;</p> <p>oversee cybersecurity risk assessment and management;</p>
Meetings: 10		

review financial risk assessment and management;

oversee the risk management of excessive or discriminatory taxation;

oversee the risk management of illicit trade;

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

establish whistleblower procedures and review claims of improper conduct.

**COMPENSATION - Werner Geissler (Chair) Purpose:**

**AND LEADERSHIP** - Harold Brown

**DEVELOPMENT** - Lucio A. Noto

- Robert B. Polet

Meetings: 5 - Stephen M. Wolf

discharge the Board's responsibilities relating to executive compensation; produce a report for inclusion in the proxy statement; and review succession plans for the CEO and other senior executives.

**Authority and Responsibilities:**

review and approve the Company's overall compensation philosophy and design;

review and approve corporate goals and objectives relevant to the compensation of the CEO, evaluate his performance and determine and approve his compensation;

review and approve the compensation of all executive officers;

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

monitor compliance by executives with our share ownership requirements;

review and assist with the development of executive succession plans, evaluate and make recommendations to the Board regarding potential CEO

candidates and evaluate and approve candidates to fill other senior executive positions;  
 oversee the management of risks related to compensation design and payout;  
 oversee talent management, particularly with respect to diversity and inclusion and talent development throughout the organization;  
 review and discuss with management proposed disclosures regarding executive compensation matters; and  
 recommend to the Board whether the Compensation Discussion and Analysis should be accepted for inclusion in the proxy statement and annual report.

<b>FINANCE</b>  Meetings: 4	- Jun Makihara (Chair)	<b>Purpose, Authority and Responsibilities:</b>	monitor the Company's financial performance and condition;
	- Harold Brown		
	- Massimo Ferragamo		oversee sources and uses of cash flow and capital structure;
	- Werner Geissler		
	- Jennifer Li		advise the Board on dividends, share repurchases and other financial matters;
	- Sergio Marchionne	Foreign Account Tax Compliance Act. The Foreign Account Tax Compliance Act ("FATCA"), imposes	
	- Kalpana Morparia	a 30% U.S. withholding tax on certain U.S. source payments of interest (and OID), dividends, or other fixed or determinable annual or periodical gain, profits, and income, and on the gross proceeds	
	- Lucio A. Noto		
	- Frederik Paulsen		
	- Robert B. Polet		
- Stephen M. Wolf			



from a disposition of property (including payments at maturity, or upon a redemption or sale) of a type which can produce U.S. source interest or dividends (“withholdable payments”), if paid to a foreign financial institution (including amounts paid to a foreign financial institution on your behalf) unless such institution enters into an agreement with the U.S. Treasury Department to collect and provide to the U.S. Treasury Department certain information regarding U.S. account holders, including certain account holders that are foreign entities with U.S. owners, with such institution or otherwise complies with FATCA. In addition, the Notes may constitute a “financial account” for these purposes and thus, be subject to information reporting requirements pursuant to FATCA. The legislation also generally imposes

a withholding tax  
of 30% on  
withholdable  
payments made to  
a non-

RBC Capital  
P-14 Markets,  
LLC

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Notes Linked to  
the EURO STOXX  
50® Index,  
Due January 31,  
2023

financial foreign  
entity, unless that  
entity provides the  
withholding agent  
with a certification  
that it does not  
have any  
substantial U.S.  
owners or a  
certification  
identifying the  
direct and indirect  
substantial U.S.  
owners of the  
entity.

The U.S. Treasury  
Department and the  
IRS have  
announced that  
withholding on  
payments of gross  
proceeds from a  
sale or redemption  
of the Notes will  
only apply to  
payments made  
after December 31,  
2018. We will not  
pay additional  
amounts with  
respect to any  
FATCA  
withholding.

Therefore, if such  
withholding  
applies, any  
payments on the  
Notes will be  
significantly less  
than what you  
would have  
otherwise  
received.

Depending on your circumstances, these amounts withheld may be creditable or refundable to you. Foreign financial institutions and non-financial foreign entities located in jurisdictions that have an intergovernmental agreement with the United States governing FATCA may be subject to different rules. You are urged to consult with your own tax advisor regarding the possible implications of FATCA on your investment in the Notes.

**SUPPLEMENTAL  
PLAN OF  
DISTRIBUTION  
(CONFLICTS OF  
INTEREST)**

Delivery of the Notes will be made against payment for the Notes on January 31, 2018, which is the third (3<sup>rd</sup>) business day following the Pricing Date (this settlement cycle being referred to as “T+3”). See “Plan of Distribution” in the prospectus dated January 8, 2016. For additional information as to the relationship

between us and RBCCM, please see the section “Plan of Distribution - Conflicts of Interest” in the prospectus dated January 8, 2016. In the initial offering of the Notes, they were offered to investors at a purchase price equal to par, except with respect to certain accounts as indicated on the cover page of this document. Delivery of the Notes will be made against payment for the Notes on a date that is more than two business days following the Pricing Date. Under Rule 15c6-1 under the Securities Exchange Act of 1934, trades in the secondary market generally are required to settle in two business days, unless the parties to that trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes more than two business days prior to the Original Issue Date will be required to specify an alternate settlement cycle at the time of any

such trade to prevent a failed settlement, and should consult their own advisors. The value of the Notes shown on your account statement may be based on RBCCM's estimate of the value of the Notes if RBCCM or another of our affiliates were to make a market in the Notes (which it is not obligated to do). That estimate will be based upon the price that RBCCM may pay for the Notes in light of then prevailing market conditions, our creditworthiness and transaction costs. For a period of approximately 12 months after the issue date of the Notes, the value of the Notes that may be shown on your account statement may be higher than RBCCM's estimated value of the Notes at that time. This is because the estimated value of the Notes will not include the underwriting discount and our hedging costs and profits; however, the value of the Notes shown on

your account statement during that period may initially be a higher amount, reflecting the addition of RBCCM's underwriting discount and our estimated costs and profits from hedging the Notes. This excess is expected to decrease over time until the end of this period. After this period, if RBCCM repurchases your Notes, it expects to do so at prices that reflect their estimated value. We may use this pricing supplement in the initial sale of the Notes. In addition, RBCCM or another of our affiliates may use this pricing supplement in a market-making transaction in the Notes after their initial sale. Unless we or our agent informs the purchaser otherwise in the confirmation of sale, this pricing supplement is being used in a market-making transaction.

RBC Capital  
P-15 Markets,  
LLC

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Notes Linked to  
the EURO STOXX  
50<sup>®</sup> Index,  
Due January 31,  
2023

No Prospectus (as  
defined in  
Directive  
2003/71/EC (as  
amended, the  
“Prospectus  
Directive”)) will be  
prepared in  
connection with the  
Notes.

Accordingly, the  
Notes may not be  
offered to the  
public in any  
member state of  
the European  
Economic Area  
(the “EEA”), and any  
purchaser of the  
Notes who  
subsequently sells  
any of the Notes in  
any EEA member  
state must do so  
only in accordance  
with the  
requirements of the  
Prospectus  
Directive, as  
implemented in  
that member state.  
The Notes are not  
intended to be  
offered, sold or  
otherwise made  
available to, and  
should not be  
offered, sold or  
otherwise made  
available to, any  
retail investor in  
the EEA. For these  
purposes, the



expression “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, and a “retail investor” means a person who is one (or more) of: (a) a retail client, as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “MiFID II”); or (b) a customer, within the meaning of Insurance Distribution Directive 2016/97/EU, as amended, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (c) not a qualified investor as defined in the Prospectus Directive. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or

selling the Notes or otherwise making them available to retail investors in the EEA has been prepared, and therefore, offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

#### STRUCTURING THE NOTES

The Notes are our debt securities, the return on which is linked to the performance of the Reference Asset.

As is the case for all of our debt securities, including our structured notes, the economic terms of the Notes reflect our actual or perceived creditworthiness at the time of pricing. In addition, because structured notes result in increased operational, funding and liability management costs to us, we typically borrow the funds under these Notes at a rate that is more favorable to us than the rate that we might pay for a conventional fixed or floating rate

debt security of comparable maturity. Using this relatively lower implied borrowing rate rather than the secondary market rate, is a factor that reduced the initial estimated value of the Notes at the time their terms were set. Unlike the estimated value included in this pricing supplement, any value of the Notes determined for purposes of a secondary market transaction may be based on a different funding rate, which may result in a lower value for the Notes than if our initial internal funding rate were used. In order to satisfy our payment obligations under the Notes, we may choose to enter into certain hedging arrangements (which may include call options, put options or other derivatives) on the issue date with RBCCM or one of our other subsidiaries. The terms of these hedging arrangements take into account a

number of factors, including our creditworthiness, interest rate movements, the volatility of the Reference Asset, and the tenor of the Notes. The economic terms of the Notes and their initial estimated value depend in part on the terms of these hedging arrangements. The lower implied borrowing rate is a factor that reduced the economic terms of the Notes to you. The initial offering price of the Notes also reflects the underwriting commission and our estimated hedging costs. These factors resulted in the initial estimated value for the Notes on the Pricing Date being less than their public offering price. See “Selected Risk Considerations—The Initial Estimated Value of the Notes Is Less than the Price to the Public” above.

RBC Capital  
P-16 Markets,  
LLC

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Notes Linked to  
the EURO STOXX  
50® Index,  
Due January 31,  
2023

**VALIDITY OF  
THE NOTES**

In the opinion of  
Norton Rose  
Fulbright Canada  
LLP, the issue and  
sale of the Notes  
has been duly  
authorized by all  
necessary  
corporate action of  
the Bank in  
conformity with  
the Indenture, and  
when the Notes  
have been duly  
executed,  
authenticated and  
issued in  
accordance with  
the Indenture and  
delivered against  
payment therefor,  
the Notes will be  
validly issued and,  
to the extent  
validity of the  
Notes is a matter  
governed by the  
laws of the  
Province of  
Ontario or Québec,  
or the laws of  
Canada applicable  
therein, and will be  
valid obligations of  
the Bank, subject  
to equitable  
remedies which  
may only be  
granted at the  
discretion of a  
court of competent

authority, subject to applicable bankruptcy, to rights to indemnity and contribution under the Notes or the Indenture which may be limited by applicable law; to insolvency and other laws of general application affecting creditors' rights, to limitations under applicable limitations statutes, and to limitations as to the currency in which judgments in Canada may be rendered, as prescribed by the Currency Act (Canada). This opinion is given as of the date hereof and is limited to the laws of the Provinces of Ontario and Québec and the federal laws of Canada applicable thereto. In addition, this opinion is subject to customary assumptions about the Trustee's authorization, execution and delivery of the Indenture and the genuineness of signatures and certain factual matters, all as stated in the letter of such counsel

dated January 8, 2016, which has been filed as Exhibit 5.1 to Royal Bank's Form 6-K dated January 8, 2016.

In the opinion of Morrison & Foerster LLP, when the Notes have been duly completed in accordance with the Indenture and issued and sold as contemplated by the prospectus supplement and the prospectus, the Notes will be valid, binding and enforceable obligations of the Bank, entitled to the benefits of the Indenture, subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally, concepts of reasonableness and equitable principles of general applicability (including, without limitation, concepts of good faith, fair dealing and the lack of bad faith). This opinion is given as of the date hereof and is limited to the laws of the State of New York. This opinion is subject to customary

assumptions about the Trustee's authorization, execution and delivery of the Indenture and the genuineness of signatures and to such counsel's reliance on the Bank and other sources as to certain factual matters, all as stated in the legal opinion dated January 8, 2016, which has been filed as Exhibit 5.2 to the Bank's Form 6-K dated January 8, 2016.

RBC Capital  
P-17 Markets,  
LLC

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