TOP 10 TAKEAWAYS from PMI's Integrated Report 2022: Transforming for good

Find out how Philip Morris International is making progress toward achieving its purpose and get detailed information about its strategic vision, performance, governance, and value creation.

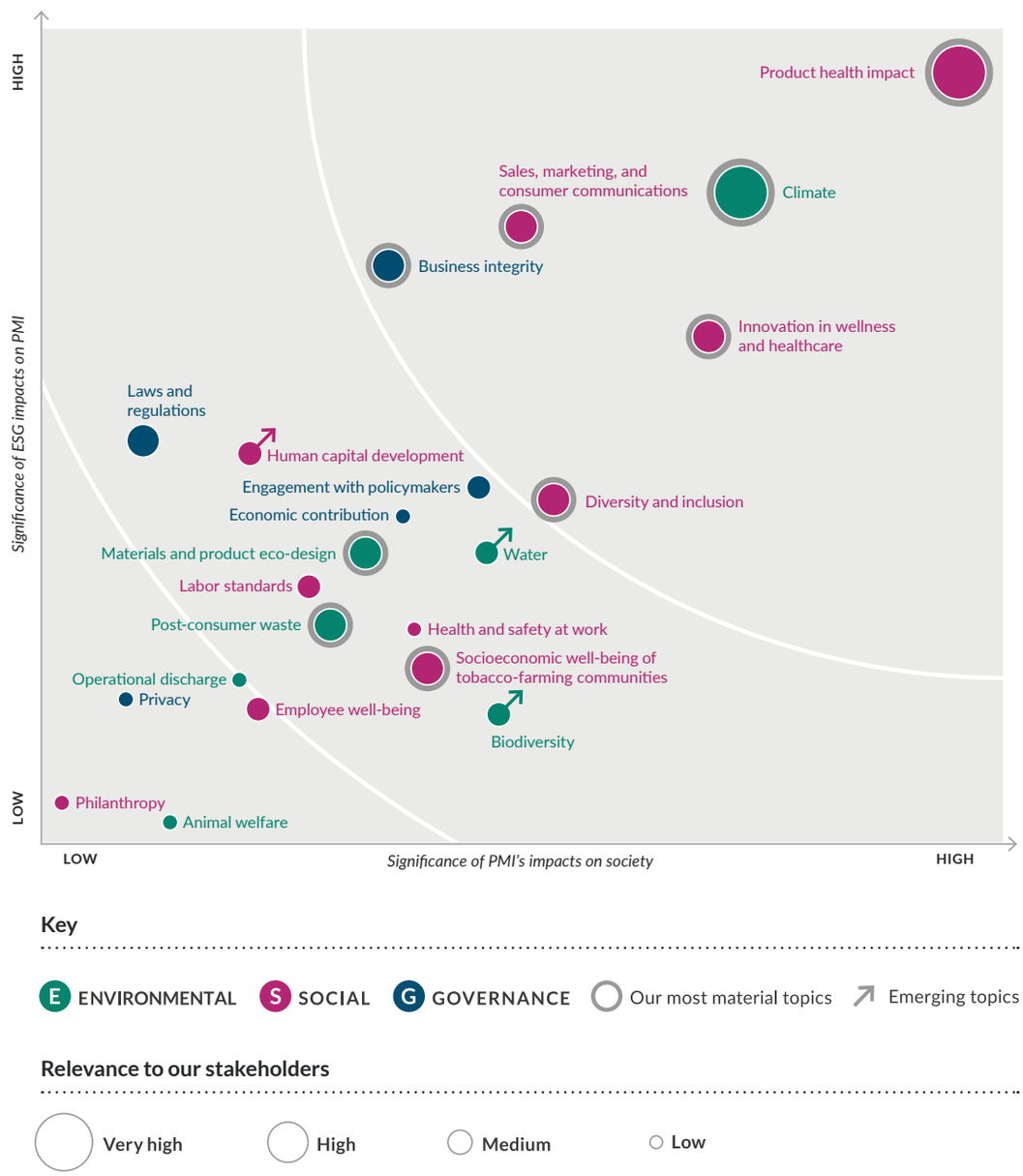
Read **PMI's Integrated Report 2022**

1 SUSTAINABILITY MATERIALITY ASSESSMENT & ESG FRAMEWORK

PMI's sustainability materiality assessment is the foundation of its sustainability strategy—it allows PMI to identify, assess, and prioritize ESG topics.

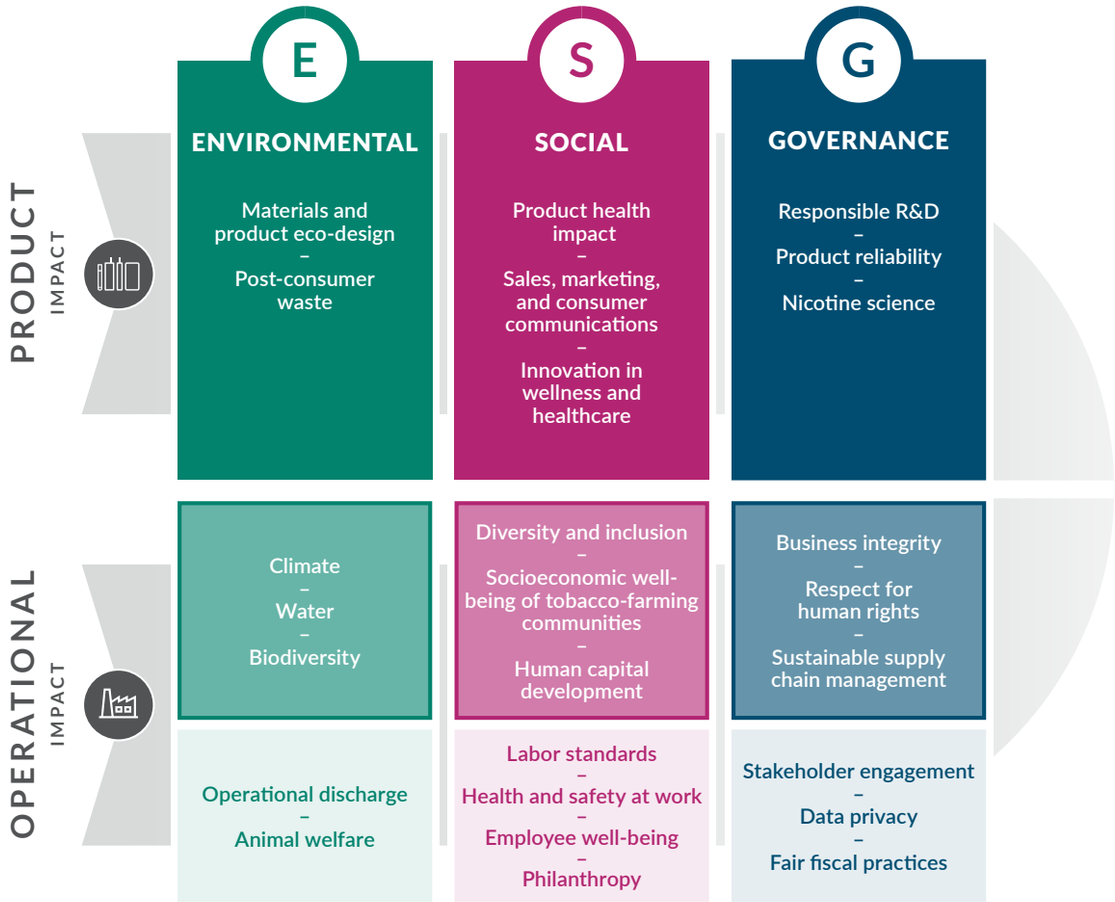
In line with the principles of double materiality, PMI's 2021 sustainability materiality analysis assessed the potential impact of sustainability topics on its performance and business overall in terms of risks and opportunities that could have an impact on the company's ability to create value.

SUSTAINABILITY MATERIALITY MATRIX



The sustainability materiality assessment helps identify the environmental, social, and governance (ESG) issues that the Company should focus on. The assessment consists of a threefold approach that evaluates both outward and inward impacts in line with the principles of double-materiality, and accounts for the expectations of the Company's stakeholders.

—**Jennifer Motles**, Chief Sustainability Officer



Read **PMI's 2021 Sustainability Materiality Report**

Read more about priorities for **PMI's Sustainability Strategy**

2 STATEMENT OF PURPOSE

PMI aims to completely replace cigarettes as soon as possible with smoke-free products that are scientifically substantiated to be less harmful than smoking and to evolve in the longer term into a broader lifestyle, consumer wellness, and healthcare company.

The company's purpose is clearly articulated in **PMI's Statement of Purpose**, a declaration issued by its Board of Directors. The Statement of Purpose also recognizes those stakeholders most critical to long-term value creation and sustainability.

EXCERPTS FROM PMI'S STATEMENT OF PURPOSE

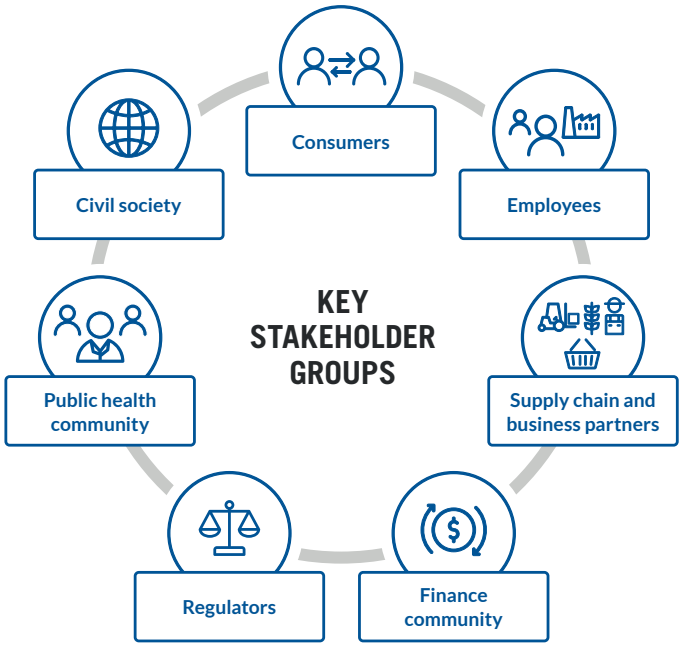
The Company is actively accelerating the decline of cigarette smoking beyond what traditional tobacco control measures can achieve alone.

PMI's key stakeholder constituencies,

PMI remains committed to accelerating the end of smoking and laying the foundations of a strong business in areas of wellness and healthcare as **we strive to develop commercially successful products that have a net positive impact on society**.

which are **fundamental to both the achieving of its purpose and to the pace of its progress**, will be affected in different ways by PMI's transformation.

PMI believes that with the right regulatory encouragement and support from civil society, **cigarette sales can end within 10 to 15 years in many countries**.



Read PMI's Statement of Purpose

Read more about PMI's Stakeholder Engagement

> PMI's purpose is grounded in science, technology, and sustainability, and sets PMI's long-term horizon. Clarity of purpose is fundamental to guide our efforts and resource allocation. It enables the company to maintain consistency and coherence as it transforms rapidly in order to leave cigarettes behind and ventures into areas that represent new avenues of growth.
>
> —**André Calantzopoulos**, Executive Chairman

Transforming PMI is not simply about substituting one product with another. It requires revamping the company's entire value chain and the way it engages with society. This necessitates a holistic review and overhaul of the company's entire business model and value proposition, which brings challenges and opportunities to all aspects of the business.

PMI'S BUSINESS TRANSFORMATION

Product transformation
Innovating for better products

PMI's product lines are the most visible aspect of its transformation. Over the past decade and a half, the company has harnessed scientific and technological advances to develop alternatives to cigarettes that are scientifically substantiated to be a better choice for adult smokers than continued smoking. PMI is working relentlessly to phase out cigarettes by replacing them with less harmful alternatives as quickly as possible to achieve a smoke-free future.

Internal transformation
A new organization and value chain

Beyond PMI's operations, the company is transforming every step of its value chain to serve the company's purpose. PMI recognizes the challenges these changes pose and are actively helping all those impacted (in direct and indirect operations) to best manage the transition.

External transformation
Changing the way PMI engages with stakeholders

Engaging with external stakeholders is critical to achieving PMI's purpose. The company's ability to successfully transform requires that it works together with various segments of society to create a paradigm shift in which cigarettes become obsolete.

Read more about **PMI's Value Chain Transformation**

4 BUSINESS TRANSFORMATION METRICS

PMI realizes that business transformation is a very company-specific journey, which ESG reporting standards do not adequately capture. To make its progress both measurable and verifiable, it developed **Business Transformation Metrics**, a bespoke set of financial and nonfinancial key performance indicators (KPIs). These metrics showcase how the company is allocating resources away from its legacy business as it advances toward a future in which PMI no longer makes or sells cigarettes.

BUSINESS TRANSFORMATION METRICS

	Business Transformation Metrics	2015 baseline	2020	2021	2022	2025 aspirations
Consumers & Revenues	Total number of users of PMI smoke-free products (in millions)[1*]	0.2	18.3	21.7	**24.9**	
	Estimated number of users who have switched to PMI smoke-free products and stopped smoking (in millions)[1*]	0.1	13.0	15.3	**17.8**	>40
	Adjusted net revenues ratio (smoke-free/total)[2*†]	0.7%	24.2%	29.5%	**32.1%**	>50%
	Annual net revenue from wellness and healthcare products (in billion USD)[3*]	n/a	n/a	0.1	**0.3**	≥ 1

Commercialization	Number of markets where smoke-free products are available for sale[4*]	7	64	71	**73**	**100**
	Proportion of markets where smoke-free products are available for sale that are low- and middle-income markets[5*]	17%	39%	42%	**42%**	**>50%**
	Commercial (marketing) expenditure ratio (smoke-free/total)*	8%	76%	73%	**74%**	
	Smoke-free product shipment ratio (smoke-free/total)[6*†]	0.6%	10.9%	13.3%	**15.1%**	**>30%**
	Smoke-free product shipment volume (billion units)[6*†]	5	80	99	**114**	**>250**
	Combustible tobacco product shipment volume (billion units)[6*†]	877	650	645	**641**	**<550**
	Change in combustible tobacco product shipment volume (billion units) vs. 2015 baseline[6*†]	n/a	(25.8)%	(26.4)%	**(26.8)%**	**~(40%)**
Sourcing & Operations	Adjusted R&D expenditure ratio (smoke-free/total)[7*]	70%	99%	99%	**99%**	
	Supply chain direct spend expenditure (smoke-free/total)[8]	n/a	33%	35%	**43%**	
	Number of factories producing smoke-free products out of total number of factories[9*†]	3 out of 48	9 out of 39	9 out of 38	**24 out of 53**	

* The 2022 metrics marked with an asterisk (*) are subject to PwC's Assurance Report

Notes:

In the fourth quarter of 2022, PMI acquired Swedish Match, a market leader in oral nicotine delivery with a significant presence in the United States market. The Swedish Match acquisition is a key milestone in PMI's transformation to becoming a smoke-free company. PMI's consolidated statements of earnings for the year ended December 31, 2022, include the results of operations of Swedish Match from November 11, 2022 (acquisition date) to December 31, 2022, as presented in the Form 10-K for the fourth quarter and year ended December 31, 2022.

Following the Swedish Match acquisition and a review of PMI and Swedish Match's combined product portfolio, PMI reclassified certain of its own products previously reported under its combustible tobacco product category to the newly created smoke-free product category to better reflect the characteristics of these products. Where applicable, prior years' KPIs have been recalculated to reflect the reclassification on a comparative basis. Impacted metrics are marked with (†).

In 2023, PMI plans to evaluate its published aspirations to ensure they remain ambitious, reasonable, and achievable in the context of a dynamic and evolving smoke-free industry, and impacts of its recent acquisitions.

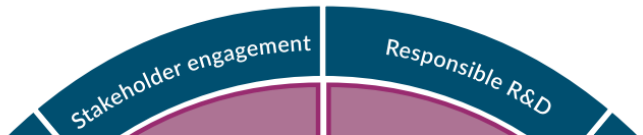
1. Figures pertain to total *IQOS* users, for definition see pages 205-209 in PMI Integrated Report 2022.
2. For definition of net revenues related to smoke-free products, see pages 205-209 in PMI Integrated Report 2022. 2022 figure includes Swedish Match net revenues from November 11, 2022 (acquisition date), to December 31, 2022. 2021 figure excludes the impact related to the Saudi Arabia customs assessments.
3. For definition of net revenues related to wellness and healthcare, see pages 205-209 in PMI Integrated Report 2022. 2021 figure includes portion of net revenues reported after acquisition of Fertin Pharma A/S, Vectura Group plc. and OtiTopic, Inc. that took place in the third quarter of 2021.
4. Including Swedish Match. For definition of available for sale, see pages 205-209 in PMI Integrated Report 2022.
5. Excluding PMI Duty Free. World Bank report issued in July 2022 is used on a comparative basis for income level classification. For definition of low- and middle-income markets, see pages 205-209 in PMI Integrated Report 2022.
6. These indicators are calculated based on millions of units. For definition of smoke-free products and combustible tobacco products, see pages 205-209 in PMI Integrated Report 2022. Smoke-free products shipment volume includes volume of smoke-free products that can be converted into cigarette equivalent units, such as heat-not-burn, e-vapor, and oral nicotine. Total shipment volume includes the listed smoke-free products as well as combustible tobacco products: cigarettes and other tobacco products expressed in cigarette equivalent units. Data does not include Swedish Match and wellness and healthcare products.
7. Adjusted R&D expenditure excludes asset acquisition cost related to OtiTopic, Inc. in 2021. Total reported R&D expenditure in 2021 including these items amounted to USD 617 million.
8. Direct spend focuses on materials used in the manufacture of our products; it includes tobacco leaf, direct materials, and electronic devices and accessories. Data excludes Swedish Match and Vectura Fertin Pharma.
9. Data reflects the number of factories operated and owned by PMI at the end of the respective year, including Swedish Match and Vectura Fertin Pharma. 2022 factories include eight facilities producing heated tobacco units, two producing other smoke-free consumables, and 14 Swedish Match owned facilities, primarily engaged in the production of smoke-free products.

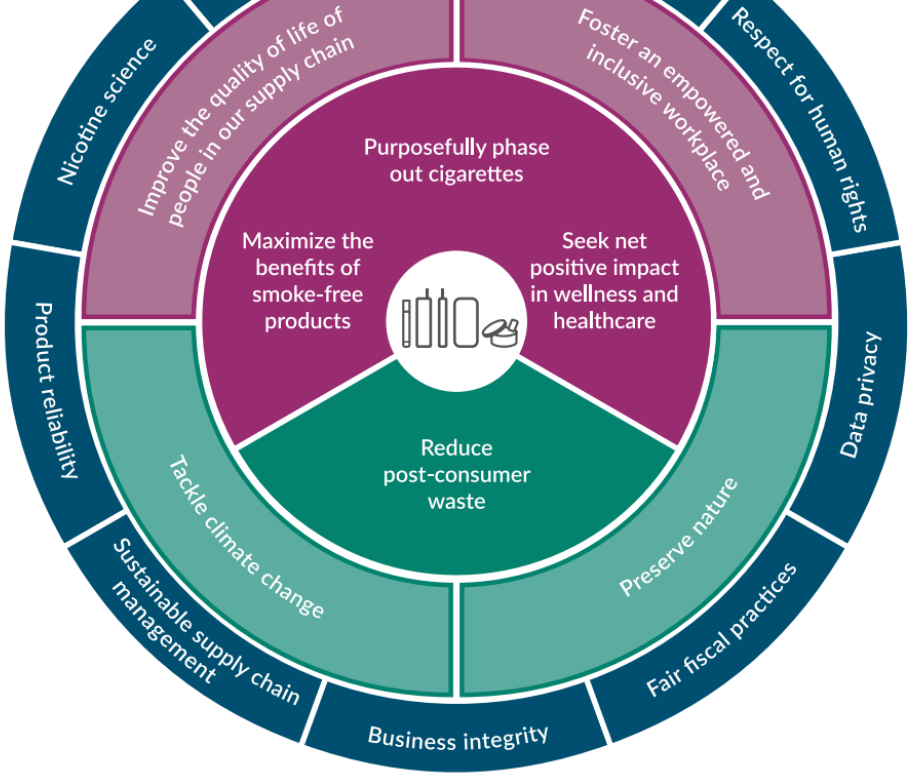
Read more about **PMI's Business Transformation Metrics**

5 SUSTAINABILITY STRATEGY

For PMI, sustainability is more than just a means to minimize negative externalities and mitigate risks while maximizing operational efficiency and resource optimization. **PMI sees sustainability as a fundamental opportunity for innovation, growth, and purpose-led, impact-driven, long-term value creation.** Accordingly, PMI works hard to integrate sustainability into every aspect of its business and activities.

PMI's strategy crystallizes the notion of two distinct forms of social and environmental impacts—those generated by its products (*what* it produces) and those generated by its business operations (*how* it produces). This approach allows PMI to appropriately highlight that, consistent with its sustainability materiality analysis results, addressing the social impacts generated by its products is the core of its strategy.





The company's approach to sustainability addresses its ESG priorities through eight impact-driven strategies: four focus on product impacts, another four on impacts derived from its business operations. The company's policies, rules, and procedures define its ability to successfully implement these strategies.

Read more about **PMI's Approach to Sustainability**

> While cigarette sales today remain the largest part of PMI's business in most countries, this is changing rapidly. PMI is actively accelerating the decline in cigarette smoking beyond what traditional tobacco control measures can achieve alone. Our stakeholders, who are fundamental both to achieving our purpose and to determining the pace of our progress, will be affected in different ways by our company's transformation. We will seek to engage and collaborate with all of them in an inclusive manner to speed our transformation while mitigating negative consequences.
>
> —**Jacek Olczak**, CEO

The company's roadmap outlines its key goals and informs the route of its long-term plan. **PMI's 2025 Roadmap comprises 11 headline goals, running to the end of 2025, connected to its eight strategies.**

PMI'S 2025 ROADMAP

PRODUCT IMPACT

	Goals	Priority ESG topics	Primary SDGs
Purposefully phase out cigarettes	1 Intentionally work toward phasing out cigarettes by ensuring that smoke-free products represent at least 30% of our shipment volumes and more than half of our net revenues by 2025 while continuing to reduce our combustible shipment volume	Product health impact	3
Maximize the benefits of smoke-free products	2 Develop and commercialize science-based smoke-free alternatives, making them available in 100 markets (of which at least half in low- and middle-income markets) and continuing to increase the total number of users	Product health impact	3
	3 Deploy robust youth access prevention programs in indirect retail channels and ensure that sales of our products abide by our Marketing Codes	Sales, marketing, and consumer communications	
Seek net positive impact in wellness and healthcare	4 Leverage scientific and development capabilities to generate at least USD 1 billion in annual net revenues from products in wellness and healthcare	Innovation in wellness and healthcare	3, 8
Reduce post-consumer waste	5 Reduce post-consumer waste and prevent littering by implementing comprehensive programs covering all our consumables	Materials and product eco-design	8, 12
	6 Follow eco-design and circularity principles for all smoke-free electronic devices	Post-consumer waste	

OPERATIONAL IMPACT

Foster an empowered and inclusive workplace	7 Nurture a more diverse culture that promotes equity and inclusion by providing access to lifelong learning to all our employees and improving gender and local representation in management globally	Diversity and inclusion Human capital development	4, 5, 8, 10
Improve the quality of life of people in our supply chain	8 Eradicate systemic child labor in our tobacco supply chain	Socioeconomic well-being of tobacco-farming communities	1, 8
	9 Ensure all contracted tobacco farmers make a living income, and partner with our direct suppliers to promote a living wage for their workers		
Tackle climate change	10 Achieve carbon neutrality in our operations and accelerate our decarbonization toward net zero across our value chain	Climate	13, 15
Preserve nature	11 Promote biodiversity, address critical water challenges, ensure no conversion of natural ecosystems, and halt deforestation in both our tobacco and pulp and paper supply chains	Biodiversity Water	6, 15

7

SUSTAINABILITY INDEX

Progress on PMI's 2025 Roadmap is measured with a set of 19 key performance indicators (KPIs) that collectively form PMI's Sustainability Index. These KPIs are directly linked to the 11 roadmap goals. The index has allowed PMI's Board of Directors to enhance the company's compensation practices, explicitly linking long-term executive compensation to ESG performance.

PMI SUSTAINABILITY INDEX

PRODUCT IMPACT

	Key performance indicators	2022 performance	2022 progress	2025 aspirations	KPI weight	Contribution to total index score
Purposefully phase out cigarettes	1 Smoke-free product shipment ratio (smoke-free/total)[1]*	15.1%		> 30%	85%	
	2 Adjusted net revenues ratio (smoke-free/total)[2]*	32.1%		> 50%		
Maximize the benefits of smoke-free products	3 Number of markets where PMI smoke-free products are available for sale[3]*	73		100		
	4 Proportion of markets where smoke-free products are available for sale that are low- and middle-income markets[4]*	42%		> 50%		
	5 Total number of users of PMI smoke-free products (in millions)[5]*	24.9				
	6 Proportion of shipment volume covered by markets with youth access prevention programs in place in indirect retail channels[6]	91%		> 90%		
Seek net positive impact in wellness and healthcare	7 Annual net revenue from wellness and healthcare products (in billions USD)[7]*	0.3		≥ 1		
Reduce post-consumer waste	8 Proportion of shipment volumes covered by markets with anti-littering programs in place for combustible cigarettes	68%		≥80%	15%	
	9 Proportion of shipment volume covered by markets with end-of-life take-back programs in place for smoke-free consumables[8]	8.5%		≥80%		
	10 Proportion of PMI smoke-free devices with eco-design certification[9]	n/a		1		
	11 Cumulative number of smoke-free electronic devices refreshed or repaired since 2021 (in thousands)	157		1,000		
Product Sustainability performance					100%	67%

OPERATIONAL IMPACT

Foster an empowered and inclusive workplace	12	Proportion of women in senior roles[10]	30.5%	35%	50%	
	13	Proportion of PMI employees who have access to structured lifelong learning offers	80%	70%		
Improve the quality of life of people in our supply chain	14	Cumulative number of human rights impact assessments conducted since 2018, with findings addressed[11]	7	10		
	15	Prevalence of child labor among contracted farmers supplying tobacco to PMI	0.1%	0%		
	16	Proportion of contracted farmers supplying tobacco to PMI who make a living income	73%	100%		
Tackle climate change	17	Net carbon emissions in scope 1+2 (in thousands of metric tons)[12]	297,236	0	50%	
	18	CO_2e scope 3 absolute reduction versus 2019 baseline (in-line with science-based target)	7.9%	25%		
Preserve nature	19	Proportion of tobacco purchased at no risk of deforestation of managed natural forest and no conversion of natural ecosystems[13]	55%	100%		
Operational Sustainability performance					100%	33%
PMI Sustainability Index						100%

Key: Target missed; Target met; Target partially met; Target exceeded

> I'm proud to be able to say that our executive compensation program reflects our commitment to put sustainability at the core of our corporate strategy. PMI's Sustainability Index aligns us even further with the interests of shareholders and other stakeholders, forming a strong link between our executive compensation practices and the company's short- and long-term ESG performance.
>
> —**Emmanuel Babeau**, Chief Financial Officer

8

ESG PERFORMANCE HIGHLIGHTS

PRODUCT IMPACT

SOCIAL

24.9 m
Estimated total adult users of PMI's smoke-free products
(2021: 21.7 m)[1]

32.1%
Of net revenues derived from smoke-free products
(2021: 29.5%)[2]

73
Markets where PMI smoke-free products are available for sale, of which 42% in low- and middle-income countries
(2021: 71, 42%)[3]

USD 10.7 bn
Cumulative investment behind smoke-free products since 2008
(2021: USD 9.2 bn)[4]

91%
Of total shipment volume covered by youth access prevention programs in indirect retail channels
(2021: 91%)[5]

USD 0.3 bn
Annual net revenue from wellness and healthcare products
(2021: USD 0.1 bn)

ENVIRONMENT

86%
Recycling rate of *IQOS* devices returned to our centralized recycling hubs (weighted-average percentage of each device that is recycled)
(2021: 86%)[6]

68%
Of shipment volume covered by markets with anti-littering programs in place for combustible cigarettes

8.5%
Of shipment volume covered by markets with smoke-free consumables take-back programs[7]

OPERATIONAL IMPACT

SOCIAL

40.7%

Of management positions held by women, exceeding our 2022 target of 40%

(2021: 39.7%)

7

Human rights impact assessments conducted since 2018 in highest-risk countries

(2021: 5)

ENVIRONMENT

55%

Proportion of tobacco purchased at no risk of net deforestation of managed natural forest and no conversion of natural ecosystems

(2021: 37%)

Triple A

Score from CDP for climate, forest, and water security for the third consecutive year

1 Figures pertain to total *IQOS* users. See pages 205-209 in PMI Integrated Report 2022.
2 For definition of net revenues related to smoke-free products, see pages 205-209 in PMI Integrated Report 2022. 2022 figure includes Swedish Match net revenues from November 11, 2022 (acquisition date), to December 31, 2022. 2021 data exclude the impact related to the Saudi Arabia customs assessments.
3 Including Swedish Match and excluding PMI Duty Free. Classification of low- and middle-income countries is based on World Bank report issued in July 2022.
4 Investments reflect research, product and commercial development, production capacity, scientific substantiation, and studies on adult smoker understanding.
5 Total shipment volume includes cigarettes, other tobacco products (OTPs), and smoke-free product consumables, See PMI's ESG KPI Protocol 2022 for further details.
6 Recycling rate: percentage of the weight of each device that is recycled, weighted-average depending on device type and processing facility (includes 80% recycling and 6% energy recovery). 2022 data cover CIRCLE hubs in Hungary and Japan.
7 Shipment volume includes heated tobacco units, e-vapor cartridges, and e-vapor disposables. See PMI's ESG KPI Protocol 2022 for further details.

Read more about **how PMI measures ESG performance in its ESG KPI Protocol**

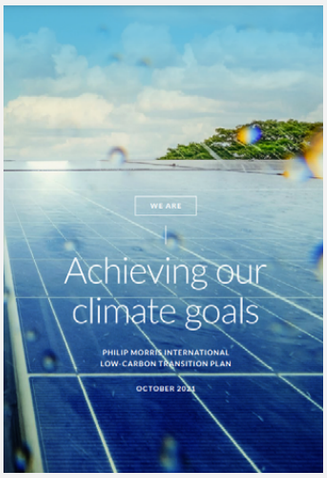
Read **PMI's Sustainability Index and ESG KPI Protocol**

9

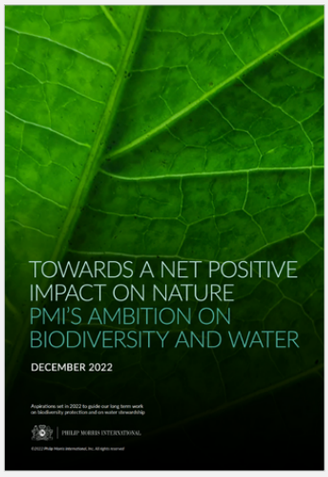
TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) REPORT 2022

As PMI strives to remain at the forefront of a fast-evolving environmental, social, and governance (ESG) reporting landscape, **the company released its first-ever TCFD Report** to respond to the implementation guidance of the Task Force on Climate-related Financial Disclosures (TCFD).

The report's findings were informed by a structured Climate Change Risk and Opportunity (CCRO) assessment that PMI conducted in 2022, with guidance from an external expert organization and in line with TCFD's recommendations, to identify relevant climate-related risks and opportunities.



Low-Carbon Transition Plan (2021)



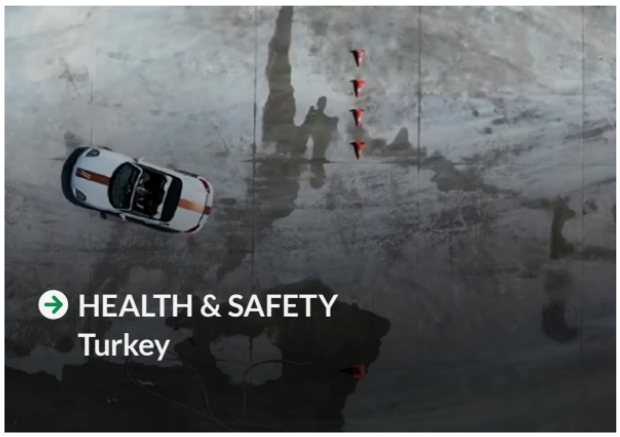
PMI's Ambition on Biodiversity and Water (2022)

Reduce Post-Consumer Waste Strategy (2022)

We are acutely aware that climate change presents an increasing range of risks to all of PMI's operations, and so we remain committed as ever to decarbonizing our direct and indirect operations—in line with the path set by the Paris Climate Agreement. We understand that it is essential, for the planet and for our business, that we manage, mitigate, and adapt to climate change.

—**Scott Coutts**, Senior Vice President Operations

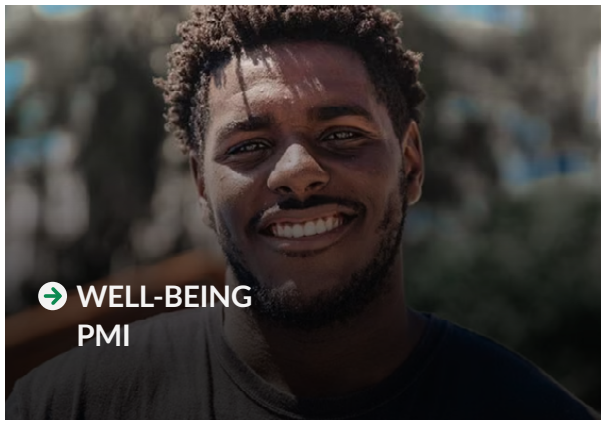
As a strong complement to the content and data included in PMI's 2022 Integrated Report, the company has developed 12 case studies and market stories that showcase impact and highlight how PMI affiliates worldwide drive sustainability. All case studies and market stories are available here.



POST-CONSUMER WASTE
Italy

POST-CONSUMER WASTE
Slovakia

POST-CONSUMER WASTE
Switzerland



WELL-BEING
PMI

WOMEN EMPOWERMENT
Pakistan

YOUTH ACCESS PREVENTION
Thailand

Read all PMI's Case Studies and Market Stories

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LEARN MORE ABOUT PMI'S APPROACH TO SUSTAINABILITY

Briefing paper Climate Justice in Global Supply Chains: A perspective for the private sector

Business Transformation Linked Financing Framework

PMI's Celebrating 10 years of the ALP program

PMI's ESG ighlights

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This document should be read in conjunction with the Philip Morris International Inc. Integrated Report 2022, available on www.pmi.com. Key terms and definitions are set forth in the Integrated Report Referenced above.

Forward-looking and cautionary statements

This report and related materials contain projections of future results and goals and other forward-looking statements, including statements regarding business plans and strategies. Achievement of future results is subject to risks, uncertainties and inaccurate assumptions. In the event that risks or uncertainties materialize, or underlying assumptions prove inaccurate, actual results could vary materially from those contained in such forward-looking statements. Pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, PMI is identifying important factors that, individually or in the aggregate, could cause actual results and outcomes to differ materially from those contained in any forwardlooking statements made by PMI.

PMI's business risks include: excise tax increases and discriminatory tax structures; increasing marketing and regulatory restrictions that could reduce our competitiveness, eliminate our ability to communicate with adult consumers, or ban certain of our products in certain markets or countries; health concerns relating to the use of tobacco and other nicotine-containing products and exposure to environmental tobacco smoke; litigation related to tobacco use and intellectual property; intense competition; the effects of global and individual country economic, regulatory and political developments, natural disasters and conflicts; the impact and consequences of Russia's invasion of Ukraine; changes in adult smoker behavior; the impact of COVID-19 on PMI's business; lost revenues as a result of counterfeiting, contraband and cross-border purchases; governmental investigations; unfavorable currency exchange rates and currency devaluations, and limitations on the ability to repatriate funds; adverse changes in applicable corporate tax laws; adverse changes in the cost, availability, and quality of tobacco and other agricultural products and raw materials, as well as components and materials for our electronic devices; and the integrity of its information systems and effectiveness of its data privacy policies.

PMI's future profitability may also be adversely affected should it be unsuccessful in its attempts to produce and commercialize reduced-risk products or if regulation or taxation do not differentiate between such products and cigarettes; if it is unable to successfully introduce new products, promote brand equity, enter new markets or improve its margins through increased prices and productivity gains; if it is unable to expand its brand portfolio internally or through acquisitions and the development of strategic business relationships; if it is unable to attract and retain the best global talent, including women or diverse candidates; or if it is unable to successfully integrate and realize the expected benefits from recent transactions and acquisitions. Future results are also subject to the lower predictability of our reducedrisk product category's performance.

PMI is further subject to other risks detailed from time to time in its publicly filed documents, including PMI's Annual Report on Form 10-K for the fourth quarter and year ended December 31, 2022. PMI cautions that the foregoing list of important factors is not a complete discussion of all potential risks and uncertainties. PMI does not undertake to update any forward-looking statement that it may make from time to time, except in the normal course of its public disclosure obligations.

Notes

In this report, "PMI," "we," "us," and "our" refer to Philip Morris International Inc. and its subsidiaries.

In this report and in related communications, the term "materiality," "material," and similar terms, when used in the context of economic, environmental, and social topics, are defined in the referenced sustainability standards, and are not meant to correspond to the concept of materiality under the U.S. securities laws and/or disclosures required by the U.S. Securities and Exchange Commission.

This report contains references and links to websites operated by third parties. These references are provided as a convenience to you and as an additional avenue of access to the information contained in those sources; they should not be viewed as an endorsement by us of the content of these references and linked sites or opinions of their authors.

Unless otherwise stated, all references to *IQOS* are to our *IQOS* heat-not-burn devices and consumables.

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Estimates for total industry volume and market share in certain geographies reflect limitations on the availability and accuracy of industry data during pandemic-related restrictions.

Aspirational targets and goals do not constitute financial projections, and achievement of future results is subject to risks, uncertainties, and inaccurate assumptions, as outlined in our forward-looking and cautionary statements on page 210 of this report.

This integrated report should be read in conjunction with PMI's ESG KPI Protocol 2022.