

A person in a dark jacket is walking away from the camera on a dirt path that leads into a dense forest. The path is flanked by tall, brown ferns. The trees are tall and thin, and the sky is overcast.

PMI'S STATEMENT OF PURPOSE

“ PMI believes that with the right regulatory encouragement and support from civil society, cigarette sales can end within 10 to 15 years in many countries. ”



PHILIP MORRIS INTERNATIONAL



PMI'S STATEMENT OF PURPOSE

EXCERPT FROM 2020 PROXY STATEMENT

While Philip Morris International Inc. (PMI) is widely known as a cigarette company, in 2016 it announced its new purpose: to deliver a smoke-free future by focusing its resources on developing, scientifically substantiating and responsibly commercializing smoke-free products that are less harmful than smoking, with the aim of completely replacing cigarettes as soon as possible. These innovative alternative products do not burn tobacco, do not create cigarette smoke and therefore generate significantly lower levels of carcinogens and other toxic substances compared to cigarettes.

Building on the Board's Letter to Shareholders in PMI's 2017 Proxy Statement, we would like to reaffirm PMI's purpose and acknowledge that, as the Company continues to transform its business and organization, its core effort to provide smoke-free alternatives that are satisfying to today's adult smokers—and to work hard to convince them to switch—will not be enough. The Company needs to continue earning the trust and active cooperation of a host of stakeholders, from its supply chain partners to regulators and public health authorities.

A smoke-free future is attainable, and the benefits it can bring to the people who would otherwise continue to smoke, and hence to global public health, are enormous. However, the Company cannot succeed alone. Together with governments and civil society we can maximize this opportunity through a consensus that smoke-free alternatives, when subject to proper government oversight and regulation, are part of sound tobacco policy.

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A person wearing a white lab coat and purple nitrile gloves is using a pipette tip to transfer liquid into a multi-well plate. The background is a blurred laboratory setting with various equipment and containers.

#01

**PROVIDING
BETTER
ALTERNATIVES
TO CONTINUED
SMOKING**



Smoking causes serious disease, and the best way to avoid the harms of smoking is never to start, or to quit. For decades, tobacco control has focused on strict fiscal, marketing and other measures to deter initiation and to encourage cessation. These must be continued. Nevertheless, while smoking prevalence rates continue to slowly decline, the World Health Organization projects that the estimated number of 1.1 billion people who smoke tobacco products today will remain largely unchanged by 2025, reflecting population growth.

Nicotine, while addictive and not risk free, is not the primary cause of smoking related disease. The primary cause is the harmful chemicals released or generated by the burning of tobacco and contained in the smoke. Eliminating combustion from nicotine-containing products is the way to significantly reduce their toxicity. Thanks to rapid advances in science and technology, and strong PMI commitment, these products are now a reality.

Currently, PMI's smoke-free portfolio comprises platforms that heat tobacco, vaporize nicotine-containing liquids or essentially contain only nicotine, all without combustion. Their

development and manufacturing follow high standards of quality and consistency. The scientific evaluation to substantiate their harm reduction potential compared to cigarette smoking is based on rigorous pre-clinical and clinical assessments and sophisticated systems toxicology. The results are publicly available, are peer-reviewed and have been submitted to numerous regulatory authorities including the U.S. Food and Drug Administration. The totality of the scientific evidence makes the Company confident that switching completely to these products is likely to present less risk of harm than continuing to smoke. Post-market surveillance is necessary to continue building this confidence, and, over time, quantify the reduction in morbidity and mortality through epidemiology.

To be clear, these smoke-free alternatives are not risk free and should not be used by youth or non-smokers. For those who use nicotine in any form it is best to quit completely. The Company must market them responsibly, so as to minimize any unintended use, while maximizing the switching of adult smokers who would otherwise continue smoking.

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IQOS Platform 1, a heat-not-burn tobacco product, was commercially launched in late 2015 and was very well received by adult smokers, with conversion rates exceeding 70 percent. This confirmed that the Company had the products and the science to fulfill its ambition to completely replace cigarettes. In 2016, with the full support of the Board of Directors, the Company announced its new purpose of delivering a smoke-free future. Since then the Company has fully aligned its employees with this purpose, and swiftly shifted its organizational focus and resources to smoke-free alternatives. The Company is essentially disrupting its traditional business from the inside out and is leading the industry in this unprecedented transformation.

While cigarette sales today remain the largest part of PMI's business in most countries, this is changing rapidly. In 2019, the Company's smoke-free products were already commercialized in 52 markets and represented 18.7 percent of PMI's global revenue, 71 percent of its commercial expense and 98 percent of its R&D expenditure. As of December 31, 2019, of the approximately 150 million people who regularly use the Company's products, approximately 14 million already use

IQOS, of whom approximately 9.7 million have stopped smoking and switched to this product. The Company is actively accelerating the decline of cigarette smoking beyond what can be achieved by traditional tobacco control measures alone.

Going forward, the Company is committed to providing less harmful alternatives to the hundreds of millions of adult smokers who would otherwise continue to smoke, 80 percent of whom PMI estimates are looking for better alternatives. The Company will do so through a research agenda to innovate and substantiate a portfolio of products that are affordable and acceptable for these smokers in both developed and developing countries. While PMI will continue to responsibly sell cigarettes as long as there is a significant legitimate demand, it will continue focusing its commercial efforts toward raising awareness of, and informing adult smokers in appropriate ways about, smoke-free products and the benefits of switching versus continued smoking. The Company carefully monitors the results of its marketing to best ensure its smoke-free products are not reaching non-smokers, youth or people who have already quit nicotine use altogether.



“ The Company is actively accelerating the decline of cigarette smoking beyond what can be achieved by traditional tobacco control measures alone. ”



#02

**KEY
STAKEHOLDERS
TO DELIVER A
SMOKE-FREE
FUTURE**



PMI's key stakeholder constituencies, which are fundamental to achieving its purpose and to the pace of its progress, will be affected in different ways by PMI's transformation. The Company will seek to engage and collaborate with relevant stakeholders to speed the transformation while mitigating negative consequences.

Employees

PMI's ability to accomplish its purpose depends on the skills, dedication and relentless efforts of its employees. The Company's focus on a smoke-free future has enhanced its ability to attract the new talent needed to support its transformation. The Company compensates its employees fairly and provides important benefits. It supports them with enriching job experiences, training and education to help them develop new skills and maximize their employability in a rapidly changing world. The Company treats employees with respect, dignity, care and fairness. It fosters diversity, inclusion, equal opportunity and equal salary policies to ensure PMI's workforce reflects modern society.

Regulators

Regulators can decisively accelerate the industry's transformation toward, and the speed at which adult smokers switch to, smoke-free products by implementing risk-proportionate regulations and taxation for all nicotine-containing products and by providing smokers with accurate information. PMI is committed to engaging transparently with regulators, sharing its scientific research and post-market data. The Company will be ready to support an industry-wide gradual phase-out of cigarettes as soon as a majority of smokers in a country have switched to scientifically substantiated smoke-free products. PMI believes that with the right regulatory encouragement and support from civil society, cigarette sales can end within 10 to 15 years in many countries.

Public health community

The public health community is, unfortunately, polarized on the issue of smoke-free products. Without question, their work to discourage youth and nonsmokers from starting to use any tobacco or nicotine product and to encourage cessation should continue. At the same time, when better alternatives to cigarettes exist, the discussion should not be whether they should be made available to the more than one billion men and women who smoke today, but how fast, and within what regulatory framework to maximize their adoption while minimizing unintended use. The Company is urging this important stakeholder group to seize the immense opportunity that smoke-free products present for advancing public health within the present generation of smokers. PMI asks the public health community to scrutinize its smoke-free products, to provide feedback for improvement and to be open to considering that PMI's purpose aligns with the societal goal to change the health trajectories of the people who smoke.

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Supply chain

People working in the Company's supply chain around the world, including tobacco farmers, rely on PMI for a substantial portion of their income. PMI deals fairly and ethically with its suppliers, and is dedicated to acting as a good partner to other companies, large and small, that help meet PMI's missions. PMI recognizes that smoke-free products differ from cigarettes and entail change for some of its supply chain partners, and PMI is ready to help them in this transition.

Shareholders

The Company is confident of the business opportunity that smoke-free products bring. It is leading this new highly promising category and is dedicated to ensuring its shareholders continue to receive strong and sustainable financial returns over time, while recognizing the initial uncertainty that transforming the Company's business model may bring. We are aware of the growing investor movement in select geographies to exclude tobacco from portfolios, but we do not believe that exclusion will convince people who smoke to quit or to improve their lives. On the contrary, by investing in PMI—a tobacco company that is aiming to end cigarette sales—and holding the Company accountable to its purpose and targets, investors can combine positive societal impact with long-term financial returns. The Company welcomes suggestions, pressure and support from engagement with both current and potential investors.

Civil society

Continued engagement and partnerships with civil society remain essential to the Company's success. PMI respects the many communities around the world where it operates. PMI works hard to protect the environment through sustainable practices across its businesses and to address both existing social and environmental challenges, such as child labor in tobacco growing, and emerging topics pertaining to its business transformation, such as helping tobacco farmers to diversify their crops. The scope, metrics and progress of these practices are outlined in PMI's annual Sustainability Report, published on PMI's website.



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The image shows two men in a meeting room. One man, with blonde hair and glasses, is looking at a large screen displaying several data charts. The other man, in a dark suit, is standing with his back to the camera, also looking at the screen. The screen shows four charts: two scatter plots at the top and two line graphs at the bottom. The scatter plots show a positive correlation with a correlation coefficient of $r = 0.87$. The line graphs show data points over time, with labels for 'day 5', 'day 6', 'day 1', and 'day 2'. The overall scene is dimly lit, with the screen providing the main source of light.

#03

MEASURING DELIVERY



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. To make the Company's progress in delivering its smoke-free vision verifiable, it introduced a set of business transformation metrics, which it publishes every year. As outlined previously, there has already been significant progress.

To assess the impact of PMI's current and future value chains on society and the environment, the Company regularly conducts sustainability materiality analyses and measures its performance through financial, environmental and social metrics that are key to a sustainable corporate strategy.

The Compensation and Leadership Development Committee of the Board has ensured a strong link between executive compensation and both short- and longterm performance toward achieving the Company's smoke-free ambition. It is management's responsibility to ensure that

the Company's purpose is achieved through the appropriate structures, systems, processes and people. The Board oversees management's efforts to enhance shareholder value responsibly and sustainably over the long term in ways that are consistent with the Company's purpose. Transparency and engagement between the Board and management are paramount, and the relationship is excellent.

In conclusion, PMI is fully committed to its corporate purpose of delivering a smoke-free future.

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PMI'S BOARD OF DIRECTORS



André Calantzopoulos



Jennifer Li



Lucio A. Noto



Louis C. Camilleri



Jun Makihara



Frederik Paulsen



Werner Geissler



Kalpana Morparia



Robert B. Polet



Lisa A. Hook

A Statement of Purpose is a declaration, issued by a company's board of directors, that clearly articulates the company's purpose and how to harmonize commercial success with social accountability and responsibility. It specifies within that purpose those stakeholders most critical to long-term value creation and sustainability. On March 26, 2020, PMI published its [2020 Proxy Statement](#), which contained a Letter from the Board of Directors that corresponds to PMI's Statement of Purpose. The groundwork for the Statement of Purpose was laid in the [2017 Proxy Statement](#) in a letter to shareholders from the Board of Directors announcing for the first time our company's smoke-free vision.