



Simply Amazing

The Simply Amazing campaign focuses on everyday, relatable moments and emotions by showcasing to adult smokers the benefits of switching to /QOS.

Strong Underlying 2019 Performance

Net Revenues

+6.4%

vs. 2018¹

Adjusted Operating Income

+11.2%

vs. 2018¹

Adjusted Operating Income Margin

+1.7pp

vs. 2018¹

Adjusted Diluted EPS

+9.9%

vs. 2018¹

Operating Cash Flow

\$10.1 billion

Annualized Dividend

\$4.68/share²

Note: All references throughout this report to "like-for-like" performance reflect pro forma 2018 results, which have been adjusted for the deconsolidation of our Canadian subsidiary, Rothmans, Benson & Hedges, Inc. (RBH), effective March 22, 2019. All references to adjusted results reflect the exclusion of asset impairment, exit costs and other charges. Reconciliations to the most directly comparable U.S. GAAP measures are provided on pages R-1 to R-2. All references to /QOS are to our Platform 1 heat-not-burn products, unless otherwise stated.

⁽¹⁾ On a like-for-like basis, excluding currency.

⁽²⁾ Annualized rate based on a quarterly dividend of \$1.17 per common share, declared September 11, 2019.

Dear Shareholder

2019 was a year of significant progress and continued success for PMI. We delivered strong underlying business performance, notably reflecting broad-based growth for /QOS and solid combustible tobacco pricing. We also reached several important milestones, such as the introduction of a version of /QOS into the U.S. market following its authorization by the U.S. Food and Drug Administration (FDA) under the Pre-Market Tobacco Application (PMTA) pathway.

2019 vs. 2018 Results

Total cigarette and heated tobacco unit (HTU) shipment volume of 766.4 billion units decreased by 2.0%, or by 1.4% on a like-for-like basis. This compares to a total international industry volume decline of 2.0%, excluding China and the U.S.

Total cigarette and HTU market share grew by 0.1 percentage point, reaching 28.4% of the international market, excluding China and the U.S., driven mainly by the strong performance of our HTU brands. While our share of the international cigarette market declined by 0.3 percentage points, cigarette share for *Marlboro* increased by 0.3 percentage points to reach 10.0% – an all-time high.

Net revenues of \$29.8 billion increased by 0.6%. On a like-for-like basis, currency-neutral net revenues increased by 6.4%, driven primarily by higher HTU shipment volumes, coupled with strong combustible tobacco pricing that more than offset unfavorable combustible tobacco volume/mix.

Adjusted operating income (OI) of \$11.8 billion increased by 3.4%. On a like-for-like basis, currency-neutral adjusted OI increased by 11.2%, driven by net revenue growth, coupled with the favorable impact of our cost-savings initiatives and increasing leverage of existing smoke-free product infrastructure by a growing volume and user base.

Like-for-like adjusted OI margin increased by 170 basis points, excluding currency, despite net incremental investment behind smoke-free products.

Adjusted diluted EPS of \$5.19 increased by 1.8%. On a like-for-like basis, currency-neutral adjusted diluted EPS increased by 9.9%.

Operating cash flow of \$10.1 billion grew by \$0.6 billion, or 6.5%, primarily reflecting favorable working capital movements.

In September, the Board of Directors approved a 2.6% increase in the quarterly dividend to an annualized rate of \$4.68 per share. This represented the twelfth consecutive year in which we increased our dividend since becoming a public company in 2008.

Our total shareholder return (TSR) in 2019 was 35.0% in U.S. dollar terms, outperforming that of the S&P 500 (31.5%) and our Peer Group (23.5%). Since the spin-off in 2008, our TSR was 187.5%.

Delivering a Smoke-Free Future

We continue to make important progress in our journey to replace cigarettes with smoke-free alternatives. In 2019, smoke-free products represented approximately 8% of PMI's total shipment volume, 19% of net revenues, 71% of commercial expenditure and 98% of R&D expenditure.¹ Only three years ago, these metrics stood at approximately 1%, 3%, 15% and 72%, respectively, demonstrating the significant – and rapid – shift in our business.

/QOS – the world's leading heat-not-burn product – remains the driving force behind this progress. As of December 2019, the total number of /QOS users globally² reached an estimated 13.6 million, up by 41.8% versus



André Calantzopoulos
Chief Executive Officer



Louis C. Camilleri
Chairman of the Board

/QOS launches in the U.S.

In April 2019, a version of /QOS became the first heat-not-burn product to be authorized for sale by the U.S. FDA under the PMTA pathway. The agency's rigorous two-year review led to the conclusion that /QOS is "appropriate for the protection of public health." In September, our U.S. licensee, Altria Group, Inc., launched /QOS in the initial lead market of Atlanta, GA, followed by a subsequent expansion into the Richmond, VA, market in late 2019.

⁽¹⁾ For shipment volume, this represents HTU shipment volume as a percentage of total cigarette and HTU shipment volume. For net revenues, this represents reduced-risk product net revenues as a percentage of total net revenues, as shown on page R-1 in this report.

⁽²⁾ "Total /QOS users" is defined as the estimated number of legal age (minimum 18 years) /QOS users that used PMI HTUs for at least 5% of their daily tobacco consumption over the past seven days.

2019: /QOS at a Glance *(change vs. 2018)*

Total /QOS Users¹	HTU Shipment Volume	Market Share of HTUs in /QOS Markets^{2,3}	Smoke-Free Product Net Revenues⁴
13.6 million <i>+41.8%</i>	59.7 billion units <i>+44.2%</i>	5.0% <i>+1.4pp</i>	\$5.6 billion <i>+39.0%⁵</i>

2018. Importantly, an estimated 9.7 million of these users – or approximately 71% – have stopped smoking and switched to /QOS.⁶

The increase in total /QOS users reflected growth across essentially all launch markets, including a near doubling in both Germany and Italy, and even stronger growth in Russia. The notable exception was Korea, where the number of /QOS users declined, mainly reflecting ongoing consumer confusion regarding the heated tobacco category stemming from the Korean FDA's misleading communication on tar.

/QOS user base growth drove a 44.2% increase in our 2019 HTU shipment volume, which reached 59.7 billion units. In /QOS markets, excluding the U.S., our HTU brands reached a full-year share of 5.0%³ – up by 1.4 percentage points – making them the fourth-largest tobacco “brand” in these markets.

We also made critical strides in the U.S. market, with the authorization and subsequent commercialization of a version of /QOS, and are now poised to deliver better choices to the 40 million adults in the U.S. who smoke. We look forward to the FDA's response to our Modified Risk Tobacco Product applications for /QOS, which the agency continues to review.

Smoke-Free Product Portfolio

Building on the success of /QOS 3 and /QOS 3 MULTI, we began the global launch and roll-out of /QOS 3 DUO last September. This latest addition to the /QOS family was designed with enhanced features to help adult smokers switch more seamlessly from cigarettes, notably allowing two consecutive uses without recharging the holder. By year-end, /QOS 3 DUO was available in all /QOS launch markets.²

Our aim to deliver a smoke-free future extends beyond /QOS heat-not-burn and requires a portfolio approach that addresses a range of adult smoker preferences and occasions in order to maximize full switching. Last year we made important advances in the e-vapor category with the development of the next generation of our Platform 4 e-vapor product, /QOS VEEV, which we plan to launch in the third quarter of this year and believe provides a superior nicotine delivery and taste experience compared to existing e-vapor products. We also took important steps toward commercializing our Platform 2 heat-not-burn and Platform

3 nicotine salt products, and plan consumer tests for both platforms in 2020.

Furthermore, in January 2020 we announced a global collaboration agreement with KT&G, the leading tobacco and nicotine company in South Korea, to commercialize their smoke-free products outside of the country. The agreement will allow PMI to offer a smoke-free product portfolio that provides adult smokers with an ever-broader range of taste, price and technology choices, thereby accelerating our vision of a smoke-free future.

Engaging with Stakeholders

As we continue to transform our business and our organization, it is not enough to simply provide smoke-free products that meet the preferences of today's adult smokers. We also need to earn the trust and active cooperation of a host of stakeholders, including regulators and public health authorities. We must consistently demonstrate that we are honest, respectful and genuinely committed to transformative change, and we must never fail to align our actions with our words across all areas of our business.

An essential step toward gaining trust is being transparent. To that end, we have published our scientific research and findings, and have announced a set of business transformation metrics to allow others to measure our progress. We report publicly on these metrics annually in our Sustainability Report,⁷ which also details our important efforts and achievements in areas such as our agricultural labor practices and environmental footprint. We look forward to the publication of our next report this May.

It is also essential to demonstrate our commitment to doing our part in preventing underage use of nicotine and tobacco products. During 2019, we undertook a comprehensive assessment of our commercial practices, and we have shared our findings through a report publicly available on our website.⁸ The results of the assessment demonstrate PMI's strong adherence to our marketing standards, while recognizing areas for further improvement.

In addition, we are initiating and engaging in global conversations about the benefits of smoke-free products for those adults who otherwise would continue to smoke.

⁽¹⁾ “Total /QOS users” is defined as the estimated number of legal age (minimum 18 years) /QOS users that used PMI HTUs for at least 5% of their daily tobacco consumption over the past seven days.

⁽²⁾ Excluding the U.S.

⁽³⁾ Reflects sales volume as a percentage of the total industry sales volume for cigarettes and HTUs.

⁽⁴⁾ Represents reduced-risk product net revenues, as shown on page R-1 in this report.

⁽⁵⁾ Excluding currency.

⁽⁶⁾ The estimated number of people who have “stopped smoking and switched to /QOS” is defined as: for markets where /QOS is the only heat-not-burn product, daily individual consumption of PMI HTUs represents the totality of their daily tobacco consumption in the past seven days; for markets where /QOS is one 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% are PMI HTUs.

⁽⁷⁾ Link: <https://www.pmi.com/sustainability/sustainability-report>

⁽⁸⁾ Link: https://www.pmi.com/resources/docs/default-source/default-document-library/responsible-marketing-practices-at-pmi.pdf?sfvrsn=496446b4_4

Smoke-Free Product Portfolio



IQOS 3 DUO

All new, elegant and intuitive.

IQOS 3 DUO uses the latest HeatControl™ Technology that delivers the best heated tobacco experience. Its compact and ergonomic design is perfect for all tobacco moments, whatever the occasion.



IQOS 3 MULTI

Compact, all-in-one design.

The lightweight, pocket-sized design of the new *IQOS 3 MULTI* makes it perfect for use on the go. It allows for sequential tobacco sessions with no charging time between enjoying *HeatSticks/HEETS*.



IQOS 2.4 PLUS

Intuitive, user-friendly design.

IQOS 2.4 Plus is the third version of *IQOS* to be commercialized. *2.4 Plus* delivers the most satisfying heated tobacco experience free from fire, smoke and ash in a way that could be made available to all smokers.



IQOS VEEV

Next generation e-vapor.

IQOS VEEV is our e-vapor product that uses a new and satisfying approach to vapor. Unlike regular e-cigarettes, *VEEV* cartridges are manufactured, assembled, pre-filled, and pre-sealed in our European production facilities.

In 2019, we participated in a series of important events, which served as platforms through which we were able to challenge long-held views about our company and industry. We also launched #unsmokeyourworld with the mission of starting conversations about a better future for the world's 1.1 billion smokers. Our message was and remains: If you don't smoke, don't start. If you smoke, quit. If you don't quit, change.

Building on these efforts, in early 2020 we unveiled #unsmokeyourmind – our campaign directed at decision-makers, scientists, regulators and politicians to challenge misconceptions of, and open minds to, the better alternatives to combustible tobacco that science and technology have made available. By starting conversations with policymakers and shining light on the issues and the means to help address them, we are moving closer to achieving the regulatory frameworks needed to deliver a smoke-free future.

Combustible Product Portfolio

PMI is disrupting its traditional business from the inside and leading the industry by aiming for a world without cigarettes. However, for as long as significant legitimate demand for combustible tobacco exists, PMI will continue to sell such products responsibly and seek to maintain our leadership position internationally. In doing so, we will continue to focus our combustible product innovation strategy on fewer and more impactful initiatives, while consolidating and simplifying our portfolio.

2019 saw robust performance from our combustible tobacco portfolio, notably reflecting a like-for-like pricing variance of 6.5% versus 2018, in line with our average annual pricing variance since becoming a public company, and cigarette market share growth of 0.4 percentage points, excluding China and the U.S., for our top-six international cigarette brands.

Transforming Our Organization

In 2019 we accelerated our internal transformation, strengthening capabilities through recruitment and development, and deploying the next phase of fundamental changes to our operating model, structure and working methods to further enable our people to work in an agile, collaborative and consumer-centric manner. This included further steps toward a project-based organization and zero-based organization principles.

We also reinforced our commitment to a diverse and inclusive workforce that reflects modern society. Our

efforts were recognized in 2019 when we became the first multinational company to achieve global EQUAL-SALARY certification, an independent verification that PMI pays women and men equal pay for equal work in every market where we are located.

The transformation of our company relies on the talent and relentless efforts of our employees. As we transition to a smoke-free future, this entails adjustments to our manufacturing footprint and overall organizational design. As always, we commit to treating our employees with the respect, dignity, care and fairness that they deserve in the face of such changes.

Finally, our business transformation – both internal and external – would not be possible without the tremendous experience of our Board of Directors, whose relationship with management continues to be governed by transparency, openness, trust and collaboration. Our heartfelt gratitude goes out to the two Directors who have decided not to stand for re-election this year and will retire from the Board: Mr. Massimo Ferragamo, a Director since 2016, and Mr. Stephen M. Wolf, who has been on the Board since we became a public company. They have been exemplary Directors, providing invaluable service and years of dedicated commitment to our company.

Looking Ahead

We have no doubt that the historic opportunity for smoke-free products to sustainably accelerate our business growth and generously reward shareholders is undiminished. This opportunity is increasingly tangible as we witness the critical role that these products can play in improving the lives of adult smokers across markets. And thanks to our industry-leading combustible tobacco portfolio, we remain exceptionally positioned to continue investing in the transformation of our company and the development of the products necessary to deliver a smoke-free future, to the benefit of adult smokers, society, the company and its shareholders.

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March 6, 2020