

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2021

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number 001-33708

Philip Morris International Inc.

(Exact name of registrant as specified in its charter)

Virginia

13-3435103

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

120 Park Avenue

New York

New York

10017

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (917) 663-2000

Former name, former address and former fiscal year, if changed since last report

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, no par value	PM	New York Stock Exchange
2.900% Notes due 2021	PM21A	New York Stock Exchange
2.625% Notes due 2022	PM22A	New York Stock Exchange
2.375% Notes due 2022	PM22B	New York Stock Exchange
2.500% Notes due 2022	PM22	New York Stock Exchange
2.500% Notes due 2022	PM22C	New York Stock Exchange
2.625% Notes due 2023	PM23	New York Stock Exchange
2.125% Notes due 2023	PM23B	New York Stock Exchange
3.600% Notes due 2023	PM23A	New York Stock Exchange
2.875% Notes due 2024	PM24	New York Stock Exchange
2.875% Notes due 2024	PM24C	New York Stock Exchange
0.625% Notes due 2024	PM24B	New York Stock Exchange
3.250% Notes due 2024	PM24A	New York Stock Exchange
2.750% Notes due 2025	PM25	New York Stock Exchange
3.375% Notes due 2025	PM25A	New York Stock Exchange
2.750% Notes due 2026	PM26A	New York Stock Exchange

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
2.875% Notes due 2026	PM26	New York Stock Exchange
0.125% Notes due 2026	PM26B	New York Stock Exchange
3.125% Notes due 2027	PM27	New York Stock Exchange
3.125% Notes due 2028	PM28	New York Stock Exchange
2.875% Notes due 2029	PM29	New York Stock Exchange
3.375% Notes due 2029	PM29A	New York Stock Exchange
0.800% Notes due 2031	PM31	New York Stock Exchange
3.125% Notes due 2033	PM33	New York Stock Exchange
2.000% Notes due 2036	PM36	New York Stock Exchange
1.875% Notes due 2037	PM37A	New York Stock Exchange
6.375% Notes due 2038	PM38	New York Stock Exchange
1.450% Notes due 2039	PM39	New York Stock Exchange
4.375% Notes due 2041	PM41	New York Stock Exchange
4.500% Notes due 2042	PM42	New York Stock Exchange
3.875% Notes due 2042	PM42A	New York Stock Exchange
4.125% Notes due 2043	PM43	New York Stock Exchange
4.875% Notes due 2043	PM43A	New York Stock Exchange
4.250% Notes due 2044	PM44	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

At July 22, 2021, there were 1,558,540,992 shares outstanding of the registrant's common stock, no par value per share.

PHILIP MORRIS INTERNATIONAL INC.

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

Trademarks and service marks in this report are the registered property of, or licensed by, the subsidiaries of Philip Morris International Inc. and are italicized.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

Philip Morris International Inc. and Subsidiaries Condensed Consolidated Statements of Earnings (in millions of dollars, except per share data) (Unaudited)

	For the Six Months Ended June 30,	
	2021	2020
Revenues including excise taxes	\$ 39,776	\$ 36,072
Excise taxes on products	24,597	22,268
Net revenues (Note 8)	15,179	13,804
Cost of sales	4,627	4,581
Gross profit	10,552	9,223
Marketing, administration and research costs (Note 16)	3,942	3,666
Amortization of intangibles	37	37
Operating income	6,573	5,520
Interest expense, net	328	291
Pension and other employee benefit costs (Note 3)	55	45
Earnings before income taxes	6,190	5,184
Provision for income taxes	1,343	1,124
Equity investments and securities (income)/loss, net	(46)	24
Net earnings	\$ 4,893	\$ 4,036
Net earnings attributable to noncontrolling interests	303	263
Net earnings attributable to PMI	<u>\$ 4,590</u>	<u>\$ 3,773</u>
Per share data (Note 6):		
Basic earnings per share	<u>\$ 2.94</u>	<u>\$ 2.42</u>
Diluted earnings per share	<u>\$ 2.93</u>	<u>\$ 2.42</u>

See notes to condensed consolidated financial statements.

Philip Morris International Inc. and Subsidiaries
Condensed Consolidated Statements of Earnings
(in millions of dollars, except per share data)
(Unaudited)

	For the Three Months Ended June 30,	
	2021	2020
Revenues including excise taxes	\$ 20,421	\$ 17,819
Excise taxes on products	12,827	11,168
Net revenues (Note 8)	7,594	6,651
Cost of sales	2,353	2,179
Gross profit	5,241	4,472
Marketing, administration and research costs (Note 16)	2,093	1,722
Amortization of intangibles	19	19
Operating income	3,129	2,731
Interest expense, net	161	162
Pension and other employee benefit costs (Note 3)	27	22
Earnings before income taxes	2,941	2,547
Provision for income taxes	646	528
Equity investments and securities (income)/loss, net	(3)	(30)
Net earnings	2,298	2,049
Net earnings attributable to noncontrolling interests	126	102
Net earnings attributable to PMI	<u>\$ 2,172</u>	<u>\$ 1,947</u>
Per share data (Note 6):		
Basic earnings per share	<u>\$ 1.39</u>	<u>\$ 1.25</u>
Diluted earnings per share	<u>\$ 1.39</u>	<u>\$ 1.25</u>

See notes to condensed consolidated financial statements.

Philip Morris International Inc. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Earnings
(in millions of dollars)
(Unaudited)

	For the Six Months Ended June 30,	
	2021	2020
Net earnings	\$ 4,893	\$ 4,036
Other comprehensive earnings (losses), net of income taxes:		
Change in currency translation adjustments:		
Unrealized gains (losses), net of income taxes of \$(25) in 2021 and \$(40) in 2020	227	(785)
Change in net loss and prior service cost:		
Net gains (losses) and prior service costs, net of income taxes of \$(5) in 2021 and \$0 in 2020	20	—
Amortization of net losses, prior service costs and net transition costs, net of income taxes of \$(36) in 2021 and \$(34) in 2020	162	149
Change in fair value of derivatives accounted for as hedges:		
Gains (losses) recognized, net of income taxes of \$(12) in 2021 and \$1 in 2020	77	(6)
(Gains) losses transferred to earnings, net of income taxes of \$0 in 2021 and \$2 in 2020	2	(15)
Total other comprehensive earnings (losses)	488	(657)
Total comprehensive earnings	5,381	3,379
Less comprehensive earnings attributable to:		
Noncontrolling interests	275	252
Comprehensive earnings attributable to PMI	<u>\$ 5,106</u>	<u>\$ 3,127</u>

See notes to condensed consolidated financial statements.

Philip Morris International Inc. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Earnings
(in millions of dollars)
(Unaudited)

	For the Three Months Ended June 30,	
	2021	2020
Net earnings	\$ 2,298	\$ 2,049
Other comprehensive earnings (losses), net of income taxes:		
Change in currency translation adjustments:		
Unrealized gains (losses), net of income taxes of \$60 in 2021 and \$56 in 2020	4	797
Change in net loss and prior service cost:		
Net gains (losses) and prior service costs, net of income taxes of \$(5) in 2021 and \$0 in 2020	20	—
Amortization of net losses, prior service costs and net transition costs, net of income taxes of \$(18) in 2021 and \$(17) in 2020	81	75
Change in fair value of derivatives accounted for as hedges:		
Gains (losses) recognized, net of income taxes of \$2 in 2021 and \$6 in 2020	1	(32)
(Gains) losses transferred to earnings, net of income taxes of \$0 in 2021 and \$1 in 2020	(19)	(6)
Total other comprehensive earnings (losses)	87	834
Total comprehensive earnings	2,385	2,883
Less comprehensive earnings attributable to:		
Noncontrolling interests	132	171
Comprehensive earnings attributable to PMI	<u>\$ 2,253</u>	<u>\$ 2,712</u>

See notes to condensed consolidated financial statements.

Philip Morris International Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(in millions of dollars)
(Unaudited)

	June 30, 2021	December 31, 2020
ASSETS		
Cash and cash equivalents	\$ 4,915	\$ 7,280
Trade receivables (less allowances of \$57 in 2021 and \$23 in 2020)	3,536	2,905
Other receivables (less allowances of \$37 in 2021 and \$38 in 2020)	909	856
Inventories:		
Leaf tobacco	1,918	2,063
Other raw materials	1,950	1,712
Finished product	4,822	5,816
	8,690	9,591
Other current assets	693	860
Total current assets	18,743	21,492
Property, plant and equipment, at cost	14,615	14,909
Less: accumulated depreciation	8,640	8,544
	5,975	6,365
Goodwill (Note 4)	5,842	5,964
Other intangible assets, net (Note 4)	1,958	2,019
Equity investments (Note 12)	4,633	4,798
Deferred income taxes	1,112	1,410
Other assets (less allowances of \$22 in 2021 and \$22 in 2020)	2,423	2,767
TOTAL ASSETS	\$ 40,686	\$ 44,815

See notes to condensed consolidated financial statements.

Continued

Philip Morris International Inc. and Subsidiaries
Condensed Consolidated Balance Sheets (Continued)
(in millions of dollars, except share data)
(Unaudited)

	June 30, 2021	December 31, 2020
LIABILITIES		
Short-term borrowings (Note 10)	\$ 136	\$ 244
Current portion of long-term debt (Note 10)	1,608	3,124
Accounts payable	2,630	2,780
Accrued liabilities:		
Marketing and selling	722	782
Taxes, except income taxes	5,244	6,403
Employment costs	1,016	1,189
Dividends payable	1,889	1,880
Other	1,859	2,122
Income taxes	780	1,091
Total current liabilities	15,884	19,615
Long-term debt (Note 10)	27,414	28,168
Deferred income taxes	505	684
Employment costs	4,054	4,470
Income taxes and other liabilities	2,029	2,509
Total liabilities	49,886	55,446
Contingencies (Note 8)		
STOCKHOLDERS' (DEFICIT) EQUITY		
Common stock, no par value (2,109,316,331 shares issued in 2021 and 2020)	—	—
Additional paid-in capital	2,143	2,105
Earnings reinvested in the business	32,465	31,638
Accumulated other comprehensive losses	(10,665)	(11,181)
	23,943	22,562
Less: cost of repurchased stock (550,736,681 and 551,942,600 shares in 2021 and 2020, respectively)	35,056	35,129
Total PMI stockholders' deficit	(11,113)	(12,567)
Noncontrolling interests	1,913	1,936
Total stockholders' deficit	(9,200)	(10,631)
TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY	\$ 40,686	\$ 44,815

See notes to condensed consolidated financial statements.

Philip Morris International Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(in millions of dollars)
(Unaudited)

	For the Six Months Ended June 30,	
	2021	2020
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Net earnings	\$ 4,893	\$ 4,036
Adjustments to reconcile net earnings to operating cash flows:		
Depreciation and amortization	484	470
Deferred income tax (benefit) provision	2	(94)
Asset impairment and exit costs, net of cash paid (Note 16)	(26)	(2)
Cash effects of changes in:		
Receivables, net	(627)	(338)
Inventories	767	(20)
Accounts payable	(16)	(164)
Accrued liabilities and other current assets	(940)	(780)
Income taxes	(459)	(233)
Pension plan contributions	(197)	(52)
Other	184	213
Net cash provided by operating activities	<u>4,065</u>	<u>3,036</u>
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
Capital expenditures	(307)	(310)
Purchases of businesses, net of acquired cash (Note 17)	(27)	—
Equity investments	—	(3)
Net investment hedges	147	174
Other	59	5
Net cash used in investing activities	<u>(128)</u>	<u>(134)</u>

See notes to condensed consolidated financial statements.

Continued

Philip Morris International Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows (Continued)
(in millions of dollars)
(Unaudited)

	For the Six Months Ended June 30,	
	2021	2020
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
Short-term borrowing activity by original maturity:		
Net issuances (repayments) - maturities of 90 days or less	\$ (108)	\$ (75)
Issuances - maturities longer than 90 days	—	45
Long-term debt proceeds	—	2,230
Long-term debt repaid	(1,979)	(3,641)
Dividends paid	(3,752)	(3,658)
Payments to noncontrolling interests and Other	(284)	(404)
Net cash used in financing activities	(6,123)	(5,503)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(179)	(57)
Cash, cash equivalents and restricted cash ⁽¹⁾ :		
Increase (Decrease)	(2,365)	(2,658)
Balance at beginning of period	7,285	6,865
Balance at end of period	<u>\$ 4,920</u>	<u>\$ 4,207</u>

⁽¹⁾ The amounts for cash and cash equivalents shown above include restricted cash of \$5 million and \$7 million as of June 30, 2021 and 2020, respectively, and \$5 million and \$4 million as of December 31, 2020 and 2019, respectively, which were included in other current assets in the condensed consolidated balance sheets.

See notes to condensed consolidated financial statements.

Philip Morris International Inc. and Subsidiaries
Condensed Consolidated Statements of Stockholders' (Deficit) Equity
For the Six Months Ended June 30, 2021 and 2020
(in millions of dollars, except per share amounts)
(Unaudited)

	PMI Stockholders' (Deficit) Equity						
	Common Stock	Additional Paid-in Capital	Earnings Reinvested in the Business	Accumulated Other Comprehensive Losses	Cost of Repurchased Stock	Noncontrolling Interests	Total
Balances, January 1, 2020	\$ —	\$ 2,019	\$ 30,987	\$ (9,363)	\$ (35,220)	\$ 1,978	\$ (9,599)
Net earnings			3,773			263	4,036
Other comprehensive earnings (losses), net of income taxes				(646)		(11)	(657)
Issuance of stock awards		9			85		94
Dividends declared (\$2.34 per share)			(3,657)				(3,657)
Payments to noncontrolling interests						(339)	(339)
Other		16				(14)	2
Balances, June 30, 2020	<u>\$ —</u>	<u>\$ 2,044</u>	<u>\$ 31,103</u>	<u>\$ (10,009)</u>	<u>\$ (35,135)</u>	<u>\$ 1,877</u>	<u>\$ (10,120)</u>
Balances, January 1, 2021	\$ —	\$ 2,105	\$ 31,638	\$ (11,181)	\$ (35,129)	\$ 1,936	\$ (10,631)
Net earnings			4,590			303	4,893
Other comprehensive earnings (losses), net of income taxes				516		(28)	488
Issuance of stock awards		38			73		111
Dividends declared (\$2.40 per share)			(3,763)				(3,763)
Payments to noncontrolling interests						(298)	(298)
Balances, June 30, 2021	<u>\$ —</u>	<u>\$ 2,143</u>	<u>\$ 32,465</u>	<u>\$ (10,665)</u>	<u>\$ (35,056)</u>	<u>\$ 1,913</u>	<u>\$ (9,200)</u>

See notes to condensed consolidated financial statements.

Philip Morris International Inc. and Subsidiaries
Condensed Consolidated Statements of Stockholders' (Deficit) Equity
For the Three Months Ended June 30, 2021 and 2020
(in millions of dollars, except per share amounts)
(Unaudited)

	PMI Stockholders' (Deficit) Equity						
	Common Stock	Additional Paid-in Capital	Earnings Reinvested in the Business	Accumulated Other Comprehensive Losses	Cost of Repurchased Stock	Noncontrolling Interests	Total
Balances, April 1, 2020	\$ —	\$ 1,992	\$ 30,984	\$ (10,774)	\$ (35,146)	\$ 1,881	\$ (11,063)
Net earnings			1,947			102	2,049
Other comprehensive earnings (losses), net of income taxes				765		69	834
Issuance of stock awards		34			11		45
Dividends declared (\$1.17 per share)			(1,828)				(1,828)
Payments to noncontrolling interests						(157)	(157)
Other		18				(18)	—
Balances, June 30, 2020	<u>\$ —</u>	<u>\$ 2,044</u>	<u>\$ 31,103</u>	<u>\$ (10,009)</u>	<u>\$ (35,135)</u>	<u>\$ 1,877</u>	<u>\$ (10,120)</u>
Balances, April 1, 2021	\$ —	\$ 2,080	\$ 32,178	\$ (10,746)	\$ (35,060)	\$ 1,974	\$ (9,574)
Net earnings			2,172			126	2,298
Other comprehensive earnings (losses), net of income taxes				81		6	87
Issuance of stock awards		63			4		67
Dividends declared (\$1.20 per share)			(1,885)				(1,885)
Payments to noncontrolling interests						(193)	(193)
Balances, June 30, 2021	<u>\$ —</u>	<u>\$ 2,143</u>	<u>\$ 32,465</u>	<u>\$ (10,665)</u>	<u>\$ (35,056)</u>	<u>\$ 1,913</u>	<u>\$ (9,200)</u>

See notes to condensed consolidated financial statements.

Philip Morris International Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1. Background and Basis of Presentation:

Background

Philip Morris International Inc. is a holding company incorporated in Virginia, U.S.A. (also referred to herein as the U.S., the United States or the United States of America), whose subsidiaries and affiliates and their licensees are engaged in the manufacture and sale of cigarettes and other nicotine-containing products, including reduced-risk products, in markets outside of the United States of America. In addition, PMI ships versions of its Platform 1 device and its consumables authorized by the U.S. Food and Drug Administration ("FDA") to Altria Group, Inc., for sale in the United States under license. Throughout these financial statements, the term "PMI" refers to Philip Morris International Inc. and its subsidiaries.

Reduced-risk products ("RRPs") is the term PMI uses 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 continuing smoking. PMI has a range of RRP in various stages of development, scientific assessment and commercialization.

"Platform 1" is the term PMI uses to refer to PMI's reduced-risk product that uses a precisely controlled heating device into which a specially designed and proprietary tobacco unit is inserted and heated to generate an aerosol.

Basis of Presentation

The interim condensed consolidated financial statements of PMI are unaudited. These interim condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") and such principles are applied on a consistent basis. It is the opinion of PMI's management that all adjustments necessary for a fair statement of the interim results presented have been reflected therein. All such adjustments were of a normal recurring nature. Net revenues and net earnings attributable to PMI for any interim period are not necessarily indicative of results that may be expected for the entire year.

Certain prior years' amounts have been reclassified to conform with the current year's presentation. The changes did not have a material impact on PMI's consolidated financial position, results of operations or cash flows in any of the periods presented.

These statements should be read in conjunction with the audited consolidated financial statements and related notes, which appear in PMI's Annual Report on Form 10-K for the year ended December 31, 2020.

Philip Morris International Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 2. Stock Plans:

In May 2017, PMI's shareholders approved the Philip Morris International Inc. 2017 Performance Incentive Plan (the "2017 Plan"). Under the 2017 Plan, PMI may grant to eligible employees restricted shares and restricted share units, performance-based cash incentive awards and performance-based equity awards. Up to 25 million shares of PMI's common stock may be issued under the 2017 Plan. At June 30, 2021, shares available for grant under the 2017 Plan were 14,867,021.

In May 2017, PMI's shareholders also approved the Philip Morris International Inc. 2017 Stock Compensation Plan for Non-Employee Directors (the "2017 Non-Employee Directors Plan"). A non-employee director is defined as a member of the PMI Board of Directors who is not a full-time employee of PMI or of any corporation in which PMI owns, directly or indirectly, stock possessing at least 50% of the total combined voting power of all classes of stock entitled to vote in the election of directors in such corporation. Up to 1 million shares of PMI common stock may be awarded under the 2017 Non-Employee Directors Plan. At June 30, 2021, shares available for grant under the plan were 914,413.

Restricted share unit (RSU) awards

During the six months ended June 30, 2021 and 2020, shares granted to eligible employees and the weighted-average grant date fair value per share related to RSU awards were as follows:

	Number of Shares Granted	Weighted-Average Grant Date Fair Value Per RSU Award Granted
2021	1,981,480	\$ 81.91
2020	1,692,650	\$ 85.91

Compensation expense related to RSU awards was as follows:

(in millions)	Compensation Expense Related to RSU Awards	
	For the Six Months Ended June 30,	For the Three Months Ended June 30,
2021	\$ 73	\$ 33
2020	\$ 68	\$ 29

As of June 30, 2021, PMI had \$211 million of total unrecognized compensation cost related to non-vested RSU awards. The cost is recognized over the original restriction period of the awards, which is typically three years after the date of the award, or upon death, disability or reaching the age of 58.

During the six months ended June 30, 2021, 1,106,129 RSU awards vested. The grant date fair value of all the vested awards was approximately \$108 million. The total fair value of RSU awards that vested during the six months ended June 30, 2021 was approximately \$96 million.

Performance share unit (PSU) awards

During the six months ended June 30, 2021 and 2020, PMI granted PSU awards to certain executives. The PSU awards require the achievement of certain performance factors, which are predetermined at the time of grant, typically over a three-year performance cycle. The performance metrics for such PSU's granted during the six months ended June 30, 2021 and 2020 consisted of PMI's Total Shareholder Return ("TSR") relative to a predetermined peer group and on an absolute basis (40% weight), PMI's currency-neutral compound annual adjusted diluted earnings per share growth rate (30% weight), and PMI's performance against specific measures of PMI's transformation, defined as net revenues from PMI's RRP's and any other non-combustible products as a percentage of PMI's total net revenues in the last year of the performance cycle (30% weight).

The aggregate of the weighted performance factors for the three metrics in each such PSU award determines the percentage of PSUs that will vest at the end of the three-year performance cycle. The minimum percentage of such PSUs that can vest is zero, with a target percentage of 100 and a maximum percentage of 200. Each such vested PSU entitles the participant to one share

Philip Morris International Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

of common stock. An aggregate weighted PSU performance factor of 100 will result in the targeted number of PSUs being vested. At the end of the performance cycle, participants are entitled to an amount equivalent to the accumulated dividends paid on common stock during the performance cycle for the number of shares earned.

During the six months ended June 30, 2021 and 2020, shares granted to eligible employee and the grant date fair value per share related to PSU awards were as follows:

	Number of Shares Granted	Grant Date Fair Value Subject to Other Performance Factors (Per Share)	Grant Date Fair Value Subject to TSR Performance Factor (Per Share)
2021	574,410	\$ 81.86	\$ 106.93
2020	671,220	\$ 86.04	\$ 80.36

The grant date fair value of the PSU awards subject to the other performance factors was determined by using the average of the high and low market price of PMI's stock at the date of the grant. The grant date fair value of the PSU market based awards subject to the TSR performance factor was determined by using the Monte Carlo simulation model. The following assumptions were used to determine the grant date fair value of the PSU awards subject to the TSR performance factor:

	2021	2020
Risk-free interest rate ^(a)	0.2 %	1.4 %
Expected volatility ^(b)	31.7 %	23.5 %

^(a) Based on the U.S. Treasury yield curve.

^(b) Determined using the observed historical volatility.

Compensation expense related to PSU awards was as follows:

(in millions)	Compensation Expense Related to PSU Awards	
	For the Six Months Ended June 30,	For the Three Months Ended June 30,
2021	\$ 46	\$ 34
2020	\$ 32	\$ 9

As of June 30, 2021, PMI had \$71 million of total unrecognized compensation cost related to non-vested PSU awards. The cost is recognized over the performance cycle of the awards, or upon death, disability or reaching the age of 58.

During the six months ended June 30, 2021, 189,839 PSU awards vested. The grant date fair value of all the vested awards was approximately \$21 million. The total fair value of PSU awards that vested during the six months ended June 30, 2021 was approximately \$16 million.

Note 3. Benefit Plans:

Pension coverage for employees of PMI's subsidiaries is provided, to the extent deemed appropriate, through separate plans, many of which are governed by local statutory requirements. In addition, PMI provides health care and other benefits to substantially all U.S. retired employees and certain non-U.S. retired employees. In general, health care benefits for non-U.S. retired employees are covered through local government plans.

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Pension and other employee benefit costs per the condensed consolidated statements of earnings consisted of the following:

(in millions)	For the Six Months Ended June 30,		For the Three Months Ended June 30,	
	2021	2020	2021	2020
Net pension costs (income)	\$ (2)	\$ (8)	\$ (1)	\$ (4)
Net postemployment costs	53	49	25	24
Net postretirement costs	4	4	3	2
Total pension and other employee benefit costs	\$ 55	\$ 45	\$ 27	\$ 22

Pension Plans

Components of Net Periodic Benefit Cost

Net periodic pension cost consisted of the following:

(in millions)	Pension ⁽¹⁾			
	For the Six Months Ended June 30,		For the Three Months Ended June 30,	
	2021	2020	2021	2020
Service cost	\$ 147	\$ 130	\$ 72	\$ 65
Interest cost	25	35	12	18
Expected return on plan assets	(186)	(173)	(91)	(87)
Amortization:				
Net loss	158	129	78	64
Prior service cost	1	1	—	1
Net periodic pension cost	\$ 145	\$ 122	\$ 71	\$ 61

⁽¹⁾ Primarily non-U.S. based defined benefit retirement plans.

Employer Contributions

PMI makes, and plans to make, contributions, to the extent that they are tax deductible and to meet specific funding requirements of its funded pension plans. Employer contributions of \$197 million were made to the pension plans during the six months ended June 30, 2021. Currently, PMI anticipates making additional contributions during the remainder of 2021 of approximately \$78 million to its pension plans, based on current tax and benefit laws. However, this estimate is subject to change as a result of changes in tax and other benefit laws, as well as asset performance significantly above or below the assumed long-term rate of return on pension assets, or changes in interest and currency rates.

Note 4. Goodwill and Other Intangible Assets, net:

The movements in goodwill were as follows:

(in millions)	European Union	Eastern Europe	Middle East & Africa	South & Southeast Asia	East Asia & Australia	Latin America & Canada	Total
Balances, December 31, 2020	\$ 1,434	\$ 317	\$ 86	\$ 2,915	\$ 559	\$ 653	\$ 5,964
Changes due to:							
Acquisitions	29	—	—	—	—	—	29
Currency	(30)	(8)	2	(86)	(17)	(12)	(151)
Balances, June 30, 2021	\$ 1,433	\$ 309	\$ 88	\$ 2,829	\$ 542	\$ 641	\$ 5,842

At June 30, 2021, goodwill primarily reflects PMI's acquisitions in Colombia, Greece, Indonesia, Mexico, Pakistan and Serbia, as well as the business combination in the Philippines.

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The increase in goodwill from acquisitions was due to the preliminary purchase price allocation of AG Snus Aktieselskab ("AG Snus"), a Danish based company, and its Swedish subsidiary Tobacco House of Sweden AB, fully owned by AG Snus. For further details, see Note 17. *Acquisitions*.

Details of other intangible assets were as follows:

(in millions)	Weighted-Average Remaining Useful Life	June 30, 2021			December 31, 2020		
		Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Non-amortizable intangible assets		\$ 1,261		\$ 1,261	\$ 1,289		\$ 1,289
Amortizable intangible assets:							
Trademarks	12 years	1,233	\$ 621	612	1,233	\$ 594	639
Distribution networks	7 years	113	79	34	115	78	37
Other*	8 years	105	54	51	104	50	54
Total other intangible assets		\$ 2,712	\$ 754	\$ 1,958	\$ 2,741	\$ 722	\$ 2,019

* Primarily includes intellectual property rights

Non-amortizable intangible assets substantially consist of trademarks from PMI's acquisitions in Indonesia and Mexico. The decrease since December 31, 2020 was due to currency movements of (\$28 million).

The decrease in the gross carrying amount of amortizable intangible assets from December 31, 2020, was mainly due to currency movements of (\$8 million), partially offset by the preliminary purchase price allocation of AG Snus trademarks in the amount of \$7 million. For further details, see Note 17. *Acquisitions*.

The change in the accumulated amortization from December 31, 2020, was mainly due to the 2021 amortization of \$37 million, partially offset by currency movements of (\$5 million).

Amortization expense for each of the next five years is estimated to be \$75 million or less, assuming no additional transactions occur that require the amortization of intangible assets.

During the second quarter of 2021, PMI completed its annual review of goodwill and non-amortizable intangible assets for potential impairment, and no impairment charges were required as a result of this review.

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Note 5. Financial Instruments:*Overview*

PMI operates in markets outside of the United States of America, with manufacturing and sales facilities in various locations around the world. PMI utilizes certain financial instruments to manage foreign currency and interest rate exposures. Derivative financial instruments are used by PMI principally to reduce exposures to market risks resulting from fluctuations in foreign currency exchange and interest rates by creating offsetting exposures. PMI is not a party to leveraged derivatives and, by policy, does not use derivative financial instruments for speculative purposes. Substantially all of PMI's derivative financial instruments are subject to master netting arrangements, whereby the right to offset occurs in the event of default by a participating party. While these contracts contain the enforceable right to offset through close-out netting rights, PMI elects to present them on a gross basis in the consolidated balance sheets. Collateral associated with these arrangements is in the form of cash and is unrestricted. Financial instruments qualifying for hedge accounting must maintain a specified level of effectiveness between the hedging instrument and the item being hedged, both at inception and throughout the hedged period. PMI formally documents the nature and relationships between the hedging instruments and hedged items, as well as its risk-management objectives, strategies for undertaking the various hedge transactions and method of assessing hedge effectiveness. Additionally, for hedges of forecasted transactions, the significant characteristics and expected terms of the forecasted transaction must be specifically identified, and it must be probable that each forecasted transaction will occur. If it were deemed probable that the forecasted transaction would not occur, the gain or loss would be recognized in earnings.

PMI uses deliverable and non-deliverable forward foreign exchange contracts, foreign currency swaps and foreign currency options, collectively referred to as foreign exchange contracts ("foreign exchange contracts"), and interest rate contracts to mitigate its exposure to changes in exchange and interest rates from third-party and intercompany actual and forecasted transactions. Both foreign exchange contracts and interest rate contracts are collectively referred to as derivative contracts ("derivative contracts"). The primary currencies to which PMI is exposed include the Euro, Indonesian rupiah, Japanese yen, Mexican peso, Philippine peso, Russian ruble and Swiss franc. At June 30, 2021, PMI had contracts with aggregate notional amounts of \$22.7 billion of which \$3.5 billion related to cash flow hedges, \$7.6 billion related to hedges of net investments in foreign operations and \$11.6 billion related to other derivatives that primarily offset currency exposures on intercompany financing.

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The fair value of PMI's derivative contracts included in the condensed consolidated balance sheets as of June 30, 2021 and December 31, 2020, were as follows:

(in millions)	Derivative Assets			Derivative Liabilities		
	Balance Sheet Classification	Fair Value		Balance Sheet Classification	Fair Value	
		At June 30, 2021	At December 31, 2020		At June 30, 2021	At December 31, 2020
Derivative contracts designated as hedging instruments	Other current assets	\$ 187	\$ 130	Other accrued liabilities	\$ 92	\$ 241
	Other assets	—	6	Income taxes and other liabilities	424	605
Derivative contracts not designated as hedging instruments	Other current assets	104	46	Other accrued liabilities	28	207
	Other assets	—	—	Income taxes and other liabilities	38	57
Total gross amount derivatives contracts presented in the condensed consolidated balance sheets		\$ 291	\$ 182		\$ 582	\$ 1,110
Gross amounts not offset in the condensed consolidated balance sheets						
Finance instruments		(140)	(156)		(140)	(156)
Cash collateral received/pledged		(126)	(23)		(425)	(892)
Net amount		\$ 25	\$ 3		\$ 17	\$ 62

PMI assesses the fair value of its foreign exchange contracts and interest rate contracts using standard valuation models that use, as their basis, readily observable market inputs. The fair value of PMI's foreign exchange forward contracts, foreign currency swaps and interest rate contracts is determined by using the prevailing foreign exchange spot rates and interest rate differentials, and the respective maturity dates of the instruments. The fair value of PMI's currency options is determined by using a Black-Scholes methodology based on foreign exchange spot rates and interest rate differentials, currency volatilities and maturity dates. PMI's derivative contracts have been classified within Level 2 at June 30, 2021 and December 31, 2020.

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For the six months ended June 30, 2021 and 2020, PMI's derivative contracts impacted the condensed consolidated statements of earnings and comprehensive earnings as follows:

(pre-tax, in millions)	For the Six Months Ended June 30,						
	Amount of Gain/ (Loss) Recognized in Other Comprehensive Earnings/(Losses) on Derivatives		Statement of Earnings Classification of Gain/(Loss) on Derivatives	Amount of Gain/ (Loss) Reclassified from Other Comprehensive Earnings/(Losses) into Earnings		Amount of Gain/ (Loss) Recognized in Earnings	
	2021	2020		2021	2020	2021	2020
Derivative contracts designated as hedging instruments:							
Cash flow hedges	\$ 89	\$ (7)					
			Net revenues	\$ 17	\$ 4		
			Cost of sales	—	7		
			Marketing, administration and research costs	(12)	11		
			Interest expense, net	(7)	(5)		
Net investment hedges ^(a)	192	269	Interest expense, net ^(b)			\$ 82	\$ 104
Derivative contracts not designated as hedging instruments:			Interest expense, net			25	48
			Marketing, administration and research costs ^(c)			196	(63)
Total	\$ 281	\$ 262		\$ (2)	\$ 17	\$ 303	\$ 89

^(a) Amount of gains (losses) on hedges of net investments principally related to changes in exchange and interest rates between the Euro and U.S. dollar

^(b) Represent the gains for amounts excluded from the effectiveness testing

^(c) The gains (losses) from these contracts attributable to changes in foreign currency exchange rates substantially offset the (losses) and gains generated by the underlying intercompany and third-party loans being hedged

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For the three months ended June 30, 2021 and 2020, PMI's derivative contracts impacted the condensed consolidated statements of earnings and comprehensive earnings as follows:

(pre-tax, in millions)	For the Three Months Ended June 30,					
	Amount of Gain/(Loss) Recognized in Other Comprehensive Earnings/(Losses) on Derivatives		Statement of Earnings Classification of Gain/(Loss) on Derivatives	Amount of Gain/(Loss) Reclassified from Other Comprehensive Earnings/(Losses) into Earnings		Amount of Gain/(Loss) Recognized in Earnings
	2021	2020		2021	2020	
Derivative contracts designated as hedging instruments:						
Cash flow hedges	\$ (1)	\$ (38)				
			Net revenues	\$ 17	\$ 1	
			Cost of sales	—	3	
			Marketing, administration and research costs	6	6	
			Interest expense, net	(4)	(3)	
Net investment hedges ^(a)	(126)	(138)	Interest expense, net ^(b)			\$ 40 \$ 48
Derivative contracts not designated as hedging instruments:			Interest expense, net			14 14
			Marketing, administration and research costs ^(c)			(91) (92)
Total	\$ (127)	\$ (176)		\$ 19	\$ 7	\$ (37) \$ (30)

^(a) Amount of gains (losses) on hedges of net investments principally related to changes in exchange and interest rates between the Euro and U.S. dollar

^(b) Represent the gains for amounts excluded from the effectiveness testing

^(c) The gains (losses) from these contracts attributable to changes in foreign currency exchange rates substantially offset the (losses) and gains generated by the underlying intercompany and third-party loans being hedged

Cash Flow Hedges

PMI has entered into derivative contracts to hedge the foreign currency exchange and interest rate risks related to certain forecasted transactions. Gains and losses associated with qualifying cash flow hedge contracts are deferred as components of accumulated other comprehensive losses until the underlying hedged transactions are reported in PMI's condensed consolidated statements of earnings. As of June 30, 2021, PMI has hedged forecasted transactions for periods not exceeding the next twelve months with the exception of one derivative contract that expires in May 2024. The impact of these hedges is primarily included in operating cash flows on PMI's condensed consolidated statements of cash flows.

Hedges of Net Investments in Foreign Operations

PMI designates derivative contracts and certain foreign currency denominated debt instruments as net investment hedges, primarily of its Euro net assets. For the six months ended June 30, 2021 and 2020, the amount of pre-tax gain/(loss) related to these debt instruments, that was reported as a component of accumulated other comprehensive losses within currency translation adjustments, was \$110 million and \$(103) million, respectively. For the three months ended June 30, 2021 and 2020, the amount of pre-tax gain/(loss) related to these debt instruments, that was reported as a component of accumulated other comprehensive losses within currency translation adjustments, was \$(71) million and \$(98) million, respectively. The premiums paid for, and settlements of, net investment hedges are included in investing cash flows on PMI's condensed consolidated statements of cash flows.

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Other Derivatives

PMI has entered into derivative contracts to hedge the foreign currency exchange and interest rate risks related to intercompany loans between certain subsidiaries, and third-party loans. While effective as economic hedges, no hedge accounting is applied for these contracts; therefore, the gains (losses) relating to these contracts are reported in PMI's condensed consolidated statements of earnings.

Qualifying Hedging Activities Reported in Accumulated Other Comprehensive Losses

Derivative gains or losses reported in accumulated other comprehensive losses are a result of qualifying hedging activity. Transfers of these gains or losses to earnings are offset by the corresponding gains or losses on the underlying hedged item. Hedging activity affected accumulated other comprehensive losses, net of income taxes, as follows:

(in millions)	For the Six Months Ended June 30,		For the Three Months Ended June 30,	
	2021	2020	2021	2020
Gain/(loss) as beginning of period	\$ (85)	\$ 3	\$ 12	\$ 20
Derivative (gains)/losses transferred to earnings	2	(15)	(19)	(6)
Change in fair value	77	(6)	1	(32)
Gain/(loss) as of June 30,	\$ (6)	\$ (18)	\$ (6)	\$ (18)

At June 30, 2021, PMI expects \$26 million of derivative gains that are included in accumulated other comprehensive losses to be reclassified to the condensed consolidated statement of earnings within the next 12 months. These gains are expected to be substantially offset by the statement of earnings impact of the respective hedged transactions.

Contingent Features

PMI's derivative instruments do not contain contingent features.

Credit Exposure and Credit Risk

PMI is exposed to credit loss in the event of non-performance by counterparties. While PMI does not anticipate non-performance, its risk is limited to the fair value of the financial instruments less any cash collateral received or pledged. PMI actively monitors its exposure to credit risk through the use of credit approvals and credit limits and by selecting and continuously monitoring a diverse group of major international banks and financial institutions as counterparties.

Note 6. Earnings Per Share:

Basic and diluted earnings per share ("EPS") were calculated using the following:

(in millions)	For the Six Months Ended June 30,		For the Three Months Ended June 30,	
	2021	2020	2021	2020
Net earnings attributable to PMI	\$ 4,590	\$ 3,773	\$ 2,172	\$ 1,947
Less distributed and undistributed earnings attributable to share-based payment awards	14	10	6	5
Net earnings for basic and diluted EPS	\$ 4,576	\$ 3,763	\$ 2,166	\$ 1,942
Weighted-average shares for basic EPS	1,558	1,557	1,558	1,558
Plus contingently issuable performance stock units (PSUs)	2	—	2	—
Weighted-average shares for diluted EPS	1,560	1,557	1,560	1,558

Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents are participating securities and therefore are included in PMI's earnings per share calculation pursuant to the two-class method.

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For the 2021 and 2020 computations, there were no antidilutive stock awards.

Note 7. Segment Reporting:

PMI's subsidiaries and affiliates are engaged in the manufacture and sale of cigarettes and other nicotine-containing products, including RRP's, in markets outside of the United States of America. In addition, PMI ships versions of its Platform 1 device and its consumables authorized by the FDA to Altria Group, Inc. for sale in the United States under license. Operating segments for PMI are organized by geographic region and managed by segment managers who are responsible for the operating and financial results of the regions inclusive of all product categories sold in the region. PMI's operating segments are the European Union; Eastern Europe; Middle East & Africa; South & Southeast Asia; East Asia & Australia; and Latin America & Canada. PMI records net revenues and operating income to its segments based upon the geographic area in which the customer resides. Revenues from shipments of Platform 1 devices, heated tobacco units and accessories to Altria Group, Inc. for sale under license in the United States are included in net revenues of the Latin America & Canada segment.

In July 2021, the Latin America & Canada operating segment was renamed as the Americas operating segment.

PMI's chief operating decision maker evaluates segment performance and allocates resources based on regional operating income, which includes results from all product categories sold in each region.

PMI disaggregates its net revenue from contracts with customers by both geographic location and product category for each of PMI's six operating segments, as PMI believes this best depicts how the nature, amount, timing and uncertainty of its revenue and cash flows are affected by economic factors.

Segment data were as follows:

(in millions)	For the Six Months Ended June 30,		For the Three Months Ended June 30,	
	2021	2020	2021	2020
Net revenues:				
European Union	\$ 6,058	\$ 5,010	\$ 3,149	\$ 2,475
Eastern Europe	1,691	1,571	895	783
Middle East & Africa	1,361	1,580	560	704
South & Southeast Asia	2,219	2,140	1,046	889
East Asia & Australia	2,986	2,687	1,514	1,432
Latin America & Canada	864	816	430	368
Net revenues	\$ 15,179	\$ 13,804	\$ 7,594	\$ 6,651
Operating income:				
European Union	\$ 3,131	\$ 2,336	\$ 1,641	\$ 1,178
Eastern Europe	575	365	314	266
Middle East & Africa	351	558	16	237
South & Southeast Asia	860	888	331	289
East Asia & Australia	1,410	1,155	715	669
Latin America & Canada	246	218	112	92
Operating income	\$ 6,573	\$ 5,520	\$ 3,129	\$ 2,731

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PMI's net revenues by product category were as follows:

(in millions)	For the Six Months Ended June 30,		For the Three Months Ended June 30,	
	2021	2020	2021	2020
Net revenues:				
Combustible products:				
European Union	\$ 4,113	\$ 3,855	\$ 2,162	\$ 1,945
Eastern Europe	1,047	1,045	555	522
Middle East & Africa	1,307	1,528	527	696
South & Southeast Asia	2,216	2,140	1,045	889
East Asia & Australia	1,259	1,272	611	630
Latin America & Canada	840	803	418	363
Total combustible products	\$ 10,781	\$ 10,643	\$ 5,318	\$ 5,045
Reduced-risk products:				
European Union	\$ 1,945	\$ 1,155	\$ 987	\$ 530
Eastern Europe	644	526	340	261
Middle East & Africa	54	52	33	8
South & Southeast Asia	3	—	1	—
East Asia & Australia	1,727	1,415	903	802
Latin America & Canada	24	13	12	5
Total reduced-risk products	\$ 4,398	\$ 3,161	\$ 2,276	\$ 1,606
Total PMI net revenues	\$ 15,179	\$ 13,804	\$ 7,594	\$ 6,651

Note: Sum of product categories or Regions might not foot to total PMI due to roundings.

Items affecting the comparability of results from operations were as follows:

- **Asset impairment and exit costs** - See Note 16. *Asset Impairment and Exit Costs* for a breakdown of these costs by segment for the six months and three months ended June 30, 2021 and 2020.
- **Saudi Arabia customs assessments** - See Note 8. *Contingencies* for the details of the \$246 million reduction in net revenues of combustible products included in the Middle East & Africa segment for the six months and three months ended June 30, 2021.

Net revenues related to combustible products refer to the operating revenues generated from the sale of these products, including shipping and handling charges billed to customers, net of sales and promotion incentives, and excise taxes. These net revenue amounts consist of the sale of PMI's cigarettes and other tobacco products combined. Other tobacco products primarily include roll-your-own and make-your-own cigarettes, pipe tobacco, cigars and cigarillos and do not include reduced-risk products.

Net revenues related to reduced-risk products refer to the operating revenues generated from the sale of these products, including shipping and handling charges billed to customers, net of sales and promotion incentives, and excise taxes. These net revenue amounts consist of the sale of PMI's heated tobacco units, heat-not-burn devices and related accessories, and other nicotine-containing products, which primarily include PMI's e-vapor products.

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Note 8. Contingencies:***Tobacco-Related Litigation***

Legal proceedings covering a wide range of matters are pending or threatened against us, and/or our subsidiaries, and/or our indemnitees in various jurisdictions. Our indemnitees include distributors, licensees, and others that have been named as parties in certain cases and that we have agreed to defend, as well as to pay costs and some or all of judgments, if any, that may be entered against them. Pursuant to the terms of the Distribution Agreement between Altria Group, Inc. (“Altria”) and PMI, PMI will indemnify Altria and Philip Morris USA Inc. (“PM USA”), a U.S. tobacco subsidiary of Altria, for tobacco product claims based in substantial part on products manufactured by PMI or contract manufactured for PMI by PM USA, and PM USA will indemnify PMI for tobacco product claims based in substantial part on products manufactured by PM USA, excluding tobacco products contract manufactured for PMI.

It is possible that there could be adverse developments in pending cases against us and our subsidiaries. An unfavorable outcome or settlement of pending tobacco-related litigation could encourage the commencement of additional litigation.

Damages claimed in some of the tobacco-related litigation are significant and, in certain cases in Brazil, Canada and Nigeria, range into the billions of U.S. dollars. The variability in pleadings in multiple jurisdictions, together with the actual experience of management in litigating claims, demonstrate that the monetary relief that may be specified in a lawsuit bears little relevance to the ultimate outcome. Much of the tobacco-related litigation is in its early stages, and litigation is subject to uncertainty. However, as discussed below, we have to date been largely successful in defending tobacco-related litigation.

We and our subsidiaries record provisions in the consolidated financial statements for pending litigation when we determine that an unfavorable outcome is probable and the amount of the loss can be reasonably estimated. At the present time, except as stated otherwise in this Note 8. *Contingencies*, while it is reasonably possible that an unfavorable outcome in a case may occur, after assessing the information available to it (i) management has not concluded that it is probable that a loss has been incurred in any of the pending tobacco-related cases; (ii) management is unable to estimate the possible loss or range of loss for any of the pending tobacco-related cases; and (iii) accordingly, no estimated loss has been accrued in the consolidated financial statements for unfavorable outcomes in these cases, if any. Legal defense costs are expensed as incurred.

It is possible that our consolidated results of operations, cash flows or financial position could be materially affected in a particular fiscal quarter or fiscal year by an unfavorable outcome or settlement of certain pending litigation. Nevertheless, although litigation is subject to uncertainty, we and each of our subsidiaries named as a defendant believe, and each has been so advised by counsel handling the respective cases, that we have valid defenses to the litigation pending against us, as well as valid bases for appeal of adverse verdicts. All such cases are, and will continue to be, vigorously defended. However, we and our subsidiaries may enter into settlement discussions in particular cases if we believe it is in our best interests to do so.

CCAA Proceedings and Stay of Tobacco-Related Cases Pending in Canada

As a result of the Court of Appeal of Quebec’s decision in both the *Létourneau* and *Blais* cases described below, our subsidiary, Rothmans, Benson & Hedges Inc. (“RBH”), and the other defendants, JTI Macdonald Corp., and Imperial Tobacco Canada Limited, sought protection in the Ontario Superior Court of Justice under the Companies’ Creditors Arrangement Act (“CCAA”) on March 22, March 8, and March 12, 2019, respectively. CCAA is a Canadian federal law that permits a Canadian business to restructure its affairs while carrying on its business in the ordinary course. The initial CCAA order made by the Ontario Superior Court on March 22, 2019, authorizes RBH to pay all expenses incurred in carrying on its business in the ordinary course after the CCAA filing, including obligations to employees, vendors, and suppliers. As further described in Item 8, Note 20. *Deconsolidation of RBH* of PMI’s Annual Report on Form 10-K for the year ended December 31, 2020, RBH’s financial results have been deconsolidated from our consolidated financial statements since March 22, 2019. As part of the CCAA proceedings, there is currently a comprehensive stay up to and including September 30, 2021, of all tobacco-related litigation pending in Canada against RBH and the other defendants, including PMI and our indemnitees (PM USA and Altria), namely, the smoking and health class actions filed in various Canadian provinces and health care cost recovery actions. These proceedings are presented below under the caption “*Stayed Litigation — Canada*.” Ernst & Young Inc. has been appointed as monitor of RBH in the CCAA proceedings. In accordance with the CCAA process, as the parties work towards a plan of arrangement or compromise in a confidential mediation, it is anticipated that the court will set additional hearings and further extend the stay of proceedings. On April 17, 2019, the Ontario Superior Court ruled that RBH and the other defendants will not be allowed to file an application to the Supreme Court of Canada for leave to appeal the Court of Appeal’s decision in the *Létourneau* and the *Blais* cases so long as the comprehensive stay of all tobacco-related litigation in Canada remains in effect and that the time period to file the application would be extended by the stay period. While RBH believes that the findings of liability and damages in both *Létourneau* and the *Blais* cases were incorrect, the CCAA proceedings will provide a forum for

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RBH to seek resolution through a plan of arrangement or compromise of all tobacco-related litigation pending in Canada. It is not possible to predict the resolution of the underlying legal proceedings or the length of the CCAA process.

Stayed Litigation — Canada

Smoking and Health Litigation — Canada

In the first class action pending in Canada, *Conseil Québécois Sur Le Tabac Et La Santé and Jean-Yves Blais v. Imperial Tobacco Ltd., Rothmans, Benson & Hedges Inc. and JTI-Macdonald Corp.*, Quebec Superior Court, Canada, filed in November 1998, RBH and other Canadian cigarette manufacturers (Imperial Tobacco Canada Ltd. and JTI-Macdonald Corp.) are defendants. The plaintiffs, an anti-smoking organization and an individual smoker, sought compensatory and punitive damages for each member of the class who suffers allegedly from certain smoking-related diseases. The class was certified in 2005. The trial court issued its judgment on May 27, 2015. The trial court found RBH and two other Canadian manufacturers liable and found that the class members' compensatory damages totaled approximately CAD 15.5 billion, including pre-judgment interest (approximately \$12.3 billion). The trial court awarded compensatory damages on a joint and several liability basis, allocating 20% to our subsidiary (approximately CAD 3.1 billion, including pre-judgment interest (approximately \$2.5 billion)). In addition, the trial court awarded CAD 90,000 (approximately \$71,600) in punitive damages, allocating CAD 30,000 (approximately \$23,900) to RBH. The trial court estimated the disease class at 99,957 members. RBH appealed to the Court of Appeal of Quebec. In October 2015, the Court of Appeal ordered RBH to furnish security totaling CAD 226 million (approximately \$180 million) to cover both the *Létourneau* and *Blais* cases, which RBH has paid in installments through March 2017. The Court of Appeal ordered Imperial Tobacco Canada Ltd. to furnish security totaling CAD 758 million (approximately \$603 million) in installments through June 2017. JTI Macdonald Corp. was not required to furnish security in accordance with plaintiffs' motion. The Court of Appeal ordered that the security is payable upon a final judgment of the Court of Appeal affirming the trial court's judgment or upon further order of the Court of Appeal.

On March 1, 2019, the Court of Appeal issued a decision largely affirming the trial court's findings of liability and the compensatory and punitive damages award while reducing the total amount of compensatory damages to approximately CAD 13.5 billion including interest (approximately \$10.7 billion) due to the trial court's error in the calculation of interest. The compensatory damages award is on a joint and several basis with an allocation of 20% to RBH (approximately CAD 2.7 billion, including pre-judgment interest (approximately \$2.1 billion)). The Court of Appeal upheld the trial court's findings that defendants violated the Civil Code of Quebec, the Quebec Charter of Human Rights and Freedoms, and the Quebec Consumer Protection Act by failing to warn adequately of the dangers of smoking and by conspiring to prevent consumers from learning of the dangers of smoking. The Court of Appeal further held that the plaintiffs either need not prove, or had adequately proven, that these faults were a cause of the class members' injuries. In accordance with the judgment, defendants were required to deposit their respective portions of the damages awarded in both the *Létourneau* case described below and the *Blais* case, approximately CAD 1.1 billion (approximately \$875 million), into trust accounts within 60 days. RBH's share of the deposit was approximately CAD 257 million (approximately \$194 million). PMI recorded a pre-tax charge of \$194 million in its consolidated results, representing \$142 million net of tax, as tobacco litigation-related expense, in the first quarter of 2019. The charge reflects PMI's assessment of the portion of the judgment that represents probable and estimable loss prior to the deconsolidation of RBH and corresponds to the trust account deposit required by the judgment.

In the second class action pending in Canada, *Cecilia Létourneau v. Imperial Tobacco Ltd., Rothmans, Benson & Hedges Inc. and JTI-Macdonald Corp.*, Quebec Superior Court, Canada, filed in September 1998, RBH and other Canadian cigarette manufacturers (Imperial Tobacco Canada Ltd. and JTI-Macdonald Corp.) are defendants. The plaintiff, an individual smoker, sought compensatory and punitive damages for each member of the class who is deemed addicted to smoking. The class was certified in 2005. The trial court issued its judgment on May 27, 2015. The trial court found RBH and two other Canadian manufacturers liable and awarded a total of CAD 131 million (approximately \$104 million) in punitive damages, allocating CAD 46 million (approximately \$37 million) to RBH. The trial court estimated the size of the addiction class at 918,000 members but declined to award compensatory damages to the addiction class because the evidence did not establish the claims with sufficient accuracy. The trial court found that a claims process to allocate the awarded punitive damages to individual class members would be too expensive and difficult to administer. On March 1, 2019, the Court of Appeal issued a decision largely affirming the trial court's findings of liability and the total amount of punitive damages awarded allocating CAD 57 million including interest (approximately \$45 million) to RBH. See the *Blais* description above and Item 8, Note 20. *Deconsolidation of RBH* in PMI's Annual Report on Form 10-K for the year ended December 31, 2020 for further detail concerning the security order pertaining to both *Létourneau* and *Blais* cases and the impact of the decision on PMI's financial statements.

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RBH and PMI believe the findings of liability and damages in both *Létourneau* and the *Blais* cases were incorrect and in contravention of applicable law on several grounds including the following: (i) defendants had no obligation to warn class members who knew, or should have known, of the risks of smoking; (ii) defendants cannot be liable to class members who would have smoked regardless of what warnings were given; and (iii) defendants cannot be liable to all class members given the individual differences between class members.

In the third class action pending in Canada, *Kunta v. Canadian Tobacco Manufacturers' Council, et al., The Queen's Bench, Winnipeg, Canada*, filed June 12, 2009, we, RBH, and our indemnitees (PM USA and Altria), and other members of the industry are defendants. The plaintiff, an individual smoker, alleges her own addiction to tobacco products and chronic obstructive pulmonary disease ("COPD"), severe asthma, and mild reversible lung disease resulting from the use of tobacco products. She is seeking compensatory and punitive damages on behalf of a proposed class comprised of all smokers, their estates, dependents and family members, as well as restitution of profits, and reimbursement of government health care costs allegedly caused by tobacco products.

In the fourth class action pending in Canada, *Adams v. Canadian Tobacco Manufacturers' Council, et al., The Queen's Bench, Saskatchewan, Canada*, filed July 10, 2009, we, RBH, and our indemnitees (PM USA and Altria), and other members of the industry are defendants. The plaintiff, an individual smoker, alleges her own addiction to tobacco products and COPD resulting from the use of tobacco products. She is seeking compensatory and punitive damages on behalf of a proposed class comprised of all smokers who have smoked a minimum of 25,000 cigarettes and have allegedly suffered, or suffer, from COPD, emphysema, heart disease, or cancer, as well as restitution of profits.

In the fifth class action pending in Canada, *Semple v. Canadian Tobacco Manufacturers' Council, et al., The Supreme Court (trial court), Nova Scotia, Canada*, filed June 18, 2009, we, RBH, and our indemnitees (PM USA and Altria), and other members of the industry are defendants. The plaintiff, an individual smoker, alleges his own addiction to tobacco products and COPD resulting from the use of tobacco products. He is seeking compensatory and punitive damages on behalf of a proposed class comprised of all smokers, their estates, dependents and family members, as well as restitution of profits, and reimbursement of government health care costs allegedly caused by tobacco products.

In the sixth class action pending in Canada, *Dorion v. Canadian Tobacco Manufacturers' Council, et al., The Queen's Bench, Alberta, Canada*, filed June 15, 2009, we, RBH, and our indemnitees (PM USA and Altria), and other members of the industry are defendants. The plaintiff, an individual smoker, alleges her own addiction to tobacco products and chronic bronchitis and severe sinus infections resulting from the use of tobacco products. She is seeking compensatory and punitive damages on behalf of a proposed class comprised of all smokers, their estates, dependents and family members, restitution of profits, and reimbursement of government health care costs allegedly caused by tobacco products. To date, we, our subsidiaries, and our indemnitees have not been properly served with the complaint.

In the seventh class action pending in Canada, *McDermid v. Imperial Tobacco Canada Limited, et al., Supreme Court, British Columbia, Canada*, filed June 25, 2010, we, RBH, and our indemnitees (PM USA and Altria), and other members of the industry are defendants. The plaintiff, an individual smoker, alleges his own addiction to tobacco products and heart disease resulting from the use of tobacco products. He is seeking compensatory and punitive damages on behalf of a proposed class comprised of all smokers who were alive on June 12, 2007, and who suffered from heart disease allegedly caused by smoking, their estates, dependents and family members, plus disgorgement of revenues earned by the defendants from January 1, 1954, to the date the claim was filed.

In the eighth class action pending in Canada, *Bourassa v. Imperial Tobacco Canada Limited, et al., Supreme Court, British Columbia, Canada*, filed June 25, 2010, we, RBH, and our indemnitees (PM USA and Altria), and other members of the industry are defendants. The plaintiff, the heir to a deceased smoker, alleges that the decedent was addicted to tobacco products and suffered from emphysema resulting from the use of tobacco products. She is seeking compensatory and punitive damages on behalf of a proposed class comprised of all smokers who were alive on June 12, 2007, and who suffered from chronic respiratory diseases allegedly caused by smoking, their estates, dependents and family members, plus disgorgement of revenues earned by the defendants from January 1, 1954, to the date the claim was filed. In December 2014, plaintiff filed an amended statement of claim.

In the ninth class action pending in Canada, *Suzanne Jacklin v. Canadian Tobacco Manufacturers' Council, et al., Ontario Superior Court of Justice*, filed June 20, 2012, we, RBH, and our indemnitees (PM USA and Altria), and other members of the industry are defendants. The plaintiff, an individual smoker, alleges her own addiction to tobacco products and COPD resulting from the use of tobacco products. She is seeking compensatory and punitive damages on behalf of a proposed class comprised

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of all smokers who have smoked a minimum of 25,000 cigarettes and have allegedly suffered, or suffer, from COPD, heart disease, or cancer, as well as restitution of profits.

Health Care Cost Recovery Litigation — Canada

In the first health care cost recovery case pending in Canada, *Her Majesty the Queen in Right of British Columbia v. Imperial Tobacco Limited, et al.*, Supreme Court, British Columbia, Vancouver Registry, Canada, filed January 24, 2001, we, RBH, our indemnitee (PM USA), and other members of the industry are defendants. The plaintiff, the government of the province of British Columbia, brought a claim based upon legislation enacted by the province authorizing the government to file a direct action against cigarette manufacturers to recover the health care costs it has incurred, and will incur, resulting from a “tobacco related wrong.”

In the second health care cost recovery case filed in Canada, *Her Majesty the Queen in Right of New Brunswick v. Rothmans Inc., et al.*, Court of Queen's Bench of New Brunswick, Trial Court, New Brunswick, Fredericton, Canada, filed March 13, 2008, we, RBH, our indemnitees (PM USA and Altria), and other members of the industry are defendants. The claim was filed by the government of the province of New Brunswick based on legislation enacted in the province. This legislation is similar to the law introduced in British Columbia that authorizes the government to file a direct action against cigarette manufacturers to recover the health care costs it has incurred, and will incur, as a result of a “tobacco related wrong.”

In the third health care cost recovery case filed in Canada, *Her Majesty the Queen in Right of Ontario v. Rothmans Inc., et al.*, Ontario Superior Court of Justice, Toronto, Canada, filed September 29, 2009, we, RBH, our indemnitees (PM USA and Altria), and other members of the industry are defendants. The claim was filed by the government of the province of Ontario based on legislation enacted in the province. This legislation is similar to the laws introduced in British Columbia and New Brunswick that authorize the government to file a direct action against cigarette manufacturers to recover the health care costs it has incurred, and will incur, as a result of a “tobacco related wrong.”

In the fourth health care cost recovery case filed in Canada, *Attorney General of Newfoundland and Labrador v. Rothmans Inc., et al.*, Supreme Court of Newfoundland and Labrador, St. Johns, Canada, filed February 8, 2011, we, RBH, our indemnitees (PM USA and Altria), and other members of the industry are defendants. The claim was filed by the government of the province of Newfoundland and Labrador based on legislation enacted in the province that is similar to the laws introduced in British Columbia, New Brunswick and Ontario. The legislation authorizes the government to file a direct action against cigarette manufacturers to recover the health care costs it has incurred, and will incur, as a result of a “tobacco related wrong.”

In the fifth health care cost recovery case filed in Canada, *Attorney General of Quebec v. Imperial Tobacco Limited, et al.*, Superior Court of Quebec, Canada, filed June 8, 2012, we, RBH, our indemnitee (PM USA), and other members of the industry are defendants. The claim was filed by the government of the province of Quebec based on legislation enacted in the province that is similar to the laws enacted in several other Canadian provinces. The legislation authorizes the government to file a direct action against cigarette manufacturers to recover the health care costs it has incurred, and will incur, as a result of a “tobacco related wrong.”

In the sixth health care cost recovery case filed in Canada, *Her Majesty in Right of Alberta v. Altria Group, Inc., et al.*, Supreme Court of Queen's Bench Alberta, Canada, filed June 8, 2012, we, RBH, our indemnitees (PM USA and Altria), and other members of the industry are defendants. The claim was filed by the government of the province of Alberta based on legislation enacted in the province that is similar to the laws enacted in several other Canadian provinces. The legislation authorizes the government to file a direct action against cigarette manufacturers to recover the health care costs it has incurred, and will incur, as a result of a “tobacco related wrong.”

In the seventh health care cost recovery case filed in Canada, *Her Majesty the Queen in Right of the Province of Manitoba v. Rothmans, Benson & Hedges, Inc., et al.*, The Queen's Bench, Winnipeg Judicial Centre, Canada, filed May 31, 2012, we, RBH, our indemnitees (PM USA and Altria), and other members of the industry are defendants. The claim was filed by the government of the province of Manitoba based on legislation enacted in the province that is similar to the laws enacted in several other Canadian provinces. The legislation authorizes the government to file a direct action against cigarette manufacturers to recover the health care costs it has incurred, and will incur, as a result of a “tobacco related wrong.”

In the eighth health care cost recovery case filed in Canada, *The Government of Saskatchewan v. Rothmans, Benson & Hedges Inc., et al.*, Queen's Bench, Judicial Centre of Saskatchewan, Canada, filed June 8, 2012, we, RBH, our indemnitees (PM USA and Altria), and other members of the industry are defendants. The claim was filed by the government of the province of Saskatchewan based on legislation enacted in the province that is similar to the laws enacted in several other Canadian

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provinces. The legislation authorizes the government to file a direct action against cigarette manufacturers to recover the health care costs it has incurred, and will incur, as a result of a “tobacco related wrong.”

In the ninth health care cost recovery case filed in Canada, *Her Majesty the Queen in Right of the Province of Prince Edward Island v. Rothmans, Benson & Hedges Inc., et al., Supreme Court of Prince Edward Island (General Section), Canada*, filed September 10, 2012, we, RBH, our indemnitees (PM USA and Altria), and other members of the industry are defendants. The claim was filed by the government of the province of Prince Edward Island based on legislation enacted in the province that is similar to the laws enacted in several other Canadian provinces. The legislation authorizes the government to file a direct action against cigarette manufacturers to recover the health care costs it has incurred, and will incur, as a result of a “tobacco related wrong.”

In the tenth health care cost recovery case filed in Canada, *Her Majesty the Queen in Right of the Province of Nova Scotia v. Rothmans, Benson & Hedges Inc., et al., Supreme Court of Nova Scotia, Canada*, filed January 2, 2015, we, RBH, our indemnitees (PM USA and Altria), and other members of the industry are defendants. The claim was filed by the government of the province of Nova Scotia based on legislation enacted in the province that is similar to the laws enacted in several other Canadian provinces. The legislation authorizes the government to file a direct action against cigarette manufacturers to recover the health care costs it has incurred, and will incur, as a result of a “tobacco related wrong.”

The table below lists the number of tobacco-related cases pertaining to combustible products pending against us and/or our subsidiaries or indemnitees as of July 23, 2021, July 24, 2020 and July 23, 2019:¹

Type of Case	Number of Cases Pending as of July 23, 2021	Number of Cases Pending as of July 24, 2020	Number of Cases Pending as of July 23, 2019
Individual Smoking and Health Cases	44	44	52
Smoking and Health Class Actions	9	10	10
Health Care Cost Recovery Actions	17	17	17
Label-Related Class Actions	—	—	1
Individual Label-Related Cases	4	5	6
Public Civil Actions	2	2	2

Since 1995, when the first tobacco-related litigation was filed against a PMI entity, 515 Smoking and Health, Label-Related, Health Care Cost Recovery, and Public Civil Actions in which we and/or one of our subsidiaries and/or indemnitees were a defendant have been terminated in our favor. Fourteen cases have had decisions in favor of plaintiffs. Ten of these cases have subsequently reached final resolution in our favor and four remain on appeal.

The table below lists the verdict and significant post-trial developments in the four pending cases where a verdict was returned in favor of the plaintiff:

¹ Includes cases pending in Canada.

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Date	Location of Court/Name of Plaintiff	Type of Case	Verdict	Post-Trial Developments
May 27, 2015	Canada/Conseil Québécois Sur Le Tabac Et La Santé and Jean-Yves Blais	Class Action	On May 27, 2015, the Superior Court of the District of Montreal, Province of Quebec ruled in favor of the <i>Blais</i> class on liability and found the class members' compensatory damages totaled approximately CAD 15.5 billion (approximately \$12.3 billion), including pre-judgment interest. The trial court awarded compensatory damages on a joint and several liability basis, allocating 20% to our subsidiary (approximately CAD 3.1 billion including pre-judgment interest (approximately \$2.5 billion)). The trial court awarded CAD 90,000 (approximately \$71,600) in punitive damages, allocating CAD 30,000 (approximately \$23,900) to our subsidiary. The trial court ordered defendants to pay CAD 1 billion (approximately \$796 million) of the compensatory damage award, CAD 200 million (approximately \$159 million) of which is our subsidiary's portion, into a trust within 60 days.	In June 2015, RBH commenced the appellate process with the Court of Appeal of Quebec. On March 1, 2019, the Court of Appeal issued a decision largely affirming the trial court's decision. (See " <i>Stayed Litigation — Canada</i> " for further detail.)

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Date	Location of Court/Name of Plaintiff	Type of Case	Verdict	Post-Trial Developments
May 27, 2015	Canada/Cecilia Létourneau	Class Action	On May 27, 2015, the Superior Court of the District of Montreal, Province of Quebec ruled in favor of the <i>Létourneau</i> class on liability and awarded a total of CAD 131 million (approximately \$104 million) in punitive damages, allocating CAD 46 million (approximately \$37 million) to RBH. The trial court ordered defendants to pay the full punitive damage award into a trust within 60 days. The court did not order the payment of compensatory damages.	In June 2015, RBH commenced the appellate process with the Court of Appeal of Quebec. On March 1, 2019, the Court of Appeal issued a decision largely affirming the trial court's decision. (See “ <i>Stayed Litigation — Canada</i> ” for further detail.)
August 5, 2016	Argentina/Hugo Lespada	Individual Action	On August 5, 2016, the Civil Court No. 14 - Mar del Plata, issued a verdict in favor of plaintiff, an individual smoker, and awarded him ARS 110,000 (approximately \$1,141), plus interest, in compensatory and moral damages. The trial court found that our subsidiary failed to warn plaintiff of the risk of becoming addicted to cigarettes.	On August 23, 2016, our subsidiary filed its notice of appeal. On October 31, 2017, the Civil and Commercial Court of Appeals of Mar del Plata ruled that plaintiff's claim was barred by the statute of limitations and it reversed the trial court's decision. On November 28, 2017, plaintiff filed an extraordinary appeal of the reversal of the trial court's decision to the Supreme Court of the Province of Buenos Aires. On April 19, 2021, the Supreme Court of the Province of Buenos Aires rejected plaintiff's extraordinary appeal. On May 17, 2021 plaintiff filed a federal extraordinary appeal to the Federal Supreme Court. On June 16, 2021 our subsidiary filed its reply to the federal extraordinary appeal.

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Date	Location of Court/Name of Plaintiff	Type of Case	Verdict	Post-Trial Developments
June 17, 2021	Argentina/Claudia Milano	Individual Action	On June 17, 2021, the Civil Court No. 9 - Mar del Plata, issued a verdict in favor of plaintiff, an individual smoker, and awarded her smoking cessation treatments, ARS 150,000 (approximately \$1,556), in compensatory and moral damages, and ARS 4,000,000 (approximately \$41,500) in punitive damages, plus interest and costs. The trial court found that our subsidiary failed to warn plaintiff of the risk of becoming addicted to cigarettes.	On July 2, 2021, our subsidiary filed its notice of appeal. In addition, plaintiff filed an appeal challenging the dismissal of the claim for psychological damages. As required by local law, our subsidiary will have to deposit the damages awarded, plus interest and costs, in total ARS 6,114,428 (approximately \$63,438), into a court escrow account. Our subsidiary plans to challenge the amount determined by the court. If our subsidiary ultimately prevails on appeal, the deposited amounts will be returned to our subsidiary.

Pending claims related to tobacco products generally fall within the following categories:

Smoking and Health Litigation: These cases primarily allege personal injury and are brought by individual plaintiffs or on behalf of a class or purported class of individual plaintiffs. Plaintiffs' allegations of liability in these cases are based on various theories of recovery, including negligence, gross negligence, strict liability, fraud, misrepresentation, design defect, failure to warn, breach of express and implied warranties, violations of deceptive trade practice laws and consumer protection statutes. Plaintiffs in these cases seek various forms of relief, including compensatory and other damages, and injunctive and equitable relief. Defenses raised in these cases include licit activity, failure to state a claim, lack of defect, lack of proximate cause, assumption of the risk, contributory negligence, and statute of limitations.

As of July 23, 2021, there were a number of smoking and health cases pending against us, our subsidiaries or indemnitees, as follows:

- 44 cases brought by individual plaintiffs in Argentina (31), Brazil (3), Canada (2), Chile (2), China (1), Italy (1), the Philippines (1), Turkey (1) and Scotland (1), as well as 1 case brought by an individual plaintiff in the United States District Court for the District of Oregon in May 2021. The provisions of the 2008 Share Distribution Agreement between PMI and Altria provide for indemnities to PMI for certain liabilities concerning tobacco products as described above under the caption "*Tobacco-Related Litigation*," compared with 44 such cases on July 24, 2020, and 52 cases on July 23, 2019; and
- 9 cases brought on behalf of classes of individual plaintiffs in Canada, compared with 10 such cases on July 24, 2020 and 10 such cases on July 23, 2019.

The class actions pending in Canada are described above under the caption "*Smoking and Health Litigation — Canada*."

Health Care Cost Recovery Litigation: These cases, brought by governmental and non-governmental plaintiffs, seek reimbursement of health care cost expenditures allegedly caused by tobacco products. Plaintiffs' allegations of liability in these cases are based on various theories of recovery including unjust enrichment, negligence, negligent design, strict liability, breach of express and implied warranties, violation of a voluntary undertaking or special duty, fraud, negligent misrepresentation, conspiracy, public nuisance, defective product, failure to warn, sale of cigarettes to minors, and claims under statutes governing

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competition and deceptive trade practices. Plaintiffs in these cases seek various forms of relief including compensatory and other damages, and injunctive and equitable relief. Defenses raised in these cases include lack of proximate cause, remoteness of injury, failure to state a claim, adequate remedy at law, “unclean hands” (namely, that plaintiffs cannot obtain equitable relief because they participated in, and benefited from, the sale of cigarettes), and statute of limitations.

As of July 23, 2021, there were 17 health care cost recovery cases pending against us, our subsidiaries or indemnitees in Brazil (1), Canada (10), Korea (1) and Nigeria (5), compared with 17 such cases on July 24, 2020 and 17 such cases on July 23, 2019.

The health care cost recovery actions pending in Canada are described above under the caption “*Health Care Cost Recovery Litigation — Canada.*”

In the health care cost recovery case in Brazil, *The Attorney General of Brazil v. Souza Cruz Ltda., et al., Federal Trial Court, Porto Alegre, Rio Grande do Sul, Brazil*, filed May 21, 2019, we, our subsidiaries, and other members of the industry are defendants. Plaintiff seeks reimbursement for the cost of treating alleged smoking-related diseases in certain prior years, payment of anticipated costs of treating future alleged smoking-related diseases, and moral damages. Defendants filed answers to the complaint in May 2020.

In the first health care cost recovery case in Nigeria, *The Attorney General of Lagos State v. British American Tobacco (Nigeria) Limited, et al., High Court of Lagos State, Lagos, Nigeria*, filed March 13, 2008, we and other members of the industry are defendants. Plaintiff seeks reimbursement for the cost of treating alleged smoking-related diseases for the past 20 years, payment of anticipated costs of treating alleged smoking-related diseases for the next 20 years, various forms of injunctive relief, plus punitive damages. We are in the process of making challenges to service and the court's jurisdiction. Currently, the case is stayed in the trial court pending the appeals of certain co-defendants relating to service objections.

In the second health care cost recovery case in Nigeria, *The Attorney General of Kano State v. British American Tobacco (Nigeria) Limited, et al., High Court of Kano State, Kano, Nigeria*, filed May 9, 2007, we and other members of the industry are defendants. Plaintiff seeks reimbursement for the cost of treating alleged smoking-related diseases for the past 20 years, payment of anticipated costs of treating alleged smoking-related diseases for the next 20 years, various forms of injunctive relief, plus punitive damages. We are in the process of challenging the court's jurisdiction. Currently, the case is stayed in the trial court pending the appeals of certain co-defendants relating to service objections.

In the third health care cost recovery case in Nigeria, *The Attorney General of Gombe State v. British American Tobacco (Nigeria) Limited, et al., High Court of Gombe State, Gombe, Nigeria*, filed October 17, 2008, we and other members of the industry are defendants. Plaintiff seeks reimbursement for the cost of treating alleged smoking-related diseases for the past 20 years, payment of anticipated costs of treating alleged smoking-related diseases for the next 20 years, various forms of injunctive relief, plus punitive damages. In February 2011, the court ruled that the plaintiff had not complied with the procedural steps necessary to serve us. As a result of this ruling, plaintiff must re-serve its claim. We have not yet been re-served.

In the fourth health care cost recovery case in Nigeria, *The Attorney General of Oyo State, et al., v. British American Tobacco (Nigeria) Limited, et al., High Court of Oyo State, Ibadan, Nigeria*, filed May 25, 2007, we and other members of the industry are defendants. Plaintiffs seek reimbursement for the cost of treating alleged smoking-related diseases for the past 20 years, payment of anticipated costs of treating alleged smoking-related diseases for the next 20 years, various forms of injunctive relief, plus punitive damages. We challenged service as improper. In June 2010, the court ruled that plaintiffs did not have leave to serve the writ of summons on the defendants and that they must re-serve the writ. We have not yet been re-served.

In the fifth health care cost recovery case in Nigeria, *The Attorney General of Ogun State v. British American Tobacco (Nigeria) Limited, et al., High Court of Ogun State, Abeokuta, Nigeria*, filed February 26, 2008, we and other members of the industry are defendants. Plaintiff seeks reimbursement for the cost of treating alleged smoking-related diseases for the past 20 years, payment of anticipated costs of treating alleged smoking-related diseases for the next 20 years, various forms of injunctive relief, plus punitive damages. In May 2010, the trial court rejected our objections to the court's jurisdiction. We have appealed. Currently, the case is stayed in the trial court pending the appeals of certain co-defendants relating to service objections.

In the health care cost recovery case in Korea, the *National Health Insurance Service v. KT&G, et. al.*, filed April 14, 2014, our subsidiary and other Korean manufacturers are defendants. Plaintiff alleges that defendants concealed the health hazards of smoking, marketed to youth, added ingredients to make their products more harmful and addictive, and misled consumers into believing that *Lights* cigarettes are safer than regular cigarettes. The National Health Insurance Service seeks to recover

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damages allegedly incurred in treating 3,484 patients with small cell lung cancer, squamous cell lung cancer, and squamous cell laryngeal cancer from 2003 to 2012. The trial court dismissed the case in its entirety on November 20, 2020. Plaintiff appealed.

Label-Related Cases: These cases, now brought only by individual plaintiffs, allege that the use of the descriptor “Lights” or other alleged misrepresentations or omissions of labeling information constitute fraudulent and misleading conduct. Plaintiffs’ allegations of liability in these cases are based on various theories of recovery including misrepresentation, deception, and breach of consumer protection laws. Plaintiffs seek various forms of relief including restitution, injunctive relief, and compensatory and other damages. Defenses raised include lack of causation, lack of reliance, assumption of the risk, and statute of limitations.

As of July 23, 2021, there were 4 label-related cases brought by individual plaintiffs in Italy (1) and Chile (3) pending against our subsidiaries, compared with 5 such cases on July 24, 2020, and 6 such cases on July 23, 2019.

Public Civil Actions: Claims have been filed either by an individual, or a public or private entity, seeking to protect collective or individual rights, such as the right to health, the right to information or the right to safety. Plaintiffs’ allegations of liability in these cases are based on various theories of recovery including product defect, concealment, and misrepresentation. Plaintiffs in these cases seek various forms of relief including injunctive relief such as banning cigarettes, descriptors, smoking in certain places and advertising, as well as implementing communication campaigns and reimbursement of medical expenses incurred by public or private institutions.

As of July 23, 2021, there were 2 public civil actions pending against our subsidiaries in Argentina (1) and Venezuela (1), compared with 2 such cases on July 24, 2020, and 2 such cases on July 23, 2019.

In the public civil action in Argentina, *Asociación Argentina de Derecho de Danos v. Massalin Particulares S.A., et al.*, Civil Court of Buenos Aires, Argentina, filed February 26, 2007, our subsidiary and another member of the industry are defendants. The plaintiff, a consumer association, seeks the establishment of a relief fund for reimbursement of medical costs associated with diseases allegedly caused by smoking. Our subsidiary filed its answer in September 2007. In March 2010, the case file was transferred to the Federal Court on Administrative Matters after the Civil Court granted plaintiff’s request to add the national government as a co-plaintiff in the case. The trial court dismissed the case on May 14, 2021.

In the public civil action in Venezuela, *Federation of Consumers and Users Associations (“FEVACU”), et al. v. National Assembly of Venezuela and the Venezuelan Ministry of Health, Constitutional Chamber of the Venezuelan Supreme Court*, filed April 29, 2008, we were not named as a defendant, but the plaintiffs published a notice pursuant to court order, notifying all interested parties to appear in the case. In January 2009, our subsidiary appeared in the case in response to this notice. The plaintiffs purport to represent the right to health of the citizens of Venezuela and claim that the government failed to protect adequately its citizens’ right to health. The claim asks the court to order the government to enact stricter regulations on the manufacture and sale of tobacco products. In addition, the plaintiffs ask the court to order companies involved in the tobacco industry to allocate a percentage of their “sales or benefits” to establish a fund to pay for the health care costs of treating smoking-related diseases. In October 2008, the court ruled that plaintiffs have standing to file the claim and that the claim meets the threshold admissibility requirements. In December 2012, the court admitted our subsidiary and BAT’s subsidiary as interested third parties. In February 2013, our subsidiary answered the complaint.

Reduced-Risk Products

In Colombia, an individual filed a purported class action, *Ana Ferrero Rebolledo v. Philip Morris Colombia S.A., et al.*, in April 2019, against our subsidiaries with the Civil Court of Bogota related to the marketing of our Platform 1 product. Plaintiff alleged that our subsidiaries advertise the product in contravention of law and in a manner that misleads consumers by portraying the product in a positive light, and further asserts that the Platform 1 vapor contains many toxic compounds, creates a high level of dependence, and has damaging second-hand effects. Plaintiff sought injunctive relief and damages on her behalf and on a behalf of two classes (class 1 - all Platform 1 consumers in Colombia who seek damages for the purchase price of the product and personal injuries related to the alleged addiction, and class 2 - all residents of the neighborhood where the advertising allegedly took place who seek damages for exposure to the alleged illegal advertising). Our subsidiaries answered the complaint in January 2020, and in February 2020, plaintiff filed an amended complaint. The amended complaint modifies the relief sought on behalf of the named plaintiff and on behalf of a single class (all consumers of Platform 1 products in Colombia who seek damages for the product purchase price and personal injuries related to the use of an allegedly harmful product.) In June 2021, our subsidiaries answered the amended complaint.

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Other Litigation

The Department of Special Investigations of the government of Thailand ("DSI") conducted an investigation into alleged underpayment by our subsidiary, Philip Morris (Thailand) Limited ("PM Thailand"), of customs duties and excise taxes relating to imports from the Philippines covering the period 2003-2007. On January 18, 2016, the Public Prosecutor filed charges against our subsidiary and seven former and current employees in the Bangkok Criminal Court alleging that PM Thailand and the individual defendants jointly and with the intention to defraud the Thai government, under-declared import prices of cigarettes to avoid full payment of taxes and duties in connection with import entries of cigarettes from the Philippines during the period of July 2003 to June 2006. The government is seeking a fine of approximately THB 80.8 billion (approximately \$2.5 billion). In May 2017, Thailand enacted a new customs act. The new act, which took effect in November 2017, substantially limits the amount of fines that Thailand could seek in these proceedings. PM Thailand believes that its declared import prices are in compliance with the Customs Valuation Agreement of the World Trade Organization and Thai law, and that the allegations of the Public Prosecutor are inconsistent with several decisions already taken by Thai Customs and other Thai governmental agencies. Trial in the case began in November 2017, and concluded in September 2019. In November 2019, the trial court found our subsidiary guilty of under-declaration of the prices and imposed a fine of approximately THB 1.2 billion (approximately \$36 million). The trial court dismissed all charges against the individual defendants. In December 2019, as required by the Thai law, our subsidiary paid the fine. This payment is included in other assets on the condensed consolidated balance sheets and negatively impacted net cash provided by operating activities in the condensed consolidated statements of cash flows in the period of payment. Our subsidiary filed an appeal of the trial court's decision. In addition, the Public Prosecutor filed an appeal of the trial court's decision challenging the dismissal of charges against the individual defendants and the amount of the fine imposed. If our subsidiary ultimately prevails on appeal, then Thailand will be required to return this payment to our subsidiary.

The DSI also conducted an investigation into alleged underpayment by PM Thailand of customs duties and excise taxes relating to imports from Indonesia covering the period 2000-2003. On January 26, 2017, the Public Prosecutor filed charges against PM Thailand and its former Thai employee in the Bangkok Criminal Court alleging that PM Thailand and its former employee jointly and with the intention to defraud the Thai government under-declared import prices of cigarettes to avoid full payment of taxes and duties in connection with import entries during the period from January 2002 to July 2003. The government is seeking a fine of approximately THB 19.8 billion (approximately \$602 million). In May 2017, Thailand enacted a new customs act. The new act, which took effect in November 2017, substantially limits the amount of fines that Thailand could seek in these proceedings. PM Thailand believes that its declared import prices are in compliance with the Customs Valuation Agreement of the World Trade Organization and Thai law, and that the allegations of the Public Prosecutor are inconsistent with several decisions already taken by Thai Customs and a Thai court. Trial in the case began in November 2018 and concluded in December 2019. In March 2020, the trial court found our subsidiary guilty of under-declaration of the prices and imposed a fine of approximately THB 130 million (approximately \$4 million). The trial court dismissed all charges against the individual defendant. In April 2020, as required by Thai law, our subsidiary paid the fine. This payment is included in other assets on the condensed consolidated balance sheets and negatively impacted net cash provided by operating activities in the condensed consolidated statements of cash flows in the period of payment. Our subsidiary filed an appeal of the trial court's decision. In addition, the Public Prosecutor filed an appeal of the trial court's decision challenging the dismissal of charges against the individual defendant and the amount of the fine imposed. If our subsidiary ultimately prevails on appeal, then Thailand will be required to return this payment to our subsidiary.

The South Korean Board of Audit and Inspection ("BAI") conducted an audit of certain Korean government agencies and the tobacco industry into whether inventory movements ahead of the January 1, 2015 increase of cigarette-related taxes by tobacco companies, including Philip Morris Korea Inc. ("PM Korea"), our South Korean subsidiary, were in compliance with South Korean tax laws. In November 2016, the tax authorities completed their audit and assessed allegedly underpaid taxes and penalties. In order to avoid nonpayment financial costs, PM Korea paid approximately KRW 272 billion (approximately \$236 million), of which KRW 100 billion (approximately \$87 million) was paid in 2016 and KRW 172 billion (approximately \$149 million) was paid in the first quarter of 2017. These paid amounts are included in other assets in the condensed consolidated balance sheets and negatively impacted net cash provided by operating activities in the condensed consolidated statements of cash flows in the period of payment. PM Korea appealed the assessments. In January 2020, a trial court ruled that PM Korea did not underpay taxes in the amount of approximately KRW 218 billion (approximately \$189 million). The tax authorities appealed this decision to the appellate court. In September 2020, the appellate court upheld the trial court's decision. The tax authorities have appealed to the Supreme Court of South Korea. In June 2020, another trial court ruled that PM Korea did not underpay approximately KRW 54 billion (approximately \$46 million) of alleged underpayments. The government agencies appealed this decision. In January 2021, the appellate court upheld the trial court's decision. The government agencies appealed

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to the Supreme Court of South Korea. If the tax authorities and government agencies ultimately lose, then they would be required to return the paid amounts to PM Korea.

The Moscow Tax Inspectorate for Major Taxpayers (“MTI”) conducted an audit of AO Philip Morris Izhora (“PM Izhora”), our Russian subsidiary, for the 2015-2017 financial years. On July 26, 2019, MTI issued its initial assessment, claiming that intercompany sales of cigarettes between PM Izhora and another Russian subsidiary prior to excise tax increases and submission by PM Izhora of the maximum retail sales price notifications for cigarettes to the tax authorities were improper under Russian tax laws and resulted in underpayment of excise taxes and VAT. In August 2019, PM Izhora submitted its objections disagreeing with MTI’s allegations set forth in the initial assessment and MTI’s methodology for calculating the alleged underpayments. MTI accepted some of PM Izhora’s arguments, and in September 2019, issued the final tax assessment claiming an underpayment of RUB 24.3 billion (approximately \$374 million), including penalties and interest. In accordance with Russian tax laws, PM Izhora paid the entire amount of MTI’s final assessment. This amount was neither imposed on, nor concurrent with, the specific revenue-producing transaction, nor was it collected from customers of our Russian subsidiaries. In the third quarter of 2019, PMI recorded a pre-tax charge of \$374 million, in marketing, administration and research costs in the condensed consolidated statements of earnings, representing \$315 million net of an associated income tax benefit of \$59 million.

The Saudi Arabia Customs General Authority issued its assessments requiring our distributors to pay additional customs duties in the amount of approximately 1.5 billion Saudi Riyal, or approximately \$396 million, in relation to the fees paid by these distributors under their agreements with our subsidiary for exclusive rights to distribute our products in Saudi Arabia. In order to challenge these assessments, the distributors posted bank guarantees. To enable the distributors’ challenge, our subsidiary agreed with the banks to bear a portion of the amount the authority may draw on the bank guarantees. In September and October 2020, respectively, the distributors lost their challenges of the assessments. Both distributors appealed, and in June 2021, the Customs Appeal Committee in Riyadh notified the distributors of its decisions to largely reject their appeals. On the basis of the above-mentioned decisions, in June 2021, PMI recorded a pre-tax charge of \$246 million in relation to the period of 2014 through 2020 in line with existing and contemplated arrangements with the distributors. The estimated amounts for 2021 are immaterial. In accordance with U.S. GAAP, the charge was recorded as a reduction in net revenues on the consolidated statements of earnings for the three months and six months ended June 30, 2021. Despite the unfavorable decisions, our subsidiary believes that customs duties paid in Saudi Arabia were in compliance with the applicable law and the WTO Customs Valuation Agreement.

A putative shareholder class action lawsuit, *In re Philip Morris International Inc. Securities Litigation*, is pending in the United States District Court for the Southern District of New York, purportedly on behalf of purchasers of Philip Morris International Inc. stock between July 26, 2016 and April 18, 2018. The lawsuit names Philip Morris International Inc. and certain officers and employees as defendants and includes allegations that the defendants made false and/or misleading statements and/or failed to disclose information about PMI’s business, operations, financial condition, and prospects, related to product sales of, and alleged irregularities in clinical studies of, PMI’s Platform 1 product. The lawsuit seeks various forms of relief, including damages. In November 2018, the court consolidated three putative shareholder class action lawsuits with similar allegations previously filed in the Southern District of New York (namely, *City of Westland Police and Fire Retirement System v. Philip Morris International Inc., et al.*, *Greater Pennsylvania Carpenters’ Pension Fund v. Philip Morris International Inc., et al.*, and *Gilchrist v. Philip Morris International Inc., et al.*) into these proceedings. A putative shareholder class action lawsuit, *Rubenstahl v. Philip Morris International Inc., et al.*, that had been previously filed in December 2017 in the United States District Court for the District of New Jersey, was voluntarily dismissed by the plaintiff due to similar allegations in these proceedings. On February 4, 2020, the court granted defendants’ motion in its entirety, dismissing all but one of the plaintiffs’ claims with prejudice. The court noted that one of plaintiffs’ claims (allegations relating to four non-clinical studies of PMI’s Platform 1 product) did not state a viable claim but allowed plaintiffs to replead that claim by March 3, 2020. On February 18, 2020, the plaintiffs filed a motion for reconsideration of the court’s February 4th decision; this motion was denied on September 21, 2020. On September 28, 2020, plaintiffs filed an amended complaint seeking to replead allegations relating to four non-clinical studies of PMI’s Platform 1 product. We believe that this lawsuit is without merit and will continue to defend it vigorously.

In April 2020, affiliates of British American Tobacco plc (“BAT”) commenced patent infringement proceedings, *RAI Strategic Holdings, Inc., et al. v. Altria Client Services LLC, et al.*, in the federal court in the Eastern District of Virginia, where PMI’s subsidiary, Philip Morris Products S.A., as well as Altria Group, Inc.’s subsidiaries, are defendants. Plaintiffs seek damages and injunctive relief against the commercialization of the Platform 1 products in the United States. In April 2020, BAT affiliates filed a complaint against PMI, Philip Morris Products S.A., Altria Group, Inc., and its subsidiaries before the International Trade Commission (“ITC”). Plaintiffs seek an order to prevent the importation of Platform 1 products into the United States.

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The ITC evidentiary hearing closed on February 1, 2021. On May 14, 2021, the administrative law judge issued an Initial and Recommended Determination ("ID/RD") finding that the Platform 1 product infringes two of the three patents asserted by Plaintiffs, recommending that the ITC issue a Limited Exclusion order against infringing products, and recommending against a cease-and-desist, as well as recommending against a bond pending Presidential review of the ITC's Final Determination. Defendants and Plaintiffs filed separate Petitions for Review with the ITC of the ID on May 28, 2021; a decision on those petitions is expected on July 27, 2021. Plaintiffs and Defendants also submitted brief statements of the public interest factors in issue to the ITC on June 15, 2021. The ITC's Final Determination is expected in mid-September 2021. In June 2020, defendants filed their responses in both proceedings. In the Eastern District of Virginia case, the defendants also counterclaimed that BAT infringed their patents relating to certain e-vapor products, seeking damages for, and injunctive relief against, the commercialization of these products by BAT; defendants' claims against BAT are set for trial on April 4, 2022. Upon petition of Philip Morris Products S.A., the Patent Trial and Appeal Board of the United States Patent and Trademark Office has instituted review of certain claims pertaining to four of the six patents asserted by BAT affiliates in both proceedings.

In April 2020, BAT's affiliate commenced patent infringement proceedings, *Nicoventures Trading Limited v. PM GmbH, et al.*, against PMI's German subsidiary, Philip Morris GmbH, and Philip Morris Products S.A., in the Regional Court in Munich, Germany. Plaintiffs seek damages and injunctive relief against the commercialization of the Platform 1 products in Germany.

In July 2020, in response to a challenge in the United Kingdom by PMI's subsidiary to patents related to the BAT patents in the German proceedings, BAT affiliates brought a patent infringement action, *Nicoventures Trading Limited, et al. v. Philip Morris Products S.A., et al.*, against Philip Morris Products S.A. and PMI's U.K. subsidiary, Philip Morris Limited, in the English High Court, seeking damages and injunctive relief against the commercialization of the Platform 1 products in the United Kingdom. On March 9, 2021, the court revoked the BAT patents and found that, had the BAT patents not been revoked as invalid, they would have been infringed. BAT affiliates sought to appeal the court's judgment and the U.K. Court of Appeal refused BAT's request to appeal.

In September 2020, BAT's affiliates commenced patent infringement and unfair competition proceedings, *RAI Strategic Holdings, Inc., et al. v. Philip Morris Products S.A., et al.*, against Philip Morris Products S.A. and PMI's Italian subsidiaries, Philip Morris Manufacturing & Technology Bologna S.p.A. and Philip Morris Italia S.r.l., in the Court of Milan, Italy. Plaintiffs seek damages, as well as injunctive relief against the manufacture in Italy of the Platform 1 heated tobacco units allegedly infringing the asserted patents and the commercialization of the Platform 1 products in Italy. As part of this proceeding, in October 2020, BAT's affiliates filed a request based on one of the two asserted patents seeking preliminary injunctive relief against the manufacture and commercialization of the Platform 1 products in Italy.

In October 2020, BAT's affiliates commenced patent infringement proceedings, *RAI Strategic Holdings, Inc., et al. v. Philip Morris Japan, Limited, et al.*, against PMI's Japanese subsidiary, Philip Morris Japan Limited, and a third-party distributor in the Tokyo District Court. Plaintiffs seek damages and injunctive relief against the commercialization of the Platform 1 products in Japan.

In November 2020, BAT's affiliates commenced patent infringement proceedings, *RAI Strategic Holdings, Inc., et al. v. Philip Morris Romania SRL, et al.*, against PMI's Romanian subsidiaries, Philip Morris Romania S.R.L. and Philip Morris Trading S.R.L., and a third-party distributor in the Court of Law of Bucharest, Civil Registry. Plaintiffs seek damages and preliminary and permanent injunctive relief against the manufacture and commercialization of the Platform 1 products in Romania. In February 2021, the court dismissed plaintiffs' request for a preliminary injunction. In April 2021, the appellate court denied plaintiffs' appeal, confirming the dismissal of plaintiffs' request for preliminary injunction. Plaintiffs' proceeding requesting damages and a permanent injunction remains pending before the Court of Law of Bucharest, Civil Registry.

In February 2021, BAT's affiliate commenced patent infringement proceedings, *RAI Strategic Holdings, Inc., et al. v. Papastratos SA, et al.*, against PMI's Greek subsidiary, Papastratos Cigarettes Manufacturing Company S.A., and Philip Morris Products S.A., in the First Instance Court of Athens. Plaintiff seeks preliminary injunctive relief against the commercialization of the Platform 1 products in Greece. In July 2021, the court dismissed plaintiffs' request in its entirety.

In March 2021, BAT's affiliates commenced patent infringement proceedings, *RAI Strategic Holdings, Inc., et al. v. Philip Morris Korea, Co., Ltd.*, against PM Korea in the Seoul Central District Court. Plaintiffs seek damages and injunctive relief against the commercialization of the Platform 1 heated tobacco units in South Korea.

Other patent challenges by both parties are pending in various jurisdictions.

We believe that the foregoing proceedings by the affiliates of BAT are without merit and will defend them vigorously.

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We are also involved in additional litigation arising in the ordinary course of our business. While the outcomes of these proceedings are uncertain, management does not expect that the ultimate outcomes of other litigation, including any reasonably possible losses in excess of current accruals, will have a material adverse effect on our consolidated results of operations, cash flows or financial position.

Third-Party Guarantees

On October 17, 2020, Medicago Inc., an equity method investee of Philip Morris Investments B.V. ("PMIBV"), a PMI subsidiary, entered into a contribution agreement with the Canadian government (the "Contribution Agreement"), whereby the Canadian government agreed to contribute up to CAD 173 million (approximately \$131 million on the date of signing) to Medicago Inc., to support its on-going COVID-19 vaccine development and clinical trials, and for the construction of its Quebec City manufacturing facility (the "Project"). PMIBV and the majority shareholder of Medicago Inc. are also parties to the Contribution Agreement as guarantors of Medicago Inc.'s obligations thereunder on a joint and several basis ("Co-Guarantors"). The Co-Guarantors agreed to repay amounts contributed by the Canadian government plus interest, if Medicago Inc. fails to do so, and could be responsible for the costs of other Medicago's obligations (such as the achievement of specific milestones of the Project). The maximum amount of these obligations is currently non-estimable. As of June 30, 2021, PMI has determined that these guarantees did not have a material impact on its condensed consolidated financial statements.

In connection with the Contribution Agreement, PMIBV and the majority shareholder of Medicago Inc. entered into a guarantors' agreement that apportions Co-Guarantors' obligations and limits those of PMIBV to its then share of holdings in Medicago Inc., which as of June 30, 2021 was approximately 32%. In July 2021, Medicago Inc. initiated an additional round of equity funding in which PMIBV did not participate. As a result, PMIBV's share of holdings in Medicago Inc. was reduced to approximately 25%. The guarantees are in effect through March 31, 2026.

Note 9. Income Taxes:

Income tax provisions for jurisdictions outside the United States of America, as well as state and local income tax provisions, were determined on a separate company basis, and the related assets and liabilities were recorded in PMI's condensed consolidated balance sheets.

On March 11, 2021, the American Rescue Plan Act of 2021 ("the Act") was signed into law in the U.S. to provide certain relief as a result of the COVID-19 pandemic. As of June 30, 2021, PMI has determined that the Act had no significant impact on PMI's effective tax rate.

PMI's effective tax rates for the six months and three months ended June 30, 2021 were 21.7% and 22.0%, respectively. PMI's effective tax rates for the six months and three months ended June 30, 2020 were 21.7% and 20.7%, respectively. The effective tax rate for the six months ended June 30, 2021 was favorably impacted by the corporate income tax rate reduction in the Philippines (enacted in the first quarter of 2021). The effective tax rate for the six months ended June 30, 2020 was favorably impacted by the corporate income tax rate reduction in Indonesia (enacted in the second quarter of 2020). PMI estimates that its full-year 2021 effective tax rate will be around 22%, excluding discrete tax events. Changes in currency exchange rates, earnings mix by taxing jurisdiction or future regulatory developments may have an impact on the effective tax rates, which PMI monitors each quarter. Significant judgment is required in determining income tax provisions and in evaluating tax positions.

PMI is regularly examined by tax authorities around the world and is currently under examination in a number of jurisdictions. The U.S. federal statute of limitations remains open for the years 2017 and onward. Foreign and U.S. state jurisdictions have statutes of limitations generally ranging from three to five years.

It is reasonably possible that within the next 12 months certain tax examinations will close, which could result in a change in unrecognized tax benefits along with related interest and penalties. An estimate of any possible change cannot be made at this time.

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Note 10. Indebtedness:

Short-term Borrowings:

PMI's short-term borrowings, consisting of bank loans to certain PMI subsidiaries at June 30, 2021 and December 31, 2020, had a carrying value of \$136 million and \$244 million, respectively. The fair values of PMI's short-term borrowings, based on current market interest rates, approximate carrying value.

Long-term Debt:

At June 30, 2021 and December 31, 2020, PMI's long-term debt consisted of the following:

(in millions)	June 30, 2021	December 31, 2020
U.S. dollar notes, 0.875% to 6.375% (average interest rate 3.232%), due through 2044	\$ 20,134	\$ 21,221
Foreign currency obligations:		
Euro notes, 0.125% to 3.125% (average interest rate 1.995%), due through 2039	8,082	9,253
Swiss franc notes, 1.625% to 2.000% (average interest rate 1.830%), due through 2024	597	622
Other (average interest rate 3.724%), due through 2025 ^(a)	209	196
Carrying value of long-term debt	29,022	31,292
Less current portion of long-term debt	1,608	3,124
	\$ 27,414	\$ 28,168

^(a) Includes mortgage debt in Switzerland as well as \$56 million and \$37 million in finance leases at June 30, 2021 and December 31, 2020, respectively.

The fair value of PMI's outstanding long-term debt, which is utilized solely for disclosure purposes, is determined using quotes and market interest rates currently available to PMI for issuances of debt with similar terms and remaining maturities. At June 30, 2021, the fair value of PMI's outstanding long-term debt, excluding the aforementioned finance leases, was as follows:

(in millions)	June 30, 2021
Level 1	\$ 31,789
Level 2	167

For a description of the fair value hierarchy and the three levels of inputs used to measure fair values, see Item 8, Note 2. *Summary of Significant Accounting Policies* of PMI's Annual Report on Form 10-K for the year ended December 31, 2020.

Credit Facilities:

On January 29, 2021, PMI entered into an agreement to amend and extend the term of its 364-day revolving credit facility from February 2, 2021, to February 1, 2022 in the amount of \$1.75 billion.

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At June 30, 2021, PMI's total committed credit facilities were as follows:

(in billions)

Type	Committed Credit Facilities
364-day revolving credit, expiring February 1, 2022	\$ 1.75
Multi-year revolving credit, expiring October 1, 2022	3.50
Multi-year revolving credit, expiring February 10, 2025 ^(a)	2.00
Total facilities	\$ 7.25

^(a) On January 29, 2021, PMI entered into an agreement, effective February 10, 2021, to amend and extend the term of its \$2.0 billion multi-year revolving credit facility, for an additional year covering the period February 11, 2025 to February 10, 2026, in the amount of \$1.86 billion. Effective July 2, 2021, the total facility amount for this additional year is \$1.95 billion.

At June 30, 2021, there were no borrowings under these committed credit facilities, and the entire committed amounts were available for borrowing.

Note 11. Accumulated Other Comprehensive Losses:

PMI's accumulated other comprehensive losses, net of taxes, consisted of the following:

(Losses) Earnings (in millions)	At June 30, 2021	At December 31, 2020	At June 30, 2020
Currency translation adjustments	\$ (6,586)	\$ (6,843)	\$ (6,311)
Pension and other benefits	(4,073)	(4,253)	(3,680)
Derivatives accounted for as hedges	(6)	(85)	(18)
Total accumulated other comprehensive losses	\$ (10,665)	\$ (11,181)	\$ (10,009)

Reclassifications from Other Comprehensive Earnings

The movements in accumulated other comprehensive losses and the related tax impact, for each of the components above, that are due to current period activity and reclassifications to the income statement, are shown on the condensed consolidated statements of comprehensive earnings for the six months and three months ended June 30, 2021 and 2020. For additional information, see Note 3. *Benefit Plans* for disclosures related to PMI's pension and other benefits and Note 5. *Financial Instruments* for disclosures related to derivative financial instruments.

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Note 12. Related Parties - Equity Investments and Other:***Equity Method Investments:***

At June 30, 2021 and December 31, 2020, PMI had total equity method investments of \$907 million and \$966 million, respectively. Equity method investments are initially recorded at cost. Under the equity method of accounting, the investment is adjusted for PMI's proportionate share of earnings or losses, dividends, capital contributions, changes in ownership interests and movements in currency translation adjustments. The carrying value of our equity method investments at June 30, 2021 and December 31, 2020 exceeded our share of the investees' book value by \$773 million and \$773 million, respectively. The difference between the investment carrying value and the amount of underlying equity in net assets, excluding \$742 million and \$745 million attributable to goodwill as of June 30, 2021 and December 31, 2020, respectively, is being amortized on a straight-line basis over the underlying assets' estimated useful lives of 10 to 20 years. At June 30, 2021 and December 31, 2020, PMI received year-to-date dividends from equity method investees of \$73 million and \$79 million, respectively.

PMI holds a 23% equity interest in Megapolis Distribution BV, the holding company of CJSC TK Megapolis, PMI's distributor in Russia (Eastern Europe segment).

PMI holds a 49% equity interest in United Arab Emirates-based Emirati Investors-TA (FZC) ("EITA"). PMI holds an approximate 25% economic interest in Société des Tabacs Algéro-Emiratie ("STAEM"), an Algerian joint venture that is 51% owned by EITA and 49% by the Algerian state-owned enterprise Management et Développement des Actifs et des Ressources Holding ("MADAR Holding"), which is part of the Middle East & Africa segment, manufactures and distributes under license some of PMI's brands.

The initial investments in Megapolis Distribution BV and EITA were recorded at cost and are included in equity investments on the condensed consolidated balance sheets.

Equity securities:

Following the deconsolidation of RBH on March 22, 2019, PMI recorded the continuing investment in RBH, PMI's wholly owned subsidiary in Canada, at fair value of \$3,280 million at the date of deconsolidation, within equity investments. For further details, see Item 8, Note 20. *Deconsolidation of RBH*, in PMI's Annual Report on Form 10-K for the year ended December 31, 2020. Transactions between PMI and RBH are considered to be related party transactions from the date of deconsolidation and are included in the tables below.

The fair value of PMI's other equity securities, which have been classified within Level 1, was \$242 million at June 30, 2021. Unrealized pre-tax gain (loss) was not material for the six months and three months ended June 30, 2021.

Other related parties:

United Arab Emirates-based Trans-Emirates Trading and Investments (FZC) ("TTI") holds a 33% non-controlling interest in Philip Morris Misr LLC ("PMM"), an entity incorporated in Egypt which is consolidated in PMI's financial statements in the Middle East & Africa segment. PMM sells, under license, PMI brands in Egypt through an exclusive distribution agreement with a local entity that is also controlled by TTI.

Godfrey Phillips India Ltd ("GPI") is one of the non-controlling interest holders in IPM India, which is a 56.3% owned PMI consolidated subsidiary in the South & Southeast Asia segment. GPI also acts as contract manufacturer and distributor for IPM India. Amounts in the tables below include transactions between these related parties.

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Financial activity with the above related parties:

PMI's net revenues and expenses with the above related parties were as follows:

(in millions)	For the Six Months Ended June 30,		For the Three Months Ended June 30,	
	2021	2020	2021	2020
Net revenues:				
Megapolis Group	\$ 1,038	\$ 1,026	\$ 555	\$ 530
Other	560	523	280	242
Net revenues ^(a)	\$ 1,598	\$ 1,549	\$ 835	\$ 772
Expenses:				
Other	\$ 33	\$ 27	\$ 16	\$ 8
Expenses	\$ 33	\$ 27	\$ 16	\$ 8

^(a) Net revenues exclude excise taxes and VAT billed to customers.

PMI's balance sheet activity with the above related parties was as follows:

(in millions)	At June 30, 2021	At December 31, 2020
Receivables:		
Megapolis Group	\$ 521	\$ 209
Other	282	156
Receivables	\$ 803	\$ 365
Payables:		
Other	\$ 14	\$ 13
Payables	\$ 14	\$ 13

The activities with the above related parties are in the ordinary course of business, and are primarily for distribution, service fees, contract manufacturing and license agreements. PMI eliminated its respective share of all significant intercompany transactions with the equity method investees.

Note 13. Sale of Accounts Receivable:

To mitigate risk and enhance cash and liquidity management, PMI sells trade receivables to unaffiliated financial institutions. These arrangements allow PMI to sell, on an ongoing basis, certain trade receivables without recourse. The trade receivables sold are generally short-term in nature and are removed from the condensed consolidated balance sheets. PMI sells trade receivables under two types of arrangements, servicing and non-servicing. For servicing arrangements, PMI continues to service the sold trade receivables on an administrative basis and does not act on behalf of the unaffiliated financial institutions. When applicable, a servicing liability is recorded for the estimated fair value of the servicing. The amounts associated with the servicing liability were not material as of June 30, 2021 and June 30, 2020. Under the non-servicing arrangements, PMI does not provide any administrative support or servicing after the trade receivables have been sold to the unaffiliated financial institutions.

Cumulative trade receivables sold, including excise taxes, for the six months ended June 30, 2021 and 2020, were \$5.5 billion. PMI's operating cash flows were positively impacted by the amount of the trade receivables sold and derecognized from the condensed consolidated balance sheets, which remained outstanding with the unaffiliated financial institutions. The trade receivables sold that remained outstanding under these arrangements as of June 30, 2021 and June 30, 2020, were \$0.7 billion, and \$0.6 billion, respectively. The net proceeds received are included in cash provided by operating activities in the condensed consolidated statements of cash flows. The difference between the carrying amount of the trade receivables sold and the sum of

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the cash received is recorded as a loss on sale of trade receivables within marketing, administration and research costs in the condensed consolidated statements of earnings. For the six months and three months ended June 30, 2021 and 2020, the loss on sale of trade receivables was not material.

Note 14. Product Warranty:

PMI's heat-not-burn devices and e-vapor products are subject to standard product warranties generally for a period of 12 months from the date of purchase or such other periods as required by law. PMI generally provides in cost of sales for the estimated cost of warranty in the period the related revenue is recognized. PMI assesses the adequacy of its accrued product warranties and adjusts the amounts as necessary based on actual experience and changes in future estimates. Factors that affect product warranties may vary across markets but typically include device version mix, product failure rates, logistics and service delivery costs, and warranty policies. PMI accounts for its product warranties within other accrued liabilities. At June 30, 2021 and December 31, 2020, these amounts were as follows:

(in millions)	At June 30, 2021	At December 31, 2020
Balance at beginning of period	\$ 137	\$ 140
Changes due to:		
Warranties issued	80	242
Settlements	(99)	(254)
Currency/Other	—	9
Balance at end of period	\$ 118	\$ 137

Note 15. Leases:

The components of PMI's lease cost were as follows for the six months and three months ended June 30, 2021 and 2020:

(in millions)	For the Six Months Ended June 30,		For the Three Months Ended June 30,	
	2021	2020	2021	2020
Operating lease cost	\$ 126	\$ 117	\$ 66	\$ 57
Short-term lease cost	25	25	15	12
Variable lease cost	14	15	7	7
Total lease cost	\$ 165	\$ 157	\$ 88	\$ 76

Note 16. Asset Impairment and Exit Costs:

For the six months and three months ended June 30, 2021, PMI recorded total pre-tax asset impairment and exit costs of \$127 million and \$79 million, respectively. For the six months and three months ended June 30, 2020, PMI recorded total pre-tax asset impairment and exit costs of \$71 million. The total pre-tax asset impairment and exit costs were included in marketing, administration and research costs on the condensed consolidated statements of earnings.

South Korea

In the first quarter of 2021, PM Korea commenced the implementation of a new business operating model, which requires the restructuring of its current distribution agreements. As a result, PMI recorded exit costs of \$26 million in the first quarter of 2021 related to contract terminations with certain distributors; exit costs will continue to be recorded as the agreements are executed. There were no exit costs incurred in the second quarter of 2021 related to this restructuring of distribution agreements in South Korea. The implementation of the new business operating model is expected to be completed in the second half of 2021.

Philip Morris International Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Organizational Design Optimization

As part of PMI's transformation to a smoke-free future, PMI seeks to optimize its organizational design, which includes the elimination, relocation and outsourcing of certain operations center and centralized activities. In January 2020, PMI commenced a multi-phase restructuring project in Switzerland. PMI initiated the employee consultation procedures, as required under Swiss law, for the impacted employees. In 2020, the consultation procedures for two phases were completed. Additional phases commenced during the first quarter of 2021. The consultation procedures for these phases were completed in June 2021, impacting approximately 130 positions. Additionally, since the commencement of this multi-phase restructuring project in 2020, PMI launched a voluntary separation program in Switzerland for certain eligible employees and announced the outsourcing of certain activities in Argentina, Indonesia, Poland and the United States. This multi-phase restructuring project is expected to be completed in the second half of 2021 upon finalization of the voluntary separation program in Switzerland.

For the six months and three months ended June 30, 2021, PMI recorded pre-tax charges of \$101 million and \$79 million, respectively, and for the six months and three months ended June 30, 2020, PMI recorded pre-tax charges of \$71 million, related to the organizational design optimization. Since inception of this multi-phase restructuring project in 2020 through June 30, 2021, approximately 950 positions in total were impacted, resulting in cumulative pre-tax charges of \$250 million related to the organizational design optimization program. Of this cumulative pre-tax amount, \$242 million related to separation program charges and \$8 million related to asset impairment charges.

The amounts related to the potential pension settlement accounting impact of the restructuring, which could be significant, have not been reflected in 2021 as the full-year thresholds for accounting were not expected to be exceeded as of June 30, 2021.

Asset Impairment and Exit Costs by Segment

PMI recorded the following pre-tax asset impairment and exit costs by segment:

(in millions)	For the Six Months Ended June 30,		For the Three Months Ended June 30,	
	2021	2020	2021	2020
Separation programs: ⁽¹⁾				
European Union	\$ 44	\$ 24	\$ 35	\$ 24
Eastern Europe	9	6	7	6
Middle East & Africa	10	8	8	8
South & Southeast Asia	13	10	10	10
East Asia & Australia	20	12	15	12
Latin America & Canada	5	4	4	4
Total separation programs	101	64	79	64
Contract termination charges:				
East Asia & Australia	26	—	—	—
Total contract termination charges	26	—	—	—
Asset impairment charges: ⁽¹⁾				
European Union	—	3	—	3
Eastern Europe	—	1	—	1
Middle East & Africa	—	1	—	1
South & Southeast Asia	—	1	—	1
East Asia & Australia	—	1	—	1
Latin America & Canada	—	—	—	—
Total asset impairment charges	—	7	—	7
Asset impairment and exit costs	\$ 127	\$ 71	\$ 79	\$ 71

⁽¹⁾ Organizational design optimization pre-tax charges in 2021 and 2020 were allocated across all operating segments.

Philip Morris International Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Movement in Exit Cost Liabilities

The movement in exit cost liabilities for the six months ended June 30, 2021 was as follows:

(in millions)

Liability balance, January 1, 2021	\$	180
Charges, net		127
Cash spent		(153)
Currency/other		(6)
Liability balance, June 30, 2021	\$	148

Future cash payments for exit costs incurred to date are anticipated to be substantially paid by the end of 2022, with approximately \$65 million expected to be paid in the remainder of 2021.

Note 17. Acquisitions:

In May 2021, PMI acquired 100% of AG Snus Aktieselskab ("AG Snus"), a Danish based company, and its Swedish subsidiary Tobacco House of Sweden AB fully owned by AG Snus, which operates in the oral tobacco (i.e. snus) and modern oral (i.e. nicotine pouches) product categories. The purchase price was \$27 million in cash, net of cash acquired, with additional contingent payments of up to \$10 million, primarily relating to product development and performance targets over a less than two-year period.

Note 18. Subsequent Event:

In July 2021, PMI deposited \$1.5 billion of existing cash to a designated account. The account is operated solely for the purpose of funding the anticipated transaction of Vectura Group plc ("Vectura"), a U.K. based company. On July 9, 2021, PMI announced that it agreed with the board of Vectura on the terms of an all-cash, recommended offer to acquire Vectura for an enterprise value of GBP 852 million (approximately \$1.2 billion, at the then-prevailing exchange rate). PMI will fund the transaction with existing cash and expects it to close in the second half of 2021, subject to a shareholder vote and approval by the appropriate regulatory authorities. This restricted cash of \$1.5 billion (including a reserve for foreign exchange volatility) will be included in other current assets in our consolidated balance sheets starting in July 2021 until the closing.

Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Description of Our Company

We are leading a transformation in the tobacco industry to create a smoke-free future and ultimately replace cigarettes with smoke-free products to the benefit of adults who would otherwise continue to smoke, society, the company, its shareholders and its other stakeholders. We are a leading international tobacco company engaged in the manufacture and sale of cigarettes, as well as smoke-free products, associated electronic devices and accessories, and other nicotine-containing products in markets outside the United States. In addition, we ship versions of our Platform 1 device and consumables to Altria Group, Inc. for sale under license in the United States, where these products have received marketing authorizations from the U.S. Food and Drug Administration ("FDA") under the premarket tobacco product application ("PMTA") pathway; the FDA has also authorized the marketing of a version of our Platform 1 device and its consumables as a Modified Risk Tobacco Product ("MRTP"), finding that an exposure modification order for these products is appropriate to promote the public health. We are building a future on a new category of smoke-free products that, while not risk-free, are a much better choice than continuing to smoke. We describe the PMTA and MRTP orders in more detail in the "Business Environment" section of this Item 2. Through multidisciplinary capabilities in product development, state-of-the-art facilities and scientific substantiation, we aim to ensure that our smoke-free products meet adult consumer preferences and rigorous regulatory requirements. Our smoke-free product portfolio includes heat-not-burn and nicotine-containing vapor products.

We manage our business in six operating segments:

- European Union ("EU");
- Eastern Europe ("EE");
- Middle East & Africa ("ME&A"), which includes our international duty free business;
- South & Southeast Asia ("S&SA");
- East Asia & Australia ("EA&A"); and
- Latin America & Canada ("LA&C"), which includes transactions under license with Altria Group, Inc. for the distribution of our Platform 1 product in the United States.

In July 2021, our Latin America & Canada operating segment was renamed as the Americas operating segment.

Our cigarettes are sold in more than 175 markets, and in many of these markets they hold the number one or number two market share position. We have a wide range of premium, mid-price and low-price brands. Our portfolio comprises both international and local brands. In addition to the manufacture and sale of cigarettes, we are engaged in the development and commercialization of reduced-risk products ("RRPs"). 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 continuing smoking.

We use the term net revenues to refer to our operating revenues from the sale of our products, including shipping and handling charges billed to customers, net of sales and promotion incentives, and excise taxes. Our net revenues and operating income are affected by various factors, including the volume of products we sell, the price of our products, changes in currency exchange rates and the mix of products we sell. Mix is a term used to refer to the proportionate value of premium-price brands to mid-price or low-price brands in any given market (product mix). Mix can also refer to the proportion of shipment volume in more profitable markets versus shipment volume in less profitable markets (geographic mix).

Our cost of sales consists principally of: tobacco leaf, non-tobacco raw materials, labor and manufacturing costs; shipping and handling costs; and the cost of devices produced by third-party electronics manufacturing service providers. Estimated costs associated with device warranty programs are generally provided for in cost of sales in the period the related revenues are recognized.

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

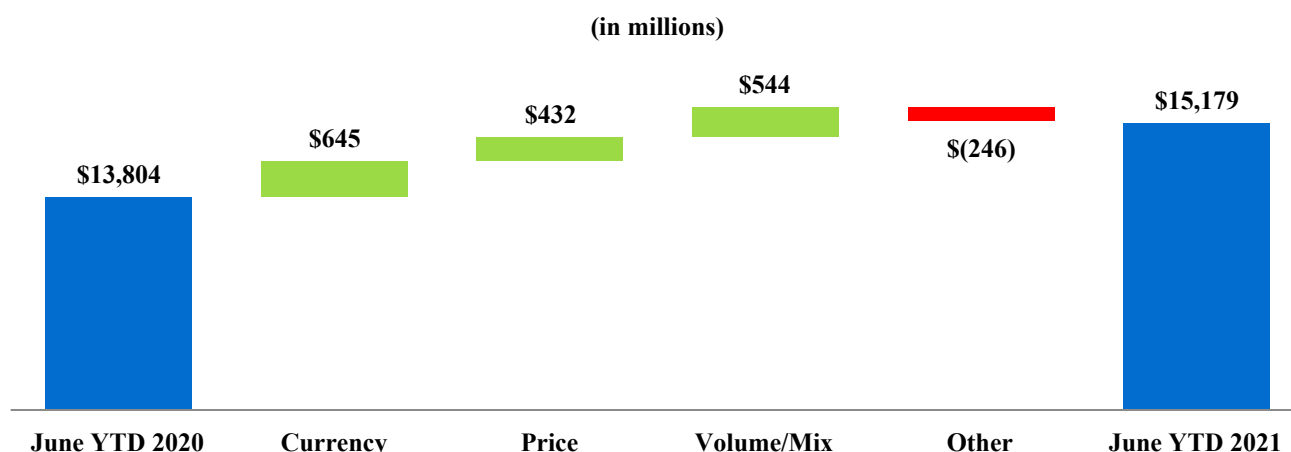
Philip Morris International Inc. is a legal entity separate and distinct from its direct and indirect subsidiaries. Accordingly, our right, and thus the right of our creditors and stockholders, to participate in any distribution of the assets or earnings of any subsidiary is subject to the prior rights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

Executive Summary

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

Consolidated Operating Results for the Six Months Ended June 30, 2021

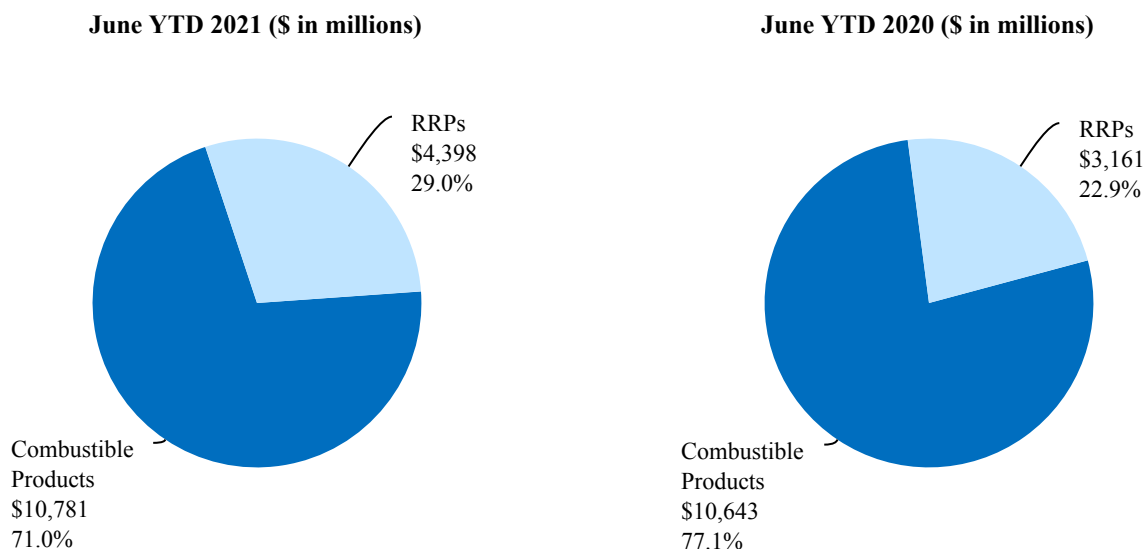
- **Net Revenues** - Net revenues of \$15.2 billion for the six months ended June 30, 2021 increased by \$1.4 billion, or 10.0%, from the comparable 2020 amount. The change in our net revenues from the comparable 2020 amount was driven by the following (variances not to scale with year-to-date results):



For the six months ended June 30, 2021, net revenues, excluding favorable currency, increased by 5.3%, reflecting: favorable volume/mix, primarily driven by higher heated tobacco unit volume (notably in the EU, particularly Germany, Italy and Poland, as well as Japan, Russia and Ukraine), partly offset by lower cigarette volume (mainly in the EU Region, notably Germany, as well as Japan, Kuwait, North Africa, the Philippines and PMI Duty Free, partially offset by Indonesia and Turkey); and a favorable pricing variance (notably driven by Germany, Japan, North Africa, the Philippines, Russia and Turkey, partly offset by Indonesia and Poland); partially offset by the unfavorable impact of the Saudi Arabia customs assessments of \$246 million, shown in "Other" and further described in the following "Diluted Earnings Per Share" discussion.

This net revenue growth reflects both the recovery of the combustible business in many markets compared to the disrupted second quarter of 2020 due to the effects of the COVID-19 pandemic, and the continued strength of *IQOS*, which resulted in growth of our RRP net revenues.

Net revenues by product category for the six months ended June 30, 2021 and 2020 are shown below:



- **Diluted Earnings Per Share** - The changes in our reported diluted earnings per share ("diluted EPS") for the six months ended June 30, 2021, from the comparable 2020 amounts, were as follows:

	Diluted EPS	% Growth
For the six months ended June 30, 2020	\$ 2.42	
2020 Asset impairment and exit costs	0.04	
2020 Fair value adjustment for equity security investments	0.04	
2020 Tax items	—	
Subtotal of 2020 items	0.08	
2021 Asset impairment and exit costs	(0.07)	
2021 Saudi Arabia customs assessments	(0.14)	
2021 Tax items	—	
Subtotal of 2021 items	(0.21)	
Currency	0.15	
Interest	(0.01)	
Change in tax rate	0.03	
Operations	0.47	
For the six months ended June 30, 2021	\$ 2.93	21.1 %

Asset impairment and exit costs – During the six months ended June 30, 2021, we recorded pre-tax asset impairment and exit costs of \$127 million, representing \$105 million net of income tax and a diluted EPS charge of \$0.07 per share, related to the organizational design optimization plan, primarily in Switzerland, and the product distribution restructuring in South Korea. During the six months ended June 30, 2020, we recorded pre-tax asset impairment and exit costs of \$71 million, representing \$57 million net of income tax and a diluted EPS charge of \$0.04, related to the organizational design optimization plan, primarily in Switzerland. The total pre-tax charges were included in marketing, administration and research costs on the condensed consolidated statements of earnings. For further details, see Note 16. *Asset Impairment and Exit Costs*.

Fair Value adjustment for equity security investments – During the six months ended June 30, 2020, we recorded an unfavorable fair value adjustment for our equity security investments of \$62 million after tax (or \$0.04 per share decrease in diluted EPS). The fair value adjustment for our equity security investments was included in equity investments and securities (income)/loss, net (\$78 million loss) and provision for income taxes (\$16 million benefit) on the condensed consolidated statements of earnings.

Saudi Arabia customs assessments – In June 2021, the Customs Appeal Committee in Riyadh notified our distributors in Saudi Arabia of its decisions to largely reject their challenges of the Saudi Arabia Customs General Authority assessments as described in Note 8. *Contingencies*. On the basis of these decisions and in line with arrangements with the distributors, we recorded a pre-tax charge of \$246 million in the second quarter of 2021 (representing \$215 million net of income tax and a diluted EPS charge of \$0.14 per share). The pre-tax charge was recorded as a reduction of net revenues on the condensed consolidated statement of earnings and was included in the Middle East & Africa segment results.

Currency – The favorable impact of \$0.15 per share during the reporting period results from the fluctuations of the U.S. dollar, especially against the Euro and Japanese yen. This favorable currency movement has impacted our profitability across our primary revenue markets and local currency cost bases.

Income taxes – The change in the tax rate that increased our diluted EPS by \$0.03 per share in the table above was primarily due to the corporate income tax rate reduction in the Philippines (enacted in the first quarter of 2021), as well as changes in earnings mix by taxing jurisdiction.

Operations – The increase in diluted EPS of \$0.47 from our operations in the table above was due primarily to the following segments:

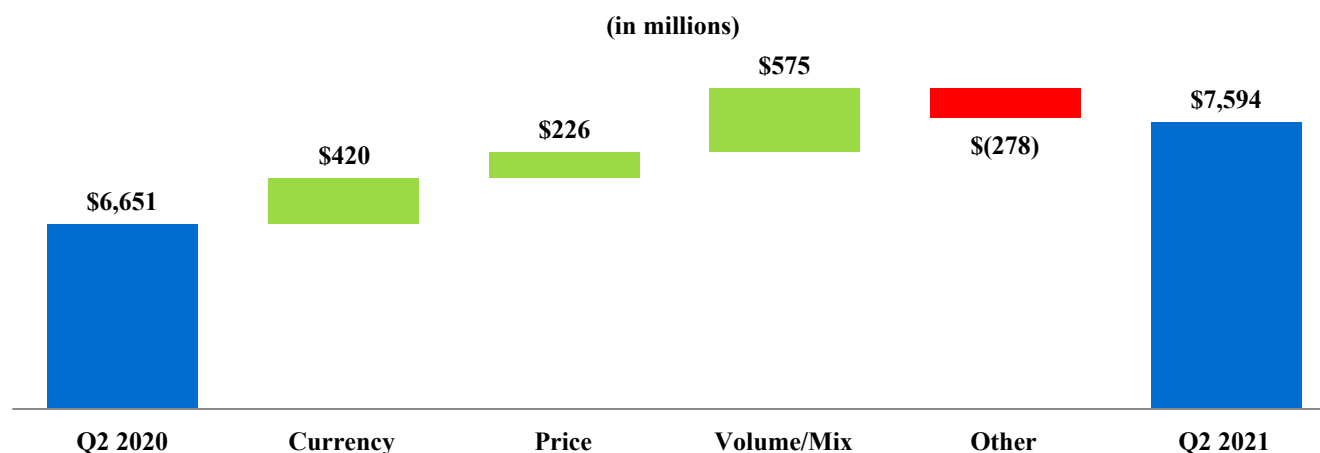
- European Union: Favorable volume/mix, lower manufacturing costs and favorable pricing, partially offset by higher marketing, administration and research costs;
- East Asia & Australia: Favorable pricing, lower manufacturing costs and favorable volume/mix, partially offset by higher marketing, administration and research costs;
- Eastern Europe: Favorable volume/mix, lower manufacturing costs, favorable pricing and lower marketing, administration and research costs;
- Middle East & Africa: Favorable pricing and lower manufacturing costs, partially offset by unfavorable volume/mix; and
- Latin America & Canada: Lower marketing, administration and research costs and favorable pricing;

partially offset by

- South & Southeast Asia: Unfavorable volume/mix and unfavorable pricing.

Consolidated Operating Results for the Three Months Ended June 30, 2021

- **Net Revenues** - Net revenues of \$7.6 billion for the three months ended June 30, 2021 increased by \$0.9 billion, or 14.2%, from the comparable 2020 amount. The change in our net revenues from the comparable 2020 amount was driven by the following (variances not to scale with quarterly results):

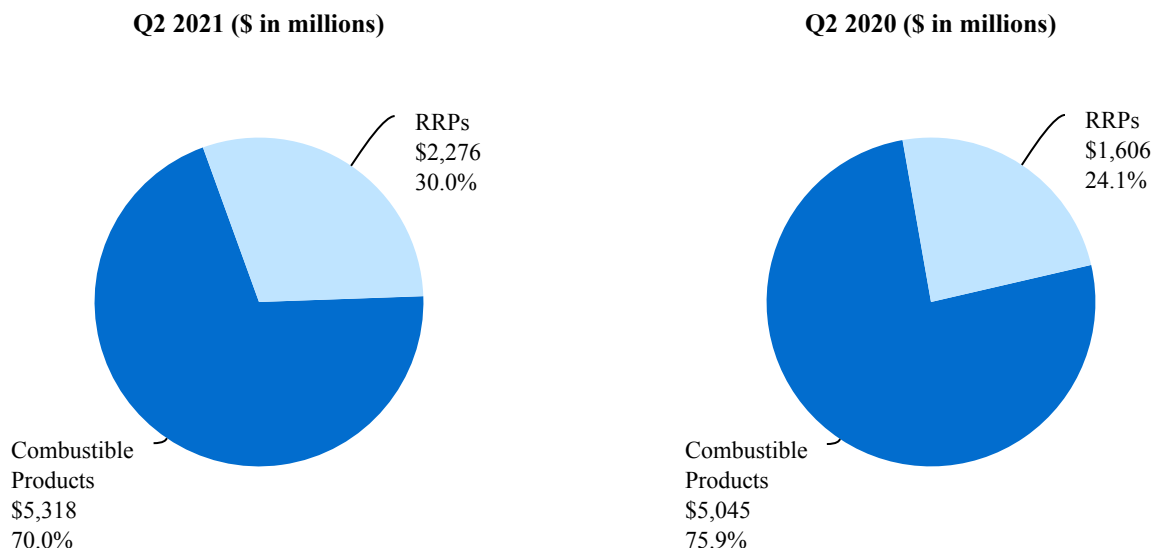


During the quarter, net revenues, excluding favorable currency, increased by 7.9%, mainly reflecting: favorable volume/mix, primarily driven by higher heated tobacco unit volume (notably in the EU, particularly Italy and Poland, as well as Japan, Russia and Ukraine) and higher cigarette volume (mainly in Indonesia, Italy, PMI Duty Free and Spain, partly offset by the GCC, Germany, Japan and the Philippines); and a favorable pricing variance (notably driven by Germany, Japan,

the Philippines, Russia and Turkey, partly offset by Indonesia); partly offset by the unfavorable impact of the Saudi Arabia customs assessments of \$246 million, shown in "Other".

This net revenue growth reflects both the recovery of the combustible business in many markets compared to the disrupted second quarter of 2020 due to the effects of the COVID-19 pandemic, and the continued strength of *IQOS*, which resulted in growth of our RRP net revenues.

Net revenues by product category for the three months ended June 30, 2021 and 2020, are shown below:



- **Diluted Earnings Per Share** - The changes in our reported diluted EPS for the three months ended June 30, 2021, from the comparable 2020 amounts, were as follows:

	Diluted EPS	% Growth
For the three months ended June 30, 2020	\$ 1.25	
2020 Asset impairment and exit costs	0.04	
2020 Fair value adjustment for equity security investments	—	
2020 Tax items	—	
Subtotal of 2020 items	0.04	
2021 Asset impairment and exit costs	(0.04)	
2021 Saudi Arabia customs assessments	(0.14)	
2021 Tax items	—	
Subtotal of 2021 items	(0.18)	
Currency	0.05	
Interest	—	
Change in tax rate	(0.01)	
Operations	0.24	
For the three months ended June 30, 2021	\$ 1.39	11.2 %

Asset impairment and exit costs – In the second quarter of 2021, we recorded pre-tax asset impairment and exit costs of \$79 million, representing \$67 million net of income tax and a diluted EPS charge of \$0.04 per share, related to the organizational design optimization plan, primarily in Switzerland. In the second quarter of 2020, we recorded pre-tax asset impairment and exit costs of \$71 million, representing \$57 million net of income tax and a diluted EPS charge of \$0.04 per share, related to the organizational design optimization plan, primarily in Switzerland. The total pre-tax charge was included in marketing,

administration and research costs on the condensed consolidated statements of earnings. For further details, see Note 16. *Asset Impairment and Exit Costs*.

Saudi Arabia customs assessments – In June 2021, the Customs Appeal Committee in Riyadh notified our distributors in Saudi Arabia of its decisions to largely reject their challenges of the Saudi Arabia Customs General Authority assessments as described in Note 8. *Contingencies*. On the basis of these decisions and in line with arrangements with the distributors, we recorded a pre-tax charge of \$246 million in the second quarter of 2021 (representing \$215 million net of income tax and a diluted EPS charge of \$0.14 per share). The pre-tax charge was recorded as a reduction of net revenues on the condensed consolidated statement of earnings and was included in the Middle East & Africa segment results.

Currency – The favorable impact of \$0.05 per share during the reporting period results from the fluctuations of the U.S. dollar, especially against the Euro. This favorable currency movement has impacted our profitability across our primary revenue markets and local currency cost bases.

Income Taxes – The change in the tax rate that decreased our diluted EPS by \$0.01 per share in the table above was primarily due to the corporate income tax rate reduction in Indonesia (enacted in the second quarter of 2020).

Operations – The increase in diluted EPS of \$0.24 from our operations in the table above was due primarily to the following segments:

- European Union: Favorable volume/mix, lower manufacturing costs and favorable pricing, partially offset by higher marketing, administration and research costs;
- Eastern Europe: Favorable volume/mix, favorable pricing and lower manufacturing costs;
- Middle East & Africa: Favorable volume/mix and favorable pricing, partially offset by lower fees for certain distribution rights and higher marketing, administration and research costs;
- East Asia & Australia: Favorable pricing and lower manufacturing costs, partially offset by higher marketing, administration and research costs and unfavorable volume/mix;
- South & Southeast Asia: Favorable volume/mix and favorable pricing, partially offset by higher marketing, administration and research costs; and
- Latin America & Canada: Favorable pricing and favorable volume/mix.

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

COVID-19 Impact on Our Business

COVID-19: Business Continuity Update

Since the onset of the COVID-19 pandemic, PMI has undertaken a number of business continuity measures to mitigate potential disruption to its operations and route-to-market in order to preserve the availability of products to its customers and adult consumers.

Currently:

- PMI has sufficient access to the inputs for its products and is not facing any significant business continuity issues with respect to key suppliers;
- All of PMI's cigarette and heated tobacco unit manufacturing facilities globally are operational;
- COVID-related restrictions do not have a significant impact on the availability of PMI's products to its customers and adult consumers; and
- PMI has sufficient liquidity resources through cash on hand, the ongoing cash generation of its business, and its access to the commercial paper and debt markets.

Nonetheless, significant uncertainty remains as the spread of the disease is increasing in a number of markets, resulting in additional restrictions and increasing risk of disruptions.

Discussion and Analysis

Consolidated Operating Results

See pages 91-99 for a discussion of our "*Cautionary Factors That May Affect Future Results.*" Our net revenues and operating income by segment are shown in the table below:

(in millions)	For the Six Months Ended June 30,		For the Three Months Ended June 30,	
	2021	2020	2021	2020
Net revenues:				
European Union	\$ 6,058	\$ 5,010	\$ 3,149	\$ 2,475
Eastern Europe	1,691	1,571	895	783
Middle East & Africa	1,361	1,580	560	704
South & Southeast Asia	2,219	2,140	1,046	889
East Asia & Australia	2,986	2,687	1,514	1,432
Latin America & Canada	864	816	430	368
Net revenues	\$ 15,179	\$ 13,804	\$ 7,594	\$ 6,651
Operating income:				
European Union	\$ 3,131	\$ 2,336	\$ 1,641	\$ 1,178
Eastern Europe	575	365	314	266
Middle East & Africa	351	558	16	237
South & Southeast Asia	860	888	331	289
East Asia & Australia	1,410	1,155	715	669
Latin America & Canada	246	218	112	92
Operating income	\$ 6,573	\$ 5,520	\$ 3,129	\$ 2,731

Our net revenues by product category are shown in the table below:

(in millions)	PMI Net Revenues by Product Category					
	For the Six Months Ended June 30,			For the Three Months Ended June 30,		
	2021	2020	Change	2021	2020	Change
Combustible Products						
European Union	\$ 4,113	\$ 3,855	6.7 %	\$ 2,162	\$ 1,945	11.2 %
Eastern Europe	1,047	1,045	0.1 %	555	522	6.2 %
Middle East & Africa	1,307	1,528	(14.5)%	527	696	(24.2)%
South & Southeast Asia	2,216	2,140	3.5 %	1,045	889	17.5 %
East Asia & Australia	1,259	1,272	(1.0)%	611	630	(3.0)%
Latin America & Canada	840	803	4.6 %	418	363	15.3 %
Total Combustible Products	\$ 10,781	\$ 10,643	1.3 %	\$ 5,318	\$ 5,045	5.4 %
Reduced-Risk Products						
European Union	\$ 1,945	\$ 1,155	68.5 %	\$ 987	\$ 530	86.2 %
Eastern Europe	644	526	22.6 %	340	261	30.5 %
Middle East & Africa	54	52	4.0 %	33	8	+100%
South & Southeast Asia	3	—	— %	1	—	— %
East Asia & Australia	1,727	1,415	22.0 %	903	802	12.6 %
Latin America & Canada	24	13	79.5 %	12	5	+100%
Total Reduced-Risk Products	\$ 4,398	\$ 3,161	39.1 %	\$ 2,276	\$ 1,606	41.7 %
Total PMI Net Revenues	\$ 15,179	\$ 13,804	10.0 %	\$ 7,594	\$ 6,651	14.2 %

Note: Sum of product categories or Regions might not foot to total PMI due to roundings.

Items affecting the comparability of results from operations were as follows:

- **Asset impairment and exit costs** – See Note 16. *Asset Impairment and Exit Costs* for a breakdown of these costs by segment for the six months and three months ended June 30, 2021 and 2020.
- **Saudi Arabia customs assessments** – See Note 8. *Contingencies* for the details of the \$246 million reduction in net revenues of combustible products included in the Middle East & Africa segment for the six months and three months ended June 30, 2021.

Net revenues related to combustible products refer to the operating revenues generated from the sale of these products, including shipping and handling charges billed to customers, net of sales and promotion incentives, and excise taxes. These net revenue amounts consist of the sale of our cigarettes and other tobacco products combined. Other tobacco products primarily include roll-your-own and make-your-own cigarettes, pipe tobacco, cigars and cigarillos and do not include reduced-risk products.

Net revenues related to reduced-risk products refer to the operating revenues generated from the sale of these products, including shipping and handling charges billed to customers, net of sales and promotion incentives, and excise taxes. These net revenue amounts consist of the sale of our heated tobacco units, heat-not-burn devices and related accessories, and other nicotine-containing products, which primarily include our e-vapor products.

PMI's heat-not-burn products include licensed KT&G heat-not-burn products.

Revenues from shipments of Platform 1 devices, heated tobacco units and accessories to Altria Group, Inc., commencing in the third quarter of 2019, for sale under license in the United States, are included in Net Revenues of the Latin America & Canada segment.

References to "Cost/Other" in the Consolidated Financial Summary table of total PMI and the six operating segments throughout this "Discussion and Analysis" reflects the currency-neutral variances of: cost of sales (excluding the volume/mix cost component); marketing, administration and research costs (including asset impairment and exit costs); and amortization of intangibles. "Cost/Other" also includes the currency-neutral net revenue variance, unrelated to volume/mix and price components, attributable to: fees for certain distribution rights billed to customers in certain markets in the ME&A Region and the Saudi Arabia customs assessment net revenue adjustment.

Our shipment volume by segment for cigarettes and heated tobacco units is shown in the table below:

	PMI Shipment Volume (Million Units)					
	For the Six Months Ended June 30,			For the Three Months Ended June 30,		
	2021	2020	Change	2021	2020	Change
<u>Cigarettes</u>						
European Union	78,273	80,963	(3.3)%	41,504	40,317	2.9 %
Eastern Europe	42,751	45,076	(5.2)%	22,785	23,657	(3.7)%
Middle East & Africa	57,989	57,184	1.4 %	30,347	27,188	11.6 %
South & Southeast Asia	70,209	70,941	(1.0)%	35,321	33,346	5.9 %
East Asia & Australia	22,330	24,370	(8.4)%	10,968	12,071	(9.1)%
Latin America & Canada	30,098	29,843	0.9 %	15,213	14,780	2.9 %
Total Cigarettes	301,650	308,377	(2.2)%	156,138	151,359	3.2 %
<u>Heated Tobacco Units</u>						
European Union	13,347	8,888	50.2 %	6,921	4,227	63.7 %
Eastern Europe	12,475	9,492	31.4 %	6,840	5,126	33.4 %
Middle East & Africa	908	655	38.6 %	512	185	+100%
South & Southeast Asia	72	—	— %	39	—	— %
East Asia & Australia	19,043	16,198	17.6 %	9,904	9,076	9.1 %
Latin America & Canada	245	202	21.3 %	140	94	48.9 %
Total Heated Tobacco Units	46,090	35,435	30.1 %	24,356	18,708	30.2 %
<u>Cigarettes and Heated Tobacco Units</u>						
European Union	91,620	89,851	2.0 %	48,425	44,544	8.7 %
Eastern Europe	55,226	54,568	1.2 %	29,625	28,783	2.9 %
Middle East & Africa	58,897	57,839	1.8 %	30,859	27,373	12.7 %
South & Southeast Asia	70,281	70,941	(0.9)%	35,360	33,346	6.0 %
East Asia & Australia	41,373	40,568	2.0 %	20,872	21,147	(1.3)%
Latin America & Canada	30,343	30,045	1.0 %	15,353	14,874	3.2 %
Total Cigarettes and Heated Tobacco Units	347,740	343,812	1.1 %	180,494	170,067	6.1 %

Heated tobacco units ("HTU") is the term we use to refer to heated tobacco consumables, which include our *HEETS*, *HEETS Creations*, *HEETS Dimensions*, *HEETS Marlboro* and *HEETS FROM MARLBORO* (defined collectively as *HEETS*), *Marlboro Dimensions*, *Marlboro HeatSticks* and *Parliament HeatSticks*, as well as the KT&G-licensed brands, *Fiit* and *Miix* (outside of South Korea).

Market share for HTUs is defined as the total sales volume for HTUs as a percentage of the total estimated sales volume for cigarettes and HTUs.

Shipment volume of heated tobacco units to the United States is included in the heated tobacco unit shipment volume of the Latin America & Canada segment.

References to total international market, defined as worldwide cigarette and heated tobacco unit volume excluding the United States, total industry, total market and market shares throughout this *"Discussion and Analysis"* are our estimates for tax-paid products based on the latest available data from a number of internal and external sources and may, in defined instances, exclude the People's Republic of China and/or our duty free business.

2020 and 2021 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.

In-market sales ("IMS") is defined as sales to the retail channel, depending on the market and distribution model.

North Africa is defined as Algeria, Egypt, Libya, Morocco and Tunisia.

The Gulf Cooperation Council ("GCC") is defined as Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE).

References to total industry, total market, our shipment volume and our market share performance reflect cigarettes and heated tobacco units, unless otherwise stated,

From time to time, PMI's shipment volumes are subject to the impact of distributor inventory movements, and estimated total industry/market volumes are subject to the impact of inventory movements in various trade channels that include estimated trade inventory movements of PMI's competitors arising from market-specific factors that significantly distort reported volume disclosures. Such factors may include changes to the manufacturing supply chain, shipment methods, consumer demand, timing of excise tax increases or other influences that may affect the timing of sales to customers. In such instances, in addition to reviewing PMI shipment volumes and certain estimated total industry/market volumes on a reported basis, management reviews these measures on an adjusted basis that excludes the impact of distributor and/or estimated trade inventory movements. Management also believes that disclosing PMI shipment volumes and estimated total industry/market volumes in such circumstances on a basis that excludes the impact of distributor and/or estimated trade inventory movements improves the comparability of performance and trends for these measures over different reporting periods.

Key market data regarding total market size, our shipments and market share are shown in the tables below:

Market	For the Six Months Ended June 30,											
	Total Market (billion units)		PMI Shipments (billion units)						PMI Market Share (%) ⁽¹⁾			
			Total		Cigarette		Heated Tobacco Unit		Total		Heated Tobacco Unit	
			2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Total	1,265.1	1,222.6	347.7	343.8	301.7	308.4	46.1	35.4	27.0	27.8	3.5	2.9
European Union												
France	17.3	18.2	7.9	8.5	7.8	8.4	0.1	0.1	43.6	44.7	0.6	0.4
Germany	36.0	36.0	14.3	14.5	13.2	13.7	1.1	0.8	39.8	40.4	3.1	2.2
Italy	33.8	32.0	19.5	17.1	15.1	14.6	4.4	2.5	52.9	52.0	11.2	7.5
Poland	23.2	21.5	8.6	8.5	7.3	7.6	1.4	0.9	37.1	39.7	5.9	4.3
Spain	20.1	20.0	6.8	6.4	6.6	6.2	0.2	0.2	31.1	31.1	1.2	1.0
Eastern Europe												
Russia	104.2	103.6	33.3	32.9	25.4	26.7	7.9	6.2	31.3	32.6	7.5	6.2
Middle East & Africa												
Saudi Arabia	10.7	10.3	4.2	3.8	4.1	3.8	0.1	—	41.8	39.4	0.8	0.1
Turkey	55.8	54.3	24.5	21.8	24.5	21.8	—	—	43.9	40.1	—	—
South & Southeast Asia												
Indonesia	142.7	131.3	40.0	38.5	40.0	38.5	—	—	28.0	29.3	—	—
Philippines	26.9	29.5	16.7	20.5	16.7	20.5	0.1	—	62.2	69.3	0.3	—
East Asia & Australia												
Australia	4.8	5.1	1.5	1.5	1.5	1.5	—	—	31.8	29.4	—	—
Japan	67.6	70.6	28.0	26.9	11.4	13.1	16.5	13.8	38.7	36.6	23.0	19.7
South Korea	34.9	34.6	7.0	7.4	4.7	5.1	2.3	2.3	20.0	21.4	6.6	6.6
Latin America & Canada												
Argentina	17.5	15.7	9.8	10.0	9.8	10.0	—	—	56.0	64.0	—	—
Mexico	14.8	14.2	9.1	8.8	9.1	8.7	—	—	61.4	61.6	0.3	0.2

(1) Market share estimates are calculated using IMS data

Note: % change for Total Market and PMI shipments is computed based on millions of units. "-" indicates volume below 50 million units and market share below 0.1%

Market	For the Three Months Ended June 30,											
	Total Market (billion units)		PMI Shipments (billion units)						PMI Market Share (%) ⁽¹⁾			
			Total		Cigarette		Heated Tobacco Unit		Total		Heated Tobacco Unit	
			2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Total	649.9	607.4	180.5	170.1	156.1	151.4	24.4	18.7	27.3	28.1	3.5	3.0
European Union												
France	9.1	9.8	4.1	4.5	4.1	4.4	—	—	43.5	44.9	0.6	0.5
Germany	18.6	20.0	7.2	7.8	6.7	7.4	0.5	0.4	38.8	38.9	2.7	2.0
Italy	17.9	16.3	9.9	7.9	7.7	6.8	2.2	1.1	53.1	52.1	11.2	7.7
Poland	12.5	10.6	4.7	4.2	3.9	3.7	0.8	0.5	37.5	39.3	6.3	4.4
Spain	10.5	9.6	4.1	2.7	4.0	2.7	0.1	0.1	31.1	31.3	1.2	1.0
Eastern Europe												
Russia	55.1	56.7	17.6	17.9	13.3	14.3	4.3	3.6	31.6	32.7	7.3	6.0
Middle East & Africa												
Saudi Arabia	5.3	6.0	2.0	2.7	1.9	2.7	0.1	—	41.5	38.6	0.9	0.2
Turkey	30.5	28.3	13.5	11.7	13.5	11.7	—	—	44.3	41.1	—	—
South & Southeast Asia												
Indonesia	71.7	63.8	20.1	18.0	20.1	18.0	—	—	28.1	28.3	—	—
Philippines	13.8	14.2	8.6	9.7	8.5	9.7	—	—	62.0	68.4	0.3	—
East Asia & Australia												
Australia	2.4	2.6	0.7	0.8	0.7	0.8	—	—	30.8	30.8	—	—
Japan	35.0	35.1	14.2	14.1	5.5	6.3	8.6	7.8	38.3	36.8	22.7	20.2
South Korea	18.1	18.4	3.6	3.8	2.4	2.6	1.2	1.2	20.0	21.1	6.5	6.6
Latin America & Canada												
Argentina	8.1	7.7	4.5	4.8	4.5	4.8	—	—	56.2	62.0	—	—
Mexico	8.0	7.6	5.1	4.7	5.0	4.7	—	—	63.0	62.1	0.3	0.2

(1) Market share estimates are calculated using IMS data

Note: % change for Total Market and PMI shipments is computed based on millions of units. "-" indicates volume below 50 million units and market share below 0.1%

Consolidated Operating Results for the Six Months Ended June 30, 2021

The following discussion compares our consolidated operating results for the six months ended June 30, 2021, with the six months ended June 30, 2020.

Our total shipment volume increased by 1.1%, driven by:

- the EU, reflecting higher heated tobacco unit shipment volume across the Region, particularly in Italy and Poland, partly offset by lower cigarette shipment volume, notably in the Czech Republic, France and Germany, partly offset by Italy and Spain;
- Eastern Europe, reflecting higher heated tobacco unit shipment volume, notably in Russia and Ukraine, partly offset by lower cigarette shipment volume, mainly in Russia and Ukraine;
- Middle East & Africa, reflecting higher cigarette shipment volume (primarily in Turkey, partly offset by the GCC, North Africa and PMI Duty Free), as well as higher heated tobacco unit shipment volume (driven notably by the GCC and Lebanon, partly offset by PMI Duty Free);
- East Asia & Australia, reflecting higher heated tobacco unit shipment volume driven by Japan, partly offset by lower cigarette shipment volume, predominantly in Japan and South Korea; and

- Latin America & Canada, reflecting higher cigarette shipment volume, primarily in Brazil and Mexico, partially offset by Argentina;
- partly offset by
- South & Southeast Asia, reflecting lower cigarette shipment volume, primarily in the Philippines, partially offset by Indonesia, Pakistan and Thailand.

Impact of Inventory Movements

The net impact of estimated distributor inventory movements for the first half of the year was immaterial to our total shipment volume performance. Our total in-market sales volume increased by 0.5%.

Our cigarette shipment volume by brand and heated tobacco units shipment volume are shown in the table below:

PMI Shipment Volume by Brand (Million Units)			
	Six Months Year-to-Date		
	2021	2020	Change
<u>Cigarettes</u>			
<i>Marlboro</i>	112,148	114,057	(1.7) %
<i>L&M</i>	42,464	45,025	(5.7) %
<i>Chesterfield</i>	27,027	25,507	6.0 %
<i>Philip Morris</i>	20,774	22,569	(7.9) %
<i>Parliament</i>	18,980	16,035	18.4 %
<i>Sampoerna A</i>	17,884	15,802	13.2 %
<i>Dji Sam Soe</i>	11,126	11,972	(7.1) %
<i>Bond Street</i>	9,158	12,041	(23.9) %
<i>Lark</i>	7,781	8,213	(5.3) %
<i>Sampoerna Hijau</i>	4,228	3,043	38.9 %
Others	30,080	34,113	(11.8) %
Total Cigarettes	301,650	308,377	(2.2) %
Heated Tobacco Units	46,090	35,435	30.1 %
Total Cigarettes and Heated Tobacco Units	347,740	343,812	1.1 %

Note: *Sampoerna A* includes *Sampoerna*; *Philip Morris* includes *Philip Morris/Dubliiss*; and *Lark* includes *Lark Harmony*.

Our cigarette shipment volume of the following brands increased:

- *Chesterfield*, mainly due to Brazil, the Philippines and Russia, partly offset by Saudi Arabia;
- *Parliament*, primarily due to Russia, Saudi Arabia and Turkey, partly offset by Japan;
- *Sampoerna A* in Indonesia, mainly due to premium *A Mild*; and
- *Sampoerna Hijau* in Indonesia.

Our cigarette shipment volume of the following brands decreased:

- *Marlboro*, mainly due to France, Japan, Kuwait, the Philippines and PMI Duty Free, partly offset by Mexico and Turkey;
- *L&M*, notably due to Egypt, Germany, Poland and Turkey, partly offset by Spain and Thailand;
- *Philip Morris*, primarily due to Indonesia, Italy and Russia, partly offset by Japan;
- *Dji Sam Soe* in Indonesia, mainly due to *Dji Sam Soe Magnum Mild*;
- *Bond Street*, mainly due to Russia and Ukraine;

- *Lark*, primarily due to Japan; and
- "Others," notably due to: mid-price *Fortune* (Philippines), *Hope* (Philippines) and *Sampoerna U* (Indonesia); and low-price *Jackpot* (Philippines); partly offset by low-price *Diana* (Italy) and *Morven* (Pakistan).

The increase in our heated tobacco unit shipment volume was mainly driven by the EU (notably Italy), Eastern Europe (notably Russia and Ukraine) and Japan.

International Share of Market (excluding China and the United States)

Our total international market share (excluding China and the United States), defined as our cigarette and heated tobacco unit sales volume as a percentage of total industry cigarette and heated tobacco unit sales volume, decreased by 0.8 points to 27.0%, reflecting:

- Total international market share for cigarettes of 23.5%, down by 1.4 points; and
- Total international market share for heated tobacco units of 3.5%, up by 0.6 points.

Our total international cigarette sales volume as a percentage of total industry cigarette sales volume was down by 1.2 points to 24.6%, mainly reflecting lower cigarette market share and/or an unfavorable geographic mix impact, notably in Japan, the Philippines and Russia, partly offset by Turkey.

Financial Summary

Financial Summary - Six Months Ended June 30,			Change Fav./(Unfav.)		Variance Fav./(Unfav.)				
	2021	2020	Total	Excl. Curr.	Total	Cur- rency	Price	Vol/ Mix	Cost/ Other
(in millions)									
Net Revenues ⁽¹⁾	\$ 15,179	\$ 13,804	10.0 %	5.3 %	\$ 1,375	\$ 645	\$ 432	\$ 544	\$ (246)
Cost of Sales	(4,627)	(4,581)	(1.0)%	3.8 %	(46)	(220)	—	(118)	292
Marketing, Administration and Research Costs ⁽²⁾	(3,942)	(3,666)	(7.5)%	(4.5)%	(276)	(110)	—	—	(166)
Amortization of Intangibles	(37)	(37)	— %	2.7 %	—	(1)	—	—	1
Operating Income	\$ 6,573	\$ 5,520	19.1 %	13.4 %	\$ 1,053	\$ 314	\$ 432	\$ 426	\$ (119)

⁽¹⁾ Cost/Other variance includes a \$246 million reduction in net revenues in 2021 related to the Saudi Arabia customs assessments. For more details, see Note 8. *Contingencies*.

⁽²⁾ Cost/Other variance includes charges in 2021 and 2020 of \$127 million and \$71 million, respectively, for asset impairment and exit costs.

For the six months ended June 30, 2021, net revenues, excluding favorable currency, increased by 5.3%, mainly reflecting: favorable volume/mix, primarily driven by higher heated tobacco unit volume (notably in the EU, particularly Germany, Italy and Poland, as well as Japan, Russia and Ukraine), partly offset by lower cigarette volume (mainly in the EU Region, notably Germany, as well as Japan, Kuwait, North Africa, the Philippines and PMI Duty Free, partially offset by Indonesia and Turkey); and a favorable pricing variance (notably driven by Germany, Japan, North Africa, the Philippines, Russia and Turkey, partly offset by Indonesia and Poland); partially offset by the unfavorable impact of the Saudi Arabia customs assessments of \$246 million, shown in "Cost/Other". Excluding the unfavorable impact of the Saudi Arabia customs assessments of \$246 million, net revenues increased by 11.7%, or 7.1% excluding favorable currency of \$645 million.

The favorable currency in net revenues was due primarily to the Euro, Indonesian rupiah, Japanese yen and Philippine peso, partially offset by the Russian ruble and Turkish lira.

Net revenues include \$4.4 billion in 2021 and \$3.2 billion in 2020 related to the sale of RRP. *IQOS* devices accounted for approximately 5% of RRP net revenues for the six months ended June 30, 2021, reflecting longer replacement times and fewer second device purchases for existing users due to improving battery lives, functionality and reliability; and lower device prices in certain markets as we prepare for the launch of the new *IQOS ILUMA* device.

Operating income, excluding favorable currency, increased by 13.4%, primarily reflecting: a favorable pricing variance;

favorable volume/mix, mainly driven by the same factors as for net revenues noted above; and lower manufacturing costs (driven by productivity gains related to reduced-risk and combustible products); partly offset by the unfavorable impact of the Saudi Arabia customs assessments (as noted above for net revenues); and higher marketing, administration and research costs, including higher asset impairment and exit costs (mainly related to organizational design optimization, as well as product distribution restructuring in South Korea).

Interest expense, net, of \$328 million increased by \$37 million (12.7%).

Our effective tax rate was flat at 21.7%. We estimate that our full-year 2021 effective tax rate will be around 22%, excluding discrete tax events. For further details, see Note 9. *Income Taxes*.

Net earnings attributable to PMI of \$4.6 billion increased by \$817 million or 21.7%. This increase was due primarily to higher operating income as discussed above. Basic EPS of \$2.94 increased by 21.5%. Diluted EPS of \$2.93 increased by 21.1%. Excluding a favorable currency impact of \$0.15, diluted EPS increased by 14.9%.

Consolidated Operating Results for the Three Months Ended June 30, 2021

The following discussion compares our consolidated operating results for the three months ended June 30, 2021, with the three months ended June 30, 2020.

Our total shipment volume increased by 6.1%, driven by:

- the EU, reflecting higher heated tobacco unit shipment volume across the Region, notably in Italy, and higher cigarette shipment volume, notably in Italy and Spain, partly offset by Germany;
- Eastern Europe, reflecting higher heated tobacco unit shipment volume across the Region, primarily in Russia and Ukraine, partly offset by lower cigarette shipment volume, notably in Russia;
- Middle East & Africa, mainly reflecting higher cigarette shipment volume, primarily in North Africa (particularly Egypt), PMI Duty Free and Turkey, partly offset by the GCC (predominantly Saudi Arabia);
- South & Southeast Asia, primarily reflecting higher cigarette shipment volume, mainly in Indonesia and Thailand, partly offset by the Philippines; and
- Latin America & Canada, mainly reflecting higher cigarette shipment volume, notably in Mexico, partly offset by Argentina;

partly offset by

- East Asia & Australia, reflecting lower cigarette shipment volume, mainly in Japan, partly offset by higher heated tobacco unit shipment volume, primarily in Japan.

Our cigarette shipment volume increase in the quarter includes a favorable comparison versus the second quarter of 2020, when pandemic-related disruption across many key markets was at its peak.

Impact of Inventory Movements

Excluding the net favorable impact of estimated distributor inventory movements of approximately 3.2 billion units, our total in-market sales increased by 4.2%, driven by a 27.6% increase in heated tobacco units and a 1.5% increase in cigarettes.

The net favorable impact of approximately 3.2 billion units reflected:

- A net favorable impact of 2.5 billion cigarettes, mainly driven by inventory movements in the second quarter of 2020 related to lower shipments to distributors due to the pandemic; and
- A net favorable impact of 0.7 billion heated tobacco units, primarily reflecting the need to maintain inventory durations for the growing category.

Our total heated tobacco unit in-market sales volume in the quarter was 23.0 billion units, reflecting sequential growth of 8.0% compared to the first quarter of 2021. The company believes that the current level of heated tobacco unit inventory is appropriate based on anticipated sales.

Our cigarette shipment volume by brand and heated tobacco units shipment volume are shown in the table below:

PMI Shipment Volume by Brand (Million Units)

	Second-Quarter		
	2021	2020	Change
Cigarettes			
<i>Marlboro</i>	58,466	54,812	6.7 %
<i>L&M</i>	22,096	22,385	(1.3) %
<i>Chesterfield</i>	14,269	12,604	13.2 %
<i>Philip Morris</i>	10,590	11,106	(4.6) %
<i>Parliament</i>	10,023	8,462	18.4 %
<i>Sampoerna A</i>	9,186	7,254	26.6 %
<i>Dji Sam Soe</i>	5,422	5,797	(6.5) %
<i>Bond Street</i>	4,630	6,428	(28.0) %
<i>Lark</i>	3,882	4,189	(7.3) %
<i>Sampoerna Hijau</i>	2,029	1,566	29.5 %
Others	15,545	16,756	(7.2) %
Total Cigarettes	156,138	151,359	3.2 %
Heated Tobacco Units	24,356	18,708	30.2 %
Total Cigarettes and Heated Tobacco Units	180,494	170,067	6.1 %

Note: *Sampoerna A* includes *Sampoerna*; *Philip Morris* includes *Philip Morris/Dubliss*; and *Lark* includes *Lark Harmony*

Our cigarette shipment volume of the following brands increased:

- *Marlboro*, mainly driven by Italy, PMI Duty Free, Spain and Turkey, partly offset by the GCC and Japan;
- *Chesterfield*, primarily driven by Russia, partly offset by Saudi Arabia;
- *Parliament*, mainly driven by Saudi Arabia and Turkey;
- *Sampoerna A* in Indonesia, primarily driven by premium *A Mild*; and
- *Sampoerna Hijau* in Indonesia.

Our cigarette shipment volume of the following brands decreased:

- *L&M*, notably due to Germany, Saudi Arabia and Turkey, partly offset by North Africa, Spain and Thailand;
- *Philip Morris*, primarily due to Russia;
- *Dji Sam Soe* in Indonesia, mainly due to *Dji Sam Soe Magnum Mild*;
- *Bond Street*, primarily due to Russia;
- *Lark*, mainly due to Japan; and
- "Others," primarily due to: mid-price *Fortune* (Philippines) and *Sampoerna U* (Indonesia).

The increase in our heated tobacco unit shipment volume was mainly driven by the EU (notably Italy), Eastern Europe (notably Russia and Ukraine) and Japan.

International Share of Market (excluding China and the United States)

Our total international market share (excluding China and the United States) decreased by 0.8 points to 27.3%, reflecting:

- Total international market share for cigarettes of 23.8%, down by 1.3 points; and
- Total international market share for heated tobacco units of 3.5%, up by 0.5 points.

Our total international cigarette sales volume as a percentage of total industry cigarette sales volume was down by 1.1 points to 24.9%, mainly reflecting: lower cigarette market share and/or an unfavorable geographic mix impact, notably in France, Germany, Japan, the Philippines and Russia, partly offset by Indonesia, PMI Duty Free and Turkey.

Financial Summary									
Financial Summary - Quarters Ended June 30, (in millions)	2021	2020	Change Fav./((Unfav.))		Variance Fav./((Unfav.))				
			Total	Excl. Curr.	Total	Currency	Price	Vol/ Mix	Cost/ Other
Net Revenues ⁽¹⁾	\$ 7,594	\$ 6,651	14.2 %	7.9 %	\$ 943	\$ 420	\$ 226	\$ 575	\$ (278)
Cost of Sales	(2,353)	(2,179)	(8.0)%	(1.9)%	(174)	(133)	—	(147)	106
Marketing, Administration and Research Costs ⁽²⁾	(2,093)	(1,722)	(21.5)%	(12.3)%	(371)	(159)	—	—	(212)
Amortization of Intangibles	(19)	(19)	— %	5.3 %	—	(1)	—	—	1
Operating Income	\$ 3,129	\$ 2,731	14.6 %	9.9 %	\$ 398	\$ 127	\$ 226	\$ 428	\$ (383)

⁽¹⁾ Cost/Other variance includes a \$246 million reduction in net revenues in 2021 related to the Saudi Arabia customs assessments. For more details, see Note 8. *Contingencies*.

⁽²⁾ Cost/Other variance includes charges in 2021 and 2020 of \$79 million and \$71 million, respectively, for asset impairment and exit costs.

During the quarter, net revenues, excluding favorable currency, increased by 7.9%, mainly reflecting: favorable volume/mix, primarily driven by higher heated tobacco unit volume (notably in the EU, particularly Italy and Poland, as well as Japan, Russia and Ukraine) and higher cigarette volume (mainly in Indonesia, Italy, PMI Duty Free and Spain, partly offset by the GCC, Germany, Japan and the Philippines); and a favorable pricing variance (notably driven by Germany, Japan, the Philippines, Russia and Turkey, partly offset by Indonesia); partly offset by the unfavorable impact of the Saudi Arabia customs assessments of \$246 million, shown in "Cost/Other". Excluding the unfavorable impact of the Saudi Arabia customs assessments of \$246 million, net revenues increased by 17.9%, or 11.6% excluding favorable currency of \$420 million.

The favorable currency in net revenues was due primarily to the Euro, Indonesian rupiah and Mexican pesos, partially offset by the Turkish lira.

Net revenues include \$2.3 billion in 2021 and \$1.6 billion in 2020 related to the sale of RRP's.

Operating income, excluding favorable currency, increased by 9.9%, primarily reflecting: favorable volume/mix, primarily driven by higher heated tobacco unit volume (reflecting the same geographies as for net revenues noted above); a favorable pricing variance; and lower manufacturing costs (driven by productivity gains related to reduced-risk and combustible products); partly offset by the unfavorable impact of the Saudi Arabia customs assessments (as noted above for net revenues); and higher marketing, administration and research costs.

Interest expense, net, of \$161 million was essentially flat.

Our effective tax rate increased by 1.3 percentage points to 22.0%. The effective tax rate for the three months ended June 30, 2020 was favorably impacted by the corporate income tax rate reduction in Indonesia (enacted in the second quarter of 2020). For further details, see Note 9. *Income Taxes*.

Net earnings attributable to PMI of \$2.2 billion increased by \$225 million or 11.6%. This increase was due primarily to higher operating income as discussed above, partially offset by a higher effective tax rate. Diluted and basic EPS of \$1.39 increased by 11.2%. Excluding a favorable currency impact of \$0.05, diluted EPS increased by 7.2%.

Operating Results by Business Segment

Business Environment

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

The tobacco industry and our company face a number of challenges that may adversely affect our business, volume, results of operations, cash flows and financial position. These challenges, which are discussed below and in “*Cautionary Factors That May Affect Future Results*,” include:

- regulatory restrictions on our products, including restrictions on the packaging, marketing, and sale of tobacco or other nicotine-containing products that could reduce our competitiveness, eliminate our ability to communicate with adult consumers, or even ban certain of our products;
- fiscal challenges, such as excessive excise tax increases and discriminatory tax structures;
- illicit trade in cigarettes and other tobacco and nicotine-containing products, including counterfeit, contraband and so-called “illicit whites”;
- intense competition, including from non-tax paid volume by certain local manufacturers;
- pending and threatened litigation as discussed in Note 8. *Contingencies*; and
- governmental investigations.

Regulatory Restrictions: The tobacco industry operates in a highly regulated environment. The well-known risks of smoking have led regulators to impose significant restrictions and high excise taxes on cigarettes.

Much of the regulation that shapes the business environment in which we operate is driven by the World Health Organization's (the “WHO”) Framework Convention on Tobacco Control (the “FCTC”), which entered into force in 2005. The FCTC has as its main objective to establish a global agenda for tobacco regulation, with the purpose of reducing tobacco use. To date, 182 countries and the European Union are Parties to the FCTC. The treaty requires Parties to have in place various tobacco control measures and recommends others. The FCTC governing body, the Conference of the Parties (“CoP”), has also adopted non-binding guidelines and policy recommendations related to certain articles of the FCTC that go beyond the text of the treaty. In October 2018, the CoP recognized the need for more scientific assessment and improved reporting to define policy on heated tobacco products. Similar to its previous policy recommendations on e-cigarettes, the CoP invited countries to regulate, restrict or prohibit heated tobacco products, as appropriate under their national laws.

In May 2021, the WHO study group on tobacco product regulation issued its Eighth Report addressing novel and emerging nicotine and tobacco products, such as electronic nicotine delivery systems (“ENDS”), electronic non-nicotine delivery systems (“ENNDS”) and heated tobacco products (“HTPs”). Although the Report presents some industry and independent research showing that heated tobacco products have the potential to reduce harm for smokers, WHO’s overall assessment is that these products are not risk-free and should be regulated in the same manner as tobacco products and in line with the FCTC provisions. The Report also recommends governments both to rely on independent research and data on the public health impact of use of heated tobacco products, and to analyze tobacco industry funded data. It is not possible to predict whether or to what extent measures recommended by the WHO study group will be implemented as the Report is not binding to the WHO Member States.

We believe that when better alternatives to cigarettes exist, the discussion should not be whether these alternatives should be made available to the more than one billion people who smoke today, but how fast, and within what regulatory framework to maximize their adoption while minimizing unintended use. Therefore, we advocate for regulatory frameworks that recognize a significant difference on a risk continuum between combustible tobacco on the one hand and non-combustible tobacco and other nicotine-containing products on the other. Regulation should include measures that will accelerate switching to non-combustible products, for example, by allowing adult consumers who would not otherwise quit to receive truthful and non-misleading information about such products to enable them to make informed decisions and by applying uniform product standards to enable manufacturers to demonstrate the safety of these products, as well as the absence of combustion. Regulation should also include specific rules for ingredients, labeling and consumer communication, and should ensure that the public is informed about the health risks of all combustible and non-combustible tobacco and nicotine-containing products. Importantly, regulation must include measures designed to prevent initiation by youth and non-smokers. We support mandated health warnings, minimum age laws, restrictions on advertising, and public place smoking restrictions. We also support regulatory measures that help reduce illicit trade.

Certain measures are discussed in more detail below and in the *Reduced-Risk Products (RRPs)* section.

Fiscal Challenges: Excessive and disruptive excise, sales and other tax increases and discriminatory tax structures are expected to continue to have an adverse impact on our profitability, due to lower consumption and consumer down-trading to non-premium, discount, other low-price or low-taxed combustible tobacco products such as fine cut tobacco and illicit cigarettes. In addition, in certain jurisdictions, some of our combustible products are subject to tax structures that discriminate against premium-price products and manufactured cigarettes. We believe that such tax policies undermine public health by encouraging consumers to turn to illicit trade, and ultimately undercut government revenue objectives, disrupt the competitive environment, and encourage criminal activity. Other jurisdictions have imposed, or are seeking to impose, levies or other taxes specifically on tobacco companies, such as taxes on revenues and/or profits.

World Customs Organization Developments: In 2020, the World Customs Organization (the “WCO”) amended the harmonized system nomenclature to introduce dedicated custom codes for novel tobacco and nicotine products, including heated tobacco products, e-cigarettes and other nicotine-containing products. The amendments will be effective as of January 1, 2022. These amendments require WCO member states to transfer products from customs codes in the current nomenclature to the new one. These amendments are not expected to significantly impact current customs duty rates.

EU Tobacco Products Directive: In April 2014, the EU adopted a significantly revised EU Tobacco Products Directive (the “TPD”), which entered into force in May 2016. All member states have adopted laws transposing the TPD. The TPD sets forth a comprehensive set of regulatory requirements for tobacco products, including:

- health warnings covering 65% of the front and back panels of cigarette packs, with an option for member states to further standardize tobacco packaging, including the introduction of plain packaging;
- a ban on characterizing flavors in some tobacco products, with a transition period for menthol that expired in May 2020;
- security features and tracking and tracing measures that became effective in May 2019; and
- a framework for the regulation of novel tobacco products and e-cigarettes, including requirements for health warnings and information leaflets, a prohibition on product packaging text related to reduced risk, and the introduction of notification requirements or authorization procedures in advance of commercialization.

In May 2021, the European Commission published its first report on the application of the TPD. The report identifies significant progress made due to the implementation of the TPD and where there is still room for improvement. Most notably, it finds that the EU legislation has enhanced tobacco control, contributed to protecting the health of EU citizens by providing Member States with strong rules to address the use of tobacco products in the EU. The TPD reportedly achieved the 2% reduction target of the impact assessment with decreased smoking prevalence among youth. The report also concludes that there is scope for improvement in certain areas, such as enforcement at national level, assessment of ingredients, and a better consideration for novel and emerging products.

EU Tobacco Excise Directive: The EU Commission is preparing a legislative proposal for the revision of the 2011 EU Tobacco Excise Directive that may include definitions and tax treatment for novel tobacco and nicotine-containing products, including heated tobacco products and e-cigarettes. The proposal is expected to be finalized by the end of 2021. The adoption of the proposal will require unanimous agreement by all EU member states.

Plain Packaging and Other Packaging Restrictions: Plain packaging legislation bans the use of branding, logos and colors on packaging other than the brand name and variant that may be printed only in specified locations and in a uniform font. To date, plain packaging laws have been adopted in certain markets in all of our operating segments, including the key markets of Australia, France, Saudi Arabia and Turkey. Some countries, such as Canada, New Zealand, Israel and Denmark, adopted plain packaging regulations that apply to all tobacco products, including RRP. Other countries are also considering plain packaging legislation.

Some countries have adopted, or are considering adopting, packaging restrictions that could have an impact similar to plain packaging. Examples of such restrictions include standardizing the shape and size of packages, prohibiting certain colors or the use of certain descriptive phrases on packaging, and requiring very large graphic health warnings that leave little space for branding.

Restrictions and Bans on the Use of Ingredients: The WHO and others in the public health community have recommended restrictions or total bans on the use of some or all ingredients in tobacco products, including menthol. Broad restrictions and ingredient bans would require us to reformulate our American blend tobacco products and could reduce our ability to differentiate these products in the market in the long term. In many countries, menthol bans would eliminate the entire category of mentholated tobacco products. The European Union banned cigarettes and roll-your-own tobacco products with characterizing flavors. Other tobacco products, including heated tobacco products, are exempted from this flavor ban. The EU Commission is required to withdraw this exemption for a particular product category if it determines that there is a substantial change of circumstances, such as a significant increase of EU-wide sales volumes in such product category. Other countries may follow the EU's approach. Turkey banned menthol as of May 2020. Broader ingredient bans have been adopted by Canada and Brazil.

Bans on Display of Tobacco Products at Retail: In a number of our markets, including, but not limited to, Australia and Russia, governments have banned the display of tobacco products at the point of sale. Other countries are considering similar bans.

Bans and Restrictions on Advertising, Marketing, Promotions and Sponsorships: For many years, the FCTC has called for, and countries have imposed, partial or total bans on tobacco advertising, marketing, promotions and sponsorships, including bans and restrictions on advertising on radio and television, in print and on the Internet. The FCTC's non-binding guidelines recommend that governments prohibit all forms of communication with adult smokers.

Restrictions on Product Design: Some members of the public health community are calling for the further standardization of tobacco products by requiring, for example, that cigarettes have a certain minimum diameter, which would amount to a ban on slim cigarettes, or requiring the use of standardized filter and cigarette paper designs. In addition, at its meeting in November 2016, the CoP adopted non-binding guidelines recommending that countries regulate product design features that increase the attractiveness of tobacco products, such as the diameter of cigarettes and the use of flavor capsules.

Restrictions on Public Smoking and Use of Nicotine-Containing Products in Public: The pace and scope of restrictions on the use of our products have increased significantly in most of our markets. Many countries around the world have adopted, or are likely to adopt, regulations that restrict or ban smoking and use of nicotine-containing products in public and/or work places, restaurants, bars and nightclubs. Some public health groups have called for, and some countries, regional governments and municipalities have adopted or proposed, bans on smoking in outdoor places, as well as bans on smoking in cars (typically, when minors are present) and private homes.

Other Regulatory Issues: Some regulators are considering, or in some cases have adopted, regulatory measures designed to reduce the supply of tobacco products. These include regulations intended to reduce the number of retailers selling tobacco products by, for example, reducing the overall number of tobacco retail licenses available or banning the sale of tobacco products within specified distances of certain public facilities. In addition, South Africa banned the sale of tobacco products, e-cigarettes, and electronic devices that heat tobacco for several months during the COVID-19 pandemic. The ban, which was lifted on August 17, 2020, resulted in a significant increase of illicit trade of tobacco products.

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

The EU Single-Use Plastics Directive, which will require tobacco manufacturers and importers to cover the costs of public collection systems for tobacco product filters, under Extended Producer Responsibility ("EPR") schemes, entered into force on July 2, 2019. To date, only a few member states transposed the Directive into national legislation. We expect remaining member states to transpose the EU Single-Use Plastics Directive into national legislation including EPR schemes by January 2023. While we cannot predict the impact of this initiative on our business at this time, we are monitoring developments in this area.

Illicit Trade: Illicit tobacco trade creates a cheap and unregulated supply of tobacco products, undermines efforts to reduce smoking prevalence, especially among youth, damages legitimate businesses and intellectual property rights, stimulates organized crime, increases corruption and reduces government tax revenue. We generally estimate that, excluding China and the U.S., illicit trade may account for as much as 12% of global cigarette consumption; this includes counterfeit, contraband and the persistent problem of "illicit whites," which are cigarettes legally produced in one jurisdiction for the sole purpose of being exported and illegally sold in another jurisdiction where they have no legitimate market. Currently, we estimate that illicit trade in the European Union accounted for approximately 8% of total cigarette consumption in 2020.

A number of jurisdictions are considering actions to prevent illicit trade. In November 2012, the FCTC adopted the Protocol to Eliminate Illicit Trade in Tobacco Products (the "Protocol"), which includes supply chain control measures, such as licensing

of manufacturers and distributors, enforcement of these control measures in free trade zones, controls on duty free and Internet channels and the implementation of tracking and tracing technologies. To date, 63 Parties, including the European Union, have ratified it. The Protocol came into force in September 2018. Parties must start implementing its provisions in their national legislation. In October 2018, the first Meeting of the Parties to the Protocol decided to produce a comprehensive report on good practices for the implementation of tracking and tracing systems and to prepare a conceptual framework for global information sharing to combat illicit tobacco trade. We welcome this decision and expect that other Parties will ratify the Protocol.

We devote substantial resources to help prevent illicit trade in combustible tobacco products and RRP. For example, we engage with governments, our business partners and other stakeholders to implement effective measures to combat illicit trade and, in some instances, pursue legal remedies to protect our intellectual property rights.

The tracking and tracing regulations for cigarettes and roll-your-own products manufactured or destined for the EU became effective on May 20, 2019. The effective date for other tobacco-containing products, including some of our RRP, such as heated tobacco units, is May 20, 2024. While we expect that this regulation will increase our operating expenses, we do not expect this increase to be significant.

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

In May 2016, PMI launched PMI IMPACT, a global initiative that supports third-party projects dedicated to fighting illegal trade and related crimes such as corruption, organized criminal networks and money laundering. The centerpiece of PMI IMPACT is a council of external independent experts in the fields of law, anti-corruption and law enforcement. The experts are responsible for evaluating and approving funding proposals for PMI IMPACT grants. PMI has pledged \$100 million to fund projects within PMI IMPACT over three funding rounds.

Reduced-Risk Products (RRP)

Our Approach to RRP: We recognize that smoking cigarettes causes serious diseases and that the best way to avoid the harms of smoking is never to start or to quit. Nevertheless, it is predicted that by 2025 the number of smokers will remain largely unchanged from the current estimate of 1.1 billion, despite the considerable efforts to discourage smoking.

Cigarettes burn tobacco, which produces smoke. As a result of the combustion process, the smoker inhales various toxic substances. In contrast, RRP do not burn tobacco and produce an aerosol that contains significantly lower levels of harmful and potentially harmful constituents ("HPHCs") than found in cigarette smoke.

For adult smokers who would otherwise continue to smoke, we believe that RRP, while not risk-free, offer a much better consumer choice. Accordingly, our key strategic priorities are: to develop and commercialize products that present less risk of harm to adult smokers who switch to those products versus continued smoking; and to convince current adult smokers who would otherwise continue to smoke to switch to those products.

We recognize that this transformation from cigarettes to RRP will take time and that the speed of transformation will depend in part upon factors beyond our control, such as the willingness of governments, regulators and other policy groups to embrace RRP as a desired alternative to continued cigarette smoking. For as long as a significant number of adult smokers continues to smoke, responsible leadership of the category is critical. We aim to maintain our competitive position in the cigarette market through selective investment. As a leading international cigarette manufacturer, we will continue to accelerate this transformation by using our regulatory and commercial expertise and extensive commercial and distribution infrastructure as an effective platform for the commercialization of our RRP and communication with adult smokers and trade partners about the benefits of switching to our RRP.

While seeking to remain competitive in the cigarette market, we are judiciously reallocating resources from cigarettes to RRP and are streamlining our cigarette portfolio.

We have a range of RRP in various stages of development, scientific assessment and commercialization. We conduct rigorous scientific assessments of our RRP platforms to substantiate that they reduce exposure to HPHCs and, ultimately, that these products present, are likely to present, or have the potential to present less risk of harm to adult smokers who switch to them versus continued smoking. We draw upon a team of expert scientists and engineers from a broad spectrum of scientific

disciplines and our extensive learnings of adult consumer preferences to develop and assess our RRP. Our efforts are guided by the following key objectives:

- to develop RRP that adult smokers who would otherwise continue to smoke find to be satisfying alternatives to smoking;
- for those adult smokers, our goal is to offer RRP with a scientifically substantiated risk-reduction profile that approaches as closely as possible that associated with smoking cessation;
- to substantiate the reduction of risk for the individual adult smoker and the reduction of harm to the population as a whole, based on scientific evidence of the highest standard that is made available for scrutiny and review by external independent scientists and relevant regulatory bodies; and
- to advocate for the development of science-based regulatory frameworks for the development and commercialization of RRP, including the communication of scientifically substantiated information to enable adult smokers to make better consumer choices.

Our RRP Platforms: Our product development is based on the elimination of combustion via tobacco heating and other innovative systems for aerosol generation, which we believe is the most promising path to providing a better consumer choice for those who would otherwise continue to smoke. We recognize that no single product will appeal to all adult smokers. Therefore, we are developing a portfolio of products intended to appeal to a variety of distinct adult consumer preferences.

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

Platform 1 uses a precisely controlled heating device incorporating our *IQOS HeatControl* technology, into which a specially designed and proprietary tobacco unit is inserted and heated to generate an aerosol. We have conducted a series of clinical studies for this platform, the results of which were included in our submission to the U.S. Food and Drug Administration (“FDA”) described below. We completed a 6+6 month exposure response study and shared the results with the FDA in April 2020. The study showed that for the group that switched to our Platform 1 product, the eight clinical risk endpoints that were tested as co-primary endpoints in the first six-month term moved in the same direction as observed for smoking cessation after 12 months of use of this product. In addition, we completed an 18-month combined chronic toxicity and carcinogenicity study in mice, which was on-going at the time of our FDA submission. We shared the results with the FDA in August 2018.

Platform 2 uses a pressed carbon heat source which, when ignited, generates a nicotine-containing aerosol by heating tobacco. The results of our pharmacokinetic study (that measured the nicotine pharmacokinetic profile as well as subjective effects) and of our five-day reduced exposure study indicate that this platform could be an acceptable substitute for adult smokers who seek an alternative to cigarettes. The reduced exposure study results showed a substantial reduction in relevant biomarkers of exposure to the measured HPHCs in those who switched to Platform 2 compared to those who continued to smoke cigarettes over a five-day period. The sustainability of this reduction as well as changes in clinical risk markers were assessed in a three-month reduced exposure study, which was completed in 2018.

Platform 3 provides an aerosol of nicotine salt. We have explored two routes for this platform, one with electronics and one without, and conducted nicotine pharmacokinetic studies with both versions. The results of our pharmacokinetic study related to the version without electronics indicate this product's potential as an acceptable alternative to continued cigarette smoking in terms of product satisfaction. In February 2020, we completed a one-month product use and adaptation study in adult smokers for the product variant without electronics. The results of the study indicated that while during the study period, the adult smokers did not fully switch from smoking cigarettes to this Platform 3 product, on average, they used this product on a daily basis and significantly reduced their daily consumption of cigarettes. We are working on product modifications to enable switching by those adult smokers who are looking for better alternatives to cigarettes.

Platform 4 covers e-vapor products, which are battery-powered devices that produce an aerosol by vaporizing a nicotine-containing liquid solution. In 2020, our e-vapor products comprised devices with the “coil and wick” technology as well as our e-vapor mesh technology designed to ensure the consistency and quality of the generated aerosol compared to the products with the “coil and wick” technology. Recently, we discontinued the commercialization of devices with the “coil and wick” technology. We conducted a nicotine pharmacokinetic study with respect to products with our e-vapor mesh technology in 2017. The results of this study indicate that these products are an effective means of nicotine delivery while being a satisfying alternative for e-cigarette users. In March 2019, a six-month pre-clinical study in mice evaluating the impact of e-cigarette vapor on the risks of pulmonary and cardiovascular disease compared to cigarette smoke was completed; this study did

not pertain to a specific product. The study demonstrated that e-cigarette vapors induce significantly lower biological responses associated with cardiovascular and pulmonary diseases compared with cigarette smoke.

We aim to expand our brand portfolio and market positions with additional RRP. In addition, we are continuing to use our expertise, technology and capabilities to explore new growth opportunities beyond our current business, including products that do not contain nicotine or tobacco.

After we receive the results of our scientific studies, including those mentioned above, in accordance with standard scientific practices, we share the conclusions in scientific forums and submit them for inclusion in peer-reviewed publications.

Commercialization of RRP: We are building a new product category and tailor our commercialization strategy to the characteristics of each specific market. We focus our commercialization efforts on consumer retail experience, guided consumer trials and customer care, and increasingly, digital communication programs and e-commerce. In order to accelerate switching to our Platform 1 products, our initial market introductions typically entail one-to-one consumer engagement (in person or by digital means) and device discounts. These initial commercialization efforts require substantial investment, which we believe will moderate over time and further benefit from the increased use of digital engagement capabilities. During the COVID-19 pandemic, we accelerated our investments in, and pivot to, digital consumer engagement.

In 2014, we introduced our Platform 1 product in pilot city launches in Nagoya, Japan, and in Milan, Italy. Since then, we have continuously expanded our commercialization activities. As of June 30, 2021, PMI's smoke-free products are available for sale in 67 markets in key cities or nationwide.

We believe that only a very small percentage of adult smokers who convert to our Platform 1 product switch back to cigarettes.

We have integrated the production of our heated tobacco units into a number of our existing manufacturing facilities, are progressing with our plans to build manufacturing capacity for our other RRP platforms, and continue to optimize our manufacturing infrastructure.

An adequate supply chain for our RRP portfolio, including the supply of electronic devices, is important to our business. We work with three electronics manufacturing service providers for the supply of our Platform 1 and Platform 4 devices and a small number of other providers for other products in our RRP portfolio and related accessories. Due to the COVID-19 pandemic, the operations of our two main electronic manufacturing service providers were temporarily suspended at different times. Even though these suspensions did not materially affect our operations, if one or more of these service providers were significantly constrained at the same time, the supply of the devices could be disrupted. Although we work closely with these service providers on monitoring their production capability and financial health, we cannot guarantee that they will remain capable of meeting their commitments, particularly during the COVID-19 pandemic; if they will not, the commercialization of our RRP could be adversely affected. The production of our RRP portfolio requires various metals, and we believe that there is an adequate supply of such metals in the world markets to satisfy our current and anticipated production requirements. However, some components and materials necessary for the production of our RRP, including those for the electronic devices, are obtained from single or limited sources, and can be subject to industry-wide shortages and price fluctuations. While we were successful in maintaining adequate supply of such components and materials so far, we may not be able to secure such supply going forward, particularly during the COVID-19 pandemic; this could negatively impact the commercialization of our RRP. For details on the impact of COVID-19 on our production and supply chain, see the "Executive Summary" section of this MD&A.

In addition, we are also exposed to a world-wide shortage of semiconductors, which shortage continues to put constraints on our device supplies for RRP. While the overall impact of this shortage remains manageable, we have adjusted our device assortments to limit the effect on consumer availability of our RRP.

We discuss product warranties in more detail in Note 14. *Product Warranty*. The significance of warranty claims is dependent on a number of factors, including device version mix, product failure rates, logistics and service delivery costs, and warranty policies, and may increase with the number of devices sold.

Product quality may affect consumer acceptance of our RRP.

Our commercialization efforts for the other RRP platforms are as follows:

- We started commercializing an improved version of our *IQOS MESH* product in New Zealand, Italy, Finland and the Czech Republic under the *IQOS VEEV* or *VEEV* brand names. We currently plan to launch this product in additional markets.
- With respect to *TEEPS*, our Platform 2 product, we are finalizing our improvements to this product and plan to conduct a consumer test in 2021.
- Following the consumer test conducted in 2020 and the results of the product use and adaptation study described above, we are incorporating our learnings into our plans to improve our Platform 3 product.

Due to the COVID-19 pandemic, these plans may be delayed.

RRP Regulation and Taxation: RRP contains nicotine and is not risk-free. As we describe in more detail above, we support science-based regulation and taxation of RRP and believe that regulation and taxation should differentiate between cigarettes and products that present, are likely to present, or have the potential to present less risk of harm to adult smokers who switch to these products versus continued smoking and should recognize a continuum of risk for tobacco and other nicotine-containing products. Regulation, as well as industry practices, should reflect the fact that youth should not consume nicotine in any form.

Some governments have banned or are seeking to ban or severely restrict emerging tobacco and nicotine-containing products such as our RRP and communication of truthful and non-misleading information about such products.

These regulations might foreclose or unreasonably restrict adult consumer access even to products that might be shown to be a better consumer choice than continuing to smoke. During the COVID-19 pandemic, some governments have been and may continue to be temporarily unable to focus on the development of science-based regulatory frameworks for the development and commercialization of RRP or on the enforcement or implementation of regulations that are significant to our business.

We oppose blanket bans and unreasonable restrictions of products that have the potential to present less risk of harm compared to continued smoking. By contrast, we support regulation that sets clear standards for all RRP categories and propels innovation to benefit adult smokers who would otherwise continue to smoke.

In the United States, an established regulatory framework for assessing “Modified Risk Tobacco Products” and “New Tobacco Products” exists under the jurisdiction of the FDA. We submitted to the FDA a Modified Risk Tobacco Product Application (“MRTPA”) for our Platform 1 product in December 2016, and a Premarket Tobacco Product Application (“PMTA”) for our Platform 1 product in March 2017.

On April 30, 2019, the FDA determined that a version of our Platform 1 product, namely, *IQOS 2.4* and three related consumables, is appropriate for the protection of public health and authorized it for sale in the United States. The FDA’s decision followed its comprehensive assessment of our PMTA. On December 7, 2020, the FDA reached the same determination for the *IQOS 3* device and authorized that version of our Platform 1 product for sale in the United States.

On July 7, 2020, the FDA determined that the available scientific evidence demonstrates that the issuance of an exposure modification order would be appropriate for the promotion of public health and authorized the marketing of a version of our Platform 1 product, namely, *IQOS 2.4* and three related consumables, as a “modified risk tobacco product.” The FDA authorized the marketing of this product in the U.S. with the following information:

"AVAILABLE EVIDENCE TO DATE:

- the *IQOS* system heats tobacco but does not burn it.
- this significantly reduces the production of harmful and potentially harmful chemicals.
- scientific studies have shown that switching completely from conventional cigarettes to the *IQOS* system significantly reduces your body’s exposure to harmful or potentially harmful chemicals."

We must request and receive authorization from the FDA in order to continue marketing this product with the same modified exposure information after the present order expires in four years from the date of the orders.

On March 18, 2021, we submitted to the FDA a supplemental MRTPA ("sMRTPA") for *IQOS 3* requesting authorization to market this version of the device as a Modified Risk Tobacco Product with reduced exposure information like *IQOS 2.4*. In June 2021, the FDA formally accepted and filed our sMRTPA for substantive scientific review and, already in May 2021, the

FDA opened the period for the public to provide comments on our application. The public comment period will be closed on August 2, 2021.

There are two types of MRTP orders the FDA may issue: a “risk modification” order or an “exposure modification” order. We had requested both types of orders for *IQOS* 2.4 and an initial selection of 3 consumables' variants. After review, the FDA determined that the evidence did not support issuing a “risk modification” order at this time but that it did support issuing an “exposure modification” order for the product. This determination included a finding that issuance of the exposure modification order is expected to benefit the health of the population as a whole.

We look forward to working with the FDA to provide any additional information they may require in order to market this product with reduced risk claims.

The FDA’s PMTA and MRTP orders do not mean that the agency “approved” our Platform 1 product. These authorizations are subject to strict marketing, reporting and other requirements and are not a guarantee that the product will remain authorized, particularly if there is a significant uptake in youth or non-smoker initiation. The FDA will monitor the marketing of the product.

Some states and municipalities in the U.S. have introduced severe restrictions for the sale of certain e-cigarettes and tobacco products, including those authorized by the FDA. We believe that such restrictions on FDA-authorized products will not advance public health and will unreasonably limit adult consumer access to products that are shown to be a better alternative to continued smoking.

In March 2020, we requested a clarification from the FDA regarding the applicability of its new health warning requirements to our heated tobacco units sold in the United States.

In the U.S., tobacco and nicotine-containing products that were not commercially marketed as of February 15, 2007 are subject to review and authorization by the FDA. Manufacturers of all non-authorized products currently on the market were required to file a PMTA with the FDA by September 9, 2020. The FDA announced on September 9, 2020 that it will prioritize enforcement against any tobacco and nicotine-containing product sold without a PMTA.

FDA actions may influence the regulatory approach of other governments.

Until recently, there were no countries with specific product standards for heat-not-burn products. Currently, national standards setting minimum quality and safety requirements for such products have been adopted in several countries with technical heat-not-burn specifications and/or methods for demonstrating the absence of combustion. They are mandatory in Egypt, Jordan, Saudi Arabia, Tunisia, the UAE and Uzbekistan, and voluntary in the U.K., Russia, Ukraine, Kazakhstan, Kyrgyzstan, Tajikistan, Vietnam, Indonesia and Costa Rica. In Japan, a voluntary standard sets minimum safety requirements for tobacco heating devices. We expect other governments to consider similar product standards and encourage making them mandatory.

All EU member states have transposed the EU Tobacco Products Directive, including the provisions on novel tobacco products, such as heated tobacco units, and e-cigarettes. Most of the EU member states require a notification submitted six months before the intended placing on the market of such products, while some require pre-market authorizations for the introduction of such products. To date, we have filed a comprehensive dossier summarizing our scientific assessment of our Platform 1 product in over 20 member states.

In addition, in Italy, in April 2018, we submitted an application for *HEETS*, used with the *IQOS* device, requesting regulatory recognition of the reduction of toxic substances and potential risk reduction resulting from switching to this product compared to continued cigarette smoking. In January 2019, our application was not granted primarily on the grounds of insufficient data and questions of methodology. Due to the constraints of the review process, we had been unable to supplement the application with all the data we subsequently filed with the FDA and to address methodological questions during the review. We plan to submit a new application where we will clarify the concerns raised by the decision and further strengthen our application by submitting additional evidence that became available since we submitted our first application, consistent with our FDA filings. We are confident that our evidence supports our application.

On October 31, 2019, our Australian subsidiary, Philip Morris Limited (“PML”), submitted an application to the Scheduling Committee of the Therapeutic Goods Administration of Australia (“TGA”) seeking to exempt heated tobacco products from being prohibited in Australia. In August 2020, the TGA issued its decision denying the application and stating that it did not present compelling evidence to establish a public health benefit from greater access to nicotine in heated tobacco products.

To date, several governmental agencies have published their scientific findings that analyze the harm-reduction potential of certain RRP's versus continuing smoking, including:

In December 2017, at the request of the U.K. Department of Health and Public Health England, the U.K. Committee on Toxicity published its assessment of the risk of heat-not-burn products relative to cigarette smoking. This assessment included analysis of scientific data for two heat-not-burn products, one of which was our Platform 1 product. The assessment concluded that, while still harmful to health, compared with the known risks from cigarettes, heat-not-burn products are probably less harmful. Subsequently, in February 2018, Public Health England published a report stating that the available evidence suggests that heat-not-burn products may be considerably less harmful than cigarettes and more harmful than e-cigarettes.

In May 2018, the German Federal Institute for Risk Assessment ("BfR") published a study on the Platform 1 aerosol relative to cigarette smoke using the Health Canada Intense Smoking Regimen. BfR found reductions in selected HPHCs in a range of 80-99%. This publication indicates that significant reductions in the levels of selected toxicants are likely to reduce toxicant exposure, which BfR stated might be regarded as a discrete benefit compared to combustible cigarettes.

In May 2018, the Dutch National Institute for Public Health and Environment ("RIVM") published a factsheet on novel tobacco products that heat rather than burn tobacco, focusing on our Platform 1 product. RIVM analyzed the aerosol generated by our Platform 1 product and concluded that the use of this product, while still harmful to health, is probably less harmful than continued smoking.

In June 2018, the Korean Food and Drug Administration ("KFDA") issued a statement on products that heat rather than burn tobacco. The KFDA tested three heat-not-burn products, one of which was our Platform 1 product. The KFDA confirmed that the levels of the nine HPHCs tested in the aerosol of these products were on average approximately 90% lower compared to those measured in the cigarette smoke of the top five cigarette brands in South Korea. However, the KFDA stated that it could not establish that the tested heat-not-burn products are less harmful than cigarettes. In October 2018, our Korean subsidiary filed a request with a local court seeking information underlying KFDA's analysis, conclusions and public statements. In May 2020, the court ordered KFDA to produce certain records.

In August 2018, the Science & Technology Committee of the U.K. House of Commons published a report of its inquiry into e-cigarettes and heat-not-burn products. The report concluded that e-cigarettes are significantly less harmful to health than smoking tobacco. The report also observed that for those smokers who do not accept e-cigarettes, heat-not-burn products may offer a public health benefit despite their relative risk. The report called for a risk-proportionate regulatory environment for both e-cigarettes and heat-not-burn products and noted that e-cigarettes should remain the least taxed, cigarettes the most taxed, with heat-not-burn products falling between the two. The U.K. Committee on Advertising Practice announced the removal of a prohibition of health claims in the advertising of e-cigarettes in the U.K. effective November 2018.

In November 2018, the Eurasian Economic Commission (regulatory body of the Eurasian Union consisting of Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia) published the results of its commissioned study on novel nicotine-containing products, including our Platform 1 product. The study confirms significantly lower levels of HPHCs in the aerosol generated by this product compared to cigarette smoke.

In January 2019, scientific media published the results of the study of the China National Tobacco Quality Supervision and Test Centre ("CNTQST") comparing the aerosol generated by our Platform 1 product with cigarette smoke. The CNTQST found that the former contained fewer, and lower levels of, harmful constituents than the latter and concluded that the lower temperature of heating tobacco in our Platform 1 product contributed to the difference. The CNTQST stated that the reduction in emissions of harmful constituents cannot be interpreted as a harm/risk reduction for smokers in the same proportion.

In 2020, the Superior Health Council of Belgium ("SHC") published results of its inquiry into heat-not-burn products. The SHC concluded that heat-not-burn products, while not safe, have a more favorable toxicity profile than cigarettes. However, in light of the uncertainty of such products' short and long-term impacts, the toxic effects of the dual use with cigarettes, and the existence of approved smoking cessation tools, the SHC recommended that current regulations for cigarettes should apply to heat-not-burn products.

The foregoing scientific findings of government agencies may not be indicative of the measures that the relevant government authorities could take in regulating our products.

We make our scientific findings publicly available for scrutiny and peer review through several channels, including our websites. From time to time, adult consumers, competitors, members of the scientific community, and others inquire into our scientific methodologies, challenge our scientific conclusions or request further study of certain aspects of our RRP and their health effects. We are committed to a robust and open scientific debate and believe that such debate should be based on accurate and reliable scientific information. We seek to provide accurate and reliable scientific information about our RRP; nonetheless, we may not be able to prevent third-party dissemination of false, misleading or unsubstantiated information about these products. The dissemination of scientifically unsubstantiated information or studies with a strong confirmation bias by third parties may cause confusion among adult smokers and affect their decision to switch to better alternatives to continued smoking, such as our RRP.

To date, we have been largely successful in demonstrating to regulators that our heated tobacco units are not cigarettes due to the absence of combustion, and as such they are generally taxed either as a separate category or as other tobacco products, which typically yields more favorable tax rates than cigarettes. Although we believe that this is sensible from the public health perspective, we cannot guarantee that regulators will continue this approach.

There can be no assurance that we will succeed in our efforts to replace cigarettes with RRP or that regulation will allow us to commercialize RRP in all markets, to communicate about our RRP, including making scientifically substantiated risk-reduction claims, or to treat RRP differently from cigarettes.

Legal Challenges to RRP: We face various administrative and legal challenges related to certain RRP activities, including allegations concerning product classification, advertising restrictions, corporate communications, product coach activities, scientific substantiation, product liability, and unfair competition. While we design our programs to comply with relevant regulations, we expect these or similar challenges to continue as we expand our efforts to commercialize RRP and to communicate publicly. The outcomes of these matters may affect our RRP commercialization and public communication activities and performance in one or more markets.

Our RRP Business Development Initiatives: In December 2013, we established a strategic framework with Altria Group, Inc. ("Altria") setting out terms on how the parties would collaborate to develop and commercialize e-vapor products and commercialize two of our RRP in the U.S. In late 2018, Altria announced that it will participate in the e-vapor category only through another e-vapor company in which Altria acquired a minority interest. In September 2019, Altria's subsidiary, Philip Morris USA Inc. ("PM USA"), began commercialization of a version of our Platform 1 product in the U.S. PM USA is responsible for the marketing of this product in the U.S. and communication of the reduced exposure information authorized by the FDA in its MRTP marketing order described above.

In January 2020, we announced an agreement with KT&G, a leading tobacco and nicotine company in South Korea, for the commercialization of KT&G's smoke-free products outside of South Korea on an exclusive basis. For more information, see *Acquisitions and Other Business Arrangements* below.

Other Developments: In September 2017, we announced our support of the Foundation for a Smoke-Free World. In September 2020, our pledge agreement with the Foundation was amended. We contributed \$45 million in 2020, \$40 million in 2021, and expect to contribute \$35 million annually from 2022 through 2029, as specified in the amended pledge agreement. To date, we contributed a total of \$249.5 million. The Foundation is an independent body and is governed by its independent Board of Directors. The Foundation's role, as set out in its corporate charter, includes funding research in the field of tobacco harm reduction, encouraging measures that reduce the harm caused by smoking, and assessing the effect of reduced cigarette consumption on the industry value chain.

Governmental Investigations

From time to time, we are subject to governmental investigations on a range of matters, including tax, customs, antitrust, advertising, and labor practices. We describe certain matters pending in Thailand, Russia and South Korea in Note 8. *Contingencies*.

In November 2010, a WTO panel issued its decision in a dispute relating to facts that arose from August 2006 between the Philippines and Thailand concerning a series of Thai customs and tax measures affecting cigarettes imported by PM Thailand into Thailand (see Note 8. *Contingencies* for additional information). The WTO panel decision, which was upheld by the WTO Appellate Body, concluded that Thailand had no basis to find that PM Thailand's declared customs values and taxes paid were too low, as alleged by the Department of Special Investigations of the government of Thailand ("DSI") in 2009. The decision

also created obligations for Thailand to revise its laws, regulations, or practices affecting the customs valuation and tax treatment of future cigarette imports. Thailand agreed in September 2011 to fully comply with the decision by October 2012. The Philippines asserts that to date Thailand has not fully complied with the WTO panel decision and commenced challenges at the WTO Appellate Body. The WTO Appellate Body is not operational, and the appeals by Thailand are suspended indefinitely. In December 2020, the Philippines and Thailand agreed to pursue facilitator-assisted discussions aimed at progressing and resolving outstanding issues. It is not possible to predict any future developments in these proceedings or the outcome of these discussions.

The Public Prosecutor's office of Rome, Italy, notified our Italian subsidiary, Philip Morris Italia S.r.l. ("PM Italia"), as well as three former or current employees and a former external consultant of PM Italia in July 2020 and March 2020, respectively, that it concluded a preliminary investigation against them for alleged contravention of anti-corruption laws and related disruption of trade freedom. The Public Prosecutor alleges that the individuals involved promised certain personal favors to government officials from January to July of 2018 in exchange for favorable treatment for PM Italia, and that PM Italia lacked appropriate organizational controls to prevent the alleged actions by the individuals. In September 2020, the Public Prosecutor referred the matter to trial. On May 11, 2021, a preliminary hearing judge referred all charges to trial set to begin September 22, 2021. PM Italia believes the charges brought against it by the Public Prosecutor are without merit and will defend them vigorously.

Asset Impairment and Exit Costs

We discuss asset impairment and exit costs in Note 16. *Asset Impairment and Exit Costs* to our condensed consolidated financial statements.

Acquisitions and Other Business Arrangements

We discuss our acquisitions in Note 17. *Acquisitions* to our condensed consolidated financial statements.

Vectura

On July 9, 2021, PMI announced that it agreed with the board of Vectura Group plc ("Vectura") on the terms of an all-cash, recommended offer to acquire Vectura, a U.K.-based company, for an enterprise value of GBP 852 million (approximately \$1.2 billion, at the then-prevailing exchange rate). Under the terms of the acquisition, Vectura shareholders would be entitled to receive 150 pence per share, a 46% premium to the ex-dividend closing price per Vectura share of 103 pence on May 25, 2021.

Vectura is a provider of innovative inhaled drug delivery solutions that enable partners to bring their medicines to patients. The company has thirteen key inhaled and eleven non-inhaled products marketed by major global pharmaceutical partners, as well as a diverse portfolio of partnerships for drugs in clinical development. Upon the completion of the acquisition, Vectura will become a wholly owned subsidiary of PMI. PMI will fund the transaction with existing cash and expects it to close in the second half of 2021, subject to a shareholder vote and approval by the appropriate regulatory authorities. PMI expects the impact of the acquisition on its full-year 2021 results of operations to be immaterial.

Fertin Pharma

On July 1, 2021, PMI announced that it entered into an agreement to acquire Fertin Pharma A/S ("Fertin Pharma"), a leading developer and manufacturer of innovative pharmaceutical and well-being products based on oral and intra-oral delivery systems, for an enterprise value of DKK 5.1 billion (approximately \$820 million, at the then-prevailing exchange rate).

Fertin Pharma, a Danish based company, is privately held with more than 850 employees and operations in Denmark, Canada, and India. Fertin Pharma is currently owned by the global investment organization EQT and Bagger-Sørensen & Co. Upon the completion of the acquisition, Fertin Pharma will become a wholly owned subsidiary of PMI. PMI will fund the transaction with existing cash and expects it to close in the fourth quarter of 2021, subject to approval by the appropriate regulatory authorities. PMI expects the impact of the acquisition on its full-year 2021 results of operations to be immaterial.

KT&G

In January 2020, PMI announced a global collaboration agreement with the leading tobacco and nicotine company in South Korea, KT&G, to commercialize KT&G's smoke-free products outside of the country. The agreement will run for an initial period of three years. The two companies plan for global collaboration with the intention to actively expand to cover many markets, based on commercial success. The agreement allows PMI to distribute current KT&G smoke-free products, and their evolutions, on an exclusive basis, and does not restrict PMI from distributing its own or third-party products. KT&G's smoke-free product brand portfolio includes heat-not-burn tobacco products (e.g., *LIL Mini* and *LIL Plus*), hybrid technologies that combine heat-not-burn tobacco and e-vapor technologies (e.g., *LIL HYBRID*), and e-vapor products (e.g., *LIL Vapor*). PMI will be responsible for the commercialization of smoke-free products supplied under the agreement.

Products sold under the agreement are subject to careful assessment to ensure they meet the regulatory requirements in the markets where they are launched, as well as our standards of quality and scientific substantiation to confirm the absence of combustion and significant reductions of emissions of harmful chemicals compared to cigarettes. PMI and KT&G will seek any necessary regulatory approvals that may be required on a market-by-market basis. There are no current plans to commercialize KT&G products in the United States.

In the third quarter of 2020, we launched commercial initiatives for licensed KT&G products in select markets.

Equity Investments

We discuss our equity investments in Note 12. *Related Parties - Equity Investments and Other* to our condensed consolidated financial statements.

Trade Policy

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

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

From time to time, a subsidiary sells products to distributors that, in turn, sell those products to duty free customers that supply U.N. peacekeeping forces around the world, including those in the U.N. peacekeeping mission located in Abyei, a special administrative territory in Sudan. We do not believe that these sales, which are not subject to Trade Sanctions, and are *de minimis* in volume and value, present a material risk to our shareholders, our reputation or the value of our shares. We have no employees, operations or assets in Sudan.

We do not sell products in Iran, North Korea and Syria. From time to time, we explore opportunities to sell our products in one or more of these countries, as permitted by law.

We sell cigarettes in Cuba under a distribution agreement. These sales are permitted by U.S. law under a License Exception for Agricultural Commodities, issued by the United States Department of Commerce (Bureau of Industry and Security), granted to our distributor.

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

PMI is also subject to various Trade Sanctions imposed by the EU and other jurisdictions ("Trade Sanctions"). We comply fully with these Trade Sanctions.

The EU imposed new sanctions regarding the Republic of Belarus ("Belarus") on June 21, 2021, including the designation of additional EU sanctions targets (individuals and legal entities) in Belarus. On June 24, 2021, the EU council introduced new sectoral economic sanctions aimed at specific sectors of the Belarus economy, including restrictions of trade in goods used for the production or manufacturing of tobacco products. Subsequent to the EU's sanctions concerning Belarus, six non-EU countries (Norway, Iceland, Liechtenstein, North Macedonia, Montenegro, and Albania) also announced that they have "aligned themselves" with the EU individual sanctions of June 21 with immediate effect. On July 6, 2021, Switzerland amended its ordinance to expand its sanctions against Belarusian individuals and legal entities starting from July 7, 2021, in a scope similar to the EU individual sanctions of June 21, 2021.

PMI complies with all applicable laws and regulations, including sanctions, in the markets where it operates. We have taken appropriate actions in response to the latest sanctions to ensure full compliance with the relevant restrictions.

Operating Results – Three Months and Six Months Ended June 30, 2021

The following discussion compares operating results within each of our operating segments for the three months and six months ended June 30, 2021, with the three months and six months ended June 30, 2020.

Unless otherwise stated, references to total industry, total market, our shipment volume and our market share performance reflect cigarettes and heated tobacco units. Estimates for total industry volume and market share in certain geographies reflect limitations on the availability and accuracy of industry data.

European Union:

Financial Summary - Quarters Ended June 30, (in millions)	2021	2020	Change Fav./(Unfav.)		Variance Fav./(Unfav.)				
			Total	Excl. Curr.	Total	Cur- rency	Price	Vol/ Mix	Cost/ Other
Net Revenues	\$ 3,149	\$ 2,475	27.2 %	15.6 %	\$ 674	\$ 288	\$ 35	\$ 351	\$ —
Operating Income	\$ 1,641	\$ 1,178	39.3 %	24.2 %	\$ 463	\$ 178	\$ 35	\$ 304	\$ (54)

For the three months ended June 30, 2021, net revenues, excluding favorable currency, increased by 15.6%, reflecting: favorable volume/mix, mainly driven by higher heated tobacco unit volume (notably in Italy and Poland), partly offset by unfavorable cigarette volume/mix (notably unfavorable volume/mix in Germany, partly offset by higher volume in Italy and Spain); and a favorable pricing variance (driven by higher combustible pricing, particularly in Germany).

Operating income, excluding favorable currency, increased by 24.2%, primarily reflecting: favorable volume/mix, driven by the same factors as for net revenues noted above; lower manufacturing costs (driven mainly by combustible products); and a favorable pricing variance; partly offset by higher marketing, administration and research costs.

Financial Summary - Six Months Ended June 30, (in millions)	2021	2020	Change Fav./(Unfav.)		Variance Fav./(Unfav.)				
			Total	Excl. Curr.	Total	Cur- rency	Price	Vol/ Mix	Cost/ Other
Net Revenues	\$ 6,058	\$ 5,010	20.9 %	10.5 %	\$ 1,048	\$ 523	\$ 72	\$ 453	\$ —
Operating Income	\$ 3,131	\$ 2,336	34.0 %	19.7 %	\$ 795	\$ 334	\$ 72	\$ 405	\$ (16)

For the six months ended June 30, 2021, net revenues, excluding favorable currency, increased by 10.5%, reflecting: favorable volume/mix, mainly driven by higher heated tobacco unit volume (notably in Germany, Italy and Poland), partly offset by lower cigarette volume (notably in the Czech Republic, France and Germany) and unfavorable cigarette mix (particularly in Germany); and a favorable pricing variance (driven by higher combustible pricing, primarily in Germany, partly offset by Poland).

Operating income, excluding favorable currency, increased by 19.7%, primarily reflecting: favorable volume/mix, driven by the same factors as for net revenues noted above; lower manufacturing costs (driven by combustible and reduced-risk products); and a favorable pricing variance; partly offset by higher marketing, administration and research costs.

European Union - Total Market, PMI Shipment Volume and Market Share Commentaries

Total market and market share performance are shown in the table below:

European Union Key Data	Second-Quarter			Six Months Year-to-Date		
	2021	2020	Change % / pp	2021	2020	Change % / pp
Total Market (billion units)	121.6	116.1	4.8 %	228.1	225.5	1.1 %
PMI Market Share						
<i>Marlboro</i>	16.7 %	17.7 %	(1.0)	16.8 %	17.7 %	(0.9)
<i>L&M</i>	5.7 %	6.5 %	(0.8)	5.7 %	6.5 %	(0.8)
<i>Chesterfield</i>	5.4 %	5.5 %	(0.1)	5.4 %	5.6 %	(0.2)
<i>Philip Morris</i>	2.2 %	2.6 %	(0.4)	2.2 %	2.6 %	(0.4)
<i>HEETS</i>	5.5 %	3.9 %	1.6	5.6 %	3.9 %	1.7
Others	3.1 %	3.0 %	0.1	3.2 %	3.0 %	0.2
Total European Union	38.6 %	39.2 %	(0.6)	38.9 %	39.3 %	(0.4)

Note: *HEETS* includes *HEETS Dimensions*.

In the second quarter, the estimated total market in the EU increased by 4.8% to 121.6 billion units, mainly driven by:

- Denmark, up by +100%. Excluding the net favorable impact of estimated trade inventory movements, the total estimated market was down by 16.9%, primarily reflecting the impact of excise tax-driven price increases;
- Italy, up by 9.3%, mainly reflecting the impact on adult smoker average daily consumption of the easing of pandemic-related measures;
- Poland, up by 17.6%, primarily reflecting the impact on adult smoker average daily consumption and border sales of the easing of pandemic-related measures, as well as a lower prevalence of illicit trade; and
- Spain, up by 8.9%, or by 5.2% excluding the net favorable impact of estimated trade inventory movements, mainly reflecting the impact on in-bound tourism and border sales of the easing of pandemic-related measures;

partly offset by

- Germany, down by 7.2%, or by 1.9% excluding the net unfavorable impact of estimated trade inventory movements, primarily due to the impact of price increases.

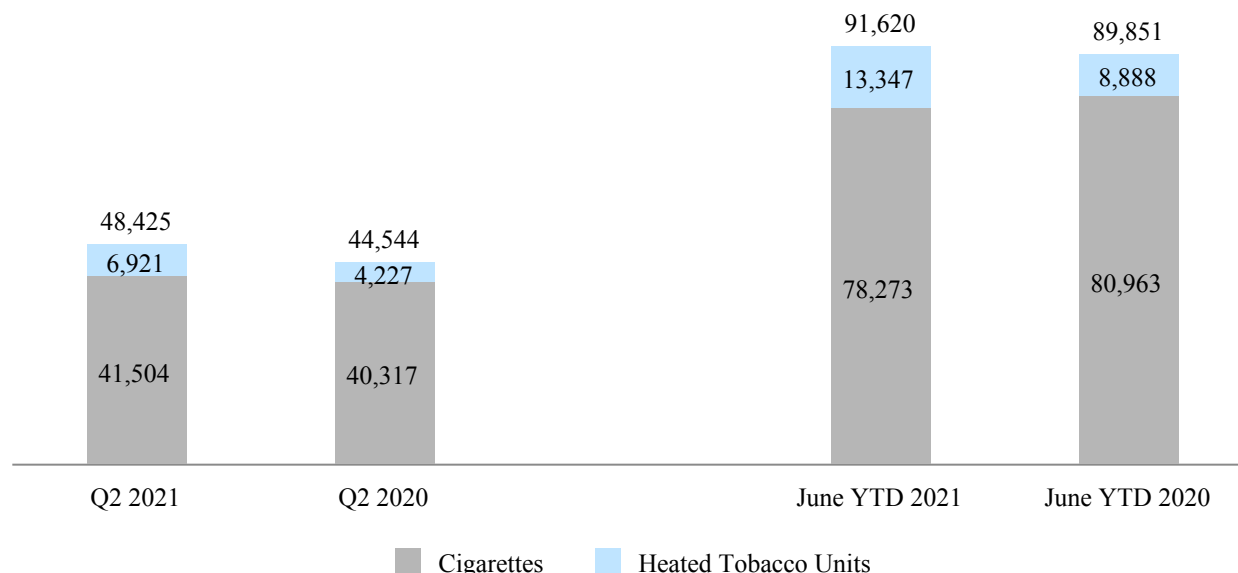
For the six months year-to-date, the estimated total market in the EU increased by 1.1% to 228.1 billion units, primarily driven by:

- Italy, up by 5.4%, mainly reflecting the same factor as in the quarter; and
- Poland, up by 8.3%, primarily reflecting the same factors as in the quarter;

partly offset by

- Czech Republic, down by 10.8%, mainly reflecting the impact, in the first quarter of 2021, of lower border sales due to pandemic-related lockdown measures; and
- France, down by 5.1%, primarily reflecting the impact of excise tax-driven price increases and higher cross-border (non-domestic) purchases due to the easing of pandemic-related measures.

EU Shipment Volume (million units)



In the second quarter, our total shipment volume increased by 8.7% to 48.4 billion units, primarily driven by:

- Italy, up by 25.8%, or by 11.4% excluding the net favorable impact of estimated distributor inventory movements, mainly reflecting the higher total market and a higher market share driven by heated tobacco units; and
- Spain, up by 51.5%, or by 8.3% excluding the net favorable impact of estimated distributor inventory movements, mainly reflecting the higher total market;

partly offset by

- Germany, down by 7.4%, mainly reflecting the lower total market.

Excluding the net favorable impact of estimated distributor inventory movements, our total in-market sales volume increased by 3.2%.

For the six months year-to-date, our total shipment volume increased by 2.0% to 91.6 billion units, primarily driven by:

- Italy, up by 14.4%, or by 7.3% excluding the net favorable impact of estimated distributor inventory movements, mainly reflecting the same factors as in the quarter; and
- Spain, up by 7.0%, or by 0.5% excluding the net favorable impact of estimated distributor inventory movements, primarily reflecting the same factor as in the quarter;

partly offset by

- Czech Republic, down by 13.8%, mainly reflecting the lower total market and a lower market share (due to cigarettes, partly offset by heated tobacco units); and
- France, down by 7.1%, mainly reflecting the lower total market and a lower market share of cigarettes.

Excluding the net favorable impact of estimated distributor inventory movements, our total in-market sales volume increased by 0.2%.

Eastern Europe:

Financial Summary - Quarters Ended June 30,			Change Fav./(Unfav.)		Variance Fav./(Unfav.)				
(in millions)	2021	2020	Total	Excl. Curr.	Total	Cur- rency	Price	Vol/ Mix	Cost/ Other
Net Revenues	\$ 895	\$ 783	14.3 %	12.5 %	\$ 112	\$ 14	\$ 22	\$ 76	\$ —
Operating Income	\$ 314	\$ 266	18.0 %	32.7 %	\$ 48	\$ (39)	\$ 22	\$ 56	\$ 9

For the three months ended June 30, 2021, net revenues, excluding favorable currency, increased by 12.5%, reflecting: favorable volume/mix, driven by higher heated tobacco unit volume (primarily in Russia and Ukraine), partly offset by unfavorable cigarette volume/mix (primarily in Russia); and a favorable pricing variance, mainly driven by higher combustible pricing (primarily in Kazakhstan, Russia and Ukraine).

Operating income, excluding unfavorable currency, increased by 32.7%, primarily reflecting: favorable volume/mix, driven by the same factors as for net revenues noted above; a favorable pricing variance; and lower manufacturing costs (primarily related to reduced-risk products, mainly in Russia).

Financial Summary - Six Months Ended June 30,			Change Fav./(Unfav.)		Variance Fav./(Unfav.)				
(in millions)	2021	2020	Total	Excl. Curr.	Total	Cur- rency	Price	Vol/ Mix	Cost/ Other
Net Revenues	\$ 1,691	\$ 1,571	7.6 %	11.5 %	\$ 120	\$ (61)	\$ 46	\$ 135	\$ —
Operating Income	\$ 575	\$ 365	57.5 %	66.3 %	\$ 210	\$ (32)	\$ 46	\$ 113	\$ 83

For the six months ended June 30, 2021, net revenues, excluding unfavorable currency, increased by 11.5%, reflecting: favorable volume/mix, driven by higher heated tobacco unit volume (mainly in Russia and Ukraine), partly offset by unfavorable cigarette volume (primarily in Russia and Ukraine); and a favorable pricing variance, mainly driven by higher combustible pricing (primarily in Kazakhstan, Russia and Ukraine).

Operating income, excluding unfavorable currency, increased by 66.3%, primarily reflecting: favorable volume/mix, driven by the same factors as for net revenues noted above; lower manufacturing costs (mainly related to reduced-risk products, primarily in Russia); a favorable pricing variance and lower marketing, administration and research costs.

Eastern Europe - Total Market, PMI Shipment Volume and Market Share Commentaries

In the second quarter, the estimated total market in Eastern Europe decreased, mainly due to:

- Russia, down by 2.7%, primarily reflecting the impact of excise tax-driven price increases, partly offset by the impact on adult smoker average daily consumption of the easing of pandemic-related measures; and
- Ukraine, down by 3.7%, mainly reflecting the impact of excise tax-driven price increases and a higher prevalence of illicit trade, partly offset by the impact on adult smoker average daily consumption of the easing of pandemic-related measures.

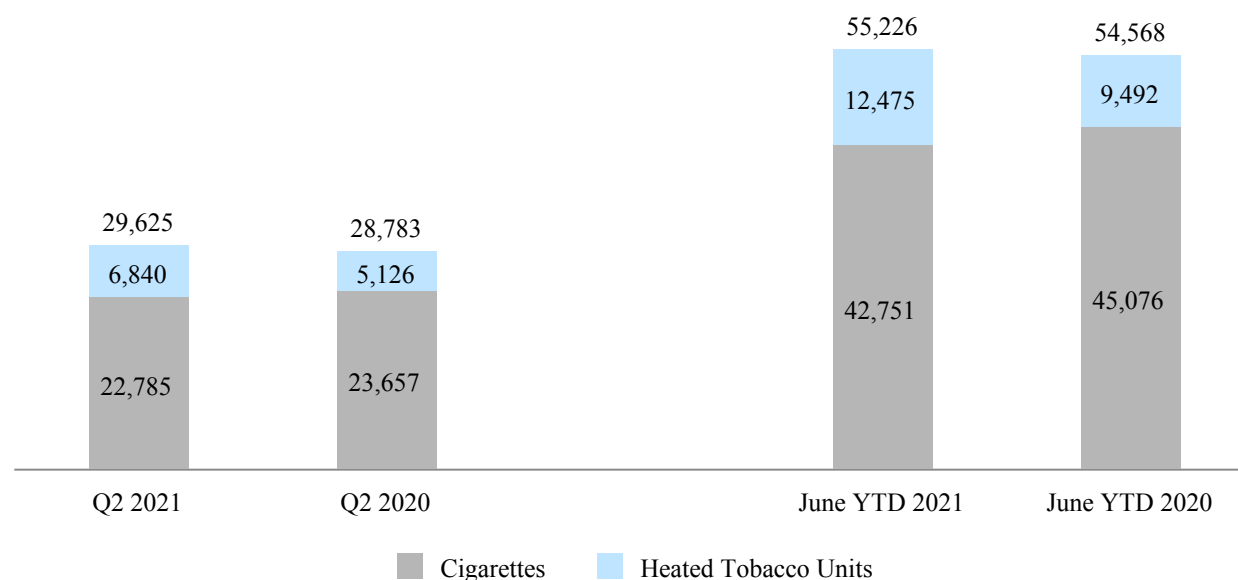
For the six months year-to-date, the estimated total market in Eastern Europe decreased, notably due to:

- Ukraine, down by 9.5%, mainly reflecting the same factors as in the quarter;

partly offset by

- Russia, up by 0.6%. Excluding the net favorable impact of estimated trade inventory movements, the total estimated market was down by 1.0%, primarily reflecting: the impact of excise tax-driven price increases, partly offset by the impact on adult smoker average daily consumption of the easing of pandemic-related measures, as well as a lower estimated prevalence of illicit trade.

EE Shipment Volume (million units)



In the second quarter, our total shipment volume increased by 2.9% to 29.6 billion units, notably driven by:

- Ukraine, up by 8.8%, or by 5.0% excluding the net favorable impact of estimated distributor inventory movements, mainly reflecting a higher market share driven by heated tobacco units, partially offset by the lower total market;

partly offset by

- Russia, down by 1.7%. Excluding the net favorable impact of estimated distributor inventory movements (primarily due to cigarettes), our in-market sales decreased by 6.0%, mainly reflecting a lower market share due to cigarettes and the lower total market.

Excluding the net favorable impact of estimated distributor inventory movements, our total in-market sales volume decreased by 0.8%.

For the six months year-to-date, our total shipment volume increased by 1.2% to 55.2 billion units, mainly driven by:

- Russia, up by 1.0%. Excluding the net favorable impact of estimated distributor inventory movements, our total in-market sales volume was down by 3.1%, primarily reflecting a lower market share due to cigarettes.

Excluding the net favorable impact of estimated distributor inventory movements, our total in-market sales volume decreased by 1.2%.

Middle East & Africa:

<u>Financial Summary -</u> <u>Quarters Ended June 30,</u>			<u>Change</u> <u>Fav./ (Unfav.)</u>		<u>Variance</u> <u>Fav./ (Unfav.)</u>				
<u>(in millions)</u>	<u>2021</u>	<u>2020</u>	<u>Total</u>	<u>Excl.</u> <u>Curr.</u>	<u>Total</u>	<u>Cur-</u> <u>rency</u>	<u>Price</u>	<u>Vol/</u> <u>Mix</u>	<u>Cost/</u> <u>Other</u>
Net Revenues	\$ 560	\$ 704	(20.5)%	(18.2)%	\$ (144)	\$ (16)	\$ 50	\$ 100	\$ (278)
Operating Income	\$ 16	\$ 237	(93.2)%	(79.7)%	\$ (221)	\$ (32)	\$ 50	\$ 65	\$ (304)

For the three months ended June 30, 2021, net revenues decreased by 20.5%, predominantly due to the unfavorable impact of the Saudi Arabia customs assessments of \$246 million, shown in "Cost/Other". Excluding the unfavorable impact of the Saudi Arabia customs assessments and unfavorable currency, net revenues increased by 16.8%, primarily reflecting: favorable

volume/mix, mainly driven by higher cigarette volume (primarily in PMI Duty Free, South Africa and Turkey, partly offset by the GCC), as well as higher heated tobacco unit volume (mainly in PMI Duty Free); and a favorable pricing variance (driven by combustible pricing, mainly in Turkey); partly offset by lower fees for certain distribution rights billed to customers in certain markets, shown in "Cost/Other".

Operating income decreased by 93.2%, predominantly due to the unfavorable impact of the Saudi Arabia customs assessments, as noted above for net revenues. Excluding the unfavorable impact of the Saudi Arabia customs assessments and unfavorable currency, operating income increased by 22.8%, mainly reflecting: favorable volume/mix, due to the same factors as for net revenues noted above; and a favorable pricing variance; partly offset by higher marketing, administration and research costs; and lower fees for certain distribution rights, as noted above for net revenues.

Financial Summary - Six Months Ended June 30,			Change Fav./Unfav.)		Variance Fav./Unfav.)				
(in millions)	2021	2020	Total	Excl. Curr.	Total	Currency	Price	Vol/ Mix	Cost/ Other
Net Revenues	\$ 1,361	\$ 1,580	(13.9)%	(11.4)%	\$ (219)	\$ (39)	\$ 127	\$ (59)	\$ (248)
Operating Income	\$ 351	\$ 558	(37.1)%	(29.0)%	\$ (207)	\$ (45)	\$ 127	\$ (65)	\$ (224)

For the six months ended June 30, 2021, net revenues decreased by 13.9%, predominantly due to the unfavorable impact of the Saudi Arabia customs assessments of \$246 million, shown in "Cost/Other". Excluding the unfavorable impact of the Saudi Arabia customs assessments and unfavorable currency, net revenues increased by 4.2%, primarily reflecting: a favorable pricing variance, driven by combustible pricing (mainly in Egypt and Turkey); partly offset by unfavorable volume/mix, mainly due to lower cigarette volume (primarily in Kuwait, North Africa and PMI Duty Free, partially offset by South Africa and Turkey), partly offset by favorable cigarette mix (primarily in PMI Duty Free, Saudi Arabia and Turkey).

Operating income decreased by 37.1%, predominantly due to the unfavorable impact of the Saudi Arabia customs assessments, as noted above for net revenues. Excluding the unfavorable impact of the Saudi Arabia customs assessments and unfavorable currency, operating income increased by 15.0%, mainly reflecting: a favorable pricing variance; and lower manufacturing costs; partly offset by unfavorable volume/mix, due to the same factors as for net revenues noted above.

Middle East & Africa - Total Market, PMI Shipment Volume and Market Share Commentaries

In the second quarter, the estimated total market in the Middle East & Africa increased, mainly driven by:

- Egypt, up by 43.9%, or by 35.6% excluding the net favorable impact of estimated trade inventory movements, primarily reflecting: a favorable comparison due to pandemic-related supply-chain shortages involving competitors' products in the second quarter of 2020 and in-switching to cigarettes from other combustible tobacco products;
- International Duty Free, up by 54.1%, reflecting the impact of reduced government travel restrictions and increased passenger traffic in certain geographies;
- South Africa, reflecting a favorable comparison versus the second quarter of 2020, in which the total market was fully impacted by the pandemic-related ban on all tobacco sales from March 27, 2020, through August 17, 2020; and
- Turkey, up by 7.7%, mainly reflecting the impact on adult smoker average daily consumption of the easing of pandemic-related measures.

For the six months year-to-date, the estimated total market in the Middle East & Africa increased, mainly driven by:

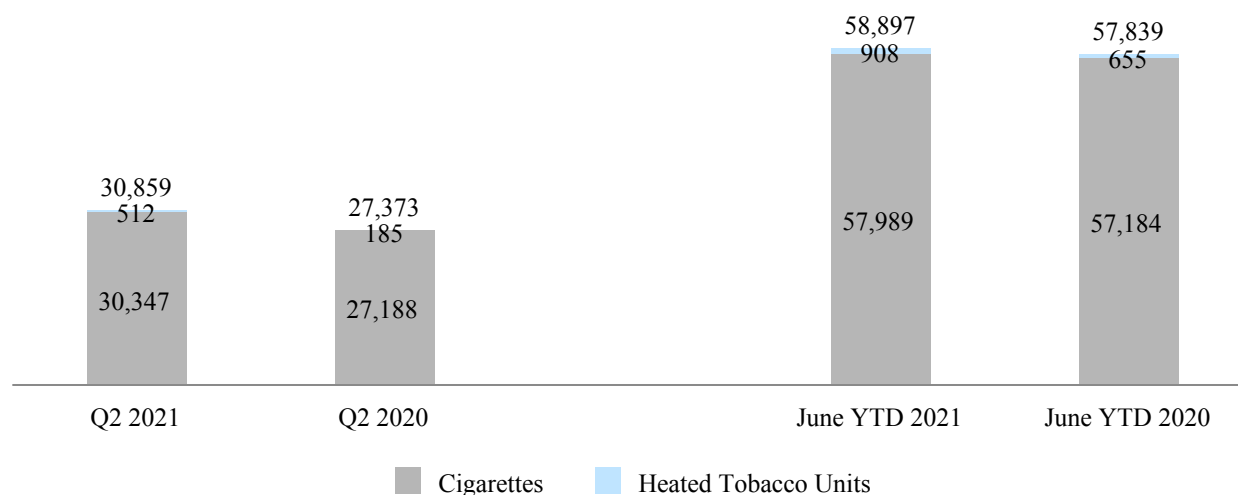
- Egypt, up by 22.9%, or by 17.8% excluding the net favorable impact of estimated trade inventory movements, primarily reflecting the same factors as in the quarter;
- South Africa, up by 45.6%, primarily reflecting a favorable comparison versus the second quarter of 2020, in which the total market was fully impacted by the pandemic-related ban on all tobacco sales from March 27, 2020, through August 17, 2020, partly offset by a higher estimated prevalence of illicit trade stemming from the aforementioned ban; and

- Turkey, up by 2.8%, mainly reflecting the impact on adult smoker average daily consumption of the easing of pandemic-related measures, as well as a lower estimated prevalence of illicit trade related to cut tobacco (particularly in the first quarter of 2021);

partly offset by

- International Duty Free, down by 31.7%, primarily reflecting the impact of government travel restrictions and reduced passenger traffic since the start of the pandemic in March 2020.

ME&A Shipment Volume (million units)



In the second quarter, our total shipment volume increased by 12.7% to 30.9 billion units, notably driven by:

- Egypt, up by 13.3%, primarily reflecting the higher total market, partly offset by a lower market share (due to an unfavorable comparison following pandemic-related supply-chain shortages involving competitors' products during the second quarter of 2020);
- PMI Duty Free, up by +100%, or by 89.3% excluding the net favorable impact of estimated distributor inventory movements, mainly reflecting the higher total market and a higher market share; and
- Turkey, up by 16.1%, primarily reflecting a higher market share, driven by the growth of *Marlboro* and *Parliament*, as well as the higher total market;

partly offset by

- Saudi Arabia, down by 27.1%, or by 5.7% excluding the net unfavorable impact of estimated distributor inventory movements, mainly reflecting a lower total market, partly offset by a higher market share of cigarettes (driven by *Parliament*) and heated tobacco units.

For the six months year-to-date, our total shipment volume increased by 1.8% to 58.9 billion units, notably driven by:

- Turkey, up by 12.2%, mainly reflecting a higher market share (driven by *Marlboro* and *Parliament*) and the higher total market;

partly offset by

- PMI Duty Free, down by 30.3%, or by 23.9% excluding the net unfavorable impact of estimated distributor inventory movements (principally due to cigarettes), mainly reflecting the lower total market, partly offset by a higher market share.

South & Southeast Asia:

Financial Summary - Quarters Ended June 30,			Change Fav./(Unfav.)		Variance Fav./(Unfav.)				
(in millions)	2021	2020	Total	Excl. Curr.	Total	Cur- rency	Price	Vol/ Mix	Cost/ Other
Net Revenues	\$ 1,046	\$ 889	17.7 %	10.0 %	\$ 157	\$ 68	\$ 20	\$ 69	\$ —
Operating Income	\$ 331	\$ 289	14.5 %	8.0 %	\$ 42	\$ 19	\$ 20	\$ 33	\$ (30)

For the three months ended June 30, 2021, net revenues, excluding favorable currency, increased by 10.0%, reflecting: favorable volume/mix, due to higher cigarette volume (primarily in Indonesia, partly offset by the Philippines); and a favorable pricing variance (driven by combustible pricing mainly in the Philippines, partly offset by Indonesia).

Operating income, excluding favorable currency, increased by 8.0%, primarily reflecting: favorable volume/mix, due to the same factors as for net revenues noted above; and a favorable pricing variance; partly offset by higher marketing, administration and research costs (mainly related to combustible products in Indonesia and the Philippines).

Financial Summary - Six Months Ended June 30,			Change Fav./(Unfav.)		Variance Fav./(Unfav.)				
(in millions)	2021	2020	Total	Excl. Curr.	Total	Cur- rency	Price	Vol/ Mix	Cost/ Other
Net Revenues	\$ 2,219	\$ 2,140	3.7 %	(0.8)%	\$ 79	\$ 96	\$ (18)	\$ 1	\$ —
Operating Income	\$ 860	\$ 888	(3.2)%	(6.8)%	\$ (28)	\$ 32	\$ (18)	\$ (39)	\$ (3)

For the six months ended June 30, 2021, net revenues, excluding favorable currency, decreased by 0.8%, reflecting: an unfavorable pricing variance, due to Indonesia, partially offset by the Philippines. Volume/mix was essentially stable, notably reflecting favorable cigarette mix (primarily in Indonesia and the Philippines), partly offset by lower cigarette volume (mainly in the Philippines, partially offset by Indonesia).

Operating income, excluding favorable currency, decreased by 6.8%, primarily reflecting: unfavorable volume/mix, due mainly to lower cigarette volume (primarily in the Philippines, partially offset by Indonesia), partly offset by favorable cigarette mix (mainly in Indonesia and the Philippines); and an unfavorable pricing variance.

South & Southeast Asia - Total Market, PMI Shipment Volume and Market Share Commentaries

In the second quarter, the estimated total market in South & Southeast Asia increased, notably driven by:

- Bangladesh, up by 30.9%, primarily reflecting a favorable comparison versus the second quarter of 2020, during which pandemic-related restrictions impacted tobacco product availability;
- India, up by 35.7%, mainly reflecting a favorable comparison versus the second quarter of 2020, during which pandemic-related restrictions impacted the movement of certain products, including tobacco; and
- Indonesia, up by 12.4%, mainly reflecting the growth of the tax-advantaged 'below tier one' segment and the impact on adult smoker average daily consumption of the easing of pandemic-related measures.

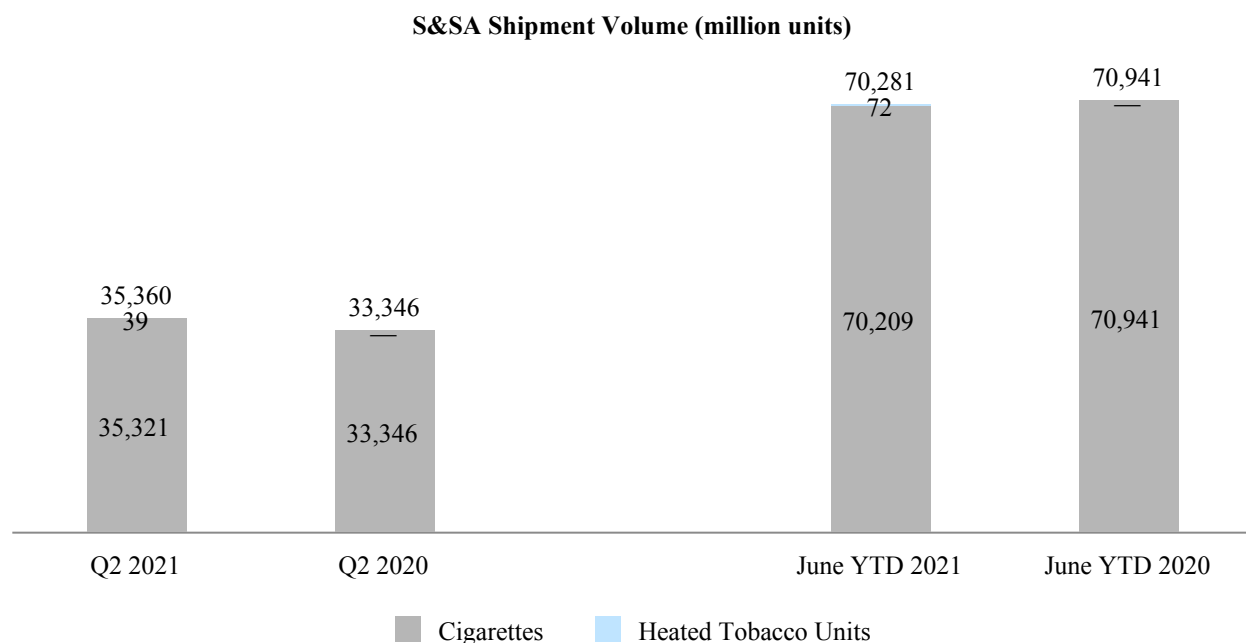
For the six months year-to-date, the estimated total market in South & Southeast Asia increased, mainly driven by:

- Bangladesh, up by 13.2%, primarily reflecting the same factor as in the quarter;
- India, up by 16.7%, mainly reflecting the same factor as in the quarter;
- Indonesia, up by 8.7%, primarily reflecting the same factors as in the quarter;
- Pakistan, up by 14.6%, or by 9.3% excluding the net favorable impact of estimated trade inventory movements, notably reflecting a lower prevalence of illicit trade (partly due to pandemic-related supply disruptions for illicit products); and

- Vietnam, up by 7.4%, mainly reflecting a lower prevalence of illicit trade due to pandemic-related supply disruptions for illicit products;

partly offset by:

- the Philippines, down by 9.0%, primarily reflecting the impact of industry-wide price increases in the fourth quarter of 2020.



In the second quarter, our total shipment volume increased by 6.0% to 35.4 billion units, notably driven by:

- Indonesia, up by 11.5%, primarily reflecting the higher total market, partly offset by a lower market share (mainly due to adult smoker down-trading to the 'below tier one' segment as a result of significantly lower retail prices, partly offset by share growth for our premium and hand-rolled kretek portfolio); and
- Thailand, up by 28.0%, or by 12.6% excluding the net favorable impact of estimated distributor inventory movements, primarily due to a higher total market and a higher market share (driven by *L&M 7.1*);

partly offset by

- the Philippines, down by 12.0%, mainly reflecting a lower market share (primarily due to mid-price *Fortune*, reflecting the impact of price increases in the fourth quarter of 2020, partly offset by *Marlboro*), as well as a lower total market.

For the six months year-to-date, our total shipment volume decreased by 0.9% to 70.3 billion units, notably due to:

- the Philippines, down by 18.3%, mainly reflecting the same factors as in the quarter;

partly offset by:

- Indonesia, up by 3.9%, primarily reflecting the same factors as in the quarter;
- Pakistan, up by 12.8%, mainly reflecting the higher total market; and
- Thailand, up by 9.1%, primarily reflecting the same factors as in the quarter.

East Asia & Australia:

<u>Financial Summary -</u> <u>Quarters Ended June 30,</u>			<u>Change</u> <u>Fav./ (Unfav.)</u>		<u>Variance</u> <u>Fav./ (Unfav.)</u>				
<u>(in millions)</u>	<u>2021</u>	<u>2020</u>	<u>Total</u>	<u>Excl.</u> <u>Curr.</u>	<u>Total</u>	<u>Cur-</u> <u>rency</u>	<u>Price</u>	<u>Vol/</u> <u>Mix</u>	<u>Cost/</u> <u>Other</u>
Net Revenues	\$ 1,514	\$ 1,432	5.7 %	3.1 %	\$ 82	\$ 37	\$ 88	\$ (43)	\$ —
Operating Income	\$ 715	\$ 669	6.9 %	7.0 %	\$ 46	\$ (1)	\$ 88	\$ (40)	\$ (1)

For the three months ended June 30, 2021, net revenues, excluding favorable currency, increased by 3.1%, reflecting: a favorable pricing variance, primarily driven by higher heated tobacco and combustible pricing in Japan; and unfavorable volume/mix, mainly due to lower cigarette volume (primarily in Japan), partly offset by higher heated tobacco unit volume (predominantly in Japan).

Operating income, excluding unfavorable currency, increased by 7.0%, mainly reflecting: a favorable pricing variance; and lower manufacturing costs (primarily related to reduced-risk products in Japan); partly offset by higher marketing, administration and research costs; and unfavorable volume/mix, due to the same factors as for net revenues noted above.

<u>Financial Summary - Six Months Ended June 30,</u>			Change Fav./ (Unfav.)		Variance Fav./ (Unfav.)				
(in millions)	2021	2020	Total	Excl. Curr.	Total	Cur- rency	Price	Vol/ Mix	Cost/ Other
Net Revenues	\$ 2,986	\$ 2,687	11.1 %	7.1 %	\$ 299	\$ 108	\$ 193	\$ (2)	\$ —
Operating Income	\$ 1,410	\$ 1,155	22.1 %	20.6 %	\$ 255	\$ 17	\$ 193	\$ 18	\$ 27

For the six months ended June 30, 2021, net revenues, excluding favorable currency, increased by 7.1%, mainly reflecting: a favorable pricing variance, primarily driven by higher heated tobacco and combustible pricing in Japan. Volume/mix was essentially stable, mainly reflecting: lower cigarette volume (primarily in Japan and South Korea), unfavorable cigarette mix (mainly in Australia and Japan), lower device volume (primarily in Japan) and unfavorable heated tobacco unit mix in Japan, partly offset by higher heated tobacco unit volume in Japan.

Operating income, excluding favorable currency, increased by 20.6%, mainly reflecting: a favorable pricing variance; lower manufacturing costs (primarily related to reduced-risk products in Japan); and favorable volume/mix, driven by higher heated tobacco unit volume in Japan, partly offset by lower cigarette volume (mainly in Japan and South Korea), unfavorable cigarette mix (primarily in Australia and Japan) and unfavorable heated tobacco unit mix in Japan; partially offset by higher marketing, administration and research costs (mainly due to higher asset impairment and exit costs, primarily associated with product distribution restructuring in South Korea).

East Asia & Australia - Total Market, PMI Shipment Volume and Market Share Commentaries

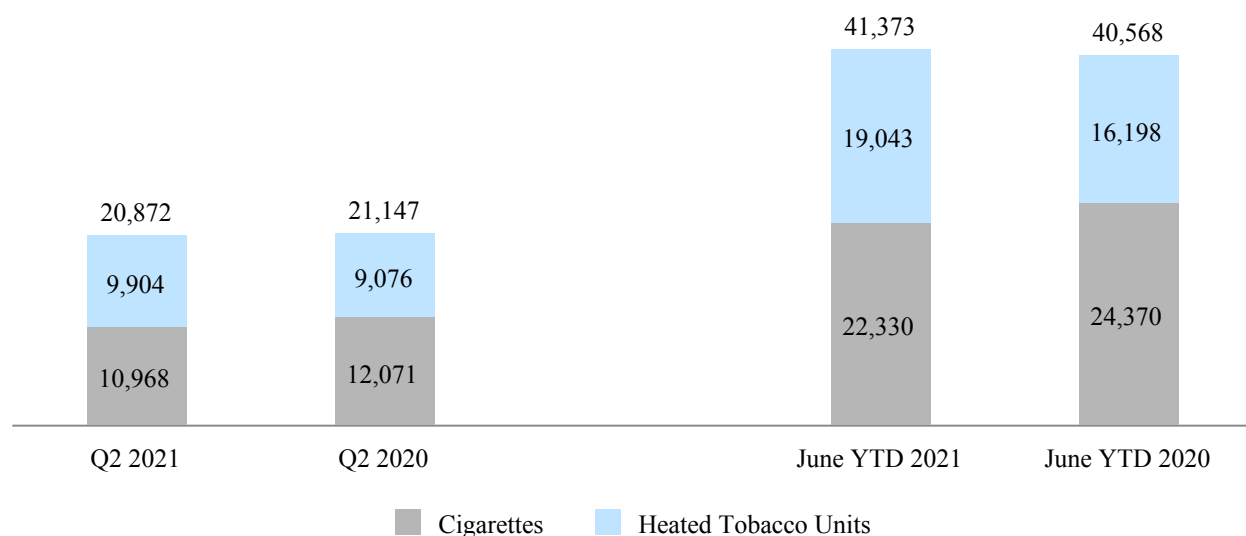
In the second quarter, the estimated total market in East Asia & Australia, excluding China, decreased, primarily due to:

- Australia, down by 7.8%, or by 12.5% excluding the net favorable impact of estimated trade inventory movements, mainly reflecting the impact of the ending of the pandemic-related wage subsidy by the government; and
- South Korea, down by 1.6%, mainly reflecting the structural market trend.

For the six months year-to-date, the estimated total market in East Asia & Australia, excluding China, decreased, mainly due to:

- Japan, down by 4.2%, primarily reflecting the impact of excise tax-driven price increases.

EA&A Shipment Volume (million units)



In the second quarter, our total shipment volume decreased by 1.3% to 20.9 billion units, primarily due to:

- South Korea, down by 5.9%, mainly reflecting a lower market share (primarily due to the unfavorable impact of the growth of the cigarette new taste dimension segment, in which PMI has a relatively low share) and the lower total market.

Excluding the net unfavorable impact of estimated distributor inventory movements, our total in-market sales volume was essentially stable.

For the six months year-to-date, our total shipment volume increased by 2.0% to 41.4 billion units, notably driven by:

- Japan, up by 3.9%, mainly reflecting a higher market share driven by heated tobacco units, partially offset by the lower total market;

partly offset by

- South Korea, down by 5.0%, primarily reflecting a lower market share (due to the same factor as in the quarter).

Excluding the net unfavorable impact of estimated distributor inventory movements, our total in-market sales volume was stable.

Latin America & Canada:

Financial Summary - Quarters Ended June 30,

(in millions)			Change Fav./(Unfav.)		Variance Fav./(Unfav.)				
	2021	2020	Total	Excl. Curr.	Total	Currency	Price	Vol/ Mix	Cost/ Other
Net Revenues	\$ 430	\$ 368	16.8 %	9.0 %	\$ 62	\$ 29	\$ 11	\$ 22	\$ —
Operating Income	\$ 112	\$ 92	21.7 %	19.6 %	\$ 20	\$ 2	\$ 11	\$ 10	\$ (3)

For the three months ended June 30, 2021, net revenues, excluding favorable currency, increased by 9.0%, reflecting: favorable volume/mix, mainly driven by higher cigarette volume (primarily in Mexico); and a favorable pricing variance (driven by combustible products).

Operating income, excluding favorable currency, increased by 19.6%, primarily reflecting: a favorable pricing variance; and favorable volume/mix, due to the same factor as for net revenues noted above.

Financial Summary - Six Months Ended June 30,			Change Fav./Unfav.)		Variance Fav./Unfav.)				
(in millions)	2021	2020	Total	Excl. Curr.	Total	Cur- rency	Price	Vol/ Mix	Cost/ Other
Net Revenues	\$ 864	\$ 816	5.9 %	3.7 %	\$ 48	\$ 18	\$ 12	\$ 16	\$ 2
Operating Income	\$ 246	\$ 218	12.8 %	9.2 %	\$ 28	\$ 8	\$ 12	\$ (6)	\$ 14

For the six months ended June 30, 2021, net revenues, excluding favorable currency, increased by 3.7%, mainly reflecting: favorable volume/mix, primarily driven by higher cigarette volume (mainly in Brazil and Mexico); and a favorable pricing variance, driven by higher combustible pricing (notably in Argentina and Colombia).

Operating income, excluding favorable currency, increased by 9.2%, primarily reflecting: lower marketing, administration and research costs; and a favorable pricing variance.

Latin America & Canada - Total Market, PMI Shipment Volume and Market Share Commentaries

In the second quarter, the estimated total market in Latin America & Canada increased, mainly driven by:

- Argentina, up by 5.1%, or by 12.2% excluding the net unfavorable impact of estimated trade inventory movements, primarily reflecting a lower estimated prevalence of illicit trade and a favorable comparison related to retail out-of-stock in the second quarter of 2020 (due to temporary factory shutdowns related to the pandemic), partly offset by the impact of price increases;
- Brazil, up by 8.8%, mainly reflecting a lower estimated prevalence of illicit trade due to: reduced price gaps with legal products and the impact of border restrictions imposed as a result of the pandemic; and
- Mexico, up by 6.3%, primarily reflecting the impact on adult smoker consumption patterns of the easing of pandemic-related measures;

partly offset by

- Canada, down by 11.8%, notably reflecting the impact of price increases and out-switching from cigarettes to e-vapor products.

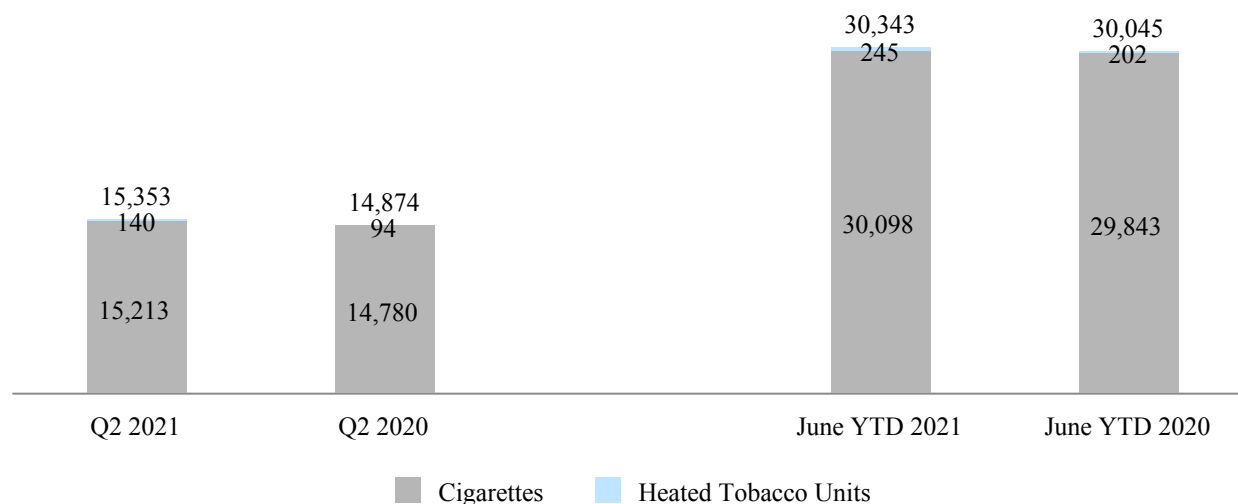
For the six months year-to-date, the estimated total market in Latin America & Canada increased, notably driven by:

- Argentina, up by 11.5%, primarily reflecting the same factors as in the quarter;
- Brazil, up by 8.5%, mainly reflecting the same factors as in the quarter; and
- Mexico, up by 4.2%, primarily reflecting the same factors as in the quarter;

partly offset by

- Canada, down by 5.8%, mainly reflecting the same factors as in the quarter.

LA&C Shipment Volume (million units)



In the second quarter, our total shipment volume increased by 3.2% to 15.4 billion units, mainly driven by:

- Brazil, up by 7.3%, primarily reflecting the higher total market; and
- Mexico, up by 7.9%, mainly reflecting the higher total market and a higher market share (driven by *Marlboro*);

partly offset by

- Argentina, down by 4.8%, mainly reflecting a lower market share (primarily due to adult smoker down-trading to ultra-low-price brands produced by local manufacturers).

For the six months year-to-date, our total shipment volume increased by 1.0% to 30.3 billion units, primarily driven by:

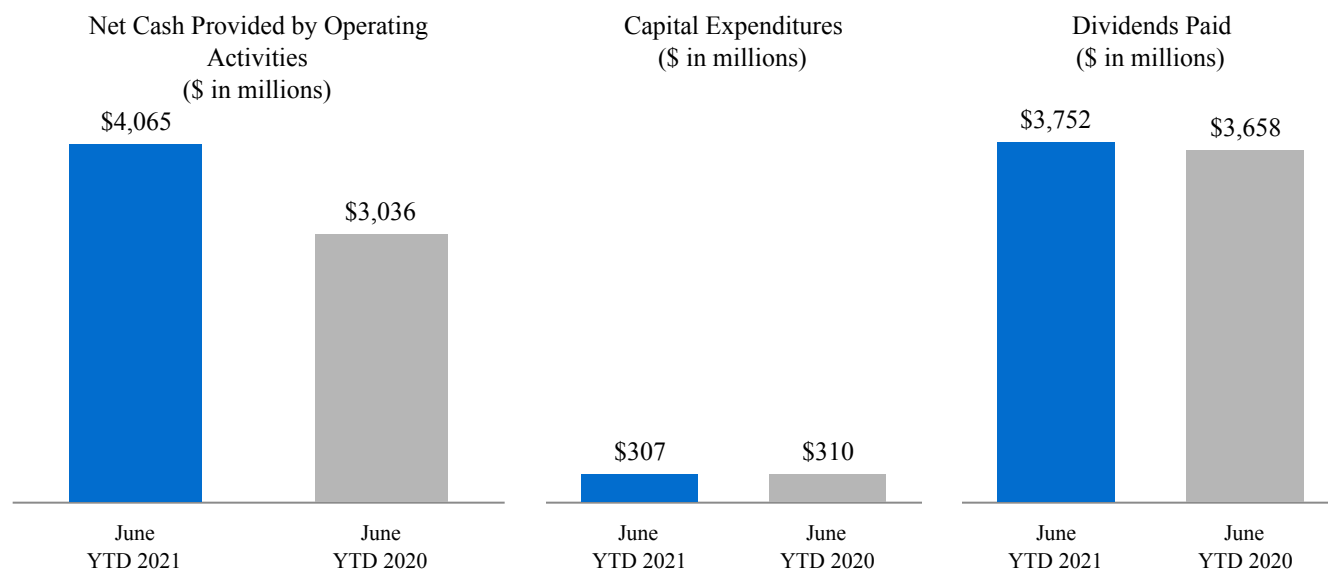
- Brazil, up by 8.5%, mainly reflecting the higher total market; and
- Mexico, up by 3.9%, primarily reflecting the higher total market;

partly offset by

- Argentina, down by 2.4%, mainly reflecting a lower market share (primarily due to the same factor as in the quarter).

Financial Review

Cash Flow Highlights



(in millions)	For the Six Months Ended June 30,	
	2021	2020
Net cash provided by operating activities	\$ 4,065	\$ 3,036
Net cash used in investing activities	(128)	(134)
Net cash used in financing activities	(6,123)	(5,503)

Net Cash Provided by Operating Activities

During the first six months of 2021, net cash provided by operating activities increased by \$1.0 billion compared with the first six months of 2020. Excluding favorable currency movements of \$0.6 billion, net cash provided by operating activities increased by \$0.4 billion, due primarily to higher net earnings, partially offset by higher working capital requirements of \$0.2 billion and higher pension plan contributions.

While the impact of the 2021 Saudi Arabia customs assessments reduced net earnings by \$0.2 billion, there was no net impact on operating cash flows for the six months, as the change in the accrued liability offset the net earnings impact. Excluding this impact, the higher working capital requirements in the first six months of 2021 as compared with the first six months of 2020 were primarily due to the timing of excise tax-paid inventory movements and excise tax payments, as well as lower usage of our factoring arrangements to sell trade receivables, partially offset by more cash provided by inventories primarily due to COVID-19 pandemic related build-up of inventory levels across our supply chain in 2020. For further details on our factoring arrangements to sell trade receivables, see Note 13. *Sale of Accounts Receivable*.

Net Cash Used in Investing Activities

During the first six months of 2021, net cash used in investing activities was essentially flat as compared to the first six months of 2020.

In May 2021, PMI acquired 100% of AG Snus Aktieselskab ("AG Snus"), a Danish based company, and its Swedish subsidiary Tobacco House of Sweden AB fully owned by AG Snus, which operates in the oral tobacco (i.e. Snus) and modern oral (i.e. Nicotine Pouches) product categories. The purchase price was \$27 million in cash, net of cash acquired. For further details, see Note 17. *Acquisitions*.

Capital expenditures during the first six months of 2021 was essentially flat as compared with the first six months of 2020. The 2021 capital expenditures were primarily related to our ongoing investments in RRP's. We expect total capital expenditures in 2021 to be approximately \$0.8 billion.

Net Cash Used in Financing Activities

During the first six months of 2021, net cash used in financing activities increased by \$0.6 billion compared to the first six months of 2020. The change was due to the proceeds we received in 2020 from long-term U.S. dollar debt issuances (\$2.2 billion), partially offset by lower long-term debt repayments of \$1.6 billion (\$2.0 billion in 2021 compared with \$3.6 billion in 2020).

Debt and Liquidity

We define cash and cash equivalents as short-term, highly liquid investments, readily convertible to known amounts of cash that mature within a maximum of three months and have an insignificant risk of change in value due to interest rate or credit risk changes. As a policy, we do not hold any investments in structured or equity-linked products. Our cash and cash equivalents are predominantly held with institutions that have investment-grade long-term credit rating. As part of our cash management strategy and in order to manage counterparty exposure, we also enter into reverse repurchase agreements. Such agreements are collateralized with government or corporate securities held by a custodial bank and, at maturity, cash is paid back to PMI, and the collateral is returned to the bank. For the six months ended June 30, 2021 and the full-year 2020, the activities for such reverse repurchase agreements were not material.

As previously disclosed in the “*Acquisitions and Other Business Arrangements*” section of this MD&A, on July 9, 2021, PMI announced that it agreed with the board of Vectura Group plc (“Vectura”) on the terms of an all-cash, recommended offer to acquire Vectura, a U.K. based company, for an enterprise value of GBP 852 million (approximately \$1.2 billion, at the then-prevailing exchange rate). PMI will fund the transaction with existing cash. In July 2021, in anticipation of this acquisition, PMI deposited \$1.5 billion of existing cash (including a reserve for foreign exchange volatility) to a designated account operated solely for the purpose of funding this transaction. This restricted cash of \$1.5 billion will be included in other current assets in our consolidated balance sheets starting in July 2021 until the closing.

We utilize long-term and short-term debt financing, including a commercial paper program that is regularly used to finance ongoing liquidity requirements, as part of our overall cash management strategy. Our ability to access the capital and credit markets as well as overall dynamics of these markets may impact borrowing costs. We expect that the combination of our long-term and short-term debt financing, the commercial paper program and the committed credit facilities, coupled with our operating cash flows, will enable us to meet our liquidity requirements.

Credit Ratings – The cost and terms of our financing arrangements as well as our access to commercial paper markets may be affected by applicable credit ratings. At June 30, 2021, our credit ratings and outlook by major credit rating agencies were as follows:

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

Credit Facilities – On January 29, 2021, we entered into an agreement to amend and extend the term of our 364-day revolving credit facility from February 2, 2021, to February 1, 2022 in the amount of \$1.75 billion.

At June 30, 2021, our committed credit facilities were as follows:

(in billions)

Type	Committed Credit Facilities
364-day revolving credit, expiring February 1, 2022	\$ 1.75
Multi-year revolving credit, expiring October 1, 2022	3.50
Multi-year revolving credit, expiring February 10, 2025 ^(a)	2.00
Total facilities	\$ 7.25

^(a) On January 29, 2021, we entered into an agreement, effective February 10, 2021, to amend and extend the term of our multi-year revolving credit facility, for an additional year covering the period February 11, 2025 to February 10, 2026, in the amount of \$1.86 billion. Effective July 2, 2021, the total facility amount for this additional year is \$1.95 billion.

At June 30, 2021, there were no borrowings under the committed credit facilities, and the entire committed amounts were available for borrowing.

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

These facilities do not include any credit rating triggers, material adverse change clauses or any provisions that could require us to post collateral. The \$3.5 billion multi-year revolving credit facility in the table above requires us to maintain a ratio of consolidated earnings before interest, taxes, depreciation and amortization (“consolidated EBITDA”) to consolidated interest expense of not less than 3.5 to 1.0 on a rolling four-quarter basis. At June 30, 2021, our ratio calculated in accordance with the agreement was 14.3 to 1.0. We expect to continue to meet our covenants. The terms “consolidated EBITDA” and “consolidated interest expense,” both of which include certain adjustments, are defined in the facility agreement previously filed with the U.S. Securities and Exchange Commission.

In addition to the committed credit facilities discussed above, certain of our subsidiaries maintain short-term credit arrangements to meet their respective working capital needs. These credit arrangements, which amounted to approximately \$2.4 billion at June 30, 2021 and \$2.7 billion at December 31, 2020, are for the sole use of our subsidiaries. Borrowings under these arrangements and other bank loans amounted to \$136 million at June 30, 2021, and \$244 million at December 31, 2020.

Commercial Paper Program – We continue to have access to liquidity in the commercial paper market through programs in place in the U.S. and in Europe having an aggregate issuance capacity of \$8.0 billion. At June 30, 2021 and December 31, 2020, we had no commercial paper outstanding. The average commercial paper balance outstanding during the first six months of 2021 was \$1.1 billion. The average commercial paper balance outstanding during 2020 was \$1.2 billion.

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

Our operating cash flows were positively impacted by the amount of the trade receivables sold and derecognized from the condensed consolidated balance sheets, which remained outstanding with the unaffiliated financial institutions. The trade receivables sold that remained outstanding under these arrangements as of June 30, 2021, and June 30, 2020 were \$0.7 billion and \$0.6 billion, respectively. The net proceeds received are included in cash provided by operating activities in the condensed consolidated statements of cash flows.

For further details, see Note 13. *Sale of Accounts Receivable* to our condensed consolidated financial statements.

Debt – Our total debt was \$29.2 billion at June 30, 2021 and \$31.5 billion at December 31, 2020.

On February 11, 2020, we filed a shelf registration statement with the U.S. Securities and Exchange Commission, under which we may from time to time sell debt securities and/or warrants to purchase debt securities over a three-year period.

Guarantees – At June 30, 2021, we were contingently liable for guarantees of our own performance, of which \$0.3 billion were related to our obligations under indemnity agreements to enable appeals of customs assessments against our distributors. In July 2021, our obligations under those indemnity agreements were reduced to \$0.1 billion. In October 2020, we guaranteed an obligation for an equity method investee. For further details, see Note 8. *Contingencies* to our condensed consolidated financial statements. Additionally, we have other guarantees of our own performance, which are primarily related to excise taxes on the shipment of our products. There is no liability in the condensed consolidated financial statements associated with these guarantees. These guarantees have not had, and are not expected to have, a significant impact on PMI's liquidity.

Equity and Dividends

We discuss our stock awards as of June 30, 2021 in Note 2. *Stock Plans* to our condensed consolidated financial statements.

During 2020 and the first six months of 2021, we did not repurchase any shares under a share repurchase program. On June 11, 2021, our Board of Directors authorized a new share repurchase program of up to \$7 billion, with target spending of \$5 billion to \$7 billion over a three-year period that will commence in the third quarter of 2021.

Dividends paid in the first six months of 2021 were \$3.8 billion. During the third quarter of 2020, our Board of Directors approved a 2.6% increase in the quarterly dividend to \$1.20 per common share. As a result, the present annualized dividend rate is \$4.80 per common share.

Market Risk

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

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

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

See Note 5. *Financial Instruments* to our condensed consolidated financial statements for further details on our derivative financial instruments and the related collateral arrangements.

Contingencies

See Note 8. *Contingencies* to our condensed consolidated financial statements for a discussion of contingencies.

Cautionary Factors That May Affect Future Results

Forward-Looking and Cautionary Statements

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

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

Overall Business Risks

Consumption of tax-paid cigarettes continues to decline in many of our markets.

This decline is due to multiple factors, including increased taxes and pricing, governmental actions, the diminishing social acceptance of smoking and health concerns, continuing economic and geopolitical uncertainty, and the continuing prevalence of illicit products. These factors and their potential consequences are discussed more fully below and in the "Business Environment" section.

Cigarettes are subject to substantial taxes. Significant increases in cigarette-related taxes have been proposed or enacted and are likely to continue to be proposed or enacted in numerous jurisdictions. These tax increases may disproportionately affect our profitability and make us less competitive versus certain of our competitors.

Tax regimes, including excise taxes, sales taxes and import duties, can disproportionately affect the retail price of cigarettes versus other combustible tobacco products, or disproportionately affect the relative retail price of our cigarette brands versus cigarette brands manufactured by certain of our competitors. Because our portfolio is weighted toward the premium-price cigarette category, tax regimes based on sales price can place us at a competitive disadvantage in certain markets. As a result, our volume and profitability may be adversely affected in these markets.

Increases in cigarette taxes are expected to continue to have an adverse impact on our sales of cigarettes, due to resulting lower consumption levels, a shift in sales from manufactured cigarettes to other combustible tobacco products and from the premium-price to the mid-price or low-price cigarette categories, where we may be under-represented, from local sales to legal cross-border purchases of lower price products, or to illicit products such as contraband, counterfeit and "illicit whites."

Our business faces significant governmental action aimed at increasing regulatory requirements with the goal of reducing or preventing the use of tobacco products.

Governmental actions, combined with the diminishing social acceptance of smoking and private actions to restrict smoking, have resulted in reduced industry volumes in many of our markets, and we expect that such factors will continue to reduce consumption levels and will increase down-trading and the risk of counterfeiting, contraband, "illicit whites" and legal cross-border purchases. Significant regulatory developments will continue to take place over the next few years in most of our markets, driven principally by the World Health Organization's Framework Convention on Tobacco Control (the "FCTC"). Since it came into force in 2005, the FCTC has led to increased efforts by tobacco control advocates and public health organizations to promote increasingly restrictive regulatory measures on the marketing and sale of tobacco products to adult smokers. Regulatory initiatives that have been proposed, introduced or enacted include:

- restrictions on or licensing of outlets permitted to sell cigarettes;
- the levying of substantial and increasing tax and duty charges;
- restrictions or bans on advertising, marketing and sponsorship;
- the display of larger health warnings, graphic health warnings and other labeling requirements;

- restrictions on packaging design, including the use of colors, and mandating plain packaging;
- restrictions on packaging and cigarette formats and dimensions;
- restrictions or bans on the display of tobacco product packaging at the point of sale and restrictions or bans on vending machines;
- requirements regarding testing, disclosure and performance standards for tar, nicotine, carbon monoxide and other smoke constituents;
- disclosure, restrictions, or bans of tobacco product ingredients, including bans on the flavors of certain tobacco products;
- increased restrictions on smoking and use of tobacco and nicotine-containing products in public and work places and, in some instances, in private places and outdoors;
- restrictions or prohibitions of novel tobacco or nicotine-containing products;
- elimination of duty free sales and duty free allowances for travelers;
- encouraging litigation against tobacco companies; and
- excluding tobacco companies from transparent public dialogue regarding public health and other policy matters.

Our financial results could be materially affected by regulatory initiatives resulting in a significant decrease in demand for our brands. More specifically, requirements that lead to a commoditization of tobacco products or impede adult consumers' ability to convert to our RRP, as well as any significant increase in the cost of complying with new regulatory requirements could have a material adverse effect on our financial results.

Changes in the earnings mix and changes in tax laws may result in significant variability in our effective tax rates. Our ability to receive payments from foreign subsidiaries or to repatriate royalties and dividends could be restricted by local country currency exchange controls and other regulations.

We are subject to income tax laws in the United States and numerous foreign jurisdictions. The results of the 2020 U.S. presidential and congressional elections could lead to changes in the U.S. tax system, including significant increases in the U.S. corporate income tax rate and the minimum tax rate on certain earnings of foreign subsidiaries. If ultimately enacted into law, such changes could have a material adverse impact on our effective tax rate thereby reducing our net earnings. Further changes in the tax laws of foreign jurisdictions could arise as a result of the base erosion and profit shifting project undertaken by the Organisation for Economic Co-operation and Development, which recommended changes to numerous long-standing tax principles. If implemented, such changes, as well as changes in taxing jurisdictions' administrative interpretations, decisions, policies, or positions, could also have a material adverse impact on our effective tax rate thereby reducing our net earnings. In future periods, our ability to recover deferred tax assets could be subject to additional uncertainty as a result of such developments. Furthermore, changes in the earnings mix or applicable foreign tax laws may result in significant variability in our effective tax rates.

Because we are a U.S. holding company, our most significant source of funds is distributions from our non-U.S. subsidiaries. Certain countries in which we operate have adopted or could institute currency exchange controls and other regulations that limit or prohibit our local subsidiaries' ability to convert local currency into U.S. dollars or to make payments outside the country. This could subject us to the risks of local currency devaluation and business disruption.

Risks Related to our International Operations

Because we have operations in numerous countries, our results may be adversely impacted by economic, regulatory and political developments, natural disasters, pandemics or conflicts.

Some of the countries in which we operate face the threat of civil unrest and can be subject to regime changes. In others, nationalization, terrorism, conflict and the threat of war may have a significant impact on the business environment. Natural disasters, pandemics, economic, political, regulatory or other developments could disrupt our supply chain, manufacturing capabilities or distribution capabilities. In addition, such developments could increase costs of our materials and operations and lead to loss of property or equipment that are critical to our business in certain markets and difficulty in staffing and managing our operations, all of which could reduce our volumes, revenues and net earnings. We discuss risks associated with the COVID-19 pandemic below.

In certain markets, we are dependent on governmental approvals of various actions such as price changes, and failure to obtain such approvals could impair growth of our profitability.

In addition, despite our high ethical standards and rigorous control and compliance procedures aimed at preventing and detecting unlawful conduct, given the breadth and scope of our international operations, we may not be able to detect all potential improper or unlawful conduct by our employees and partners. Such improper or unlawful conduct (actual or alleged) could lead to litigation and regulatory action, cause damage to our reputation and that of our brands and result in substantial costs.

Our reported results could be adversely affected by unfavorable currency exchange rates, and currency devaluations could impair our competitiveness.

We conduct our business primarily in local currency and, for purposes of financial reporting, the local currency results are translated into U.S. dollars based on average exchange rates prevailing during a reporting period. During times of a strengthening U.S. dollar, our reported net revenues, operating income and EPS will be reduced because the local currency translates into fewer U.S. dollars. During periods of economic crises, such as during the ongoing COVID-19 pandemic, foreign currencies may be devalued significantly against the U.S. dollar, reducing our margins. Actions to recover margins may result in lower volume and a weaker competitive position.

Risks Related to Legal Challenges and Investigations

Litigation related to tobacco use and exposure to environmental tobacco smoke could substantially reduce our profitability and could severely impair our liquidity.

There is litigation related to tobacco products pending in certain jurisdictions in which we operate. Damages claimed in some tobacco-related litigation are significant and, in certain cases in Brazil, Canada, and Nigeria, range into the billions of U.S. dollars. We anticipate that new cases will continue to be filed. The FCTC encourages litigation against tobacco product manufacturers. It is possible that our consolidated results of operations, cash flows or financial position could be materially affected in a particular fiscal quarter or fiscal year by an unfavorable outcome or settlement of certain pending litigation. See Note 8. *Contingencies* to our condensed consolidated financial statements for a discussion of pending litigation and "Business Environment—Reduced-Risk Products (RRPs)—Legal Challenges to RRs."

From time to time, we are subject to governmental investigations on a range of matters.

Investigations include allegations of contraband shipments of cigarettes, allegations of unlawful pricing activities within certain markets, allegations of underpayment of income taxes, customs duties and/or excise taxes, allegations of false and misleading usage of descriptors, allegations of unlawful advertising, and allegations of unlawful labor practices. We cannot predict the outcome of those investigations or whether additional investigations may be commenced, and it is possible that our business could be materially affected by an unfavorable outcome of pending or future investigations. See Note 8. *Contingencies—Other Litigation* and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Operating Results by Business Segment—Business Environment—Governmental Investigations" for a description of certain governmental investigations to which we are subject.

We may be unable to adequately protect our intellectual property rights, and disputes relating to intellectual property rights could harm our business.

Our intellectual property rights are valuable assets, and their protection is important to our business. If the steps we take to protect our intellectual property rights globally, including through a combination of trademark, design, patent and other intellectual property rights, are inadequate, or if others infringe or misappropriate our intellectual property rights, notwithstanding legal protection, our business could be adversely impacted. Intellectual property rights of third parties may limit our ability to commercialize our products or improve product quality in one or more markets. Competitors or other third parties may claim that we infringe their intellectual property rights. Any such claims, regardless of merit, could divert management's attention, be costly, disruptive, time-consuming and unpredictable and expose us to litigation costs and damages, and impede our ability to manufacture, commercialize and improve our products. If, as a result, we are unable to manufacture or sell our RRs or improve their quality in one or more markets, our ability to convert adult smokers to our RRs in such markets would be adversely affected. See Note 8. *Contingencies—Other Litigation* to our condensed consolidated financial statements for a description of certain intellectual property proceedings.

Risks Related to our Competitive Environment

We face intense competition, and our failure to compete effectively could have a material adverse effect on our profitability and results of operations.

We are subject to highly competitive conditions in all aspects of our business. We compete primarily on the basis of product quality, brand recognition, brand loyalty, taste, R&D, innovation, packaging, customer service, marketing, advertising and retail price and, increasingly, adult smoker willingness to convert to our RRPs. The competitive environment and our competitive position can be significantly influenced by weak economic conditions, erosion of consumer confidence, competitors' introduction of lower-price products or innovative products, higher tobacco product taxes, higher absolute prices and larger gaps between retail price categories, and product regulation that diminishes the ability to differentiate tobacco products and restricts adult consumer access to truthful and non-misleading information about our RRPs. Competitors include three large international tobacco companies, new market entrants, particularly with respect to innovative products, several regional and local tobacco companies and, in some instances, state-owned tobacco enterprises, principally in Algeria, Egypt, the PRC, Taiwan, Thailand and Vietnam. Industry consolidation and privatizations of state-owned enterprises have led to an overall increase in competitive pressures. Some competitors have different profit, volume and regulatory objectives, and some international competitors are susceptible to changes in different currency exchange rates. Certain new market entrants may alienate consumers from innovative products through inappropriate marketing campaigns, messaging and inferior product satisfaction, while not relying on scientific substantiation based on appropriate R&D protocols and standards. The growing use of digital media could increase the speed and extent of the dissemination of inaccurate and misleading information about our RRPs.

We may be unable to anticipate changes in adult consumer preferences.

Our business is subject to changes in adult consumer preferences, which may be influenced by local economic conditions.

To be successful, we must:

- promote brand equity successfully;
- anticipate and respond to new adult consumer trends;
- develop new products and markets and broaden brand portfolios;
- improve productivity;
- convince adult smokers to convert to our RRPs;
- ensure effective adult consumer engagement, including communication about product characteristics and usage of RRPs;
- provide excellent customer care;
- ensure adequate production capacity to meet demand for our products; and
- be able to protect or enhance margins through price increases.

In periods of economic uncertainty, adult consumers may tend to purchase lower-price brands, and the volume of our premium-price and mid-price brands and our profitability could be materially adversely impacted as a result. Such down-trading trends may be reinforced by regulation that limits branding, communication and product differentiation.

Our ability to grow profitability may be limited by our inability to introduce new products, enter new markets or improve our margins through higher pricing and improvements in our brand and geographic mix.

Our profit growth may be adversely impacted if we are unable to introduce new products or enter new markets successfully, to raise prices or to improve the proportion of our sales of higher margin products and in higher margin geographies.

We may be unable to expand our brand portfolio through successful acquisitions or the development of strategic business relationships, and the intended benefits from our investments may not materialize.

One element of our growth strategy is to expand our brand portfolio and market positions through selective acquisitions and the development of strategic business relationships. Acquisition and strategic business development opportunities are limited and present risks of failing to achieve efficient and effective integration, strategic objectives and/or anticipated revenue improvements and cost savings. There is no assurance that we will be able to acquire attractive businesses or enter into strategic business relationships on favorable terms ahead of our competitors, or that such acquisitions or strategic business development relationships will be accretive to earnings or improve our competitive position. In addition, we may not have a controlling

position in certain strategic investments or relationships, which could impact the extent to which the intended financial growth and other benefits from these investments or relationships may ultimately materialize.

Our ability to achieve our strategic goals may be impaired if we fail to attract, motivate and retain the best global talent and effectively align our organizational design with the goals of our transformation.

To be successful, we must continue transforming our culture and ways of working, align our talent and organizational design with our increasingly complex business needs, and innovate and transform to a consumer-centric business. We compete for talent, including in areas that are new to us, such as digital and technical solutions, with companies in the consumer products, technology and other sectors that enjoy greater societal acceptance. As a result, we may be unable to attract, motivate and retain the best global talent with the right degree of diversity, experience and skills to achieve our strategic goals.

Risks Related to the Impact of COVID-19 on our Business

Our business, results of operations, cash flows and financial position will be adversely impacted during the continuation of the COVID-19 pandemic.

The COVID-19 pandemic has created significant societal and economic disruption, and resulted in closures of stores, factories and offices, and restrictions on manufacturing, distribution and travel, all of which have and will continue to adversely impact our business, results of operations, cash flows and financial position while the pandemic continues. Our business continuity plans and other safeguards may not be effective to mitigate the impact of the pandemic.

Currently, significant risks include our diminished ability to convert adult smokers to our RRP, significant volume declines in our duty-free business and certain other key markets, disruptions or delays in our manufacturing and supply chain, increased currency volatility, and delays in certain cost saving, transformation and restructuring initiatives. Our business could also be adversely impacted if key personnel or a significant number of employees or business partners become unavailable due to the COVID-19 outbreak. The significant adverse impact of COVID-19 on the economic or political conditions in markets in which we operate could result in changes to the preferences of our adult consumers and lower demand for our products, particularly for our mid-price or premium-price brands. Continuation of the pandemic could disrupt our access to the credit markets or increase our borrowing costs. Governments may temporarily be unable to focus on the development of science-based regulatory frameworks for the development and commercialization of RRP or on the enforcement or implementation of regulations that are significant to our business. In addition, messaging about the potential negative impacts of the use of our products on COVID-19 risks may lead to increasingly restrictive regulatory measures on the sale and use of our products, negatively impact demand for our products and the willingness of adult consumers to switch to our RRP, and adversely impact our efforts to advocate for the development of science-based regulatory frameworks for the development and commercialization of RRP.

The impact of these risks also depends on factors beyond our knowledge or control, including the duration and severity of the COVID-19 pandemic in general and specifically in the jurisdictions in which we operate, its recurrence in our key markets, actions taken to contain its spread and to mitigate its public health effects, and the ultimate economic consequences thereof.

Risks Related to Sourcing of Materials, Products and Services

Use of third-party resources may negatively impact quality of our products and services, and we may be required to replace third-party contract manufacturers or service providers with our own resources.

We increasingly rely on third-party resources to manufacture some of our products and product parts (particularly, the electronic devices and accessories) and to provide services, including to support our finance and information technology processes. While many of these arrangements improve efficiencies and decrease our operating costs, they also diminish our direct control. Such diminished control may have an adverse effect on the quality of products or services, our supply chain, and the speed and flexibility in our response to changing market conditions and adult consumer preferences, all of which may place us at a competitive disadvantage. In addition, we may be unable to renew these agreements on satisfactory terms for numerous reasons, including government regulations, and our costs may increase significantly if we must replace such third parties with our own resources.

Government mandated prices, production control programs, shifts in crops driven by economic conditions and the impact of climate change may increase the cost or reduce the quality of the tobacco and other agricultural products used to manufacture our products.

As with other agricultural commodities, the price of tobacco leaf and cloves can be influenced by imbalances in supply and demand and the impacts of natural disasters and pandemics such as COVID-19. Furthermore, crop quality may be influenced by variations in weather patterns, including those caused by climate change. Tobacco production in certain countries is subject to a variety of controls, including government mandated prices and production control programs. Changes in the patterns of demand for agricultural products could cause farmers to produce less tobacco or cloves. Any significant change in tobacco leaf and clove prices, quality and quantity could affect our profitability and our business.

Risks Related to the Success of our Reduced-Risk Products

The financial and business performance of our reduced-risk products is less predictable than our cigarette business.

Our RRP's are novel products in a new category, and the pace at which adult smokers adopt them may vary, depending on the competitive, regulatory, fiscal and cultural environment, and other factors in a specific market. There may be periods of accelerated growth and periods of slower growth for these products, the timing and drivers of which may be more difficult for us to predict versus our mature cigarette business. The impact of this lower predictability on our projected results for a specific period may be significant, particularly during the early stages of this new product category and during the COVID-19 pandemic.

We may be unsuccessful in our attempts to introduce reduced-risk products, and regulators may not permit the commercialization of these products or the communication of scientifically substantiated information and claims.

Our key strategic priorities are: to develop and commercialize products that present less risk of harm to adult smokers who switch to those products versus continued smoking; and to convince current adult smokers who would otherwise continue to smoke to switch to those RRP's. For our efforts to be successful, we must:

- develop RRP's that such adult smokers find acceptable alternatives to smoking;
- conduct rigorous scientific studies to substantiate that they reduce exposure to harmful and potentially harmful constituents in smoke and, ultimately, that these products present, are likely to present, or have the potential to present less risk of harm to adult smokers who switch to them versus continued smoking; and
- effectively advocate for the development of science-based regulatory frameworks for the development and commercialization of RRP's, including communication of scientifically substantiated information to enable adult smokers to make better consumer choices.

We might not succeed in our efforts. If we do not succeed, but others do, or if heat-not-burn products are inequitably regulated compared to other RRP categories without regard to the totality of the scientific evidence available for such products, we may be at a competitive disadvantage. In addition, actions of some market entrants, such as the inappropriate marketing of e-vapor products to youth, as well as alleged health consequences associated with the use of certain e-vapor products, may unfavorably impact public opinion and/or mischaracterize all e-vapor products or other RRP's to consumers, regulators and policy makers without regard to the totality of scientific evidence for specific products. This may impede our efforts to advocate for the development of science-based regulatory frameworks for the development and commercialization of RRP's. We cannot predict whether regulators will permit the sale and/or marketing of RRP's with scientifically substantiated information and claims. Such restrictions could limit the success of our RRP's.

The WHO study group on tobacco product regulation ("TobReg") published their eighth report on the scientific basis of tobacco product regulation in May 2021. The report is based on a review of scientific evidence related to novel and emerging nicotine and tobacco products, such as electronic nicotine delivery systems ("ENDS"), electronic non-nicotine delivery systems ("ENNDS") and heated tobacco products ("HTPs") on a number of scientific topics. The report concludes by making a number of policy recommendations on HTPs and ENDS that, if implemented, could restrict both the availability of these products, and the access to accurate information about them.

Our RRP's and commercial activities for these products are designed for, and directed toward, current adult smokers and users of nicotine-containing products, and not for non-smokers or youth. If nonetheless there is a significant usage of our products or competitive products among youth or non-smokers, even in situations over which we have no control, our credibility may suffer, and our efforts to advocate for the development of science-based regulatory frameworks for the commercialization of RRP's may be significantly impacted.

Moreover, the FDA's premarket tobacco product and modified risk tobacco product authorizations of a version of our Platform 1 product are subject to strict marketing, reporting and other requirements. Although we have received these product authorizations from the FDA, there is no guarantee that the product will remain authorized, particularly if there is a significant uptake in youth or non-smoker initiation.

We may be unsuccessful in our efforts to differentiate reduced-risk products and cigarettes with respect to taxation.

To date, we have been largely successful in demonstrating to regulators that our RRP's are not cigarettes due to the absence of combustion, and as such they are generally taxed either as a separate category or as other tobacco products, which typically yields more favorable tax rates than cigarettes. If we cease to be successful in these efforts, RRP unit margins may be adversely affected.

Risks Related to Illicit Trade

We lose revenues as a result of counterfeiting, contraband, cross-border purchases, "illicit whites," non-tax-paid volume produced by local manufacturers, and counterfeiting of our Platform 1 device and heated tobacco units.

Large quantities of counterfeit cigarettes are sold in the international market. We believe that *Marlboro* is the most heavily counterfeited international cigarette brand, although we cannot quantify the revenues we lose as a result of this activity. In addition, our revenues are reduced by contraband, legal cross-border purchases, "illicit whites" and non-tax-paid volume produced by local manufacturers. Our revenues and consumer satisfaction with our Platform 1 device and heated tobacco units may be adversely affected by counterfeit products that do not meet our product quality standards and scientific validation procedures.

Risks Related to Cybersecurity and Data Governance

The failure of our information systems to function as intended or their penetration with the intent to corrupt them or our failure to adhere to strict data governance and cybersecurity protocols and to comply with privacy laws and regulations could result in business disruption, loss of reputation, litigation and regulatory action, and loss of revenue, assets or personal or other confidential data.

We use information systems to help manage business processes, collect and interpret data and communicate internally and externally with employees, suppliers, consumers, customers and others. Some of these information systems are managed by third-party service providers. We are continuously evolving our approach to business continuity planning and backups to provide appropriate business resilience, particularly in light of the increasing cyber threat landscape. Nevertheless, failure of these systems to function as intended, or penetration of these systems by parties intent on extracting or corrupting information or otherwise disrupting business processes, could place us at a competitive disadvantage, result in a loss of revenue, assets or personal or other sensitive data, litigation and regulatory action, cause damage to our reputation and that of our brands and result in significant remediation and other costs. Failure to protect personal data, respect the rights of data subjects, and adhere to strict data governance and cybersecurity protocols could subject us to substantial fines and other legal challenges under regulations such as the EU General Data Protection Regulation. As we are increasingly relying on digital platforms in our business, and as privacy laws in the jurisdictions in which we do business become more stringent, the magnitude of these risks is likely to increase.

Risks Related to the Pending Acquisitions of Fertin Pharma and Vectura

The proposed acquisitions of Fertin Pharma and Vectura may not be completed on the anticipated terms and there are uncertainties and risks to consummating these acquisitions.

As previously disclosed in this Form 10-Q, we are acquiring Fertin Pharma and Vectura (with the Fertin Pharma acquisition and the Vectura acquisition being collectively referred to in these Risk Factors as the "Acquisitions").

Our obligations to consummate these Acquisitions are subject to satisfaction or waiver, to the extent permitted under applicable law, of a number of conditions. For example, each Acquisition is subject to antitrust and other regulatory approvals in certain jurisdictions. We cannot provide any assurance that all required antitrust clearances and other regulatory approvals will be obtained, the cost, scope or impact of the actions that may be required to obtain antitrust and other regulatory approvals, which could have the effect of delaying or preventing completion of the proposed Acquisitions, respectively. In addition, the Vectura acquisition is subject to shareholder approval by the Vectura shareholders. There can be no assurance that the number of shareholders required to vote in favor of our proposed offer will do so to enable us to effect the Vectura acquisition.

Failure to complete the Acquisitions could impact our future business and financial results.

If the proposed Acquisitions are not completed, we may experience negative reactions from our investors and the financial markets. We also may be subject to litigation related to any failure to complete either of these proposed Acquisitions or to enforcement proceedings commenced against us to perform our obligations under either acquisition agreement. If the respective Acquisitions are not completed, these risks may materialize, and may adversely affect our business, financial results and financial condition, as well as the price of our common stock.

We may be unable to successfully integrate the businesses that we acquire and unable to realize the anticipated benefits from such Acquisitions.

If the Acquisitions are completed, the successful integration of the acquired businesses and their operations into those of our own, and our ability to realize the benefits of the Acquisitions, are subject to a number of risks and uncertainties, many of which are outside of our control. The risks and uncertainties relating to integrating the businesses acquired include, among other things: (i) the challenge of integrating complex organizations, systems, operating procedures, compliance programs, technology, networks and other assets of the businesses that we acquire, and the costs related to such integration efforts; (ii) the possibility that we are unable to gain access to differentiated proprietary technology and pharmaceutical development expertise as anticipated by these Acquisitions, and thus fail to realize our desired entry into additional smoke-free and beyond nicotine platforms; and (iii) the challenge of integrating the cultures and business practices of each of Fertin Pharma and Vectura to our culture and business practices, which if not managed correctly, could lead to difficulties in retaining key management and other key employees. In addition, even if we are able to successfully integrate, the anticipated benefits of the proposed Acquisitions may not be realized fully, or at all, or may take longer to realize than expected.

The businesses that we acquire in the Acquisitions may have liabilities that are not known to us.

The businesses that we acquire in the Acquisitions may have liabilities that we were unable to identify, or were unable to discover, in the course of performing our due diligence investigations thereof. We cannot assure you that the indemnification available to us under the respective acquisition agreements that we have negotiated or will negotiate, as applicable, will be sufficient in amount, scope or duration to fully offset the possible liabilities associated with the respective business or property that we will assume upon consummation of each acquisition. Any such liabilities, individually or in the aggregate, could have a material adverse effect on our business, financial condition and results of operations.

Acquisition accounting adjustments related to the Acquisitions could adversely affect our financial results.

We will account for the completion of the Acquisitions using the acquisition method of accounting. Differences between preliminary estimates and the final acquisition accounting may occur, and these differences could have a material impact on the consolidated financial statements and our future results of operations and financial position in combination with the businesses acquired. Furthermore, given the nature of the assets being acquired in the Acquisitions, we may not be able to avoid future impairments of those assets, which may also have a material impact on our future results of operation and financial position.

While the Acquisitions are pending, PMI, Fertin Pharma and Vectura will be subject to business uncertainties that could adversely affect our respective businesses, and adversely affect the financial results of our combined businesses after the consummation of the Acquisitions.

Our success following these Acquisitions will depend in part upon our ability, and the ability of Fertin Pharma and Vectura, respectively, to maintain respective business relationships. Uncertainty about the effect of the Fertin Pharma Acquisition and the Vectura acquisition on customers, suppliers, employees and other constituencies of each of Fertin Pharma and Vectura, may have a material adverse effect on us and/or the businesses that we will acquire with the proposed Acquisitions. Customers, suppliers and others who do business with Fertin Pharma or Vectura may delay or defer business decisions, decide to terminate, modify or renegotiate their relationships, or take other actions as a result of our proposed acquisitions of Fertin Pharma and Vectura, respectively, which could negatively affect the revenues, earnings and cash flows of our company or the businesses we acquire upon the respective consummation of the Acquisitions. If we are unable to maintain these business and operational relationships after the consummation of each Acquisition, our financial position, results of operations or cash flows upon combining with these companies could be adversely affected.

Item 4. Controls and Procedures.

PMI carried out an evaluation, with the participation of PMI's management, including PMI's Chief Executive Officer and Chief Financial Officer, of the effectiveness of PMI's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based upon that evaluation, PMI's Chief Executive Officer and Chief Financial Officer concluded that PMI's disclosure controls and procedures are effective. There have been no changes in PMI's internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, PMI's internal control over financial reporting.

Part II - OTHER INFORMATION

Item 1. Legal Proceedings.

See Note 8. *Contingencies* of the Notes to the Condensed Consolidated Financial Statements included in Part I – Item 1 of this report for a discussion of legal proceedings pending against Philip Morris International Inc. and its subsidiaries.

Item 1A. Risk Factors.

Information regarding Risk Factors appears in “MD&A – Cautionary Factors That May Affect Future Results,” in Part I – Item 2 of this Form 10-Q and in Part I – Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2020.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Our share repurchase activity for each of the three months in the quarter ended June 30, 2021 was as follows:

Period	Total Number of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs
April 1, 2021 – April 30, 2021 (1)	—	\$ —	—	\$ —
May 1, 2021 – May 31, 2021 (1)	—	\$ —	—	\$ —
June 1, 2021 – June 30, 2021 (1)	—	\$ —	—	\$ —
Pursuant to Publicly Announced Plans or Programs	—	\$ —		
April 1, 2021 – April 30, 2021 (2)	6,144	\$ 88.88		
May 1, 2021 – May 31, 2021 (2)	814	\$ 94.97		
June 1, 2021 – June 30, 2021 (2)	3,838	\$ 97.06		
For the Quarter Ended June 30, 2021	<u>10,796</u>	\$ 92.24		

- (1) During this reporting period, we did not repurchase any shares under a share repurchase program. On June 11, 2021, our Board of Directors authorized a new share repurchase program of up to \$7 billion, with target spending of \$5 billion to \$7 billion over a three-year period that will commence in the third quarter of 2021.
- (2) Shares repurchased represent shares tendered to us by employees who vested in restricted and performance share unit awards and used shares to pay all, or a portion of, the related taxes.

Item 6. Exhibits.

- 2.1 [Share Sale and Purchase Agreement by and among Claudio Topco B.V., Bagger-Sorenson & Co. A/S and PMI Global Services, Inc., dated June 30, 2021 \(incorporated by reference to Exhibit 2.1 the Current Report on Form 8-K filed July 7, 2021\).](#)
- 10.1 [Supplemental letter to the Employment Agreement with André Calantzopoulos, effective May 5, 2021.](#)
- 10.2 [Supplemental letter to the Employment Agreement with Jacek Olczak, effective May 5, 2021.](#)
- 31.1 [Certification of the Registrant's Chief Executive Officer pursuant to Rule 13a-14\(a\)/15d-14\(a\) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 31.2 [Certification of the Registrant's Chief Financial Officer pursuant to Rule 13a-14\(a\)/15d-14\(a\) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 32.1 [Certification of the Registrant's Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 32.2 [Certification of the Registrant's Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 101.INS XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
- 101.SCH XBRL Taxonomy Extension Schema.
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase.
- 101.DEF XBRL Taxonomy Extension Definition Linkbase.
- 101.LAB XBRL Taxonomy Extension Label Linkbase.
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase.
- 104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PHILIP MORRIS INTERNATIONAL INC.

/s/ EMMANUEL BABEAU

Emmanuel Babeau

Chief Financial Officer

July 27, 2021



PHILIP MORRIS PRODUCTS S.A.

PERSONAL AND CONFIDENTIAL

HAND DELIVERY

To: André Calantzopoulos

Lausanne, April 28, 2021

Dear André,

We are pleased to confirm your appointment, effective May 5, 2021, to the position of Executive Chairman.

Your gross base salary will be: CHF 1,000,000.-- annually CHF 76,923.08 monthly

You will be removed from the Company's salary grade structure.

You will no longer be eligible to participate in the Incentive Compensation Award Program.

You will continue to be eligible to participate in the Equity Award Program, which is administered at the sole discretion of the Compensation and Leadership Development Committee of the Board of Directors of Philip Morris International Inc. pursuant and subject to the terms of the 2017 Performance Incentive Plan (or any similar plan adopted from time to time).

Your annual Equity Award target will be as follows:

Target % ⁽¹⁾

Equity Award

300% of annual base salary (40% in the form of Restricted Stock Units and 60% in the form of Performance Share Units)

It is agreed and understood that this letter will for all purposes be regarded as a continuation of your employment with Philip Morris Products S.A.

All other conditions relating to your employment with Philip Morris Products S.A. remain as stated in your employment contract and, if applicable, in any subsequent amendments.

We would like to take this opportunity to wish you continued success and satisfaction.

Yours sincerely,

PHILIP MORRIS PRODUCTS S.A.

/s/ CHARLES BENDOTTI

Charles Bendotti
Global Head of People & Culture

/s/ CONSTANTIN ROMANOV

Constantin Romanov
Global Head of Total Rewards

Read and approved:

/s/ ANDRÉ CALANTZOPOULOS
(André Calantzopoulos)

Date: _____

⁽¹⁾ The Equity Award Program is discretionary and does not obligate the Company to make an award nor entitles employees to receive an award. Eligibility to participate in the Program does not guarantee receipt of an award and receiving an annual award does not guarantee receipt of an award in the future. Any awards that are made may be higher or lower than the target mentioned above. Targets may be amended at the discretion of the Compensation and Leadership Development Committee of the Board of Directors at any time without prior notice.



PHILIP MORRIS PRODUCTS S.A.

PERSONAL AND CONFIDENTIAL

HAND DELIVERY

To: Jacek Olczak

Lausanne, April 28, 2021

Dear Jacek,

We are pleased to confirm your promotion, effective May 5, 2021, to the position of Chief Executive Officer.

Your gross base salary will be: CHF 1,350,000.-- annually CHF 103,846.15 monthly

Your new grade will be **28**.

You will continue to be eligible to participate in the Incentive Compensation ("IC") and Equity Award Programs, which are administered at the sole discretion of the Compensation and Leadership Development Committee of the Board of Directors of Philip Morris International Inc. pursuant and subject to the terms of the 2017 Performance Incentive Plan (or any similar plan adopted from time to time).

Your annual IC and Equity Award targets that assume 100 individual performance ratings and a PMI company performance rating of 100 for the IC award will be increased as follows:

Target % ⁽¹⁾

Incentive Compensation Award

to **200%** of annual base salary

Equity Award

to **600%** of annual base salary (40% in the form of Restricted Stock Units and 60% in the form of Performance Share Units)

It is agreed and understood that this letter will for all purposes be regarded as a continuation of your employment with Philip Morris Products S.A.

All other conditions relating to your employment with Philip Morris Products S.A. remain as stated in your employment contract and, if applicable, in any subsequent amendments.

We would like to take this opportunity to wish you continued success and satisfaction.

Yours sincerely,

PHILIP MORRIS PRODUCTS S.A.

/s/ CHARLES BENDOTTI

Charles Bendotti
Global Head of People & Culture

/s/ ANDRÉ CALANTZOPOULOS

André Calantzopoulos
Chief Executive Officer

Read and approved:

/s/ JACEK OLCZAK
(Jacek Olczak)

Date: 5/5/2021

⁽¹⁾ The Incentive Compensation and Equity Award Programs are discretionary and do not obligate the Company to make an award nor entitle employees to receive an award. Eligibility to participate in the Programs does not guarantee receipt of an award and receiving an annual award does not guarantee receipt of an award in the future. Any awards that are made may be higher or lower than the targets mentioned above. Targets may be amended at the discretion of the Compensation and Leadership Development Committee of the Board of Directors at any time without prior notice.

Certifications

I, Jacek Olczak, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Philip Morris International Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 27, 2021

/s/ JACEK OLCZAK

Jacek Olczak

Chief Executive Officer

Certifications

I, Emmanuel Babeau, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Philip Morris International Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 27, 2021

/s/ EMMANUEL BABEAU

Emmanuel Babeau

Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Philip Morris International Inc. (the “Company”) on Form 10-Q for the period ended June 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jacek Olczak, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JACEK OLCZAK

Jacek Olczak

Chief Executive Officer

July 27, 2021

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Philip Morris International Inc. and will be retained by Philip Morris International Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Philip Morris International Inc. (the “Company”) on Form 10-Q for the period ended June 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Emmanuel Babeau, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ EMMANUEL BABEAU

Emmanuel Babeau

Chief Financial Officer

July 27, 2021

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Philip Morris International Inc. and will be retained by Philip Morris International Inc. and furnished to the Securities and Exchange Commission or its staff upon request.