



# Sustainability and Impact in Our Next Growth Phase

June 2, 2021

## Forward-Looking and Cautionary Statements









- This presentation and related discussion contain projections of future results and other forward-looking statements. Achievement of future results is subject to risks, uncertainties and inaccurate assumptions. In the event that risks or uncertainties materialize, or underlying assumptions prove inaccurate, actual results could vary materially from those contained in such forward-looking statements. Pursuant to the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995, PMI is identifying important factors that, individually or in the aggregate, could cause actual results and outcomes to differ materially from those contained in any forward-looking statements made by PMI
- PMI's business risks include: excise tax increases and discriminatory tax structures; increasing marketing and regulatory restrictions that could reduce our competitiveness, eliminate our ability to communicate with adult consumers, or ban certain of our products; health concerns relating to the use of tobacco and other nicotine-containing products and exposure to environmental tobacco smoke; litigation related to tobacco use and intellectual property; intense competition; the effects of global and individual country economic, regulatory and political developments, natural disasters and conflicts; changes in adult smoker behavior; lost revenues as a result of counterfeiting, contraband and cross-border purchases; governmental investigations; unfavorable currency exchange rates and currency devaluations, and limitations on the ability to repatriate funds; adverse changes in applicable corporate tax laws; adverse changes in the cost, availability, and quality of tobacco and other agricultural products and raw materials, as well as components and materials for our electronic devices; and the integrity of our information systems and effectiveness of our data privacy policies. PMI's future profitability may also be adversely affected should we be unsuccessful in our attempts to produce and commercialize reduced-risk products or if regulation or taxation do not differentiate between such products and cigarettes; if we are unable to successfully introduce new products (“RRPs”), promote brand equity, enter new markets or improve our margins through increased prices and productivity gains; if we are unable to expand our brand portfolio internally or through acquisitions and the development of strategic business relationships; or if we are unable to attract and retain the best global talent. Future results are also subject to the lower predictability of our reduced-risk product category's performance
- PMI is further subject to other risks detailed from time to time in our publicly filed documents, including the Form 10-Q for the quarter ended March 31, 2021. PMI cautions that the foregoing list of important factors is not a complete discussion of all potential risks and uncertainties. PMI does not undertake to update any forward-looking statement that we may make from time to time, except in the normal course of its public disclosure obligations

# Forward-Looking and Cautionary Statements (COVID-19)

- 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 will adversely impact our business, results of operations, cash flows and financial position during the continuation of the pandemic. 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, the willingness of adult consumers to switch to our RRP and 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 pandemic, 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

# Senior Management Ownership of Priority Sustainability Topics



 <p><b>Massimo Andolina</b> SENIOR VP, OPERATIONS</p> <ul style="list-style-type: none"> <li>• Sustainable supply chain management</li> <li>• Socio-economic well-being of tobacco farming communities</li> <li>• Health, safety and well-being at work</li> <li>• Climate Protection</li> </ul>	 <p><b>Charles Bendotti</b> GLOBAL HEAD, PEOPLE &amp; CULTURE</p> <ul style="list-style-type: none"> <li>• Fair working conditions,</li> <li>• Talent attraction</li> <li>• Employability</li> </ul>	 <p><b>Bin Li</b> CHIEF PRODUCT OFFICER</p> <ul style="list-style-type: none"> <li>• Product eco-design and circularity</li> <li>• Product reliability</li> </ul>	 <p><b>Suzanne Rich Folsom</b> SENIOR VP &amp; GENERAL COUNSEL</p> <ul style="list-style-type: none"> <li>• Respect for human rights</li> <li>• Business integrity</li> <li>• Data privacy</li> </ul>
 <p><b>Werner Barth</b> SENIOR VP, COMMERCIAL</p> <ul style="list-style-type: none"> <li>• Responsible marketing and sales practices</li> <li>• Littering prevention</li> </ul>	 <p><b>Jorge Insuasty</b> CHIEF LIFE SCIENCES OFFICER</p> <ul style="list-style-type: none"> <li>• Product health impacts</li> <li>• Product addictiveness</li> </ul>	 <p><b>Silke Muenster</b> CHIEF DIVERSITY OFFICER</p> <ul style="list-style-type: none"> <li>• Health, safety and well-being at work</li> <li>• Diverse and inclusive working environment</li> </ul>	 <p><b>Stefano Volpetti</b> CHIEF CONSUMER OFFICER</p> <ul style="list-style-type: none"> <li>• Responsible marketing and sales practices</li> <li>• Littering prevention</li> <li>• Product eco-design and circularity</li> </ul>



# Sustainability and Impact in Our Next Growth Phase

June 2, 2021

Jacek Olczak  
*Chief Executive Officer*

## Sustainability & Impact in PMI's Next Growth Phase

- **Transformation: Driving growth, positive impact and financial performance** through unique sustainability mission - to phase out cigarettes / unsmoke the world
- **Sustainability materiality assessment drives strategic priorities** and is reflected in our business and executive compensation targets
- **Statement of purpose underpins our strategy**
- **Sustainability Strategy = Business Strategy = Transformation Strategy**
- **Differentiation from industry:** purpose, transformation, resource allocation, disclosure and impact
- **Differentiation from transition stories in other industries** in terms of pace and scale
- **A new driver of long-term growth and sustainability** through 'Beyond Nicotine' products

# Sustainability at PMI: Product at the Core of our Strategy

Our priority is to address the health impacts of our products:

- Developing better and less harmful alternatives to cigarettes
- Broadening access for adult smokers to smoke-free products that are scientifically substantiated and promoting full switching
- Purposefully working to phase out cigarettes
- Developing products that go beyond nicotine



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## Statement of Purpose: Transformation North Star

Adopted by the Board of Directors and published in 2020 proxy statement

### Delivering a Smoke-Free Future

#### Leading an industry transformation

“

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

“

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

“

The Company understands the need to continue to build legitimacy and trust by being honest, respectful, fair and transparent, and by aligning actions with words across all areas of its business.

“

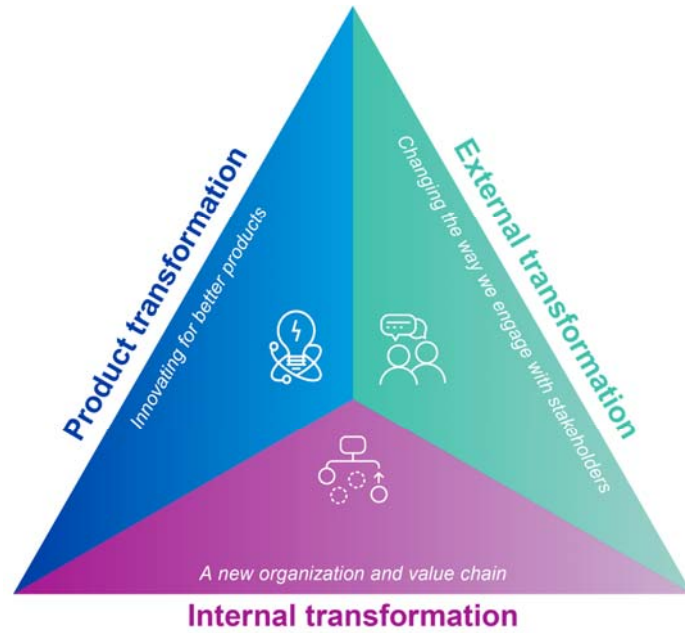
PMI's key stakeholder constituencies, which are fundamental to both the achieving of its purpose and to the pace of its progress, will be affected in different ways by PMI's transformation.

– Excerpts from PMI's Statement of Purpose



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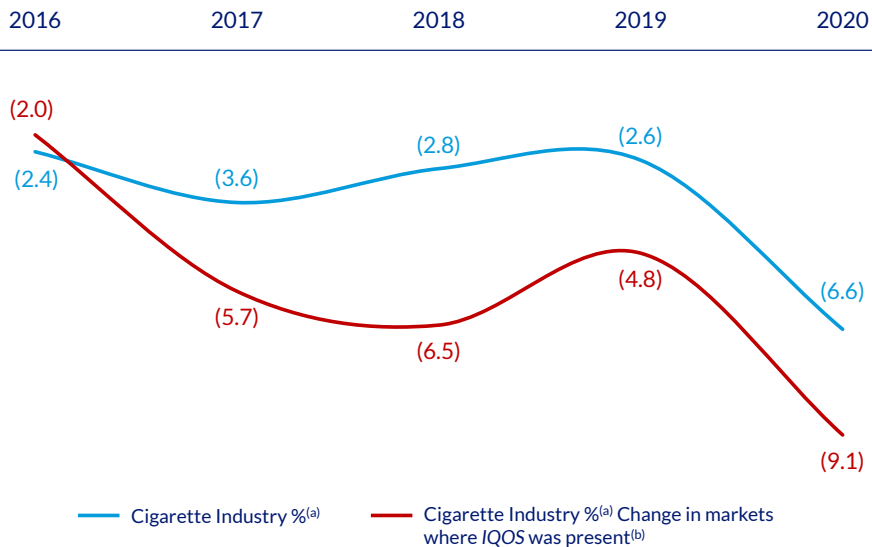
# Fundamental Transformation for Positive Impact



Source: Integrated Report 2020

# Positive Impact: Accelerating the End of Smoking

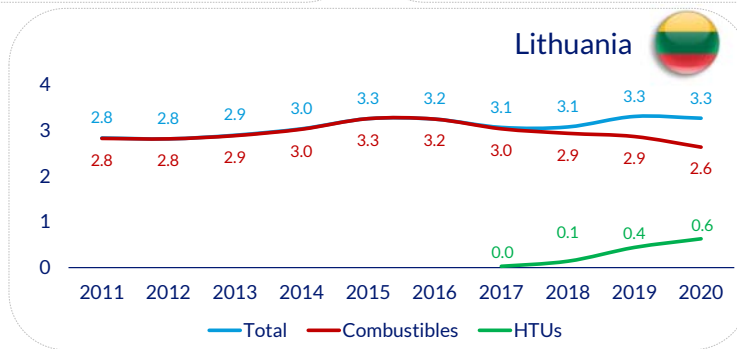
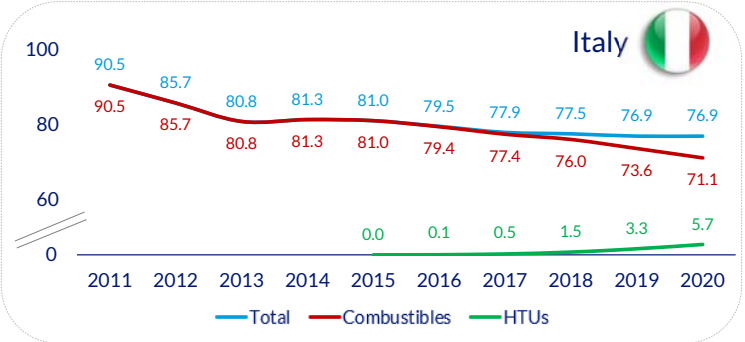
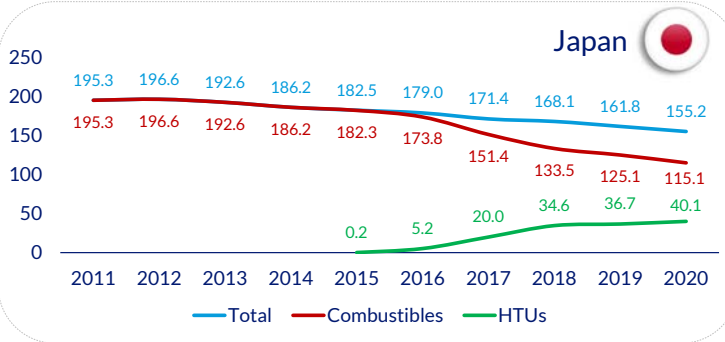
- Decline in cigarette industry volume is faster where IQOS and other smoke-free alternatives are present



(a) Estimated IMS volume excluding China and the U.S.  
 (b) Markets where IQOS was present before beginning of 2018  
 Source: PMI Financials or estimates

# Positive Impact: Accelerating the End of Smoking

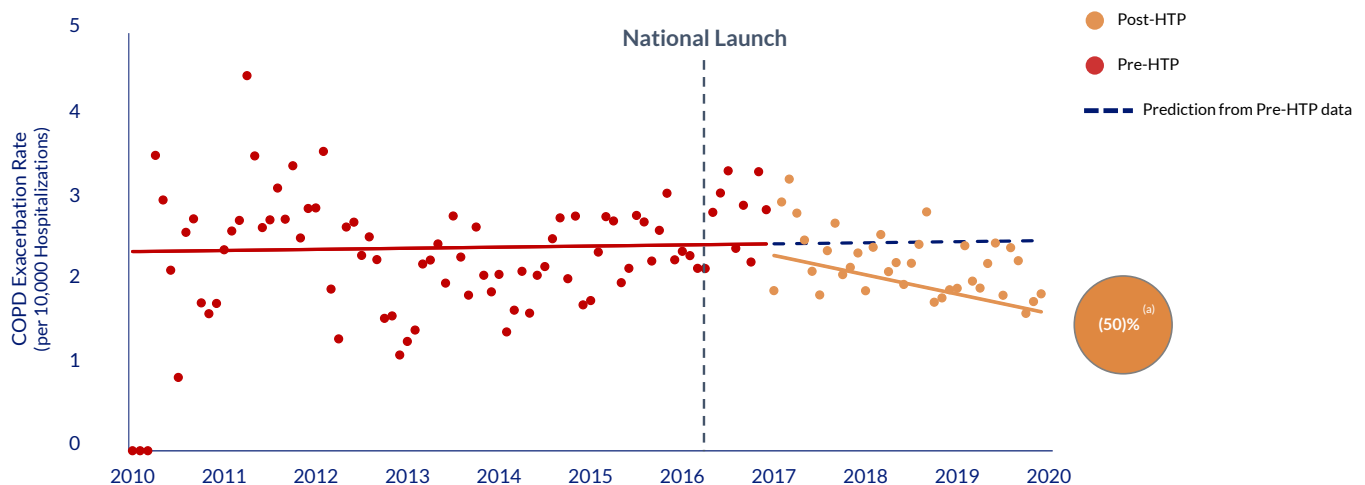
(IMS in billion units)



Note: Select examples. Total market includes Cigarettes + HTUs + OTP but excludes e-cigarettes. For full case study and methodology including limitations please see [PMI.com](https://www.pmi.com). Source: PMI Financials or estimates

# Positive Health Impacts: First Indications via Real-World Data in Japan

COPD Exacerbation Hospitalization Rate Over Time  
MDV Hospital Records



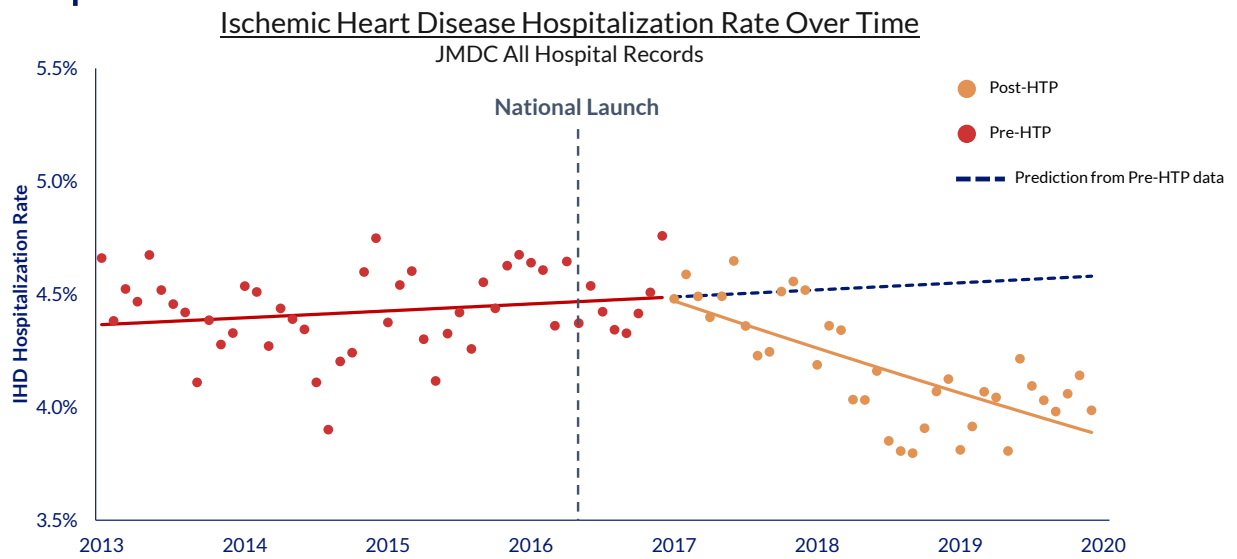
(a) Difference in regression line estimate from pre-HTP and post-HTP periods (December 2019). HTP stands for Heated Tobacco Products

Note: Model adjusting for age and sex. COPD stands for Chronic Obstructive Pulmonary Disease. Observational time-trend analysis looking at temporal associations and not designed to assess cause and effect. Specific factors associated with changing hospitalization rates over time have not been fully analyzed. Subject to inherent limitations of ecological analysis.

PMI Open Science Event, held on February 17, 2021 (please see [PMIscience.com](https://www.pmi.com))

Source: MDV Diagnosis Procedure Combination Data. <https://en.mdv.co.jp/> (January 13, 2021)

# Positive Health Impacts: First Indications via Real-World Data in Japan



Note: HTP stands for Heated Tobacco Products. Model: adjusting for age and sex – other confounding factors that could influence hospitalization rates have not been fully analyzed. Observational time-trend analysis looking at temporal associations and not designed to assess cause and effect. Specific factors associated with changing hospitalization rates over time have not been fully analyzed. Subject to inherent limitations of ecological analysis  
Source: JMDC all event data. (Data available on <http://www.jmdc.co.jp/en/> on April 27, 2021)

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## Nicotine is Not the Main Problem, Combustion Is

- Nicotine is addictive and is not risk-free, but is not directly responsible for smoking-related disease; combustion is
- Certain NGOs propagate confusion on nicotine leading to consumer misunderstanding
- The 90-95%+ reduction in exposure to harmful and potentially harmful chemicals – from switching to heat-not-burn or e-vapor – will result in better public health outcomes
- Long-term epidemiology needed to precisely quantify the benefit of switching to smoke-free products
- Tackling unintended use of smoke-free products is fundamental to building a sustainable business

“

*Nicotine, though not benign, is not directly responsible for the tobacco-caused cancer, lung disease, and heart disease that kill hundreds of thousands of Americans each year. The FDA's approach to reducing the devastating toll of tobacco use must be rooted in this foundational understanding: other chemical compounds in tobacco, and in the smoke created by combustion, are primarily to blame for such health harms<sup>(a)</sup>*

FDA – September 2017

“

*Nicotine is not, however, in itself a highly hazardous drug (...) it is inherently unlikely that nicotine inhalation itself contributes significantly to the mortality or morbidity caused by smoking. The main culprit is smoke and, if nicotine could be delivered effectively and acceptably to smokers without smoke, most if not all of the harm of smoking could probably be avoided<sup>(b)</sup>*

UK Royal College of Physicians – April 2016

(a) (FDA) - September 21, 2017 N Engl J Med 2017; 377:1111-1114 DOI: 10.1056/NEJM1707409

(b) Royal College of Physicians, Nicotine without smoke: Tobacco harm reduction, 2016 (<https://rcplondon.ac.uk/projects/outputs/nicotine-without-smoke-tobacco-harm-reduction>)  
Note: Heat-not-burn and e-vapor are categories where individual products require scientific substantiation to establish level of reduction in HPHCS

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# Nicotine is Key to Accelerating the End of Smoking

It is difficult to envision how a world without cigarettes can be achieved in a timely manner without nicotine-containing alternatives

Education about what nicotine is — and what it is not — is required to accelerate progress

We are acting on three fronts:

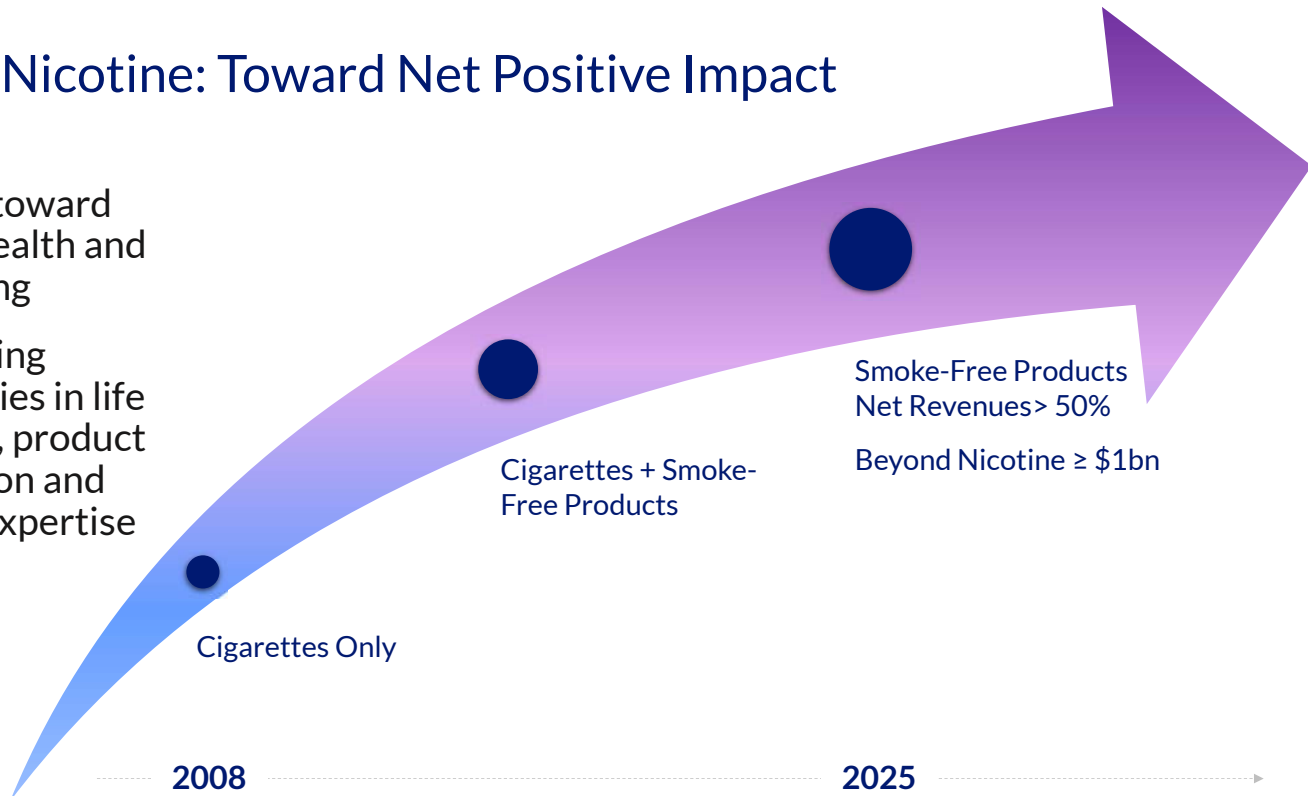
1. Analyze risks and potential benefits of nicotine use, when not in combination with combusted tobacco, and share findings
2. Commercialize our products responsibly, helping to guard against use by unintended audiences
3. Conduct post-market studies to understand how our products are used and by whom



We believe a science-based societal discussion on nicotine is now warranted

# Beyond Nicotine: Toward Net Positive Impact

- Moving toward better health and well-being
- Leveraging capabilities in life sciences, product innovation and clinical expertise





# Beyond Nicotine: How & What

## Growth opportunities that go beyond nicotine



Leveraging our scientific and engineering knowledge around inhalation and aerosol delivery



Making use of our scientific assessment capabilities to support product testing



Repurposing our technology on devices to serve therapeutic purposes, able to deliver other substances, beyond nicotine



Repurposing the tobacco plant to serve other community needs that go beyond nicotine extraction

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## Great Achievements, Ambitious Targets

- Progress against our Purpose:
  - Over 19 million IQOS users<sup>(a)</sup>, of which over 70% have stopped smoking
  - Significant investments in smoke-free products while maintaining strong organic business performance and dividends
  - Almost one quarter of our net revenues from smoke-free products in 2020
- 2025 aspirational targets<sup>(b)</sup>:
  - Majority smoke-free by net revenues
  - 100 markets; access and impact
  - Beyond Nicotine: at least \$1 billion in net revenues



(a) Estimated users as of March 31, 2021  
(b) See Integrated Report 2020 for full list of aspirational targets  
Source: PMI Financials or estimates

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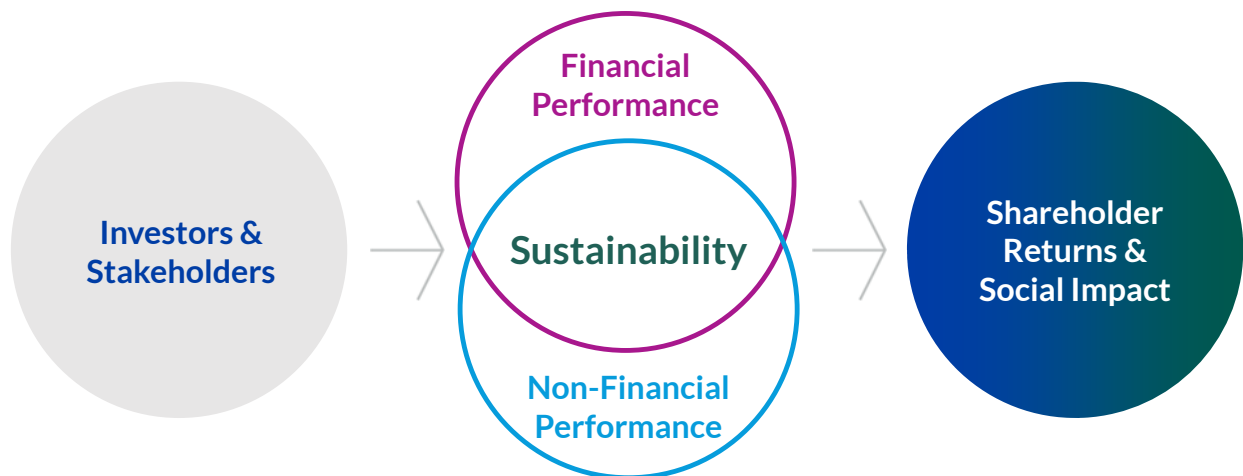


# Sustainability and Impact in Our Next Growth Phase

June 2, 2021

Emmanuel Babeau  
*Chief Financial Officer*

## Integrating Financial & Non-Financial Performance



# Strong Performance on Business Transformation Metrics

Shifting Our Resources to Deliver a Smoke-Free Future

	2015	2016	2017	2018	2019	2020
<b>R&amp;D expenditure (smoke-free/total)</b>	<b>70%</b>	<b>72%</b>	<b>74%</b>	<b>92%</b>	<b>98%</b>	<b>99%</b>
Commercial expenditure (Marketing) (smoke-free/total)	8%	15%	39%	60%	71%	76%
<b>Net revenues (smoke-free/total)</b>	<b>0.2%</b>	<b>2.7%</b>	<b>12.7%</b>	<b>13.8%</b>	<b>18.7%</b>	<b>23.8%</b>
<b>Smoke-free product shipment ratio<sup>(a)</sup> (smoke-free/total)</b>	<b>0.1%</b>	<b>0.9%</b>	<b>4.4%</b>	<b>5.1%</b>	<b>7.6%</b>	<b>10.4%</b>
Estimated total IQOS users <sup>(b)</sup> (in millions)	0.2	2.1	6.9	9.6	13.5	17.5
Estimated users who have switched to IQOS and stopped smoking <sup>(b)</sup> (in millions)	-	1.5	4.7	6.6	9.7	12.7
Proportion of markets where PMI smoke-free products are available, which are outside the OECD	-	32%	41%	44%	45%	52%
Number of markets where net revenues from smoke-free products exceed 50% of total net revenues	-	-	1	3	4	6

(a) The smoke-free product shipment ratio is computed based on millions of units. Smoke-free products include heated tobacco units and e-cigarettes. Total products include smoke-free products, cigarettes and other combustible products  
 (b) See Glossary for definition  
 Note: List of OECD group members as of December 2020.  
 Source: PMI Financials or estimates, IQOS user panels and PMI Market Research

## Driving Towards Ambitious 2025 Aspirational Goals



# Governance & Incentives Linked to Sustainability

- Strengthened and integrated ESG governance
- Sustainability reporting to the CFO
- Executive compensation linked to ESG+P performance

Governance

Metrics	ESG+P	Compensation Type
Transformation (smoke-free NR / Total NR)	Product	PSU 2021-23
Smoke-Free (HTU) Shipment Volume	Product	Annual Incentive Metrics
Strategic Initiatives	Environment, Social & Governance + Product	Annual Incentive Metrics
Carbon footprint reduction	Environmental	PSU 2021-23 <sup>(a)</sup>
Environmental leadership (CDP, Triple-A rating)	Environmental	PSU 2021-23 <sup>(a)</sup>
Electronics circularity (Recycling rate)	Environmental	PSU 2021-23 <sup>(a)</sup>
Diversity, equity & inclusion (% Women in senior roles)	Social	PSU 2021-23 <sup>(a)</sup>

(a) Included as PSU modifiers  
 Note: PSU stands for Performance Share Units  
 Source: 2021 PMI proxy statement

# Diverse & Inclusive Work Environment

- Progress and focus on diversity and inclusion as a key enabler of sustainable future success
- Gender balance targets for female representation:
  - Management positions to 40% by 2022
  - Senior roles to 32% by 2023
- Chief Diversity Officer reporting to CEO
  - Employee Resource Groups for Gender-balance, LGBTQ+; Race, ethnic and cultural diversity, Disability inclusion
  - New gender-inclusive parental leave policy
  - Identifying and developing local talent
  - Destigmatizing mental health issues and supporting employee well-being

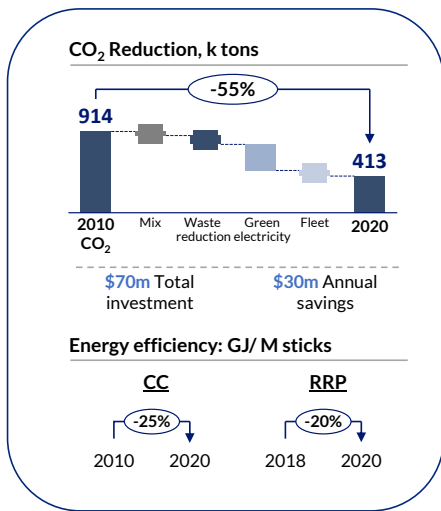


Note: Senior roles: the term we generically use to refer to all positions in a defined salary grade (14) and above. Management positions: the term we generically use to refer to all positions in a defined salary grade (10) and above

# Expect to Achieve 2030 Carbon Neutrality Target by 2025

(Scope 1 & 2)

## Strong Progress to date



- Now expect to achieve Scope 1 & 2 neutrality 5 years earlier than 2030 target
- Significant reduction in emissions over last 10 years, with <2.5 year payback on investments
- Decarbonization journey predominantly driven by our emission reduction initiatives:
  - Energy saving initiatives, renewable energy, hybrid and electric fleet
  - Also establishing portfolio of climate investments for insetting, high-quality offsets and carbon removal technology
- Continue to aim for net zero in our value chain (Scope 1, 2 & 3) by 2050

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## ESG Ratings and Frameworks

- Investors increasingly care about ESG and impact
- ESG ratings spur greater transparency and incentivize companies to improve their performance
- We engage with ratings agencies where possible
- Important to recognize limitations:
  - Backward-looking nature
  - Lack of consideration for Product impacts, incl. opportunities/reduced harm of smoke-free products
  - Differing methodologies lead to inconsistent ratings
- We are a leading proponent of sustainability reporting frameworks



CLIMATE FORESTS WATER



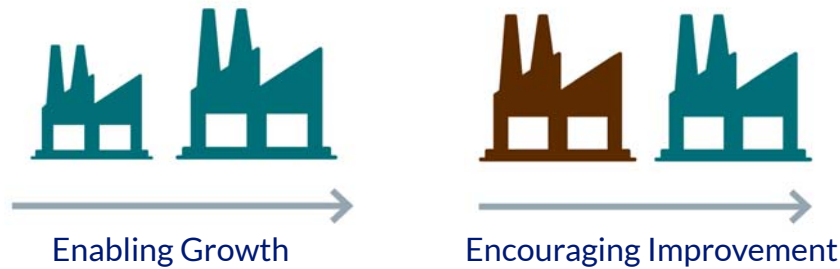
Member of  
**Dow Jones Sustainability Indices**  
 Powered by the S&P Global CSA



Note: See Appendix for list of ESG ratings performance in 2020

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# The Power of Investor Engagement



“

*Investors can change company impact by enabling impactful companies to grow or encouraging companies to improve*

The Investor's Guide to Impact, Prof. Heeb, Dr. Koelbel, University of Zurich, October 21, 2020

Source: [https://www.csp.uzh.ch/dam/jcr:ab4d648e-92cd-4b6d-8fc8-5bc527b0c4d9/CSP\\_Investors%20Guide%20to%20Impact\\_9\\_3\\_2021\\_spreads.pdf](https://www.csp.uzh.ch/dam/jcr:ab4d648e-92cd-4b6d-8fc8-5bc527b0c4d9/CSP_Investors%20Guide%20to%20Impact_9_3_2021_spreads.pdf)

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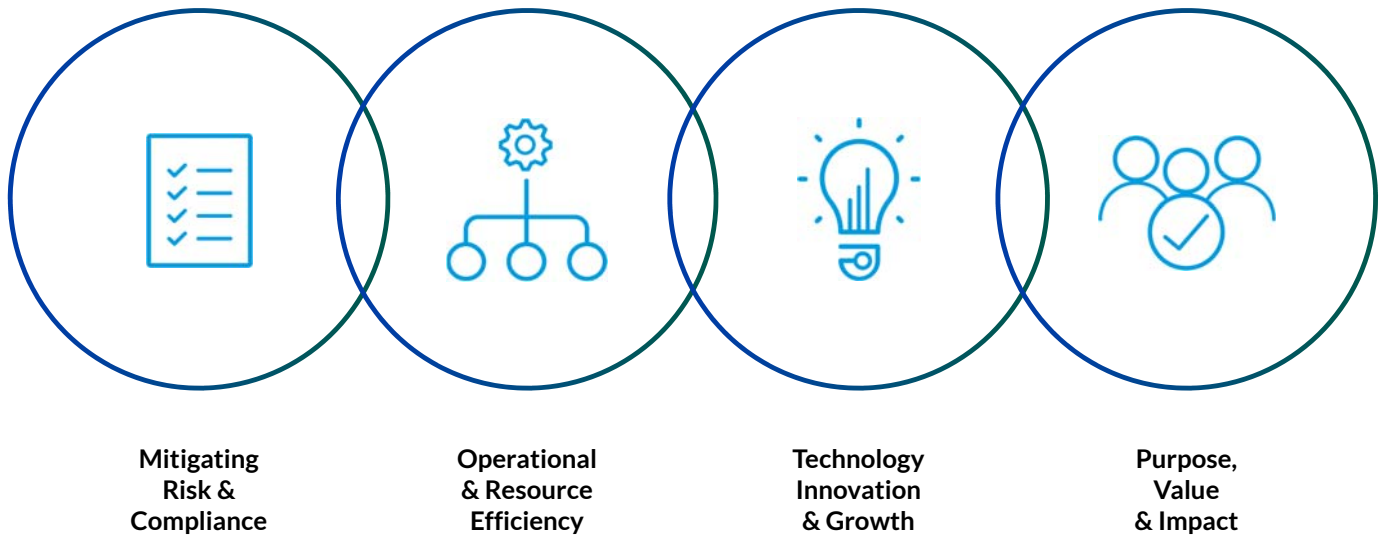
Delivering a Smoke-Free Future

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Jennifer Motles  
Chief Sustainability Officer

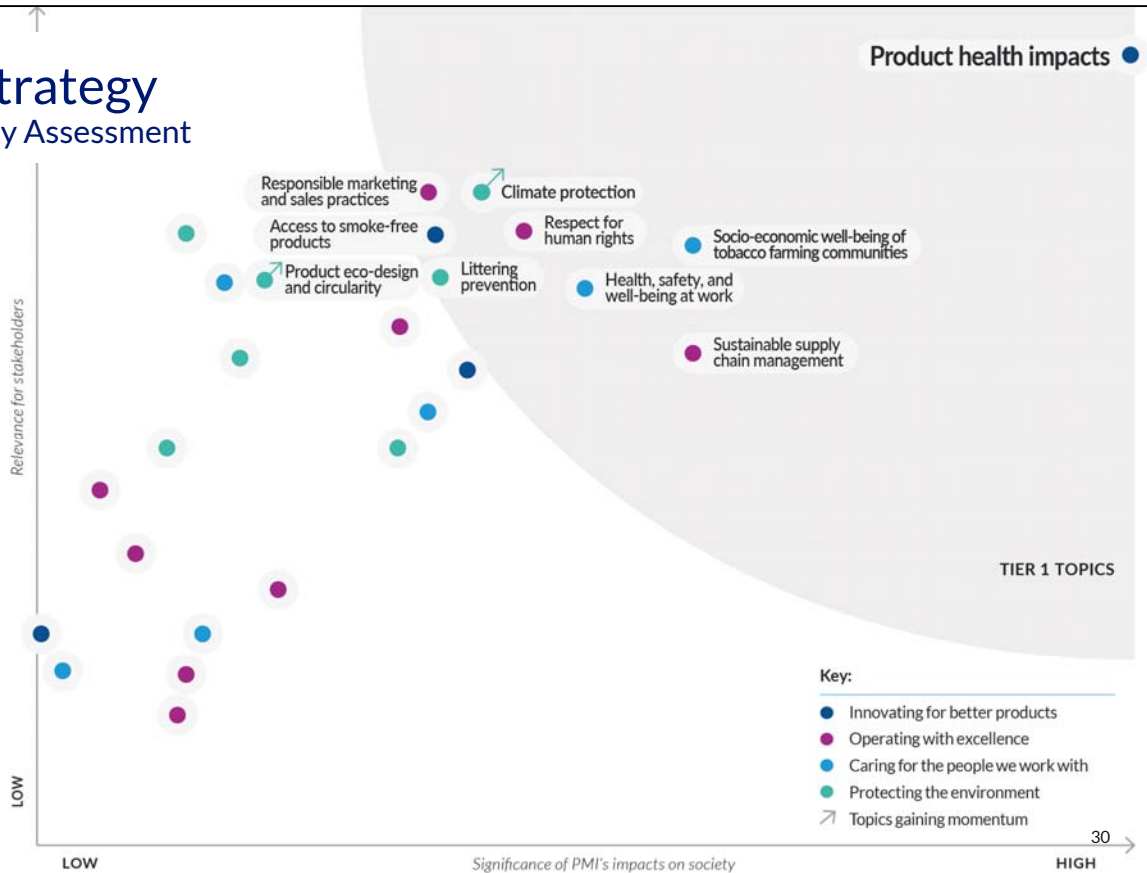
# Sustainability at PMI



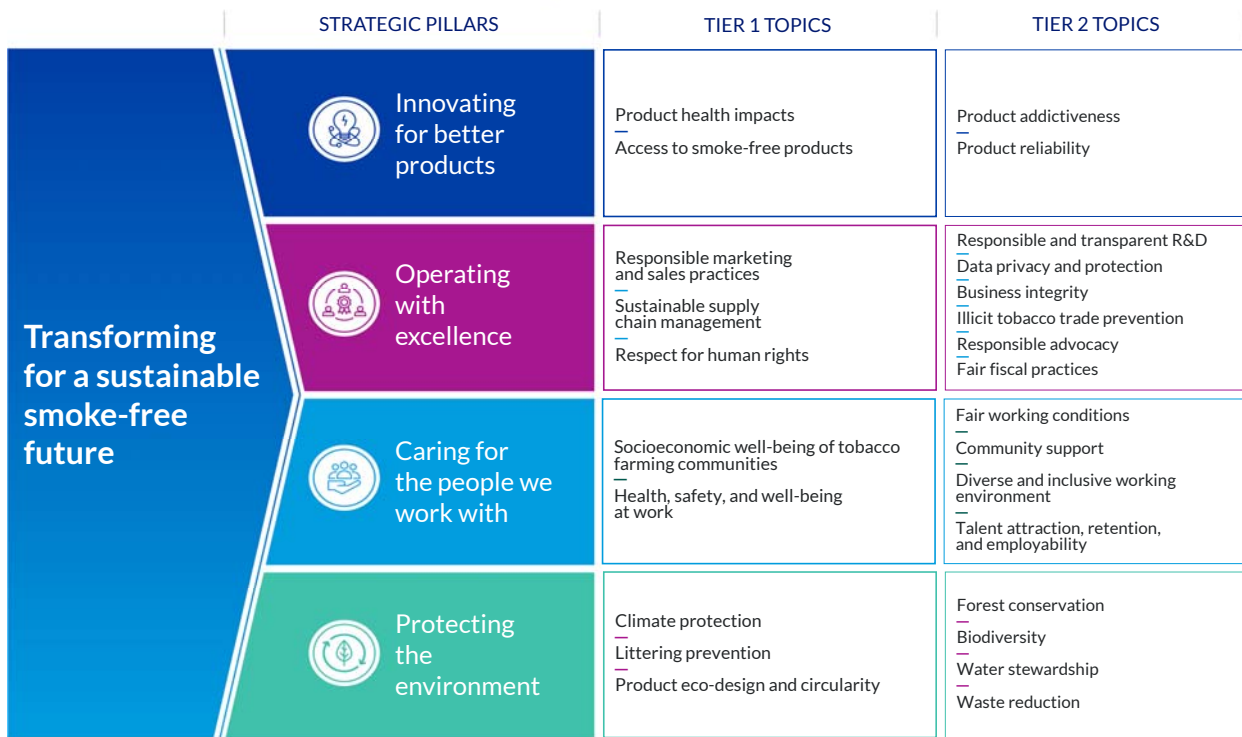
## Defining Our Strategy Sustainability Materiality Assessment



Note: The terms "materiality", "material" and similar terms, when used in the context of economic, environmental, and social topics, are defined in the referenced sustainability standards, and are not meant to correspond to the concept of materiality under the U.S. securities laws and/or disclosures required by the U.S. Securities and Exchange Commission Source: Integrated Report 2020



# Sustainability at PMI: Strategic Framework

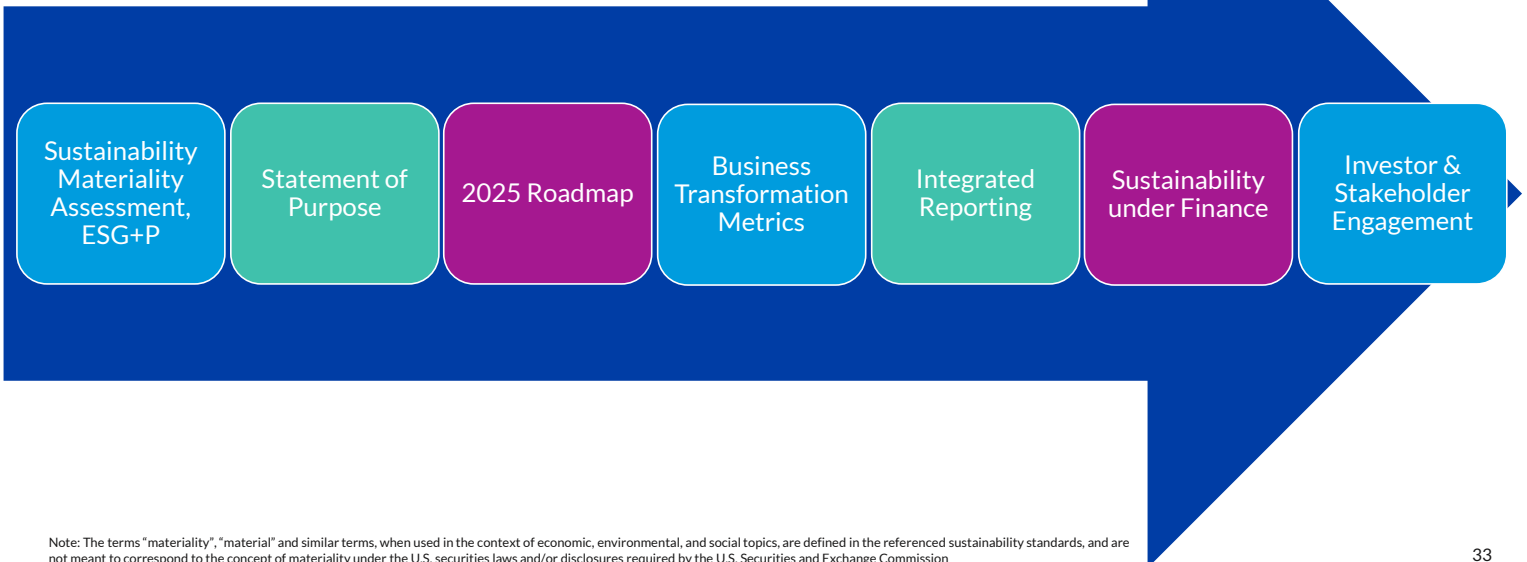


# Progress on Our 2025 Roadmap





# Embedding Sustainability into Our Strategy



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

# Comprehensive & Transparent ESG Resources

To learn more about PMI's approach to sustainability and ESG performance:



→ See [PMI Integrated Report 2020](#) (PDF version)



→ See [PMI sustainability disclosures on PMI.com](#)



→ See [PMI Sustainability Materiality Report 2019](#)

More resources

- [Sustainability resources](#)
- [Subscribe to PMI's quarterly sustainability newsletter](#)
- [ESG Highlights Deck](#)
- [Performance Metrics](#)

Reporting on Sustainability



PMI Sustainability Website



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World Economic Forum Index

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Sustainable Development Goals Index

[Index table](#)



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Delivering a Smoke-Free Future

# Sustainability and Impact in Our Next Growth Phase

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Questions & Answers



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# Sustainability and Impact in Our Next Growth Phase

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Jacek Olczak  
*Chief Executive Officer*

Closing Remarks

## Appendix: Performance on Key ESG ratings

Rating agencies	PMI's performance in 2020	Score
<b>Bloomberg Gender-Equality Index</b>	Named to the Bloomberg Gender-Equality Index	Included in the index
<b>CDP Climate, Forest, Water Security</b>	Awarded "Triple A" score for our efforts to combat climate change, protect forests, and water security. This marks the seventh consecutive year that PMI has ranked on CDP's A List for Climate Change and the second consecutive year that the company earned a position on the Water Security A List.	Triple A
<b>CDP Supplier Engagement</b>	Placed on Supplier Engagement Leaderboard for the fourth consecutive year	Leader
<b>ISS-oekom</b>	"C" score, achieving industry leadership (2019 score; assessment is updated every two years)	C
<b>MSCI</b>	Maintained BBB score	BBB
<b>SAM Corporate Sustainability Assessment</b>	Included in the Dow Jones Sustainability Index (DJSI) North America; ranked third in the industry; leading the industry for the third year in a row in DJSI's innovation management category	74
<b>S&amp;P ESG Evaluation</b>	Scored 60/100, based on ESG Profile Score (57/100) and Preparedness Opinion ("Adequate"). PMI's ESG Profile Score is assessed based on entity-specific scores and sector/region scores	60
<b>Sustainalytics</b>	Ranked third within the tobacco subindustry ESG Risk Rating, with medium exposure score and strong management score	24.4
<b>State Street R-factor Score</b>	Outperformer within the tobacco industry; industry average score of 47	56
<b>Tobacco Transformation Index</b>	Ranked 2 out of 15 tobacco companies assessed; leading the industry for "Strategy and Management" category	2.36

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## Glossary of Key Terms and Definitions

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## Glossary: General Terms

- "PMI" refers to Philip Morris International Inc. and its subsidiaries
- Until March 28, 2008, PMI was a wholly owned subsidiary of Altria Group, Inc. ("Altria"). Since that time the company has been independent and is listed on the New York Stock Exchange (ticker symbol "PM")
- Trademarks are italicized
- Comparisons are made to the same prior-year period unless otherwise stated
- Unless otherwise stated, references to total industry, total market, PMI shipment volume and PMI market share performance reflect cigarettes and heated tobacco units
- References to total international market, defined as worldwide cigarette and heated tobacco unit volume excluding the U.S., total industry, total market and market shares are PMI 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 PMI's duty free business. In addition, to reflect the deconsolidation of PMI's Canadian subsidiary, Rothmans, Benson & Hedges, Inc. (RBH), effective March 22, 2019, PMI's total market share has been restated for previous periods
- 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
- "OTP" is defined as "other tobacco products," primarily roll-your-own and make-your-own cigarettes, pipe tobacco, cigars and cigarillos, and does not include reduced-risk products
- "Combustible products" is the term PMI uses to refer to cigarettes and OTP, combined
- "IMS" or In-market sales, is defined as sales to the retail channel, depending on the market and distribution model
- "Total shipment volume" is defined as the combined total of cigarette shipment volume and heated tobacco unit shipment volume
- "RBH" refers to PMI's Canadian subsidiary, Rothmans, Benson & Hedges Inc.
- The Companies' Creditors Arrangement Act (CCAA) is a Canadian federal law that permits a Canadian business to restructure its affairs while carrying on its business in the ordinary course

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## Glossary: General Terms (cont.)

- "EU" is defined as the European Union Region
- "EE" is defined as the Eastern Europe Region
- "ME&A" is defined as the Middle East & Africa Region and includes PMI's duty free business
- "S&SA" is defined as the South & Southeast Asia Region
- "EA&A" is defined as the East Asia & Australia Region
- "LA&C" is defined as the Latin America & Canada Region
- Following the deconsolidation of PMI's Canadian subsidiary, Rothmans, Benson & Hedges, Inc. (RBH), PMI will continue to report the volume of brands sold by RBH for which other PMI subsidiaries are the trademark owner. These include *HEETS*, *Next*, *Philip Morris* and *Rooftop*
- 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, such as on an IMS basis, improves the comparability of performance and trends for these measures over different reporting periods
- "ESG" stands for environmental, social, and governance
- "OECD" is defined as Organisation for Economic Co-operation and Development
- "SoM" stands for share of market

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## Glossary: Financial Terms

- 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. PMI recognizes revenue when control is transferred to the customer, typically either upon shipment or delivery of goods
- Net revenues related to RRP's represent the sale of heated tobacco units, heat-not-burn devices and related accessories, and other nicotine-containing products, primarily e-vapor products, including shipping and handling charges billed to customers, net of sales and promotion incentives, and excise taxes. PMI recognizes revenue when control is transferred to the customer, typically either upon shipment or delivery of goods

## Glossary: Reduced-Risk Products

- "Reduced-risk products," or "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's in various stages of development, scientific assessment and commercialization. PMI RRP's are smoke-free products that produce an aerosol that contains far lower quantities of harmful and potentially harmful constituents than found in cigarette smoke
- "Aerosol" refers to a gaseous suspension of fine solid particles and/or liquid droplets
- "Combustion" is the process of burning a substance in oxygen, producing heat and often light
- "Smoke" is a visible suspension of solid particles, liquid droplets and gases in air, emitted when a material burns
- "Heated tobacco units," or "HTUs," is the term PMI uses to refer to heated tobacco consumables, which for PMI include the company's *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 brand, *Fiit* and *Miix* (outside of Korea)
- The IQOS heat-not-burn device is a precisely controlled heating device into which a specially designed and proprietary tobacco unit is inserted and heated to generate an aerosol
- "PMI heat-not-burn products" include licensed KT&G heat-not-burn products
- "PMI HTUs" include licensed KT&G HTUs
- HTU "offtake volume" represents the estimated retail offtake of HTUs based on a selection of sales channels that vary by market, but notably include retail points of sale and e-commerce platforms
- HTU "offtake share" represents the estimated retail offtake volume of HTUs divided by the sum of estimated total offtake volume for cigarettes and HTUs
- 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
- "Total IQOS users" is defined as the estimated number of Legal Age (minimum 18 years) users of PMI heat-not-burn products for which PMI HTUs represented at least 5% of their daily tobacco consumption over the past seven days. Note: as of December 2020, PMI heat-not-burn products and HTUs include licensed KT&G heat-not-burn products and HTUs, respectively

## Glossary: Reduced-Risk Products (cont.)

- The estimated number of adults who have "switched to IQOS and stopped smoking" reflects:
  - for markets where there are no heat-not-burn products other than PMI heat-not-burn products: daily individual consumption of PMI HTUs represents the totality of their daily tobacco consumption in the past seven days
  - for markets where PMI heat-not-burn products are among other heat-not-burn products: daily individual consumption of HTUs represents the totality of their daily tobacco consumption in the past seven days, of which at least 70% is PMI HTUs

Note: as of December 2020, PMI heat-not-burn products and HTUs include licensed KT&G heat-not-burn products and HTUs, respectively

- "FDA" stands for the U.S. Food & Drug Administration
- "MRTP" stands for Modified Risk Tobacco Product, the term used by the U.S. FDA to refer to RRP
- "MRTP application" stands for Modified Risk Tobacco Product application under section 911 of the FD&C Act
- "PMTA" stands for Premarket Tobacco Application under section 910 of the FD&C Act
- "Acquisition" refers to our efforts to switch LAS from smoking cigarettes to RRP or to switch LAU from competing smoke-free products to PMI's RRP
- "Retention" refers to our efforts to deter LAU from going back to smoking cigarettes or from choosing a competing smoke-free product instead of a PMI RRP



PHILIP MORRIS  
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Delivering a Smoke-Free Future

# Sustainability and Impact in Our Next Growth Phase

June 2, 2021

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