



## Transparent reporting on progress: PMI's Business Transformation Metrics

To make our progress both measurable and verifiable, we developed a set of bespoke key performance indicators (KPIs) that we call Business Transformation Metrics. This set of metrics, which we report on periodically, allows our stakeholders to assess both the pace and the scale of our transformation. Over the years, based on our stakeholders' feedback we have expanded the number of metrics to increase transparency and clarity about our progress.

Our Business Transformation Metrics also showcase how we are allocating resources away from our traditional cigarette business, aiming to base our success on a future where we no longer make or sell cigarettes.

\* The 2020 metrics marked with an asterisk (\*) are subject to PwC's Assurance Report (see page 146).

1 Smoke-free products include heated tobacco units, devices, 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 IP5 jurisdictions are Europe (patents granted by the European Patent Office), China, South Korea, Japan, and the U.S.

4 Data related to perception and behavior studies were restated to include both premarket and post-market studies.

5 Direct spend focuses on materials used in the manufacture of our products; it includes tobacco leaf, direct materials, and electronic devices and accessories.

6 Investments reflect research, product and commercial development, production capacity, scientific substantiation, and studies on adult smoker understanding. Figure does not include commercial deployment costs.

7 Production temporarily stopped at one of our factories in Germany in December 2019 and resumed early 2020.

8 "SKUs" stands for stock-keeping units. References to number of SKUs are based on the latest available data from a number of internal sources, and exclude People's Republic of China and the U.S.

9 Excluding PMI Duty Free. Data are based on 2020 OECD country list.

10 Includes flagship stores, and small, large, and temporary boutiques.

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

12 Excluding PMI Duty Free; see [glossary](#).

13 Net of excise taxes.

14 Excluding PMI Duty Free and the U.S.

15 [Philip Morris International](#) Integrated Report 2020

	2016	2017	2018	2019	2020	
Business Transformation Metrics						
R&D	R&D expenditure (in millions USD)*	429	453	383	465	<b>495</b>
	R&D expenditure (smoke-free/total) <sup>1</sup> *	72%	74%	92%	98%	<b>99%</b>
	Number of R&D positions (FTEs) <sup>2</sup>	n/a	n/a	764	942	<b>934</b>
	Patents granted in IP5 jurisdictions relating to smoke-free products (cumulative) <sup>3</sup>	170	300	480	740	<b>1,300</b>
	Number of studies completed by PMI on smoke-free products (cumulative, since 2015)					
– Toxicological assessment	36	57	82	109	<b>146</b>	
– Clinical assessment	11	12	19	19	<b>22</b>	
– Perception and behavior (premarket and post-market) <sup>4</sup>	7 (7+0)	8 (7+1)	12 (9+3)	13 (9+4)	<b>30 (15+15)</b>	
Sourcing	Supply chain direct spend expenditure (smoke-free/total) <sup>5</sup>	n/a	n/a	n/a	35%	<b>33%</b>
Operations	Cumulative investments behind smoke-free products (since 2008, in billions USD) <sup>6</sup>	3.2	4.6	6.2	7.2	<b>8.1</b>
	Number of factories producing smoke-free products out of total number of factories <sup>7</sup> *	3 out of 48	4 out of 46	8 out of 44	8 out of 38	<b>8 out of 39</b>
Commercialization	Year-on-year change in number of SKUs—combustible products <sup>8</sup>	-1.7%	-6.5%	-6.1%	-5.5%	<b>-4.1%</b>
	Year-on-year change in number of SKUs—smoke-free products	78.2%	9.9%	37.1%	24.9%	<b>38.2%</b>
	SKUs (smoke-free/total)	4.7%	5.5%	7.8%	10.1%	<b>13.9%</b>
	Number of markets where IQOS is available for sale*	20	38	44	52	<b>64</b>
	Proportion of markets where IQOS is available for sale that are outside the OECD <sup>9</sup> *	32%	41%	44%	45%	<b>52%</b>
	Number of IQOS stores <sup>10</sup>	26	63	81	199	<b>259</b>
	Number of retailers that sell PMI smoke-free product consumables (in thousands)	90	292	488	679	<b>749</b>
	Commercial expenditure (marketing) (smoke-free/total)*	15%	39%	60%	71%	<b>76%</b>
	Smoke-free product shipment volume (billion units)*	8	36	42	60	<b>76</b>
	Combustible product shipment volume (billion units)*	845	791	767	732	<b>654</b>
Smoke-free product shipment ratio (smoke-free/total) <sup>11</sup> *	0.9%	4.4%	5.1%	7.6%	<b>10.4%</b>	
Consumers	Total IQOS users (in millions) <sup>12</sup> *	2.1	6.9	9.6	13.5	<b>17.5</b>
	Estimated users who have switched to IQOS and stopped smoking (in millions) <sup>12</sup> *	1.5	4.7	6.6	9.6	<b>12.7</b>
	Estimated users outside the OECD countries who have switched to IQOS and stopped smoking (in millions) <sup>9</sup> *	0.0	0.2	1.1	2.9	<b>4.3</b>
Revenues	Net revenues (smoke-free/total) <sup>13</sup> *	2.7%	12.7%	13.8%	18.7%	<b>23.8%</b>
	Number of markets where net revenues from smoke-free products exceed 10% of total net revenues <sup>14</sup> *	1	5	19	31	<b>38</b>
	Number of markets where net revenues from smoke-free products exceed 50% of total net revenues <sup>14</sup> *	0	1	3	4	<b>6</b>

New metrics Metrics linked to 2025 aspirations