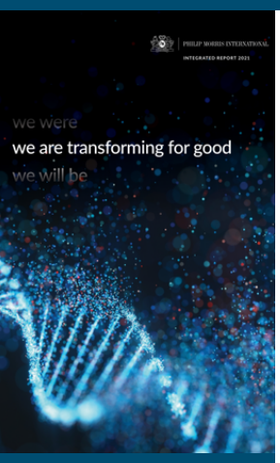


TOP 10 TAKEAWAYS from PMI's Integrated Report 2021: Transforming for good

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.

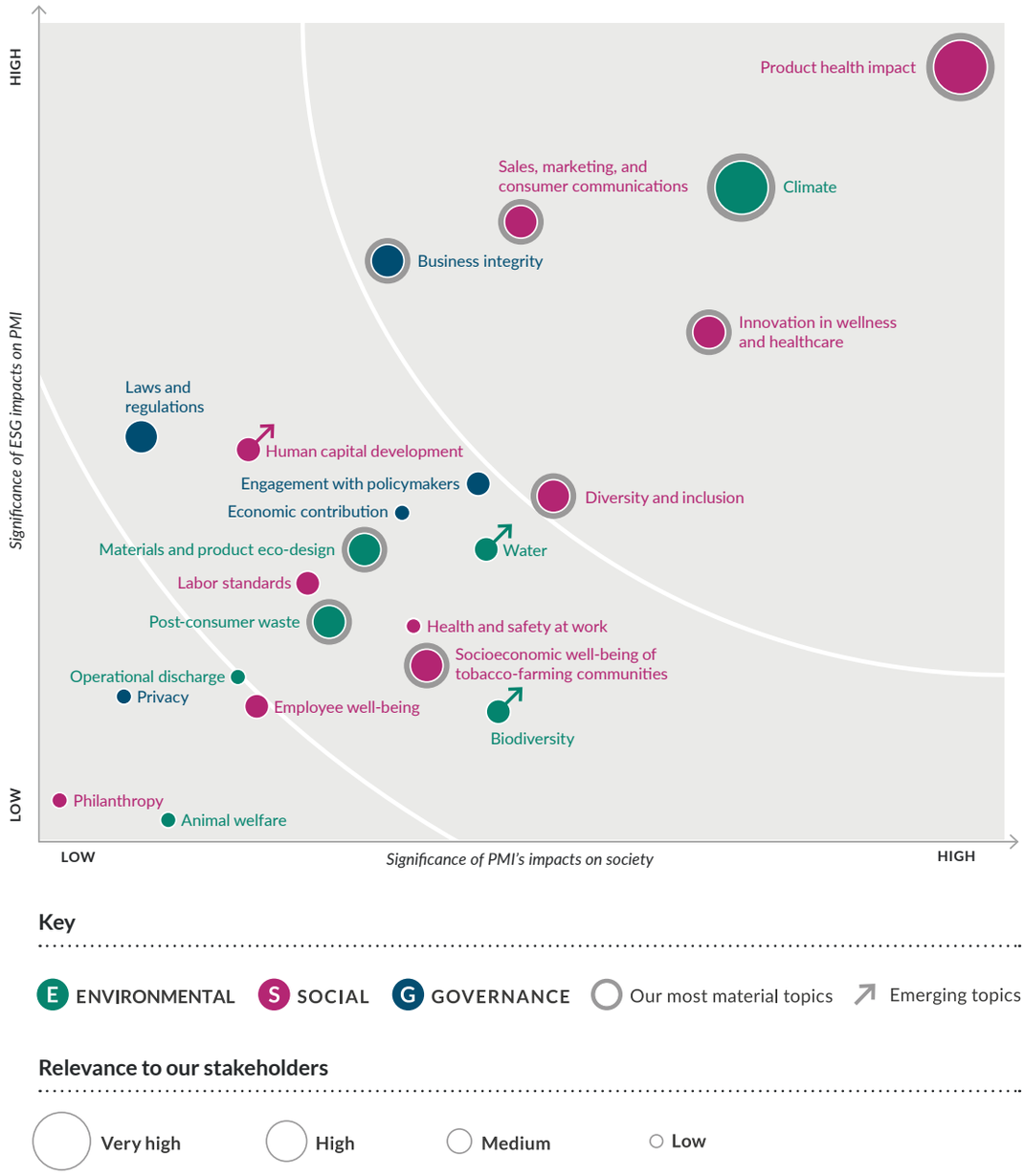
Read PMI's Integrated Report 2021

1 NEW SUSTAINABILITY MATERIALITY ASSESSMENT & ESG FRAMEWORK

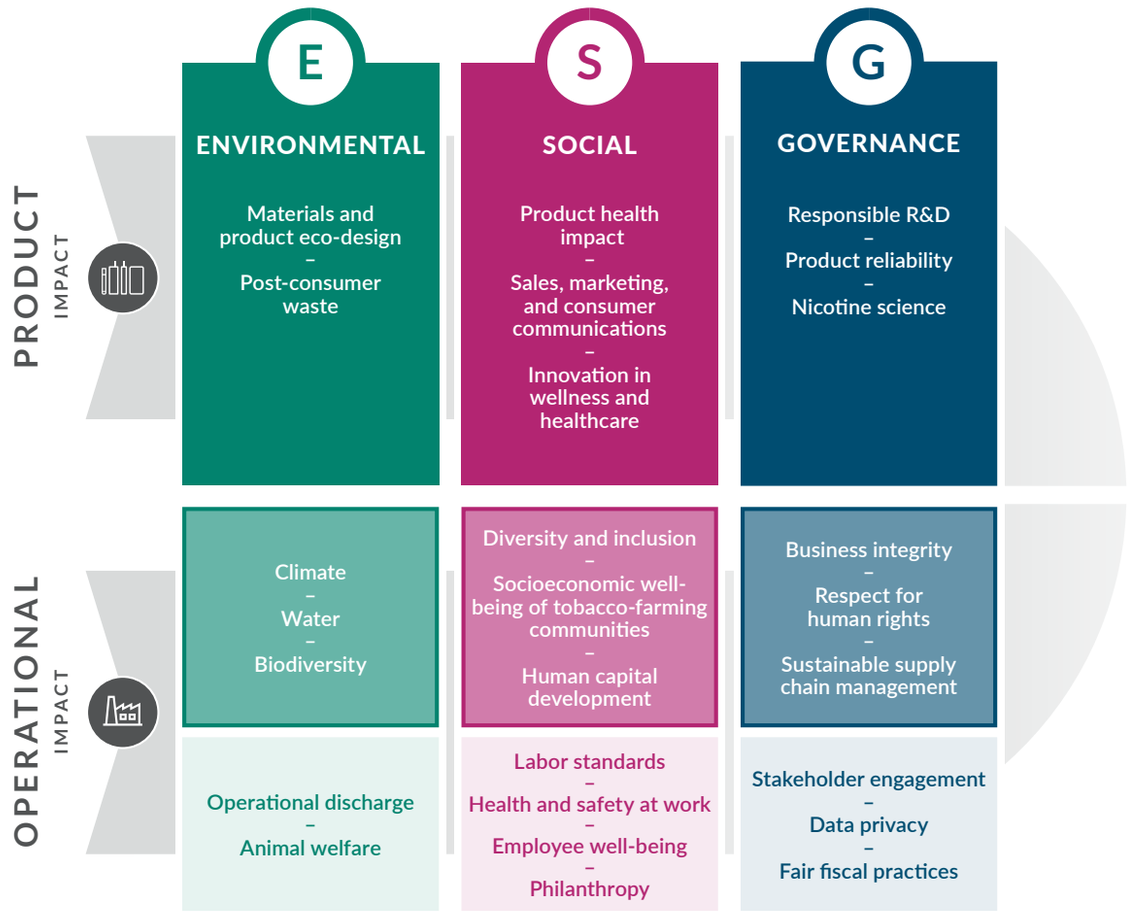
PMI's sustainability materiality assessment is the foundation of its sustainability strategy—it allows PMI to identify, assess, and prioritize ESG topics.

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



> We redesigned our ESG framework to better showcase the topics we should prioritize our resources and focus on. The framework recognizes two distinct forms of ESG issues: those related to our products (what we produce) and those related to our business operations (how we produce).
>
> —**Jennifer Motles**, Chief Sustainability Officer



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

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

2 UPDATED STATEMENT OF PURPOSE

PMI's 2017 Proxy Statement contained a letter to shareholders from the Board of Directors announcing for the first time our company's smoke-free vision. Building on this groundwork, our Board of Directors issued on March 26, 2020, in our company's 2020 Proxy Statement, a letter that corresponds to **PMI's Statement of Purpose**. In early 2022, PMI's Board of Directors issued another letter reaffirming our purpose of delivering a smoke-free future and announcing the expansion of our business for the long-term toward areas outside of tobacco and nicotine.

EXCERPTS FROM PMI'S 2022 STATEMENT OF PURPOSE

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

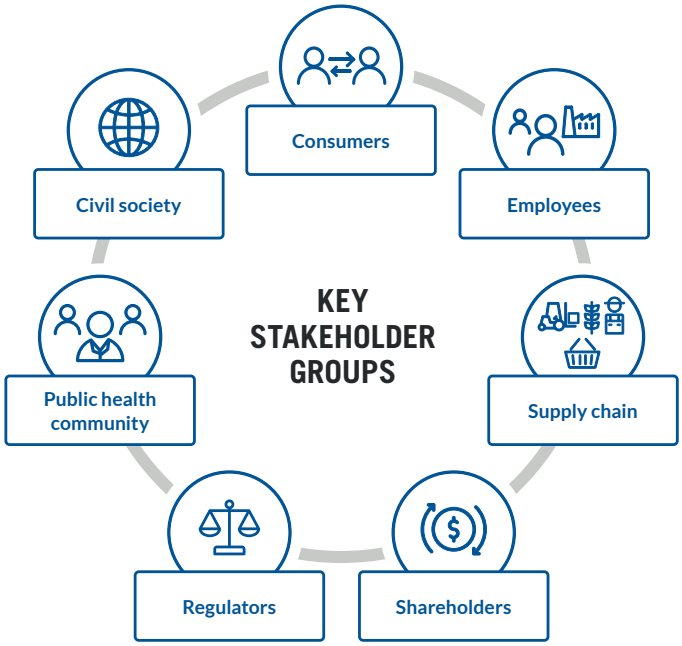
> PMI remains committed to accelerating the end of smoking and laying the foundations of a strong business in areas of wellness and healthcare as **we strive**

This means not only transforming the Company to deliver on its purpose but also **inspiring the industry to follow its lead**.

PMI's key stakeholder constituencies, 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.

to develop commercially successful products that have a net positive impact on society.

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**.



> Changes to our strategy and vision prompted the revision of our Statement of Purpose, expanding it to no longer have as its last horizon to achieve a smoke-free future, but also to encompass our strategic efforts to venture toward becoming a wellness and healthcare company.
>
> —**André Calantzopoulos**, Executive Chairman

Read PMI's Statement of Purpose

3

TRANSFORMING THE COMPANY

Transforming PMI is not only about substituting one product with a new one. It also requires transforming the company's entire value chain, as well as the way it engages with society. This requires a holistic review and overhaul of the entire business model and value proposition, which brings with it new opportunities as well as challenges throughout all aspects of the business.

PMI'S BUSINESS TRANSFORMATION

Product transformation
Innovating for better products

The most visible part of PMI's transformation is that related to its product lines. 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. Now, while continuing to improve and expand its portfolio, PMI is working to raise awareness about the benefits of these products in relation to continued smoking, which contributes to increasing access by adult smokers.

Internal transformation
A new organization and value chain

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

External transformation
Changing the way PMI engages with stakeholders

The way PMI engages with external stakeholders is critical to achieving its purpose. Its ability to successfully transform depends not solely on it—working together with different parts of society, PMI can create a paradigm shift where cigarettes become obsolete.

4 BUSINESS TRANSFORMATION METRICS

Business transformation is a very company-specific journey, which ESG reporting standards do not properly capture. In response to this and to make PMI's transformation both measurable and verifiable, PMI developed **Business Transformation Metrics**, a set of bespoke key performance indicators (KPIs) composed of both financial and nonfinancial metrics. They allow stakeholders to assess both the pace and scale of PMI's transformation, as they showcase how PMI is allocating resources away from its traditional cigarette business as it advances toward a future where it no longer makes or sells cigarettes.

BUSINESS TRANSFORMATION METRICS

	Business Transformation Metrics	2015 Baseline	2019	2020	2021	2025 Aspirations
R&D	Adjusted R&D expenditure (in millions USD)[1]*	423	465	495	**566**	
R&D	Adjusted R&D expenditure ratio (smoke-free/total)[1]*	70%	98%	99%	**99%**	
R&D	Number of R&D positions (FTEs)[2]	n/a	942	934	**981**	
R&D	Patents granted in IP5 jurisdictions relating to smoke-free products (cumulative, since 2015)[3]	n/a	740	1,300	**1,770**	
R&D	Number of studies completed by PMI on smoke-free products (cumulative, since 2015)					
R&D	Toxicological assessment	n/a	109	146	**203**	
R&D	Clinical assessment	n/a	19	22	**24**	
R&D	Perception and behavior (premarket and post-market)	n/a	13 (9 + 4)	30 (15 + 15)	**44 (25 + 19)**	
Sourcing & Operations	Supply chain direct spend expenditure ratio (smoke-free/total)[4]	n/a	35%	33%	**35%**	
Sourcing & Operations	Cumulative investment behind smoke-free products (since 2008, in billions USD)[5]	2.4	7.2	8.1	**9.2**	
Sourcing & Operations	Number of factories producing smoke-free products out of total number of factories[6]*	2 out of 48	8 out of 38	8 out of 39	**8 out of 38**	

Commercialization	Year-on-year change in number of SKUs—combustible products[7]	n/a	(6%)	(5%)	**3%**	
	Year-on-year change in number of SKUs—smoke-free products[7]	n/a	26%	38%	**42%**	
	SKUs ratio (smoke-free/total)	3%	10%	14%	**18%**	
	Number of markets where smoke-free products are available for sale[8]*	7	52	64	**71**	**100**
	Proportion of markets where smoke-free products are available for sale that are low- and middle-income markets[9]*	33%	35%	41%	**43%**	**>50%**
	Number of *IQOS* stores[10]	n/a	199	259	**274**	
	Number of retailers that sell PMI smoke-free product consumables (in thousands)	n/a	679	748	**812**	
	Commercial (marketing) expenditure ratio (smoke-free/total)*	8%	71%	76%	**73%**	
	Smoke-free product shipment volume (billion units)*	1	60	76	**95**	**>250**
	Combustible product shipment volume (billion units)*	881	732	654	**650**	**<550**
	Change in combustible product shipment volume (billion units) vs. 2015 baseline[11]*	n/a	(17.0%)	(25.8%)	**(26.3%)**	**~(40%)**
	Smoke-free product shipment ratio (smoke-free/total)[11]*	0.1%	7.6%	10.4%	**12.8%**	**>30%**
Consumers	Total number of users of PMI smoke-free products (in millions)[12]*	0.2	13.5	18.3	**21.7**	
	Estimated number of users who have switched to PMI smoke-free products and stopped smoking (in millions)[12]*	0.1	9.6	13.0	**15.3**	**>40**
Revenues	Adjusted net revenues ratio (smoke-free/total)[13]*	0.2%	18.7%	23.8%	**29.1%**	**>50%**
	Number of markets where adjusted net revenues from smoke-free products exceed 10% of adjusted total net revenues[13]*	0	31	38	**47**	
	Number of markets where adjusted net revenues from smoke-free products exceed 50% of adjusted total net revenues[13]*	0	4	6	**10**	
	Annual net revenue from wellness and healthcare products (in billions USD)**	n/a	n/a	n/a	**0.1**	**≥1**

Glossary available on page 248 of PMI Integrated Report 2021.

* The 2021 metrics marked with an asterisk (*) are subject to PwC's Assurance Report (see page 245).
** Reported as Other net income in the financial statements for the year ending December 31, 2021.

Notes:

Smoke-free products include heated tobacco units, e-cigarettes, snus, and nicotine pouches. Total products include smoke-free products, cigarettes, and other combustible products.

In 2022, we plan to evaluate our published targets to ensure they remain ambitious, reasonable, and achievable in the context of a dynamic and evolving smoke-free industry. See page 34.

1 R&D expenditure in wellness and healthcare is included in both smoke-free and total R&D expenditures. 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.
2 R&D positions include scientists, engineers, technicians, and support staff. Comparable data for years prior to 2018 are not available as the scope of R&D positions changed following company organizational changes.
3 IP5 jurisdictions are Europe (patents granted by the European Patent Office), China, South Korea, Japan, and the U.S.
4 Direct spend focuses on materials used in the manufacture of our products; it includes tobacco leaf, direct materials, and electronic devices and accessories.
5 Investments reflect research, product and commercial development, production capacity, scientific substantiation, and studies on adult smoker understanding. Figure does not include commercial deployment costs.
6 Data reflect the number of factories operated and owned by PMI at the end of the respective year. Number of factories fully or partially dedicated to smoke-free products includes seven factories related to heated tobacco unit production and one factory related to e-vapor consumables production. 2021 figures exclude one factory dedicated to wellness and healthcare products owned by Fertin.
7 SKUs stands for stock-keeping units. References to the number of SKUs are based on the latest available data and categorization of our product portfolio into SKUs, therefore minor restatements in previous years' data is reflected. The figures exclude China and the U.S.
8 Data reflect the status by the end of respective year. 2021 data excludes Belarus and the U.S.
9 Excluding PMI Duty Free. Data reflect the status by the end of respective year. 2021 data excludes Belarus and the U.S. For definition of low- and middle-income markets, see glossary.
10 Includes flagship stores and small, large, and temporary boutiques.
11 These indicators are calculated based on millions of units.
12 These metrics are excluding PMI Duty Free and reflect the estimated number of legal age (minimum 18 years) users of PMI *IQOS* heat-not-burn product (see glossary). In 2021, we evolved our methodology to estimate the total number of users of PMI smoke-free products, in order to better reflect the number of users for which PMI HTU represented at least a portion of their daily tobacco consumption over the past seven days. 2020 data was restated accordingly. Unavailability of sufficiently granular data did not enable us to restate figures for years prior to 2020. We also fine-tuned our methodology to estimate the number of users who have switched to PMI smoke-free products and stopped smoking, in order to reflect the conversion rate of our total user base at year-end, and restated 2020 data accordingly.
13 Data reflect the status by the end of respective year. 2021 adjusted net revenues exclude the impact related to the Saudi Arabia customs assessments. 2021 revenues from wellness and healthcare (USD 101 million) are included in both smoke-free and total adjusted net revenues. See glossary.

Read more about PMI's Business Transformation Metrics

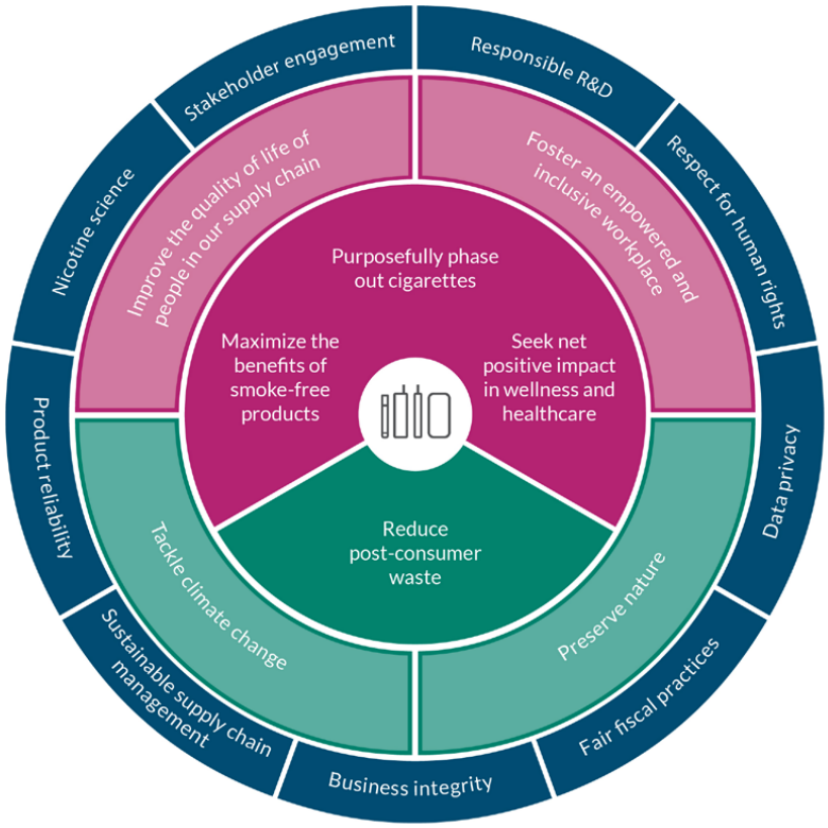
5

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.

8 IMPACT-DRIVEN STRATEGIES, UNDERPINNED BY STRONG GOVERNANCE



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 Our Approach to Sustainability

> The biggest and most pressing negative externality our strategy aims to address is the health impact of cigarette smoking. This is the most important contribution we can make to public health and is the cornerstone of PMI's purpose and business strategy.
>
> —**Jacek Olczak**, CEO

6

11 GOALS–2025 ROADMAP

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

PMI'S 2025 ROADMAP

	Goals	Priority ESG topics and primary SDGs	Progress in 2021
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 GOOD HEALTH AND WELL-BEING	

PRODUCT IMPACT	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; Sales, marketing, and consumer communications (3 Good Health and Well-Being)
		3 Deploy robust youth access prevention programs in indirect retail channels and ensure that sales of our products abide by our Marketing Codes	
	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 Good Health and Well-Being; 8 Decent Work and Economic Growth)
	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; Post-consumer waste (8 Decent Work and Economic Growth; 12 Responsible Consumption and Production)
		6 Follow eco-design and circularity principles for all smoke-free electronic devices	
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 Quality Education; 5 Gender Equality; 8 Decent Work and Economic Growth; 10 Reduced Inequalities)
	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 No Poverty; 8 Decent Work and Economic Growth)
		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 Climate Action; 15 Life on Land)
	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 Clean Water and Sanitation; 15 Life on Land)

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

	Key performance indicators	2021 performance	2025 aspirations	KPI weight	Contribution to total index score
	1 Smoke-free product shipment ratio (smoke-free/total)	12.8%	>30%	85%	
	2 Smoke-free product adjusted net revenue ratio (smoke-free/total)	29.1%	>50%		
	3 Number of markets where PMI smoke-free products are available for sale	71	100		
	4 Proportion of markets where PMI smoke-free products are available for sale that are low- and middle-income markets	43%	>50%		
	5 Total number of users of PMI's smoke-free products (in millions)[1]	21.7			
	6 Proportion of shipment volume covered by markets with youth access prevention programs in place in indirect retail channels.	91%	>90%		
	7 Annual net revenue from wellness and healthcare products (in billions USD)	0.1	≥1		

	8 Proportion of shipment volume covered by markets with anti-littering programs in place for combustible cigarettes	n/a	≥80%	15%	
	9 Proportion of shipment volume covered by markets with end-of-life take-back programs in place for smoke-free consumables	9 pilots	≥80%		
	10 Proportion of PMI smoke-free devices with eco-design certification	n/a	100%		
	11 Cumulative number of smoke-free electronic devices refreshed or repaired since 2021 (in thousands)	62	1,000		
Product Sustainability				100%	67%
	12 Proportion of women in senior roles	31.1%	35%	50%	
	13 Proportion of PMI employees who have access to structured lifelong learning offers	n/a	70%		
	14 Cumulative number of human rights impact assessments conducted since 2018, with findings addressed	5	10		
	15 Prevalence of child labor among contracted farmers supplying tobacco to PMI	1.8%	0%		
	16 Proportion of contracted farmers supplying tobacco to PMI who make a living income	67%	100%		
	17 Net carbon emissions in scope 1+2 (in thousands of metric tons)	357	0	50%	
	18 Absolute carbon emissions reduction in scope 3 versus 2019 baseline (in line with science-based target)	17%	25%		
	19 Proportion of tobacco purchased at no risk of deforestation of managed natural forest and no conversion of natural ecosystems	37%	100%		
Operational Sustainability				100%	33%
SUSTAINABILITY INDEX					100%

[1] During 2022, PMI intends to develop a new 2025 aspiration related to the total number of user of PMI smoke-free products.

8 BUSINESS TRANSFORMATION FINANCING FRAMEWORK

In 2021, PMI published its Business Transformation–Linked Financing Framework, which integrates the company's smoke-free transformation into its financing strategy. The framework outlines the guidelines that PMI will follow in issuing business transformation-linked financing instruments in the debt capital and loan markets, which may include public notes offerings, private placements, loans, and other relevant financing instruments.

- Second Party Opinion Download
- Launch of Business Transformation Linked Financing Framework
- Revolving Credit Facility Download

The Business Transformation-Linked Financing Framework not only helps reinforce our commitment to reinvent our company, but will also allow investors and lenders to engage with and support our industry-leading transformation as we work to accelerate the end of smoking and use our strong capabilities to innovate in wellness and healthcare, as we seek to have a net positive impact on society.

—**Emmanuel Babeau**, Chief Financial Officer

PRODUCT IMPACT

SOCIAL

21.7 m

Total adult users of PMI's smoke-free products, of whom 15.3 million have switched and stopped smoking

(2020: 18.3 m; 13.0 m)

29.1%

Of adjusted net revenues derived from smoke-free products, which were available for sale in 71 markets worldwide by year-end[1]

(2020: 23.8%; 64)

Marketing and sales practices

New Marketing Codes deployed globally for both combusted and smoke-free (non-combusted) products, published in 2022 on PMI.com

USD 9.2 bn

Cumulative investments behind smoke-free products since 2008[2]

(2020: 8.1 bn)

91%

Of total shipment volume covered by youth access prevention programs in indirect retail channels[3]

(2020: 94%)

Wellness and healthcare

The 2021 acquisitions of Fertin Pharma, OtiTopic, and Vectura have provided a foundation for progress toward our ambition to generate at least USD 1 billion in annual net revenues from products in wellness and healthcare by 2025

ENVIRONMENT

86%

Recycling rate of *IQOS* devices returned to our centralized recycling hubs (weighted-average percentage of each device that is recycled)[4]

(2020: 84%)

46

Countries where our affiliates deployed cigarette butt anti-littering campaigns focusing on driving behavioral change

Smoke-free consumables

Programs deployed to take back smoke-free consumables after use by consumers in various markets, including Canada, Finland, Guatemala, and Switzerland

OPERATIONAL IMPACT

SOCIAL

39.7%

Of management positions held by women, on track to achieve our 2022 target of 40 percent[5]

(2020: 37.7%)

Agricultural Labor Practices

Publication of a dedicated report celebrating the 10-year anniversary of PMI's Agricultural Labor Practices (ALP) program in its tobacco supply chain

5

Human rights impact assessments conducted since 2018 in highest-risk countries and action plans being implemented

(2020: 4)

ENVIRONMENT

Low-Carbon Transition Plan

Publication of strategy to decarbonize our direct operations by 2025 and our entire value chain by 2040

100%

Of tobacco purchased at no risk of deforestation of primary and protected forests

(2020: 100%)

Triple A

Score from CDP for the second consecutive year, recognizing our efforts to combat climate change, protect forests, and promote water security

[1] Number of markets where PMI smoke-free products were available for sale: 2021 figure excludes Belarus and the U.S.

[2] Investments reflect research, product and commercial development, production capacity, scientific substantiation, and studies on adult smoker understanding.

[3] Total shipment volume includes cigarettes, heated tobacco units, other tobacco products, e-cigarettes, and snus. In 2021, PMI evolved its minimum requirements for effective youth access prevention (YAP) programs in indirect retail channels.

[4] Including recycling (78%) and incineration with energy recovery (8%).

[5] Calculation methodology updated in 2021 to expand data scope to employees on long-term leave (over 30 calendar days). 2020 data restated accordingly.

To complement PMI's 2021 Integrated Report, PMI has developed case studies that go in depth on how the company is addressing specific ESG topics at the local level.
A repository of case studies from previous years, showcasing PMI's affiliates addressing ESG issues locally, is available here.

Collaborating to improve social conditions in the Turkish tobacco supply chain

Cross-industry human rights impact assessment conducted in Turkey.

Association between the introduction of heated tobacco products and declines in cigarette smoking

Follow-up to last year's case study on how *IQOS* can help accelerate smoking prevalence decline, with data focused on Lithuania and Japan.

Partnering up to tackle the littering problem through innovation in Mexico

Partnership between Philip Morris Mexico and Ecofilter, including the opening of the first factory in Latin America to recycle cigarette butts.

Leading on water stewardship in the Philippines

How Philip Morris FTC's factory in Batangas became the first factory in the Philippines to obtain Alliance for Water Stewardship certification.

Impact of PMI's expansion in wellness and healthcare on different forms of capital

PMI value creation model beyond financial capital, focused on manufactured, intellectual, social, and human capital.

Read all our **Case Studies**

WANT TO **KNOW MORE?**

Read **Integrated Report 2021**

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www.pmi.com/sustainability

LEARN MORE ABOUT PMI'S PROGRESS IN ITS RELATED REPORTS

Low-Carbon Transition Plan (2021)

Agricultural Labor Practices 10-year Anniversary Report (2021)

Briefing paper **Climate Justice in Global Supply Chains: A perspective for the private sector** (2021)

2021 Sustainability Materiality Report (2022)

PHILIP MORRIS INTERNATIONAL

HEADQUARTERS
Philip Morris International Inc.
120 Park Avenue
New York, NY 10017-5579
USA

www.pmi.com

OPERATIONS CENTER
Philip Morris Products S.A.
Avenue de Rhodanie 50
1007 Lausanne
Switzerland

www.pmi.com
www.pmiscience.com

Unless otherwise indicated, the data contained in this TOP 10 TAKEAWAYS from PMI's Integrated Report 2021: Transforming for goodcover PMI's operations worldwide for the full calendar year 2021, or reflect the status as of December 31, 2021. Where not specified, data come from PMI financials, non-financials, or estimates. The aspirations, goals, and forward-looking plans contained in PMI Integrated Report 2021 may be impacted by the February 2022 Russian invasion of Ukraine and its potential effects on PMI's business over the mid to long term, which remain uncertain. As part of PMI's broader plan to evaluate its published sustainability aspirations to ensure they remain ambitious, reasonable, and achievable in the context of a dynamic and evolving smoke-free industry, PMI will also assess and reflect the impact of the invasion. Considering the volatility and rapidly changing environment, PMI continues to monitor the situation closely. PMI will communicate any related changes within the next year.

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 PMI's forward-looking and cautionary statements on page 252 of PMI Integrated Report 2021.