



TOGETHER. FORWARD.

PHILIP MORRIS INTERNATIONAL  
2020 ANNUAL REPORT

# 2020 Financial Highlights

Net  
Revenues  
**-1.6%**  
vs. 2019<sup>1</sup>

Adjusted  
Operating  
Income  
**+4.6%**  
vs. 2019<sup>1</sup>

Adjusted  
Operating  
Income Margin  
**+2.4pp**  
vs. 2019<sup>1</sup>

Adjusted  
Diluted  
EPS  
**+7.0%**  
vs. 2019<sup>1</sup>

Operating  
Cash Flow  
**\$9.8**  
Billion

Annualized  
Dividend  
**\$4.80**  
Per Share<sup>2</sup>

## Smoke-Free Portfolio



*IQOS 2.4+*



*IQOS 3 DUO*



*IQOS 3 MULTI*



*IQOS VEEV*

## 2020 Highlights

Total  
*IQOS*  
Users<sup>3</sup>  
**17.6**  
Million

Market Share  
of PMI HTUs<sup>3</sup>  
in *IQOS*  
Markets<sup>4</sup>  
**6.1%**

PMI HTUs  
**#3**  
Tobacco "Brand"  
in *IQOS*  
Markets<sup>4</sup>

HTU  
Shipment  
Volume  
**76.1**  
Billion Units

Smoke-Free  
Product  
Net Revenues  
**23.8%**  
of Total<sup>5</sup>

Note: See page G-1 for glossary of select terms. Reconciliations to the most directly comparable U.S. GAAP measures are provided on pages R-1 to R-2.

<sup>(1)</sup> On an organic basis. See page G-1 for definition.

<sup>(2)</sup> Annualized rate based on a quarterly dividend of \$1.20 per common share, declared September 9, 2020.

<sup>(3)</sup> See page G-1 for definition.

<sup>(4)</sup> Excluding the U.S.

<sup>(5)</sup> Reflects PMI reduced-risk product net revenues of \$6.8 billion as a percentage of PMI total net revenues of \$28.7 billion.

Cover photo: "TOGETHER. FORWARD." is a new, integrated campaign that aims to address the motivations and desires of millions of diverse adult smokers across the globe who would otherwise continue to smoke. As a consumer-centric organization, we carefully listened to what our consumers had to say, then co-created the new *IQOS* campaign.



# Dear Shareholder,

In 2020, PMI delivered a robust business performance given the unprecedented headwinds of the COVID-19 pandemic. This reflected the consistent, broad-based and increasingly profitable growth of IQOS, solid pricing for combustible tobacco products outside Indonesia, and significant cost efficiencies. We also achieved several important milestones, notably the U.S. Food and Drug Administration's authorization of a version of IQOS as a Modified Risk Tobacco Product (MRTTP).

As we look back on the year, we must first and foremost salute the enormous efforts of the entire PMI organization to keep our employees and their families safe, ensure business continuity, rapidly adapt our ways of working and help our local communities.

## 2020 vs. 2019 Results

The industry backdrop was very challenging, as pandemic-linked confinements and other restrictions led to reduced adult smoker daily tobacco consumption, temporary disruptions of both our supply chain and the retail trade in certain markets, a severe decline in our duty-free business, and the exacerbation of market headwinds in Indonesia.

Nonetheless, our 2020 results represent an outstanding delivery by the organization under severe constraints, including the management of the business through remote working for the majority of the year.

Total cigarette and heated tobacco unit (HTU) shipment volume of 704.6 billion units decreased by 8.1%, or by 7.9% on a like-for-like<sup>1</sup> basis, reflecting lower cigarette volume, mainly due to industry-wide COVID-related disruption, particularly in the second quarter. HTU shipment volume increased by 27.6%, to 76.1 billion units, driven by the strong growth of IQOS.

Total cigarette and HTU market share declined by 0.7 percentage points, to 27.7% of the international market, excluding China and the U.S., reflecting a lower share for cigarettes – mainly due to Indonesia and PMI Duty Free, which accounted for a 0.8-percentage-point decline – partly offset by the strong performance of our HTU brands, whose international share increased by 0.8 percentage points to reach 3.0%.

Net revenues of \$28.7 billion decreased by 3.7%. On an organic basis, net revenues declined by 1.6%, due primarily to unfavorable combustible tobacco volume/mix – which was exacerbated by pandemic-related headwinds – partly offset by higher HTU shipment volume and favorable combustible tobacco pricing.

Adjusted operating income (OI) of \$11.7 billion decreased by 0.5%. On an organic basis, adjusted OI increased by 4.6%, driven by: the growing weight of IQOS in our business; significant efficiencies related to manufacturing and operating costs; and the optimization, digitalization and greater utilization of our smoke-free-product commercial infrastructure. Adjusted OI margin increased by 240 basis points on an organic basis.

Adjusted diluted EPS of \$5.17 decreased by 0.4%. On an organic basis, adjusted diluted EPS increased by 7.0%.

Operating cash flow of \$9.8 billion decreased by \$0.3 billion, or 2.8%. On a currency-neutral, like-for-like basis, operating cash flow increased by 3.5%.

In September, the Board of Directors approved a 2.6% increase in the quarterly dividend, to an annualized rate of \$4.80 per share. This represented the thirteenth consecutive year in which we increased our dividend since becoming a public company in 2008.

## Delivering a Smoke-Free Future

IQOS continued its strong performance in 2020. We closed the year with an estimated 17.6 million total IQOS users,<sup>1</sup> of which

approximately 12.7 million have switched to IQOS and stopped smoking.<sup>1</sup> Importantly, smoke-free products accounted for almost one-quarter of our total net revenues for the year. This growing weight provides a powerful tailwind to our top- and bottom-line financial performance.

We added more IQOS users in 2020 than in the previous year, with our accelerated shift to digital and remote engagement helping to mitigate the pandemic-related impact on IQOS user acquisition. This supported strong HTU volume growth in the EU, Japan and Russia, only partly offset by Duty Free due to the pandemic-related decline in international travel. By year-end, IQOS was commercialized in 64 markets.

Complementing our IQOS heat-not-burn product offering, we made important steps to expand our smoke-free portfolio in 2020 to provide adult smokers with an ever-broader range of taste, price and technology choices. This included the launch of *lil SOLID* in Russia and Ukraine and *lil HYBRID* in Japan, leveraging our global collaboration agreement with KT&G. We also began the international launch of our IQOS VEEV e-vapor product (pictured on the back cover of this report) in New Zealand in August, followed by the Czech Republic in December.

In 2020, we maintained our relentless focus on consumer centricity to enhance the experience along the entire consumer journey associated with our smoke-free products – from awareness and understanding to full switching and advocacy. This drives our commercialization activities – covering channels and programs – and development activities, from both a product and brand perspective. A central element of this focus was our engagement with consumers to collect timely, first-hand feedback to drive improvements at each stage of consumer interaction.

The U.S. Food and Drug Administration's issuance, in July, of MRTTP orders for the IQOS Tobacco Heating System (IQOS 2.4 device and three HTU variants) was a historic milestone for PMI, permitting the marketing of these products with reduced exposure claims in the U.S. and providing a strong reference for science-based harm-reduction discussions in other jurisdictions. Furthermore, the FDA's authorization of IQOS 3 via the premarket tobacco application (PMTA) pathway was another important step for the tens of millions of men and women in the U.S. who smoke.

There were a number of important regulatory developments internationally for smoke-free products in 2020. For example, Greece adopted an amendment to its tobacco regulation that sets forth a pre-approval regimen that allows the communication of scientifically substantiated messages to adult smokers. In addition, New Zealand included an amendment of its tobacco regulation in which non-combusted alternatives are clearly differentiated from smoking products.

In 2020, we extended our corporate "Unsmoke" campaign to include "Unsmoke Your Mind," which communicates the importance of creating a regulatory environment in which decision-making is transparent, science based, and people centric. In this vein, we held our first Open Science events, which showcased our latest scientific results and provided an opportunity to discuss – in a virtual setting – relevant topics with more than 1,600 participants from 80 countries.

## Combustible Product Portfolio

Our combustible tobacco portfolio showed resilience in 2020. While specific headwinds in Duty Free and Indonesia weighed on the overall share of our cigarette brands, the share performance elsewhere was essentially stable net of IQOS-related cannibalization. This was achieved despite our premium positioning, which

<sup>(1)</sup> See page G-1 for definition.

makes our portfolio more sensitive to reduced social consumption opportunities for which brands like *Marlboro* are over indexed. Our combustible tobacco pricing variance of nearly 4% was lower than the historical annual average, mainly due to an approximate two-percentage-point drag from Indonesia.

We continue to leverage our leadership of the combustible tobacco category – and related infrastructure, expertise and access to adult smokers – to support our smoke-free expansion.

### Sustainability

Sustainability is at the core of our smoke-free strategy, and the company made considerable progress in this important area in 2020.

Recognizing that fully integrating sustainability into the business can significantly enhance our company's financial performance, our Chief Sustainability Officer now reports to our Chief Financial Officer.

PMI's Board of Directors issued the company's Statement of Purpose, a declaration that clearly articulates our corporate purpose and reaffirms our commitment to deliver a smoke-free future. It explains how we harmonize commercial success with social accountability and responsibility, and recognizes those stakeholders most critical to the company's long-term value creation and sustainability.

We published our first Integrated Report, a comprehensive overview of PMI's performance and progress toward delivering on our strategic initiatives. It includes our 2025 Roadmap – a set of aspirational goals based on our sustainability materiality<sup>2</sup> assessment that focuses on areas where we can have the greatest impact. We look forward to reporting our progress towards achieving these goals in our 2020 Integrated Report, in May.

External recognition of our environmental, social and governance (ESG) performance included being listed, for the first time, in the Dow Jones Sustainability Index North America and being recognized by CDP with the prestigious "Triple A" score for our disclosure on climate change, forests and water. These are just two of many examples; for more, please refer to the inside back cover of this report.

### Inclusion & Diversity

PMI is taking important steps to further diversify its workplace, reflecting its belief that fostering a culture built on broader perspectives increases creativity and productivity, ultimately driving innovation and consumer centricity.

With this in mind, we continue to increase the representation of women in the organization and in management<sup>2</sup> roles specifically. At year-end 2020, women held 37% of management positions and represented 40% of management promotions for the year. Importantly, we added two additional women to our Company Management – in the roles of General Counsel and Chief Diversity Officer – with women now representing 16% of the total.

Earlier this year, PMI was added to the 2021 Bloomberg Gender-Equality Index (GEI) for its transparency in gender reporting and advancing women's equity. This recognition underscores PMI's work to progress gender equity in the workplace and to ensure equal opportunities for all employees.

In addition, PMI's CEO joined The Valuable 500 – a global movement putting disability inclusion on the business leadership agenda. This better positions PMI to tap into a population

of talented individuals whose diverse perspectives and life experiences will help us unlock the creativity and innovation needed to propel us toward our vision of a smoke-free future.

### Board of Directors

In December 2020, Louis C. Camilleri retired from his position as Chairman of the Board.<sup>3</sup> On behalf of the entire organization, we want to thank Louis for his tremendous contributions to the company throughout his 40-year career at PMI and its former parent. We have all witnessed with admiration his inspiring leadership, immense intellect, strategic vision, and genuine passion for the PMI family. We will all miss dearly an exemplary executive and an exceptional human being. Louis set a high standard we should all aspire to.

We also thank Jennifer Li, who joined the Board in 2010 and will not stand for re-election this year, for her valued contributions to the company as Board member and Chair of the Audit Committee.

We warmly welcome PMI's newest Board members: Michel Combes and Bonin Bough, who joined in December 2020 and February 2021, respectively. Together, they bring with them a wealth of senior leadership experience in the technology, telecom and consumer products industries, and will serve as valuable resources supporting PMI's continued transformation.

### Looking Ahead

Last year brought unprecedented challenges for the world and PMI. As an organization, we demonstrated enormous solidarity, agility, resilience and learning ability. We are well positioned to build on this experience as we continue the company's transformation in 2021 and beyond.

In May, we will begin a new chapter at PMI with the appointment of Jacek Olczak as Chief Executive Officer.<sup>4</sup> Jacek has played an integral role in driving PMI's business forward, growing IQOS, and taking ever-greater strides toward our shared vision of a smoke-free future. Jacek's great passion for our company and its employees, and his deep knowledge of our products, business strategies, and transformation, make him the ideal leader to ensure the continued growth of our business and to deliver shareholder value.

As recently outlined at our Investor Day in February, we are confident in the company's next growth phase and are targeting compound annual organic growth in net revenues and adjusted diluted EPS of more than 5% and 9%, respectively, for the 2021 to 2023 period.<sup>5</sup> Our confidence is underpinned by our leading smoke-free product portfolio, including IQOS ILUMA – the next generation of our IQOS heat-not-burn product, featuring a new internal heating induction technology – set to launch in the second half of 2021. We now aim for smoke-free products to account for the majority of our total net revenues by 2025, an important milestone toward our ambition to deliver a smoke-free future.



André Calantzopoulos,  
Chief Executive Officer



Lucio A. Noto,  
Interim Chairman of the Board

March 12, 2021

<sup>(2)</sup> See page G-1 for definition.

<sup>(3)</sup> As announced on December 10, 2020, PMI's current Chief Executive Officer, André Calantzopoulos, was appointed Executive Chairman of the Board, to take effect immediately prior to the Annual Meeting of Shareholders on May 5, 2021. Lucio A. Noto, PMI's independent director, will serve as interim Chairman until Mr. Calantzopoulos' succession in May.

<sup>(4)</sup> As announced on December 10, 2020, PMI's current Chief Operating Officer, Jacek Olczak, will succeed André Calantzopoulos as Chief Executive Officer immediately after the Annual Meeting of Shareholders on May 5, 2021.

<sup>(5)</sup> Please refer to the Forward-Looking and Cautionary Statements section of the 10-K.



# Our Commitment to Sustainability

The pursuit of our purpose – to create a smoke-free world – 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 also helps address some of the challenges resulting from this transition, while spurring innovation and securing success in the long run.

Our priority is to address the health impacts associated with smoking by offering better alternatives to adult smokers who would not otherwise quit, while simultaneously working towards phasing out cigarettes.

This is the most important contribution we can make to society and is the cornerstone of PMI's purpose and business strategy.

In early 2020, we introduced our 2025 roadmap, setting aspirational goals for each of our priority sustainability topics – the areas in which we believe we can make the greatest difference, based on our materiality assessment. Despite challenging circumstances due to the COVID-19 pandemic, we remained committed and focused on achieving our ambitions and made significant progress across the four pillars of our strategy last year, as shown in the 2020 Highlights section below.



*"Sustainability strategy is corporate strategy, and ESG issues are business issues. This is what we want to emphasize. Our Statement of Purpose reaffirms that we are disrupting our business from the inside, leading the industry toward a future without cigarettes, while meeting the needs of our stakeholders, and ensuring the long-term viability of our company." – André Calantzopoulos, CEO*

## 2020 Highlights

### Innovating for better products

**99%**  
of R&D expenditure  
dedicated to smoke-free products

**17.6 Million**  
Total IQOS users, of which 12.7 million have  
switched to IQOS and stopped smoking  
(with over a third living in non-OECD countries)

### Operating with excellence

#### Age Verification

With the introduction last year of the IQOS VEEV device in New Zealand, we began the journey towards our target whereby 100% of PMI's smoke-free electronic devices introduced on the market as of 2023 are equipped with age-verification technology

#### Human Rights

4 human rights impact assessments conducted since 2018; on track to cover 10 highest-risk countries by 2025. Industry-best score in S&P Corporate Sustainability Assessment recognizes our efforts to respect human rights

### Caring for the people we work with

**93%**  
of contracted farms for which labor practices have been systematically monitored; 100% of farmers and farmworkers have access to personal protective equipment

**37.2%**  
of management positions held by women;  
on track to achieving our goal of 40% by 2022

### Protecting the environment

**CDP Triple A**  
Awarded "Triple A" score by CDP for our efforts in combating climate change, as well as protecting forests and water security

**Carbon Neutrality**  
Well on track to achieving scope 1+2 by 2030 and scope 1+2+3 by 2050<sup>1</sup>

<sup>(1)</sup> See glossary for definition.





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