

PHILIP MORRIS INTERNATIONAL
2021 ANNUAL REPORT

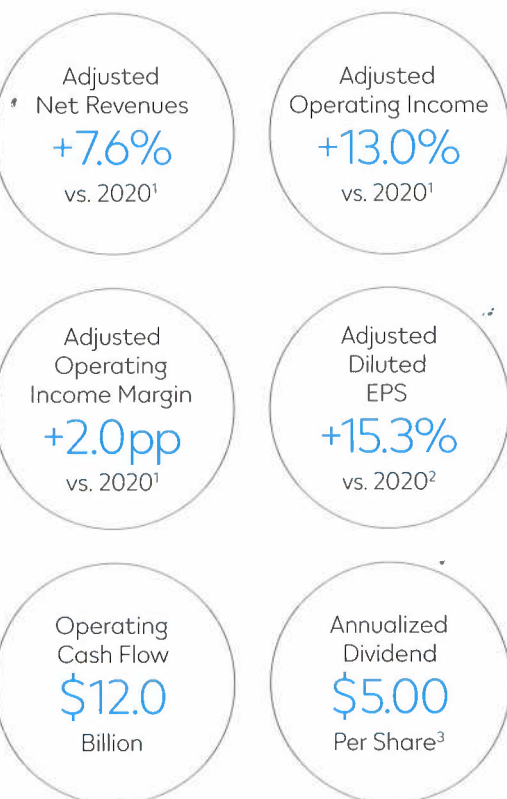
NEXT LEVEL FORWARD.

Dear Shareholder,

PMI delivered excellent business performance in 2021, driven by the continued, consistent and increasingly profitable growth of IQOS, recovering volumes and share in combustibles, and significant cost efficiencies. This was achieved despite the lingering headwinds of the COVID-19 pandemic and a shortage of IQOS device components due to global supply-chain disruptions.

We also achieved important milestones in our business transformation, notably including the launch of IQOS ILUMA, the surpassing of 20 million IQOS users, and meaningful first steps in building our capabilities for future growth in wellness and healthcare areas.

2021 Financial Highlights



(1) On an organic basis. See page G-1 for definition.

(2) On a currency-neutral basis.

(3) Annualized rate based on a quarterly dividend of \$1.25 per common share, declared September 15, 2021.



Jacek Olczak,
Chief Executive Officer



André Calantzopoulos,
Executive Chairman of the Board

These achievements would not have been possible without the invaluable efforts of the entire PMI organization, and we salute our nearly 70,000 employees across the globe who again delivered strongly in a very challenging environment.

2021 vs. 2020 Results

The industry backdrop improved in 2021 against the heavily disrupted prior year, though pandemic-related challenges continued in a number of markets, and the operating environment remained volatile, as demonstrated by the disruption in global supply chains.

Total international industry volume for cigarettes and heated tobacco units (HTUs) increased by 2.4%, primarily reflecting increased mobility and greater social occasions relative to 2020, which underpinned volume recoveries in many markets.

Total cigarette and HTU shipment volume of 719.9 billion units increased by 2.2%, driven by a 24.8% increase in HTU shipment volume, to reach 95.0 billion units. Cigarette shipment volume declined by 0.6%, mainly due to lower market share, particularly in the first half of the year.

Total cigarette and HTU market share declined by 0.4 percentage points, to 27.3% of the international market, excluding China and the U.S. This reflected a lower share for cigarettes – mainly due to Japan, the Philippines, and Russia – partly offset by the strong performance of our HTU brands, whose international share increased by 0.5 percentage points to reach 3.5%.

Cover Photo: Born from consumer feedback, IQOS ILUMA reinvents the rules of heating tobacco. The launch of IQOS ILUMA is brought to life via the NEXT LEVEL FORWARD communication platform: the foundation encompassing the three pillars that sit at the core of IQOS ILUMA – Tobacco Pleasure like never before; Unrivalled Technology you can trust; and Next Level Simplicity, with every detail designed around the consumer.

Smoke-Free Portfolio



IQOS ILUMA



IQOS 3 DUO



IQOS 3 MULTI



IQOS 2.4+



IQOS VEEV

Net revenues of \$31.4 billion increased by 9.4%. On an organic basis, adjusted net revenues increased by 7.6%, driven primarily by higher HTU shipment volume, coupled with higher IQOS device shipment volume and favorable combustible tobacco pricing, partly offset by unfavorable combustible tobacco volume/mix.

Operating income (OI) of \$13.0 billion increased by 11.2%. On an organic basis, adjusted OI increased by 13.0%, driven by net revenue growth and margin expansion of 200 basis points. The strong increase in adjusted OI margin reflected the growing weight of IQOS in our business, the optimization, digitalization and greater utilization of our smoke-free-product commercial infrastructure, and significant cost efficiencies.

Diluted EPS of \$5.83 increased by 13.0%. Adjusted diluted EPS of \$6.08 increased by 17.6%, or by 15.3% excluding currency.

Operating cash flow of \$12.0 billion increased by \$2.2 billion, or 22.0%, driven primarily by higher net earnings and favorable currency. On a currency-neutral basis, operating cash flow increased by 13.8%.

In June, the Board of Directors authorized a new share repurchase program of up to \$7 billion, with target spending of \$5 to \$7 billion over three years. During 2021, the company repurchased 8.5 million shares for \$785 million.

In September, the Board of Directors approved a 4.2% increase in the quarterly dividend, to an annualized rate of \$5.00 per share. This represented the fourteenth consecutive year in which we increased our dividend since becoming a public company in 2008.

Delivering a Smoke-Free Future

IQOS continued to drive the strong growth of our smoke-free product portfolio, which accounted for 29% of total adjusted net revenues in 2021 and keeps us well on track to be a majority smoke-free company by 2025. As of year-end, our smoke-free products were available in 71 markets, of which 30 are classified as low- and middle-income markets.

The estimated number of total IQOS users increased by 3.6 million in 2021 to reach 21.2 million as of December 31, with an estimated 15.3 million of these users – or 72% – having switched to IQOS and stopped smoking. This performance reflected IQOS user growth across all key geographies, including Japan, the EU Region and Russia.

While the growth in IQOS users slowed in the third quarter due to the impact of the global semiconductor shortage on IQOS device availability and assortment in certain markets, coupled with related adjustments to our commercial programs, we undertook extensive mitigating actions and saw increased sequential IQOS user growth in the fourth quarter despite continued device supply constraints.

Our success in smoke-free products is driven by continuous innovation. Last year, we launched IQOS ILUMA, the next generation of IQOS devices using internal induction heating, and TERA HTU consumables in Japan and Switzerland. We expect this innovative and intuitive device to support easier switching and higher conversion rates. IQOS ILUMA has received an overwhelmingly positive consumer response thus far, with strong demand reflected in device sales well ahead of past IQOS launches. We plan to launch the product in additional markets later this year.

Despite attempts by a competitor who lags behind on R&D and innovation to disrupt our business through intellectual property (IP) litigation, we have been universally successful in defending our products against IP challenges in all eleven rulings outside of the U.S. The adverse determination by the U.S. International Trade Commission (ITC), which prohibits the import of IQOS devices and HTU consumables into the U.S., was clearly an unwelcome development, albeit one that is currently immaterial to PMI. While this decision will cause near-term disruption, we have contingency plans underway and hope to be able to resume U.S. supply in the first half of 2023. We continue to see a large opportunity for IQOS in the U.S. over time.

Building on our efforts to enhance our smoke-free product portfolio with a broader range of taste, price and technology choices, we expanded the launch of licensed *lil* heat-not-burn

2021 Smoke-Free Highlights



⁽⁴⁾ See page G-1 for definition.

⁽⁵⁾ Excluding the U.S.

⁽⁶⁾ Reflects PMI Reduced-risk product and Other net revenues of \$9.2 billion as a percentage of PMI total adjusted net revenues of \$31.7 billion.

products to over 20 markets by year-end, notably in Eastern Europe. *lil* has helped accelerate our penetration in adult smoker value segments, while delivering high switching levels.

Expanding our smoke-free product portfolio under the IQOS umbrella, our VEEV e-vapor product was present in seven markets by year-end, including the Czech Republic, Italy and New Zealand, with an initial focus on PMI's own retail channels. We are pleased by VEEV's initial share performance within the closed-system e-vapor category and believe that our differentiated product with IQOS branding and commercial infrastructure will support a higher rate of switching compared to competitive e-vapor products, with commensurate better per-user economics.

In addition, with the acquisition of AG Snus and its *Shiro* nicotine pouch and *Kapten* snus brands in May 2021 – and of Fertin Pharma A/S with its leading development and manufacturing capabilities for innovative oral and intra-oral delivery systems – PMI has grown its capabilities in the oral nicotine product category and plans additional product and market launches in 2022.

Smoke-Free Product Regulation

There were a number of favorable international developments in 2021 related to smoke-free product regulation. Examples include new regulations for smoke-free products in New Zealand that allow branded packaging to be re-introduced with a specific text health warning; the reversal of a longstanding import ban on heated tobacco products in Uruguay; and the introduction in Switzerland of dedicated non-combustible product categories and health warnings with factual, science-based communications explicitly allowed.

In November 2021, the ninth Session of the Conference of the Parties (COP 9) to the WHO Framework Convention on Tobacco Control (FCTC) concluded by deferring action on the regulation and taxation of smoke-free products and alternatives to COP 10 in 2023. Unlike previous COPs, specific parties (countries) to the Treaty advocated for tobacco harm reduction to be part of tobacco control, an important development.

Combustible Product Portfolio

Maintaining our competitive position in the cigarette market as we transition to a smoke-free future is critical, as it best positions us to significantly accelerate our smoke-free journey. The extensive commercial and distribution infrastructure of our traditional tobacco business provides an effective platform from which to launch our smoke-free products at scale. Furthermore, maintaining leadership within the cigarette category during the transition period enables us to engage more smokers on the benefits of switching, especially where we can communicate directly with them.

While our international cigarette market share declined in 2021, we recorded steady share improvement on a sequential quarterly basis, driven by our commercial initiatives and further recovery from the pandemic-related impact on consumer mobility and behavior. In the fourth quarter, our international cigarette and *Marlboro* cigarette market shares of 25.0% and 9.8%, respectively, reflected essentially stable international share and growth of 0.5 percentage points for *Marlboro* versus the prior year period.

Organization

There were a number of organizational developments at PMI in 2021, notably including the seamless internal leadership transition of Jacek Olczak and André Calantzopoulos to the roles of Chief Executive Officer and Executive Chairman of the Board, respectively.

To further unlock and enhance PMI's growth as it accelerates toward a smoke-free future, the company established a category management structure for its smoke-free and combustible cigarette operations. The shift to category management aims to enable greater end-to-end accountability and faster decision making.

The company also progressed with its development of a truly consumer-centric organization, with a focus on maturing the program to "business as usual" by: employing a structure underpinned by robust processes and governance, skills development and communication; connecting markets through communities to share learnings; and evolving all key consumer-centric enablers, addressing consumer pain points in an increasingly complex multi-platform and channel environment.

PMI also introduced a new structure for its Americas Region, formerly known as the Latin America & Canada Region. The new structure is focused on three areas: strengthening PMI's leadership in Latin America and Canada as the company accelerates toward a smoke-free future; continued efforts to commercialize smoke-free products in the U.S.; and building a vital launchpad for the company's wellness and healthcare strategy in the U.S., through expanded partnerships and commercial deployment.

Additionally, the company announced the move of its corporate headquarters – home to the Americas Region and other U.S.-based corporate functions – from New York City to Stamford, Connecticut. We are excited about what Connecticut has to offer our company, our employees, and their families – and we very much look forward to our integration into the community. The new site is scheduled to be operational in 2022.

Sustainability

We dedicated much of 2021 to strengthening and refining our approach to sustainability and further integrating it into our corporate strategy, while making important progress toward achieving our 2025 roadmap.

Embedding sustainability into strategy requires clear priorities based on our impacts on society, the potential impact of ESG factors on our company's performance, and the expectations of our stakeholders. To this end, we refreshed our sustainability materiality assessment during the year, which validated our core

focus on product transformation while also identifying areas of increasing importance, such as human capital development, biodiversity and water.

In this pivotal year for societal action on climate change, we published our Low-Carbon Transition Plan, formalizing our decarbonization strategy and accelerating our ambitious targets for achieving carbon-neutrality across our direct operations by 2025 and in our full value chain by 2040.

We also launched our pioneering Business Transformation-Linked Financing Framework with the external validation of a Second Party Opinion. The subsequent credit facility refinancing in September – which linked our financing costs to material sustainability targets – was a major landmark, as it allowed lenders and fixed-income investors to engage with and further support our transformation.

Our performance continued to be recognized externally last year, as demonstrated by third-party ratings issued by CDP, MSCI, S&P Global and Sustainalytics, as well as other recognitions, such as inclusion in the Bloomberg Gender Equality Index and the Dow Jones Sustainability Index North America.

Please see the inside back cover of this report for more details, including some of our key 2021 sustainability achievements.

Wellness and Healthcare

We made significant progress last year with the development of capabilities in areas beyond tobacco and nicotine, first outlined during our February 2021 Investor Day, with the acquisitions of Fertin Pharma A/S and Vectura Group PLC.

These companies will form the backbone of our wellness and healthcare franchises, respectively, enabling us to bring consumer, over-the-counter (OTC) and prescription products to market that address unmet consumer and patient needs. The acquisition of OtiTopic and its patented dry-powder acetylsalicylic acid inhalation product ASPRIHALE® provides a further opportunity in this regard.

Board of Directors

In addition to Chief Executive Officer Jacek Olczak, PMI welcomed three other new Board members over the past year. Dr. Juan José Daboub, Ms. Dessislava Temperley and Mr. Shlomo Yanai bring a wealth of combined experience from the public and private sectors, including in the banking, consumer products and pharmaceutical industries. These new members enhance an already strong Board and will serve as valuable resources supporting PMI's continued transformation.

Looking Ahead

The year 2021 brought continued challenges for the world and PMI. We responded well to these challenges by demonstrating enormous solidarity, agility, resilience and learning ability. Our people spared no effort to deliver excellent business results despite ongoing volatility in the operating environment.

This is an exciting time for PMI. We continue to see significant opportunity in our business transformation away from combustible tobacco products through our leadership in smoke-free products, as well as our expansion into promising opportunities in wellness and healthcare. Propelled by science, innovation, and ambition, we are well positioned to accelerate our journey to a smoke-free future and achieve our bold ambitions through 2025 and beyond.⁷



Jacek Olczak,
Chief Executive Officer



André Calantzopoulos,
Executive Chairman of the Board

March 11, 2022

⁷ Please refer to the Forward-Looking and Cautionary Statements section of item 1A of the Form 10-K herein.

Our Commitment to Sustainability

The pursuit of our purpose – to deliver a smoke-free future – must take place sustainably. For PMI, sustainability means creating long-term value while minimizing the negative externalities associated with our products, operations, and value chain. Sustainability stands at the core of PMI's transformation and helps address some of the challenges resulting from this transition, while spurring innovation and securing long-term success.

During 2021, we refreshed our sustainability materiality assessment to ensure we continue to focus our efforts and resources where we can have the greatest impact. This enabled us to update our strategic framework and better distinguish

between those social and environmental impacts that derive from our products and from our operations. PMI's Integrated Report 2021 will disclose the company's new strategy and elaborate further on our plans for the future.

PMI's priority remains to address the health impacts associated with smoking by broadening access to science-based better alternatives for adult smokers who would otherwise continue to smoke, while simultaneously working towards purposefully phasing out cigarettes. This is the most important contribution we can make to society and is the cornerstone of PMI's purpose and corporate strategy.

2021 Highlights¹

Product Impact

Social	29.1% Net revenues derived from smoke-free products, which were available for sale in 71 markets worldwide by year-end (2020: 23.8%; 64)	21.2 million Total adult users of PMI's smoke-free products, 15.3 million of whom have switched to these products and stopped smoking (2020: 17.6m; 12.8m)	Marketing and sales practices New Marketing Codes deployed globally for both combusted products and smoke-free (non-combusted) products; to be published on www.pmi.com
	86% Recycling rate of IQOS devices returned at our centralized recycling hubs (weighted-average percentage of each device that is recycled) ² (2020: 84%)	46 Countries where our affiliates deployed cigarette butt anti-littering campaigns focusing on driving behavioral change	Smoke-free consumables Programs deployed to take back smoke-free consumables after use by consumers in various markets, including Canada, Finland, Guatemala, Switzerland and Ukraine

Operational Impact

Social	39.7% Management positions held by women; ³ on track to achieve our 2022 target of 40% (2020: 37.7%)	Agricultural Labor Practices Publication of a dedicated report celebrating the 10-year anniversary of PMI's Agricultural Labor Practices (ALP) program in its tobacco supply chain	5 Human rights impact assessments conducted since 2018 in highest-risk countries; action plans being implemented (2020: 4)
	Low-Carbon Transition Plan Publication of strategy to decarbonize our direct operations by 2025 and our entire value chain by 2040	100% Tobacco purchased at no risk of deforestation of primary and protected forests (2020: 100%)	CDP Triple A Awarded "Triple A" score by CDP for the second consecutive year for our efforts in combating climate change, as well as protecting forests and water security

Best-in-Class ESG Reporting



Focusing on key metrics and moving beyond qualitative assessments of performance

Transparently disclosing materiality assessment, methodology and results

Integrated reporting since 2019

Aligning with guidance and recommendations of reputable reporting frameworks and standards (e.g., SASB, GRI, SDGs)

Dedicated reports on social and environmental topics

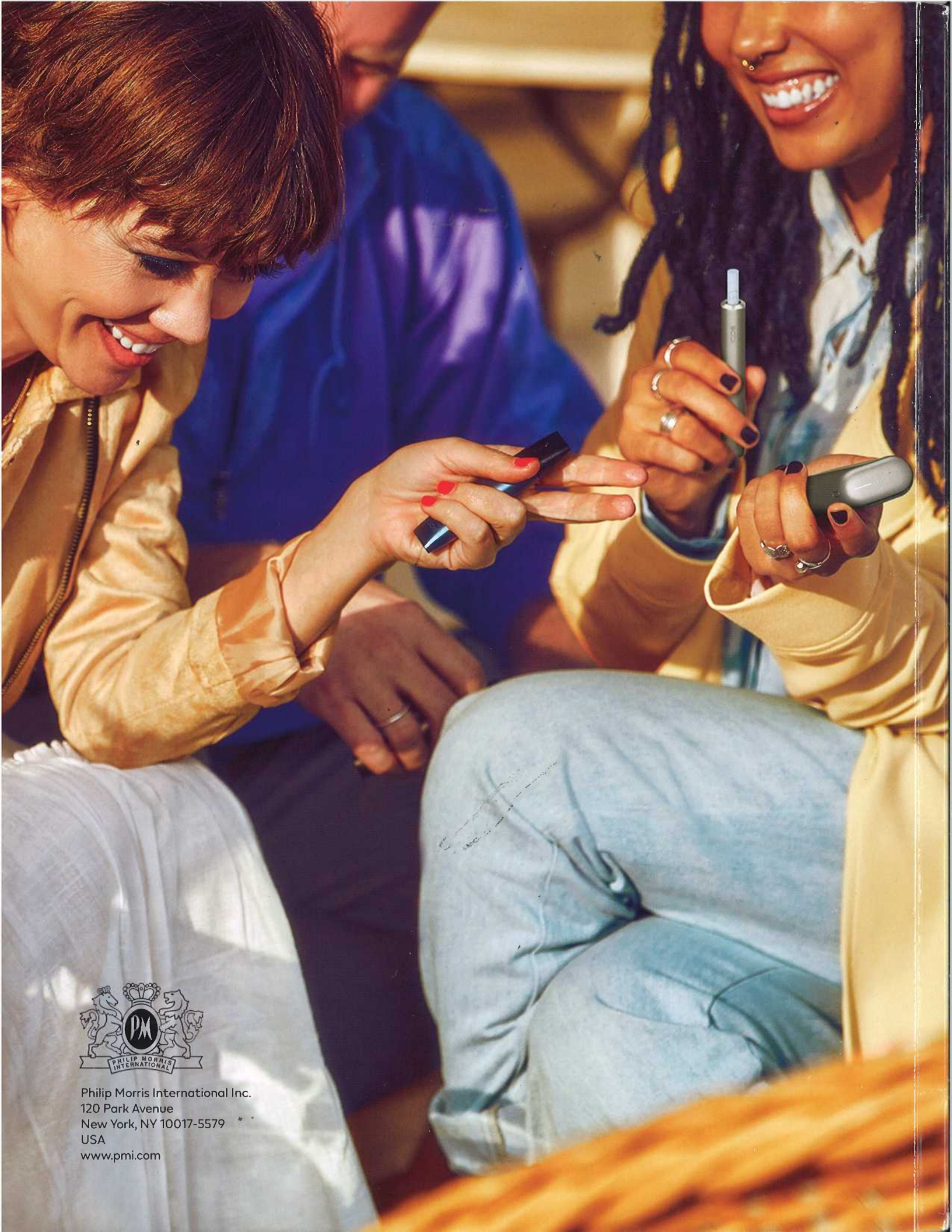
Due to the COVID-19 pandemic and global supply-chain shortages, paper manufacturers have experienced difficulty in supplying certain recycled or FSC® (Forest Certified Paper) stocks to clients. As a result, the interior pages of this report are not printed on FSC® paper. We expect the situation to improve over the course of 2022. Please note the covers of this report are printed on FSC® paper.



⁽¹⁾ Unless otherwise indicated, the data cover PMI's operations worldwide for full-year 2021 or reflect the status as of December 31, 2021. Data do not integrate 2021 acquisitions.

⁽²⁾ Including recycling and energy recovery.

⁽³⁾ Calculation methodology updated in 2021 to expand data scope to employees on long-term leave (over 30 calendar days). 2020 data restated accordingly.



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