OVERVIEW

Philip Morris International Inc. (PMI) has released its first Integrated Report which provides a comprehensive overview of the company's environmental, social and governance (ESG) performance and its progress toward a smoke-free future. The Integrated Report also highlights the company's most material sustainability topics, including the health impacts of PMI's products, an aspect often not captured by external ESG assessments. The Report focuses on this key area and describes how the company is working to reduce the harm caused by combustible tobacco use by replacing cigarettes with scientifically substantiated better alternatives.

PMI's evolution from sustainability reporting to integrated reporting helps investors to better make the connection between the company's product-focused sustainability initiatives, which form the core of its ESG strategy, and the company's financial performance over time. The report also enables the company's stakeholders to better evaluate PMI's progress in achieving its purpose. PMI's Statement of Purpose, adopted by the company's Board of Directors earlier this year and published in its 2020 proxy statement, is also available in the Integrated Report.

> **ACHIEVING PMI'S PURPOSE**
> 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.
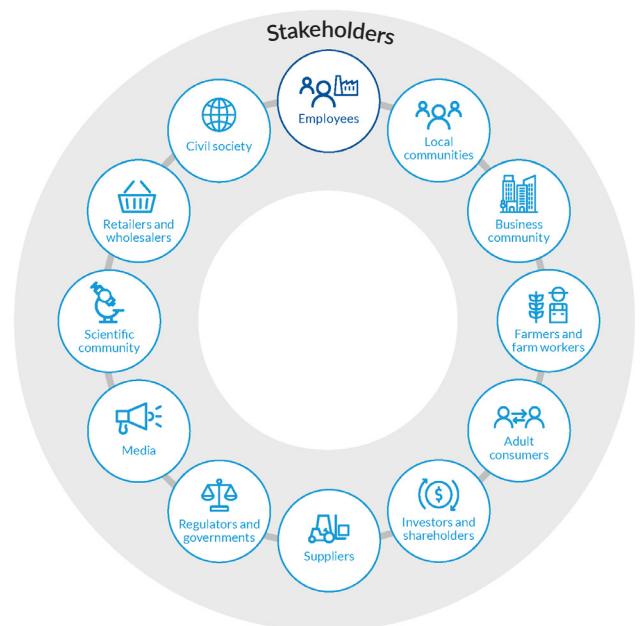
" Our aspirational target set three years ago is that by 2025, at least 40 million adult consumers will have stopped smoking and switched to our smoke-free products. I am convinced that it is possible to completely end cigarette sales in many countries within 10 to 15 years, but for that to happen, manufacturers and governments need to work in the same direction."

—André Calantzopoulos

Sustainablity at PMI

In 2019, PMI refreshed its sustainability materiality* assessment to guide its prioritization of sustainability topics. This was done to help the company meet stakeholders' expectations and address their concerns. During PMI's sustainability materiality assessment, the company collected feedback from an inclusive group of stakeholders, mapped in the graph to the right, on specific topics and trends involving key issues. PMI received input from over 800 internal and external stakeholders which informed the developmen of its 2025 strategy and reporting. The updated Sustainability Materiality Report was published in April 2020 and can be found on PMI.com. To become a sustainable tobacco company, PMI must take every step to completely replace cigarettes with smoke-free alternatives as soon as possible; therefore, innovating for better products is at the core of its corporate strategy.

Stakeholders — Employees, Local communities, Business community, Farmers and farm workers, Adult consumers, Investors and shareholders, Suppliers, Regulators and governments, Media, Scientific community, Retailers and wholesalers, Civil society

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

Building on PMI's 2019 refreshed sustainability materiality assessment, the company updated its strategic pillars by identifying and prioritizing ESG topics that are the most important to its business and where the company can have the greatest impact. PMI's new Pillars include innovating for better products, operating with excellence, caring for the people PMI works with, and protecting the environment.

	STRATEGIC PILLARS	TIER 1 TOPICS	TIER 2 TOPICS
Transforming for a sustainable smoke-free future	Innovating for better products	Product health impacts — Access to smoke-free products	Product addictiveness — Product reliability
	Operating with excellence	Responsible marketing and sales practices — Sustainable supply chain management — Respect for	Responsible and transparent R&D — Data privacy and protection — Business integrity — Illicit tobacco trade prevention — Responsible advocacy
	Caring for the people we work with	Socio-economic well-being of tobacco-farming communities — Health, safety, and well-being at work	Fair working conditions — Community support — Diverse and inclusive working environment — Talent attraction, retention, and employability
	Protecting the environment	Climate protection — Littering prevention — Product eco-design and circularity	Forest conservation — Biodiversity — Water stewardship — Waste reduction

Progress in Delivering PMI's Purpose

In 2016, PMI introduced a set of Key Performance Indicators (KPIs), referred to as Business Transformation Metrics, to transparently measure and verify its progress toward a world without cigarettes. The Business Transformation Metrics highlight PMI's most material sustainability topics, including the health impacts of the company's products, an aspect often not captured by external ESG assessments.

In 2019, the company continued to expand this set of metrics by introducing 10 new Business Transformation Metrics. This includes the number of stock-keeping units (SKUs) for its combustible and smoke-free products, total R&D expenditure as it relates to smoke-free products, and availability and access to smoke free products worldwide and in non-OECD countries.

Below are PMI's Business Transformation Metrics:

	2016	2017	2018	2019	2025 aspirations[4]
R&D expenditure (smoke-free/total)[1]	72%	74%	92%	**98%**	
R&D expenditure (in millions USD)	429	453	383	**465**	
Number of R&D positions (FTEs)[2]	n/a	n/a	764	**942**	
Patents granted relating to smoke-free products (cumulative)	1,800	2,900	4,600	**5,800**	
Patents granted in IP5 jurisdictions relating to smoke-free products (cumulative)[3]	170	300	480	**740**	
Number of studies completed by PMI on smoke-free products (cumulative, since 2015) • Toxicological assessment • Clinical assessment (short-term, focused on biomarkers) • Perception and behavior	36 11 7	57 12 7	82 19 9	**109** **19** **9**	
Number of factories producing smoke-free products out of total number of factories[5]	3 out of 48	4 out of 46	8 out of 44	**8 out of 38**	
Total SKU[6] count – combustible cigarettes	4,421	4,201	3,968	**3,799**	
Total SKU count – heated tobacco units	62	145	253	**414**	
Number of markets where PMI smoke-free products are available for purchase	20	38	44	**52**	
Proportion of markets where PMI smoke-free products are available, which are outside the OECD[7]	32%	43%	47%	**47%**	
Number of *IQOS* stores	26	63	81	**199**	
Number of retailers that sell PMI smoke-free product consumables (in thousands)	90	292	488	**679**	
Commercial expenditure (smoke-free/total)	15%	39%	60%	**71%**	
Net revenues (smoke-free/total)[8]	2.7%	12.7%	13.8%	**18.7%**	38-42%
Number of markets where net revenues from smoke-free products exceed 10% of total net revenues	1	5	19	**31**	
Number of markets where net revenues from smoke-free products exceed 50% of total net revenues	0	1	3	**4**	
Smoke-free product shipment volume (billion units)	7.7	36	42	**60**	>250
Combustible product shipment volume (billion units)	845	791	767	**732**	<550
Smoke-free product shipment ratio (smoke-free/total)[9]	0.9%	4.4%	5.1%	**7.6%**	>30%
Total users of PMI smoke-free products (in millions)[10]	2.1	6.9	9.6	**13.6**	
Estimated users who have stopped smoking and switched to PMI smoke-free products outside of the OECD countries (in millions)[7]	0.0	0.2	1.1	**3.0**	>20
Estimated users who have stopped smoking and switched to PMI smoke-free products (in millions)[10]	1.5	4.7	6.6	**9.7**	>40

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

2 R&D positions: include scientists, engineers, technicians, and support staff. Comparable data for years prior to 2018 are not available, as the scope of R&D positions changed following company organizational changes.

3 Includes published international (PCT) patent applications. IP5 jurisdictions include Europe (patent applications published and patents granted by the European Patent Office), China, South Korea, Japan, and the U.S.

4 Aspirations: assuming constant PMI market share. Note: Aspirational targets do not constitute financial projections.

5 Previous years' data were restated to account for our second manufacturing facility in Italy, Bologna, that started producing heated tobacco units in 2016.

6 "SKU" stands for stock keeping unit.

7 Excluding PMI Duty Free.

8 Excluding excise taxes. For future periods, at today's pricing and excise tax assumptions.

9   The smoke-free product shipment ratio is compiled based on millions of units.

10 See glossary on page 188 of the Integrated Report 2019.

WE FOCUS WHERE WE CAN HAVE THE GREATEST IMPACT	OUR 2025 ASPIRATIONAL TARGETS[1]	
Product health impact and access to smoke-free products Broaden access for adult smokers to smoke-free products that are scientifically substantiated as less harmful alternatives to cigarettes	**>40m**	Number of adult smokers globally who switch to PMI smoke-free products
	>20m	Number of adult smokers in non-OECD countries who switch to PMI smoke-free products
	>250bn	PMI's smoke-free product shipment volume
	<550bn	PMI's combustible product shipment volume
Responsible marketing and sales practices Commercialize our products responsibly, preventing youth from accessing and using them	**>90%**	Youth access prevention programs in place in markets representing over 90 percent of PMI's
	100%	Percentage of PMI's portfolio of electronic smoke-free devices equipped with age-verification
Sustainable supply chain management Further embed sustainability in our procurement practices, leveraging on opportunities to create long-lasting social and environmental impact	**100%**	Percentage of critical suppliers from whom PMI sources sustainably
Respect for human rights Safeguard the human rights of people impacted by our activities across our value chain	**10**	Highest risk countries covered by external human rights impact assessments and findings addressed
Socio-economic well-being of tobacco-farming communities Eliminate child labor and provide safe and fair working conditions on tobacco farms, and promote a living income for farmers	**100%**	Percentage of contracted farmers supplying tobacco to PMI who make a living income
	Zero	Child labor in PMI's tobacco supply chain
Health, safety, and well-being at work Promote a safe and healthy working environment which protects the physical and mental well-being of all while at work	**<0.3**	Total recordable incidents rate for employees and contractors
Climate protection Mitigate climate change by decarbonizing our operations and value chain, while increasing our resilience	**Net zero**	Achievement of carbon neutrality of PMI's direct operations (scope 1+2) by 2030
	Net zero	Achievement of carbon neutrality of PMI's value chain (scope 1+2+3) by 2050
Littering prevention Prevent littering of our products by promoting appropriate behavior among adult consumers	**-50%**	Reduction of plastic litter from our products (versus 2021)
Product eco-design and circularity Integrate circularity when developing our products, improving efficiency and recyclability, and strengthening our collection program	**100%**	Percentage of PMI smoke-free product users who have access to collection and recovery for devices and consumables
	100%	Percentage of PMI smoke-free devices that have eco-design certification

Setting Clear, Ambitious Goals

In 2019, PMI developed a 2025 Roadmap, based on its Sustainability Materiality Assessment, focusing on Tier 1 topics - those in which the company believes it can make the greatest difference. The new 2025 Roadmap includes 12 aspirational targets, towards which progress will be measured and reported on annually.

1   Note: Where targets refer to a different year than 2025, it is specifically indicated.

Highlights from PMI's 2019 performance across its Business Transformation Metrics include:

- PMI continued to shift significant resources toward delivering a smoke-free future, with 98 percent of total R&D expenditure and 71 percent of total commercial expenditure directed toward smoke-free products in 2019.
- PMI's smoke-free product net revenues reached 18.7 percent of total net revenues in 2019, compared to 2.7 percent in 2016; by 2025 the company aspires to have 38 to 42 percent of total net revenues coming from smoke-free products. In 2019, net revenues from smoke-free products already exceeded 50 percent of total net revenues in four markets.

- PMI's smoke-free product shipment volume increased to approximately 60 billion units, up from 7.7 billion in 2016 with an aspiration of more than 250 billion units by 2025. PMI's combustible product shipment volume in 2019 declined to 732 billion units, down from 845 billion in 2016, partly reflecting the impact of adult smokers switching to our smoke-free products.

- Since announcing our smoke-free vision in 2016, PMI has delisted over 600 cigarette SKUs globally, while significantly broadening our portfolio of heated tobacco units, to over 400 SKUs.

- At year-end 2019, there were an estimated 9.7 million users worldwide who have stopped smoking and switched to PMI's heat-not-burn smoke-free product *IQOS*, compared to 6.6 million in 2018. PMI's vision of a smoke-free future is a global and inclusive one, aiming to provide access to better alternatives to all smokers around the world. Approximately half of PMI's global cigarette sales volume is in non-OECD countries. We therefore aspire that over 20 million smokers in non-OECD countries switch to our smoke-free products by 2025, half of our global aspiration of over 40 million users by that time.

ESG highlights from the Integrated Report include:

- In 2019, PMI conducted a comprehensive and critical review of the company's commercial activities related to product marketing and sales activities. The study's findings were published in December 2019 in a report, Responsible Marketing Practices, on PMI.com. By the end of 2020, PMI aims for youth access prevention (YAP) programs to be in place in markets representing over 90 percent of PMI's total shipment volume; by 2023, PMI aims to have 100 percent of PMI's portfolio of electronic smoke-free devices equipped with age-verification technology.

- In 2019, PMI continued to assess and mitigate environmental risks and impacts across its value chain including a 42 percent absolute reduction of CO_2e scope 1+2+3 compared to its 2010 baseline; 72 percent of electricity used and purchased within PMI factories was from renewable sources; PMI has committed to achieving carbon neutrality in its direct operations (scope 1+2) by 2030 and across the company's entire value chain (scope 1+2+3) by 2050.

- PMI continued to focus on the well-being of its tobacco farming communities: In 2019 we did not find any incidents of child labor in over 99 percent of the more than 300,000 tobacco farms monitored. The company aims by 2025 to have zero child labor in its tobacco supply chain, including by ensuring that 100 percent of contracted tobacco farmers make a living income.

Download PMI's full integrated report here: www.PMI.com/IntegratedReport2019

Visit the Sustainability section of our website: www.pmi.com/sustainability

For more information, see the PMI and PMI Science websites.