Philip Morris International Inc.
2022 First-Quarter Conference Call
April 21, 2022

NICK ROLLI

(SLIDE 1.)

Welcome. Thank you for joining us. Earlier today, we issued a press release containing detailed information on our 2022 first-quarter results. You may access the release on www.pmi.com.

(SLIDE 2.)

A glossary of terms, including the definition for reduced-risk products, or "RRPs," as well as adjustments, other calculations and reconciliations to the most directly comparable U.S. GAAP measures and additional heated tobacco unit market data are at the end of today's webcast slides, which are posted on our website. Unless otherwise stated, all references to *IQOS* are to our *IQOS* heat-not-burn products, and all references to smoke-free products are to our RRPs.

Growth rates presented on an organic basis reflect currency-neutral adjusted results excluding acquisitions. Figures and comparisons presented on a pro forma basis entirely exclude PMI's operations in Russia and Ukraine.

In the third quarter of 2021, we acquired Fertin Pharma, Vectura Group and OtiTopic. On March 31, 2022, we launched a new Wellness and Healthcare business Vectura Fertin Pharma, which consolidates these entities. The operating results of this new business are reported in the 'Other' category. Business operations of our Wellness and Healthcare business are managed and evaluated separately from the geographical segments.

(SLIDE 3.)

Today's remarks contain forward-looking statements and projections of future results. I direct your attention to the Forward-Looking and Cautionary Statements disclosure in today's presentation and press release for a review of the various factors that could cause actual results to differ materially from projections or forward-looking statements.

It's now my pleasure to introduce Jacek Olczak, Chief Executive Officer, and Emmanuel Babeau, Chief Financial Officer. Over to you, Jacek.

JACEK OLCZAK

(SLIDE 4.)

Thank you, Nick, and welcome everyone. I hope you are all safe and well.

Recent months have been extremely challenging for many of us given the tragic events related to the war in Ukraine. I would like to express our sadness and solidarity for the people of Ukraine. Our primary concern is for our employees and their families and we have been doing everything we can to support them, with three priorities. First, evacuating our colleagues—we have evacuated over 1,000 colleagues and family members from the country and supported more than 2,700 others to move from conflict zones to locations away from the heaviest fighting. Second, we are delivering critical aid to people that cannot leave or who decided to remain in Ukraine. And third, we are providing accommodation, immediate assistance and a path forward to those who left the country.

In addition, we have already contributed around $10 million in funds and donated essential items across the country, directly to humanitarian organizations and through our own employee-led initiative, 'Projects With a Heart'. This includes providing medicine, food, clothes, and a variety of other items to our colleagues and to the broader population, the purchase of 25 ambulances and the set-up of a mobile hospital. Based on our current visibility, we estimate an additional cost of around $25 million for additional support to employees this year.

Our colleagues in neighboring countries continue to provide vital support to all people arriving from Ukraine to seek refuge. Our heartfelt gratitude goes to everyone involved in these generous efforts to help at such a difficult time.

(SLIDE 5.)

In terms of the impact on our business operations, production at our Ukraine manufacturing facility in Kharkiv remains suspended. While business activities in eastern Ukraine have been mostly heavily impacted, we have seen some resumption in areas where conditions allow as we seek to maximize product availability and service to consumers, using existing inventories on hand. We are also now planning to import products from other manufacturing locations, although this may involve higher costs. We continue to pay salaries to all our Ukrainian employees and to provide substantial in-kind support to them and their families.

As communicated in our March 24 press release, PMI's board of directors and senior executive team are working on options to exit the Russian market in an orderly manner in the context of a complex and rapidly changing regulatory and operating environment. This is no easy task in view of recently introduced complex legislation, but we are committed to seeking a viable path to exit the market while supporting our employees in Russia through this period, including by continuing to pay their salaries.

It is also clear that we cannot continue business as usual in light of regulatory and supply chain disruption, which has already impacted the Russian business in Q1. We have taken concrete steps to scale back our operations, such as the cancellation of all new investments and product launches, including *IQOS ILUMA* and *IQOS VEEV.* We are delisting 25% of our cigarette products, including *Marlboro* and *Parliament* SKUs. We have also canceled the $150 million investment in capacity to ultimately manufacture more than 20 billion *TEREA* sticks for *IQOS ILUMA* in our Russian factory.

Clearly, the impact of the conflict has also created disruption in global supply chains and exacerbated inflationary pressures in certain materials and services. However, the Q1 performance and outlook for our business excluding Russia and Ukraine remains strong.

On a reported basis our outlook conservatively assumes no further contribution from Russia or Ukraine from April 1. To provide a consistent view, given the uncertainty and volatility in these two markets, we will now also provide adjusted results and guidance on a pro forma basis excluding Russia and Ukraine from both the prior and full current year.

I will now hand over to Emmanuel to cover this in more detail.

EMMANUEL BABEAU

(SLIDE 6.)

Thank you, Jacek.

We delivered a very strong performance in Q1, with double-digit organic net revenue and currency-neutral adjusted diluted EPS growth on a pro forma basis excluding Russia and Ukraine from both the current and prior year quarter. Overall currency-neutral results were also ahead of our expectations.

Our *IQOS* business delivered an excellent quarter, continuing the reacceleration seen last quarter as device supply constraints continue to ease. Our *IQOS* user base grew by more than 1 million excluding Russia and Ukraine, marking a very strong performance. RRP pro forma net revenues grew by 23%, with pro forma smoke-free net revenues over 30% of the total company.

Importantly, pro forma HTU shipment volumes grew 18% compared to the prior year quarter. This reflects excellent progress in the EU Region, continued growth in Japan as well as over 50% growth in low and middle-income markets. PMI HTUs are now the second largest nicotine brand in markets where *IQOS* is present as our efforts on innovation, portfolio and geographic expansion drive consumer trial and adoption.

The impressive start for *IQOS ILUMA* continues in Japan and Switzerland, with very encouraging initial take-up in our latest launch market of Spain. The initial success in these three very different markets reaffirms our confidence in *ILUMA* as an exciting future growth driver for our company.

Meanwhile, our combustible business performed robustly, exceeding our objective of stable category share and delivering positive volume and organic net revenue growth. In addition to supporting strong financial performance, this also enhances our ability to maximize the switching of adult smokers to smoke-free alternatives.

Overall our business is off to a strong start, and while currency is unfavorable in 2022, we expect to deliver another year of robust organic top and bottom line growth.

(SLIDE 7.)

Turning to the headline numbers, our Q1 net revenues grew organically by 9.0% in total and 10.0% on a pro forma basis. This reflects total volume growth driven by the underlying strength of *IQOS,* the ongoing recovery of the combustible business in many markets against a pandemic-affected comparison, and some positive timing impacts, including inventory movements.

Our total organic net revenue per unit grew 5.3% and by 4.9% on a pro forma basis, driven by the increasing proportion of *IQOS* HTUs in our sales mix, higher device volumes, and pricing. Combustible pricing was above expectations at 2.9% pro forma, or around 6% also excluding Indonesia.

Our total Q1 adjusted operating income margin declined organically by 30 basis points, and by 40 basis points excluding Russia and Ukraine. This reflects a lower gross margin compared to a tough prior year comparison where productivity was higher mostly due to timing factors. As flagged in our full year earnings, Q1 margins were impacted by higher device sales for increasing *IQOS* user acquisition, channel replenishment and *IQOS ILUMA*. As mentioned previously, the unit cost and weight of *ILUMA* consumables and device cost is initially higher as we ramp up production, with improvement expected from next year. Inflation in certain elements of our supply chain, including energy, wages and direct materials and an increase in the use of air freight, was also exacerbated by the impact of the war in Ukraine.

Despite these temporary margin challenges, we saw positive effects of the increasing size of *IQOS*, pricing, and cost efficiencies combined with our strong net revenue growth. This enabled us to deliver adjusted diluted EPS of $1.56, including unfavorable currency of 23 cents, representing 14% currency-neutral growth. This was comfortably ahead of our currency-neutral expectations, even accounting for timing benefits of around 6 cents. Excluding Russia and Ukraine, our pro forma adjusted diluted EPS of $1.46 grew by 16%.

(SLIDE 8.)

Turning now to our 2022 outlook. As Jacek mentioned, given the lack of visibility on Russia and Ukraine, we are now providing an adjusted outlook on a pro forma basis excluding these two markets for the entire year.

With our underlying business reaccelerating, our growth fundamentals remain strong. Importantly, we expect to deliver organic net revenue growth of 4.5% to 6.5% compared to 2021 pro forma adjusted net revenues of $29.2 billion. This is above our previous forecast trajectory for total PMI, despite an approximate half-point drag from the shift to hyperinflationary accounting in Turkey.

This range incorporates the risk of supply chain disruption for certain materials, a somewhat slower *TEREA* production capacity build-up due to the production cancellation in Russia, part of which was designated for export, the remaining uncertainty on full device availability, and the pace of the ongoing pandemic recovery.

We expect our pro forma adjusted OI margin to be organically 0 to 100 basis points higher for the full year. As mentioned at full year results, we expect a lower gross margin as we invest in new innovations and incur temporarily higher unit and transportation costs for the fast growth of *ILUMA*. Since then, we have observed increased inflation in raw material and energy prices, and additional supply chain costs due to war-related disruptions -- including a temporary increase in air freight for both HTUs and select cigarette products. Higher expected device sales from the tremendous uptake of *IQOS ILUMA*, and easing of device supply constraints also have an initial dilutive margin impact. Despite these added headwinds, and a further expected COGS increase of around $300 million compared to our initial expectations we remain confident that we will achieve organic pro forma margin expansion as our strong revenue growth, favorable product mix and cost savings initiatives deliver sustainable accretion.

We forecast pro forma currency-neutral adjusted diluted EPS growth of 9% to 11%, also above our prior total PMI full year guidance. This translates into a pro forma adjusted diluted EPS range of $5.35-$5.46, including an estimated unfavorable currency impact of around 63 cents at prevailing rates. This compares to our previous 2022 adjusted diluted EPS guidance of $6.12 to $6.30 provided in February, with the difference primarily reflecting the exclusion of Russia and Ukraine and an incremental unfavorable currency impact.

(SLIDE 9.)

The underlying *IQOS* growth outlook remains excellent. On a pro forma basis, we expect to deliver between 88 and 92 billion HTU shipment volumes, representing 20% to 25% growth over the pro forma prior year of 73.5 billion units. This excludes the nearly 5 billion units shipped in Russia and Ukraine in Q1, and while we conservatively assume no further such contribution from April 1, this implies a total outlook of 93 to 97 billion units. We continue to expect pro forma HTU shipments to be modestly ahead of IMS for the year, after lagging behind in the second quarter as I'll explain later.

(SLIDE 10.)

As outlined in today's release, there are a number of other assumptions underpinning our outlook. We expect the total industry volume of cigarettes and HTUs, excluding Russia, Ukraine, U.S. and China, to decline by up to -1%. Given our leadership in smoke-free products, the structural growth of the category and its growing proportion in our business, as well as stabilizing share in combustibles, we expect to gain share. We therefore target positive total PMI pro forma shipment volumes, within a range of flat to 1%.

We assume full year combustible pro forma pricing of around 3%, now including the adverse impact from hyperinflationary accounting in Turkey. The pricing environment is improving, including in Indonesia, although challenges remain due to ongoing pandemic-related impacts and disposable income pressures.

Our other assumptions include around $10 billion in operating cash flow and a effective tax rate of 21-22%. We continue to expect full-year capital expenditures of around $1.0 billion. Despite the impact of the war in Ukraine, our balance sheet remains strong and we remain steadfastly committed to returning cash to shareholders through dividends and opportunistic share repurchases.

(SLIDE 11.)

With regard to the phasing of pro forma performance this year, we expect a robust H1 overall, with margin expansion and adjusted diluted EPS growth weighted to the second half. In large part this reflects the reacceleration of *IQOS* as device supply constraints ease, with a sharp recovery in device volumes as we replenish channel inventories for user acquisition and we supply the accelerated *ILUMA* replacement cycle in Japan. In addition, our average device price is lower than the prior year, reflecting stepped-up commercial activities to drive acquisition, including the broadening of our device portfolio with *LIL* and *ILUMA ONE*. While our devices continue to be priced at a meaningful premium to heavily discounted competitive offerings, we have already seen encouraging signs in stabilizing our high category share.

Moreover, as we adjust our supply chain flows to prevailing global disruptions in various materials and logistic services, combined with the effects of the war in Ukraine, there may be a risk of short out-of-stock situations on certain cigarette SKUs in select markets, and we are making adjustments to some products to reflect the availability of specific materials. The reorganization of supply chain flows will contribute to the later timing of shipments to certain markets.

We notably expect Q2 to be impacted by a number of temporary or specific factors, including the reversal of certain Q1 timing benefits. Organic pro forma net revenue growth is expected to be low single-digit, with other notable factors including the delayed timing of HTU and cigarette shipments to Japan with an approximate 2 point drag on growth, and a further impact from the shift to hyperinflationary accounting in Turkey, where the Q2 exchange rate comparison is accentuated. We expect total PMI pro forma HTU shipments of around 20 billion in Q2, partly reflecting around 3 billion less HTU shipments to Japan than originally planned. This compares to 18.7 billion pro forma in Q2, 2021. We expect these 3 billion units to move to H2, generating a further growth acceleration in the third and fourth quarters.

For Q2 pro forma operating margins, the disproportionate impact of the catch-up in device shipments will be accompanied by a corresponding step-up in commercial investments as we support the reacceleration of *IQOS* user acquisition over the coming quarters. In tandem with the negative mix impact of lower shipments to Japan, the highest expected quarterly increase in air freight costs of over $80 million, and other supply chain adjustment costs, we expect margins to contract further, before a significant recovery in the second half.

These dynamics are reflected in our expectation of H1 pro forma adjusted diluted EPS of $2.65-$2.70, including an unfavorable currency impact of 36 cents at prevailing rates. This represents currency-neutral growth of 5%-7% compared to $2.86 in the prior year. In combination with our strong first quarter, H1 pro forma top-line performance is expected to deliver organic growth of 5-7% overall.

In H2, the powerful drivers of pricing, scale and efficiencies, and the receding of temporary cost headwinds, should outweigh inflationary pressures to deliver strong top-line growth, organic margin expansion and an acceleration in bottom-line growth.

(SLIDE 12.)

Our strong 2022 outlook places us firmly on track to deliver our 2021-23 CAGR targets on a pro forma basis of more than 5% in organic net revenue growth, and more than 9% in currency-neutral adjusted diluted EPS growth. We remain on track to deliver around $2 billion in gross cost savings by 2023, which is especially important given global inflationary pressures.

Importantly, our ambition to become a majority smoke-free business by net revenues in 2025 remains intact. We remain confident in the rapid pace of our transformation.

(SLIDE 13.)

Turning back to our Q1 results, total shipment volumes increased by 3.5% on a total PMI basis and by 4.9% pro forma. This reflects continued strong broad-based pro forma growth from HTUs of 18.4% as user acquisition reaccelerates from the Q3, 2021 supply-driven slowdown; and an increase of 3.2% in pro forma cigarette volumes reflecting the continued recovery of the total industry and of our category share.

(SLIDE 14.)

The transformation of our business towards smoke-free products continues at a rapid pace. Heated tobacco units comprised almost 13% of our total pro forma shipment volume in the first quarter, as compared to 11.6% in full year 2021.

Our sales mix is also evolving rapidly, as we aim to become a majority smoke-free company. Smoke-free net revenues made up over 30% of our pro forma total in Q1 compared to 27.9% for full year 2021.

IQOS devices accounted for approximately 6% of the $2.1 billion of Q1 RRP pro forma net revenues, reflecting higher year-over-year device volumes as supply constraints ease and *ILUMA* performs strongly.

(SLIDE 15.)

We delivered organic growth of 10% in Q1 pro forma net revenues on shipment volume growth of 4.9%. This growth reflects the twin engines driving our top line. The first is pricing, led by combustibles. The second is the increasing mix of RRPs in our business at higher net revenue per unit, which continues to deliver substantial growth; an increasingly powerful driver as our transformation accelerates.

(SLIDE 16.)

Let's now turn to the drivers of our Q1 pro forma OI margin, which declined by 40 basis points. Our pro forma gross margin decreased organically by 250 basis points reflecting the factors I mentioned earlier. Conversely, our pro forma adjusted marketing, administration and research costs were 210 basis points better organically, due to the positive operating leverage of *IQOS* growth and successful cost efficiency programs.

We generated around $180 million in gross cost savings in the first quarter, with around $80 million in COGS productivities and $100 million from SG&A. This makes over $1 billion since the start of 2021, already over halfway towards our target of around $2 billion for 2021-23. This allows us to reinvest in top-line growth, and mitigate inflationary pressures while continuing to deliver solid margin progression.

We continue to accelerate investment in our commercial programs, digital engine and R&D, as well as a number of growth opportunities across categories and geographies. As reflected in our full year guidance we expect our operating margin progression to improve over the course of the year as temporary headwinds and tough comparisons ease.

(SLIDE 17.)

Our combustible portfolio performed well in Q1, with robust pro forma growth in volumes and organic net revenues. This notably reflects a further recovery in Indonesia and the Philippines, supporting an expectation of organic net revenue growth and broadly stable volumes in our South and Southeast Asia

Region this year. Increased travel also supported volume growth in Spain and Duty Free.

Our share of the combustible category continued to recover with a 0.4 point pro forma gain in Q1 on a year-over-year basis. This includes gains in Japan, Turkey and Duty Free as our portfolio initiatives bear fruit and social consumption resumes - with *Marlboro* share 0.3 points higher. While the category is declining over time, our leadership in combustibles helps to maximize switching to smoke-free products, and we continue to target a stable category share over time, despite the impact of *IQOS* cannibalization.

(SLIDE 18.)

In terms of our overall market share, ongoing gains for our *IQOS* portfolio create continued positive momentum. We delivered pro forma share growth in Q1 as expected, including gains in Italy, Duty Free, Egypt, Germany and Poland. PMI HTUs are now the second largest nicotine 'brand' in the markets where they are present, with a 7.5% share excluding Russia and Ukraine. This includes the number 1 position in 6 markets.

(SLIDE 19.)

Moving now to *IQOS* performance, we estimate there were approximately 17.9 million *IQOS* users as of March 31, excluding Russia and Ukraine which had an estimated 4.8 million users at December 31, 2021. This reflects pro forma growth of more than 1 million users, a phenomenal performance by historic standards. This was driven by the resumption of consumer programs in many markets as device supply constraints receded, capitalizing on the strong underlying demand for the brand, as also evident in the very impressive start of *IQOS ILUMA*.

We estimate that 71% of total *IQOS* users outside Russia and Ukraine -- or 12.7 million adult smokers -- have switched to *IQOS* and stopped smoking, with the balance in various stages of conversion.

We were also very encouraged by the FDA's recent MRTP order for *IQOS 3*, with the full range of authorized *IQOS* products now classified as modified risk tobacco products.

(SLIDE 20.)

In the EU Region, first-quarter HTU share reached 7.6% of total cigarette and HTU industry volume, representing a first quarter share gain of 2.0 points, including a small benefit from the timing of inventory movements. Adjusted IMS volumes also continue to exhibit robust sequential growth, and we expect this to continue in the second quarter, noting that the usual seasonality of the combustible market combined with the reversal of Q1 inventory movements is expected to result in a lower sequential share in Q2.

This very good performance includes strong user and volume growth across the region, with especially notable contributions from Italy and Poland. I also want to again highlight Hungary and Lithuania where our Q1 national HTU share exceeded 25%.

(SLIDE 21.)

To give some further color on our progress in the EU Region, this slide shows a selection of the latest key city offtake shares. While Vilnius continues to lead the way, approaching 40% share; Budapest, Rome and Athens are also well into the mid-to-high 20s. Elsewhere, we are especially pleased by Vienna more than doubling to 5%, the strong traction in London at over 6% share, and a further acceleration in Zurich with the introduction of *ILUMA.*

(SLIDE 22.)

In Japan, the adjusted share for our HTU brands increased by 1.9 points to a record 22.7% in Q1. This performance reflects the strength of our portfolio and the launch of *IQOS ILUMA*, which is also driving notable gains in Tokyo and other key cities.

We expect strong offtake trends to continue in Q2, reaching around 24% market share, despite seasonality effects. Conversely, as I touched on earlier, supply chain constraints will likely result in Q2 HTU shipments below the prior year. With HTU inventories consequently reduced in the second quarter, we expect the replenishment in H2 to deliver a substantial recovery.

Notwithstanding such quarterly volatility, with substantial commercial activities planned and excellent underlying momentum, we expect strong double-digit HTU shipment volume growth in Japan this year.

(SLIDE 23.)

In addition to strong progress in developed countries, we see very promising *IQOS* growth in low and middle income markets.

The share of our HTU brands in the 28 such markets launched by December 31 2021, excluding Russia and Ukraine, grew by 0.8 points compared to the prior year to reach 2.6%. Given the large size of these markets, the premium position of the existing *IQOS* portfolio and the relatively early stage of commercialization, this represents excellent progress. As mentioned last quarter we also intend to bring a new complementary range of heat-not-burn devices and HTUs tailored to emerging markets towards the end of this year.

(SLIDE 24.)

A prime example of this is Egypt, where offtake exit share in Cairo is approaching 5% within 8 months of launch, as compared to total Q1 share of 4.3%. Other notable successes including the recently launched market of Morocco as well as Lebanon, Jordan, the Dominican Republic and the Philippines, despite pandemic restrictions in Manila.

(SLIDE 25.)

Moving now to *IQOS ILUMA*, we are delighted to report the further outstanding success since its launch, with sales performance and consumer reactions still exceeding our expectations.

In Japan, the uptake of *ILUMA* devices and consumables among both existing *IQOS* users and legal-age smokers has been rapid, with more than 30% of the large user base up-trading since the August, 2021 launch, and over 20% of sales remain to legal-age smokers new to *IQOS*. Moreover, the enhanced and consistently high quality user experience, better reliability and no need for cleaning has led to significant observed increases in conversion rates, retention rates and Net Promoter Score. This bodes well for volumes, with premium-priced *TEREA* consumables the fastest growing launch in the smoke-free category, reaching an offtake share of 12% within 6 months of national launch; overtaking *Marlboro Heatsticks* and *HEETS* combined to become the number one smoke-free brand.

We now have all 3 *IQOS ILUMA* devices in the market following the launch of *ILUMA ONE*, which provides multiple consecutive use at a more affordable price point. We are also introducing a new HTU brand called *SENTIA* for use with *ILUMA,* in select prefectures at a mainline price point comparable to *HEETS*.

(SLIDE 26.)

Results in Switzerland have again been even more remarkable, with significant sales to new users, and *TEREA* making up almost two-thirds of HTU sales after only 5 months of commercialization. Our HTU share growth has accelerated from less than 6% in Q3 to 9% this quarter, with notable success in the German-speaking majority of the country.

Our newest *ILUMA* launch was in Spain last month. While very early days the signs are also very positive with device sales to new users increasing 50% compared to the prior run rate, 10% of existing users upgraded within the first month, and *TEREA* exiting March at over one quarter of total HTU offtake.

(SLIDE 27.)

These results across 3 markets with differing consumer characteristics and levels of RRP maturity are clearly very encouraging for the wider roll-out of *ILUMA* around the world. While device supply constraints are easing, the timing of HTU availability for new *ILUMA* markets has been somewhat delayed given the rapid uptake in the initial markets, and the resulting need for greater supply for each new market than was originally anticipated. In addition, the cancellation of our investment in the production of *TEREA* HTUs in our Russian facility has a short-term impact. As a result, further market launches are now mostly expected towards the end of H2.

With *ILUMA, IQOS 3 DUO* and *LIL*, we now have 3 heat-not-burn technologies under the *IQOS* umbrella to serve different consumer needs and segment the market. We have an exciting pipeline of innovation on devices and consumables at different price tiers.

(SLIDE 28.)

In e-vapor, *IQOS VEEV's* promising results in the first group of markets continue. *VEEV* is a premium proposition, with an average price premium to competitive devices of 20-30%, making these results especially encouraging as we pursue a differentiated and profitable category leadership position over time.

We see further success in Italy reaching almost 20% offtake share of closed-system pods, with rapid progress also visible in Croatia within 8 months of launch. In the Czech Republic, after some temporary supply disruption at the start of the quarter which affected Q1 share, rapid growth has resumed. *VEEV* was present in 7 markets at March 31, and we plan to add more this year, with timing subject to device availability.

Separately, our relaunched commercialization of nicotine pouches under the *Shiro* brand in the Nordics is progressing well, with positive consumer feedback.

(SLIDE 29.)

Moving to sustainability and our ESG priorities, I'm happy to share two important developments published in our 2022 proxy statement.

Firstly, our board of directors updated our company's statement of purpose, expanding it beyond smoke-free, to better reflect the role of wellness and healthcare in our corporate strategy and transformation.

Second, the introduction of a bespoke Sustainability Index explicitly links our ESG performance to 30% of long-term compensation. Further details will be shared in our Integrated Report on May 17, and further dedicated disclosures.

Product health impact remains one of our most critical ESG priorities, and the growing penetration of smoke-free products around the world is accelerating the end of cigarettes, as legal-age smokers switch to better alternatives.

There is a growing body of scientific and real-world evidence of the substantial risk reduction potential of smoke-free products compared with smoking. While challenges in some markets are to be expected, we continue to support regulatory and fiscal frameworks that recognize the positive impact tobacco harm reduction policies can have on public health. A recent example of this is Italy, which has established distinct excise tax categories for heat-not-burn, e-vapor and nicotine pouches.

Thank you. I'll now turn it back to Jacek.

JACEK OLCZAK

(SLIDE 30.)

Thank you Emmanuel.

Despite the challenges in Russia and Ukraine, we have delivered an excellent start to the year with a strong recovery in *IQOS* user growth, and exceptional initial results from the groundbreaking innovation of *IQOS ILUMA.* As we covered recently at CAGNY, we have a rich pipeline of further smoke-free innovations to expand and grow across new and existing categories and geographies.

Our combustible business is now stabilizing category share, despite the impact of *IQOS* cannabilization, which allows us to accelerate further switching of smokers to better alternatives. We also continue to invest for long term growth through the development of innovative wellness and healthcare products, which seek to deliver a net positive impact on society.

Our 2022 fundamentals are strong, with a pro forma expectation of 4.5% to 6.5% organic net revenue growth and 9% to 11% currency-neutral adjusted diluted EPS growth. Despite the significant inflationary pressures and disruption in global supply chains affecting H1 and the full year, we also expect our organic OI margin to expand by 0 to 100 basis points. In addition, we have taken the conservative assumption in our reported guidance of no further contribution from Russia or Ukraine from April 1.

Overall, we are very confident in the near and mid-term growth outlook and remain committed to sustainably rewarding shareholders over time as we continue our transformation.

(SLIDE 31.)

Thank you. We are now happy to answer your questions.

(SLIDE 32.)

I will wrap up with some brief closing comments. As I said at the start of this presentation, our hearts and thoughts are with the people of Ukraine in these very difficult times.

Additionally, I would like to take the opportunity to thank Nick Rolli for his outstanding contribution to PMI and our former parent company over the past 35 years, and particularly as our Vice President, Investor Relations since the 2008 spin. He has been a critical contributor through the journey of our company. I know our investors and analysts will join me in congratulating Nick and to wish him all the best for his retirement.

I would also like to congratulate James Bushnell on his new role succeeding Nick in the Investor Relations team at PMI, as we continue our valued dialogue and engagement with the investment community.

Thank you again for joining us.

NICK ROLLI

That concludes our call today. If you have any follow-up questions, please contact the Investor Relations team. Thank you again and have a nice day.