



PHILIP MORRIS INTERNATIONAL  
2022 ANNUAL REPORT



## 2022 Financial Highlights

Adjusted  
Net Revenues  
**+7.7%**  
vs. 2021<sup>1,2</sup>

Adjusted  
Operating  
Income  
**+6.2%**  
vs. 2021<sup>1,2</sup>

Adjusted  
Operating  
Income Margin  
**-0.6pp**  
vs. 2021<sup>1,2</sup>

Adjusted  
Diluted EPS  
**+11.9%**  
vs. 2021<sup>1,3</sup>

Operating  
Cash Flow  
**\$10.8**  
Billion

Annualized  
Dividend  
**\$5.08**  
Per Share<sup>4</sup>

Since becoming a public company in 2008, PMI has increased its regular quarterly dividend by  
**176.1%**  
representing a compound annual growth rate of  
**7.5%**

## 2022 Smoke-Free Highlights

Total  
IQOS Users<sup>5</sup>  
**24.9**  
Million

Market Share  
of PMI HTUs<sup>5</sup>  
in IQOS Markets<sup>6</sup>  
**8.0%**

PMI HTUs  
**#2**  
Tobacco “Brand”  
in IQOS Markets<sup>6</sup>

HTU  
Shipment Volume  
**109.2**  
Billion Units

Smoke-Free Product<sup>5</sup>  
Net Revenues  
**32.1%**  
of Total

*“We continue to make exciting progress on our smoke-free transformation, with smoke-free products accounting for almost one-third of PMI’s total net revenues in 2022.”*

– Jacek Olczak, Chief Executive Officer

## Smoke-Free Product Portfolio<sup>7</sup>



<sup>(1)</sup> Excluding Russia and Ukraine. See page G-1 for further discussion.

<sup>(2)</sup> On an organic basis. See page G-1 for definition.

<sup>(3)</sup> On a currency-neutral basis.

<sup>(4)</sup> Annualized rate based on a quarterly dividend of \$1.27 per common share, declared September 14, 2022.

<sup>(5)</sup> See page G-1 for definition.

<sup>(6)</sup> Excluding the U.S.

<sup>(7)</sup> Select smoke-free products.



# Dear Shareholder,

In 2022, PMI delivered an excellent performance despite a challenging operating environment linked to the war in Ukraine, significant supply chain disruptions and global inflationary pressures. This performance reflected the continued strong growth of *IQOS* – enhanced by the roll-out of *ILUMA* in initial launch markets – and positive momentum for the combustible business.

We also reached two critical strategic milestones last year: the finalization of an agreement to take full control of *IQOS* in the U.S. as of April 30, 2024, and the successful completion of the Swedish Match acquisition. These developments will accelerate our smoke-free journey and further position PMI to lead the transformation of the wider industry, including in the U.S.

The company's achievements in 2022 were the product of the collective skills, drive, and innovative thinking of the entire organization. We salute our nearly 80,000 employees globally and thank them for another year of their dedication and hard work.

## 2022 vs. 2021 Results

Total international industry<sup>1</sup> volume for cigarettes and heated tobacco units (HTUs) increased by 0.2%. Excluding Russia and Ukraine, total international industry volume increased by 0.9%, driven by volume recoveries in many markets as the lingering effects of the pandemic dissipated.

Total cigarette and HTU shipment volume increased by 1.6%, to 731.1 billion units, representing a second consecutive year of volume growth for PMI. Excluding Russia and Ukraine, total shipment volume increased by 3.2%, driven by a 21.5% increase in HTUs and a 0.8% increase in cigarettes.

Total cigarette and HTU market share increased by 0.4 percentage points, to 27.6% of the international market. Excluding Russia and Ukraine, total international share increased by 0.6 percentage points, to 27.3%, driven by the strong performance of our HTU brands (also up by 0.6 percentage points) and stable share for cigarettes.

Net revenues of \$31.8 billion increased by 1.1%. Excluding Russia and Ukraine, adjusted net revenues increased by 7.7% on an organic basis, driven primarily by HTU shipment volume growth and a corresponding positive product mix impact, as well as favorable combustible tobacco pricing.

Operating income (OI) of \$12.2 billion decreased by 5.6%. Excluding Russia and Ukraine, adjusted OI increased by 6.2% on an organic basis, driven by adjusted net revenue growth, partly offset by a contraction in adjusted operating margin of 0.6 percentage points on the same basis. The margin decline was mainly due to inflationary pressures on cost of sales, transitory cost impacts related to the roll-out of *ILUMA*, and higher air freight costs due to supply chain disruptions, less the favorable impact of productivities and cost efficiencies.

Diluted EPS of \$5.81 decreased by 0.3%. Excluding Russia and Ukraine, adjusted diluted EPS of \$5.34 increased by 11.9% excluding currency.

Operating cash flow of \$10.8 billion decreased by 9.7%. On a currency-neutral basis, operating cash flow increased by 3.0%, driven primarily by higher net earnings.

In September, the Board of Directors approved a 1.6% increase in the quarterly dividend, to an annualized rate of \$5.08 per share. This represented the fifteenth consecutive year in which we increased our dividend since becoming a public company in 2008.

## War in Ukraine

The war in Ukraine has presented a number of unprecedented challenges for the company, and our focus has naturally been on supporting our employees and their families who are impacted.

Our business in Ukraine was heavily disrupted last year. We suspended production at our manufacturing facility in Kharkiv, which was supplying both the domestic market and a number of important export markets. Following an initial suspension of our broader commercial activities in the market, we subsequently resumed some retail activities, where safety allowed, and began to supply the market from production centers outside Ukraine, as well as through a local contract manufacturing arrangement.



Jacek Olczak,  
Chief Executive Officer



André Calantzopoulos,  
Executive Chairman of the Board

In Russia, we took a range of concrete steps in 2022 to suspend planned investments and scale down manufacturing operations. PMI is continuously assessing the evolving situation in Russia, including: recent regulatory constraints in the market that entail very complex terms and conditions that must be met for any divestment transaction to be granted approval by the authorities; and restrictions resulting from international regulations.

## Delivering a Smoke-Free Future

In 2022, our smoke-free portfolio accounted for 32.1% of total net revenues, with 17 markets generating more than 50% of their total net revenues from smoke-free products. As of year-end, our smoke-free products were available in 73 markets, of which 30 are classified as low- and middle-income markets.

*IQOS* continues to drive the strong growth of our smoke-free product portfolio. The estimated number of total *IQOS* users increased by 3.2 million in 2022 to reach 24.9 million as of year-end, with an estimated 17.8 million of these users – or around 71% – having switched to *IQOS* and stopped smoking. This performance reflected *IQOS* user growth across key geographies, including the EU Region, Japan, and low- and middle-income markets broadly.

*ILUMA* generated excellent growth in its initial launch markets in 2022, with upgrades from existing *IQOS* users and new-user acquisition outperforming our expectations. The acceleration in heat-not-burn category growth in the diverse launch geographies highlights its exciting future growth opportunity across the world. While the speed of *ILUMA* market launches was impacted by supply constraints for its HTU consumables, the product was available in 16 markets as of year-end, including Italy and Korea.

To complement *IQOS*, PMI continues to invest in a broader range of innovative and high-quality heat-not-burn alternatives across multiple price tiers. This includes licensed *lii* products, which were available in over 30 markets as of year-end and are delivering high levels of adult smoker conversion while successfully competing in lower price segments. In January 2023, we extended our successful commercial relationship with KT&G through a long-term agreement.

Additionally, in the fourth quarter, PMI introduced *BONDS* by *IQOS* – our new proprietary heat-not-burn device with external heating technology – through pilot launches in Colombia and the Philippines. The product, with its *BLENDS* consumables, is tailored to low- and middle-income markets, and offers a simple, convenient, and affordable heat-not-burn proposition, which can cater to local taste preferences without compromising on harm reduction.

In e-vapor, we complemented our *VEEV* closed-system products with a range of disposable products under the *VEEBA* brand, based on licensed technology. As of year-end, *VEEBA* was available in four markets, including Canada and the U.K. The launches were supported by responsible marketing practices, a rigorous focus on preventing unintended use, and a sustainability take-back program.

Last year will be remembered for the achievement of two major milestones in our smoke-free journey that unlock significant

<sup>1</sup> References to “international industry” and the “international market” exclude China and the U.S.

new growth opportunities. First, following an agreement with our existing U.S. partner for heat-not-burn products, PMI will have the full rights to commercialize IQOS in the U.S. – the world's largest total nicotine market (and largest smoke-free market) by value, with an estimated industry profit pool of around \$20 billion – as of April 30, 2024.

Second, the acquisition of Swedish Match positions us as the clear multicategory leader globally for smoke-free products, with IQOS and ZYN the leading brands in their respective categories. Swedish Match also provides a substantial operating platform in the U.S., which we intend to leverage for the commercialization of IQOS, while we harness PMI's international capabilities for the expansion of Swedish Match's oral nicotine brands. Please see the inside back cover of this report for additional information related to the acquisition.

### Smoke-Free Product Regulation

The regulatory environment for smoke-free products remains complex, as many tobacco-control advocates, non-governmental organizations and the World Health Organization continue to radicalize the discourse around such products. Nevertheless, we remain at the forefront of the debate, aiming to increase category understanding and advance Tobacco Harm Reduction (THR) among regulators and consumers.

Importantly, there have been a number of encouraging international developments related to smoke-free product regulation over the past year. Most notably, the government in the Philippines passed a new law clearly differentiating combustible and non-combustible tobacco products.

There were also a few negative regulatory developments, most notably the European Union's ban on the use of characterizing flavors in heated tobacco products (effective later this year), which was formulaic under existing regulation resulting from HTU sales reaching a predefined threshold.

### Combustible Tobacco Product Portfolio

Maintaining our competitive position in the combustible tobacco category as we transition to a smoke-free future is critical, as it best positions us to significantly accelerate our smoke-free journey.

Our combustible tobacco business delivered a very robust performance in 2022, with 0.8% growth in our cigarette shipment volume, a 0.3 percentage point increase in cigarette category share and 3.7% growth in organic net revenues (all metrics exclude Russia and Ukraine).

In 2022, we celebrated *Marlboro's* 50th anniversary as the world's leading cigarette brand. *Marlboro* remains extremely resilient despite the recent pressure on disposable income in many markets, as well as its over-indexing to IQOS cannibalization. The brand's share of the international cigarette category in 2022 reached 10.3%, up by 0.2 percentage points, excluding Russia and Ukraine.

### Organization

There were a number of important organizational developments at PMI in 2022. Following our establishment of a new category management structure in 2021, we designed and implemented accountabilities and decision-rights, overall governance, and change management. This has positioned our organization to become more focused – seamlessly delivering on what matters, at the right speed, quality, and cost – and ensures greater end-to-end accountability from development to deployment.

In addition, as announced late last year, we are realigning our regional structure and operations with existing and emerging business opportunities, resulting in a reduction to four regions (from six). This will further position the company for success, with regions organized by similarity of consumer needs, opportunities for growth, and geographic proximity.

The new structure will better position us to further grow and build our leadership in smoke-free products across the globe. Additionally, it will boost our speed of innovation and deployment as we become a multicategory business. It will also enhance our ability to identify and grow talent, deepening the bench of leaders who will spearhead PMI's smoke-free future for years to come.

In 2022 we also continued to build the development engine of our new wellness and healthcare business with the creation

of Vectura Fertin Pharma. The new company combines the capabilities of Vectura, Fertin Pharma and PMI with the aim of delivering innovative, best- or first-in-class inhalable and oral products that can have a net positive impact on society.

### Sustainability

Progress against our sustainability strategies continues apace as we seek to tackle the impacts of both (i) our products (what we produce) and (ii) our operations (how we produce). Below are some of our 2022 sustainability highlights.

From a product perspective, we continued to: make progress towards our transformation, focus on ensuring that our products do not reach unintended audiences, and put in place youth access prevention safeguards in our direct and indirect retail channels. We also made progress in implementing end-of-life take-back programs for our smoke-free devices and consumables, while also increasing our repair capabilities.

With regard to our operations, we published a strengthened Commitment to Human Rights and completed our sixth and seventh human rights impact assessments, in Brazil and Malaysia. In addition, we were recognized by CDP with a Triple A score for climate, forest, and water security for the third consecutive year and had 13 PMI factories certified as carbon neutral. We will continue to focus on areas where we faced challenges in 2022, including reducing our scope 3 greenhouse gas emissions and improving our gender balance in senior roles.

To further strengthen our commitment to sustainability, last year we introduced a new bespoke Sustainability Index comprised of 19 KPIs across our most material sustainability issues, weighted toward product health impact. The index, which provides additional transparency on how we define success and measure ESG performance, has been integrated into our long-term executive compensation to further align management incentives with our smoke-free transformation.

For more information on PMI's sustainability progress and ambitions, we invite you to read our 2022 Integrated Report, which we plan to publish in the coming weeks.

### Board of Directors

In January 2023, Lucio A. Noto informed the Board that he would not stand for re-election this year. On behalf of the entire organization, we would like to thank Lou for his invaluable contributions to the company throughout his 15 years as a Director of PMI since the company's spin-off in 2008, including his service as Interim Chairman, Lead Independent Director and Chair of the Audit Committee. We also sincerely thank Frederik Paulsen, who joined the Board in 2014 and will also not stand for re-election this year, for his valued contributions to the company as a Director and Chair of the Product Innovation and Regulatory Affairs Committee.

### Looking Ahead

Last year brought new and unexpected challenges for the world and PMI, including those related to the war in Ukraine. In response, we believe the organization demonstrated enormous solidarity, agility, resilience and learning ability. Our people spared no effort to deliver excellent business performance, while achieving major milestones in the company's smoke-free transformation.

We are confident in our strong position as the global smoke-free champion and our ability to lead the industry's transformation. Our smoke-free portfolio now includes the world's leading heat-not-burn brand, IQOS, and the world's leading nicotine pouch franchise, ZYN. We have a rich pipeline of smoke-free innovation, as well as the foundation in place to drive further growth in wellness and healthcare over the long term. We are excited to continue our journey toward a smoke-free future and firmly believe that we are well positioned to achieve our bold smoke-free ambitions.



Jacek Olczak,  
Chief Executive Officer



André Calantzopoulos,  
Executive Chairman of the Board

March 10, 2023

# Board of Directors

**André Calantzopoulos**<sup>3,4,6</sup>  
Executive Chairman  
of the Board  
Director since 2013

**Bonin Bough**<sup>3,6</sup>  
Founder & Chief  
Growth Officer,  
Digilience LLC dba  
Bonin Ventures  
Director since 2021

**Michel Combes**<sup>1,3,4</sup>  
Executive Vice President,  
Claire Group LLP  
Director since 2020

**Dr. Juan José Daboub**<sup>2,4,5,6</sup>  
Chairman, President  
and CEO, Daboub  
Partnership of Arcis, LLC  
Director since 2021

**Werner Geissler**<sup>1,2,3</sup>  
Operating Partner,  
Advent International  
Director since 2015

**Lisa A. Hook**<sup>1,2,3,6</sup>  
Managing Partner,  
Two Island Partners LLC  
Director since 2018

**Jun Makihara**<sup>1,2,3,4</sup>  
Retired Businessman  
Director since 2014

**Kalpna Morparia**<sup>4,5,6</sup>  
Founder & Managing  
Partner, KalMor  
Advisors LLP  
Director since 2011

**Lucio A. Noto**<sup>† 1,2,3,4,5,6</sup>  
Lead Independent  
Director of the Board  
Managing Partner,  
Midstream Partners, LLC  
Director since 2008

**Jacek Olczak**<sup>3,4,6</sup>  
Chief Executive Officer  
Director since 2021

**Frederik Paulsen**<sup>† 6</sup>  
Chairman,  
Ferring Group  
Director since 2014

**Robert B. Polet**<sup>2,3,5</sup>  
Chairman,  
Rituals Cosmetics  
Enterprise B.V.  
Chairman, Arica  
Holding B.V.  
Chairman, SFMS B.V.  
Director since 2011

**Dessislava Temperley**<sup>1,3,4</sup>  
Former Group CFO and  
Executive Board Member  
of Beiersdorf AG  
Director since 2021

**Shlomo Yanai**<sup>5,6</sup>  
Chairman,  
Lumenis Ltd.  
Director since 2021

## Board and Committee Leadership

<sup>1</sup> Member of Audit Committee,  
Lucio A. Noto, Chair

<sup>2</sup> Member of Compensation and  
Leadership Development  
Committee,  
Werner Geissler, Chair

<sup>3</sup> Member of Consumer  
Relationships and Regulation  
Committee,  
Lisa A. Hook, Chair

<sup>4</sup> Member of Finance  
Committee,  
Jun Makihara, Chair

<sup>5</sup> Member of Nominating and  
Corporate Governance  
Committee,  
Kalpna Morparia, Chair

<sup>6</sup> Member of Product Innovation  
and Regulatory Affairs  
Committee,  
Frederik Paulsen, Chair

# Company Management

**Jacek Olczak**<sup>††</sup>  
Chief Executive Officer

**Massimo Andolina**<sup>††</sup>  
President,  
Europe Region

**Emmanuel Babeau**<sup>††</sup>  
Chief Financial Officer

**Werner Barth**<sup>††</sup>  
President, Combustibles  
Category & Global  
Combustibles Marketing

**Charles Bendotti**  
Global Head,  
People & Culture

**Badrul Chowdhury**  
Chief Life Sciences Officer

**Scott Coutts**  
Senior Vice President,  
Operations

**Lars Dahlgren**<sup>††</sup>  
President, Smoke-Free  
Oral Products &  
CEO Swedish Match

**Frank de Rooij**  
Vice President,  
Treasury & Corporate Finance

**Frederic de Wilde**<sup>††</sup>  
President, SSEA, CIS &  
MEA Region

**Reginaldo Dobrowski**<sup>††</sup>  
Vice President & Controller

**Suzanne R. Folsom**<sup>††</sup>  
Senior Vice President &  
General Counsel

**Jorge Insuasty**  
President,  
Vectura Fertin Pharma

**Stacey Kennedy**<sup>††</sup>  
President, Americas Region &  
CEO of PMI's U.S. Business

**Michael Kunst**  
Chief Strategy Officer,  
Vectura Fertin Pharma

**Andreas Kurali**  
Deputy CFO & Head of  
Finance Transformation

**Bin Li**  
Chief Product Officer

**Marco Mariotti**  
President, CIS,  
Central Asia & Israel

**Mario Masseroli**  
President,  
Latin America Region

**Silke Muenster**  
Chief Diversity Officer

**Paul Riley**<sup>††</sup>  
President, East Asia, Australia,  
and PMI Duty Free Region

**Marian Salzman**  
Senior Vice President,  
Global Communications

**Grégoire Verdeaux**  
Senior Vice President,  
External Affairs

**Michael Voegelé**  
Chief Digital &  
Information Officer

**Stefano Volpetti**<sup>††</sup>  
President, Smoke-Free  
Inhaled Products &  
Chief Consumer Officer

<sup>†</sup> Not standing for re-election at the Annual Meeting of Shareholders on May 3, 2023.

<sup>††</sup> Executive Officer

Note: SSEA, CIS & MEA are acronyms for South and South East Asia, Commonwealth of Independent States & Middle East and Africa.

# Shareholder Information

## Mailing Addresses

### Headquarters

Philip Morris International Inc.  
677 Washington Blvd.  
Ste. 1100  
Stamford, CT 06901  
USA  
[www.pmi.com](http://www.pmi.com)

### Operations Center

Philip Morris Products S.A.  
Avenue de Rhodanie 50  
1007 Lausanne  
Switzerland  
[www.pmi.com](http://www.pmi.com)

### Independent Auditors

PricewaterhouseCoopers SA  
Avenue C.F. Ramuz 45  
1001 Lausanne  
Switzerland

### Transfer Agent and Registrar

Computershare Trust Company, N.A.  
P.O. Box 43078  
Providence, RI 02940-3078  
USA

### 2023 Virtual Annual Meeting of Shareholders

The Philip Morris International Inc. Annual Meeting of Shareholders will be held solely online via a live webcast on Wednesday, May 3, 2023, at 9:00 a.m. Eastern Daylight Time. For further information, call toll-free: 1-866-713-8075

## Shareholder Publications

Philip Morris International Inc. makes a variety of publications and reports publicly available. These include the Annual Report, news releases and other publications. For copies, please visit: [www.pmi.com/investors](http://www.pmi.com/investors)

Philip Morris International Inc. makes available free of charge its filings (including proxy statements and Reports on Forms 10-K, 10-Q and 8-K) with the U.S. Securities and Exchange Commission. For copies, please visit: [www.pmi.com/SECfilings](http://www.pmi.com/SECfilings)

If you do not have Internet access, you may call our Shareholder Publications Center toll-free: 1-866-713-8075

## Shareholder Response Center

Computershare Trust Company, N.A., our transfer agent, will answer questions about your accounts, certificates, dividends or the Direct Stock Purchase and Dividend Reinvestment Plan. U.S. and Canadian shareholders may call toll-free: 1-877-745-9350

From outside the U.S. or Canada, shareholders may call:

1-781-575-4310

Postal address:

Computershare Trust Company, N.A.  
P.O. Box 43078  
Providence, RI 02940-3078  
USA

E-mail address:

[pmi@computershare.com](mailto:pmi@computershare.com)

## Direct Stock Purchase and Dividend Reinvestment Plan

Philip Morris International Inc. offers a Direct Stock Purchase and Dividend Reinvestment Plan, administered by Computershare. For more information, or to purchase shares directly through the Plan, please contact Computershare.

## Trademarks

Trademarks and service marks in this report are the registered property of, or licensed by, the subsidiaries of Philip Morris International Inc. and are italicized or shown in their logo form.

## Stock Exchange Listings

Philip Morris International Inc. is listed on the New York Stock Exchange (ticker symbol "PM") and on the SIX Swiss Exchange (ticker symbol "PMI").

## Internet Access Helps Reduce Costs

As a convenience to shareholders and an important cost-reduction measure, you can register to receive future shareholder materials (e.g., Annual Report and proxy statement) via the Internet. Shareholders also can vote their proxies via the Internet. For complete instructions, please visit: [www.pmi.com/investors](http://www.pmi.com/investors)

To eliminate duplicate mailings, please contact Computershare (if you are a registered shareholder) or your broker (if you hold your stock through a brokerage firm).

## Additional Information

Information on our website is not, and shall not be deemed to be, a part of this report or incorporated into any filings we make with the SEC.

## PMI Investor Relations Mobile App

Our Investor Relations mobile application provides users with easy, dynamic and comprehensive access to the company's Investor Relations information, such as stock quotes, press releases, SEC filings, investor materials, and live and archived webcast playback of earnings calls and investor presentations. The free mobile application is available to download from the Apple App Store for iOS devices and Google Play for Android devices.

iOS

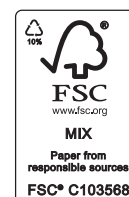


Android



## Philip Morris International: Delivering a Smoke-Free Future

Philip Morris International (PMI) is a leading international tobacco company working to deliver a smoke-free future and evolving its portfolio for the long term to include products outside of the tobacco and nicotine sector. The company's current product portfolio primarily consists of cigarettes and smoke-free products. Since 2008, PMI has invested more than USD 10.5 billion to develop, scientifically substantiate and commercialize innovative smoke-free products for adults who would otherwise continue to smoke, with the goal of completely ending the sale of cigarettes. This includes the building of world-class scientific assessment capabilities, notably in the areas of pre-clinical systems toxicology, clinical and behavioral research, as well as post-market studies. In November 2022, PMI acquired Swedish Match – a leader in oral nicotine delivery – creating a global smoke-free champion led by the companies' IQOS and ZYN brands. The U.S. Food and Drug Administration (FDA) has authorized versions of PMI's IQOS Platform 1 devices and consumables and Swedish Match's General snus as Modified Risk Tobacco Products (MRTPs). As of December 31, 2022, PMI's smoke-free products were available for sale in 73 markets, and PMI estimates that approximately 17.8 million adults around the world had already switched to IQOS and stopped smoking. Smoke-free products accounted for approximately 32% of PMI's total full-year 2022 net revenues. With a strong foundation and significant expertise in life sciences, PMI announced in February 2021 its ambition to expand into wellness and healthcare areas and, through its Vectura Fertin Pharma subsidiary, aims to enhance life through the delivery of seamless health experiences. For more information, please visit [www.pmi.com](http://www.pmi.com) and [www.pmisience.com](http://www.pmisience.com).



**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**FORM 10-K**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2022

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-33708

**PHILIP MORRIS INTERNATIONAL INC.**

(Exact name of registrant as specified in its charter)

**Virginia**

(State or other jurisdiction of  
incorporation or organization)

**13-3435103**

(I.R.S. Employer  
Identification No.)

**677 Washington Blvd, Suite 1100**

**Stamford**

**Connecticut**

(Address of principal executive offices)

**06901**

(Zip Code)

**203-905-2410**

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class        | Trading Symbol(s) | Name of each exchange on which registered |
|----------------------------|-------------------|---|
| Common Stock, no par value | PM                | New York Stock Exchange                   |
| 2.625% Notes due 2023      | PM23              | New York Stock Exchange                   |
| 2.125% Notes due 2023      | PM23B             | New York Stock Exchange                   |
| 3.600% Notes due 2023      | PM23A             | New York Stock Exchange                   |
| 2.875% Notes due 2024      | PM24              | New York Stock Exchange                   |
| 2.875% Notes due 2024      | PM24C             | New York Stock Exchange                   |
| 0.625% Notes due 2024      | PM24B             | New York Stock Exchange                   |
| 3.250% Notes due 2024      | PM24A             | New York Stock Exchange                   |
| 2.750% Notes due 2025      | PM25              | New York Stock Exchange                   |
| 3.375% Notes due 2025      | PM25A             | New York Stock Exchange                   |
| 2.750% Notes due 2026      | PM26A             | New York Stock Exchange                   |
| 2.875% Notes due 2026      | PM26              | New York Stock Exchange                   |
| 0.125% Notes due 2026      | PM26B             | New York Stock Exchange                   |
| 3.125% Notes due 2027      | PM27              | New York Stock Exchange                   |
| 3.125% Notes due 2028      | PM28              | New York Stock Exchange                   |



| Title of each class   | Trading Symbol(s) | Name of each exchange on which registered |
|-----------------------|-------------------|---|
| 2.875% Notes due 2029 | PM29              | New York Stock Exchange                   |
| 3.375% Notes due 2029 | PM29A             | New York Stock Exchange                   |
| 0.800% Notes due 2031 | PM31              | New York Stock Exchange                   |
| 3.125% Notes due 2033 | PM33              | New York Stock Exchange                   |
| 2.000% Notes due 2036 | PM36              | New York Stock Exchange                   |
| 1.875% Notes due 2037 | PM37A             | New York Stock Exchange                   |
| 6.375% Notes due 2038 | PM38              | New York Stock Exchange                   |
| 1.450% Notes due 2039 | PM39              | New York Stock Exchange                   |
| 4.375% Notes due 2041 | PM41              | New York Stock Exchange                   |
| 4.500% Notes due 2042 | PM42              | New York Stock Exchange                   |
| 3.875% Notes due 2042 | PM42A             | New York Stock Exchange                   |
| 4.125% Notes due 2043 | PM43              | New York Stock Exchange                   |
| 4.875% Notes due 2043 | PM43A             | New York Stock Exchange                   |
| 4.250% Notes due 2044 | PM44              | New York Stock Exchange                   |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

|                         |                                     |                           |                          |
|-------------------------|-------------------------------------|---------------------------|--------------------------|
| Large accelerated filer | <input checked="" type="checkbox"/> | Accelerated filer         | <input type="checkbox"/> |
| Non-accelerated filer   | <input type="checkbox"/>            | Smaller reporting company | <input type="checkbox"/> |
|                         |                                     | Emerging growth company   | <input type="checkbox"/> |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant’s executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒



As of June 30, 2022, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately \$153 billion based on the closing sale price of the common stock as reported on the New York Stock Exchange.

| Class                         | Outstanding at January 31, 2023 |
|-------------------------------|---------------------------------|
| Common Stock,<br>no par value | 1,550,232,895 shares            |

#### DOCUMENTS INCORPORATED BY REFERENCE

|  | Parts Into Which Incorporated |
|--|-------------------------------|
| Portions of the registrant's definitive proxy statement for use in connection with its annual meeting of shareholders to be held on May 3, 2023, to be filed with the Securities and Exchange Commission on or about March 23, 2023. | Part III                      |

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In this report, “PMI,” “we,” “us” and “our” refers to Philip Morris International Inc. and its subsidiaries.

Trademarks and service marks in this report are the registered property of, or licensed by, the subsidiaries of Philip Morris International Inc. and are italicized.

# PART I

## Item 1. *Business.*

### *General Development of Business*

#### **General**

Philip Morris International Inc. is a Virginia holding company incorporated in 1987. We are a leading international tobacco company working to deliver a smoke-free future and to evolve our portfolio for the long term to include products outside of the tobacco and nicotine sector. Our current product portfolio primarily consists of cigarettes and smoke-free products, which include heat-not-burn, vapor, and oral nicotine products. Since 2008, we have invested more than \$10.5 billion to develop, scientifically substantiate and commercialize innovative smoke-free products for adults who would otherwise continue to smoke, with the goal of completely ending the sale of cigarettes. This investment includes the building of world-class scientific assessment capabilities, notably in the areas of pre-clinical systems toxicology, clinical and behavioral research, as well as post-market studies. In November 2022, we acquired Swedish Match AB ("Swedish Match") – a leader in oral nicotine delivery – creating a global smoke-free combination led by the companies' *IQOS* and *ZYN* brands. The U.S. Food and Drug Administration ("FDA") has authorized versions of our *IQOS* Platform 1 devices and consumables, and Swedish Match's *General* snus, as Modified Risk Tobacco Products ("MRTPs"). We describe the MRTP orders in more detail in the "Business Environment" section of Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

In March 2008, we became a U.S. public company listed on the New York Stock Exchange and subject to the rules of the Securities and Exchange Commission (the "SEC").

In 2021, we laid the foundation for our long-term growth ambitions beyond nicotine in wellness and healthcare, including the milestone acquisitions of Vectura Group PLC and Fertin Pharma A/S, which provide essential capabilities for future product development. Now, through our Vectura Fertin Pharma subsidiary, with a strong foundation and significant expertise in life sciences, we aim to expand into wellness and healthcare areas.

In the fourth quarter of 2022, we acquired Swedish Match, a market leader in oral nicotine delivery with a significant presence in the United States market. The Swedish Match acquisition is a key milestone in PMI's transformation to becoming a smoke-free company. PMI consolidated statements of earnings for the year ended December 31, 2022, include the results of operations of Swedish Match from November 11, 2022 (acquisition date) to December 31, 2022. The operating results of Swedish Match are included in a separate segment.

In the fourth quarter of 2022, we also completed an agreement with Altria Group, Inc. to end our commercial relationship in the U.S. covering *IQOS* as of April 30, 2024. Thereafter, PMI will have the full rights to commercialize *IQOS* in the U.S.

For further details of our 2021 and 2022 acquisitions, see Item 8, Note 3. *Acquisitions* and Note 13. *Segment Reporting*.

Smoke-free products ("SFPs") is the term we primarily use to refer to all of our products that are not combustible tobacco products, such as heat-not-burn, e-vapor, and oral nicotine. In addition, SFPs include wellness and healthcare products, as well as consumer accessories such as lighters and matches.

Reduced-risk products ("RRPs") is the term we use to refer to products that present, are likely to present, or have the potential to present less risk of harm to smokers who switch to these products versus continuing to smoke. We have a range of RRP products in various stages of development, scientific assessment and commercialization. Our RRP products are smoke-free products that contain and/or generate far lower quantities of harmful and potentially harmful constituents than found in cigarette smoke.

Our *IQOS* smoke-free product brand portfolio includes heated tobacco and nicotine-containing vapor products. Our leading smoke-free platform ("Platform 1") uses a precisely controlled heating device into which a specially designed and proprietary tobacco unit is inserted and heated to generate an aerosol. Heated tobacco units ("HTU") is the term we use to refer to heated tobacco consumables, which include our *BLENDS*, *HEETS*, *HEETS Creations*, *HEETS Dimensions*, *HEETS Marlboro* and *HEETS FROM MARLBORO* (defined collectively as "*HEETS*"), *Marlboro Dimensions*, *Marlboro HeatSticks*, *Parliament HeatSticks*, *SENTIA* and *TEREA*, as well as the KT&G-licensed brands, *Fiit* and *Miix* (outside of South Korea). Platform 1 was first introduced in Nagoya, Japan, in 2014. As of December 31, 2022, our smoke-free products were available for sale in 73 markets.

Swedish Match already has a leading nicotine pouch franchise in the U.S. under the *ZYN* brand name. The Swedish Match product portfolio is complementary to our existing portfolio, permitting us to bring together a leading oral nicotine product with the leading

heat-not-burn product. By joining forces with Swedish Match, we expect to accelerate the achievement of our joint smoke-free ambitions, switching more adults who would otherwise continue to smoke to better alternatives faster than either company could achieve separately.

Our cigarettes are sold in approximately 175 markets, and in many of these markets they hold the number one or number two market share position. We have a wide range of premium, mid-price and low-price brands. Our portfolio comprises both international and local brands and is led by *Marlboro*, the world's best-selling international cigarette, which accounted for approximately 39% of our total 2022 cigarette shipment volume. *Marlboro* is complemented in the premium-price category by *Parliament*. Our other leading international cigarette brands are *Chesterfield*, *L&M*, and *Philip Morris*. These five international cigarette brands contributed approximately 77% of our cigarette shipment volume in 2022. We also own a number of important local cigarette brands, such as *Dji Sam Soe* and *Sampoerna A* in Indonesia, and *Fortune* and *Jackpot* in the Philippines.

### **Source of Funds — Dividends**

We are a legal entity separate and distinct from our direct and indirect subsidiaries. Accordingly, our right, and thus the right of our creditors and stockholders, to participate in any distribution of the assets or earnings of any subsidiary is subject to the prior rights of creditors of such subsidiary, except to the extent that claims of our company itself as a creditor may be recognized. As a holding company, our principal sources of funds, including funds to make payment on our debt securities, are from the receipt of dividends and repayment of debt from our subsidiaries. Our principal wholly owned and majority-owned subsidiaries currently are not limited by long-term debt or other agreements in their ability to pay cash dividends or to make other distributions that are otherwise compliant with law.

### **Description of Business**

As of December 31, 2022, we managed our business in six geographical segments, a Swedish Match segment and a Wellness and Healthcare segment:

- The European Union Region ("EU") is headquartered in Lausanne, Switzerland, and covers all the European Union countries and also Switzerland, Norway, Iceland and the United Kingdom;
- The Eastern Europe Region ("EE") is also headquartered in Lausanne, and includes Southeast Europe, Central Asia, Ukraine, Israel and Russia;
- The Middle East & Africa Region ("ME&A") is also headquartered in Lausanne, and covers the African continent, the Middle East, Turkey and our international duty free business;
- The South & Southeast Asia Region ("S&SA") is headquartered in Hong Kong, and includes Indonesia, the Philippines and other markets in this region;
- The East Asia & Australia Region ("EA&A") is also headquartered in Hong Kong, and includes Australia, Japan, South Korea, the People's Republic of China ("China") and other markets in this region, as well as Malaysia and Singapore;
- The Americas Region ("AMCS") is headquartered in Stamford, Connecticut, and covers the South American continent, Central America, Mexico, the Caribbean and Canada;
- Swedish Match, which reflects our fourth quarter 2022 acquisition of the company; and
- Wellness and Healthcare ("W&H"), which includes the operating results of our new Wellness and Healthcare business, Vectura Fertin Pharma. In the third quarter of 2021, we acquired Fertin Pharma A/S, Vectura Group plc. (also known as Vectura Group Ltd.) and OtiTopic, Inc. On March 31, 2022, we launched a new Wellness and Healthcare business consolidating these entities, Vectura Fertin Pharma. The operating results of this new business are reported in the Wellness and Healthcare segment.

To further support the growth of our smoke-free business, reinforce consumer centricity, and increase the speed of innovation and deployment, in January 2023, we rearranged our operations in four geographical segments, down from the current six and as follows:

- Europe Region is headquartered in Lausanne, Switzerland, and covers all the European Union countries, Switzerland, the United Kingdom, and also Ukraine, Moldova and Southeast Europe;
- South and Southeast Asia, Commonwealth of Independent States, Middle East and Africa Region is headquartered in Dubai, United Arab Emirates. It covers South and Southeast Asia, the African continent, the Middle East, Turkey, as well as Israel, Central Asia, Caucasus and Russia;



- East Asia, Australia, and PMI Duty Free Region is headquartered in Hong Kong, and includes the consolidation of our international duty free business with East Asia & Australia; and
- Americas Region is headquartered in Stamford, Connecticut, and covers the United States, Canada and Latin America.

The operations of Swedish Match and our Wellness and Healthcare segment remained unchanged. We will report our financial results based on the new geographical segments as of the first quarter of 2023.

In November 2022, we completed the relocation of our corporate headquarters, including our AMCS headquarters, from New York, New York, to Stamford, Connecticut.

Our total shipment volume, including cigarettes and heated tobacco units, increased by 1.6% in 2022 to 731.1 billion units, with shipment volume of heated tobacco units reaching 109.2 billion units in 2022, up from 95.0 billion units in 2021. Shipment volume of our principal cigarette brand, *Marlboro*, increased by 2.0% in 2022.

References in this Form 10-K to total international market, defined as worldwide cigarette and heated tobacco unit volume, excluding the United States, total industry, total market and market shares, are our estimates for tax-paid products based on the latest available data from a number of internal and external sources, and may, in defined instances, exclude China and/or our duty free business. Unless otherwise stated, references to total industry, total market, our shipment volume and our market share performance reflect cigarettes and heated tobacco units.

Estimates for total industry volume and market share in certain geographies reflect limitations on the availability and accuracy of industry data during pandemic-related restrictions.

Key data regarding total market and market share were as follows:

|  | 2022         | 2021  | 2020  |
|--|--------------|-------|-------|
| <b>Total Market, billion units (excluding China and the U.S.)</b>    | <b>2,626</b> | 2,620 | 2,561 |
| <b>Total International Market Share <sup>(1)</sup></b>               | <b>27.6%</b> | 27.2% | 27.6% |
| Cigarettes   | <b>23.6%</b> | 23.7% | 24.6% |
| HTU  | <b>4.1%</b>  | 3.5%  | 3.0%  |
| <b>PMI Cigarette over Cigarette Market Share <sup>(2)</sup></b>      | <b>24.9%</b> | 24.8% | 25.6% |
| <i>Marlboro</i> Cigarette over Cigarette Market Share <sup>(3)</sup> | <b>9.8%</b>  | 9.5%  | 9.4%  |

(1) Defined as PMI's cigarette and heated tobacco unit in-market sales volume as a percentage of total industry cigarette and heated tobacco unit sales volume, excluding China and the U.S., including cigarillos in Japan

(2) Defined as PMI's cigarette in-market sales volume as a percentage of total industry cigarette sales volume, excluding China and the U.S., including cigarillos in Japan

(3) Defined as *Marlboro's* cigarette in-market sales volume as a percentage of total industry cigarette sales volume, excluding China and the U.S., including cigarillos in Japan

Note: Sum of share of market by product categories might not foot to total due to roundings

We have a market share of at least 15% in approximately 100 markets, including Algeria, Argentina, Australia, Austria, Belgium, Brazil, the Czech Republic, Egypt, France, Germany, Greece, Hong Kong, Hungary, Indonesia, Israel, Italy, Japan, Kazakhstan, Kuwait, Mexico, the Netherlands, the Philippines, Poland, Portugal, Romania, Russia, Saudi Arabia, the Slovak Republic, South Korea, Spain, Switzerland, Turkey and Ukraine.

## *Distribution & Sales*

Our main types of distribution and sales are tailored to the characteristics of each market and are often used simultaneously:

- Direct sales and distribution, where we have set up our own distribution selling directly to the retailers;
- Distribution through independent distributors that often distribute other fast-moving consumer goods and are responsible for distribution in a particular market;
- Exclusive zonified distribution, where the dedicated multicategory product distributors are assigned to exclusive territories within a market;
- Distribution through national or regional wholesalers that then supply the retail trade;
- Our own e-commerce infrastructure for product sales to trade partners and to consumers; and
- Our own brand retail infrastructure for our RRP products and accessories for sales to consumers.

## *Competition*

We are subject to highly competitive conditions in all aspects of our business. We compete primarily on the basis of product quality, brand recognition, brand loyalty, taste, R&D, innovation, packaging, customer service, marketing, advertising and retail price and, increasingly, adult smoker willingness to convert to our RRP. In the combustible product category, we predominantly sell American blend cigarette brands, such as *Marlboro*, *L&M*, *Parliament*, *Philip Morris* and *Chesterfield*, which are the most popular across many of our markets. In the RRP product category, we primarily sell Platform 1 devices and heated tobacco units under the *IQOS* brand. We also sell other smoke-free products, including those commercialized through Swedish Match. We seek to compete in all profitable retail price categories, although our brand portfolio is weighted towards the premium-price category.

The competitive environment and our competitive position can be significantly influenced by weak economic conditions, erosion of consumer confidence; competitors' introduction of lower-price products or innovative products; novel products which given their taste characteristics may be more commercially successful; higher tobacco product taxes; higher absolute prices and larger gaps between retail price categories; and product regulation that diminishes the ability to differentiate tobacco products and restricts adult consumer access to truthful and non-misleading information about our RRP.

Competitors in our industry include British American Tobacco plc, Japan Tobacco Inc., Imperial Brands plc, new market entrants, particularly with respect to innovative products, several regional and local tobacco companies and, in some instances, state-owned tobacco enterprises, principally in Algeria, Egypt, China, Taiwan, Thailand and Vietnam. Some competitors have different profit, volume and regulatory objectives, and some international competitors may be less susceptible to changes in currency exchange rates than we are. Certain new market entrants in the non-combustible product category may alienate consumers from innovative products through inappropriate marketing campaigns, messaging and inferior product satisfaction, while not relying on scientific substantiation based on appropriate R&D protocols and standards. The growing use of digital media could increase the speed and extent of the dissemination of inaccurate and misleading information about our RRP, all of which could have a material adverse effect on our profitability and results of operations.

## *Procurement and Raw Materials*

We purchase tobacco leaf of various types, grades and styles throughout the world, mostly through independent tobacco suppliers. In 2022, we also contracted directly with farmers in several countries, including Argentina, Brazil, Italy, Pakistan and Poland. In 2022, direct sourcing from farmers represented approximately 16% of PMI's global leaf requirements. The largest supplies of tobacco leaf are sourced from Argentina, Brazil, China, Italy, Indonesia (mostly for domestic use in kretek products), Malawi, Mozambique, the Philippines, Turkey and the United States. We believe that there is an adequate supply of tobacco leaf in the world markets to satisfy our current and anticipated production requirements.

Given the global reach of our value chain, properly managing land and water resources and utilizing a geographically diversified sourcing strategy for agricultural products are priorities as we seek to increase the resilience of our production systems and minimize operational risks. We conduct a global water risk assessment annually in tobacco-growing regions to identify potential hotspots for physical water risks that require adaptation measures. Our water stewardship strategy includes guidance for applying a landscape approach to water optimization projects, protecting natural resources and recharge areas, and improving the efficiency of irrigation systems to integrate better farm water management. These business practices are intended to mitigate the risk that climate change could influence weather patterns in ways that negatively impact the quality or cost of the agricultural products used to manufacture our products.

In addition to tobacco leaf, we purchase a wide variety of direct materials from a total of approximately 360 suppliers. In 2022, our top ten suppliers of direct materials combined represented approximately 60% of our total direct materials purchases. The four most significant direct materials that we purchase are printed paper board used in packaging, acetate tow used in filter making and fine paper used in the manufacturing of cigarettes and heated tobacco units, as well as susceptors used for the *TEREA* heated tobacco units. In addition, the adequate supply and procurement of cloves are of particular importance to our Indonesian business.

We discuss the details of our supply chain for our RRP's in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations* of this Annual Report on Form 10-K ("Item 7") in *Business Environment—Reduced-Risk Products*.

### *Business Environment*

Information called for by this Item is hereby incorporated by reference to the paragraphs in Item 7, *Business Environment* to this Annual Report on Form 10-K.

## **Other Matters**

### *Customers*

As described in more detail in "*Distribution & Sales*" above, in many of our markets we sell our products to distributors. In 2022, sales to a distributor in the European Union Region and a distributor in the East Asia & Australia Region each amounted to 10 percent or more of our consolidated net revenues. See Item 8, Note 13, *Segment Reporting* for more information. We believe that none of our business segments is dependent upon a single customer or a few customers, the loss of which would have a material adverse effect on our consolidated results of operations. In some of our markets, particularly in the European Union, Eastern Europe, the Middle East and Africa, and in the East Asia & Australia Regions, a loss of a distributor may result in a temporary market disruption.

### *Human Capital*

**Our Workforce.** At December 31, 2022, including Swedish Match's employees, we employed approximately 79,800 people worldwide of more than 130 different nationalities, including full-time, temporary and part-time staff. Our businesses are subject to a number of laws and regulations relating to our relationship with our employees. Generally, these laws and regulations are specific to the location of each business. We engage with legally recognized employee representative bodies and we have collective bargaining agreements in several of the countries in which we operate. In addition, in accordance with European Union requirements, we have established a European Works Council composed of management and elected members of our workforce. We believe we maintain good relations with our employees and their representative organizations.

**Our Internal Transformation.** To be successful in our transformation to a smoke-free future, we must continue transforming our culture and ways of working, align our talent with our business needs, successfully integrate acquired businesses and innovate to become a truly consumer-centric business. To achieve our strategic goals, we need to attract, retain and motivate the best global talent with the right degree of diversity, experience, competencies and skills. Therefore, we strive to ensure the development of our existing talent while increasingly recruiting those with the expertise in areas that are relatively new to us such as digital and technical solutions. Our compensation and benefit programs are set at the levels that we believe are necessary to attract the best talent and remain competitive with other consumer product companies.

**Oversight and Management.** Our Board of Directors (the "Board") provides oversight of various matters pertaining to our workforce. The Compensation and Leadership Development Committee of the Board is responsible for executive compensation matters and oversight of the risks and programs related to talent management. Our Code of Conduct highlights our commitment to ethical business conduct and honesty, respect, fairness in our ways of working.

**Inclusion & Diversity.** At PMI, we believe that a diverse workforce and an inclusive culture are strategic priorities which help fuel innovation and business success. As part of our commitment to workplace diversity, in 2020, our Chief Executive Officer appointed a Chief Diversity Officer. Improving gender balance, especially in management positions, continues to be one of our priorities:

- In 2022, we achieved the global target of 40% female representation in management positions;
- In 2021, we started our Women in Leadership program to support our female talents; and
- We were the first multinational company to receive a global EQUAL-SALARY certification from the EQUAL-SALARY Foundation in 2019. In 2022, we were re-certified as a global EQUAL-SALARY organization for the second time, verifying that PMI continues to pay female and male employees equally for equal work everywhere where we operate. This achievement is an important milestone toward the creation of a more inclusive gender-balanced workplace and the continuation of our reputation as a top employer.

In recognition of our efforts, we were again added to the 2022 Bloomberg Gender-Equality Index for transparency in gender reporting and advancing women's equity (among the 414 companies from 11 different sectors in 45 countries, who scored at or above the global threshold established by Bloomberg L.P.).

Creation of employee resource groups ("ERGs") was another important milestone to drive further inclusion at PMI. We believe these groups serve as a platform for building an enhanced sense of belonging, visibility, and greater understanding of different experiences and dimensions of diversity in our company. Currently, we have established global ERGs for race and ethnicity, LGBTQ+, gender and disability matters concerning our employees. Each global ERG is sponsored by a member of the PMI senior leadership team, to reinforce the fact that our strong commitment to Inclusion & Diversity comes from the top. In 2022, we continued to focus on the growth of our global ERGs and to expand them locally, to be able to meet the specific needs of different markets and regions.

By the end of 2022, our global parental leave principles were implemented in every market in which we operate, with the exception of Russia. PMI's minimum leave principles provide primary caregivers with a minimum of 18 weeks fully paid parental leave and secondary caregivers with a minimum of 8 weeks fully paid parental leave. These global and gender-neutral guidelines demonstrate how PMI is creating a more inclusive, diverse work environment to meet the challenges and expectations of our people for the 21st century workplace.

To further strengthen our commitment to drive inclusion and equality, we also commissioned an independent academic study exploring the methods organizations can adopt to drive lasting cultural change. Findings of this study informed the development of practices and programs focused on employee inclusion at PMI.

Our Initiatives in Response to COVID-19. Since the outbreak of the global COVID-19 pandemic, we have focused on business continuity, health and safety of our employees, and have adapted our ways of working to a new environment. We have implemented additional safety measures for essential employees in our facilities and offices. We have also enhanced remote and flexible work arrangements and digital collaboration, and related risk management, and to date, many of our employees continue to have the ability work remotely for up to 60% of their working time, where applicable.

#### *Government Regulation*

As a company with global operations in a heavily regulated industry, we are subject to multiple laws and regulations of jurisdictions in which we operate. We discuss our regulatory environment in Item 7, *Business Environment*.

The regulatory landscape related to environmental, social, and governance ("ESG") matters is rapidly evolving. We closely monitor these developments and implement initiatives addressing PMI's priority ESG areas in line with our sustainability strategy. In particular, we are subject to international, national and local environmental laws and regulations in the countries in which we do business. We have specific programs across our business units designed to meet applicable environmental compliance requirements and reduce our carbon footprint, wastage, as well as water and energy consumption. We report externally about our climate change mitigation strategy, together with associated targets and results in reducing our carbon footprint, through CDP (formerly known as the Carbon Disclosure Project), the leading international non-governmental organization assessing the work of thousands of companies worldwide in the area of environmental impact, including climate change.

Our environmental and occupational health and safety management program includes policies, standard practices and procedures at all our manufacturing centers. Furthermore, we have engaged an external certification body to validate the effectiveness of this management program at our manufacturing centers around the world, in accordance with internationally recognized standards for safety and environmental management. Our subsidiaries expect to continue to make investments in order to drive improved performance and maintain compliance with environmental laws and regulations. We assess and report to our management the compliance status of all our legal entities on a regular basis. Based on current regulations, the management and controls we have in place and our review of climate change risks (both physical and regulatory), environmental expenditures have not had, and are not expected to have, a material adverse effect on our consolidated results of operations, capital expenditures, financial position, earnings or competitive position.

Based on current regulations, compliance with government regulations, including environmental regulations, has not had, and is not expected to have a material adverse effect on our results of operations, capital expenditures, financial position, earnings, or competitive position.

As discussed in more detail in Item 1A, *Risk Factors*, our financial results could be significantly affected by regulatory initiatives that could result in a significant decrease in demand for our brands or by climate-related regulations that increase our cost of operation. More specifically, any regulatory requirements that lead to a commoditization of tobacco products or impede adult consumers' ability to convert to our RRP's, as well as any significant increase in the cost of complying with new regulatory requirements could have a



material adverse effect on our financial results. Further, tightened climate-related regulation may lead to additional carbon taxation or energy price increases impacting our cost of operation. These shifts in regulation and other market trends could, amongst others, impact current deforestation rates. Availability of deforestation-free materials, could be impacted by increased demand for alternative energy sources and low-carbon fuels, such as biomass, which could result in increased sourcing costs.

We discuss additional information regarding regulatory matters relating to climate change in Item 7, *Climate Change Laws and Regulations*.

#### *Information About Our Executive Officers*

The disclosure regarding executive officers is hereby incorporated by reference to the discussion under the heading “Information about our Executive Officers as of February 10, 2023” in Part III, Item 10. *Directors, Executive Officers and Corporate Governance* of this Annual Report on Form 10-K (“Item 10”).

#### *Intellectual Property*

Our trademarks are valuable assets, and their protection and reputation are essential to us. We own the trademark rights to all of our principal brands, including *Marlboro*, *HEETS*, *IQOS*, *IQOS ILUMA*, *TEREA*, and *ZYN* or have the right to use them in all countries in which these brands are advertised or sold.

In addition, we have a large number of granted patents and pending patent applications worldwide. Our patent portfolio, as a whole, is material to our business. However, no one patent, or group of related patents, is material to us. We also have registered industrial designs, as well as unregistered proprietary trade secrets, technology, know-how, processes and other unregistered intellectual property rights.

Effective January 1, 2008, PMI entered into an Intellectual Property Agreement with Philip Morris USA Inc., a wholly owned subsidiary of Altria Group, Inc. (“PM USA”). The Intellectual Property Agreement allocates ownership of jointly funded intellectual property as follows:

- PMI owns all rights to jointly funded intellectual property outside the United States, its territories and possessions; and
- PM USA owns all rights to jointly funded intellectual property in the United States, its territories and possessions.

The parties agreed to submit disputes under the Intellectual Property Agreement first to negotiation between senior executives and then to binding arbitration.

An agreement reached with PM USA in 2022 relating to *IQOS* commercialization rights in the U.S. includes, among other things, an agreement relating to intellectual property rights consistent with the commercialization rights for relevant *IQOS* products.

#### *Seasonality*

Our business segments are not significantly affected by seasonality, although in certain markets cigarette consumption may be lower during the winter months due to the cold weather and may rise during the summer months due to outdoor use, longer daylight, and tourism.

#### *Available Information*

We are required to file with the SEC annual, quarterly and current reports, proxy statements and other information required by the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The SEC maintains an Internet website at <http://www.sec.gov> that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, from which investors can electronically access our SEC filings.

We make available free of charge on, or through, our website at [www.pmi.com](http://www.pmi.com) our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Investors can access our filings with the SEC by visiting [www.pmi.com](http://www.pmi.com).

The information on our website is not, and shall not be deemed to be, a part of this report or incorporated into any other filings we make with the SEC.

## Item 1A. ***Risk Factors.***

*The following risk factors should be read carefully in connection with evaluating our business and the forward-looking statements contained in this Annual Report on Form 10-K. Any of the following risks could materially adversely affect our business, our operating results, our financial condition and the actual outcome of matters as to which forward-looking statements are made in this Annual Report on Form 10-K.*

### *Forward-Looking and Cautionary Statements*

We may from time to time make written or oral forward-looking statements, including statements contained in this Annual Report on Form 10-K and other filings with the SEC, in reports to stockholders and in press releases and investor webcasts. You can identify these forward-looking statements by use of words such as "strategy," "expects," "continues," "plans," "anticipates," "believes," "will," "aspires," "estimates," "intends," "projects," "aims," "goals," "targets," "forecasts" and other words of similar meaning. You can also identify them by the fact that they do not relate strictly to historical or current facts.

We cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Our RRP products constitute a new product category that is less predictable than our mature cigarette business. Achievement of future results is subject to risks, uncertainties and inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Investors should bear this in mind as they consider forward-looking statements and whether to invest in or remain invested in our securities. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, we are identifying important factors that, individually or in the aggregate, could cause actual results and outcomes to differ materially from those contained in any forward-looking statements made by us; any such statement is qualified by reference to the following cautionary statements. We elaborate on these and other risks we face throughout this document, particularly in Item 7, *Business Environment*. You should understand that it is not possible to predict or identify all risk factors. Consequently, you should not consider the following to be a complete discussion of all potential risks or uncertainties. We do not undertake to update any forward-looking statement that we may make from time to time, except in the normal course of our public disclosure obligations.

### *Overall Business Risks*

#### **We may be unsuccessful in our attempts to introduce reduced-risk products, and regulators may not permit the commercialization of these products or the communication of scientifically substantiated information and claims.**

Our key strategic priorities are to: (i) develop and commercialize products that present less risk of harm to adult smokers who switch to those products versus continued smoking; and (ii) encourage and educate current adult smokers who would otherwise continue to smoke to switch to those RRP products. For our efforts to be successful, we must:

- develop RRP products that adult smokers find acceptable alternatives to smoking;
- conduct rigorous scientific studies to substantiate that RRP products reduce exposure to harmful and potentially harmful constituents in smoke and, ultimately, that these products present, are likely to present, or have the potential to present less risk of harm to adult smokers who switch to them versus continued smoking; and
- effectively advocate for a timely development of science-based regulatory frameworks for the development and commercialization of RRP products, including communication of scientifically substantiated information to enable adult smokers to make better consumer choices.

We might not succeed in our efforts. If we do not succeed, but others do, or if heat-not-burn products are inequitably regulated compared to other RRP categories without regard to the totality of the scientific evidence available for such products, we may be at a competitive disadvantage. In addition, actions of some market entrants, such as the inappropriate marketing of e-vapor products to youth, as well as alleged health consequences associated with the use of certain e-vapor products, may unfavorably impact public opinion and/or mischaracterize all e-vapor products or other RRP products to consumers, regulators and policy makers without regard to the totality of scientific evidence available for specific products. This may impede our efforts to advocate for the development of science-based regulatory frameworks for the development and commercialization of RRP products. We cannot predict whether regulators will permit the sale and/or marketing of RRP products with scientifically substantiated information and claims. Such restrictions could limit the success of our RRP products.

The WHO study group on tobacco product regulation published their eighth report on the scientific basis of tobacco product regulation in May 2021. The report is based on a review of scientific evidence related to novel and emerging nicotine and tobacco products, such

as electronic nicotine delivery systems ("ENDS"), electronic non-nicotine delivery systems and heated tobacco products ("HTPs") on a number of scientific topics. The report concludes by making a number of policy recommendations on HTPs and ENDS that, if implemented, could restrict both the availability of these products, and the access to accurate information about them. In August 2021, the World Health Organization's Framework Convention on Tobacco Control (the "FCTC") Secretariat published two reports on novel and emerging tobacco products to the ninth session of the Conference of the Parties ("CoP") of the FCTC, which are not materially different from the WHO study group report. Substantive decisions based on these reports were deferred to CoP 10, currently scheduled to take place in the fourth quarter of 2023. It is not possible to predict whether or to what extent measures recommended by the WHO's reports will be implemented as the reports are not binding to the WHO Member States.

Additionally, any claims, regardless of merit, challenging our research and clinical data available to date, may impact the development of science-based regulatory frameworks for the commercialization of the RRP category and the commercialization of the RRP category in general.

Our RRPs and commercial activities for these products are designed for, and directed toward, current adult smokers and users of nicotine-containing products, and not for non-smokers or youth. We put significant effort to restrict access of our products from non-smokers or youth. Nevertheless, technological, operational, regulatory and/or commercial setbacks might impact the implementation or effectiveness of youth access prevention mechanisms and surrounding infrastructure. If nonetheless there is a significant usage of our products or competitive products among youth or non-smokers, even in situations over which we have no control, our reputation and credibility may suffer, the regulatory approach to our products may become more restrictive, and our efforts to advocate for the development of science-based regulatory frameworks for the development and commercialization of RRPs may be significantly impacted.

Moreover, the FDA's premarket tobacco product and modified risk tobacco product authorizations of two versions of our Platform 1 product are subject to strict marketing, reporting and other requirements. Although we have received these authorizations from the FDA, there is no guarantee that the product will remain authorized for sale in the U.S., or whether new versions of the products (Platform 1 or other smoke-free platforms) will receive necessary authorizations, particularly if there is a significant uptake in youth or non-smoker initiation.

**The financial and business performance of our reduced-risk products is less predictable than our cigarette business.**

Our RRPs are novel products in a new category, and the pace at which adult smokers adopt them may vary, depending on the competitive, regulatory, fiscal and cultural environment, and other factors in a specific market. There may be periods of accelerated growth and periods of slower growth for these products, the timing and drivers of which may be more difficult for us to predict versus our mature cigarette business. The impact of this lower predictability on our projected results for a specific period may be significant, particularly during the early stages of this new product category, during the COVID-19 pandemic as a result of unpredictability due to shortage of key components in our supply chain, or due to geopolitical or macroeconomic events that negatively impact RRP availability or adoption, which in turn may have a material adverse effect on our results of operation.

**We may be unsuccessful in our efforts to differentiate reduced-risk products and cigarettes with respect to taxation.**

To date, we have been largely successful in demonstrating to regulators that our RRPs are not cigarettes due to the absence of combustion, and as such they are generally taxed either as a separate category or as other tobacco products, which typically yields more favorable tax rates than cigarettes. Nevertheless, we are unable to predict whether regulators will be issuing new regulations where RRP will be equally taxed in line with other tobacco products such as ordinary cigarettes. However, if we cease to be successful in these efforts, RRP unit margins may be materially adversely affected, which in turn may have a material adverse effect on our results of operation.

**Consumption of tax-paid cigarettes continues to decline in many of our markets.**

This decline is due to multiple factors, including increased taxes and pricing, governmental actions, the diminishing social acceptance of smoking and health concerns, competition, continuing economic and geopolitical uncertainty, and the continuing prevalence of illicit products. These factors and their potential consequences are discussed more fully below and in Item 7, *Business Environment*. A continuous decline in the consumption of cigarettes could have a material adverse effect on our revenue and profitability, which in turn may have a material adverse effect on our ability to fund our smoke-free transformation.

**Cigarettes are subject to substantial taxes. Significant increases in cigarette-related taxes have been proposed or enacted and are likely to continue to be proposed or enacted in numerous jurisdictions. These tax increases may disproportionately affect our profitability and make us less competitive versus certain of our competitors.**

Tax regimes, including excise taxes, sales taxes and import duties, can disproportionately affect the retail price of cigarettes versus other combustible tobacco products, or disproportionately affect the relative retail price of our cigarette brands versus cigarette brands manufactured by certain of our competitors. Because our portfolio is weighted toward the premium-price cigarette category, tax

regimes based on sales price can place us at a competitive disadvantage in certain markets. Furthermore, our volume and profitability may be adversely affected in these markets.

In addition, increases in cigarette taxes are expected to continue to have an adverse impact on our sales of cigarettes, due to resulting lower consumption levels, a shift in sales from manufactured cigarettes to other combustible tobacco products and from the premium-price to the mid-price or low-price cigarette categories, where we may be under-represented, from local sales to legal cross-border purchases of lower price products, or to illicit products such as contraband, counterfeit and "illicit whites."

Each of these risks could have a material adverse effect on our business, operations, results of operations, revenues, cash flow and profitability.

**Our business faces significant governmental action aimed at increasing regulatory requirements with the goal of reducing or preventing the use of tobacco products.**

Governmental actions, combined with the diminishing social acceptance of smoking and private actions to restrict smoking, have resulted in reduced industry volumes for our products in many of our markets, and we expect that such factors will continue to reduce consumption levels and will increase down-trading and the risk of counterfeiting, contraband, "illicit whites" and legal cross-border purchases. Significant regulatory developments will continue to take place over the next few years in most of our markets, driven principally by the FCTC. Since it came into force in 2005, the FCTC has led to increased efforts by tobacco control advocates and public health organizations to promote increasingly restrictive regulatory measures on the marketing and sale of tobacco products to adult smokers. Regulatory initiatives that have been proposed, introduced or enacted by governmental authorities in various jurisdictions include:

- restrictions on or licensing of outlets permitted to sell cigarettes;
- the levying of substantial and increasing tax and duty charges;
- restrictions or bans on advertising, marketing and sponsorship;
- the display of larger health warnings, graphic health warnings and other labeling requirements;
- restrictions on packaging design, including the use of colors, and mandating plain packaging;
- restrictions on packaging and cigarette formats and dimensions;
- restrictions or bans on the display of tobacco product packaging at the point of sale and restrictions or bans on vending machines;
- generation sales bans, under which the sale of certain tobacco or nicotine products to people born after a certain year would be prohibited;
- requirements regarding testing, disclosure and performance standards for tar, nicotine, carbon monoxide and other smoke constituents;
- disclosure, restrictions, or bans of tobacco product ingredients, including bans on the flavors of certain tobacco products;
- increased restrictions on smoking and use of tobacco and nicotine-containing products in public and work places and, in some instances, in private places and outdoors;
- restrictions or prohibitions of novel tobacco or nicotine-containing products or related devices;
- elimination of duty free sales and duty free allowances for travelers;
- restrictions in terms of importing or exporting our products impacting our logistics activities and ability to ship our products;
- encouraging litigation against tobacco companies; and
- excluding tobacco companies from transparent public dialogue regarding public health and other policy matters.

Our financial results could be materially affected by regulatory initiatives resulting in a significant decrease in demand for our brands. More specifically, requirements that lead to a commoditization of tobacco products or impede adult consumers' ability to convert to our RRP, as well as any significant increase in the cost of complying with new regulatory requirements could have a material adverse effect on our financial results.



**Changes in the earnings mix and changes in tax laws may result in significant variability in our effective tax rates. Our ability to receive payments from foreign subsidiaries or to repatriate royalties and dividends could be restricted by local country currency exchange controls and other regulations.**

We are subject to income tax laws in the United States and numerous foreign jurisdictions. Changes in the U.S. tax system, including significant increases in the U.S. corporate income tax rate and the minimum tax rate on certain earnings of foreign subsidiaries could be enacted. Such changes could have a material adverse impact on our effective tax rate thereby reducing our net earnings. Further changes in the tax laws of foreign jurisdictions could arise as a result of the base erosion and profit shifting project undertaken by the Organisation for Economic Co-operation and Development, which recommended changes to numerous long-standing tax principles. If implemented, such changes, as well as changes in taxing jurisdictions' administrative interpretations, decisions, policies, or positions, could also have a material adverse impact on our effective tax rate thereby reducing our net earnings. In future periods, our ability to recover deferred tax assets could be subject to additional uncertainty as a result of such developments. Furthermore, changes in the earnings mix or applicable foreign tax laws may result in significant variability in our effective tax rates.

As a result of Russia's invasion of Ukraine, certain taxing jurisdictions, including the U.S., have proposed punitive tax legislation applicable to companies doing business in Russia, which could also have a material adverse impact on our effective tax rate if enacted thereby reducing our net earnings.

Because we are a U.S. holding company, our most significant source of funds is distributions from our non-U.S. subsidiaries. Certain countries in which we operate have adopted or could institute currency exchange controls and other regulations that limit or prohibit our local subsidiaries' ability to convert local currency into U.S. dollars or to make payments outside the country. This could subject us to the risks of local currency devaluation and business disruption.

*Risks Related to the Impact of the War in Ukraine on our Business*

**Our business, results of operations, cash flows and financial position may be adversely impacted by the continuation and consequences of the war in Ukraine.**

In 2022, Russia accounted for around 9% of our total cigarette and heated tobacco unit shipment volume, and around 7% of our total net revenues. Ukraine accounted for around 2% of our total cigarette and heated tobacco unit shipment volume, and around 1% of our total net revenues. Historically, we also produced finished goods in Ukraine for export and manufactured products in Russia. In 2022, as a result of Russia's invasion of Ukraine, we suspended planned investments and scaled down our manufacturing operations in Russia. In Ukraine, we have temporarily reduced operations, including closing our factory in the country.

The short and long-term implications of the Russian invasion of Ukraine for our operations in those countries are impossible to predict at this time. The likelihood of retaliatory action by the Russian government against companies, including us, as a result of actions and statements made in response to the Russian invasion, including the possibility of legal action against us or our employees or nationalization of foreign businesses or assets, including cash reserves held in Russia and intangible assets such as trademarks, is impossible to predict. We are continuously assessing the evolving situation in Russia, including: recent regulatory constraints in the market that entail very complex terms and conditions that must be met for any divestment transaction to be granted approval by the authorities; and restrictions resulting from international regulations. In Ukraine, there is no way to know when and to what extent we will be able to fully normalize our operations or to what extent our workforce, facilities, inventory, and other assets will remain intact. These developments have and will continue to have a material adverse impact on our business, results of operations, cash flows and financial position, and may result in impairment charges.

The conflict also continues to elevate the likelihood of supply chain disruptions, both in the region and globally, and may inhibit our ability to timely source materials and services needed to make and sell our products. For example, historically we sourced certain finished goods, production materials and components from both Russia and Ukraine, including printed materials and filters, and the invasion has, and may continue to, disrupt the availability of and impact our supply chain for these materials. These disruptions, to the extent we are unable to find alternative sources or otherwise address these supply constraints, may impact the availability and cost of our products in other markets, which would adversely impact our business, results of operations, cash flows and financial position, and may result in impairment charges. Furthermore, the imposition of various restrictions on transactions with parties from certain jurisdictions, the ban on exports of various products, and other economic and financial restrictions may adversely affect certain third parties with which we do business in Russia, such as customers, suppliers, intermediaries, service providers and banks.

The broader consequences of the invasion are also impossible to predict, but could include reputational consequences, further sanctions, financial or currency restrictions, punitive tax law changes, embargoes, regional instability, and geopolitical shifts as well as adverse effects on macroeconomic conditions, security conditions, currency exchange rates, and financial markets. Given the nature of our business and global operations, such geo-political instability and uncertainty could increase the costs of our materials and operations; reduce demand for our products; have a negative impact on our supply chains, manufacturing capabilities, or distribution capabilities; increase our exposure to currency fluctuations; constrain our liquidity or our ability to access capital markets; create staffing or operations difficulties; or subject us to increased cyber-attacks. While we will continue to monitor this fluid situation and

develop contingency plans as necessary to address any disruptions to our business operations as they develop, the extent of the conflict's effect on our business and results of operations as well as the global economy, cannot be predicted.

The conflict may also have the effect of heightening many other risks disclosed in this Form 10-K, any of which could adversely affect our business, results of operations, cash flows or financial position. Such risks could affect, without limitation, the achievement of our strategic priorities, including achievement of our RRP growth targets; the availability of third-party manufacturing resources; the availability of attractive acquisition and strategic business opportunities and our ability to fully realize the benefits of these transactions; our ability to attract, motivate, and retain the best global talent; and our loss of revenue from counterfeiting and similar illicit activities.

#### *Risks Related to Sourcing and Distribution of Products, Services and Materials*

##### **Use of third-parties may negatively impact the distribution, quality, and availability of our products and services, and we may be required to replace third-party contract distributors, manufacturers or service providers.**

We increasingly rely on third-parties and their subcontractors/suppliers, sometimes concentrated in a specific geographic area, for product distribution and to manufacture some of our products and product parts (particularly, the electronic devices and accessories), as well as to provide services, including to support our finance, commercialization and information technology processes. While many of these arrangements improve efficiencies and decrease our operating costs, they also diminish our direct control. Such diminished control may lead to disruption in the distribution of our products and may have a material adverse effect on the quality and availability of products or services, our supply chain, and the speed and flexibility in our response to changing market conditions and adult consumer preferences, all of which may place us at a competitive disadvantage. In addition, we may be unable to renew these agreements on satisfactory terms for numerous reasons, including government regulations, and our costs may increase significantly if we must replace such third parties with other partners or our own resources.

##### **The effects of climate change and legal or regulatory responses related to climate change may have a negative impact on our business and results of operations.**

While we seek to mitigate our business risks associated with climate change by establishing environmental goals and standards and seeking business partners, including within our supply chain, that are committed to operating in ways that protect the environment or mitigate environmental impacts, we recognize that there are inherent climate-related risks wherever business is conducted. Among other potential impacts, climate change could influence the quality and volume of the agricultural products we rely on, including tobacco, due to a number of factors beyond our control, including more frequent variations in weather patterns, extreme weather events causing unexpected downtime and inventory losses, other adverse weather conditions, and governmental restrictions on trade, all of which may lead to disruption of operations at factories, warehouses and other premises.

Furthermore, risks related to natural ecosystems degradation, decreased agricultural productivity in certain regions of the world, biodiversity loss, water resource depletion and deforestation, which are partially driven or exacerbated by climate change, may disrupt our business operations or those of our suppliers and business partners.

There is an increased focus by foreign, federal, state and local regulatory and legislative bodies regarding environmental policies relating to climate change. New climate-related legal or regulatory requirements may lead to additional carbon taxation, energy price increases, new compliance costs, increased distribution and supply chain costs, and other expenses impacting our cost of operation. Even if we make changes to align ourselves with legal or regulatory requirements, we may still be subject to significant penalties if such laws or regulations are interpreted and applied in a manner inconsistent with our practices.

##### **Government mandated prices, production control programs, and shifts in crops driven by economic conditions may increase the cost or reduce the quality of the tobacco and other agricultural products used to manufacture our products.**

As with other agricultural commodities, the price of tobacco leaf and cloves can be influenced by imbalances in supply and demand and the impacts of natural disasters and pandemics such as COVID-19. Tobacco production in certain countries is subject to a variety of controls, including government mandated prices and production control programs. Changes in the patterns of demand for agricultural products could cause farmers to produce less tobacco or cloves. Any significant change in tobacco leaf and clove prices, quality and quantity could affect our profitability and our business.

#### *Risks Related to our International Operations*

##### **Because we have operations in numerous countries, our results may be adversely impacted by economic, regulatory and political developments, natural disasters, pandemics or conflicts.**

Some of the countries in which we operate face the threat of civil unrest and can be subject to regime changes. In others, nationalization, terrorism, conflict and the threats of war or acts of war may have a significant impact on the business environment. Natural disasters, extreme weather events, pandemics, economic, political, regulatory, acts of war or threats of war, or other

developments could disrupt or increase the expenses related to our supply chain, manufacturing capabilities, distribution capabilities, or the energy and other utility services required to operate our factories, warehouses, and other premises. Our business continuity plans and other safeguards might not always be effective to fully mitigate their impact. In addition, such developments – including the impact on energy prices and availability in the EU and elsewhere resulting from the invasion of Ukraine by Russia – could increase costs of our materials and operations and lead to loss of property or equipment that are critical to our business in certain markets and difficulty in staffing and managing our operations, all of which could have a material adverse effect on our operations, volumes, revenue, net earnings and profitability. We discuss additional risks associated with Russia's invasion of Ukraine and climate change above and with the COVID-19 pandemic below.

In certain markets, we are dependent on governmental approvals of various actions such as price changes, and failure to obtain such approvals could impair growth of our profitability.

In addition, despite our high ethical standards and rigorous controls and compliance policies aimed at preventing and detecting unlawful conduct, given the breadth and scope of our international operations, we may not be able to detect all potential improper or unlawful conduct by our employees and partners. Such improper or unlawful conduct (actual or alleged) could lead to litigation and regulatory action, cause damage to our reputation and that of our brands, and result in substantial costs.

**Our reported results could be adversely affected by unfavorable currency exchange rates, and currency fluctuations could impair our competitiveness.**

We conduct our business primarily in local currency and, for purposes of financial reporting, the local currency results are translated into U.S. dollars based on average exchange rates prevailing during a reporting period. Foreign currencies may fluctuate significantly against the U.S. dollar reducing our net revenues, operating income and EPS. Our primary local currency cost bases may be different from our primary currency revenue markets, and U.S. dollar fluctuations against various currencies may have disproportionate negative impact on net revenues as compared to our gross profit and operating income margins.

**A sustained period of elevated inflation across the markets in which we operate could result in higher operating and financing costs and lead to reduced demand for our products.**

Increasing inflationary pressures may result in significant increases to our expenses, including direct materials, wages, energy, and transportation costs. While we take actions, wherever possible, to reduce the impact of the effects of inflation, in cases of sustained and elevated inflation across several of our major markets, it may be difficult to effectively control the increases to our costs. Increased inflation also has and may continue to lead to interest rate increases, thereby increasing our interest expense. Increasing inflationary pressures may also negatively impact consumer purchasing power, which could result in reduced demand for our products. If we are unable to increase our prices or take other actions to mitigate the effect of increasing inflationary pressures, our profitability and financial position could be negatively impacted.

*Risks Related to Legal Challenges and Investigations*

**Litigation related to tobacco use and exposure to environmental tobacco smoke could substantially reduce our profitability and could severely impair our liquidity.**

There is litigation related to tobacco products pending in certain jurisdictions in which we operate. Damages claimed in some tobacco-related litigation are significant and, in certain cases in Brazil, Canada, and Nigeria, range into the billions of U.S. dollars. We anticipate that new cases will continue to be filed. The FTC encourages litigation against tobacco product manufacturers. It is possible that our consolidated results of operations, cash flows or financial position could be materially adversely affected in a particular fiscal quarter or fiscal year by an unfavorable outcome or settlement of certain pending litigation. We face various administrative and legal challenges related to certain RRP activities, including allegations concerning product classification, advertising restrictions, corporate communications, product coach activities, scientific substantiation, product liability, antitrust, and unfair competition. While we design our programs to comply with relevant regulations, we expect these or similar challenges to continue as we expand our efforts to commercialize RRP and to communicate publicly. The outcomes of these matters may affect our RRP commercialization and public communication activities and performance in one or more markets. Also see Item 8, Note 18. *Contingencies* to our consolidated financial statements for a discussion of pending litigation.

**From time to time, we are subject to governmental investigations on a range of matters.**

Investigations include allegations of contraband shipments of cigarettes, allegations of unlawful pricing activities within certain markets, allegations of underpayment of income taxes, customs duties and/or excise taxes, allegations of false and misleading usage of descriptors, allegations of unlawful advertising, and allegations of unlawful labor practices. We cannot predict the outcome of those investigations or whether additional investigations may be commenced, and it is possible that our business could be materially adversely affected by an unfavorable outcome of pending or future investigations. See Item 8, Note 18. *Contingencies—Other Litigation* and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Operating Results

by *Business Segment—Business Environment—Governmental Investigations*” for a description of certain governmental investigations to which we are subject.

**We may be unable to adequately protect our intellectual property rights, and disputes relating to intellectual property rights could harm our business.**

Our intellectual property rights are valuable assets, their protection is important to our business, and that protection may not be equally available in every country in which we operate or in which our products are sold. If the steps we take to protect our intellectual property rights globally, including through applying for, prosecuting, maintaining and enforcing, where relevant, a combination of trademark, design, copyright, patent, trade secrets and other intellectual property rights, are inadequate, or if others infringe or misappropriate our intellectual property rights, notwithstanding legal protection, our business, financial condition, and results of operations could be adversely impacted. Moreover, failing to manage our existing and/or future intellectual property may place us at a competitive disadvantage. Intellectual property rights of third parties may limit our ability to develop, manufacture and/or commercialize our products in one or more markets. Competitors or other third parties may claim that we infringe their intellectual property rights. Any such claims, regardless of merit, could divert management’s attention, be costly, disruptive, time-consuming and unpredictable and expose us to significant litigation costs and damages, and may impede our ability to develop, manufacture and/or commercialize new RRP’s and improve our products, and thus have a material adverse effect on our revenue and our profitability. In addition, if, as a result, we are unable to manufacture or sell our RRP’s or improve their quality in one or more markets, our ability to convert adult smokers to our RRP’s in such markets would be adversely affected. See Item 8, Note 18. *Contingencies—Other Litigation* to our consolidated financial statements for a description of certain intellectual property proceedings.

*Risks Related to our Competitive Environment*

**We face intense competition, and our failure to compete effectively could have a material adverse effect on our profitability and results of operations.**

We are subject to highly competitive conditions in all aspects of our business. We compete primarily on the basis of product quality, brand recognition, brand loyalty, taste, R&D, innovation, packaging, customer service, marketing, advertising and retail price and, increasingly, adult smoker willingness to convert to our RRP’s. The competitive environment and our competitive position can be significantly influenced by weak economic conditions, erosion of consumer confidence, competitors’ introduction of lower-price products or innovative products, novel products which given their taste characteristics may be more commercially successful, higher tobacco product taxes, higher absolute prices and larger gaps between retail price categories, and product regulation that diminishes the ability to differentiate tobacco products and restricts adult consumer access to truthful and non-misleading information about our RRP’s.

Competitors in our industry include British American Tobacco plc, Japan Tobacco Inc., Imperial Brands plc, new market entrants, particularly with respect to innovative products, several regional and local tobacco companies and, in some instances, state-owned tobacco enterprises, principally in Algeria, Egypt, China, Taiwan, Thailand and Vietnam. Some competitors have different profit, volume and regulatory objectives, and some international competitors may be less susceptible to changes in currency exchange rates than we are. Certain new market entrants in the non-combustible product category may alienate consumers from innovative products through inappropriate marketing campaigns, messaging and inferior product satisfaction, while not relying on scientific substantiation based on appropriate R&D protocols and standards. The growing use of digital media could increase the speed and extent of the dissemination of inaccurate and misleading information about our RRP’s, all of which could have a material adverse effect on our profitability and results of operations.

**We may be unable to anticipate changes in adult consumer preferences.**

Our business is subject to changes in adult consumer preferences, which may be influenced by local economic conditions, accessibility to our products and availability of accurate information related to our products.



To be successful, we must:

- promote brand equity successfully;
- anticipate and respond to new adult consumer trends;
- ensure that our products meet our quality standards;
- develop new products and markets and broaden brand portfolios;
- improve productivity;
- educate and encourage adult smokers to convert to our RRP's;
- ensure effective adult consumer engagement, including communication about product characteristics and usage of RRP's;
- provide excellent customer care;
- ensure adequate production capacity to meet demand for our products; and
- be able to protect or enhance margins through price increases.

In periods of economic uncertainty, adult consumers may tend to purchase lower-price brands, and the volume of our premium-price and mid-price brands and our profitability could be materially adversely impacted as a result. Such down-trading trends may be reinforced by regulation that limits branding, communication and product differentiation.

**Our ability to grow profitability may be limited by our inability to introduce new products, enter new markets or improve our margins through higher pricing and improvements in our brand and geographic mix.**

Our profit growth may be materially adversely impacted if we are unable to introduce new products or enter new markets successfully, to raise prices or to improve the proportion of our sales of higher margin products and in higher margin geographies.

**We may be unable to expand our brand portfolio through successful acquisitions or the development of strategic business relationships, and the intended benefits from our investments may not materialize.**

One element of our growth strategy is to expand our brand portfolio and market positions through selective acquisitions and the development of strategic business relationships. Acquisition and strategic business development opportunities are limited and present risks of failing to achieve efficient and effective integration, strategic objectives and/or anticipated revenue improvements and cost savings. There is no assurance that we will be able to acquire attractive businesses or enter into strategic business relationships on favorable terms ahead of our competitors, or that such acquisitions or strategic business development relationships will be accretive to earnings or improve our competitive position. In addition, we may not have a controlling position in certain strategic investments or relationships, which could impact the extent to which the intended financial growth and other benefits from these investments or relationships may ultimately materialize.

**Our ability to achieve our strategic goals may be impaired if we fail to attract, motivate and retain the best global talent and effectively align our organizational design with the goals of our transformation.**

To be successful, we must continue transforming our culture and ways of working, align our talent and organizational design with our increasingly complex business needs, and innovate and transform to a consumer-centric business. We compete for talent, including in areas that are new to us, such as digital, information technology, life sciences, with companies in the consumer products, technology, pharmaceutical and other sectors that enjoy greater societal acceptance. As a result, we may be unable to attract, motivate and retain the best global talent with the right degree of diversity, experience and skills to achieve our strategic goals.

### *Risks Related to the Impact of a Pandemic on our Business*

#### **Our business, results of operations, cash flows and financial position may be materially adversely impacted by an epidemic, endemic or pandemic, such as COVID-19.**

The outbreak of the global COVID-19 pandemic in 2020 has created significant societal and economic disruption, and resulted in the closures of stores, factories and offices, and restrictions on manufacturing, distribution and travel, all of which have and may continue to adversely impact our business, results of operations, cash flows and financial position. Our business continuity plans and other safeguards may not be effective to mitigate the ongoing or potential impact of COVID-19 or other epidemics, endemics, or pandemics.

The production of our RRP portfolio requires various components and materials, and we believe that there is an adequate supply of such components and materials in the world markets to satisfy our current and anticipated production requirements. However, some components and materials necessary for the production of our RRPs, including those for the electronic devices, are obtained from single or limited sources, and can be subject to industry-wide shortages and price fluctuations. While we have been successful in maintaining adequate supply of such components and materials during the ongoing COVID-19 pandemic so far, the COVID-19 pandemic, or another epidemic, endemic or pandemic, may disrupt that supply, whether through regulatory enforced actions taken to contain its spread, or through other supply chain disruptions caused by such epidemic, endemic or pandemic. This could negatively impact the commercialization of our RRPs.

Significant risks to our business during an epidemic, endemic or pandemic, such as the ongoing consequences of the COVID-19 outbreak, also include:

- our diminished ability to convert adult smokers to our RRPs;
- significant volume declines in our duty-free business and certain other key markets;
- disruptions or delays in our manufacturing and supply chain, including delays and increased costs in the shipment of parts to manufacture our products or for the products themselves;
- increased currency volatility; and
- delays in certain cost saving, transformation and restructuring initiatives.

The significant adverse effect of an epidemic, endemic or pandemic on the economic or political conditions in markets in which we operate could result in changes to the preferences of our adult consumers and lower demand for our products, particularly for our mid-price or premium-price brands.

Each of these risks could have a material adverse effect on our business, operations, results of operations, revenues, cash flow and profitability.

### *Risks Related to Illicit Trade*

#### **We lose revenues as a result of counterfeiting, contraband, cross-border purchases, "illicit whites," non-tax-paid volume produced by local manufacturers, and counterfeiting of our Platform 1 device and heated tobacco units.**

Large quantities of counterfeit cigarettes are sold in the international market. We believe that *Marlboro* is the most heavily counterfeited international cigarette brand, although we cannot quantify the revenues we lose as a result of this activity. In addition, our revenues are reduced by contraband, legal cross-border purchases, "illicit whites" and non-tax-paid volume produced by local manufacturers. Our revenues and consumer satisfaction with our Platform 1 device and heated tobacco units may be materially adversely affected by counterfeit products that do not meet our product quality standards and scientific validation procedures.

**The failure or disruption of our information technology networks and systems, or those managed by third-party service providers or owned by our business partners and used in furtherance of PMI's business, due to cybersecurity attacks; unauthorized attempts to corrupt or extract data; security vulnerabilities; misconfigurations; human error; or failure or inability by us, third-parties, or our business partners to adhere to cybersecurity industry best practices, could place us at a competitive disadvantage, cause reputational damage, impact our operations, result in data breaches, significant business disruption, litigation, regulatory action including significant fines or penalties, financial impact, loss of revenue or assets, including our intellectual property, personal, confidential, or sensitive data.**

We and our business partners heavily rely on information technology networks and systems, including those connected to the Internet, to help manage business processes and operations, including the collection, storage, interpretation, and processing of confidential, sensitive, personal and other data; internal and external communications; marketing and e-commerce activities; the manufacture, sale, and distribution of our products; management of third-party business relationships; engagement with governmental authorities; innovation through research and development; and other activities necessary for business operations. Some of these information systems and networks are developed, supplied, or managed by third-party service providers that may make us vulnerable to "supply chain" style cyberattacks.

Cyberattacks, security incidents and vulnerabilities impacting PMI, newly acquired companies, our business partners, or our third-party providers, continue to dynamically evolve in sophistication and volume, making it difficult for us to predict probability, frequency, and impact severity of security incidents. Further, it may be inherently difficult to detect vulnerabilities during due diligence, for long periods of time, or soon enough to mitigate exploitation. There can be no assurance that such security incidents or vulnerabilities will not have a material adverse effect on us in the future.

We continue to make investments in administrative, technical, and physical safeguards to maintain information security protections in line with industry standards and best practices. We evaluate the adequacy of preventative actions to reduce security incidents on an ongoing basis.

Our safeguards may not, however, be effective in mitigating the impact of service disruptions or other failures of these information technology networks and systems. Failure to timely respond and mitigate security incidents, could result in wide-ranging business interruptions. Such security incidents could place us at a competitive disadvantage; result in financial impacts, a loss of revenue, assets, including our intellectual property, personal or other sensitive data; result in litigation and regulatory action including significant fines or penalties; impact our operations; cause damage to our reputation and that of our brands; and result in significant remediation and other costs.

**Our or our business partners' failure or inability to adhere to privacy, data, artificial intelligence and information security laws could result in business disruption, loss of reputation and consumer trust, litigation, regulatory action including significant fines or penalties, financial impact, and loss of revenue, assets or personal, confidential, or sensitive data.**

An actual or alleged failure to comply with complex and changing privacy, data, artificial intelligence and information security laws and regulations under the EU General Data Protection Regulation, various United States state and federal laws, and other similar privacy and information security laws across the jurisdictions in which PMI operates, such as the failure to protect personal data; implement appropriate technological and reasonable security measures; respect the privacy rights of data subjects; provide sufficient detailed notices of personal data processing; retrieve consent and provide opt-outs; meet stringent timeframe requirements for incident reporting to regulatory authorities; comply with artificial intelligence regulations; and others, could have a material adverse effect on us, subject us to substantial fines and/or legal challenges, and/or harm our business, reputation, financial condition, or operating results. Such laws and regulations across the jurisdictions in which PMI operates may vary, resulting in inconsistent or conflicting legal obligations.

*Risks Related to the Acquisitions of Swedish Match, OtiTopic, Inc. ("OtiTopic"), Fertin Pharma A/G ("Fertin Pharma") and Vectura Group Ltd. ("Vectura") (collectively, the "Acquisitions")*

As previously disclosed in this Form 10-K, since 2021, we have acquired Swedish Match, OtiTopic, Fertin Pharma and Vectura, and have launched a new Wellness and Healthcare business consolidating OtiTopic, Fertin Pharma and Vectura: Vectura Fertin Pharma.

**We may be unable to successfully integrate and realize the expected benefits from the Acquisitions.**

The successful integration of the acquired businesses and their operations into those of our own and our ability to realize the benefits of the Acquisitions, are subject to a number of risks and uncertainties, many of which are not in our control. The risks and uncertainties relating to integrating the businesses acquired include, among other things: (i) the challenge of integrating complex organizations, systems, operating procedures, industry specific compliance programs, technology, networks and other assets of the businesses that we acquire, and the costs related to such integration efforts; (ii) the possibility that we are unable to gain access to

differentiated intellectual property, proprietary technology, and pharmaceutical development expertise as anticipated by these Acquisitions, and thus fail to realize our desired entry into additional smoke-free, wellness, therapeutic and healthcare platforms; (iii) the challenge of integrating the cultures and business practices of each of Swedish Match, Fertin Pharma and Vectura to our culture and business practices, which if not managed correctly, could lead to difficulties in retaining key management and other key employees; and (iv) the challenge of achieving a successful integration as a result of our affiliation to our combustible product portfolio. In addition, even if we are able to successfully integrate, the anticipated benefits of the Acquisitions may not be realized fully, or at all, or may take longer to realize than expected. Furthermore, the success of the Acquisitions also depends on Swedish Match's continued growth in highly competitive markets and on the success of the research and development efforts of Vectura Fertin Pharma, including the ability to obtain regulatory approval for new products, and the ability to commercialize or license these new products developed by them. Moreover, our combustible product portfolio may stand in the way of introducing and growing new product categories, and may prevent our business from developing a long-term sustainable ecosystem of products in the wellness, therapeutic, and healthcare categories.

**The businesses that we acquire in the Acquisitions may have liabilities that are not known to us.**

The businesses that we have acquired in the Acquisitions may have liabilities that we were unable to identify, or were unable to discover, in the course of performing our due diligence investigations during the Acquisitions thereof. We cannot assure you that the indemnification available to us under the respective acquisition agreements, will be sufficient in amount, scope or duration to fully offset the possible liabilities associated with the respective business or property that we will assume upon consummation of each acquisition. Furthermore, the acquisition of Swedish Match was structured as a direct purchase of shares from Swedish Match shareholders and therefore did not include an acquisition agreement or indemnification rights. Any such liabilities, individually or in the aggregate, could have a material adverse effect on our business, financial condition and results of operations.

**Accounting adjustments related to the Acquisitions could adversely affect our financial results.**

We have accounted for the completion of the Acquisitions using the acquisition method of accounting. Differences between preliminary estimates and the final acquisition accounting may occur, and these differences could have a material impact on the consolidated financial statements and our future results of operations and financial position in combination with the businesses acquired. Furthermore, given the nature of the assets being acquired in the Acquisitions, we may not be able to avoid future impairments of those assets, which may also have a material impact on our future results of operation and financial position.

**PMI, Swedish Match and Vectura Fertin Pharma may be subject to uncertainties that could adversely affect our respective businesses, and adversely affect the financial results of our combined businesses.**

Our success following these Acquisitions will depend in part upon our ability and the ability of each of Swedish Match and Vectura Fertin Pharma to maintain business relationships. Uncertainty about the effect of the Acquisitions on customers, suppliers, employees and other constituencies of each of Swedish Match, Fertin Pharma and Vectura, may have a material adverse effect on us and/or the businesses that we have acquired through the Acquisitions. Customers, suppliers and others who do business with Swedish Match or Vectura Fertin Pharma may delay or defer business decisions, decide to terminate, modify or renegotiate their relationships, or take other actions as a result of the Acquisitions, which could negatively affect the revenues, earnings and cash flows of our company or the businesses that we have acquired. Regulatory changes may have an impact on the development and/or commercialization of products which originate from the Swedish Match or Vectura Fertin Pharma value chains, as well as our revenues, earnings and cash flow. If we are unable to maintain the business and operational relationships of Swedish Match, or of Vectura Fertin Pharma, our financial position, results of operations or cash flows upon combining with these companies could be adversely affected.

***Item 1B. Unresolved Staff Comments.***

None.

***Item 2. Properties.***

We own or lease various manufacturing, office and research and development facilities in locations around the world. We own properties in Switzerland where our operations center and state-of-the-art research and development facility are located.

At December 31, 2022, we operated and owned a total of 53 manufacturing facilities across our segments. Among them, 8 factories produced heated tobacco units. The Swedish Match acquisition expanded our manufacturing footprint with the addition of 14 owned manufacturing facilities, which are included in the total above. The manufacturing facilities acquired from Swedish Match are primarily engaged in the production of smoke-free products.

In 2022, certain facilities each manufactured over 30 billion units (cigarettes and heated tobacco units combined). The largest manufacturing facilities, in terms of volume, are located in Turkey (ME&A), Indonesia (S&SA), Poland (EU), Russia (EE), Italy (EU), the Philippines (S&SA), Lithuania (EU), Czech Republic (EU) and Portugal (EU). As part of our global operating model,

products manufactured in a particular manufacturing facility are not necessarily distributed in the operating segment where the facility is located.

We have integrated the production of our heated tobacco units into a number of our existing manufacturing facilities, and we are progressing with our plans to build manufacturing capacity for our other RRP and smoke-free platforms. We will continue to optimize our manufacturing infrastructure.

We believe the properties owned or leased by our subsidiaries are maintained in good condition and are believed to be suitable and adequate for our present needs.

***Item 3. Legal Proceedings.***

The information called for by this Item is incorporated herein by reference to Item 8, Note 18. *Contingencies*.

***Item 4. Mine Safety Disclosures.***

Not applicable.

## **PART II**

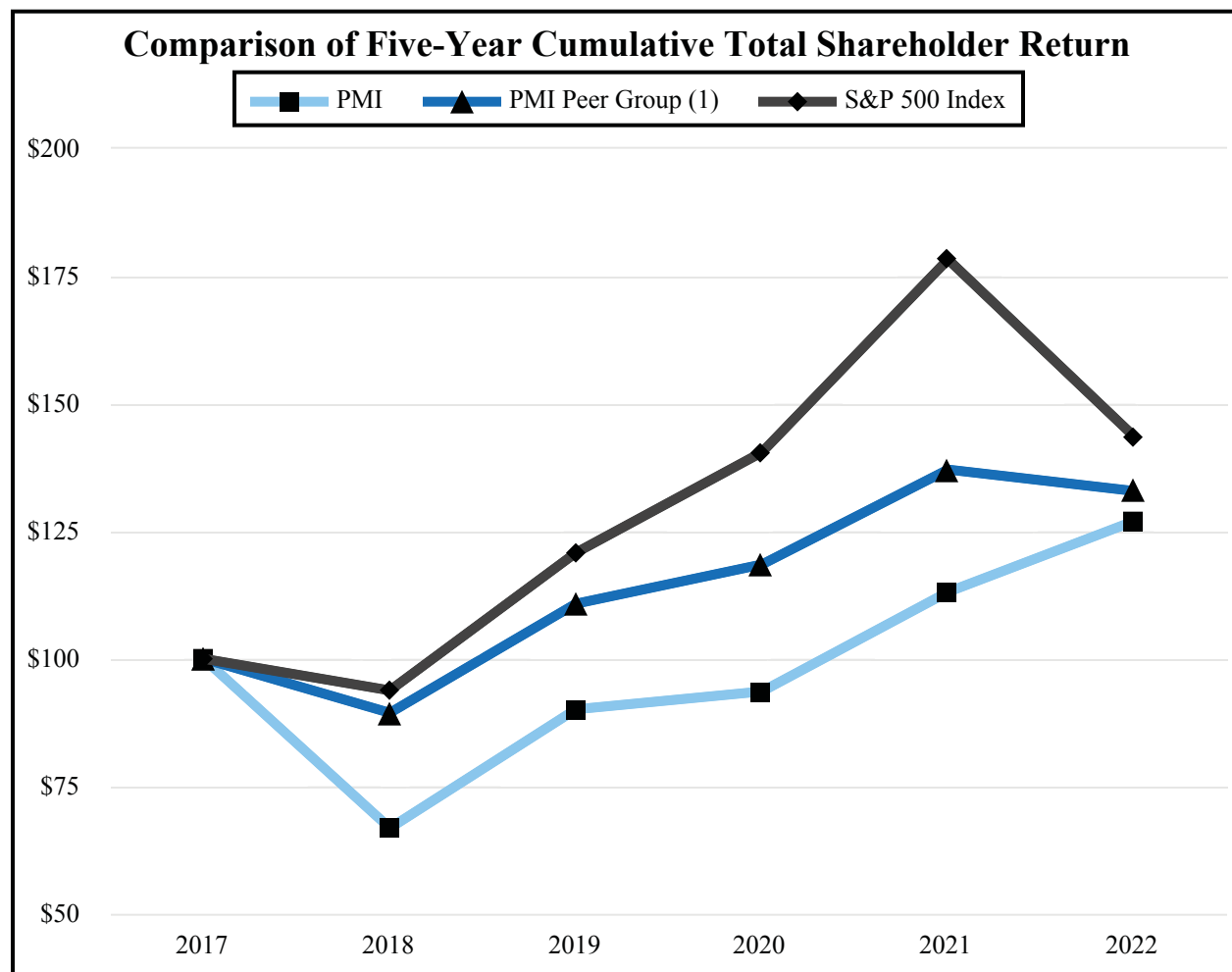
***Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.***

The principal stock exchange on which our common stock (no par value) is listed is the New York Stock Exchange (ticker symbol "PM"). At January 31, 2023, there were approximately 43,700 holders of record of our common stock.



## Performance Graph

The graph below compares the cumulative total shareholder return on PMI's common stock with the cumulative total return for the same period of PMI's Peer Group and the S&P 500 Index. The graph assumes the investment of \$100 as of December 31, 2017, in PMI common stock (at prices quoted on the New York Stock Exchange), and each of the indices as of the market close and reinvestment of dividends on a quarterly basis.



| Date              | PMI      | PMI Peer Group <sup>(1)</sup> | S&P 500 Index |
|-------------------|----------|-------------------------------|---------------|
| December 31, 2017 | \$100.00 | \$100.00                      | \$100.00      |
| December 31, 2018 | \$66.80  | \$89.40                       | \$93.80       |
| December 31, 2019 | \$90.10  | \$110.80                      | \$120.80      |
| December 31, 2020 | \$93.60  | \$118.50                      | \$140.50      |
| December 31, 2021 | \$113.10 | \$137.10                      | \$178.30      |
| December 31, 2022 | \$127.00 | \$132.90                      | \$143.60      |

<sup>(1)</sup> The PMI Peer Group presented in this graph is the same as that used in the prior year. The PMI Peer Group was established based on a review of four characteristics: global presence; a focus on consumer products; and net revenues and a market capitalization of a similar size to those of PMI. The review also considered the primary international tobacco companies. As a result of this review, the following companies constitute the PMI Peer Group: Altria Group, Inc., Anheuser-Busch InBev SA/NV, British American Tobacco p.l.c., The Coca-Cola Company, Colgate-Palmolive Co., Diageo plc, Heineken N.V., Imperial Brands PLC, Japan Tobacco Inc., Johnson & Johnson, Kimberly-Clark Corporation, The Kraft-Heinz Company, McDonald's Corp., Mondelēz International, Inc., Nestlé S.A., PepsiCo, Inc., The Procter & Gamble Company, Roche Holding AG, and Unilever NV and PLC.

Note: Figures are rounded to the nearest \$0.10.

## Issuer Purchases of Equity Securities During the Quarter Ended December 31, 2022

Our share repurchase activity for each of the three months in the quarter ended December 31, 2022, was as follows:

| Period   | Total Number of Shares Repurchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs |
|--|------------------------------------|------------------------------|--|--|
| October 1, 2022 – October 31, 2022 (1)           |                                    | \$ —                         | 10,481,359   | \$ 6,016,847,275   |
| November 1, 2022 – November 30, 2022 (1)         |                                    | \$ —                         | 10,481,359   | \$ 6,016,847,275   |
| December 1, 2022 – December 31, 2022 (1)         |                                    | \$ —                         | 10,481,359   | \$ 6,016,847,275   |
| Pursuant to Publicly Announced Plans or Programs | —                                  | \$ —                         |  |  |
| October 1, 2022 – October 31, 2022 (2)           | 3,753                              | \$ 85.29                     |  |  |
| November 1, 2022 – November 30, 2022 (2)         | 3,421                              | \$ 90.52                     |  |  |
| December 1, 2022 – December 31, 2022 (2)         | 1,703                              | \$ 97.40                     |  |  |
| For the Quarter Ended December 31, 2022          | 8,877                              | \$ 89.63                     |  |  |

- (1) On June 11, 2021, our Board of Directors authorized a new share repurchase program of up to \$7 billion, with target spending of \$5 billion to \$7 billion over a three-year period that commenced in July 2021. These share repurchases have been made pursuant to the \$7 billion program. On May 11, 2022, we announced the suspension of our three-year share repurchase program following the recommended public offer to acquire the outstanding shares of Swedish Match from its shareholders. For further details on the offer, see the *Acquisitions and Other Business Arrangements* section of Part II, Item 7 of this Form 10-K.
- (2) Shares repurchased represent shares tendered to us by employees who vested in restricted and performance share unit awards and used shares to pay all, or a portion of, the related taxes.

**Item 6. [Reserved].**

**Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations.***

The following discussion should be read in conjunction with the other sections of this Annual Report on Form 10-K, including the consolidated financial statements and related notes contained in Item 8, and the discussion of risks and cautionary factors that may affect future results in Item 1A. *Risk Factors*.

**Description of Our Company**

We are a leading international tobacco company working to deliver a smoke-free future and to evolve our portfolio for the long term to include products outside of the tobacco and nicotine sector. Our current product portfolio primarily consists of cigarettes and smoke-free products, which include heat-not-burn, vapor, and oral nicotine products. Since 2008, we have invested more than \$10.5 billion to develop, scientifically substantiate and commercialize innovative smoke-free products for adults who would otherwise continue to smoke, with the goal of completely ending the sale of cigarettes. This investment includes the building of world-class scientific assessment capabilities, notably in the areas of pre-clinical systems toxicology, clinical and behavioral research, as well as post-market studies. In November 2022, we acquired Swedish Match AB ("Swedish Match") – a leader in oral nicotine delivery – creating a global smoke-free combination led by the companies' *IQOS* and *ZYN* brands. The U.S. Food and Drug Administration ("FDA") has authorized versions of our *IQOS* Platform 1 devices and consumables, and Swedish Match's *General* snus, as Modified Risk Tobacco Products (MRTPs). We describe the MRTP orders in more detail in the "Business Environment" section of this Item 7.

As of December 31, 2022, we managed our business in six geographical segments, a Swedish Match segment and a Wellness and Healthcare segment:

- European Union ("EU");
- Eastern Europe ("EE");
- Middle East & Africa ("ME&A"), which includes our international duty free business;
- South & Southeast Asia ("S&SA");
- East Asia & Australia ("EA&A");
- Americas ("AMCS");
- Swedish Match, which reflects our fourth quarter 2022 acquisition of the company; and
- Wellness and Healthcare ("W&H"), which includes the operating results of our new Wellness and Healthcare business, Vectura Fertin Pharma. In the third quarter of 2021, we acquired Fertin Pharma A/S, Vectura Group plc. (also known as Vectura Group Ltd.) and OtiTopic, Inc. On March 31, 2022, we launched a new Wellness and Healthcare business consolidating these entities, Vectura Fertin Pharma. The operating results of this new business are reported in the Wellness and Healthcare segment.

To further support the growth of our smoke-free business, reinforce consumer centricity, and increase the speed of innovation and deployment, in January 2023, we rearranged our operations in four geographical segments, down from the current six and as follows:

- Europe Region is headquartered in Lausanne, Switzerland, and covers all the European Union countries, Switzerland, the United Kingdom, and also Ukraine, Moldova and Southeast Europe;
- South and Southeast Asia, Commonwealth of Independent States, Middle East and Africa Region is headquartered in Dubai, United Arab Emirates. It covers South and Southeast Asia, the African continent, the Middle East, Turkey, as well as Israel, Central Asia, Caucasus and Russia;
- East Asia, Australia, and PMI Duty Free Region is headquartered in Hong Kong, and includes the consolidation of our international duty free business with East Asia & Australia; and
- Americas Region is headquartered in Stamford, Connecticut, and covers the United States, Canada and Latin America.

The operations of Swedish Match and our Wellness and Healthcare segment remained unchanged. We will report our financial results based on the new geographical segments as of the first quarter of 2023.

In November 2022, we completed the relocation of our corporate headquarters, including our AMCS headquarters, from New York, New York, to Stamford, Connecticut.

Our cigarettes are sold in approximately 175 markets, and in many of these markets they hold the number one or number two market share position. We have a wide range of premium, mid-price and low-price brands. Our portfolio comprises both international and local brands.

Smoke-free products ("SFPs") is the term we primarily use to refer to all of our products that are not combustible tobacco products, such as heat-not-burn, e-vapor, and oral nicotine. In addition, SFPs include wellness and healthcare products, as well as consumer accessories such as lighters and matches.

In addition to the manufacture and sale of cigarettes, we are engaged in the development and commercialization of reduced-risk products ("RRPs"). RRP is the term we use to refer to products that present, are likely to present, or have the potential to present less risk of harm to smokers who switch to these products versus continuing smoking. We have a range of RRP in various stages of development, scientific assessment and commercialization. Our RRP are SFPs that contain and/or generate far lower quantities of harmful and potentially harmful constituents than found in cigarette smoke. *IQOS* is the leading brand in our SFP portfolio. As of December 31, 2022, our smoke-free products were available for sale in 73 markets.

In 2021, we laid the foundation for our long-term growth ambitions beyond nicotine in wellness and healthcare, including the milestone acquisitions of Vectura Group plc and Fertin Pharma A/S, as noted above, which provide essential capabilities for future product development. Now, through our Vectura Fertin Pharma subsidiary, with a strong foundation and significant expertise in life sciences, we aim to expand into wellness and healthcare areas.

In 2022, we acquired Swedish Match AB, a market leader in oral nicotine delivery with a significant presence in the United States market. The Swedish Match acquisition is a key milestone in PMI's transformation to becoming a smoke-free company. Swedish Match already has a leading nicotine pouch franchise in the U.S. under the *ZYN* brand name. The Swedish Match product portfolio is complementary to our existing portfolio, permitting us to bring together a leading oral nicotine product with the leading heat-not-burn product. By joining forces with Swedish Match, we expect to accelerate the achievement of our joint smoke-free ambitions, switching more adults who would otherwise continue to smoke to better alternatives faster than either company could achieve separately.

For further details of our 2021 and 2022 acquisitions, see Item 8, Note 3. *Acquisitions* and Note 13. *Segment Reporting*

We use the term net revenues to refer to our operating revenues from the sale of our products, including shipping and handling charges billed to customers, net of sales and promotion incentives, and excise taxes. Our net revenues and operating income are affected by various factors, including the volume of products we sell, the price of our products, changes in currency exchange rates and the mix of products we sell. Mix is a term used to refer to the proportionate value of premium-price brands to mid-price or low-price brands in any given market (product mix). Mix can also refer to the proportion of shipment volume in more profitable markets versus shipment volume in less profitable markets (geographic mix).

Our cost of sales consists principally of: tobacco leaf, non-tobacco raw materials, labor and manufacturing costs; shipping and handling costs; and the cost of devices produced by third-party electronics manufacturing service providers. Estimated costs associated with device warranty programs are generally provided for in cost of sales in the period the related revenues are recognized.

Our marketing, administration and research costs include the costs of marketing and selling our products, other costs generally not related to the manufacture of our products (including general corporate expenses), and costs incurred to develop new products. The most significant components of our marketing, administration and research costs are marketing and sales expenses and general and administrative expenses.

Philip Morris International Inc. is a legal entity separate and distinct from its direct and indirect subsidiaries. Accordingly, our right, and thus the right of our creditors and stockholders, to participate in any distribution of the assets or earnings of any subsidiary is subject to the prior rights of creditors of such subsidiary, except to the extent that claims of our company itself as a creditor may be recognized. As a holding company, our principal sources of funds, including funds to make payment on our debt securities, are from the receipt of dividends and repayment of debt from our subsidiaries. Our principal wholly owned and majority-owned subsidiaries currently are not limited by long-term debt or other agreements in their ability to pay cash dividends or to make other distributions that are otherwise compliant with law.

## Executive Summary

The following executive summary provides the business update and significant highlights from the *Discussion and Analysis* that follows.

### War in Ukraine

Since the onset of the war in Ukraine, our main priority has been the safety and security of our more than 1,300 employees and their families in the country. PMI has helped to evacuate more than 1,000 people from Ukraine and relocate over 2,700 others from conflict zones to locations in the country away from the heaviest fighting; provided critical aid to employees who cannot leave or who decide to remain in Ukraine; and provided those who have left the country with a range of support in neighboring countries. We are continuing to pay salaries to all our Ukrainian employees and are also providing substantial in-kind support to them and their families. In addition, we have contributed approximately \$10 million in funds and donated essential items across the country.

On February 25, 2022, in order to preserve the safety of our employees, we announced the temporary suspension of our commercial and manufacturing operations in Ukraine, including at our factory in Kharkiv. We subsequently resumed some retail activities where safety allowed, in order to provide product availability and service to adult consumers, and began to supply the market from production centers outside Ukraine, as well as through a contract manufacturing arrangement. Production at our factory in Kharkiv remains suspended.

In 2022, Ukraine accounted for around 2% of our total cigarette and heated tobacco unit shipment volume and around 1% of our total net revenues. As of December 31, 2022, our Ukrainian operations had approximately \$0.4 billion in total assets, excluding intercompany balances.

We employ more than 3,200 people in Russia and will continue to support our employees there, including paying their salaries, while continuing to fulfill our legal obligations. We will continue to make decisions with employee safety and security as a priority.

On March 24, 2022, we announced the concrete steps we had taken to suspend planned investments and scale down our manufacturing operations in Russia, including: the discontinuation of a number of cigarette products; the suspension of our marketing activities; the cancellation of all product launches planned for 2022, including *ILUMA*; and the cancellation of our plans to manufacture heated tobacco units for *ILUMA* in Russia.

We are continuously assessing the evolving situation in Russia, including: recent regulatory constraints in the market that entail very complex terms and conditions that must be met for any divestment transaction to be granted approval by the authorities; and restrictions resulting from international regulations.

In 2022, Russia accounted for approximately 9% of total shipment volumes and around 7% of our total net revenues. As of December 31, 2022, our Russian operations had approximately \$2.5 billion in total assets, excluding intercompany balances, of which approximately \$0.6 billion consisted of cash and equivalents held mostly in local currency (Russian rubles).

We recorded pre-tax charges related to the war in Ukraine of approximately \$151 million in 2022 (including humanitarian efforts). This includes charges in Russia related to the cancellation of the planned launch of *ILUMA* and the planned production of related heated tobacco units.

These developments above have and will continue to have a material adverse impact on our business, results of operations, cash flows and financial position, and may result in impairment charges.

For further details, see Item 8, Note 4. *War in Ukraine* to our consolidated financial statements as well as Item 1A. *Risk Factors* and the "Trade Policy" section of this MD&A.

### Agreement with Altria Group, Inc. regarding Commercialization of IQOS in the U.S.

On October 20, 2022, PMI announced that it had reached an agreement with Altria Group, Inc. to end the companies' relationship regarding the *IQOS* commercialization rights in the U.S. as of April 30, 2024. As a result of PMI reacquiring these rights, effective May 1, 2024, PMI will have the full rights to commercialize *IQOS* in the U.S. As part of the agreement, PMI agreed to pay a total cash consideration of \$2.7 billion, with \$1.0 billion paid at the inception of the agreement and the remaining \$1.7 billion (plus interest, at a per annum rate equal to six percent (6%)), to be paid by July 2023 at the latest.

For further details, see Item 8, Note 3. *Acquisitions*.



### Swedish Match Acquisition

On November 11, 2022, Philip Morris Holland Holdings B.V. ("PMHH"), a wholly owned subsidiary of PMI, acquired a controlling interest of 85.87% of the total issued and outstanding shares in Swedish Match. Swedish Match's operating results beginning on November 11, 2022 through December 31, 2022, are included in PMI's consolidated statement of earnings and disclosed as a separate segment.

On November 28, 2022, PMHH announced that it had acquired 93.11% of the shares in Swedish Match and intended to: (i) initiate compulsory redemption under the Swedish Companies Act to acquire all remaining shares in Swedish Match; and (ii) request delisting of Swedish Match's shares from Nasdaq Stockholm.

On December 16, 2022, Swedish Match announced that the compulsory redemption process had been initiated. On December 30, 2022, the shares of Swedish Match were delisted from Nasdaq Stockholm, by which time PMHH had become the owner of 94.81% of Swedish Match's shares.

For further details, see Item 8, Note 3. *Acquisitions*.

### KT&G

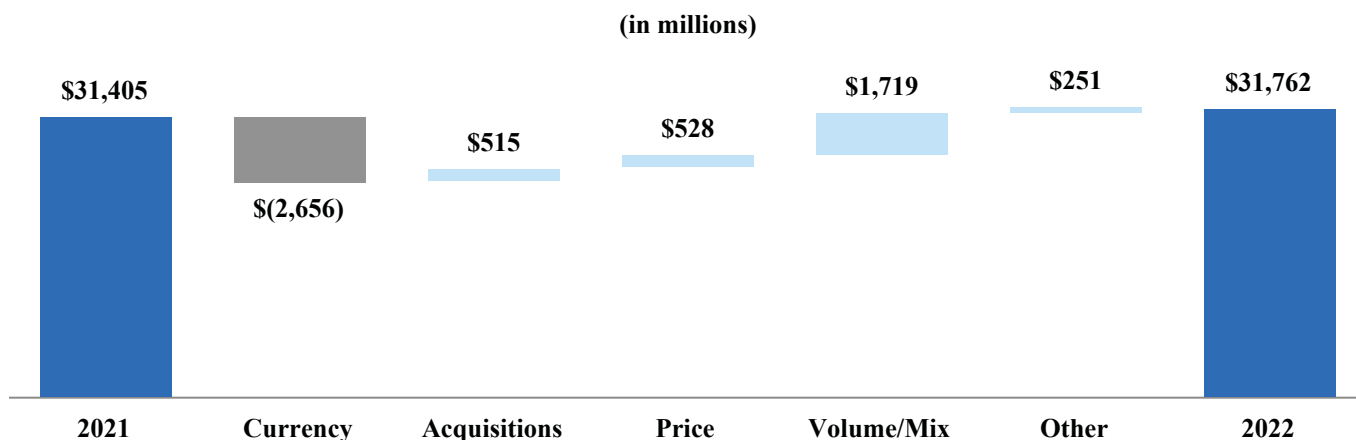
On January 30, 2023, PMI announced a long-term collaboration with KT&G, South Korea's leading tobacco and nicotine manufacturer, to continue to commercialize KT&G's innovative smoke-free devices and consumables on an exclusive, worldwide basis (excluding South Korea).

The agreement covers fifteen years, to January 29, 2038, with performance-review cycles and associated commitments, based on volume, to be confirmed for each three-year period, to allow flexibility for evolving market conditions.

For further details, see "Acquisitions and Other Business Arrangements" section of this MD&A.

### Consolidated Operating Results

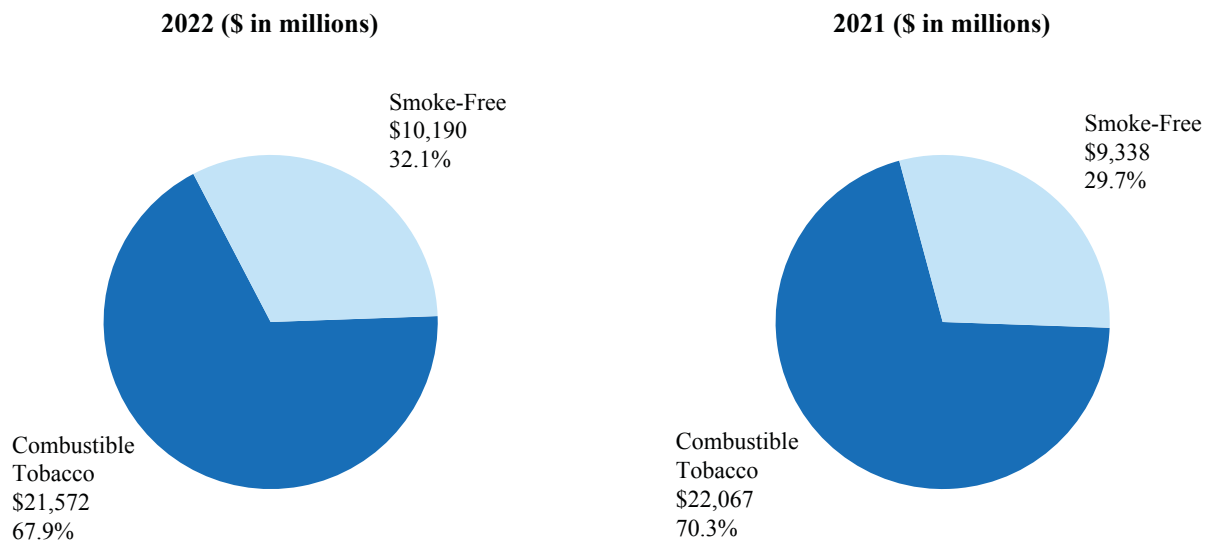
- **Net Revenues** – Net revenues of \$31.8 billion for the year ended December 31, 2022, increased by \$0.4 billion, or 1.1%, from the comparable 2021 amount. The change in our net revenues from the comparable 2021 amount was driven by the following (variances not to scale):



Net revenues, excluding currency and acquisitions, increased by 8.0%, mainly reflecting: favorable volume/mix, primarily driven by higher heated tobacco units ("HTU") volume and device volume, partly offset by lower cigarette volume and unfavorable device mix, cigarette mix and HTU mix; a favorable pricing variance, driven by higher combustible tobacco pricing, partly offset by lower device pricing and lower HTU (net) pricing; and a favorable comparison related to the Saudi Arabia customs assessments of \$246 million in 2021, shown in "Other" and further described in the following "Diluted Earnings Per Share" discussion.

In 2022, Russia and Ukraine accounted for around 8% of PMI's total net revenues.

Net revenues by product category for the years ended December 31, 2022 and 2021, are shown below:



Following the Swedish Match acquisition and a review of PMI and Swedish Match's combined product portfolio, PMI reclassified certain of its own products previously reported under its combustible tobacco product category to the newly created smoke-free product category to better reflect the characteristics of these products. This reclassification did not impact PMI's segment reporting, consolidated financial position, results of operations or cash flows in any of the periods presented. For further details, see Item 8, Note 13. *Segment Reporting*.

- **Diluted Earnings Per Share** – The changes in our reported diluted earnings per share (“diluted EPS”) for the year ended December 31, 2022, from the comparable 2021 amounts, were as follows:

|   | Diluted EPS | % Change |
|---|-------------|----------|
| For the year ended December 31, 2021                        | \$ 5.83     |          |
| 2021 Asset impairment and exit costs                        | 0.12        |          |
| 2021 Saudi Arabia customs assessments                       | 0.14        |          |
| 2021 Asset acquisition cost                                 | 0.03        |          |
| 2021 Equity investee ownership dilution                     | (0.04)      |          |
| 2021 Amortization and impairment of intangibles             | 0.05        |          |
| 2021 Tax items  | —           |          |
| Subtotal of 2021 items                                      | 0.30        |          |
| 2022 Charges related to the war in Ukraine                  | (0.08)      |          |
| 2022 Fair value adjustment for equity security investments  | 0.02        |          |
| 2022 Amortization and impairment of intangibles             | (0.15)      |          |
| 2022 Costs associated with Swedish Match AB offer           | (0.06)      |          |
| 2022 Swedish Match AB acquisition accounting related item   | (0.06)      |          |
| 2022 Tax benefit associated with Swedish Match AB financing | 0.13        |          |
| 2022 Tax items  | 0.03        |          |
| Subtotal of 2022 items                                      | (0.17)      |          |
| Currency  | (0.77)      |          |
| Interest  | 0.02        |          |
| Change in tax rate  | 0.03        |          |
| Operations  | 0.57        |          |
| For the year ended December 31, 2022                        | \$ 5.81     | (0.3)%   |

*Asset impairment and exit costs* – During 2021, we recorded pre-tax asset impairment and exit costs of \$216 million, representing \$181 million net of income tax and a diluted EPS charge of \$0.12 per share, related to the organizational design optimization plan, primarily in Switzerland, and the product distribution restructuring in South Korea. The pre-tax charge was recorded in marketing, administration and research costs in the consolidated statements of earnings for the year ended December 31, 2021. For further details, see Item 8, Note 20. *Asset Impairment and Exit Costs*.

*Saudi Arabia customs assessments* – In June 2021, the Customs Appeal Committee in Riyadh notified our distributors in Saudi Arabia of its decisions to largely reject their challenges of the Saudi Arabia Customs General Authority assessments as described in Item 8, Note 18. *Contingencies*. On the basis of these decisions and in line with arrangements with the distributors, we recorded a pre-tax charge of \$246 million in the second quarter of 2021 (representing \$215 million net of income tax and a diluted EPS charge of \$0.14 per share). The pre-tax charge was recorded as a reduction of net revenues on the consolidated statement of earnings for the year ended December 31, 2021, and was included in the Middle East & Africa segment results.

*Asset acquisition cost* – In August 2021, we acquired 100% of OtiTopic, Inc., a U.S. respiratory drug development company with a late-stage dry powder inhalation aspirin treatment for acute myocardial infarction. We accounted for this transaction as an asset acquisition since the acquired in-process research and development (“IPR&D”) of the dry powder inhalation aspirin treatment represented substantially all of the fair value of the gross assets acquired. At the date of acquisition, we determined that the acquired IPR&D had no alternative future use. As a result, we recorded a pre-tax charge of \$51 million (representing a \$0.03 per share charge to diluted EPS) to research and development costs within marketing, administration and research costs in the consolidated statements of earnings for the year ended December 31, 2021. For further details, see Item 8, Note 3. *Acquisitions*.

*Equity investee ownership dilution* – In 2021, our equity method investee, Medicago Inc., initiated additional rounds of equity funding in which we did not participate. As a result, our share of holdings in Medicago Inc. was reduced from approximately 32% at December 31, 2020, to approximately 23% as of December 31, 2021. The ownership dilution resulted in a \$0.04 per share

favorable impact to diluted EPS and income of \$55 million to equity investments and securities (income)/loss, net in the consolidated statements of earnings for the year ended December 31, 2021. For further details, see Item 8, Note 18. *Contingencies - Third Party Guarantees.*

*Amortization and impairment of intangibles* – During 2022 and 2021, we recorded amortization and impairment of intangibles of \$271 million (representing \$227 million net of income tax or \$0.15 per share decrease in diluted EPS) and \$96 million (representing \$78 million net of income tax or \$0.05 per share decrease in diluted EPS), respectively. The pre-tax amortization and impairment of intangibles amount in 2022 consisted of amortization expense of \$159 million primarily due to increased acquired intangible assets recorded as a result of our acquisitions in the third quarter of 2021, and an impairment charge of \$112 million reflecting the impact of general economic and market conditions resulting in a reduction in future estimated cash flows on certain products within the Wellness and Healthcare segment. For further details, see Item 8, Note 3. *Acquisitions* and Note 5. *Goodwill and Other Intangible Assets, net.*

*Charges related to the war in Ukraine* – During 2022, we recorded a pre-tax charge of \$151 million, representing \$128 million net of income tax and a diluted EPS charge of \$0.08 per share, related to circumstances driven by the war, including machinery and inventory write-downs, additional allowances for receivables and the cost of PMI's humanitarian efforts. For further details, see Item 8, Note 4. *War in Ukraine.*

*Fair Value adjustment for equity security investments* – During 2022, we recorded a favorable fair value adjustment for our equity security investments in India and Sri Lanka (\$0.02 per share increase in diluted EPS). For further details, see Item 8, Note 6. *Related Parties - Equity Investments and Other.*

*Costs associated with Swedish Match AB offer* – During 2022, we incurred pre-tax costs associated with the Swedish Match acquisition of \$116 million (representing \$99 million net of income tax and a diluted EPS charge of \$0.06 per share) primarily related to financing costs, derivative financials instruments and certain transaction related costs. These pre-tax costs of \$116 million were recorded in marketing, administration and research costs (\$115 million expense) and interest expense, net (\$1 million expense) on our consolidated statement of earnings for the year ended December 31, 2022.

*Swedish Match AB acquisition accounting related item* – Following the Swedish Match acquisition, we recorded pre-tax purchase accounting adjustments of \$125 million related to the sale of acquired inventories stepped up to fair value (representing \$94 million net of income tax and a diluted EPS charge of \$0.06 per share). These pre-tax adjustments were recorded in cost of sales in the consolidated statements of earnings for the year ended December 31, 2022. For further details, see Item 8, Note 3. *Acquisitions.*

*Income taxes* – The 2022 Tax benefit associated with Swedish Match AB financing that increased our 2022 diluted EPS by \$0.13 per share in the table above was due to a deferred tax benefit for unrealized foreign currency losses on intercompany loans related to the Swedish Match acquisition financing reflected in the consolidated statements of earnings, while the underlying pre-tax foreign currency movements fully offset in the consolidated statements of earnings and were reflected as currency translation adjustments in the consolidated statements of stockholders' (deficit) equity at December 31, 2022. The 2022 Tax items that increased our 2022 diluted EPS by \$0.03 per share in the table above were due to a reduction in deferred tax liabilities related to pension plan assets of \$40 million. The change in the tax rate that increased our diluted EPS by \$0.03 per share in the table above was primarily due to changes in income tax reserves.

*Currency* – The unfavorable impact of \$0.77 per share during the reporting period primarily results from the fluctuations of the U.S. dollar, especially against the Egyptian pound, Euro, Hungarian forint, Japanese yen and Polish zloty, partially offset by the Russian ruble and Swiss franc. This unfavorable currency movement has impacted our profitability across our primary revenue markets and local currency cost bases.

*Interest* – The favorable impact of \$0.02 per share from interest in the table above was primarily driven by the repayment of long-term debt maturing in 2021 and 2022, and higher net interest income driven by higher interest rates, partially offset by higher interest expense in connection with the Swedish Match acquisition.

*Operations* – The increase in diluted EPS of \$0.57 per share from our operations in the table above was due primarily to the following segments:

- European Union: Favorable volume/mix, partly offset by unfavorable pricing, higher manufacturing costs and higher marketing, administration and research costs;
- Middle East & Africa: Favorable volume/mix, favorable pricing and lower marketing, administration and research costs, partly offset by higher manufacturing costs; and

- South & Southeast Asia: Lower marketing, administration and research costs and favorable pricing, partly offset by unfavorable volume/mix;

partially offset by

- East Asia & Australia: Unfavorable volume/mix and higher manufacturing costs, partly offset by lower marketing, administration and research costs;
- Wellness and Healthcare: Primarily reflecting investments in research and development, as well as expenses related to employee retention programs;
- Americas: Higher marketing, administration and research costs and higher manufacturing costs, partly offset by favorable pricing; and
- Eastern Europe: Unfavorable volume/mix, higher manufacturing costs and higher marketing, administration and research costs, partly offset by favorable pricing.

For further details, see the *Consolidated Operating Results* and *Operating Results by Business Segment* sections of the following *Discussion and Analysis*.

## Discussion and Analysis

### Critical Accounting Estimates

Item 8, Note 2. *Summary of Significant Accounting Policies* to our consolidated financial statements includes a summary of the significant accounting policies and methods used in the preparation of our consolidated financial statements. In most instances, we must use a particular accounting policy or method because it is the only one that is permitted under U.S. GAAP.

The preparation of financial statements requires that we use estimates and assumptions that affect the reported amounts of our assets, liabilities, net revenues and expenses, as well as our disclosure of contingencies. If actual amounts differ from previous estimates, we include the revisions in our consolidated results of operations in the period during which we know the actual amounts. Historically, aggregate differences, if any, between our estimates and actual amounts in any year have not had a significant impact on our consolidated financial statements.

The selection and disclosure of our critical accounting estimates have been discussed with our Audit Committee. The following is a discussion of the more significant assumptions, estimates, accounting policies and methods used in the preparation of our consolidated financial statements:

**Acquisitions** - PMI accounts for business combinations using the acquisition method of accounting. PMI allocates the purchase price of an acquired business to the assets acquired and liabilities assumed based upon their estimated fair values at the acquisition date with the excess recorded as Goodwill. The fair value of the applicable assets acquired and liabilities assumed is determined through established valuation techniques, such as the income, cost or market approach. PMI may utilize third-party valuation experts to assist in the fair value determination of certain assets acquired and liabilities assumed. The determination of fair value requires management to make judgements and may involve the use of significant estimates, including assumptions with respect to estimated projected revenue growth, future cash flows, terminal growth rates, useful economic lives of intangible assets acquired, discount rates, royalty rates and other factors. Certain acquired intangibles are expected to have indefinite lives based on their history and PMI's intent to continue to support and build the intangible.

Although PMI believes its estimates of fair value are reasonable, actual financial results could differ from those estimates. Changes in assumptions related to future financial results or other underlying assumptions could have a significant impact on the determination of the fair value of the intangible assets acquired.

See Item 8, Note 3. *Acquisitions* to our consolidated financial statements for details of the critical accounting estimates relevant to the business combinations in the periods presented in this Form 10-K.

**Revenue Recognition** - We recognize revenue as performance obligations are satisfied. Our primary performance obligation is the distribution and sales of cigarettes and smoke-free products, including heat-not-burn, vapor and oral nicotine products. Our performance obligations are typically satisfied upon shipment or delivery to our customers. PMI estimates the cost of sales returns based on historical experience, and these estimates are immaterial. Estimated costs associated with warranty programs for *IQOS* devices are generally provided for in cost of sales in the period the related revenues are recognized, based on a number of factors, including historical experience, product failure rates and warranty policies. The transaction price is typically based on the amount



billed to the customer and includes estimated variable consideration where applicable. Such variable consideration is typically not constrained and is estimated based on the most likely amount that PMI expects to be entitled to under the terms of the contracts with customers, historical experience of discount or rebate redemption, where relevant, and the terms of any underlying discount or rebate programs, which may change from time to time as the business and product categories evolve.

**Inventories** - Our inventories are valued at the lower of cost or market based upon assumptions about future demand and market conditions. The valuation of inventory also requires us to estimate obsolete and excess inventory. We perform regular reviews of our inventory on hand, as well as our future purchase commitments with our suppliers, considering multiple factors, including demand forecasts, product life cycle, current sales levels, pricing strategy and cost trends. If our review indicates that inventories of raw materials, components or finished products have become obsolete or are in excess of anticipated demand or that inventory cost exceeds net realizable value, we may be required to make adjustments that will impact the results of operations.

**Goodwill and Non-Amortizable Intangible Assets Valuation** - We test goodwill and non-amortizable intangible assets for impairment annually or more frequently if events occur that would warrant such review. While PMI has the option to perform a qualitative assessment for both goodwill and non-amortizable intangible assets to determine if it is more likely than not that an impairment exists, PMI elects to perform the quantitative assessment for our annual impairment analysis. The impairment analysis involves comparing the fair value of each reporting unit or non-amortizable intangible asset to the carrying value. If the carrying value exceeds the fair value, goodwill or a non-amortizable intangible asset is considered impaired. To determine the fair value of goodwill, we primarily use the market approach using earnings multiples of comparable global companies within the tobacco industry, supported by a discounted cash flow model. At December 31, 2022, the carrying value of our goodwill was \$19.7 billion, which is related to ten geographical reporting units, each of which consists of a group of markets with similar operating and economic characteristics, Wellness and Healthcare business, Vectura Fertin Pharma and our 2022 acquisition. The acquisition of Swedish Match in 2022 is considered a separate operating segment. For additional information, see Item 8, Note 3. *Acquisitions*. The estimated fair value of each of our ten geographical reporting units, Wellness and Healthcare business and Swedish Match exceeded the carrying value as of December 31, 2022. To determine the fair value of non-amortizable intangible assets, we primarily use a discounted cash flow model applying the relief-from-royalty method. We concluded that the fair value of our non-amortizable intangible assets exceeded the carrying value. These discounted cash flow models include management assumptions relevant for forecasting operating cash flows, which are subject to changes in business conditions, such as volumes and prices, costs to produce, discount rates and estimated capital needs. Management considers historical experience and all available information at the time the fair values are estimated, and we believe these assumptions are consistent with the assumptions a hypothetical marketplace participant would use. Since the March 28, 2008, spin-off from Altria Group, Inc., we have not recorded a charge to earnings for an impairment of goodwill or non-amortizable intangible assets.

**Marketing Costs** - We incur certain costs to support our products through programs that include advertising, marketing, consumer engagement and trade promotions. The costs of our advertising and marketing programs are expensed in accordance with U.S. GAAP. Recognition of the cost related to our consumer engagement and trade promotion programs contain uncertainties due to the judgment required in estimating the potential performance and compliance for each program. For volume-based incentives provided to customers, management continually assesses and estimates, by customer, the likelihood of the customer's achieving the specified targets, and records the reduction of revenue as the sales are made. For other trade promotions, management relies on estimated utilization rates that have been developed from historical experience. Changes in the assumptions used in estimating the cost of any individual marketing program would not result in a material change in our financial position, results of operations or operating cash flows.

**Employee Benefit Plans** - As discussed in Item 8, Note 14. *Benefit Plans* to our consolidated financial statements, we provide a range of benefits to our employees and retired employees, including pensions, postretirement health care and postemployment benefits (primarily severance). We record annual amounts relating to these plans based on calculations specified by U.S. GAAP. These calculations include various actuarial assumptions, such as discount rates, assumed rates of return on plan assets, compensation increases, mortality, turnover rates and health care cost trend rates. We review actuarial assumptions on an annual basis and make modifications to the assumptions based on current rates and trends when it is deemed appropriate to do so. As permitted by U.S. GAAP, any effect of the modifications is generally amortized over future periods. We believe that the assumptions utilized in calculating our obligations under these plans are reasonable based upon our historical experience and advice from our actuaries.

Weighted-average discount rate assumptions for pension and postretirement plan obligations at December 31, 2022 and 2021 are as follows:

|                      | <u>2022</u> | <u>2021</u> |
|----------------------|-------------|-------------|
| Pension plans        | 3.03%       | 0.86%       |
| Postretirement plans | 5.89%       | 3.08%       |

We anticipate that assumption changes will decrease 2023 pre-tax pension and postretirement expense to approximately \$91 million as compared with approximately \$152 million in 2022, excluding amounts related to employee severance and early retirement programs. The anticipated decrease is primarily due to lower amortization of unrecognized actuarial losses of \$168 million, coupled with lower service cost of \$74 million, partially offset by higher interest cost of \$167 million and other movements of \$14 million.

Weighted-average expected rate of return and discount rate assumptions have a significant effect on the amount of expense reported for the employee benefit plans. A fifty-basis-point decrease in our discount rate would increase our 2023 pension and postretirement expense by approximately \$40 million, and a fifty-basis-point increase in our discount rate would increase our 2023 pension and postretirement expense by approximately \$1 million. Similarly, a fifty-basis-point decrease (increase) in the expected return on plan assets would increase (decrease) our 2023 pension expense by approximately \$37 million.

**Income Taxes** - Income tax provisions for jurisdictions outside the United States, as well as state and local income tax provisions, are determined on a separate company basis, and the related assets and liabilities are recorded in our consolidated balance sheets.

The extent of our operations involves dealing with uncertainties and judgments in the application of complex tax regulations in a multitude of jurisdictions. The final taxes paid are dependent upon many factors, including negotiations with taxing authorities in various jurisdictions and resolution of disputes arising from federal, state, and international tax audits. In accordance with the authoritative guidance for income taxes, we evaluate potential tax exposures and record tax liabilities for anticipated tax audit issues based on our estimate of whether, and the extent to which, additional taxes will be due. We adjust these reserves in light of changing facts and circumstances; however, due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the tax liabilities. If our estimate of tax liabilities proves to be less than the ultimate assessment, an additional charge to expense would generally result. If payment of these amounts ultimately proves to be less than the recorded amounts, the reversal of the liabilities would result in tax benefits being recognized in the period when we determine the liabilities are no longer necessary.

We are required to assess the likelihood of recovering deferred tax assets against future sources of taxable income. If we determine, using all available evidence, that we do not reach the more likely than not threshold for recovery, a valuation allowance is recorded. Significant judgment is required in determining the need for and amount of valuation allowances for deferred tax assets including estimates of future taxable income in the applicable jurisdictions and the feasibility of on-going tax planning strategies, as applicable.

The effective tax rates used for interim reporting are based on our full-year geographic earnings mix projections. Changes in currency exchange rates, earnings mix by taxing jurisdiction or future regulatory developments may have an impact on the effective tax rates. Significant judgment is required in determining income tax provisions and in evaluating tax positions.

For further details, see Item 8, Note 12. *Income Taxes* to our consolidated financial statements.

**Hedging** - As discussed below in “Market Risk,” we use derivative financial instruments principally to reduce exposures to market risks resulting from fluctuations in foreign currency exchange and interest rates by creating offsetting exposures. For derivative contracts that are designated and qualify as fair value hedges the gain or loss on the derivative, as well as the offsetting gain or loss on the hedged items attributable to the hedged risk, is recognized in the consolidated statement of earnings. For our other derivatives to which we have elected to apply hedge accounting, gains and losses on these derivatives are initially deferred in accumulated other comprehensive losses on the consolidated balance sheet and recognized in the consolidated statement of earnings into the same line item as the impact of the underlying transaction and in the periods when the related hedged transactions are also recognized in operating results. If we had elected not to use the hedge accounting provisions, gains (losses) deferred in stockholders’ (deficit) equity would have been recorded in our net earnings for these derivatives.

**Contingencies** - As discussed in Item 8, Note 18. *Contingencies*, to our consolidated financial statements, legal proceedings covering a wide range of matters are pending or threatened against us, and/or our subsidiaries, and/or our indemnitees in various jurisdictions. We and our subsidiaries record provisions in the consolidated financial statements for pending litigation when we determine that an unfavorable outcome is probable and the amount of the loss can be reasonably estimated. The variability in pleadings in multiple jurisdictions, together with the actual experience of management in litigating claims, demonstrate that the monetary relief that may be specified in a lawsuit bears little relevance to the ultimate outcome. Much of the tobacco-related litigation is in its early stages, and litigation is subject to uncertainty. At the present time, except as stated otherwise in Item 8, Note 18. *Contingencies*, while it is reasonably possible that an unfavorable outcome in a case may occur, after assessing the information available to it: (i) management has not concluded that it is probable that a loss has been incurred in any of the pending tobacco-related cases; (ii) management is unable to estimate the possible loss or range of loss for any of the pending tobacco-related cases; and (iii) accordingly, no estimated loss has been accrued in the consolidated financial statements for unfavorable outcomes in these cases, if any. Legal defense costs are expensed as incurred.

## Consolidated Operating Results

Our net revenues and operating income by segment were as follows:

| (in millions)                  | 2022      | 2021      | 2020      |
|--------------------------------|-----------|-----------|-----------|
| <b>Net Revenues</b>            |           |           |           |
| European Union                 | \$ 12,119 | \$ 12,275 | \$ 10,702 |
| Eastern Europe                 | 3,725     | 3,544     | 3,378     |
| Middle East & Africa           | 3,901     | 3,293     | 3,088     |
| South & Southeast Asia         | 4,395     | 4,396     | 4,396     |
| East Asia & Australia          | 5,132     | 5,953     | 5,429     |
| Americas                       | 1,903     | 1,843     | 1,701     |
| Swedish Match                  | 316       | —         | —         |
| Wellness and Healthcare        | 271       | 101       | —         |
| Net revenues                   | \$ 31,762 | \$ 31,405 | \$ 28,694 |
| <b>Operating Income (Loss)</b> |           |           |           |
| European Union                 | \$ 5,788  | \$ 6,119  | \$ 5,098  |
| Eastern Europe                 | 1,166     | 1,213     | 871       |
| Middle East & Africa           | 1,758     | 1,146     | 1,026     |
| South & Southeast Asia         | 1,459     | 1,506     | 1,709     |
| East Asia & Australia          | 1,919     | 2,556     | 2,400     |
| Americas                       | 436       | 487       | 564       |
| Swedish Match                  | (22)      | —         | —         |
| Wellness and Healthcare        | (258)     | (52)      | —         |
| Operating income               | \$ 12,246 | \$ 12,975 | \$ 11,668 |

Items affecting the comparability of results from operations were as follows:

- **Charges related to the war in Ukraine** - See Item 8, Note 4. *War in Ukraine* for details of the \$151 million pre-tax charges in the Eastern Europe segment for the year ended December 31, 2022.
- **Swedish Match AB acquisition accounting related item** - See Item 8, Note 3. *Acquisitions* for details of the \$125 million pre-tax purchase accounting adjustments related to the sale of acquired inventories stepped up to fair value included in the Swedish Match segment for the year ended December 31, 2022.
- **Impairment of intangibles** - See Item 8, Note 5. *Goodwill and Other Intangible Assets, net* for the details of the \$112 million pre-tax impairment charge included in the Wellness and Healthcare segment within the operating income table above for the year ended December 31, 2022.
- **Asset impairment and exit costs** - See Item 8, Note 20. *Asset Impairment and Exit Costs* for details of the \$216 million and \$149 million pre-tax charges for the year ended December 31, 2021 and 2020, respectively, as well as a breakdown of these costs by segment.
- **Saudi Arabia customs assessments** - See Item 8, Note 18. *Contingencies* for the details of the \$246 million reduction in net revenues of combustible tobacco products included in the Middle East & Africa segment for the year ended December 31, 2021.
- **Asset acquisition cost** - See Item 8, Note 3. *Acquisitions* for the details of the \$51 million pre-tax charge associated with the asset acquisition of OtiTopic, Inc. included in the Wellness and Healthcare segment within the operating income table above for the year ended December 31, 2021.
- **Brazil indirect tax credit** - Following a final and enforceable decision by the highest court in Brazil in October 2020, PMI recorded a gain of \$119 million for tax credits representing overpayments of indirect taxes for the period from March 2012 through December 2019; these tax credits were applied to tax liabilities in Brazil during 2021. This amount was included as a

reduction in marketing, administration and research costs in the consolidated statements of earnings for the year ended December 31, 2020 and was included in the operating income of the Americas segment. An additional amount of overpaid indirect taxes of approximately \$90 million is dependent on the outcome of a challenge by the local tax authority.

Our net revenues by product category were as follows:

| <b>PMI Net Revenues by Product Category</b>                 |                  |                  |                  |
|---|------------------|------------------|------------------|
| <b>(in millions)</b>  | <b>2022</b>      | <b>2021</b>      | <b>2020</b>      |
| <b><u>Combustible tobacco products</u></b>                  |                  |                  |                  |
| European Union  | \$ 7,212         | \$ 8,211         | \$ 8,052         |
| Eastern Europe  | 2,410            | 2,240            | 2,250            |
| Middle East & Africa  | 3,567            | 3,110            | 3,005            |
| South & Southeast Asia                                      | 4,372            | 4,385            | 4,395            |
| East Asia & Australia                                       | 2,138            | 2,414            | 2,468            |
| Americas  | 1,804            | 1,706            | 1,577            |
| Swedish Match   | 70               | —                | —                |
| <b>Total combustible tobacco products</b>                   | <b>21,572</b>    | <b>22,067</b>    | <b>21,747</b>    |
| <b><u>Smoke-free products</u></b>                           |                  |                  |                  |
| Smoke-free products excluding Wellness and Healthcare:      |                  |                  |                  |
| European Union  | 4,907            | 4,064            | 2,650            |
| Eastern Europe  | 1,315            | 1,304            | 1,128            |
| Middle East & Africa  | 334              | 183              | 83               |
| South & Southeast Asia                                      | 23               | 11               | 1                |
| East Asia & Australia                                       | 2,994            | 3,539            | 2,961            |
| Americas  | 99               | 137              | 124              |
| Swedish Match   | 246              | —                | —                |
| Total smoke-free products excluding Wellness and Healthcare | 9,919            | 9,237            | 6,947            |
| Wellness and Healthcare                                     | 271              | 101              | —                |
| <b>Total smoke-free products</b>                            | <b>10,190</b>    | <b>9,338</b>     | <b>6,947</b>     |
| <b>Total PMI net revenues</b>                               | <b>\$ 31,762</b> | <b>\$ 31,405</b> | <b>\$ 28,694</b> |

*Note: Sum of product categories or Regions might not foot to total PMI due to rounding.*

Following the Swedish Match acquisition and a review of PMI and Swedish Match's combined product portfolio, PMI reclassified certain of its own products previously reported under its combustible tobacco product category to the newly created smoke-free product category to better reflect the characteristics of these products. This reclassification did not impact PMI's segment reporting, consolidated financial position, results of operations or cash flows in any of the periods presented. For further details, see Item 8, Note 13. *Segment Reporting*.

Net revenues related to combustible tobacco products refer to the operating revenues generated from the sale of these products, including shipping and handling charges billed to customers, net of sales and promotion incentives, and excise taxes. These net revenue amounts consist of the sale of our cigarettes and other tobacco products that are combusted. Other tobacco products primarily include roll-your-own and make-your-own cigarettes, pipe tobacco, cigars and cigarillos and do not include smoke-free products.

Net revenues related to smoke-free products refer to the operating revenues generated from the sale of these products, including shipping and handling charges billed to customers, net of sales and promotion incentives, and excise taxes, if applicable. These net revenue amounts consist of the sale of all of our products that are not combustible tobacco products, such as heat-not-burn, e-vapor, and oral nicotine, also including wellness and healthcare products, as well as consumer accessories such as lighters and matches.

Net revenues related to wellness and healthcare products consist of operating revenues generated from the sale of products primarily associated with inhaled therapeutics, and oral and intra-oral delivery systems that are included in the operating results of PMI's new

Wellness and Healthcare business, Vectura Fertin Pharma.

PMI's heat-not-burn products include licensed KT&G heat-not-burn products.

References to "Cost/Other" in the Consolidated Financial Summary table of total PMI and the six geographical segments throughout this "Discussion and Analysis" reflects the currency-neutral variances of: cost of sales (excluding the volume/mix cost component); marketing, administration and research costs (including asset impairment and exit costs); and amortization and impairment of intangibles. "Cost/Other" also includes the currency-neutral net revenue variance, unrelated to volume/mix and price components, attributable to: fees for certain distribution rights billed to customers in certain markets in the ME&A Region, and the Saudi Arabia customs assessment net revenue adjustment.

Our shipment volume by segment for cigarettes and heated tobacco units was as follows:

| <b><u>PMI Shipment Volume (Million Units)</u></b> |                |             |             |
|---|----------------|-------------|-------------|
|   | <b>2022</b>    | <b>2021</b> | <b>2020</b> |
| <b><u>Cigarettes</u></b>                          |                |             |             |
| European Union                                    | <b>153,890</b> | 157,843     | 163,420     |
| Eastern Europe                                    | <b>81,460</b>  | 88,698      | 93,462      |
| Middle East & Africa                              | <b>134,110</b> | 127,911     | 117,999     |
| South & Southeast Asia                            | <b>143,982</b> | 141,923     | 144,788     |
| East Asia & Australia                             | <b>42,493</b>  | 43,913      | 45,100      |
| Americas  | <b>65,973</b>  | 64,587      | 63,749      |
| <b>Total Cigarettes</b>                           | <b>621,908</b> | 624,875     | 628,518     |
| <b><u>Heated Tobacco Units</u></b>                |                |             |             |
| European Union                                    | <b>39,515</b>  | 28,208      | 19,842      |
| Eastern Europe                                    | <b>24,806</b>  | 25,650      | 20,898      |
| Middle East & Africa                              | <b>4,456</b>   | 2,140       | 1,022       |
| South & Southeast Asia                            | <b>469</b>     | 240         | 36          |
| East Asia & Australia                             | <b>39,391</b>  | 38,162      | 33,862      |
| Americas  | <b>532</b>     | 576         | 451         |
| <b>Total Heated Tobacco Units</b>                 | <b>109,169</b> | 94,976      | 76,111      |
| <b><u>Cigarettes and Heated Tobacco Units</u></b> |                |             |             |
| European Union                                    | <b>193,405</b> | 186,051     | 183,262     |
| Eastern Europe                                    | <b>106,266</b> | 114,348     | 114,360     |
| Middle East & Africa                              | <b>138,566</b> | 130,051     | 119,021     |
| South & Southeast Asia                            | <b>144,451</b> | 142,163     | 144,824     |
| East Asia & Australia                             | <b>81,884</b>  | 82,075      | 78,962      |
| Americas  | <b>66,505</b>  | 65,163      | 64,200      |
| <b>Total Cigarettes and Heated Tobacco Units</b>  | <b>731,077</b> | 719,851     | 704,629     |

Following the deconsolidation of our Canadian subsidiary, we continue to report the volume of brands sold by RBH for which other PMI subsidiaries are the trademark owners. These include *HEETS*, *Next*, *Philip Morris* and *Rooftop*.

Heated tobacco units ("HTU") is the term we use to refer to heated tobacco consumables, which include our *BLENDS*, *HEETS*, *HEETS Creations*, *HEETS Dimensions*, *HEETS Marlboro* and *HEETS FROM MARLBORO* (defined collectively as *HEETS*), *Marlboro Dimensions*, *Marlboro HeatSticks*, *Parliament HeatSticks*, *SENTIA* and *TEREA*, as well as the KT&G-licensed brands, *Fiit* and *Miix* (outside of South Korea).

Market share for HTUs is defined as the in-market sales volume for HTUs as a percentage of the total estimated industry sales volume for cigarettes and HTUs.



References to total industry, total market, our shipment volume and our market share performance reflect cigarettes and heated tobacco units, unless otherwise stated.

As of 2022 and on a comparative basis, total industry volume, PMI in-market sales volume and PMI market share for the following geographies include the cigarillo category in Japan: the total international market, East Asia & Australia Region, and Japanese domestic market.

References to total international market, defined as worldwide cigarette and heated tobacco unit volume excluding the United States, total industry, total market and market shares throughout this *"Discussion and Analysis"* are our estimates for tax-paid products based on the latest available data from a number of internal and external sources and may, in defined instances, exclude China and/or our duty free business.

Estimates for total industry volume and market share in certain geographies reflect limitations on the availability and accuracy of industry data during pandemic-related restrictions.

In-market sales ("IMS") is defined as sales to the retail channel, depending on the market and distribution model.

Central Asia is defined as Kyrgyzstan, Mongolia, Tajikistan and Uzbekistan.

North Africa is defined as Algeria, Egypt, Libya, Morocco and Tunisia.

The Gulf Cooperation Council ("GCC") is defined as Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE).

Southeast Europe is defined as Albania, Bosnia & Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia.

From time to time, PMI's shipment volumes are subject to the impact of distributor inventory movements, and estimated total industry/market volumes are subject to the impact of inventory movements in various trade channels that include estimated trade inventory movements of PMI's competitors arising from market-specific factors that significantly distort reported volume disclosures. Such factors may include changes to the manufacturing supply chain, shipment methods, consumer demand, timing of excise tax increases or other influences that may affect the timing of sales to customers. In such instances, in addition to reviewing PMI shipment volumes and certain estimated total industry/market volumes on a reported basis, management reviews these measures on an adjusted basis that excludes the impact of distributor and/or estimated trade inventory movements. Management also believes that disclosing PMI shipment volumes and estimated total industry/market volumes in such circumstances on a basis that excludes the impact of distributor and/or estimated trade inventory movements improves the comparability of performance and trends for these measures over different reporting periods.

## **2022 compared with 2021**

The following discussion compares our consolidated operating results for the year ended December 31, 2022, with the year ended December 31, 2021.

Estimated international industry cigarette and heated tobacco unit volume (excluding China and the U.S.) of 2.6 trillion, increased by 0.2%, driven by the EU, South & Southeast Asia and Americas Regions, partly offset by the Eastern Europe, Middle East & Africa and East Asia & Australia Regions, as described in the Regional sections.

Excluding Russia and Ukraine, estimated international industry volume increased by 0.9%.

Our total shipment volume increased by 1.6%, driven by an increase of 14.9% for HTUs, partly offset by a 0.5% decline for cigarettes.

Excluding Russia and Ukraine, our total shipment volume increased by 3.2%, reflecting increases of 21.5% and 0.8% for HTUs and cigarettes, respectively. Our total shipment volume in the Eastern Europe Region increased by 2.7%, on the same basis.

For additional detail on PMI's shipment volume performance by Region, please refer to the "Total Market, PMI Shipment & Market Share Commentaries" sections for PMI's regional operating segments.

### Impact of Inventory Movements

The net unfavorable impact of estimated distributor inventory movements was immaterial in the year, with PMI's total in-market sales increasing by 1.7%, or by 3.2% excluding Russia and Ukraine, both essentially in-line with the respective shipment volumes.

Our total HTU in-market sales volume for the year was 106.9 billion units, or 86.4 billion units excluding Russia and Ukraine, representing growth of 15.6% and 21.4%, respectively.

Our cigarette shipment volume by brand and heated tobacco unit shipment volume was as follows:

#### **PMI Shipment Volume by Brand (Million Units)**

|  | <b>2022</b>    | <b>2021</b> | <b>Change</b> |
|--|----------------|-------------|---------------|
| <b><u>Cigarettes</u></b>                         |                |             |               |
| <i>Marlboro</i>                                  | <b>244,649</b> | 239,905     | 2.0 %         |
| <i>L&amp;M</i>                                   | <b>82,588</b>  | 84,342      | (2.1)%        |
| <i>Chesterfield</i>                              | <b>67,054</b>  | 58,800      | 14.0 %        |
| <i>Parliament</i>                                | <b>43,999</b>  | 41,621      | 5.7 %         |
| <i>Philip Morris</i>                             | <b>39,620</b>  | 42,395      | (6.5)%        |
| Others   | <b>143,998</b> | 157,812     | (8.8)%        |
| <b>Total Cigarettes</b>                          | <b>621,908</b> | 624,875     | (0.5)%        |
| Heated Tobacco Units                             | <b>109,169</b> | 94,976      | 14.9 %        |
| <b>Total Cigarettes and Heated Tobacco Units</b> | <b>731,077</b> | 719,851     | 1.6 %         |

Note: *Philip Morris* includes *Philip Morris/Dubliss*.

Shipment volume for our HTU brands increased, primarily driven by the EU, Middle East & Africa and East Asia & Australia Regions, partly offset by the Eastern Europe Region.

Our cigarette shipment volume of the following international brands increased:

- *Marlboro*, mainly driven by the Eastern Europe, Middle East & Africa and Americas Regions, partly offset by the EU Region;
- *Chesterfield*, primarily driven by the Eastern Europe and South & Southeast Asia Regions, partly offset by the Middle East & Africa Region; and
- *Parliament*, mainly driven by the Middle East & Africa Region.

Our cigarette shipment volume of the following international brands decreased:

- *L&M*, primarily due to the EU, Eastern Europe and South & Southeast Asia Regions, partly offset by the Middle East & Africa and Americas Regions; and
- *Philip Morris*, mainly due to the Eastern Europe and Americas Regions, partly offset by the East Asia & Australia Region.

The cigarette shipment volume decline for "Others" was mainly due to: *Bond Street* (primarily Eastern Europe) and *Lark* (mainly Japan and Turkey), partly offset by *Dji Sam Soe* (Indonesia).

Excluding Russia and Ukraine, our cigarette shipment volume increased by 1.8% for *Marlboro*, 5.6% for *Chesterfield*, 10.3% for *Parliament* and 6.3% for *Philip Morris*, and decreased by 0.3% for *L&M*.

*International Share of Market (Excluding China and the United States)*

|   | 2022          | 2021   | Change<br>(pp) |
|---|---------------|--------|----------------|
| <b>Total International Market Share <sup>(1)</sup></b>      | <b>27.6 %</b> | 27.2 % | 0.4            |
| Cigarettes  | 23.6 %        | 23.7 % | (0.1)          |
| HTU   | 4.1 %         | 3.5 %  | 0.6            |
| <b>Cigarette over Cigarette Market Share <sup>(2)</sup></b> | <b>24.9 %</b> | 24.8 % | 0.1            |

(1) Defined as PMI's cigarette and heated tobacco unit in-market sales volume as a percentage of total industry cigarette and heated tobacco unit sales volume, excluding China and the U.S., including cigarillos in Japan

(2) Defined as PMI's cigarette in-market sales volume as a percentage of total industry cigarette sales volume, excluding China and the U.S., including cigarillos in Japan

Note: Sum of share of market by product categories might not foot to total due to roundings

*International Share of Market (Excluding China and the United States, as well as Russia and Ukraine)*

|   | 2022          | 2021   | Change<br>(pp) |
|---|---------------|--------|----------------|
| <b>Total International Market Share <sup>(1)</sup></b>      | <b>27.3 %</b> | 26.7 % | 0.6            |
| Cigarettes  | 23.7 %        | 23.7 % | —              |
| HTU   | 3.6 %         | 3.0 %  | 0.6            |
| <b>Cigarette over Cigarette Market Share <sup>(2)</sup></b> | <b>24.9 %</b> | 24.6 % | 0.3            |

(1) Defined as PMI's cigarette and heated tobacco unit in-market sales volume as a percentage of total industry cigarette and heated tobacco unit sales volume, excluding China and the U.S., including cigarillos in Japan

(2) Defined as PMI's cigarette in-market sales volume as a percentage of total industry cigarette sales volume, excluding China and the U.S., including cigarillos in Japan

Note: Sum of share of market by product categories might not foot to total due to roundings

## Key Market Data

Key market data regarding total market size, our shipments and market share were as follows:

| Market                            | Total Market<br>(billion units) |         | PMI Shipments (billion units) |       |           |       |                     |      | PMI Market Share (%) <sup>(1)</sup> |      |                     |      |
|-----------------------------------|---------------------------------|---------|-------------------------------|-------|-----------|-------|---------------------|------|-------------------------------------|------|---------------------|------|
|                                   |                                 |         | Total                         |       | Cigarette |       | Heated Tobacco Unit |      | Total                               |      | Heated Tobacco Unit |      |
|                                   |                                 |         | 2022                          | 2021  | 2022      | 2021  | 2022                | 2021 | 2022                                | 2021 | 2022                | 2021 |
| <b>Total <sup>(2)</sup></b>       | 2,626.4                         | 2,620.5 | 731.1                         | 719.9 | 621.9     | 624.9 | 109.2               | 95.0 | 27.6                                | 27.2 | 4.1                 | 3.5  |
| <b>European Union</b>             |                                 |         |                               |       |           |       |                     |      |                                     |      |                     |      |
| France                            | 32.5                            | 34.3    | 14.0                          | 15.2  | 13.7      | 15.0  | 0.2                 | 0.2  | 43.6                                | 43.9 | 0.7                 | 0.7  |
| Germany                           | 70.3                            | 74.1    | 28.2                          | 28.6  | 24.8      | 26.3  | 3.4                 | 2.3  | 40.1                                | 38.6 | 4.8                 | 3.1  |
| Italy                             | 72.8                            | 70.4    | 40.8                          | 38.6  | 28.6      | 29.7  | 12.3                | 8.9  | 54.1                                | 53.0 | 14.6                | 11.5 |
| Poland                            | 55.7                            | 49.3    | 21.7                          | 18.4  | 17.1      | 15.3  | 4.5                 | 3.1  | 38.9                                | 37.3 | 8.2                 | 6.3  |
| Spain                             | 44.6                            | 42.7    | 13.6                          | 13.2  | 12.7      | 12.6  | 0.9                 | 0.5  | 30.0                                | 31.1 | 1.7                 | 1.2  |
| <b>Eastern Europe</b>             |                                 |         |                               |       |           |       |                     |      |                                     |      |                     |      |
| Russia                            | 208.9                           | 216.8   | 64.7                          | 68.8  | 49.3      | 52.5  | 15.4                | 16.3 | 31.1                                | 31.7 | 7.6                 | 7.4  |
| <b>Middle East &amp; Africa</b>   |                                 |         |                               |       |           |       |                     |      |                                     |      |                     |      |
| Egypt                             | 93.6                            | 93.4    | 21.0                          | 19.5  | 20.0      | 19.2  | 1.0                 | 0.2  | 22.2                                | 20.7 | 0.8                 | 0.2  |
| Turkey                            | 117.2                           | 125.1   | 56.1                          | 55.7  | 56.1      | 55.7  | —                   | —    | 47.9                                | 44.5 | —                   | —    |
| <b>South &amp; Southeast Asia</b> |                                 |         |                               |       |           |       |                     |      |                                     |      |                     |      |
| Indonesia                         | 309.6                           | 296.2   | 86.8                          | 82.8  | 86.8      | 82.8  | —                   | —    | 28.0                                | 28.0 | —                   | —    |
| Philippines                       | 51.8                            | 55.2    | 32.2                          | 34.4  | 32.0      | 34.2  | 0.2                 | 0.2  | 62.1                                | 62.3 | 0.4                 | 0.3  |
| <b>East Asia &amp; Australia</b>  |                                 |         |                               |       |           |       |                     |      |                                     |      |                     |      |
| Australia                         | 8.9                             | 9.7     | 3.0                           | 3.1   | 3.0       | 3.1   | —                   | —    | 33.4                                | 32.3 | —                   | —    |
| Japan <sup>(2)</sup>              | 148.3                           | 150.5   | 55.5                          | 55.2  | 21.1      | 22.1  | 34.4                | 33.1 | 37.6                                | 35.7 | 23.6                | 21.3 |
| South Korea                       | 72.6                            | 71.7    | 13.9                          | 14.1  | 9.4       | 9.4   | 4.5                 | 4.7  | 19.2                                | 19.7 | 6.2                 | 6.5  |
| <b>Americas</b>                   |                                 |         |                               |       |           |       |                     |      |                                     |      |                     |      |
| Argentina                         | 30.3                            | 30.0    | 19.3                          | 19.9  | 19.3      | 19.9  | —                   | —    | 63.8                                | 66.3 | —                   | —    |
| Mexico                            | 32.2                            | 31.9    | 21.0                          | 20.5  | 20.8      | 20.4  | 0.1                 | 0.1  | 65.1                                | 64.1 | 0.4                 | 0.3  |

(1) Market share estimates are calculated using IMS data

(2) Total market and market share estimates include cigarillos in Japan

### Financial Summary

| <u>Financial Summary -<br/>Years Ended December 31,</u>        |           |           | <u>Change<br/>Fav./ (Unfav.)</u> |                             | <u>Variance<br/>Fav./ (Unfav.)</u> |           |              |        |             |                |
|--|-----------|-----------|----------------------------------|-----------------------------|------------------------------------|-----------|--------------|--------|-------------|----------------|
|  | 2022      | 2021      | Total                            | Excl.<br>Curr. &<br>Acquis. | Total                              | Currency  | Acquisitions | Price  | Vol/<br>Mix | Cost/<br>Other |
| (in millions)  |           |           |                                  |                             |                                    |           |              |        |             |                |
| Net Revenues <sup>(1)</sup>                                    | \$ 31,762 | \$ 31,405 | 1.1 %                            | 8.0 %                       | \$ 357                             | \$(2,656) | \$ 515       | \$ 528 | \$ 1,719    | \$ 251         |
| Cost of Sales <sup>(2)</sup>                                   | (11,402)  | (10,030)  | (13.7)%                          | (16.5)%                     | (1,372)                            | 695       | (414)        | —      | (1,089)     | (564)          |
| Marketing, Administration and<br>Research Costs <sup>(3)</sup> | (8,114)   | (8,400)   | 3.4 %                            | 0.3 %                       | 286                                | 454       | (197)        | —      | —           | 29             |
| Operating Income   | \$ 12,246 | \$ 12,975 | (5.6)%                           | 6.7 %                       | \$ (729)                           | \$(1,507) | \$ (96)      | \$ 528 | \$ 630      | \$ (284)       |

<sup>(1)</sup> Favorable Cost/Other variance includes a \$246 million reduction in net revenues in 2021 related to the Saudi Arabia customs assessments. For more details, see Item 8, Note 18. *Contingencies*.

<sup>(2)</sup> Cost/Other variance includes charges in 2022 of \$112 million related to an impairment charge of intangible assets, \$62 million related to the war in Ukraine and \$125 million of Swedish Match AB acquisition accounting related item. For more details, Item 8, see Note 3. *Acquisitions*, Note 4. *War in Ukraine* and Note 5. *Goodwill and Other Intangible Assets, net*.

<sup>(3)</sup> Cost/Other variance includes charges in 2022 of \$89 million related to the war in Ukraine and \$115 million in 2022 related to costs associated with the Swedish Match AB offer, offset by charges in 2021 of \$216 million related to asset impairment and exit costs and \$51 million in 2021 associated with the asset acquisition cost of OtiTopic, Inc. For more details, see Item 8, Note 3. *Acquisitions*, Note 4. *War in Ukraine* and Note 20. *Asset Impairment and Exit Costs*.

Net revenues, excluding currency and acquisitions, increased by 8.0%, mainly reflecting: favorable volume/mix, primarily driven by higher HTU volume and device volume, partly offset by lower cigarette volume and unfavorable device mix, cigarette mix and HTU mix; a favorable pricing variance, driven by higher combustible tobacco pricing, partly offset by lower device pricing and lower HTU (net) pricing; and a favorable comparison related to the Saudi Arabia customs assessments of \$246 million in 2021, shown in "Cost/Other".

In 2022, Russia and Ukraine accounted for around 8% of PMI's total net revenues.

The unfavorable currency in net revenues was due primarily to the Egyptian pound, Euro, Japanese yen, Philippine peso, Polish zloty and Turkish lira, partly offset by the Russian ruble.

Net revenues include \$10.2 billion in 2022 and \$9.3 billion in 2021 related to the sale of smoke-free products. In 2022, *IQOS* devices accounted for approximately 5% of our full year smoke-free net revenues both including and excluding Russia and Ukraine.

Operating income decreased by 5.6%. Operating income, excluding currency and acquisitions, increased by 6.7%, which included: favorable comparisons versus the prior year period related to the 2021 Saudi Arabia customs assessments of \$246 million (as noted above for net revenues), 2021 asset impairment and exit costs of \$216 million and 2021 asset acquisition cost of \$51 million, partly offset by the impact of 2022 costs associated with the Swedish Match AB offer of \$115 million, higher amortization and impairment of intangibles (primarily \$112 million related to impairment charges in 2022), 2022 charges related to the war in Ukraine of \$151 million and \$125 million of Swedish Match AB acquisition accounting related item in 2022. In addition to these items, operating income was impacted by: a favorable volume/mix, primarily driven by higher HTU volume, partly offset by lower cigarette volume, unfavorable cigarette mix, HTU mix and device mix, and the unfavorable impact on profitability of higher device volume; and a favorable pricing variance; partially offset by higher manufacturing costs (primarily due to higher logistics costs and other inflationary impacts, partly offset by productivity); and higher marketing, administration and research costs.

As reduced-risk products grow as a proportion of our business, notably for *IQOS ILUMA* where unit costs of devices and both the unit costs and weight of consumables are not yet fully optimized, a temporary dilutive margin impact is likely to continue in the coming quarters.

Like many other global companies, we are facing significant inflationary forces in the world economy. Inflationary pressures are growing as we renew pricing arrangements, notably for certain direct materials, wages, energy, and transportation costs. These inflationary pressures, including margin pressure from inflation as well as the cost of capital, could continue to grow in the upcoming quarters.



Interest expense, net, of \$588 million decreased by \$40 million (6.4%) primarily driven by the repayment of long-term debt maturing in 2021 and 2022 and higher net interest income driven by higher interest rates, partially offset by higher interest expense in connection with the Swedish Match acquisition.

Our effective tax rate decreased by 2.5 percentage points to 19.3%. We estimate that our 2023 effective tax rate will be approximately 20.5% to 21.5%, excluding discrete tax events. For further details, see Item 8, Note 12. *Income Taxes*.

Net earnings attributable to PMI of \$9.0 billion decreased by \$0.1 billion or 0.7%. This decrease was due primarily to lower operating income as discussed above, partially offset by a lower effective income tax rate. Basic EPS of \$5.82 and diluted EPS of \$5.81 decreased by 0.2% and 0.3%, respectively. Excluding an unfavorable currency impact of \$0.77, diluted EPS increased by 12.9%.

## **2021 compared with 2020**

For a discussion comparing our consolidated operating results for the year ended December 31, 2021, with the year ended December 31, 2020, refer to Part II, Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operation - Discussion and Analysis - Consolidated Operating Results* in our Annual Report on Form 10-K for the year ended December 31, 2021, which was filed with the U.S. Securities and Exchange Commission on February 11, 2022. This section is incorporated by reference into this Annual Report on Form 10-K for the year ended December 31, 2022.

## **Operating Results by Business Segment**

### **Business Environment**

#### ***Taxes, Legislation, Regulation and Other Matters Regarding the Manufacture, Marketing, Sale and Use of Tobacco Products***

The tobacco industry and our company face a number of challenges that may adversely affect our business, volume, results of operations, cash flows and financial position. These challenges, which are discussed below and in “*Cautionary Factors That May Affect Future Results*,” include:

- regulatory restrictions on our products, including restrictions on the packaging, marketing, and sale of tobacco or other nicotine-containing products or related devices that could reduce our competitiveness, eliminate our ability to communicate with adult consumers, or even ban certain of our products;
- fiscal challenges, such as excessive excise tax increases and discriminatory tax structures;
- illicit trade in cigarettes and other tobacco and nicotine-containing products, including counterfeit, contraband and so-called “illicit whites”;
- intense competition, including from non-tax paid volume by certain local manufacturers;
- pending and threatened litigation as discussed in Item 8, Note 18. *Contingencies*; and
- governmental investigations.

*Regulatory Restrictions:* The tobacco industry operates in a highly regulated environment. The well-known risks of smoking have led regulators to impose significant restrictions and high excise taxes on cigarettes.

Much of the regulation that shapes the business environment in which we operate is driven by the FCTC, which entered into force in 2005. The FCTC has as its main objective to establish a global agenda for tobacco regulation, with the purpose of reducing tobacco use. To date, 182 countries and the European Union are Parties to the FCTC. The treaty requires Parties to have in place various tobacco control measures and recommends others. The FCTC governing body, the Conference of the Parties (“CoP”), has also adopted non-binding guidelines and policy recommendations related to certain articles of the FCTC that go beyond the text of the treaty. In October 2018, the CoP recognized the need for more scientific assessment and improved reporting to define policy on heated tobacco products. Similar to its previous policy recommendations on e-cigarettes, the CoP invited countries to regulate, restrict or prohibit heated tobacco products, as appropriate under their national laws.

Prior to CoP 9 that took place in November 2021, the WHO and the WHO FCTC Secretariat published two reports on novel and emerging tobacco products. The reports were noted by CoP 9 and related substantive discussions and decisions were deferred to CoP 10, currently scheduled for 2023. It is not possible to predict whether or to what extent measures recommended by the WHO's reports will be implemented as the reports are not binding to the WHO Member States.

We believe that when better alternatives to cigarettes exist, the discussion should not be whether these alternatives should be made available to the more than one billion people who smoke today, but how fast, and within what regulatory framework to maximize their adoption while minimizing unintended use. Therefore, we advocate for regulatory frameworks that are based on a continuum of risk where non-combustible products fall below combustible cigarettes. Product regulation should include measures that encourage and accelerate switching to non-combustible products, for example, by allowing adult consumers who would not otherwise quit to receive truthful and non-misleading information about such products to enable them to make informed decisions and by applying uniform product standards to enable manufacturers to demonstrate the reduction in harmful and potentially harmful constituents, as well as the absence of combustion. Regulation should also include specific rules for ingredients, labeling and consumer communication, and should ensure that the public is informed about the health risks of all combustible and non-combustible tobacco and nicotine-containing products. Importantly, regulation must include measures designed to prevent initiation by youth and non-smokers. We support mandated health warnings, minimum age laws, restrictions on advertising, and public place smoking restrictions. We also support regulatory measures that help reduce illicit trade.

Certain measures are discussed in more detail below and in the *Reduced-Risk Products (RRPs)* section.

*Fiscal Challenges:* Excessive and disruptive excise, sales and other tax increases and discriminatory tax structures are expected to continue to have an adverse impact on our profitability, due to lower consumption and consumer down-trading to non-premium, discount, other low-price or low-taxed combustible tobacco products such as fine cut tobacco and illicit cigarettes. In addition, in certain jurisdictions, some of our combustible tobacco products are subject to tax structures that discriminate against premium-price products and manufactured cigarettes. We believe that such tax policies undermine public health by encouraging consumers to turn to illicit trade, and ultimately undercut government revenue objectives, disrupt the competitive environment, and encourage criminal activity. Other jurisdictions have imposed, or are seeking to impose, levies or other taxes specifically on tobacco companies, such as taxes on revenues and/or profits.

*World Customs Organization Developments:* In 2020, the World Customs Organization (the “WCO”) amended the harmonized system nomenclature to introduce dedicated custom codes for novel tobacco and nicotine products, including heated tobacco products, e-cigarettes and other nicotine-containing products. The amendments became effective as of January 1, 2022. These amendments are not expected to significantly impact current customs duty rates. As of December 2022, and out of 160 contracting parties to the WCO’s Harmonized System Convention, 94 contracting parties, including the EU, U.S., have notified the WCO that they have implemented the 2022 edition of the Harmonized System creating new dedicated customs codes for novel tobacco and nicotine products.

*EU Tobacco Products Directive:* In April 2014, the EU adopted a significantly revised TPD, which entered into force in May 2016. All member states have adopted laws transposing the TPD. The TPD sets forth a comprehensive set of regulatory requirements for tobacco products, including:

- health warnings covering 65% of the front and back panels of cigarette packs, with an option for member states to further standardize tobacco packaging, including the introduction of plain packaging;
- a ban on characterizing flavors in some tobacco products, with a transition period for menthol that expired in May 2020;
- security features and tracking and tracing measures that became effective in May 2019; and
- a framework for the regulation of novel tobacco products and e-cigarettes, including requirements for health warnings and information leaflets, a prohibition on product packaging text related to reduced risk, and the introduction of notification requirements or authorization procedures in advance of commercialization.

In May 2021, the European Commission published its first report on the application of the TPD. The report identifies significant progress made due to the implementation of the TPD and where there is still room for improvement. Most notably, it finds that the EU legislation has enhanced tobacco control, contributed to protecting the health of EU citizens by providing Member States with strong rules to address the use of tobacco products in the EU. The TPD reportedly achieved the 2% reduction target of the impact assessment with decreased smoking prevalence among youth. The report also concludes that there is scope for improvement in certain areas, such as enforcement at national level, assessment of ingredients, and a better consideration for novel and emerging products.

In November 2021, the European Commission published the implementation roadmap to Europe’s Beating Cancer Plan (the “Plan”). According to the Plan, a revision of the TPD is planned for 2024.

*EU Tobacco Excise Directive (“TED”):* The EU Commission is preparing a legislative proposal for the revision of the 2011 EU Tobacco Excise Directive that may include definitions and tax treatment for novel tobacco and nicotine-containing products, including heated tobacco products, e-cigarettes and nicotine pouches. The proposal, after several delays, is now expected to be published during

the first half of 2023 and adopted by the EU Council in the course of 2024. Any final amendments to TED require unanimous agreement by all EU member states, followed by transposition of TED into national legislation. The earliest potential effective date for any changes to TED, after the transposition period, is 2025.

*Plain Packaging and Other Packaging Restrictions:* Plain packaging legislation bans the use of branding, logos and colors on packaging other than the brand name and variant that may be printed only in specified locations and in a uniform font. To date, plain packaging laws have been adopted in certain markets in all of our operating segments, including the key markets of Australia, France, Saudi Arabia and Turkey. Some countries, such as Canada, Denmark and Israel adopted plain packaging regulations that apply to all tobacco products, including RRP. Other countries are also considering plain packaging legislation.

Some countries have adopted, or are considering adopting, packaging restrictions that could have an impact similar to plain packaging. Examples of such restrictions include standardizing the shape and size of packages, prohibiting certain colors or the use of certain descriptive phrases on packaging, and requiring very large graphic health warnings that leave little space for branding.

*Restrictions and Bans on the Use of Ingredients:* The WHO and others in the public health community have recommended restrictions or total bans on the use of some or all ingredients in tobacco products, including menthol. Broad restrictions and ingredient bans would require us to reformulate our American blend tobacco products and could reduce our ability to differentiate these products in the market in the long term. In many countries, menthol bans would eliminate the entire category of mentholated tobacco products. The European Union banned cigarettes and roll-your-own tobacco products with characterizing flavors. Other tobacco products, including heated tobacco products, are currently exempted from this characterizing flavor ban. However, on November 23, 2022, the European Union Commission published a delegated directive that will end this exemption. All EU Member States are required to apply the delegated directive as of October 23, 2023, and ban the use of characterizing flavors in heated tobacco products in the European Union, impacting a significant proportion of our RRP products currently sold in the European Union. While we cannot predict the ultimate impact on our business from this ban, consumer switching to non-flavored products was high in reaction to past bans on flavors in other categories and markets. We therefore believe any impact will be manageable, with consumers switching to non-flavored products partially mitigating the effect of the ban. We will actively monitor relevant developments in the European Union market. Other countries may follow the EU's approach toward tobacco product ingredients. Turkey banned menthol as of May 2020. Broader ingredient bans have been adopted by Brazil and Canada.

*Bans on Display of Tobacco Products at Retail:* In a number of our markets, including, but not limited to, Australia and Russia, governments have banned the display of tobacco products at the point of sale. Other countries are considering similar bans.

*Bans and Restrictions on Advertising, Marketing, Promotions and Sponsorships:* For many years, the FCTC has called for, and countries have imposed, partial or total bans on tobacco advertising, marketing, promotions and sponsorships, including bans and restrictions on advertising on radio and television, in print and on the Internet. The FCTC's non-binding guidelines recommend that governments prohibit all forms of communication with adult smokers.

*Restrictions on Product Design:* Some members of the public health community are calling for the further standardization of tobacco products by requiring, for example, that cigarettes have a certain minimum diameter, which would amount to a ban on slim cigarettes, or requiring the use of standardized filter and cigarette paper designs. In addition, at its meeting in November 2016, the CoP adopted non-binding guidelines recommending that countries regulate product design features that increase the attractiveness of tobacco products, such as the diameter of cigarettes and the use of flavor capsules.

*Restrictions on Public Smoking and Use of Nicotine-Containing Products in Public:* The pace and scope of restrictions on the use of our products have increased significantly in most of our markets. Many countries around the world have adopted, or are likely to adopt, regulations that restrict or ban smoking and use of nicotine-containing products in public and/or work places, restaurants, bars and nightclubs. Some public health groups have called for, and some countries, regional governments and municipalities have adopted or proposed, bans on smoking in outdoor places, as well as bans on smoking in cars (typically, when minors are present) and private homes.

*Other Regulatory Issues:* Some regulators are considering, or in some cases have adopted, regulatory measures designed to reduce the supply of tobacco products. These include regulations intended to reduce the number of retailers selling tobacco products by, for example, reducing the overall number of tobacco retail licenses available or banning the sale of tobacco products within specified distances of certain public facilities. Other regulators are also considering generation sales bans, under which the sale of certain tobacco or nicotine products to people born after a certain year would be prohibited. On December 13, 2022 the New Zealand parliament passed a bill introducing regulatory measures restricting the sale and supply of smoked tobacco products, including reducing the number of retail outlets licensed to sell smoked tobacco products, imposing a maximum limit of nicotine content for smoked tobacco products and prohibiting the sale of smoked tobacco products to anyone born on or after January 1, 2009. These measures are limited to smoked tobacco products and do not apply to heated tobacco products and e-cigarettes. In Mexico, a new law

came into force on December 12, 2022 prohibiting imports and exports of certain nicotine and non-nicotine delivery and consumption systems, as well as the consumables used in those systems, including much of our RRP portfolio. On December 16, 2022, the Federal Government enacted an implementation regulation for the tobacco control law, which includes (i) a point of sale display ban of tobacco products; (ii) restrictions on where tobacco products can be consumed, and (iii) prohibition to communicate corporate social responsibility programs funded by the tobacco industry.

On January 1, 2023 a law regulating the marketing of nicotine pouches went into effect in Slovakia. The regulatory framework contains a minimum purchase legal age (18 years), a nicotine limit, and a labelling requirement. On December 6, 2022 the Dutch Government published a draft bill to ban the placing on the market of nicotine pouches in the Netherlands. On December 16, 2022 a notification period to the EU Commission expired for a Belgian Royal Decree to ban nicotine pouches. Based on this decree the Belgian Government could ban the placing on the market of nicotine pouches in Belgium.

In a limited number of markets, most notably Japan, we are dependent on governmental approvals that may limit our pricing flexibility.

The EU Single-Use Plastics Directive, which will require tobacco manufacturers and importers to cover the costs of public collection systems for tobacco product filters, under Extended Producer Responsibility ("EPR") schemes, entered into force on July 2, 2019. To date, some member states transposed the Directive into national legislation. We expect remaining member states to transpose the EU Single-Use Plastics Directive into national legislation including EPR schemes by January 2023. While we cannot predict the impact of this initiative on our business at this time, we are monitoring developments in this area.

In some countries, including in the EU, cigarettes are subject to testing, disclosure and mandatory emissions limits for tar, nicotine, carbon monoxide and other smoke constituents. In the Netherlands, several public health organizations have requested that the Dutch enforcement body enforce the requirements for maximum tar, nicotine, and carbon monoxide ("TNCO") emissions levels for cigarettes using a test method other than the method currently set forth in the EU TPD and transposed into national legislation. This request followed publication of a report by the Dutch State Institute for Public Health & Environment, which found that all cigarette brands sold in the Netherlands exceeded the maximum TNCO levels when measured under an alternative method. While the Dutch enforcement body declined the request, the applicants have challenged that decision in pending legal proceedings in the Netherlands. While we are not parties to the proceeding and cannot predict the outcome, a decision to enforce the existing TNCO ceilings in the Netherlands using an alternative test method could impact a significant portion of the manufactured cigarettes available on the market in the Netherlands and could lead to similar actions in other EU countries.

*Illicit Trade:* Illicit tobacco trade creates a cheap and unregulated supply of tobacco products, undermines efforts to reduce smoking prevalence, especially among youth, damages legitimate businesses and intellectual property rights, stimulates organized crime, increases corruption and reduces government tax revenue. We generally estimate that, excluding China and the U.S., illicit trade may account for as much as 12% of global cigarette consumption; this includes counterfeit, contraband and the persistent problem of "illicit whites," which are cigarettes legally purchased in one jurisdiction for the sole purpose of being exported and illegally sold in another jurisdiction where they have no legitimate market. Currently, we estimate that illicit trade in the European Union accounted for approximately 8% of total cigarette consumption in 2022.

A number of jurisdictions are considering actions to prevent illicit trade. In November 2012, the FCTC adopted the Protocol to Eliminate Illicit Trade in Tobacco Products (the "Protocol"), which includes supply chain control measures, such as licensing of manufacturers and distributors, enforcement of these control measures in free trade zones, controls on duty free and Internet channels and the implementation of tracking and tracing technologies. To date, 66 Parties, including the European Union, have ratified it. The Protocol came into force in September 2018. Parties must start implementing its provisions in their national legislation. In November 2021, the second Meeting of the Parties to the Protocol decided, among others, to focus on the implementation of a framework for global information sharing to combat illicit tobacco trade and enable the parties to exchange products' tracking and tracing information in a secure manner. We welcome this decision and expect that other Parties will ratify the Protocol.

We devote substantial resources to help prevent illicit trade in combustible tobacco products and RRPs. For example, we engage with governments, our business partners and other stakeholders to implement effective measures to combat illicit trade and, in some instances, pursue legal remedies to protect our intellectual property rights.

The tracking and tracing regulations for cigarettes and roll-your-own products manufactured or destined for the EU became effective on May 20, 2019. The effective date for other tobacco-containing products, including some of our RRPs such as heated tobacco units, is May 20, 2024. While we expect that this regulation will increase our operating expenses, we do not expect this increase to be significant.

In 2009, our Colombian subsidiaries entered into an Investment and Cooperation Agreement with the national and regional governments of Colombia to promote investment in, and cooperation on, anti-contraband and anti-counterfeit efforts. The agreement



provides \$200 million in funding over a 20-year period to address issues such as combating illegal cigarette trade and increasing the quality and quantity of locally-grown tobacco.

In May 2016, PMI launched PMI IMPACT, a global initiative that supports third-party projects dedicated to fighting illegal trade and related crimes such as corruption, organized criminal networks and money laundering. The centerpiece of PMI IMPACT is a council of external independent experts in the fields of law, anti-corruption and law enforcement. The experts are responsible for evaluating and approving funding proposals for PMI IMPACT grants. PMI has pledged \$100 million to fund projects within PMI IMPACT over three funding rounds.

### ***Reduced-Risk Products (RRPs)***

*Our Approach to RRP:* We recognize that smoking cigarettes causes serious diseases and that the best way to avoid the harms of smoking is never to start or to quit. Nevertheless, it is predicted that by 2025, the number of smokers will remain largely unchanged from the current estimate of 1.1 billion, despite the considerable efforts to discourage smoking.

Cigarettes burn tobacco, which produces smoke. As a result of the combustion process, the smoker inhales various toxic substances. In contrast, RRP do not burn tobacco and therefore contain significantly lower levels of harmful and potentially harmful constituents ("HPHCs") than found in cigarette smoke.

For adult smokers who would otherwise continue to smoke, we believe that RRP, while not risk-free, offer a much better consumer choice. Accordingly, our key strategic priorities are to: (i) to develop and commercialize products that present less risk of harm to adult smokers who switch to those products versus continued smoking; and (ii) educate and encourage current adult smokers who would otherwise continue to smoke to switch to those products.

We recognize that this transformation from cigarettes to RRP will take time and that the speed of transformation will depend in part upon factors beyond our control, such as the willingness of governments, regulators and other policy groups to embrace RRP as a desired alternative to continued cigarette smoking. For as long as a significant number of adult smokers continues to smoke, responsible leadership of the category is critical. We aim to maintain our competitive position in the cigarette market through selective investment. As a leading international cigarette manufacturer, we will continue to accelerate this transformation by using our regulatory and commercial expertise and extensive commercial and distribution infrastructure as an effective platform for the commercialization of our RRP and communication with adult smokers and trade partners about the benefits of switching to our RRP.

While seeking to remain competitive in the cigarette market, we are judiciously reallocating resources from cigarettes to RRP and are streamlining our cigarette portfolio.

We have a range of RRP in various stages of development, scientific assessment and commercialization. We conduct rigorous scientific assessments of our RRP platforms to substantiate that they reduce exposure to HPHCs and, ultimately, that these products present, are likely to present, or have the potential to present less risk of harm to adult smokers who switch to them versus continued smoking. We draw upon a team of expert scientists and engineers from a broad spectrum of scientific disciplines and our extensive learnings of adult consumer preferences to develop and assess our RRP. Our efforts are guided by the following key objectives:

- to develop RRP that adult smokers who would otherwise continue to smoke find to be satisfying alternatives to smoking;
- for those adult smokers, our goal is to offer RRP with a scientifically substantiated risk-reduction profile that approaches as closely as possible that associated with smoking cessation;
- to substantiate the reduction of risk for the individual adult smoker and the reduction of harm to the population as a whole, based on scientific evidence of the highest standard that is made available for scrutiny and review by external independent scientists and relevant regulatory bodies; and
- to advocate for the development of science-based regulatory frameworks for the development and commercialization of RRP, including the communication of scientifically substantiated information to enable adult smokers to make better consumer choices.

*Our RRP Platforms:* Our product development is based on the elimination of combustion via tobacco heating and other innovative systems, which we believe are the most promising path to providing a better consumer choice for those who would otherwise continue to smoke. We recognize that no single product will appeal to all adult smokers. Therefore, we are developing a portfolio of products intended to appeal to a variety of distinct adult consumer preferences.



Five PMI-developed or improved RRP platforms are in various stages of development and commercialization readiness:

*Platform 1* uses a precisely controlled heating device incorporating our *IQOS HeatControl* technology, into which a specially designed and proprietary tobacco unit is inserted and heated to generate an aerosol. We have conducted a series of clinical studies for this platform, the results of which were included in our submission to the U.S. Food and Drug Administration (“FDA”). In addition to the original version of Platform 1 which relies on a heating technology using a blade, a new version of Platform 1 is now available using induction instead of heating a blade. All studies referenced above were conducted with the blade version of Platform 1. We believe that there is full comparability between the subsequent Platform 1 versions, and therefore the data from these studies remain valid. In 2022, we also began the initial launch of a heated tobacco product using external resistive heating technology and commercialized under the *BONDS* brand.

*Platform 2* used a pressed carbon heat source which, when ignited, generates a nicotine-containing aerosol by heating tobacco. As a result of consumer testing feedback, the design of our current Platform 2 technology has been discontinued. We are assessing alternative designs for this consumer segment.

*Platform 3* is a product using nicotine salt that is composed of two parts: a consumable that contains a highly soluble encapsulated nicotine powder and a non-electric device that activates it. Once a consumable is inserted into the mechanical device, the nicotine powder is aerosolized and inhaled. The results of our pharmacokinetic study related to this version indicate this product's potential as an acceptable alternative to continued cigarette smoking in terms of product satisfaction. We are working on product modifications to enable switching by those adult smokers who are looking for better alternatives to cigarettes.

*Platform 4* covers e-vapor products, which are battery-powered devices that produce an aerosol by vaporizing a tobacco-free liquid solution.

Recently, we developed a new e-liquid for our e-vapor mesh technology to deliver real tobacco taste satisfaction in an E-Vapor product liquid-using patented technology, where flavors and nicotine are extracted directly from the tobacco leaves and captured in a liquid solution, without having to add flavoring ingredients.

We also entered into a licensing agreement with Kaival Brands International, LLC in June 2022 to distribute an e-vapor product, known in the U.S. as the *BIDI® Stick*. The agreement grants PMI certain intellectual property rights relating to the premium e-vapor device and, potentially, other newly developed devices, to permit PMI to manufacture, promote, sell, and distribute the e-vapor device and, to the extent included, other newly developed devices in international markets outside of the U.S. We have begun commercializing an improved version of the *BIDI® Stick* under the brand *VEEV now* in Canada, U.K., Serbia and Ukraine.

*Platform 5* covers Snus and Modern Oral Nicotine Pouches. Snus refers to dried loose tobacco, or snuff, which is consumed by sniffing the product through the nose, moist loose tobacco which is put in the mouth between the lower or upper lip and gum, and Snus pouches which contain grinded tobacco, water, salt and flavors. Modern Oral Nicotine Pouches consist of white pre-conditioned pouches containing nicotine derived from tobacco. Users place a pouch between the upper lip and gum and leave it there while the nicotine and taste are being released. At the end of the use, the user can dispose of the pouch. Nicotine pouches are inherently smoke-free as they are consumed orally, and no combustion process occurs during use. They contain primarily nicotine, flavors, and a cellulose substrate. The nicotine used in the pouches is of pharmaceutical-grade like the nicotine used in medicinal products, such as gums and inhalers, while the flavors are approved for use in food in accordance with the product quality standards for nicotine pouches developed by the Swedish Institute for Standards. In 2021, PMI acquired AG Snus as well as Fertin Pharma, two companies manufacturing and/or marketing nicotine pouches. In 2022, we significantly expanded our Platform 5 products portfolio with the acquisition of Swedish Match. The acquisition also represented an expansion of our RRP presence in the United States market, where Swedish Match's *ZYN* brand is the leading nicotine pouch franchise.

We aim to expand our brand portfolio and market positions with additional RRP. In addition, we are continuing to use our expertise, technology and capabilities to explore new growth opportunities beyond our current business, including products that do not contain nicotine or tobacco.

After we receive the results of our scientific studies, including those mentioned above, in accordance with standard scientific practices, we share the conclusions in scientific forums and submit them for inclusion in peer-reviewed publications.

The research and development expense for our smoke-free portfolio accounted for 99% of our total research and development expense for each of the three years ended December 31, 2022, 2021 and 2020. The research and development expense for the years ended December 31, 2022, 2021 and 2020, is set forth in Item 8, Note 15. *Additional Information* to the consolidated financial statements.

Commercialization of RRP: We are developing a multicategory product approach and tailoring our commercialization strategy to the characteristics of each specific market. We focus our commercialization efforts on consumer retail experience, guided consumer trials and customer care, and increasingly, digital communication programs and e-commerce. In order to accelerate switching to our Platform 1 products, our initial market introductions typically entail one-to-one consumer engagement (in person or by digital means) and device discounts. These initial commercialization efforts require substantial investment, which we believe will moderate over time and further benefit from the increased use of digital engagement capabilities. During the COVID-19 pandemic, we accelerated our investments in, and pivot to, digital consumer engagement.

As of December 31, 2022, PMI's smoke-free products were available for sale in 73 markets.

In 2014, we introduced our Platform 1 product in pilot city launches in Nagoya, Japan, and in Milan, Italy. Since then, we have continuously expanded our commercialization activities.

Data shows that only a very small percentage of adult smokers who convert to our Platform 1 product switch back to cigarettes.

We have integrated the production of our heated tobacco units into a number of our existing manufacturing facilities, are progressing with our plans to build manufacturing capacity for our other RRP platforms, continue to optimize our manufacturing infrastructure and expand our commercialization activities to new products and markets. We discuss certain risks related to the commercialization and supply of our RRP portfolio in Item 1.A. *Risk Factors*.

We discuss product warranties in more detail in Item 8, Note 7. *Product Warranty*. The significance of warranty claims is dependent on a number of factors, including device version mix, product failure rates, logistics and service delivery costs, and warranty policies, and may increase with the number of devices sold.

On October 20, 2022, PMI announced that it had reached an agreement with Altria Group, Inc. to end the companies' commercial relationship covering Platform 1 in the U.S. as of April 30, 2024. Thereafter, PMI will have the full rights to commercialize Platform 1 in the U.S.- the world's largest smoke-free market, as of April 30, 2024. This agreement provides a clear path to fulfilling Platform 1 international success in a market where around 31 million adults continue to smoke.

Our near-term planned commercialization efforts for the other PMI-developed RRP platforms are as follows:

- In late 2022, we began commercializing our *BONDS* product in the Philippines and Colombia.
- Following the consumer test conducted in 2020, and the results of the product use and adaptation study described above, we are incorporating our learnings into our plans to improve our Platform 3 product.
- We started commercializing a new version of *IQOS MESH* in Canada, Croatia, the Czech Republic, Finland, France, Greece, Italy, Ukraine, New Zealand and the Slovak Republic under the *IQOS VEEV* or *VEEV* brand names.
- We launched a Platform 5 product in Sweden in January 2022, and have since launched it in ten additional markets, that is a reformulated version of the already commercialized nicotine pouches bearing the *Shiro* brand by our newly acquired affiliate AG Snus.

In addition, Swedish Match's commercialization efforts in 2022 included the launch of several variants of existing snus and nicotine pouch brands in different markets, such as the launch of various *ZYN* variants in multiple markets, as well as the new *Volt Pearls* nicotine pouch product in Denmark, Iceland and Sweden.

RRP Regulation and Taxation: RRP's contain nicotine and are not risk-free. As we describe in more detail above, we support science-based regulation and taxation of RRP's, and believe that regulation and taxation should differentiate between cigarettes and products that present, are likely to present, or have the potential to present less risk of harm to adult smokers who switch to these products versus continued smoking and should recognize a continuum of risk for tobacco and other nicotine-containing products. Regulation, as well as industry practices, should reflect the fact that youth should not consume nicotine in any form.

Some governments have banned or are seeking to ban or severely restrict emerging tobacco and nicotine-containing products such as our RRP's and communication of truthful and non-misleading information about such products.

These regulations might foreclose or unreasonably restrict adult consumer access even to products that might be shown to be a better consumer choice than continuing to smoke. During the COVID-19 pandemic, some governments have been and may continue to be

temporarily unable to focus on the development of science-based regulatory frameworks for the development and commercialization of RRP or on the enforcement or implementation of regulations that are significant to our business.

We oppose blanket bans and unreasonable restrictions of products that have the potential to present less risk of harm compared to continued smoking. By contrast, we support regulation that sets clear standards for all RRP categories and propels innovation to benefit adult smokers who would otherwise continue to smoke.

In the United States, an established regulatory framework for assessing “Modified Risk Tobacco Products” and “New Tobacco Products” exists under the jurisdiction of the FDA. We submitted to the FDA a Modified Risk Tobacco Product Application (“MRTPA”) for our Platform 1 product in December 2016, and a Premarket Tobacco Product Application (“PMTA”) for our Platform 1 product in March 2017.

On April 30, 2019, the FDA determined that a version of our Platform 1 product, namely, *IQOS* 2.4 and three related consumables, is appropriate for the protection of public health (“APPH”) and authorized it for sale in the United States. The FDA’s decision followed its comprehensive assessment of our PMTA. On December 7, 2020, the FDA reached the same determination for the *IQOS* 3 device and authorized that version of our Platform 1 product for sale in the United States.

On July 7, 2020, the FDA determined that the available scientific evidence demonstrates that the issuance of an exposure modification order would be appropriate for the promotion of public health and authorized the marketing of a version of our Platform 1 product, namely *IQOS* 2.4 and three related consumables, as a “modified risk tobacco product.” The FDA authorized the marketing of this product in the U.S. with the following information:

“AVAILABLE EVIDENCE TO DATE:

- the *IQOS* system heats tobacco but does not burn it.
- this significantly reduces the production of harmful and potentially harmful chemicals.
- scientific studies have shown that switching completely from conventional cigarettes to the *IQOS* system significantly reduces your body’s exposure to harmful or potentially harmful chemicals.”

We must request and receive authorization from the FDA in order to continue marketing this product with the same modified exposure information after the present order expires in four years from the date of the orders.

On March 18, 2021, we submitted to the FDA a supplemental MRTPA (“sMRTPA”) for *IQOS* 3 requesting authorization to market this version of the device as a Modified Risk Tobacco Product with reduced exposure information like *IQOS* 2.4. In June 2021, the FDA formally accepted and filed our sMRTPA for substantive scientific review, following a period for the public to provide comments on our application. The FDA authorized our sMRTPA for *IQOS* 3 by issuing a Modified Risk Granted Order – Exposure Modification on March 11, 2022.

There are two types of MRTP orders the FDA may issue: a “risk modification” order or an “exposure modification” order. We had requested both types of orders for *IQOS* 2.4 and an initial selection of 3 consumables’ variants. After review, the FDA determined that the evidence did not support issuing a “risk modification” order at this time but that it did support issuing an “exposure modification” order for the product. This determination included a finding that issuance of the exposure modification order is expected to benefit the health of the population as a whole. We also received an exposure modification order for *IQOS* 3.

On April 29, 2022, we submitted the Annual Report for the *IQOS* Tobacco Heating System (“THS”) to the US Food and Drug Administration. The report included a systematic review of the literature covering publications related to the *IQOS* THS between March 1, 2021 and February 28, 2022. 226 publications were identified, of which 132 were in English and contained original research or data on Heated Tobacco Products (27 from PMI or other tobacco manufacturers and 105 from independent researchers). The report concludes that, although the scientific evidence continues to develop and evolve, the extensive data reviewed confirms that while HTPs are not risk-free, the risks of HTPs are significantly reduced for both users and non-users against the well-proven risks of continued smoking, and therefore continue to support the APPH status of *IQOS* THS.

We look forward to working with the FDA to provide any additional information they may require in order to market this product with reduced risk claims.

The FDA’s PMTA and MRTP orders do not mean that the agency “approved” our Platform 1 product. These authorizations are subject to strict marketing, reporting and other requirements, and are not a guarantee that the product will remain authorized, particularly if there is a significant uptake in youth or non-smoker initiation. The FDA will monitor the marketing of the product.

On September 29, 2021, the International Trade Commission ("ITC") issued its Final Determination ("FD"), Limited Exclusion Order ("LEO") and Cease and Desist Order ("CDO"). The ITC upheld the finding of infringement in the FD and found a subsequent violation. The ITC issued a LEO prohibiting the importation of infringing tobacco heating articles and components thereof and CDOs against Philip Morris USA, Inc. and Altria Client Services, LLC, which went into effect at the end of the 60-day Presidential review period on November 28, 2021. We have appealed the patent issues. Furthermore, lawsuits based on the same patent families have been repeatedly and universally rejected in European courts and the European Patent Office. The decision has no bearing outside the United States. For further details, see Item 8, Note 18. *Contingencies* to our consolidated financial statements.

Some states and municipalities in the U.S. have introduced severe restrictions for the sale of certain e-cigarettes and tobacco products, including those authorized by the FDA. We believe that such restrictions on FDA-authorized products will not advance public health and will unreasonably limit adult consumer access to products that are shown to be a better alternative to continued smoking.

In March 2020, the FDA issued a final rule to require new text and graphic health warnings on cigarette packs and advertisements. Heated tobacco products are technically covered by this rule, however the FDA stated that it would make product-specific decisions about health warnings when issuing or revising individual product or marketing orders. This approach would be consistent with the original marketing order for *Heatsticks* where FDA required Philip Morris Products S.A. to remove the Surgeon General's health warning for carbon monoxide from packaging and advertising, and to use a nicotine addiction health warning instead. Philip Morris Products S.A. is committed to providing adult consumers with complete, accurate, and non-misleading information about possible health risks associated with its products. We have shared our views with the FDA on the application of the new warnings to our heated tobacco products. The final rule is the subject of litigation in the U.S. and was vacated nationwide by a federal court in November 2022. Philip Morris Products S.A. is not a party to this litigation.

In the U.S., tobacco and nicotine-containing products that were not commercially marketed as of February 15, 2007, are subject to review and authorization by the FDA. Manufacturers of all non-authorized products currently on the market were required to file a PMTA with the FDA by September 9, 2020. The FDA announced on September 9, 2020 that it will prioritize enforcement against any tobacco and nicotine-containing product sold without a PMTA. On October 5, 2021, FDA published its final PMTA rule in the Federal Register, which is effective November 4, 2021. All future applications will have to comply with the requirements in the PMTA rule, which is substantially similar to the version of the final PMTA rule which was posted on Advanced Federal Register on January 19, 2021.

FDA actions may influence the regulatory approach of other governments.

Currently, national standards in certain countries set minimum quality and safety requirements for heat-not-burn products with technical heat-not-burn specifications and/or methods for demonstrating the absence of combustion. These standards are mandatory in Colombia, Egypt, Jordan, Saudi Arabia, Tajikistan, Tunisia, the UAE, Uzbekistan and Bahrain, and voluntary in Armenia, Costa Rica, Dominican Republic, Indonesia, Kazakhstan, Kyrgyzstan, Morocco, Philippines, Russia, Vietnam, the U.K. and Ukraine. In Japan, a voluntary standard sets minimum safety requirements for tobacco heating devices.

For e-vapor products (e-cigarettes) national standards setting minimum quality and safety requirements have been adopted in several markets. These standards are mandatory in Armenia, Bahrain, China, Egypt, Jordan, New Zealand, United Arab Emirates, and Saudi Arabia, and voluntary in Costa Rica, France, Kazakhstan, Philippines, Russia, the U.K. and Ukraine.

Currently, industry standards setting minimum quality and safety requirements for tobacco-free oral nicotine products (nicotine pouches) have been adopted in the U.K. and Sweden. Both standards are voluntary.

We expect other governments to consider similar product standards for all novel tobacco and nicotine-containing products and encourage making them mandatory.

All EU member states have transposed the EU Tobacco Products Directive, including the provisions on novel tobacco products, such as heated tobacco units, and e-cigarettes. Most of the EU member states require a notification submitted six months before the intended placing on the market of such products, while some require pre-market authorizations for the introduction of such products. To date, we have filed a comprehensive dossier summarizing our scientific assessment of our Platform 1 product in over 20 member states.

On September 12, 2022, Norway rejected a submission for authorization of *HEETS* as a novel tobacco product. Norway partially transposed the EU Tobacco Products Directive (the "TPD") under the European Free Trade Association ("EFTA") agreement and introduced an authorization system for novel tobacco products following article 19 of TPD. So far Norway has not granted authorization of any novel tobacco product. E-cigarettes and tobacco free nicotine pouches have not been granted access either.

In addition, in Italy, in April 2018, we submitted an application for *HEETS*, used with the *IQOS* device, requesting regulatory recognition of the reduction of toxic substances and potential risk reduction resulting from switching to this product compared to continued cigarette smoking. In January 2019, our application was not granted primarily on the grounds of insufficient data and questions of methodology. Due to the constraints of the review process, we were unable to supplement the application with all the data filed with the FDA and to address methodological questions during the review. We plan to submit a new application where we will clarify the concerns raised by the decision and further strengthen our application by submitting additional evidence generated since we submitted our first application, consistent with our FDA filings. We are confident that our evidence supports our application.

On October 31, 2019, our Australian subsidiary, Philip Morris Limited (“PML”), submitted an application to the Scheduling Committee of the Therapeutic Goods Administration of Australia (“TGA”) seeking to exempt heated tobacco products from being prohibited in Australia. In August 2020, the TGA issued its decision denying the application and stating that it did not present compelling evidence to establish a public health benefit from greater access to nicotine in heated tobacco products.

To date, several governmental agencies have published their scientific findings that analyze the harm-reduction potential of certain RRP’s versus continuing smoking, including:

In December 2017, at the request of the U.K. Department of Health and Public Health England, the U.K. Committee on Toxicity published its assessment of the risk of heat-not-burn products relative to cigarette smoking. This assessment included analysis of scientific data for two heat-not-burn products, one of which was our Platform 1 product. The assessment concluded that, while still harmful to health, compared with the known risks from cigarettes, heat-not-burn products are probably less harmful. Subsequently, in February 2018, Public Health England published a report stating that the available evidence suggests that heat-not-burn products may be considerably less harmful than cigarettes and more harmful than e-cigarettes.

In May 2018, the German Federal Institute for Risk Assessment (“BfR”) published a study on the Platform 1 aerosol relative to cigarette smoke using the Health Canada Intense Smoking Regimen. BfR found reductions in selected HPHCs in a range of 80-99%. This publication indicates that significant reductions in the levels of selected toxicants are likely to reduce toxicant exposure, which BfR stated might be regarded as a discrete benefit compared to combustible cigarettes.

In May 2018, the Dutch National Institute for Public Health and Environment (“RIVM”) published a factsheet on novel tobacco products that heat rather than burn tobacco, focusing on our Platform 1 product. RIVM analyzed the aerosol generated by our Platform 1 product and concluded that the use of this product, while still harmful to health, is probably less harmful than continued smoking.

In June 2018, the Korean Food and Drug Administration (“KFDA”) issued a statement on products that heat rather than burn tobacco. The KFDA tested three heat-not-burn products, one of which was our Platform 1 product. The KFDA confirmed that the levels of the nine HPHCs tested in the aerosol of these products were on average approximately 90% lower compared to those measured in the cigarette smoke of the top five cigarette brands in South Korea. However, the KFDA stated that it could not establish that the tested heat-not-burn products are less harmful than cigarettes. In October 2018, our Korean subsidiary filed a request with a local court seeking information underlying KFDA’s analysis, conclusions and public statements. In May 2020, the court ordered KFDA to produce certain records.

In August 2018, the Science & Technology Committee of the U.K. House of Commons published a report of its inquiry into e-cigarettes and heat-not-burn products. The report concluded that e-cigarettes are significantly less harmful to health than smoking tobacco. The report also observed that for those smokers who do not accept e-cigarettes, heat-not-burn products may offer a public health benefit despite their relative risk. The report called for a risk-proportionate regulatory environment for both e-cigarettes and heat-not-burn products and noted that e-cigarettes should remain the least taxed, cigarettes the most taxed, with heat-not-burn products falling between the two. The U.K. Committee on Advertising Practice announced the removal of a prohibition of health claims in the advertising of e-cigarettes in the U.K. effective November 2018.

In November 2018, the Eurasian Economic Commission (regulatory body of the Eurasian Union consisting of Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia) published the results of its commissioned study on novel nicotine-containing products, including our Platform 1 product. The study confirms significantly lower levels of HPHCs in the aerosol generated by this product compared to cigarette smoke.

In January 2019, scientific media published the results of the study of the China National Tobacco Quality Supervision and Test Centre (“CNTQST”) comparing the aerosol generated by our Platform 1 product with cigarette smoke. The CNTQST found that the former contained fewer, and lower levels of, harmful constituents than the latter and concluded that the lower temperature of heating



tobacco in our Platform 1 product contributed to the difference. The CNTQST stated that the reduction in emissions of harmful constituents cannot be interpreted as a harm/risk reduction for smokers in the same proportion.

In 2020, the Superior Health Council of Belgium (“SHC”) published results of its inquiry into heat-not-burn products. The SHC concluded that heat-not-burn products, while not safe, have a more favorable toxicity profile than cigarettes. However, in light of the uncertainty of such products’ short and long-term impacts, the toxic effects of the dual use with cigarettes, and the existence of approved smoking cessation tools, the SHC recommended that current regulations for cigarettes should apply to heat-not-burn products.

In June 2022, the SHC published new advice on e-cigarettes in which they confirm that e-cigarettes are substantially less harmful than smoking cigarettes and therefore a better alternative for smokers. The SHC underlines that the vast majority of the risks of tobacco smoking are not caused by nicotine, but by the harmful substances that are released by the combustion of tobacco. Based on the cited science they call for legislation that makes a clear distinction between cigarettes and e-cigarettes, by focusing on better-informing smokers about the benefits of the lower-risk (but not risk-free) alternative, as well as on protecting non-smokers and young people.

The foregoing scientific findings of government agencies may not be indicative of the measures that the relevant government authorities could take in regulating our products.

We make our scientific findings publicly available for scrutiny and peer review through several channels, including our websites. From time to time, adult consumers, competitors, members of the scientific community, and others inquire into our scientific methodologies, challenge our scientific conclusions or request further study of certain aspects of our RRP and their health effects. We are committed to a robust and open scientific debate and believe that such debate should be based on accurate and reliable scientific information. We seek to provide accurate and reliable scientific information about our RRP; nonetheless, we may not be able to prevent third-party dissemination of false, misleading or unsubstantiated information about these products. The dissemination of scientifically unsubstantiated information or studies with a strong confirmation bias by third parties may cause confusion among adult smokers and affect their decision to switch to better alternatives to continued smoking, such as our RRP.

To date, we have been largely successful in demonstrating to regulators that our heated tobacco units are not cigarettes due to the absence of combustion, and as such they are generally taxed either as a separate category or as other tobacco products, which typically yields more favorable tax rates than cigarettes. Although we believe that this is sensible from the public health perspective, we cannot guarantee that regulators will continue this approach.

There can be no assurance that we will succeed in our efforts to replace cigarettes with RRP or that regulation will allow us to commercialize RRP in all markets, to communicate about our RRP, including making scientifically substantiated risk-reduction claims, or to treat RRP differently from cigarettes.

*Legal Challenges to RRP:* We face various administrative and legal challenges related to certain RRP activities, including allegations concerning product classification, advertising restrictions, corporate communications, product coach activities, scientific substantiation, product liability, and unfair competition. While we design our programs to comply with relevant regulations, we expect these or similar challenges to continue as we expand our efforts to commercialize RRP and to communicate publicly. The outcomes of these matters may affect our RRP commercialization and public communication activities and performance in one or more markets.

*Our RRP Business Development Initiatives:* In December 2013, we established a strategic framework with Altria Group, Inc. (“Altria”) setting out terms on how the parties would collaborate to develop and commercialize e-vapor products and commercialize two of our RRP in the U.S. In late 2018, Altria announced that it will participate in the e-vapor category only through another e-vapor company in which Altria acquired a minority interest. In September 2019, Altria's subsidiary, Philip Morris USA Inc. (“PM USA”), began commercialization of a version of our Platform 1 product in the U.S. Under the agreement, PM USA was required to achieve certain milestones in order to maintain its exclusive distribution right and additional milestones to extend the agreement after the initial 5-year term. On October 20, 2022, PMI announced that it had reached an agreement with Altria Group, Inc. to end the companies' commercial relationship covering IQOS in the U.S. as of April 30, 2024. Thereafter, PMI will have the full rights to commercialize IQOS in the U.S. (For more details, please refer to Note 3. *Acquisitions*, and Note 18. *Contingencies*).

In January 2020, we announced an agreement with KT&G, a leading tobacco and nicotine company in South Korea, for the commercialization of KT&G's smoke-free products outside of South Korea on an exclusive basis. On January 30, 2023, we announced a renewal and extension of this arrangement. For more information, see *Acquisitions and Other Business Arrangements* below.

*Other Developments:* In September 2017, we announced our support of the Foundation for a Smoke-Free World. In September 2020, our pledge agreement with the Foundation was amended. We contributed \$45 million in 2020, \$40 million in 2021, \$17.5 million in 2022, and expect to contribute up to \$35 million annually from 2023 through 2029, as specified in the amended pledge agreement. To date, we contributed a total of \$267 million. The Foundation is an independent body and is governed by its independent Board of Directors. The Foundation's role, as set out in its corporate charter, includes funding research in the field of tobacco harm reduction, encouraging measures that reduce the harm caused by smoking, and assessing the effect of reduced cigarette consumption on the industry value chain.

### ***Governmental Investigations***

From time to time, we are subject to governmental investigations on a range of matters, including tax, customs, antitrust, advertising, and labor practices. We describe certain matters pending in Russia, South Korea and Thailand in Item 8, Note 18. *Contingencies*.

In November 2010, a World Trade Organization ("WTO") panel issued its decision in a dispute between the Philippines and Thailand, concerning a series of Thai customs and tax measures affecting cigarettes imported by PM Thailand into Thailand (see Item 8, Note 18. *Contingencies* for additional information). The decision concluded that Thailand had no basis to find that PM Thailand's declared customs values and taxes paid were too low, as alleged by the Thai government and created obligations for Thailand to revise its laws, regulations, or practices affecting the customs valuation and tax treatment of future cigarette imports. Thailand agreed to fully comply with the decision, but the Philippines asserts that to date Thailand has not fully complied with the WTO panel decision and commenced challenges at the WTO Appellate Body. The WTO Appellate Body is not operational, and the appeals by Thailand are suspended indefinitely. In December 2020, the Philippines and Thailand agreed to pursue facilitator-assisted discussions aimed at progressing and resolving outstanding issues and the countries have since agreed to seek the establishment of a bilateral consultative mechanism, with the goal of reaching a comprehensive settlement of their dispute, consistent with their rights and obligations under the WTO Agreement, as well as the recommendations and rulings of the WTO Dispute Settlement Body.

The Public Prosecutor's office of Rome, Italy, notified our Italian subsidiary, Philip Morris Italia S.r.l. ("PM Italia"), as well as three former or current employees and a former external consultant of PM Italia in July 2020 and March 2020, respectively, that it concluded a preliminary investigation against them for alleged contravention of anti-corruption laws and related disruption of trade freedom. The Public Prosecutor alleges that the individuals involved promised certain personal favors to government officials from January to July of 2018 in exchange for favorable treatment for PM Italia, and that PM Italia lacked appropriate organizational controls to prevent the alleged actions by the individuals. BAT has filed a civil claim against PM Italia claiming vicarious liability for any wrongdoing of its former or current employees and seeking EUR 50 million in damages. The court admitted the claim as a matter of course and issued summons for PM Italia to appear as civil party in the case. The next trial hearing is scheduled for February 13, 2023. PM Italia believes the charges brought against it by the Public Prosecutor are without merit and will defend them vigorously.

### ***Asset Impairment and Exit Costs***

We discuss asset impairment and exit costs related to restructuring activities in Item 8, Note 20. *Asset Impairment and Exit Costs* to our consolidated financial statements.

### ***U.S. GAAP Treatment of Turkey as a Highly Inflationary Economy***

Following the categorization of Turkey by the International Practices Task Force of the Center for Audit Quality as a country with a three-year cumulative inflation rate greater than 100%, the country is considered highly inflationary in accordance with U.S. GAAP. Consequently, PMI has begun to account for the operations of its Turkish affiliates as highly inflationary, and treat the U.S. dollar as the functional currency of the affiliates, effective April 1, 2022. The impact of this accounting change was not material to our consolidated financial statements for the year ended December 31, 2022.

### ***Climate Change Laws and Regulations***

While, to date, the effect of climate-related laws and regulations on PMI has not been material to our business, results of operations or financial conditions, consideration of environmental and climate-related laws and regulations is an integral aspect of PMI's climate-related risk assessment process. To this end, we actively monitor the existing and potential impact on PMI of significant pending or existing climate change-related legislation, regulations, international accords, reporting frameworks, standards, principles, and other forms of guidance. Examples include, but are not limited to, the EU Emissions Trading System, the 2015 Paris Climate Agreement, recommendations of the Task Force on Climate-related Financial Disclosures, the SEC's proposed rules regarding climate-related

disclosures, the Taskforce on Nature-related Financial Disclosures, the European Commission Corporate Sustainability Reporting Directive, and the International Sustainability Standards Board proposed standards.

## **Acquisitions and Other Business Arrangements**

We discuss our acquisitions in Item 8, Note 3. *Acquisitions* to our consolidated financial statements.

### *KT&G*

On January 30, 2023, PMI announced a long-term collaboration with KT&G, South Korea's leading tobacco and nicotine manufacturer, to continue to commercialize KT&G's innovative smoke-free devices and consumables on an exclusive, worldwide basis (excluding South Korea).

The agreement covers fifteen years, to January 29, 2038, with performance-review cycles and associated commitments, based on volume, to be confirmed for each three-year period, to allow flexibility for evolving market conditions.

The agreement gives PMI continued exclusive access to KT&G's smoke-free brands and product-innovation pipeline, including offerings for low- and middle-income markets, that will enhance PMI's existing portfolio of smoke-free products.

Products sold under the agreement will be subject to assessment to ensure they meet the regulatory requirements in the markets where they are launched, as well as PMI's high standards of quality and scientific substantiation. PMI and KT&G will seek any necessary regulatory approvals that may be required on a market-by-market basis.

## **Equity Investments**

We discuss our equity investments in Item 8, Note 6. *Related Parties - Equity Investments and Other* to our consolidated financial statements.

## **Trade Policy**

PMI complies with all applicable trade restrictions and requirements, including sanctions, in the markets in which it operates. We have taken appropriate actions in response to the latest sanctions to ensure full compliance with the relevant restrictions.

We are subject to various trade restrictions imposed by the U.S., EU, Switzerland, the U.K., and other jurisdictions in which we do business ("Trade Sanctions"), including the trade and economic sanctions administered by the U.S. Department of the Treasury's Office of Foreign Assets Control and the U.S. Department of State. It is our policy to comply fully with these Trade Sanctions.

Pursuant to specific exemptions or licenses, or where sanctions do not apply to our business, PMI may make sales in countries subject to Trade Sanctions.

We do not do business or sell products in Iran, North Korea or Syria.

We sell cigarettes in Cuba under a distribution agreement. These sales are permitted by U.S. law under a License Exception for Agricultural Commodities, issued by the United States Department of Commerce (Bureau of Industry and Security), and specifically granted to our distributor.

Certain states within the U.S. have enacted legislation permitting or requiring state pension funds to divest or abstain from future investment in stocks of companies that do business with certain countries that are sanctioned by the U.S. Because we do business in certain of these countries, consistent with our policy to fully comply with Trade Sanctions and as described above, these state pension funds may have divested of our stock or may not invest in our stock. We do not believe such legislation has had a material effect on the price of our shares.

PMI is also subject to various Trade Sanctions imposed by the EU and other jurisdictions. We comply fully with these Trade Sanctions.

On June 24, 2021, the EU introduced sanctions regarding Belarus aimed at specific sectors of the Belarus economy, including the tobacco sector. Subsequently, seven non-EU countries (Norway, Iceland, Liechtenstein, North Macedonia, Bosnia and Herzegovina,

Montenegro, and Albania) announced that they “aligned themselves” with the majority of the EU sanctions. Switzerland and the UK have also imposed sanctions similar in scope to the EU sanctions.

On August 9, 2021, the U.S. imposed blocking sanctions on certain Belarusian individuals and entities pursuant to an Executive Order, which expanded the bases for the imposition of sanctions, including, among others, by authorizing the imposition by OFAC of blocking sanctions on persons operating in the tobacco sector of the Belarus economy. In 2021 and 2022, the U.S., the EU, the U.K., Switzerland and several other jurisdictions supplemented their respective sanctions lists by including additional Belarusian sanctions targets.

Following the start of the conflict in Ukraine on February 24, 2022, the U.S., the EU, the UK, Switzerland, Canada, Australia, New Zealand, Singapore, South Korea, Japan and other countries introduced extensive economic sanctions and export controls regarding Russia. While the introduced sanctions slightly vary from jurisdiction to jurisdiction, they are largely aligned. The restrictions are primarily targeted at the Russian financial, banking, oil, military, aviation and marine sectors. The U.S. has also introduced a prohibition on new investment in the Russian Federation by a U.S. person, wherever located. Among sanctions targets are Russian political figures and military personnel, certain oligarchs and journalists, and companies operating in the above-mentioned sectors. Export to Russia of certain luxury goods, and goods and technology which might contribute to Russia’s technological enhancement was banned. Seven non-EU countries (Norway, Iceland, Liechtenstein, North Macedonia, Bosnia and Herzegovina, Montenegro, and Albania) announced that they “aligned themselves” with the majority of the EU sanctions. The EU and Switzerland introduced additional trade restrictions banning, among many other goods, the export of certain non-tobacco materials used to produce cigarettes and heated tobacco consumables in Russia as well as related technical assistance and other related services. In addition, the EU, the UK, Switzerland, Canada, Australia, New Zealand and Ukraine sanctioned Mr. Igor Kesaev, a non-majority shareholder of Megapolis Distribution B.V.

The U.K. banned the export of electronic cigarettes and similar personal electric vaporizing devices to Russia as well as related technical assistance, and financial and brokering services. Certain countries also banned the delivery of services to Russia, such as information technology consultancy services, accounting and business and management consulting services, most with exceptions for subsidiaries of U.S., E.U., or Swiss owned companies.

Russia introduced certain countermeasures aimed at reducing the effect of Western sanctions. Countermeasures include restrictions on export of certain goods from Russia, including tobacco-related production equipment, restrictions on lending to foreign borrowers, repatriation of dividends and transactions with securities and real estate involving companies from “hostile” countries (i.e., those which introduced sanctions regarding Russia).

PMI continues to monitor the development of new sanctions and ensure full compliance.

## 2022 compared with 2021

The following discussion compares operating results within each of our segments for 2022 with 2021.

Unless otherwise stated, references to total industry, total market, our shipment volume and our market share performance reflect cigarettes and heated tobacco units. Estimates for total industry volume and market share in certain geographies reflect limitations on the availability and accuracy of industry data during pandemic-related restrictions.

### European Union:

| <u>Financial Summary -</u><br><u>Years Ended December 31,</u><br><u>(in millions)</u> |           |           | <u>Change</u><br><u>Fav./ (Unfav.)</u> |                             | <u>Variance</u><br><u>Fav./ (Unfav.)</u> |           |              |          |             |                |
|---|-----------|-----------|--|-----------------------------|--|-----------|--------------|----------|-------------|----------------|
|   | 2022      | 2021      | Total                                  | Excl.<br>Curr. &<br>Acquis. | Total                                    | Currency  | Acquisitions | Price    | Vol/<br>Mix | Cost/<br>Other |
| Net Revenues  | \$ 12,119 | \$ 12,275 | (1.3)%                                 | 10.6 %                      | \$ (156)                                 | \$(1,472) | \$ 10        | \$ (127) | \$ 1,433    | \$ —           |
| Operating Income  | \$ 5,788  | \$ 6,119  | (5.4)%                                 | 10.5 %                      | \$ (331)                                 | \$ (972)  | \$ (2)       | \$ (127) | \$ 977      | \$ (207)       |

Net revenues, excluding currency and acquisitions, increased by 10.6%, reflecting: favorable volume/mix, mainly driven by higher HTU volume and device volume, partly offset by lower cigarette volume, unfavorable HTU mix, and unfavorable cigarette mix;

partially offset by an unfavorable pricing variance, mainly due to lower HTU (net) pricing and lower device pricing, partly offset by higher combustible tobacco pricing.

The unfavorable pricing variance is impacted by the supplemental excise tax surcharge on heated tobacco units in Germany, which went into effect in 2022. The legality of the surcharge is currently being assessed in court and the obligation to pay the surcharge is temporarily suspended. PMI currently accounts for the surcharge as a reduction in net revenues and in accrued liabilities in its consolidated financial statements. The accrued liability balance will continue to increase with the continuation of the HTU selling activities and in the case of an unfavorable ruling would negatively impact PMI's future cash provided by operating activities. The favorable ruling would positively impact future PMI's operating results.

Operating income, excluding currency and acquisitions, increased by 10.5%, primarily reflecting favorable volume/mix, mainly driven by higher HTU volume, partly offset by lower cigarette volume, unfavorable HTU mix, unfavorable cigarette mix and the unfavorable impact on profitability of higher device volume; partially offset by an unfavorable pricing variance; higher manufacturing costs; and higher marketing, administration and research costs (including the unfavorable impact of 2022 costs associated with the Swedish Match AB offer of \$51 million and a favorable comparison versus the prior year period related to asset impairment and exit costs of \$68 million).

#### *European Union - Total Market, PMI Shipment Volume and Market Share Commentaries*

Total market and market share performance are shown in the table below:

| <b>European Union Key Data</b>      | <b>Full-Year</b> |             | <b>Change<br/>% / pp</b> |
|-------------------------------------|------------------|-------------|--------------------------|
|                                     | <b>2022</b>      | <b>2021</b> |                          |
| <b>Total Market (billion units)</b> | <b>484.3</b>     | 478.9       | 1.1 %                    |
| <b>PMI Market Share</b>             |                  |             |                          |
| <i>Marlboro</i>                     | <b>15.9 %</b>    | 16.6 %      | (0.7)                    |
| <i>L&amp;M</i>                      | <b>5.3 %</b>     | 5.6 %       | (0.3)                    |
| <i>Chesterfield</i>                 | <b>5.5 %</b>     | 5.5 %       | —                        |
| <i>Philip Morris</i>                | <b>2.1 %</b>     | 2.2 %       | (0.1)                    |
| Heated Tobacco Units                | <b>7.7 %</b>     | 5.7 %       | 2.0                      |
| Others                              | <b>3.0 %</b>     | 3.0 %       | —                        |
| <b>Total European Union</b>         | <b>39.5 %</b>    | 38.6 %      | 0.9                      |

Note: Sum may not foot due to roundings.

The estimated total market in the EU increased by 1.1% to 484.3 billion units, primarily driven by:

- Italy, up by 3.4%, mainly reflecting the impact on adult smoker average daily consumption of the easing of pandemic-related measures (particularly in the first half of the year);
- Poland, up by 13.0%, primarily reflecting a lower estimated prevalence of illicit trade, as well as higher border sales (largely due to the easing of pandemic-related measures); and
- Romania, up by 8.2%, mainly reflecting a lower estimated prevalence of illicit trade, as well as higher border sales (largely due to the easing of pandemic-related measures);

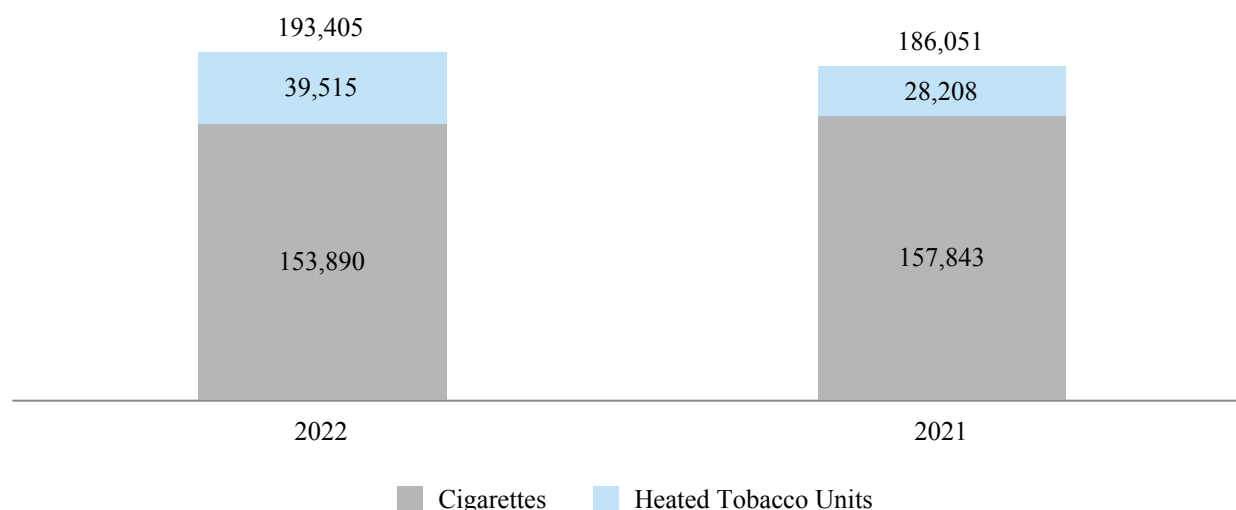
partly offset by

- Germany, down by 5.1%, primarily reflecting the impact of excise tax-driven price increases and higher cross-border (non-domestic) purchases due to the easing of pandemic-related measures; and
- the U.K., down by 13.4%, notably reflecting the impact of increased out-bound tourism compared to the pandemic-affected prior year period.

Our Regional market share increased by 0.9 points to 39.5%, with gains in Germany, Italy and Poland, partly offset by declines in France and Spain.



### EU Shipment Volume (million units)



Our total shipment volume increased by 4.0% to 193.4 billion units, mainly driven by:

- Italy, up by 5.8%, primarily reflecting a higher market share driven by HTUs, as well as a higher total market;
- Poland, up by 17.6%, mainly reflecting the higher total market and a higher market share driven by HTUs; and
- Romania, up by 36.1%. Excluding the net favorable impact of estimated distributor inventory movements, total in-market sales volume increased by 27.3%, primarily reflecting a higher market share driven by HTUs, as well as the higher total market;

partly offset by

- France, down by 8.1%, primarily reflecting a lower total market and a lower market share.

### Eastern Europe:

| <b>Financial Summary -<br/>Years Ended December 31,</b> |             |             | <b>Change<br/>Fav./(Unfav.)</b> |  | <b>Variance<br/>Fav./(Unfav.)</b> |                 |                           |              |                     |                        |
|---|-------------|-------------|---------------------------------|--|-----------------------------------|-----------------|---------------------------|--------------|---------------------|------------------------|
| <b>(in millions)</b>                                    | <b>2022</b> | <b>2021</b> | <b>Total</b>                    | <b>Excl.<br/>Curr. &amp;<br/>Acquis.</b> | <b>Total</b>                      | <b>Currency</b> | <b>Acqui-<br/>sitions</b> | <b>Price</b> | <b>Vol/<br/>Mix</b> | <b>Cost/<br/>Other</b> |
| Net Revenues  | \$ 3,725    | \$ 3,544    | 5.1 %                           | 3.7 %                                    | \$ 181                            | \$ 51           | \$ —                      | \$ 334       | \$ (204)            | \$ —                   |
| Operating Income  | \$ 1,166    | \$ 1,213    | (3.9)%                          | (13.9)%                                  | \$ (47)                           | \$ 122          | \$ —                      | \$ 334       | \$ (212)            | \$ (291)               |

Net revenues, excluding currency and acquisitions, increased by 3.7%, reflecting: a favorable pricing variance, primarily driven by higher combustible tobacco pricing; partly offset by unfavorable volume/mix, mainly due to lower cigarette volume, lower HTU volume and unfavorable cigarette mix.

In 2022, Russia and Ukraine accounted for around 70% of PMI's total net revenues in the Region.

Operating income, excluding currency and acquisitions, decreased by 13.9%, notably reflecting the impact of 2022 charges related to the war in Ukraine (\$151 million) shown in "Cost/Other", as well as unfavorable volume/mix, mainly due to the same factors as for net revenues; higher manufacturing costs (notably related to Ukraine); and higher marketing, administration and research costs; partly offset by a favorable pricing variance.

### Eastern Europe - Total Market, PMI Shipment Volume and Market Share Commentaries

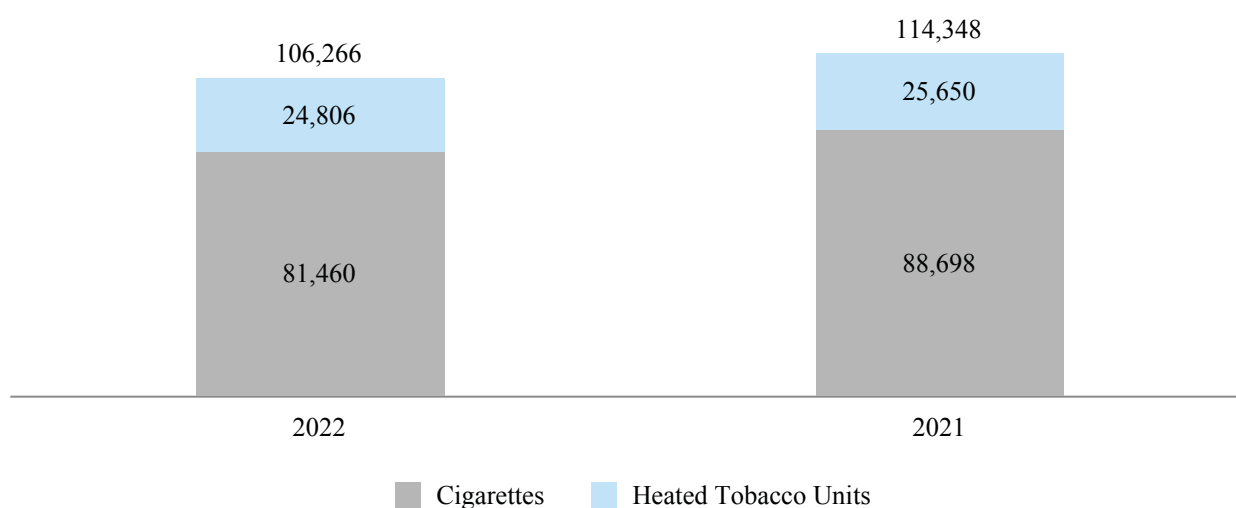
The estimated total market in Eastern Europe decreased by 4.4% to 358.0 billion units, primarily due to:

- Russia, down by 3.6%, mainly due to the impact of price increases; and
- Ukraine, down by 18.3%.

The estimated total market in Eastern Europe, excluding Russia and Ukraine, was essentially stable at 113.3 billion units.

Our Regional market share decreased by 0.8 points to 29.8%. Excluding Russia and Ukraine, our Regional market share increased by 0.4 points to 26.7%.

#### EE Shipment Volume (million units)



Our total shipment volume decreased by 7.1% to 106.3 billion units, primarily due to:

- Russia, down by 6.0%, due to cigarettes and HTUs; and
- Ukraine, down by 30.1%, due to cigarettes and HTUs.

In 2022, Russia and Ukraine accounted for around 71% of PMI's total shipment volume in the Region. Excluding Russia and Ukraine, total shipment volume increased by 2.7%.

### Middle East & Africa:

| <u>Financial Summary -</u><br><u>Years Ended December 31,</u> |          |          | <u>Change</u><br><u>Fav./(Unfav.)</u> |  | <u>Variance</u><br><u>Fav./(Unfav.)</u> |          |              |        |             |                |
|---|----------|----------|---------------------------------------|--|---|----------|--------------|--------|-------------|----------------|
|   |          |          |                                       | <u>Excl.</u><br><u>Curr. &amp;</u><br><u>Acquis.</u> |   |          |              |        |             |                |
| (in millions)   | 2022     | 2021     | Total                                 |  | Total                                   | Currency | Acquisitions | Price  | Vol/<br>Mix | Cost/<br>Other |
| Net Revenues  | \$ 3,901 | \$ 3,293 | 18.5 %                                | 29.0 %   | \$ 608                                  | \$ (348) | \$ —         | \$ 200 | \$ 503      | \$ 253         |
| Operating Income  | \$ 1,758 | \$ 1,146 | 53.4 %                                | 67.6 %   | \$ 612                                  | \$ (163) | \$ —         | \$ 200 | \$ 364      | \$ 211         |

Net revenues, excluding currency and acquisitions, increased by 29.0%, notably reflecting a favorable comparison related to the Saudi Arabia customs assessments of \$246 million in 2021, shown in "Cost/Other", favorable volume/mix, primarily driven by higher cigarette volume and higher HTU volume; and a favorable pricing variance, mainly driven by combustible tobacco pricing.

Operating income, excluding currency and acquisitions, increased by 67.6%, notably reflecting a favorable comparison related to the Saudi Arabia customs assessments in 2021 (as noted above for net revenues), favorable volume/mix, primarily driven by the same factors as for net revenues; a favorable pricing variance; and lower marketing, administration and research costs (including the unfavorable impact of 2022 costs associated with the Swedish Match AB offer of \$13 million and a favorable comparison versus the prior year period related to asset impairment and exit costs of \$17 million); partly offset by higher manufacturing costs.

#### *Middle East & Africa - Total Market, PMI Shipment Volume and Market Share Commentaries*

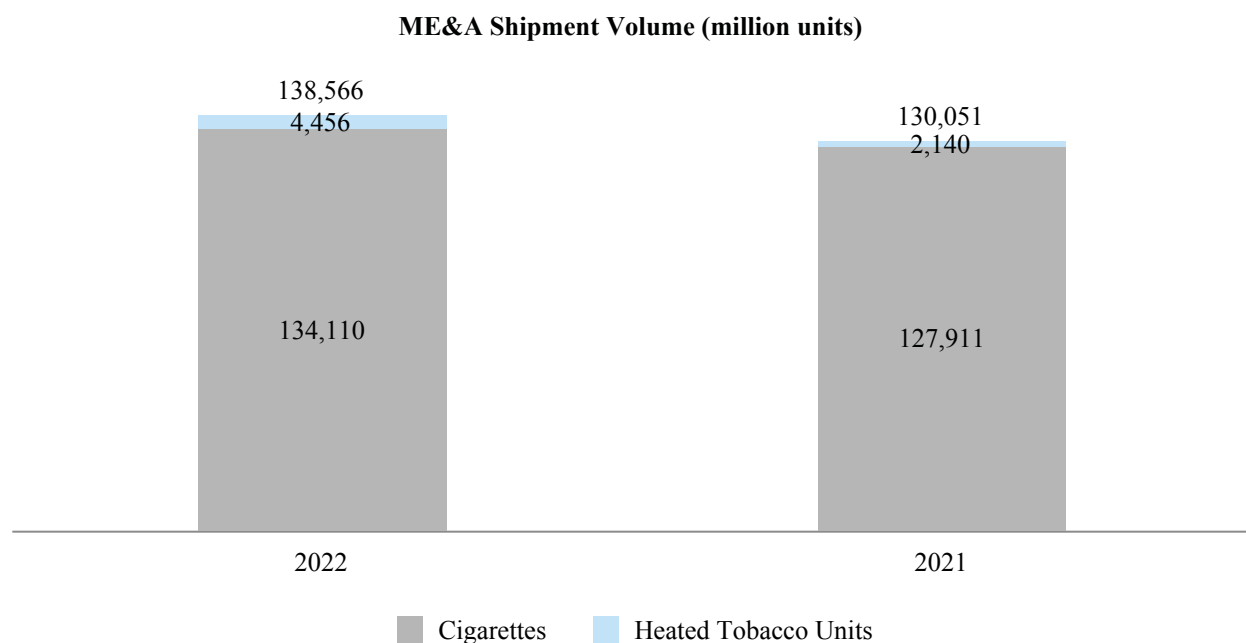
The estimated total market in the Middle East & Africa decreased by 0.8% to 557.2 billion units, mainly due to:

- Algeria, down by 16.1%, or by 6.8% excluding the net unfavorable impact of estimated trade inventory movements, primarily reflecting industry supply chain disruptions, as well as the impact of excise tax-driven price increases in the first quarter of 2021; and
- Turkey, down by 6.3%, mainly reflecting a higher estimated prevalence of illicit trade, partly offset by the impact on adult smoker average daily consumption of the easing of pandemic-related measures, coupled with increased in-bound tourism;

partly offset by

- International Duty Free, up by 43.8%, primarily reflecting the impact of reduced government travel restrictions and increased passenger traffic in certain geographies.

Our Regional market share increased by 1.6 points to 24.7%.



Our total shipment volume increased by 6.5% to 138.6 billion units, mainly driven by:

- Egypt, up by 8.2%, primarily reflecting a higher market share driven by cigarettes and HTUs; and
- PMI Duty Free, up by 61.3%, or by 47.3% excluding the net favorable impact of estimated distributor inventory movements (primarily due to cigarettes), reflecting the higher total market and a higher market share.

## South & Southeast Asia:

| <b>Financial Summary -<br/>Years Ended December 31,</b> |             |             | <b>Change<br/>Fav./Unfav.)</b>           |       | <b>Variance<br/>Fav./Unfav.)</b> |                       |                           |              |                     |                        |
|---|-------------|-------------|--|-------|----------------------------------|-----------------------|---------------------------|--------------|---------------------|------------------------|
|   |             |             | <b>Excl.<br/>Curr. &amp;<br/>Acquis.</b> |       | <b>Total</b>                     | <b>Cur-<br/>rency</b> | <b>Acqui-<br/>sitions</b> | <b>Price</b> | <b>Vol/<br/>Mix</b> | <b>Cost/<br/>Other</b> |
| <b>(in millions)</b>                                    | <b>2022</b> | <b>2021</b> | <b>Total</b>                             |       |                                  |                       |                           |              |                     |                        |
| Net Revenues  | \$ 4,395    | \$ 4,396    | — %                                      | 6.2 % | \$ (1)                           | \$ (274)              | \$ —                      | \$ 45        | \$ 228              | \$ —                   |
| Operating Income  | \$ 1,459    | \$ 1,506    | (3.1)%                                   | 5.7 % | \$ (47)                          | \$ (133)              | \$ —                      | \$ 45        | \$ (16)             | \$ 57                  |

Net revenues, excluding currency and acquisitions, increased by 6.2%, reflecting: favorable volume/mix, primarily driven by higher cigarette volume and favorable cigarette mix; and a favorable pricing variance, mainly due to combustible tobacco pricing.

Operating income, excluding currency and acquisitions, increased by 5.7%, primarily reflecting: lower marketing, administration and research costs (including a favorable comparison versus the prior year period related to asset impairment and exit costs of \$21 million and the unfavorable impact of 2022 costs associated with the Swedish Match AB offer of \$13 million); and a favorable pricing variance; partly offset by unfavorable volume/mix, mainly due to lower cigarette mix.

### *South & Southeast Asia - Total Market, PMI Shipment Volume and Market Share Commentaries*

The estimated total market in South & Southeast Asia increased by 2.9% to 743.3 billion units, mainly driven by:

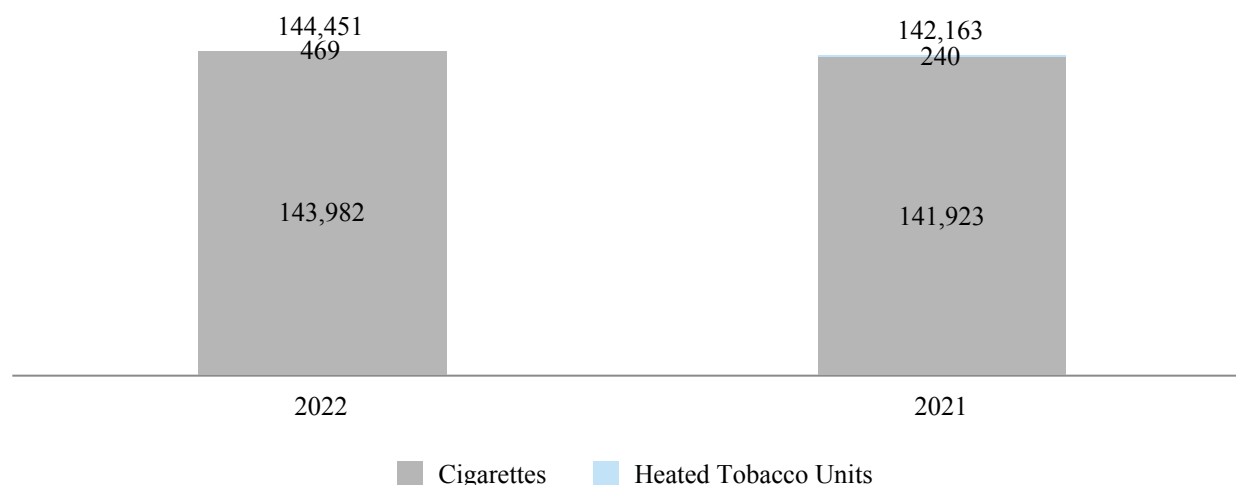
- India, up by 16.8%, primarily reflecting a favorable comparison versus the prior year, during which pandemic-related restrictions impacted the movement of certain products, including tobacco; and
- Indonesia, up by 4.5%, mainly reflecting the impact on adult smoker consumption of the easing of pandemic-related measures, which drove growth in the tax-advantaged 'below tier one' segment;

partly offset by

- Bangladesh, down by 4.0%, primarily reflecting the impact of pandemic-related restrictions on mobility during February 2022, as well as the impact of second-quarter 2022 excise tax-driven price increases; and
- the Philippines, down by 6.1%, mainly reflecting the impact of first-quarter 2022 excise tax-driven price increases.

Our Regional market share decreased by 0.3 points to 19.4%.

### S&SA Shipment Volume (million units)



Our total shipment volume increased by 1.6% to 144.5 billion units, mainly driven by:

- India, up by 73.9%, primarily reflecting a higher market share (driven by geographic expansion) and the higher total market; and
- Indonesia, up by 4.8%, mainly reflecting the higher total market;

partly offset by

- the Philippines, down by 6.3%, mainly reflecting the lower total market.

### East Asia & Australia:

| <u>Financial Summary -</u><br><u>Years Ended December 31,</u> |          |          | <u>Change</u><br><u>Fav./ (Unfav.)</u> |  | <u>Variance</u><br><u>Fav./ (Unfav.)</u> |          |              |         |             |                |
|---|----------|----------|--|--|--|----------|--------------|---------|-------------|----------------|
|   |          |          |  | <u>Excl.</u><br><u>Curr. &amp;</u><br><u>Acquis.</u> |  |          |              |         |             |                |
| (in millions)   | 2022     | 2021     | Total                                  |  | Total                                    | Currency | Acquisitions | Price   | Vol/<br>Mix | Cost/<br>Other |
| Net Revenues  | \$ 5,132 | \$ 5,953 | (13.8)%                                | (3.9)%   | \$ (821)                                 | \$ (587) | \$ —         | \$ (16) | \$ (218)    | \$ —           |
| Operating Income  | \$ 1,919 | \$ 2,556 | (24.9)%                                | (10.9)%  | \$ (637)                                 | \$ (358) | \$ —         | \$ (16) | \$ (477)    | \$ 214         |

Net revenues, excluding currency and acquisitions, decreased by 3.9%, primarily reflecting: unfavorable volume/mix, mainly due to unfavorable device mix, lower cigarette volume and unfavorable cigarette mix, partly offset by higher HTU volume and higher device volume; and an unfavorable pricing comparison.

Operating income, excluding currency and acquisitions, decreased by 10.9%, mainly reflecting: unfavorable volume/mix, primarily due to unfavorable HTU mix, lower cigarette volume, unfavorable cigarette mix and unfavorable device mix; and higher manufacturing costs; partly offset by lower marketing, administration and research costs (including a favorable comparison versus the prior year period related to asset impairment and exit costs of \$88 million and the unfavorable impact of 2022 costs associated with the Swedish Match AB offer of \$21 million).

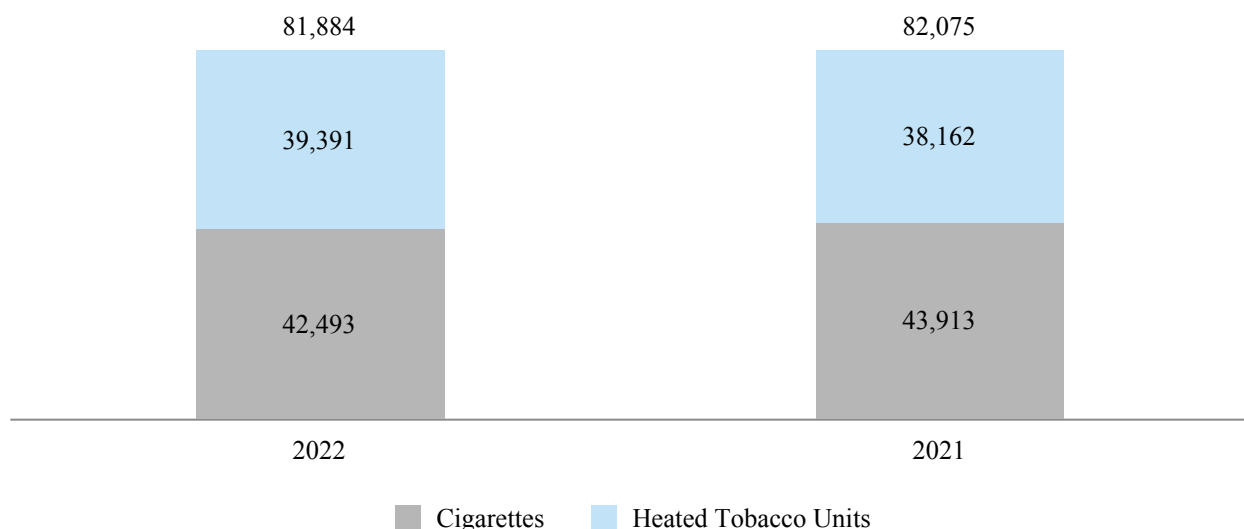
*East Asia & Australia - Total Market, PMI Shipment Volume and Market Share Commentaries*

The estimated total market in East Asia & Australia, excluding China, decreased by 0.9% to 292.8 billion units, mainly due to:

- Japan, down by 1.5%, primarily reflecting the impact of the October 2021 excise tax-driven price increases.

Our Regional market share, excluding China, increased by 0.8 points to 27.3%.

**EA&A Shipment Volume (million units)**



Our total shipment volume decreased by 0.2% to 81.9 billion units, mainly due to:

- Australia, down by 5.1%, mainly reflecting a lower total market, partly offset by a higher market share; and
- South Korea, down by 1.6%, primarily reflecting a lower market share;

partly offset by

- Japan, up by 0.6%, or by 3.9% excluding the net unfavorable impact of estimated distributor inventory movements (primarily due to HTUs), reflecting a higher market share, partly offset by the lower total market.

Excluding the net unfavorable impact of estimated distributor inventory movements, our total in-market sales volume increased by 1.9%.

**Americas:**

| <b>Financial Summary -<br/>Years Ended December 31,</b> |             |             | <b>Change<br/>Fav./((Unfav.)</b> |  | <b>Variance<br/>Fav./((Unfav.)</b> |         |                       |                           |              |                     |                        |
|---|-------------|-------------|----------------------------------|--|------------------------------------|---------|-----------------------|---------------------------|--------------|---------------------|------------------------|
|   |             |             |                                  | <b>Excl.<br/>Curr. &amp;<br/>Acquis.</b> |                                    |         | <b>Cur-<br/>rency</b> | <b>Acqui-<br/>sitions</b> | <b>Price</b> | <b>Vol/<br/>Mix</b> | <b>Cost/<br/>Other</b> |
| <b>(in millions)</b>                                    | <b>2022</b> | <b>2021</b> | <b>Total</b>                     |  | <b>Total</b>                       |         |                       |                           |              |                     |                        |
| Net Revenues  | \$ 1,903    | \$ 1,843    | 3.3 %                            | 4.1 %                                    | \$ 60                              | \$ (15) | \$ —                  | \$ 102                    | \$ (23)      | \$ (4)              |                        |
| Operating Income  | \$ 436      | \$ 487      | (10.5)%                          | (8.2)%                                   | \$ (51)                            | \$ (11) | \$ —                  | \$ 102                    | \$ (6)       | \$ (136)            |                        |



Net revenues, excluding currency and acquisitions, increased by 4.1%, primarily reflecting: a favorable pricing variance, driven by combustible tobacco pricing; partly offset by unfavorable volume/mix, mainly due to unfavorable cigarette mix.

Operating income, excluding currency and acquisitions, decreased by 8.2%, mainly reflecting: higher marketing, administration and research costs (including the unfavorable impact of 2022 costs associated with the Swedish Match AB offer of \$5 million and a favorable comparison versus the prior year period related to asset impairment and exit costs of \$8 million); and higher manufacturing costs; partly offset by a favorable pricing variance. Volume/mix was slightly unfavorable, mainly due to unfavorable cigarette mix, largely offset by higher cigarette volume.

#### *Americas - Total Market, PMI Shipment Volume and Market Share Commentaries*

The estimated total market in the Americas, excluding the U.S., increased by 1.7% to 190.8 billion units, primarily driven by:

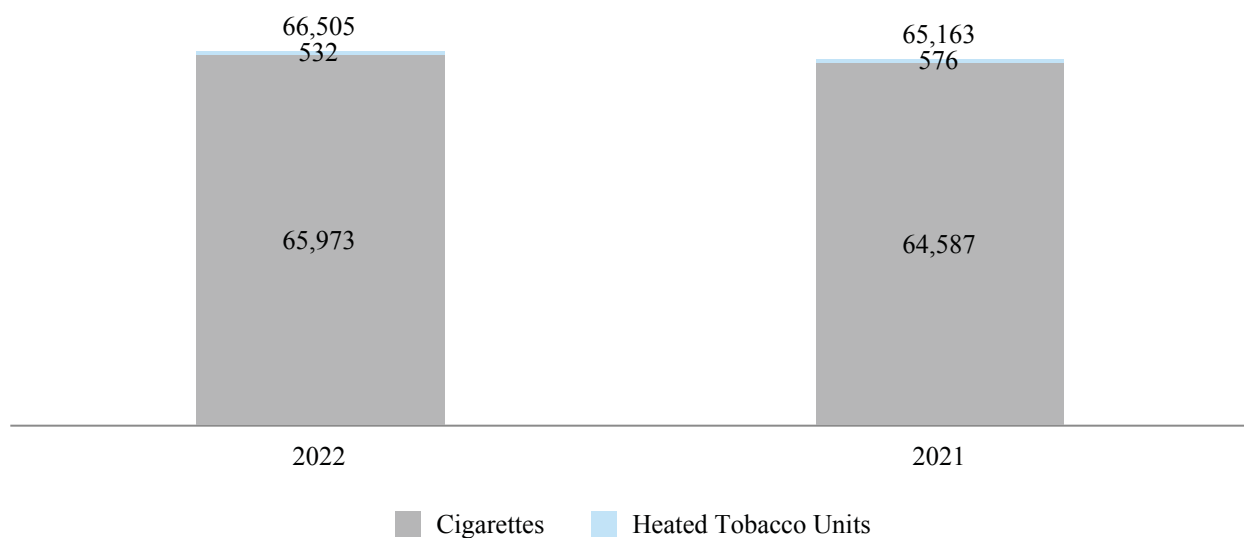
- Brazil, up by 7.6%, primarily reflecting a lower estimated prevalence of illicit trade;

partly offset by

- Canada, down by 12.8%, notably reflecting the impact of price increases and out-switching from cigarettes to e-vapor products.

Our Regional market share, excluding the U.S., increased by 0.3 points to 34.8%.

#### **Americas Shipment Volume (million units)**



Our total shipment volume increased by 2.1% to 66.5 billion units, mainly driven by:

- Brazil, up by 13.3%, primarily reflecting the higher total market and a higher market share; and
- Mexico, up by 2.5%, mainly reflecting a higher total market and a higher market share for cigarettes;

partly offset by

- Argentina, down by 2.8%, primarily reflecting a lower market share due to adult smoker downtrading to ultra-low-price brands produced by local manufacturers, partly offset by a higher total market.

### Swedish Match:

Our results for the Swedish Match operating segment for the full-year include Swedish Match's results beginning on November 11, 2022, when PMI became the owner of a majority position in Swedish Match, through December 31, 2022. The business operations of our Swedish Match segment are managed and evaluated separately from the geographical segments.

| <b>Financial Summary -<br/>Years Ended December 31,</b> |             |             | <b>Change<br/>Fav./Unfav.)</b>           |     | <b>Variance<br/>Fav./Unfav.)</b> |                       |                           |              |                     |                        |
|---|-------------|-------------|--|-----|----------------------------------|-----------------------|---------------------------|--------------|---------------------|------------------------|
|   |             |             | <b>Excl.<br/>Curr. &amp;<br/>Acquis.</b> |     | <b>Total</b>                     | <b>Cur-<br/>rency</b> | <b>Acqui-<br/>sitions</b> | <b>Price</b> | <b>Vol/<br/>Mix</b> | <b>Cost/<br/>Other</b> |
| <b>(in millions)</b>                                    | <b>2022</b> | <b>2021</b> | <b>Total</b>                             |     |                                  |                       |                           |              |                     |                        |
| Net Revenues  | \$ 316      | \$ —        | — %                                      | — % | \$ 316                           | \$ —                  | \$ 316                    | \$ —         | \$ —                | \$ —                   |
| Operating Income / (Loss)                               | \$ (22)     | \$ —        | — %                                      | — % | \$ (22)                          | \$ —                  | \$ (22)                   | \$ —         | \$ —                | \$ —                   |

We recorded net revenues of \$316 million in the Swedish Match segment, with an operating loss of \$22 million, primarily reflecting \$125 million in an acquisition accounting-related item and \$26 million related to the amortization of acquired intangibles.

### Wellness and Healthcare:

In the third quarter of 2021, we acquired Fertin Pharma A/S, Vectura Group plc. and OtiTopic, Inc. On March 31, 2022, we launched a new Wellness and Healthcare business, Vectura Fertin Pharma, consolidating these entities. The operating results of this business are reported in the Wellness and Healthcare segment. The business operations of our Wellness and Healthcare segment are managed and evaluated separately from the geographical segments.

| <b>Financial Summary -<br/>Years Ended December 31,</b> |             |             | <b>Change<br/>Fav./Unfav.)</b>           |         | <b>Variance<br/>Fav./Unfav.)</b> |                       |                           |              |                     |                        |
|---|-------------|-------------|--|---------|----------------------------------|-----------------------|---------------------------|--------------|---------------------|------------------------|
|   |             |             | <b>Excl.<br/>Curr. &amp;<br/>Acquis.</b> |         | <b>Total</b>                     | <b>Cur-<br/>rency</b> | <b>Acqui-<br/>sitions</b> | <b>Price</b> | <b>Vol/<br/>Mix</b> | <b>Cost/<br/>Other</b> |
| <b>(in millions)</b>                                    | <b>2022</b> | <b>2021</b> | <b>Total</b>                             |         |                                  |                       |                           |              |                     |                        |
| Net Revenues  | \$ 271      | \$ 101      | +100%                                    | (7.9)%  | \$ 170                           | \$ (11)               | \$ 189                    | \$ (10)      | \$ —                | \$ 2                   |
| Operating Income / (Loss)                               | \$ (258)    | \$ (52)     | -(100)%                                  | -(100)% | \$ (206)                         | \$ 8                  | \$ (72)                   | \$ (10)      | \$ —                | \$ (132)               |

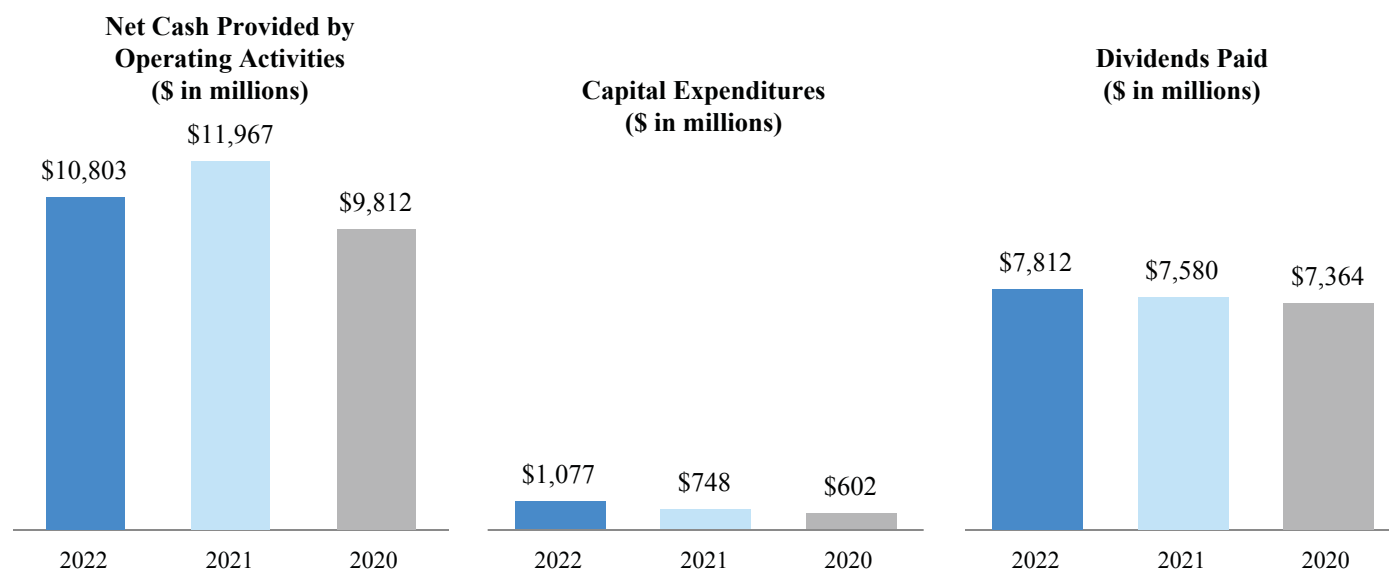
Net revenues, excluding currency and acquisitions, decreased by 7.9%, primarily reflecting lower product supply revenues and lower royalties.

The operating loss of \$258 million in 2022 included \$171 million of amortization and impairment of intangibles. The remaining operating loss in 2022 of \$87 million mainly reflected investments in research and development, as well as expenses related to employee retention programs.

### **2021 compared with 2020**

For a discussion comparing our consolidated operating results within each of our geographical segments for the year ended December 31, 2021, with the year ended December 31, 2020, refer to Part II, Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operation - Operating Results by Business Segment* in our Annual Report on Form 10-K for the year ended December 31, 2021, which was filed with the U.S. Securities and Exchange Commission on February 11, 2022. This section is incorporated by reference into this Annual Report on Form 10-K for the year ended December 31, 2022.

## Financial Review



| (in millions)                                       | For the Years Ended December 31, |          |      |          |
|---|----------------------------------|----------|------|----------|
|   | 2022                             |          | 2021 |          |
| Net cash provided by operating activities           | \$                               | 10,803   | \$   | 11,967   |
| Net cash used in investing activities               |                                  | (15,679) |      | (2,358)  |
| Net cash provided by (used in) financing activities |                                  | 3,806    |      | (11,977) |

### 2022 compared with 2021

- Net Cash Provided by Operating Activities*

Net cash provided by operating activities for the year ended December 31, 2022 decreased by \$1.2 billion compared with 2021. Excluding unfavorable currency movements of \$1.5 billion, net cash provided by operating activities increased by \$0.3 billion, due primarily to higher currency-neutral net earnings of \$1.1 billion and lower pension plan contributions, net of refunds, of \$0.3 billion, partially offset by higher working capital requirements of \$1.0 billion and other movements.

The unfavorable currency movements primarily related to the currency impact on net earnings and represented the fluctuations of the U.S. dollar, especially against Egyptian pound, Euro, Hungarian forint, Japanese yen and Polish zloty, partially offset by the Russian ruble and Swiss franc.

The higher working capital requirements in 2022 as compared with 2021 were primarily due to more cash used for accounts receivable in 2022 mainly reflecting the timing of sales and cash collections, and more cash used for inventory mainly reflecting stock movements related to excise tax increases, partially offset by more cash provided by accrued liabilities and other current assets mainly reflecting the timing of excise tax-paid inventory movements and excise tax payments.

- Net Cash Used in Investing Activities*

Net cash used in investing activities of \$15.7 billion for the year ended December 31, 2022, increased by \$13.3 billion from the comparable 2021 period. This increase was due primarily to the \$14.0 billion of cash used in 2022 for the Swedish Match acquisition, net of acquired cash, the 2022 cash payment to Altria Group, Inc. of \$1.0 billion for PMI to reacquire the IQOS commercialization

rights in the U.S. and higher capital expenditures. These increases were partially offset by the \$2.1 billion of cash used in 2021 for our acquisitions, net of acquired cash. For further detail on our acquisitions and the Altria Group, Inc. Agreement, see Item 8, Note 3. *Acquisitions.*

Our capital expenditures were \$1.1 billion in 2022 and \$0.7 billion in 2021. The 2022 expenditures were primarily related to our ongoing investments in smoke-free product manufacturing capacity. We expect total capital expenditures in 2023 of approximately \$1.3 billion, partly reflecting increased investments behind smoke-free product manufacturing capacity, including for *ILUMA* and Swedish Match's portfolio.

- *Net Cash Provided by (Used in) Financing Activities*

Net cash provided by financing activities of \$3.8 billion for the year ended December 31, 2022, increased by \$15.8 billion from the comparable 2021 period. The increase was primarily due to higher borrowings in 2022 reflecting net borrowings of \$9.9 billion under credit facilities related to the Swedish Match acquisition, proceeds from long-term debt issuances of \$6.0 billion and net short-term borrowings of \$1.0 billion (primarily commercial paper), as well as lower share repurchases and lower repayments of long-term debt in 2022. These increases were partially offset by higher cash usage primarily reflecting payments made after the acquisition date to acquire additional Swedish Match shares from noncontrolling interests, higher dividend payments and the purchase of the remaining stakes in our Turkish affiliates in the first quarter of 2022. For further details on the purchases of additional Swedish Match shares and the remaining stakes in our Turkish affiliates, see Item 8, Note 3. *Acquisitions.*

Dividends paid in 2022 and 2021 were \$7.8 billion and \$7.6 billion, respectively.

## 2021 compared with 2020

For a discussion comparing our net cash activities (operating, investing and financing) for the year ended December 31, 2021, with the year ended December 31, 2020, refer to Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation - Financial Review in our Annual Report on Form 10-K for the year ended December 31, 2021, which was filed with the U.S. Securities and Exchange Commission on February 11, 2022. This section is incorporated by reference into this Annual Report on Form 10-K for the year ended December 31, 2022.

- **Debt and Liquidity**

We define cash and cash equivalents as short-term, highly liquid investments, readily convertible to known amounts of cash that mature within a maximum of three months and have an insignificant risk of change in value due to interest rate or credit risk changes. As a policy, we do not hold any investments in structured or equity-linked products. Our cash and cash equivalents are predominantly held with institutions that have investment-grade long-term credit rating. As part of our cash management strategy and in order to manage counterparty exposure, we also enter into reverse repurchase agreements. Such agreements are collateralized with government or corporate securities held by a custodial bank and, at maturity, cash is paid back to PMI, and the collateral is returned to the bank. For 2022 and 2021, the activities for such reverse repurchase agreements were not material.

In August 2021, we published a business transformation-linked financing framework ("Framework"), which integrates PMI's smoke-free transformation into its financing strategy. The Framework outlines the guidelines that we will follow in issuing business transformation-linked financing instruments in the debt capital and loan markets, which may include public notes offerings, private placements, loans, and other relevant financing instruments.

**Credit Ratings** – The cost and terms of our financing arrangements as well as our access to commercial paper markets may be affected by applicable credit ratings. On November 10, 2022, Fitch affirmed our long-term credit rating at "A" and short-term at "F1", and revised our outlook to "Stable" from "Rating Watch Negative". On November 11, 2022, Moody's affirmed our long-term credit rating at "A2" and short-term at "P-1", and revised our outlook to "Stable" from "Rating(s) Under Review". On November 11, 2022, Standard & Poor's revised our long-term credit rating to "A-" from "A" and short-term to "A-2" from "A-1" with "Stable" outlook (previously "CreditWatch Negative").

At February 10, 2023, our credit ratings and outlook by major credit rating agencies were as follows:

|                   | Short-term | Long-term | Outlook |
|-------------------|------------|-----------|---------|
| Moody's           | P-1        | A2        | Stable  |
| Standard & Poor's | A-2        | A-        | Stable  |
| Fitch             | F1         | A         | Stable  |

**Revolving Credit Facilities** – On January 25, 2023, we entered into an agreement to amend and extend the term of our \$1.8 billion 364-day committed revolving credit facility from January 31, 2023, to January 30, 2024.

At February 10, 2023, our committed revolving credit facilities were as follows:

| Type<br>(in billions)   | Committed<br>Revolving Credit<br>Facilities |
|---|---|
| 364-day revolving credit, expiring January 30, 2024                         | \$ 1.8                                      |
| Multi-year revolving credit, expiring February 10, 2026 <sup>(1)</sup>      | 2.0   |
| Multi-year revolving credit, expiring September 29, 2026 <sup>(2) (3)</sup> | 2.5   |
| Total facilities  | \$ 6.3                                      |

<sup>(1)</sup> On January 28, 2022, we entered into an agreement, effective February 10, 2022, to amend and extend the term of our \$2.0 billion multi-year revolving credit facility, for an additional year covering the period February 11, 2026 to February 10, 2027, in the amount of \$1.9 billion.

<sup>(2)</sup> Includes business transformation-linked pricing adjustments that may result in the reduction or increase in both the interest rate and commitment fee under the credit agreement if PMI achieves, or fails to achieve, certain specified targets based on its business transformation goals.

<sup>(3)</sup> On September 20, 2022, we entered into an agreement, effective September 29, 2022, to amend and extend the term of our \$2.5 billion multi-year revolving credit facility, for an additional year covering the period September 30, 2026 to September 29, 2027, in the amount of \$2.3 billion.

At February 10, 2023, there were no borrowings under the committed revolving credit facilities, and the entire committed amounts were available for borrowing. Subject to market conditions, PMI currently expects to request a further extension of the terms of its \$2.5 billion multi-year revolving credit facility for an additional one-year period, in accordance with and subject to the terms and conditions of the relevant revolving credit facility agreement.

All banks participating in our committed revolving credit facilities have an investment-grade long-term credit rating from the credit rating agencies. We continuously monitor the credit quality of our banking group, and at this time we are not aware of any potential non-performing credit provider.

These committed revolving credit facilities do not include any credit rating triggers, material adverse change clauses or any provisions that could require us to post collateral. We expect to continue to meet our covenants.

In addition to the committed revolving credit facilities discussed above, certain of our subsidiaries maintain short-term credit arrangements to meet their respective working capital needs. These credit arrangements, which amounted to approximately \$1.9 billion at December 31, 2022 and approximately \$2.3 billion at December 31, 2021, are for the sole use of our subsidiaries. Borrowings under these arrangements and other bank loans amounted to \$295 million at December 31, 2022, and \$225 million at December 31, 2021.

**Financing of the Swedish Match Acquisition** – In connection with PMI's all-cash recommended public offer to the shareholders of Swedish Match AB ("Swedish Match"), a public limited liability company organized under the laws of Sweden, for all the outstanding shares of Swedish Match, on May 11, 2022, PMI entered into a credit agreement relating to a 364-day senior unsecured bridge facility. The facility provided for borrowings up to an aggregate principal amount of \$17 billion, expiring 364 days after the occurrence of certain events unless extended. On June 23, 2022, PMI entered into a new €5.5 billion (approximately \$5.8 billion at the date of signing) senior unsecured term loan credit agreement consisting of a €3.0 billion (approximately \$3.2 billion at the date of signing) tranche expiring three years after the occurrence of certain events and a €2.5 billion (approximately \$2.6 billion at the date of signing) tranche expiring on June 23, 2027. In connection with the term loan facility, the aggregate principal amount of commitments under the 364-day senior unsecured bridge facility was reduced from \$17 billion to \$11 billion. On November 11, 2022, PMI acquired a controlling interest of 85.87% of the total issued shares in Swedish Match and has acquired 94.81% of its outstanding shares as of December 31, 2022.

PMI borrowed \$8.4 billion under the bridge facility by delivering notices of borrowing for advances of \$7.9 billion and \$0.5 billion on November 7, 2022 and November 10, 2022, respectively. All amounts borrowed under the bridge facility will become due on November 8, 2023 unless prepaid or such maturity date is extended pursuant to the terms of the bridge facility. On November 7, 2022, PMI also delivered notices of borrowing for advances totaling €5.5 billion under the term loan facility, of which €3.0 billion will become due on November 9, 2025 and €2.5 billion will become due on June 23, 2027 unless prepaid pursuant to the terms of the credit



agreement. On November 21, 2022, PMI repaid \$4.0 billion under the bridge facility. As of December 31, 2022, outstanding borrowings under the bridge facility amounted to \$4.4 billion and \$1.1 billion commitments remained available for drawing. As of December 31, 2022, the €5.5 billion (approximately \$5.9 billion) term loan facility was fully drawn and remained outstanding. The proceeds under the bridge facility and the term loan facility were used, directly or indirectly, to finance the acquisition, including, the payment of related fees and expenses. For further details, see Item 8, Note 3. *Acquisitions* to our consolidated financial statements.

**Commercial Paper Program** – We continue to have access to liquidity in the commercial paper market through programs in place in the U.S. and in Europe having an aggregate issuance capacity of \$8.0 billion. At December 31, 2022, we had \$0.9 billion of commercial paper outstanding. At December 31, 2021, we had no commercial paper outstanding. The average commercial paper balance outstanding during 2022 and 2021 was \$3.1 billion and \$1.1 billion, respectively.

**Sale of Accounts Receivable** – To mitigate credit risk and enhance cash and liquidity management, we sell trade receivables to unaffiliated financial institutions. These arrangements allow us to sell, on an ongoing basis, certain trade receivables without recourse. The trade receivables sold are generally short-term in nature and are removed from the consolidated balance sheets. We sell trade receivables under two types of arrangements, servicing and nonservicing.

Our operating cash flows were positively impacted by the amount of the trade receivables sold and derecognized from the consolidated balance sheets, which remained outstanding with the unaffiliated financial institutions. The trade receivables sold that remained outstanding under these arrangements as of December 31, 2022, 2021 and 2020, were \$1.0 billion, \$0.9 billion and \$1.2 billion, respectively. The net proceeds received are included in cash provided by operating activities in the consolidated statements of cash flows.

For further details, see Item 8, Note 19. *Sale of Accounts Receivable* to our consolidated financial statements.

**Debt** – Our total debt was \$43.1 billion at December 31, 2022, and \$27.8 billion at December 31, 2021. Our total debt is primarily fixed rate in nature. The weighted-average all-in financing cost of our total debt was 2.5% in 2022 and 2.4% in 2021. For further details, including the fair value of our debt, see Item 8, Note 8. *Indebtedness*. The amount of debt that we can issue is subject to approval by our Board of Directors.

On February 11, 2020, we filed a shelf registration statement with the U.S. Securities and Exchange Commission, under which we may from time to time sell debt securities and/or warrants to purchase debt securities over a three-year period. During February 2023, we plan to file a new shelf registration statement with the Securities and Exchange Commission.

Our notes issuances in 2022 were as follows:

(in millions)

| Type              |     | Face Value | Interest Rate | Issuance      | Maturity      |
|-------------------|-----|------------|---------------|---------------|---------------|
| U.S. dollar notes | (a) | \$1,000    | 5.125%        | November 2022 | November 2024 |
| U.S. dollar notes | (b) | \$750      | 5.000%        | November 2022 | November 2025 |
| U.S. dollar notes | (b) | \$1,500    | 5.125%        | November 2022 | November 2027 |
| U.S. dollar notes | (b) | \$1,250    | 5.625%        | November 2022 | November 2029 |
| U.S. dollar notes | (b) | \$1,500    | 5.750%        | November 2022 | November 2032 |

(a) Interest is payable semi-annually on each May 15 and November 15, commencing May 15, 2023.

(b) Interest is payable semi-annually on each May 17 and November 17, commencing May 17, 2023.

The weighted-average time to maturity of our long-term debt was approximately 8 years at the end of 2022 and 10 years at the end of 2021.

**Cash Requirements** – At December 31, 2022, our material short-term and long-term cash requirements for various contractual obligations and commitments primarily consisted of the following:

- principal payments related to long-term debt and the associated interest payments. For further details, see Item 8, Note 8. *Indebtedness* to our consolidated financial statements;
- accounts payable and accrued liabilities on our consolidated balance sheet (primarily short-term in nature);

- purchase obligations for inventory and production costs to be utilized in the normal course of business such as raw materials, electronic devices, indirect materials and supplies, packaging, co-manufacturing arrangements, storage and distribution, as well as capital expenditures. These purchase obligations are expected to be approximately \$3.3 billion in 2023 and approximately \$1.6 billion for years beyond;
- As part of the agreement with Altria Group, Inc. for PMI to reacquire the *IQOS* commercialization rights in the U.S., PMI agreed to pay the remaining cash consideration of \$1.7 billion (plus interest, at a per annum rate equal to six percent (6%)) by July 2023 at the latest. For further details, see Item 8, Note 3. *Acquisitions* to our consolidated financial statements;
- operating lease liabilities, on an undiscounted basis, which were included in our consolidated balance sheets. For further details, see Item 8, Note 21. *Leases* to our consolidated financial statements; and
- other long-term liabilities mainly related to transition tax. For further details, see Item 8, Note 12. *Income Taxes* to our consolidated financial statements.

We utilize long-term and short-term debt financing, including a commercial paper program that is regularly used to finance ongoing liquidity requirements, as part of our overall cash management strategy. Our ability to access the capital and credit markets as well as overall dynamics of these markets may impact borrowing costs. We expect that the combination of our long-term and short-term debt financing, the commercial paper program and the committed credit facilities, coupled with our operating cash flows, will enable us to meet our liquidity requirements.

#### • **Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements, including special purpose entities, other than guarantees, and cash requirements discussed above.

**Guarantees** – At December 31, 2022, we have guarantees of our own performance, which are primarily related to excise taxes on the shipment of our products. There is no liability in the consolidated financial statements associated with these guarantees. These guarantees have not had, and are not expected to have, a significant impact on PMI's liquidity. In October 2020, we guaranteed an obligation for an equity method investee. For further details, see Item 8, Note 18. *Contingencies* to our consolidated financial statements.

#### • **Equity and Dividends**

We discuss our stock awards as of December 31, 2022, in Item 8, Note 10. *Stock Plans* to our consolidated financial statements.

On June 11, 2021, our Board of Directors authorized a new share repurchase program of up to \$7 billion, with target spending of \$5 billion to \$7 billion over a three-year period. On July 22, 2021, we began repurchasing shares under this new share repurchase program. From July 22, 2021 through March 31, 2022, we repurchased 10.5 million shares of our common stock at a cost of approximately \$1.0 billion. During the first three months of 2022, we repurchased 2.0 million shares of our common stock at a cost of \$199 million.

On May 11, 2022, we announced the suspension of our three-year share repurchase program following the recommended public offer to acquire the outstanding shares of Swedish Match from its shareholders. Prior to the suspension of the program, we made no share repurchases during the second quarter of 2022. For further details on Swedish Match, see the Item 8, Note 3. *Acquisitions*.

Dividends paid in 2022 were \$7.8 billion. During the third quarter of 2022, our Board of Directors approved a 1.6% increase in the quarterly dividend to \$1.27 per common share. As a result, the present annualized dividend rate is \$5.08 per common share.

### **Market Risk**

- **Counterparty Risk** - We predominantly work with financial institutions with strong short- and long-term credit ratings as assigned by Standard & Poor's and Moody's. These banks are also part of a defined group of relationship banks. Non-investment grade institutions are only used in certain emerging markets to the extent required by local business needs. We have a conservative approach when it comes to choosing financial counterparties and financial instruments. As such we do not invest or hold investments in any structured or equity-linked products. The majority of our cash and cash equivalents is currently invested with maturities of less than 30 days.

We continuously monitor and assess the credit worthiness of all our counterparties.

- **Derivative Financial Instruments** - We operate in markets primarily outside of the United States of America, with manufacturing and sales facilities in various locations around the world. Consequently, we use certain financial instruments to manage our foreign currency and interest rate exposure. We use derivative financial instruments principally to reduce our exposure to market risks resulting from fluctuations in foreign exchange and interest rates by creating offsetting exposures. We are not a party to leveraged derivatives and, by policy, do not use derivative financial instruments for speculative purposes.

See Item 8, Note 16. *Financial Instruments* to our consolidated financial statements for further details on our derivative financial instruments and the related collateral arrangements.

- **Value at Risk** - We use a value at risk computation to estimate the potential one-day loss in the fair value of our interest-rate-sensitive and foreign currency price-sensitive derivative financial instruments. This computation includes our debt and foreign currency forwards, swaps and options. Anticipated transactions, foreign currency trade payables and receivables, and net investments in foreign subsidiaries, which the foregoing instruments are intended to hedge, were excluded from the computation.

The computation estimates were made assuming normal market conditions, using a 95% confidence interval and a one-day holding period using a "parametric delta-gamma" approximation technique to determine the observed interrelationships between movements in interest rates and various currencies and in calculating the risk of the underlying positions in the portfolio. These interrelationships were determined by observing interest rate and forward currency rate movements primarily over the preceding quarter for determining value at risk at December 31, 2022 and 2021, and primarily over each of the four preceding quarters for the calculation of average, high and low value at risk amounts during each year.

| (in millions)             | Fair Value Impact    |         |       |       |
|---------------------------|----------------------|---------|-------|-------|
|                           | At December 31, 2022 | Average | High  | Low   |
| Instruments sensitive to: |                      |         |       |       |
| Foreign currency rates    | \$33                 | \$55    | \$73  | \$33  |
| Interest rates            | \$233                | \$253   | \$317 | \$195 |
|                           |                      |         |       |       |
| (in millions)             | Fair Value Impact    |         |       |       |
|                           | At December 31, 2021 | Average | High  | Low   |
| Instruments sensitive to: |                      |         |       |       |
| Foreign currency rates    | \$24                 | \$36    | \$45  | \$24  |
| Interest rates            | \$217                | \$200   | \$217 | \$179 |

The significant year-over-year increase in "average" and "high" impact on the value at risk computation above was primarily due to trends in foreign currency and interest rate volatility.

The value at risk computation is a risk analysis tool designed to statistically estimate the maximum probable daily loss from adverse movements in interest and foreign currency rates under normal market conditions. The computation does not purport to represent actual losses in fair value or earnings to be incurred by us, nor does it consider the effect of favorable changes in market rates. We cannot predict actual future movements in such market rates and do not present these results to be indicative of future movements in market rates or to be representative of any actual impact that future changes in market rates may have on our future results of operations or financial position.

## Contingencies

See Item 3 and Item 8, Note 18. *Contingencies* to our consolidated financial statements for a discussion of contingencies.

## Cautionary Factors That May Affect Future Results

### Forward-Looking and Cautionary Statements

We may from time to time make written or oral forward-looking statements, including statements contained in filings with the SEC, in reports to stockholders and in press releases and investor webcasts. You can identify these forward-looking statements by use of words such as "strategy," "expects," "continues," "plans," "anticipates," "believes," "will," "aspires," "estimates," "intends," "projects," "aims," "goals," "targets," "forecasts" and other words of similar meaning. You can also identify them by the fact that they do not relate strictly to historical or current facts.

We cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Our RRP's constitute a new product category that is less predictable than our mature cigarette business. Achievement of future results is subject to risks, uncertainties and inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Investors should bear this in mind as they consider forward-looking statements and whether to invest in or remain invested in our securities. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, we are identifying important factors that, individually or in the aggregate, could cause actual results and outcomes to differ materially from those contained in any forward-looking statements made by us; any such statement is qualified by reference to the following cautionary statements. We elaborate on these and other risks we face throughout this document, particularly in Item 1A. *Risk Factors* and *Business Environment* of this section. You should understand that it is not possible to predict or identify all risk factors. Consequently, you should not consider the following to be a complete discussion of all potential risks or uncertainties. We do not undertake to update any forward-looking statement that we may make from time to time, except in the normal course of our public disclosure obligations.

### **Item 7A. *Quantitative and Qualitative Disclosures About Market Risk.***

The information called for by this Item is included in Item 7, *Market Risk*.

**Item 8. Financial Statements and Supplementary Data.**

**Consolidated Statements of Earnings**

(in millions of dollars, except per share data)

| <b>for the years ended December 31,</b>  | <b>2022</b>      | <b>2021</b> | <b>2020</b> |
|--|------------------|-------------|-------------|
| Revenues including excise taxes (includes \$8,269 in 2022, \$7,822 in 2021 and \$7,572 in 2020 from related parties) | <b>\$ 80,669</b> | \$ 82,223   | \$ 76,047   |
| Excise taxes on products   | <b>48,907</b>    | 50,818      | 47,353      |
| Net revenues (includes \$3,658 in 2022, \$3,330 in 2021 and \$3,233 in 2020 from related parties) (Note 18)          | <b>31,762</b>    | 31,405      | 28,694      |
| Cost of sales (Notes 4 & 5)  | <b>11,402</b>    | 10,030      | 9,569       |
| Gross profit   | <b>20,360</b>    | 21,375      | 19,125      |
| Marketing, administration and research costs (Notes 3, 4, 5, 13 & 20)  | <b>8,114</b>     | 8,400       | 7,457       |
| Operating income   | <b>12,246</b>    | 12,975      | 11,668      |
| Interest expense, net (Note 15)  | <b>588</b>       | 628         | 618         |
| Pension and other employee benefit costs (Note 14)   | <b>24</b>        | 115         | 97          |
| Earnings before income taxes   | <b>11,634</b>    | 12,232      | 10,953      |
| Provision for income taxes (Note 12)   | <b>2,244</b>     | 2,671       | 2,377       |
| Equity investments and securities (income)/loss, net   | <b>(137)</b>     | (149)       | (16)        |
| Net earnings   | <b>9,527</b>     | 9,710       | 8,592       |
| Net earnings attributable to noncontrolling interests  | <b>479</b>       | 601         | 536         |
| Net earnings attributable to PMI   | <b>\$ 9,048</b>  | \$ 9,109    | \$ 8,056    |
| Per share data (Note 11):  |                  |             |             |
| Basic earnings per share   | <b>\$ 5.82</b>   | \$ 5.83     | \$ 5.16     |
| Diluted earnings per share   | <b>\$ 5.81</b>   | \$ 5.83     | \$ 5.16     |

See notes to consolidated financial statements.

## Consolidated Statements of Comprehensive Earnings

(in millions of dollars)

| for the years ended December 31,   | 2022            | 2021             | 2020            |
|--|-----------------|------------------|-----------------|
| Net earnings   | \$ 9,527        | \$ 9,710         | \$ 8,592        |
| Other comprehensive earnings (losses), net of income taxes:  |                 |                  |                 |
| Change in currency translation adjustments:  |                 |                  |                 |
| Unrealized gains (losses), net of income taxes of \$(169) in 2022, \$(58) in 2021 and \$94 in 2020   | (1,268)         | 58               | (1,265)         |
| Change in net loss and prior service cost:   |                 |                  |                 |
| Net gains (losses) and prior service costs, net of income taxes of \$(132) in 2022, \$(210) in 2021 and \$139 in 2020                              | 843             | 1,055            | (726)           |
| Amortization of net losses, prior service costs and net transition costs, net of income taxes of \$(49) in 2022, \$(72) in 2021 and \$(67) in 2020 | 217             | 323              | 299             |
| Change in fair value of derivatives accounted for as hedges:   |                 |                  |                 |
| Gains (losses) recognized, net of income taxes of \$(99) in 2022, \$(20) in 2021 and \$13 in 2020  | 481             | 124              | (68)            |
| (Gains) losses transferred to earnings, net of income taxes of \$35 in 2022, \$7 in 2021 and \$0 in 2020   | (219)           | (35)             | (20)            |
| Total other comprehensive earnings (losses)  | 54              | 1,525            | (1,780)         |
| Total comprehensive earnings   | 9,581           | 11,235           | 6,812           |
| Less comprehensive earnings attributable to:   |                 |                  |                 |
| Noncontrolling interests   | 515             | 522              | 574             |
| Comprehensive earnings attributable to PMI   | <u>\$ 9,066</u> | <u>\$ 10,713</u> | <u>\$ 6,238</u> |

See notes to consolidated financial statements.



## Consolidated Balance Sheets

(in millions of dollars, except share data)

| at December 31,   | 2022             | 2021             |
|---|------------------|------------------|
| <b>Assets</b>   |                  |                  |
| Cash and cash equivalents   | \$ 3,207         | \$ 4,496         |
| Trade receivables (less allowances of \$42 in 2022 and \$70 in 2021) <sup>(1)</sup> | 3,850            | 3,123            |
| Other receivables (less allowances of \$32 in 2022 and \$36 in 2021)                | 906              | 817              |
| Inventories:  |                  |                  |
| Leaf tobacco  | 1,674            | 1,642            |
| Other raw materials   | 2,028            | 1,652            |
| Finished product  | 6,184            | 5,426            |
|   | 9,886            | 8,720            |
| Other current assets (Note 3)   | 1,770            | 561              |
| Total current assets  | 19,619           | 17,717           |
| Property, plant and equipment, at cost:   |                  |                  |
| Land and land improvements  | 545              | 565              |
| Buildings and building equipment  | 4,291            | 4,293            |
| Machinery and equipment   | 9,549            | 9,275            |
| Construction in progress  | 1,058            | 599              |
|   | 15,443           | 14,732           |
| Less: accumulated depreciation  | 8,733            | 8,564            |
|   | 6,710            | 6,168            |
| Goodwill (Note 5)   | 19,655           | 6,680            |
| Other intangible assets, net (Note 5)   | 6,732            | 2,818            |
| Equity investments (Note 6)   | 4,431            | 4,463            |
| Deferred income taxes   | 603              | 895              |
| Other assets (less allowances of \$20 in 2022 and \$21 in 2021) (Note 3)            | 3,931            | 2,549            |
| <b>Total Assets</b>   | <b>\$ 61,681</b> | <b>\$ 41,290</b> |

<sup>(1)</sup> Includes trade receivables from related parties of \$688 million and \$518 million as of December 31, 2022, and 2021, respectively (less allowances of \$7 million in 2022 and \$1 million in 2021). For further details, see Note 6. *Related Parties - Equity Investments and Other*.

See notes to consolidated financial statements.

| at December 31,   | 2022             | 2021             |
|---|------------------|------------------|
| <b>Liabilities</b>  |                  |                  |
| Short-term borrowings (Note 8)  | \$ 5,637         | \$ 225           |
| Current portion of long-term debt (Note 8)  | 2,611            | 2,798            |
| Accounts payable  | 4,076            | 3,331            |
| Accrued liabilities:  |                  |                  |
| Marketing and selling   | 695              | 811              |
| Taxes, except income taxes  | 7,440            | 6,324            |
| Employment costs  | 1,168            | 1,146            |
| Dividends payable   | 1,990            | 1,958            |
| Other   | 2,679            | 1,637            |
| Income taxes (Note 12)  | 1,040            | 1,025            |
| Total current liabilities   | 27,336           | 19,255           |
| Long-term debt (Note 8)   | 34,875           | 24,783           |
| Deferred income taxes   | 1,956            | 726              |
| Employment costs  | 1,984            | 2,968            |
| Income taxes and other liabilities (Note 12)  | 1,841            | 1,766            |
| Total liabilities   | 67,992           | 49,498           |
| Contingencies (Note 18)   |                  |                  |
| <b>Stockholders' (Deficit) Equity</b>   |                  |                  |
| Common stock, no par value (2,109,316,331 shares issued in 2022 and 2021) (Note 9)                  | —                | —                |
| Additional paid-in capital  | 2,230            | 2,225            |
| Earnings reinvested in the business   | 34,289           | 33,082           |
| Accumulated other comprehensive losses (Note 17)  | (9,559)          | (9,577)          |
|   | 26,960           | 25,730           |
| Less: cost of repurchased stock (559,098,620 and 559,146,338 shares in 2022 and 2021, respectively) | 35,917           | 35,836           |
| Total PMI stockholders' deficit   | (8,957)          | (10,106)         |
| Noncontrolling interests  | 2,646            | 1,898            |
| Total stockholders' deficit   | (6,311)          | (8,208)          |
| <b>Total Liabilities and Stockholders' (Deficit) Equity</b>   | <b>\$ 61,681</b> | <b>\$ 41,290</b> |

See notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

(in millions of dollars)

| for the years ended December 31,                                     | 2022            | 2021           | 2020           |
|--|-----------------|----------------|----------------|
| <b>CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>               |                 |                |                |
| Net earnings   | \$ 9,527        | \$ 9,710       | \$ 8,592       |
| Adjustments to reconcile net earnings to operating cash flows:       |                 |                |                |
| Depreciation, amortization and impairment of intangibles             | 1,189           | 998            | 981            |
| Deferred income tax (benefit) provision                              | (234)           | (17)           | (143)          |
| Asset impairment and exit costs, net of cash paid (Note 20)          | (93)            | (22)           | (14)           |
| Cash effects of changes, net of the effects from acquired companies: |                 |                |                |
| Receivables, net <sup>(1)</sup>                                      | (871)           | (198)          | 26             |
| Inventories  | (1,287)         | 549            | (165)          |
| Accounts payable   | 719             | 653            | 406            |
| Accrued liabilities and other current assets                         | 1,862           | 623            | 121            |
| Income taxes   | (261)           | (260)          | (260)          |
| Pension plan contributions, net of refunds (Note 14)                 | 3               | (269)          | (102)          |
| Other  | 249             | 200            | 370            |
| Net cash provided by operating activities                            | <u>10,803</u>   | <u>11,967</u>  | <u>9,812</u>   |
| <b>CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>               |                 |                |                |
| Capital expenditures   | (1,077)         | (748)          | (602)          |
| Acquisition of Swedish Match AB, net of acquired cash (Note 3)       | (13,976)        | —              | —              |
| Other acquisitions, net of acquired cash (Note 3)                    | —               | (2,111)        | —              |
| Altria Group, Inc. agreement (Note 3)                                | (1,002)         | —              | —              |
| Equity investments   | (20)            | (34)           | (47)           |
| Net investment hedges and other derivatives (Note 16)                | 284             | 466            | (551)          |
| Other  | 112             | 69             | 46             |
| Net cash used in investing activities                                | <u>(15,679)</u> | <u>(2,358)</u> | <u>(1,154)</u> |

<sup>(1)</sup> Includes amounts from related parties of \$(166) million, \$(149) million and \$88 million in 2022, 2021 and 2020, respectively

See notes to consolidated financial statements.

| for the years ended December 31,  | 2022            | 2021            | 2020            |
|---|-----------------|-----------------|-----------------|
| <b>CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>                        |                 |                 |                 |
| Short-term borrowing activity by original maturity:                           |                 |                 |                 |
| Net issuances (repayments) - maturities of 90 days or less                    | \$ 876          | \$ —            | \$ (70)         |
| Issuances - maturities longer than 90 days                                    | 934             | —               | 45              |
| Repayments - maturities longer than 90 days                                   | (795)           | —               | (45)            |
| Borrowings under credit facilities related to Swedish Match AB acquisition    | 13,920          | —               | —               |
| Repayments under credit facilities related to Swedish Match AB acquisition    | (4,000)         | —               | —               |
| Long-term debt proceeds   | 5,965           | —               | 3,713           |
| Long-term debt repaid   | (2,724)         | (3,042)         | (3,999)         |
| Repurchases of common stock   | (209)           | (775)           | —               |
| Dividends paid  | (7,812)         | (7,580)         | (7,364)         |
| Payments to acquire Swedish Match AB noncontrolling interests (Note 3)        | (1,495)         | —               | —               |
| Payments to noncontrolling interests and Other (Note 3)                       | (854)           | (580)           | (776)           |
| Net cash provided by (used in) financing activities                           | 3,806           | (11,977)        | (8,496)         |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | (213)           | (417)           | 258             |
| Cash, cash equivalents and restricted cash <sup>(1)</sup> :                   |                 |                 |                 |
| Increase (Decrease)   | (1,283)         | (2,785)         | 420             |
| Balance at beginning of year  | 4,500           | 7,285           | 6,865           |
| Balance at end of year  | <u>\$ 3,217</u> | <u>\$ 4,500</u> | <u>\$ 7,285</u> |
| Cash Paid:  |                 |                 |                 |
| Interest  | \$ 717          | \$ 716          | \$ 728          |
| Income taxes  | \$ 2,751        | \$ 2,936        | \$ 2,785        |

<sup>(1)</sup> The amounts for cash, cash equivalents and restricted cash shown above include restricted cash of \$10 million, \$4 million and \$5 million as of December 31, 2022, 2021 and 2020, respectively, which were included in other current assets in the consolidated balance sheets.

See notes to consolidated financial statements.

## Consolidated Statements of Stockholders' (Deficit) Equity

(in millions of dollars, except per share data)

|   | PMI Stockholders' (Deficit) Equity |                                  |  |   |                                 |                             |            |
|---|------------------------------------|----------------------------------|--|---|---------------------------------|-----------------------------|------------|
|   | Common<br>Stock                    | Additional<br>Paid-in<br>Capital | Earnings<br>Reinvested<br>in the<br>Business | Accumulated<br>Other<br>Comprehensive<br>Losses | Cost of<br>Repurchased<br>Stock | Noncontrolling<br>Interests | Total      |
| Balances, January 1, 2020                                     | \$ —                               | \$ 2,019                         | \$ 30,987                                    | \$ (9,363)                                      | \$ (35,220)                     | \$ 1,978                    | \$ (9,599) |
| Net earnings  |                                    |                                  | 8,056  |   |                                 | 536                         | 8,592      |
| Other comprehensive earnings (losses),<br>net of income taxes |                                    |                                  |  | (1,818)   |                                 | 38                          | (1,780)    |
| Issuance of stock awards (Note 10)                            |                                    | 69                               |  |   | 91                              |                             | 160        |
| Dividends declared (\$4.74 per share)                         |                                    |                                  | (7,405)                                      |   |                                 |                             | (7,405)    |
| Dividends paid to noncontrolling<br>interests                 |                                    |                                  |  |   |                                 | (602)                       | (602)      |
| Other   |                                    | 17                               |  |   |                                 | (14)                        | 3          |
| Balances, December 31, 2020                                   | —                                  | 2,105                            | 31,638                                       | (11,181)  | (35,129)                        | 1,936                       | (10,631)   |
| Net earnings  |                                    |                                  | 9,109  |   |                                 | 601                         | 9,710      |
| Other comprehensive earnings (losses),<br>net of income taxes |                                    |                                  |  | 1,604   |                                 | (79)                        | 1,525      |
| Issuance of stock awards (Note 10)                            |                                    | 119                              |  |   | 78                              |                             | 197        |
| Dividends declared (\$4.90 per share)                         |                                    |                                  | (7,665)                                      |   |                                 |                             | (7,665)    |
| Dividends paid to noncontrolling<br>interests                 |                                    |                                  |  |   |                                 | (560)                       | (560)      |
| Common stock repurchased                                      |                                    |                                  |  |   | (785)                           |                             | (785)      |
| Other   |                                    | 1                                |  |   |                                 | —                           | 1          |
| Balances, December 31, 2021                                   | —                                  | 2,225                            | 33,082                                       | (9,577)   | (35,836)                        | 1,898                       | (8,208)    |
| Net earnings  |                                    |                                  | 9,048  |   |                                 | 479                         | 9,527      |
| Other comprehensive earnings (losses),<br>net of income taxes |                                    |                                  |  | 189   |                                 | (135)                       | 54         |
| Issuance of stock awards (Note 10)                            |                                    | 37                               |  |   | 118                             |                             | 155        |
| Dividends declared (\$5.04 per share)                         |                                    |                                  | (7,841)                                      |   |                                 |                             | (7,841)    |
| Dividends paid to noncontrolling<br>interests                 |                                    |                                  |  |   |                                 | (472)                       | (472)      |
| Common stock repurchased                                      |                                    |                                  |  |   | (199)                           |                             | (199)      |
| Acquisitions (Note 3)   |                                    |                                  |  |   |                                 | 2,379                       | 2,379      |
| Purchases of shares from noncontrolling<br>interests (Note 3) |                                    | (32)                             |  | (171)   |                                 | (1,503)                     | (1,706)    |
| Balances, December 31, 2022                                   | \$ —                               | \$ 2,230                         | \$ 34,289                                    | \$ (9,559)                                      | \$ (35,917)                     | \$ 2,646                    | \$ (6,311) |

See notes to consolidated financial statements.

## Notes to Consolidated Financial Statements

### Note 1.

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#### Background and Basis of Presentation:

##### *Background*

Philip Morris International Inc. is a holding company incorporated in Virginia, U.S.A. (also referred to herein as the U.S., the United States or the United States of America), whose subsidiaries and affiliates and their licensees are primarily engaged in the manufacture and sale of cigarettes and smoke-free products including heat-not-burn, vapor, and oral nicotine products. Throughout these financial statements, the term "PMI" refers to Philip Morris International Inc. and its subsidiaries.

Smoke-free products ("SFPs") is the term PMI primarily uses to refer to all of its products that are not combustible tobacco products, such as heat-not-burn, e-vapor, and oral nicotine. In addition, SFPs include wellness and healthcare products, as well as consumer accessories such as lighters and matches.

Reduced-risk products ("RRPs") is the term PMI uses to refer to products that present, are likely to present, or have the potential to present less risk of harm to smokers who switch to these products versus continuing smoking. PMI has a range of RRP in various stages of development, scientific assessment and commercialization. PMI's RRP are smoke-free products that contain and/or generate far lower quantities of harmful and potentially harmful constituents than found in cigarette smoke.

"Platform 1" is the term PMI uses to refer to PMI's reduced-risk product that uses a precisely controlled heating device into which a specially designed and proprietary tobacco unit is inserted and heated to generate an aerosol.

##### *Basis of presentation*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the dates of the financial statements and the reported amounts of net revenues and expenses during the reporting periods. Significant estimates and assumptions include, among other things: pension and benefit plan assumptions; useful lives and valuation assumptions of goodwill and other intangible assets; valuation assumptions for non-marketable equity securities; marketing programs, and income taxes. Actual results could differ from those estimates.

The consolidated financial statements include PMI, as well as its wholly owned and majority-owned subsidiaries. Investments in which PMI exercises significant influence (generally 20%-50% ownership interest) are accounted for under the equity method of accounting. Investments not accounted for under the equity method of accounting are measured at fair value, if it is readily determinable, with changes in fair value recognized in net income. Investments without readily determinable fair values, non-marketable equity securities, are measured and recorded using a measurement alternative that values the security at cost minus any impairment. All intercompany transactions and balances have been eliminated.

In the fourth quarter of 2022, PMI acquired a controlling interest of the total issued shares in Swedish Match AB ("Swedish Match"). The operating results of Swedish Match are included in a separate segment. In the third quarter of 2021, PMI acquired Fertin Pharma A/S, Vectura Group plc. and OtiTopic, Inc. On March 31, 2022, PMI launched a new Wellness and Healthcare business consolidating these entities, Vectura Fertin Pharma. The operating results of this business are reported in the Wellness and Healthcare segment. For further details on these acquisitions, see Note 3. *Acquisitions* and Note 13. *Segment Reporting*.

Certain prior years' amounts have been reclassified to conform with the current year's presentation. Following the Swedish Match acquisition and a review of PMI and Swedish Match's combined product portfolio, PMI reclassified certain of its own products previously reported under its combustible tobacco product category to the newly created smoke-free product category to better reflect the characteristics of these products. This reclassification did not impact PMI's segment reporting, consolidated financial position, results of operations or cash flows in any of the periods presented. For further details, see Note 13. *Segment Reporting*. During the first quarter of 2022, one of Fertin Pharma's product lines was moved from the Wellness and Healthcare segment to the European Union segment. For further details, see Note 5. *Goodwill and Other Intangible Assets, net*. The change did not have a material impact on PMI's consolidated financial position, results of operations or cash flows in any of the periods presented.



## **Note 2.**

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### **Summary of Significant Accounting Policies:**

#### ***Acquisitions***

PMI uses the acquisition method of accounting for acquired businesses. Under the acquisition method, PMI's consolidated financial statements reflect the operations of an acquired business starting from the closing date of the acquisition. PMI allocates the purchase price to the tangible and identifiable intangible assets acquired and liabilities assumed based on the estimated fair values as of the acquisition date. Any residual purchase price is recorded as goodwill. The fair value of assets acquired and liabilities assumed in certain cases may be subject to revision based on the final determination of fair value during a period of time not to exceed 12 months from the acquisition date. Contingent consideration liabilities are recognized at the estimated fair value on the acquisition date. Subsequent changes to the fair value of contingent consideration are recognized in marketing, administration and research costs in the consolidated statement of earnings. Transaction costs are expensed as incurred.

If PMI determines that assets acquired do not meet the definition of a business, the transaction will be accounted for as an acquisition of assets rather than a business combination and, therefore, no goodwill will be recorded. In an asset acquisition, acquired in-process research and development ("IPR&D") with no alternative future use is charged to expense.

#### ***Cash and cash equivalents***

Cash equivalents include demand deposits with banks and all highly liquid investments with original maturities of three months or less.

#### ***Depreciation***

Property, plant and equipment are stated at historical cost and depreciated primarily using the straight-line method over the estimated useful lives of the assets. Machinery and equipment are depreciated primarily over periods ranging from 3 to 15 years, and buildings and building improvements primarily over periods up to 40 years.

#### ***Employee benefit plans***

PMI provides a range of benefits to its employees and retired employees, including pensions, postretirement health care and postemployment benefits (primarily severance). PMI records annual amounts relating to these plans based on calculations specified under U.S. GAAP. PMI recognizes the funded status of its defined pension and postretirement plans on the consolidated balance sheets. The funded status is measured as the difference between the fair value of the plans assets and the benefit obligation. PMI measures the plan assets and liabilities at the end of the fiscal year. For defined benefit pension plans, the benefit obligation is the projected benefit obligation. For the postretirement health care plans, the benefit obligation is the accumulated postretirement benefit obligation. Any plan with an overfunded status is recognized as an asset, and any plan with an underfunded status is recognized as a liability. Any gains or losses and prior service costs or credits that have not been recognized as a component of net periodic benefit costs are recorded as a component of other comprehensive earnings (losses), net of deferred taxes. PMI elects to recognize actuarial gains/(losses) using the corridor approach.

#### ***Fair value measurements***

PMI follows ASC 820, *Fair Value Measurements and Disclosures* with respect to assets and liabilities that are measured at fair value. The guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The guidance also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance describes three levels of input that may be used to measure fair value. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs include quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 3 are unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

### ***Foreign currency translation***

PMI translates the results of operations of its subsidiaries and affiliates using average exchange rates during each period, whereas balance sheet accounts are translated using exchange rates at the end of each period. Currency translation adjustments are recorded as a component of stockholders' (deficit) equity. In addition, some of PMI's subsidiaries have assets and liabilities denominated in currencies other than their functional currencies, and to the extent those are not designated as net investment hedges, these assets and liabilities generate transaction gains and losses when translated into their respective functional currencies.

### ***Goodwill and non-amortizable intangible assets valuation***

PMI tests goodwill and non-amortizable intangible assets for impairment annually or more frequently if events occur that would warrant such review. PMI performs its annual impairment analysis in the second quarter of each year. The impairment analysis involves comparing the fair value of each reporting unit or non-amortizable intangible asset to the carrying value. If the carrying value exceeds the fair value, goodwill or a non-amortizable intangible asset is considered impaired.

### ***Hedging instruments***

Derivative financial instruments are recorded at fair value on the consolidated balance sheets as either assets or liabilities. Changes in the fair value of derivatives are recorded each period either in accumulated other comprehensive losses on the consolidated balance sheet or in earnings, depending on whether a derivative is designated and effective as part of a hedge transaction and, if it is, the type of hedge transaction. Gains and losses on derivative instruments reported in accumulated other comprehensive losses are reclassified to the consolidated statements of earnings, into the same line item as the impact of the underlying transaction, in the periods in which operating results are affected by the hedged item. Cash flows from hedging instruments are classified in the same manner as the affected hedged item in the consolidated statements of cash flows.

### ***Impairment of long-lived assets***

PMI reviews long-lived assets, including amortizable intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. PMI performs undiscounted operating cash flow analyses to determine if an impairment exists. For purposes of recognition and measurement of an impairment for assets held for use, PMI groups assets and liabilities at the lowest level for which cash flows are separately identifiable. If an impairment is determined to exist, any related impairment loss is calculated based on fair value. Impairment losses on assets to be disposed of, if any, are based on the lower of carrying value or estimated proceeds to be received less costs of disposal.

### ***Impairment of investment in non-marketable equity securities***

Non-marketable equity securities are subject to periodic impairment reviews during which PMI considers both qualitative and quantitative factors that may have a significant impact on the investees' fair value. Upon determining that an impairment may exist, the security's fair value is calculated and compared to its carrying value, and an impairment is recognized immediately if the carrying value exceeds the fair value.

### ***Impairment of equity method investments***

Equity method investments are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of the investments may not be recoverable. An impairment loss would be recorded whenever a decline in value of an equity investment below its carrying amount is determined to be other than temporary. PMI determines whether a loss is other than temporary by considering the length of time and extent to which the fair value of the equity investment has been less than the carrying amount, the financial condition of the equity investment, and the intent to retain the investment for a period of time is sufficient to allow for any anticipated recovery in market value.

### ***Income taxes***

Income taxes are provided on all earnings for jurisdictions outside the United States. These provisions, as well as state and local income tax provisions, are determined on a separate company basis, and the related assets and liabilities are recorded in PMI's consolidated balance sheets. Significant judgment is required in determining income tax provisions and in evaluating tax positions. PMI recognizes accrued interest and penalties associated with uncertain tax positions as part of the provision for income taxes on the consolidated statements of earnings. PMI recognizes income taxes associated with Global Intangible Low-Taxed Income ("GILTI") taxes as current period expense rather than including these amounts in the measurement of deferred taxes.

## ***Inventories***

Inventories are stated at the lower of cost or market. The first-in, first-out and average cost methods are used to cost substantially all inventories. It is a generally recognized industry practice to classify leaf tobacco inventory as a current asset, although part of such inventory, because of the duration of the aging process, ordinarily would not be utilized within one year.

## ***Leases***

PMI determines that a contract contains a lease if the contract conveys a right to control the use of the identified asset for a period of time in exchange for consideration. Operating lease expense is recognized on a straight-line basis over the lease term. Finance lease expense is amortized based on production activity or the lease term. Lease expense is recorded in cost of sales or marketing, administration and research costs depending on the nature of the leased item. At lease commencement, PMI recognizes lease liabilities and the corresponding right-of-use assets (at the present value of future payments) for predominately all of its leases. The recognition of the right-of-use asset and lease liability includes renewal options when it is reasonably certain that they will be exercised. Certain of PMI's leases include payments that are based on changes to an index or on actual usage. These lease payments are adjusted periodically and are included within variable lease costs. PMI accounts for lease and nonlease components as a single-lease component with the exception of its vehicle leases, of which PMI accounts for the lease components separately from the nonlease components. Additionally, leases with an initial term of 12 months or less are not included in the right-of-use asset or lease liability on the consolidated statement of financial position.

## ***Marketing costs***

PMI supports its products with advertising, adult consumer engagement and trade promotions. Such programs include, but are not limited to, discounts, rebates, in-store display incentives, e-commerce, mobile and other digital platforms, adult consumer activation and promotion activities, as well as costs associated with adult consumer experience outlets and other adult consumer touchpoints and volume-based incentives. Advertising, as well as certain consumer engagement and trade activities costs, are expensed as incurred. Trade promotions are recorded as a reduction of revenues based on amounts estimated as being due to customers at the end of a period, based principally on historical utilization. For interim reporting purposes, advertising and certain consumer engagement expenses are charged to earnings based on estimated sales and related expenses for the full year.

## ***Revenue recognition***

PMI recognizes revenue primarily through the manufacture and sale of cigarettes and smoke-free products, including heat-not-burn, vapor and oral nicotine products. The majority of PMI revenues are generated by sales through direct and indirect distribution networks with short-term payment conditions and where control is typically transferred to the customer either upon shipment or delivery of goods. PMI evaluates the transfer of control through evidence of the customer's receipt and acceptance, transfer of title, PMI's right to payment for those products and the customer's ability to direct the use of those products upon receipt. Typically, PMI's performance obligations are satisfied and revenue is recognized either upon shipment or delivery of goods.

In certain instances, PMI facilitates shipping and handling activities after control has transferred to the customer. PMI has elected to record all shipping and handling activities as costs to fulfill a contract. The shipping and handling costs that have not been incurred at the time revenue is recognized are accrued. The transaction price is typically based on the amount billed to the customer and includes estimated variable consideration, where applicable. Such variable consideration is typically not constrained and is estimated based on the most likely amount that PMI expects to be entitled to under the terms of the contracts with customers, historical experience of discount or rebate redemption, where relevant, and the terms of any underlying discount or rebate programs, which may change from time to time as the business and product categories evolve. PMI has elected to exclude excise taxes collected from customers from the measurement of the transaction price, thereby presenting revenues net of excise taxes. Estimated costs associated with warranty programs are generally provided for in cost of sales in the period the related revenues are recognized.

## ***Research and Development and Acquired In-Process Research and Development ("IPR&D")***

Research and development costs are expensed as incurred.

In a business combination, the fair value of IPR&D acquired is initially capitalized and accounted for as indefinite-lived intangible assets until completion or abandonment of the projects. Upon completion, a determination as to the useful life is performed and the intangible asset is accounted for as a definite-lived intangible asset. Both the indefinite and definite-lived intangible assets are subject to impairment testing annually or more frequently if indicators exist. In an asset acquisition, the initial cost to acquire the IPR&D is expensed in the consolidated statements of earnings when the project has no alternative future use. PMI records these costs within marketing, administration and research costs in its consolidated statements of earnings.

### ***Stock-based compensation***

PMI measures compensation cost for all stock-based awards at fair value on date of grant and recognizes the compensation costs over the service periods for awards expected to vest. PMI's accounting policy is to estimate the number of awards expected to be forfeited and adjust the expense when it is no longer probable that the employee will fulfill the service condition. For further details, see Note 10. *Stock Plans*.

## **Note 3.**

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### **Acquisitions:**

#### *Transactions With Noncontrolling Interests*

*Turkey* – In the first quarter of 2022, PMI acquired the remaining 25% stake of its holding in Philip Morris Tütün Mamulleri Sanayi ve Ticaret A.Ş. ("PMTM") (formerly Philsa Philip Morris Sabancı Sigara ve Tütüncülük Sanayi ve Ticaret A.Ş.) and 24.75% stake in Philip Morris Pazarlama ve Satış A.Ş. ("PMPS") (formerly Philip Morris SA, Philip Morris Sabancı Pazarlama ve Satış A.Ş.) from its Turkish partners, Sabancı Holding for a total acquisition price including transaction costs and remaining dividend entitlements of approximately \$223 million. As a result of this acquisition, PMI owned 100% of these Turkish subsidiaries as of December 31, 2022. The purchase of the remaining stakes in these holdings resulted in a decrease to PMI's additional paid-in capital of \$30 million and an increase to accumulated other comprehensive losses of \$171 million primarily following the reclassification of accumulated currency translation losses from noncontrolling interests to PMI's accumulated other comprehensive losses during the first quarter of 2022.

In January 2023, PMI sold the acquired stakes of its holdings in PMTM and PMPS to Pioneers Tutun Yatirim Anonim Sirketi ("Pioneers") for a consideration of approximately \$205 million plus remaining dividend entitlements. The transaction will be reflected in PMI's financial statements in 2023.

#### *Business Combinations*

*Swedish Match AB* – On November 11, 2022 (the acquisition date), Philip Morris Holland Holdings B.V. ("PMHH"), a wholly owned subsidiary of PMI, acquired a controlling interest of 85.87% of the total issued shares in Swedish Match AB ("Swedish Match") and has acquired 94.81% of its outstanding shares as of December 31, 2022. The shares were acquired through acceptances of the tender offer and a series of open market and over-the-counter purchases. PMI funded the acquisition through cash on-hand and debt proceeds, as described in Note 8. *Indebtedness*. The aggregate cash paid as of the acquisition date was \$14,460 million (or \$13,976 million net of cash acquired), which was included in investing activities in the consolidated statements of cash flows. The cash paid in connection with the additional purchases of the noncontrolling interests after the acquisition date amounted to \$1,495 million and was included in financing activities in the consolidated statements of cash flows.

Swedish Match is a market leader in oral nicotine delivery with a significant presence in the United States market. The acquisition will accelerate PMI's transformation to become a smoke-free company with a comprehensive global smoke-free portfolio with leadership positions in heat-not-burn, and the fastest growing category of oral nicotine, with the potential for accelerated international expansion.

Due to the timing of the acquisition, and limited access to detailed and disaggregated financial information of Swedish Match, the purchase price allocation is preliminary and it is likely subject to change, including the valuation of property, plant and equipment, intangible assets, income taxes and legal contingencies among other items. The following table summarizes the preliminary purchase price allocation for the fair value of assets acquired and liabilities assumed as of the acquisition date:

**(in millions)**

|                                   |    |        |
|-----------------------------------|----|--------|
| Cash and cash equivalents         | \$ | 484    |
| Trade receivables                 |    | 135    |
| Other receivables                 |    | 53     |
| Inventories                       |    | 444    |
| Other current assets              |    | 524    |
| Property, plant and equipment     |    | 627    |
| Other intangible assets           |    | 4,512  |
| Other non-current assets          |    | 214    |
| Current portion of long-term debt |    | 224    |
| Accounts payable                  |    | 120    |
| Other current liabilities         |    | 531    |
| Income taxes                      |    | 14     |
| Long-term debt                    |    | 1,126  |
| Deferred income taxes             |    | 1,253  |
| Other non-current liabilities     |    | 187    |
| Identifiable net assets acquired  |    | 3,538  |
| Noncontrolling interest           |    | 2,379  |
| Goodwill                          |    | 13,301 |
| Total consideration transferred   | \$ | 14,460 |

The total fair value step-up adjustment for inventories was \$146 million, of which \$125 million was recognized in cost of sales in the fourth quarter of 2022, with the remaining balance expected to be recognized in the first quarter of 2023.

The fair value of long-term debt was determined using readily available market prices as of the acquisition date and the total purchase price adjustment of \$(102) million is being amortized as an increase to interest expense, net over the lives of the related debt.

Goodwill is primarily attributable to future growth opportunities, anticipated synergies in the U.S. and intangible assets that did not qualify for separate recognition. The goodwill is not deductible for income tax purposes.

Identifiable intangible assets of Swedish Match consist of:

|   | Type            | Useful Life | Estimated Fair Value<br>(in millions) |
|---|-----------------|-------------|---------------------------------------|
| Trademarks                              | Non-amortizable |             | \$ 2,077                              |
| Trademarks                              | Amortizable     | 20 years    | 904                                   |
| Developed technology, including patents |                 | 10 years    | 367                                   |
| Customer relationships                  |                 | 10 years    | 1,164                                 |
| Total identifiable intangible assets    |                 |             | \$ 4,512                              |

The significant assumptions used in determining the preliminary fair values of the identifiable intangible assets included royalty rates, revenue growth rates, profit margins, customer attrition rate and discount rates.

Trademarks primarily relate to \$2,077 million for the ZYN trademark, which has been determined to have an indefinite life due to the fast growth and the leading position of the brand in the market. All other trademarks have been preliminarily determined to have a 20 years useful life. The preliminary fair values of the trademarks have been determined using the relief from royalty method supported by revenue growth rates assumptions and royalty rates benchmarking analysis at product category level (smoke-free brands, including

ZYN, cigar brands and lights). In 2023, during the measurement period, the useful life, revenue growth rate and the royalty rate of each individual trademark will be reassessed to determine its final purchase price.

Developed technology, including patents, relates to the nicotine pouch technology of \$367 million. The patent has been assigned a useful life of 10 years, which is in line with the patent's protection. The preliminary fair value of the patent has been determined using the relief from royalty method.

Customer relationships have been valued separately by geographic locations, namely for the US market, Scandinavia, and other markets using the multiple periods excess earnings method, preliminarily reflecting a general market attrition rate for retail and revenue allocation and profit margin assumptions by customer type, which will be further assessed during the measurement period.

PMI consolidated statements of earnings for the year ended December 31, 2022, include \$316 million of net revenues and \$(26) million of net losses associated with the results of operations of Swedish Match from the acquisition date to December 31, 2022. The operating results of Swedish Match are included in a separate segment.

Acquisition related transaction costs, which were comprised primarily of regulatory, financial advisory and legal fees, totaled \$59 million for the year ended December 31, 2022, and were included in marketing, administration and research costs in the consolidated statements of earnings. Bridge and term loan credit agreement related fees associated with the issuance of debt amounted to \$54 million, of which \$37 million were capitalized at the acquisition date. The fair value of the noncontrolling interest was based on the tender offer as of the acquisition date.

PMI's approval of the acquisition by the European Commission, under the EU Merger Regulation, was subject to PMHH's divestiture of Swedish Match's subsidiary, SMD Logistics AB, following the completion of the offer to tender all shares in Swedish Match to PMHH. As a result, these assets have been accounted for as assets held for sale and included within other current assets and other accrued liabilities in PMI's consolidated balance sheets at December 31, 2022.

The unaudited pro forma combined financial information was prepared using the acquisition method of accounting and was based on the historical financial information of PMI and Swedish Match. In order to reflect the occurrence of the acquisition on January 1, 2021, as required, the unaudited pro forma financial information includes adjustments to reflect the following:

- incremental amortization expense to be incurred based on the current preliminary fair values of the identifiable intangible assets acquired;
- incremental cost of products sold related to the fair value adjustments associated with acquisition date inventory;
- additional interest expense associated with the issuance of debt to finance the acquisition, including the effects of the related derivative financial instruments designated to hedge interest rate risks as well as economic hedges;
- reclassification of non-recurring acquisition-related costs incurred during the year ended December 31, 2022, to the year ended December 31, 2021;
- impact of a deferred tax cost of \$430 million in 2022 and \$321 million in 2021 related to the theoretical unrealized foreign currency gains on intercompany loans related to the acquisition financing. These theoretical unrealized pre-tax foreign currency movements were fully offset in the consolidated statements of earnings and were reflected as currency translation adjustments in PMI's consolidated statements of stockholders' (deficit) equity, while the corresponding deferred tax impacts were reflected in PMI's consolidated statements of earnings; and
- other immaterial items (i.e., the alignment of accounting policies from IFRS to US GAAP.)

The unaudited pro forma financial information is not necessarily indicative of what the consolidated results of operations would have been had the acquisition been completed on January 1, 2021. In addition, the unaudited pro forma financial information is not a projection of future results of operations of the combined company, nor does it reflect the expected realization of any synergies or cost savings associated with the acquisition.

The unaudited pro forma financial information is as follows:

| (in millions)                    | For the Years Ended December 31, |        |      |        |
|----------------------------------|----------------------------------|--------|------|--------|
|                                  | 2022                             |        | 2021 |        |
| Net revenues                     | \$                               | 33,690 | \$   | 33,577 |
| Net earnings attributable to PMI | \$                               | 8,875  | \$   | 8,610  |



*AG Snus* - On May 6, 2021, PMI acquired 100% of AG Snus Aktieselskab ("AG Snus"), a company based in Denmark, and its Swedish subsidiary Tobacco House of Sweden AB fully owned by AG Snus, which operates in the oral tobacco (i.e. snus) and modern oral (i.e. nicotine pouches) product categories. The purchase price was \$28 million in cash, net of cash acquired, with additional contingent payments of up to \$10 million, primarily relating to product development and performance targets over a less than two-year period. In the fourth quarter of 2022, the additional contingent payment was settled for \$9 million. The operating results of AG Snus are included in the European Union segment, and were not material.

*Fertin Pharma* – On September 15, 2021, PMI acquired 100% of Fertin Pharma A/S ("Fertin Pharma"), a company based in Denmark. Fertin Pharma is a developer and manufacturer of pharmaceutical and well-being products based on oral and intra-oral delivery systems. The acquisition was funded with existing cash. The total consideration of \$821 million (DKK 5.2 billion) included cash of \$580 million and the payment of \$241 million related to the settlement of Fertin Pharma's indebtedness. The purchase price of \$821 million was allocated to cash (\$24 million), current assets including receivables and inventories (\$69 million), non-current assets including property, plant and equipment (\$228 million), goodwill (\$378 million), and other intangible assets (\$245 million, which primarily consisted of customer relationships, developed technology, and in-process research and development ("IPR&D")), partially offset by current liabilities (\$44 million, which primarily consisted of accrued liabilities and accounts payable) and non-current liabilities (\$79 million, primarily deferred income tax). Goodwill is primarily attributable to future growth opportunities provided by acquired R&D capabilities and any intangibles that did not qualify for separate recognition. The goodwill is not deductible for income tax purposes. The amortizable intangible assets are being amortized over their estimated useful lives of 8 to 19 years. During 2022, PMI did not record any measurement period adjustments to the purchase price allocation. The final purchase price allocation was reflected in the consolidated balance sheets as of December 31, 2022.

*Vectura* – During the third quarter and up to September 15, 2021, PMI acquired a controlling interest of 74.77% of the total issued shares in Vectura Group plc ("Vectura"), an inhaled therapeutics company based in the United Kingdom. The shares were acquired through a series of open market purchases and acceptances of the tender offer at a price of 165 pence per share. As a result of additional acceptances of the offer and the exercise of the right to acquire compulsorily the Vectura shares, in accordance with the applicable English law, PMI completed the acquisition of 100% of Vectura in the fourth quarter of 2021. The acquisition was funded with existing cash from a designated account operated solely for the purpose of funding this acquisition.

The total purchase price of \$1,384 million (GBP 1.0 billion) for 100% of the Vectura shares was allocated to cash (\$136 million), current assets including receivables and inventories (\$89 million), non-current assets including property, plant and equipment (\$67 million), goodwill (\$780 million), and other intangible assets (\$486 million, which primarily consisted of developed technology, and IPR&D), partially offset by current liabilities (\$100 million, primarily accrued liabilities), and non-current liabilities (\$74 million, primarily deferred income tax). Goodwill is primarily attributable to future growth opportunities provided by acquired R&D capabilities and any intangibles that did not qualify for separate recognition. The goodwill is not deductible for income tax purposes. The amortizable intangible assets are being amortized over their estimated useful lives of 3 to 13 years. During 2022, PMI made certain measurement period adjustments to the purchase price allocation to reflect facts and circumstances in existence as of the acquisition date, which resulted in an increase to goodwill of \$190 million. The increase was primarily due to a decrease in other intangible assets (\$233 million), and a decrease in deferred income tax liabilities (\$43 million). The final purchase price allocation was reflected in the consolidated balance sheets as of December 31, 2022.

Pro forma results of operations for AG Snus, Fertin Pharma and Vectura have not been presented as the aggregate impact is not material to PMI's consolidated statements of earnings.

#### *Altria Group, Inc. Agreement*

On October 20, 2022, PMI announced that it had reached an agreement with Altria Group, Inc. to end the companies' relationship regarding the *IQOS* commercialization rights in the U.S. as of April 30, 2024. As a result of PMI reacquiring these rights, effective May 1, 2024, PMI will have the full rights to commercialize *IQOS* in the U.S. As part of the agreement, PMI agreed to pay a total cash consideration of \$2.7 billion, with \$1.0 billion paid at the inception of the agreement and the remaining \$1.7 billion (plus interest, at a per annum rate equal to six percent (6%)), to be paid by July 2023 at the latest. The cash consideration paid at the inception of the agreement of \$1.0 billion has been accounted for within other assets in PMI's consolidated balance sheets as of December 31, 2022. As of May 2024, when PMI can exercise its ability to commercialize *IQOS* in the U.S., PMI will finalize the accounting for this transaction by assigning the consideration to the respective assets.

## *Asset Acquisition*

On August 9, 2021, PMI acquired 100% of OtiTopic, Inc., a U.S. respiratory drug development company with a late-stage dry powder inhalation aspirin treatment for acute myocardial infarction. The transaction price was \$38 million in cash, plus transaction costs, with additional contingent payment of \$13 million, primarily related to certain key milestones that PMI deemed probable. Additionally, PMI may owe up to \$25 million in future additional contingent payments dependent upon the achievement of certain milestones. PMI accounted for this transaction as an asset acquisition since the IPR&D of the dry powder inhalation aspirin treatment represented substantially all of the fair value of the gross assets acquired. At the date of acquisition, PMI determined that the acquired IPR&D had no alternative future use. As a result, PMI recorded a charge of \$51 million to research and development costs within marketing, administration and research costs in the consolidated statements of earnings for the year ended December 31, 2021.

As previously discussed in Note 1. *Background and Basis of Presentation* on March 31, 2022, PMI launched a new Wellness and Healthcare business, Vectura Fertin Pharma, which consolidates Fertin Pharma, Vectura and OtiTopic, Inc. into one operating segment.

## **Note 4.**

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### **War in Ukraine:**

Since the onset of the war in Ukraine in February 2022, PMI's main priority has been the safety and security of its more than 1,300 employees and their families in the country.

#### *Ukraine*

PMI temporarily suspended its commercial and manufacturing operations in Ukraine, including the closing of its factory in Kharkiv at the end of February 2022, in order to preserve the safety of its employees. PMI subsequently resumed some retail activities where safety allowed, in order to provide product availability and service to adult consumers, and began to supply the market from production centers outside Ukraine, as well as through a contract manufacturing arrangement. Production at the factory in Kharkiv remains suspended. While the effects of the war are unpredictable and could trigger impairment reviews for long-lived assets, as of December 31, 2022, PMI is unable to estimate the information required to perform impairment analyses (i.e., forecast of revenues, manufacturing and commercial plans). PMI is not aware of any major damage to its production facilities, inventories or other assets in Ukraine. As a result, PMI has not recorded an impairment of long-lived assets. As of December 31, 2022, PMI's Ukrainian operations had approximately \$414 million in total assets, excluding intercompany balances. These total assets included \$69 million, \$279 million and \$31 million in receivables, inventories and property, plant and equipment, respectively.

#### *Russia*

PMI has suspended its planned investments in the Russian Federation including all new product launches and commercial, innovation, and manufacturing investments. PMI has also taken steps to scale down its manufacturing operations in Russia amid ongoing supply chain disruptions and the evolving regulatory environment. PMI is continuously assessing the evolving situation in Russia, including: recent regulatory constraints in the market that entail very complex terms and conditions that must be met for any divestment transaction to be granted approval by the authorities; and restrictions resulting from international regulations. As a result of PMI continuing operations within Russia as of December 31, 2022, it has not recorded an impairment of long-lived and other assets. However, PMI recorded specific asset write downs as referred to in the table below. PMI's Russian operations as of December 31, 2022 had approximately \$2.5 billion in total assets, excluding intercompany balances. These total assets included \$578 million, \$541 million, \$786 million, \$334 million and \$161 million in cash (primarily held in local currency), receivables, inventories, property, plant and equipment and goodwill, respectively. In addition, there was approximately \$806 million of cumulative foreign currency translation losses reflected in accumulated other comprehensive losses in the consolidated statement of stockholders' equity as of December 31, 2022.

As of December 31, 2022, PMI recorded in its consolidated statements of earnings pre-tax charges related to circumstances driven by the war as follows:

| (in millions)               |               | For the Year Ended December 31, 2022         |        |  |
|-----------------------------|---------------|--|--------|--|
|                             | Cost of sales | Marketing, administration and research costs | Total  |  |
| <b>Ukraine</b> <sup>1</sup> | \$ 42         | \$ 36  | \$ 78  |  |
| <b>Russia</b> <sup>2</sup>  | 20            | 53   | 73     |  |
| <b>Total</b>                | \$ 62         | \$ 89  | \$ 151 |  |

<sup>1</sup> The charges were primarily due to an inventory write down, additional allowance for receivables and the cost of PMI's humanitarian efforts, which includes salary continuation for its employees.

<sup>2</sup> The charges were primarily due to machinery and inventory write downs related to the commercial decisions noted above.

PMI will continue to monitor the situation as it evolves and will determine if further charges are needed.

## Note 5.

### Goodwill and Other Intangible Assets, net:

The movements in goodwill were as follows:

| (in millions)               | European Union | Eastern Europe | Middle East & Africa | South & Southeast Asia | East Asia & Australia | Americas | Swedish Match | Wellness & Healthcare | Total     |
|-----------------------------|----------------|----------------|----------------------|------------------------|-----------------------|----------|---------------|-----------------------|-----------|
| Balances at January 1, 2021 | \$ 1,434       | \$ 317         | \$ 86                | \$ 2,915               | \$ 559                | \$ 653   | \$ —          | \$ —                  | \$ 5,964  |
| Changes due to:             |                |                |                      |                        |                       |          |               |                       |           |
| Acquisitions                | 54             | —              | —                    | —                      | —                     | —        | —             | 944                   | 998       |
| Currency                    | (91)           | (22)           | (7)                  | (87)                   | (20)                  | (42)     | —             | (13)                  | (282)     |
| Balances, December 31, 2021 | 1,397          | 295            | 79                   | 2,828                  | 539                   | 611      | —             | 931                   | 6,680     |
| Changes due to:             |                |                |                      |                        |                       |          |               |                       |           |
| Acquisitions                | —              | —              | —                    | —                      | —                     | —        | 13,301        | —                     | 13,301    |
| Currency                    | (82)           | (17)           | (5)                  | (256)                  | (46)                  | 4        | (5)           | (109)                 | (516)     |
| Other                       | —              | —              | —                    | —                      | —                     | —        | —             | 190                   | 190       |
| Balances, December 31, 2022 | \$ 1,315       | \$ 278         | \$ 74                | \$ 2,572               | \$ 493                | \$ 615   | \$ 13,296     | \$ 1,012              | \$ 19,655 |

The increase in goodwill in 2022 was due primarily to the final purchase price allocation associated with Vectura Group plc acquisition in 2021 (reflected in "changes due to other" in Wellness and Healthcare segment) and the preliminary purchase price allocation associated with the Swedish Match AB acquisition in the fourth quarter of 2022, partially offset by currency movements. For further details on these business combinations, see Note 3. *Acquisitions*.

At December 31, 2022, goodwill primarily reflects PMI's business combinations in Greece, Indonesia, Mexico, the Philippines and Serbia, as well as the final purchase price allocation of Fertin Pharma A/S and Vectura Group plc., which were acquired in September 2021, and the preliminary purchase price allocation of Swedish Match AB, which was acquired in the fourth quarter of 2022.

As discussed in Note 1. *Background and Basis of Presentation*, during the first quarter of 2022, one of Fertin Pharma's product lines was moved from the Wellness and Healthcare segment to the European Union segment. As a result, the December 31, 2021 goodwill balance in the table above included a reclassification of \$24 million from the Wellness and Healthcare segment to the European Union segment (reflected in changes due to acquisitions in 2021).

Details of other intangible assets were as follows:

| (in millions)                           | Weighted-Average Remaining Useful Life | December 31, 2022     |                          |          | December 31, 2021     |                          |          |
|---|--|-----------------------|--------------------------|----------|-----------------------|--------------------------|----------|
|   |  | Gross Carrying Amount | Accumulated Amortization | Net      | Gross Carrying Amount | Accumulated Amortization | Net      |
| Non-amortizable intangible assets       |  | \$ 3,346              |                          | \$ 3,346 | \$ 1,312              |                          | \$ 1,312 |
| Amortizable intangible assets:          |  |                       |                          |          |                       |                          |          |
| Trademarks                              | 15 years                               | 2,050                 | \$ 674                   | 1,376    | 1,201                 | \$ 639                   | 562      |
| Developed technology, including patents | 8 years                                | 975                   | 243                      | 732      | 859                   | 63                       | 796      |
| Customer relationships and other        | 10 years                               | 1,390                 | 112                      | 1,278    | 238                   | 90                       | 148      |
| Total other intangible assets           |  | \$ 7,761              | \$ 1,029                 | \$ 6,732 | \$ 3,610              | \$ 792                   | \$ 2,818 |

Non-amortizable intangible assets substantially consist of trademarks from PMI's acquisitions in Indonesia and Mexico, as well as the preliminary purchase price allocation associated with the Swedish Match acquisition in 2022, and PMI's business combinations in 2021 (primarily in-process research and development). The increase since December 31, 2021 was due to the preliminary purchase price allocation associated with the Swedish Match acquisition in 2022 of \$2,077 million, partially offset by the final purchase price allocation associated with Vectura Group plc acquisition in 2021 in the amount of \$(3) million and currency movements of \$(40) million.

The increase in the gross carrying amount of amortizable intangible assets from December 31, 2021, was due to the preliminary purchase price allocation associated with the Swedish Match acquisition in 2022 of \$2,435 million, partially offset by final purchase price allocation associated with PMI's business combinations in 2021 and other movements in the amount of \$(225) million, and currency movements of \$(93) million. For further details on these business combinations, see Note 3. *Acquisitions*.

The change in the accumulated amortization from December 31, 2021, was mainly due to the 2022 amortization of \$159 million and impairment charge of \$112 million, partially offset by currency movements of \$34 million. The amortization of intangibles for the year ended December 31, 2022 was recorded in cost of sales (\$58 million) and in marketing, administration and research costs (\$101 million) on PMI's consolidated statements of earnings.

Amortization expense for each of the next five years is estimated to be \$310 million or less, assuming no additional transactions occur that require the amortization of intangible assets. This estimate is subject to change based on the finalization of the preliminary purchase price allocation of the Swedish Match acquisition.

During the second quarter of 2022, PMI completed its annual review of goodwill and non-amortizable intangible assets for potential impairment, and no impairment charges were required as a result of this review. However, there are still risks related to PMI's Russian reporting unit's assets as the fair value of these assets is difficult to predict due to the volatility in foreign currency and commodity markets, supply chain, and current economic, political and social conditions. For more information see Note 4. *War in Ukraine*. Each of PMI's reporting units had fair values substantially in excess of its carrying value with the exception of the Wellness and Healthcare reporting unit, which had less than 20% excess of fair value over its carrying value in the period of the latest review of goodwill for potential impairment. The Wellness and Healthcare reporting unit's fair value was determined using the discounted cash flow model. PMI will continue to monitor this reporting unit as any changes in assumptions, estimates or market factors could result in a future impairment.

PMI recorded a pre-tax impairment charge of \$112 million in the third quarter of 2022, reflecting the impact of general economic and market conditions resulting in a reduction in future estimated cash flows on certain products within the Wellness and Healthcare segment. The impairment reduces the carrying values of developed technology definite-lived intangible assets in the Wellness and Healthcare segment to \$325 million. The fair value of these intangible assets was primarily determined using the multi-period excess earnings method. This impairment charge was recorded within cost of sales in the consolidated statements of earnings for the year ended December 31, 2022.

## Note 6.

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### Related Parties - Equity Investments and Other:

#### *Equity Method Investments:*

At December 31, 2022 and 2021, PMI had total equity method investments of \$1,000 million and \$879 million, respectively. Equity method investments are initially recorded at cost. Under the equity method of accounting, the investment is adjusted for PMI's proportionate share of earnings or losses, dividends, capital contributions, changes in ownership interests and movements in currency translation adjustments. The carrying value of our equity method investments at December 31, 2022 and 2021, exceeded our share of the investees' book value by \$750 million and \$764 million, respectively. The difference between the investment carrying value and the amount of underlying equity in net assets, excluding \$715 million and \$728 million attributable to goodwill as of December 31, 2022 and 2021, respectively, which consists primarily of definite-lived intangible assets is being amortized on a straight-line basis. At December 31, 2022 and 2021, PMI received year-to-date dividends from equity method investees of \$9 million and \$176 million, respectively.

PMI holds a 23% equity interest in Megapolis Distribution BV, the holding company of CJSC TK Megapolis, PMI's distributor in Russia (Eastern Europe segment), which as of December 31, 2022 had a carrying value of \$458 million. While as of December 31, 2022, there have been no impairment indicators based on the business' performance, there are still risks related to this investment as the fair value of these assets is difficult to predict due to the volatility in foreign currency and commodity markets, supply chain, and current economic, political and social conditions. For more information, see Note 4. *War in Ukraine*. Additionally, there was approximately \$469 million of cumulative foreign currency translation losses associated with Megapolis Distribution BV reflected in accumulated other comprehensive losses in the consolidated statement of stockholders' equity as of December 31, 2022.

PMI holds a 49% equity interest in United Arab Emirates-based Emirati Investors-TA (FZC) ("EITA"). PMI holds an approximate 25% economic interest in Société des Tabacs Algéro-Emiratie ("STAEM"), an Algerian joint venture that is 51% owned by EITA and 49% by the Algerian state-owned enterprise Management et Développement des Actifs et des Ressources Holding ("MADAR Holding"), which manufactures and distributes under license some of PMI's brands (Middle East & Africa segment).

The initial investments in Megapolis Distribution BV and EITA were recorded at cost and are included in equity investments on the consolidated balance sheets.

#### *Equity securities:*

Following the deconsolidation of RBH on March 22, 2019, PMI recorded the continuing investment in RBH, PMI's wholly owned subsidiary in Canada, at fair value of \$3,280 million at the date of deconsolidation, within equity investments. Transactions between PMI and RBH are considered to be related-party transactions from the date of deconsolidation and are included in the tables below.

The fair value of PMI's other equity securities, which have been classified within Level 1, was \$326 million and \$283 million for the years ended December 31, 2022 and 2021, respectively. Unrealized pre-tax gains (losses) of \$43 million and \$19 million (\$33 million and \$15 million net of tax) on these equity securities were recorded in equity investments and securities (income)/loss, net on the consolidated statements of earnings for the years ended December 31, 2022 and 2021, respectively. For a description of the fair value hierarchy and the three levels of inputs used to measure fair values, see Note 2. *Summary of Significant Accounting Policies*.

#### *Other related parties:*

United Arab Emirates-based Trans-Emirates Trading and Investments (FZC) ("TTI") holds a 33% non-controlling interest in Philip Morris Mistr LLC ("PMM"), an entity incorporated in Egypt which is consolidated in PMI's financial statements in the Middle East & Africa segment. PMM sells, under license, PMI brands in Egypt through an exclusive distribution agreement with a local entity that is also controlled by TTI. Additionally, as of December 31, 2022, TTI holds a 32.9% non-controlling interest in United Tobacco Company ("UTC"), an entity incorporated in Egypt which manufactures products for PMM under license.

Godfrey Phillips India Ltd ("GPI") is one of the non-controlling interest holders in IPM India, which is a 56.3% owned PMI consolidated subsidiary in the South & Southeast Asia segment. GPI also acts as contract manufacturer and distributor for IPM India.

**Financial activity with the above related parties:**

PMI's net revenues and expenses with the above related parties were as follows:

| (in millions)                      | For the Years Ended December 31, |                 |                 |
|------------------------------------|----------------------------------|-----------------|-----------------|
|                                    | 2022                             | 2021            | 2020            |
| <b>Net revenues:</b>               |                                  |                 |                 |
| Megapolis Group                    | \$ 2,485                         | \$ 2,207        | \$ 2,174        |
| Other                              | 1,173                            | 1,123           | 1,059           |
| <b>Net revenues <sup>(a)</sup></b> | <b>\$ 3,658</b>                  | <b>\$ 3,330</b> | <b>\$ 3,233</b> |
| <b>Expenses:</b>                   |                                  |                 |                 |
| Other                              | \$ 119                           | \$ 69           | \$ 51           |
| <b>Expenses</b>                    | <b>\$ 119</b>                    | <b>\$ 69</b>    | <b>\$ 51</b>    |

<sup>(a)</sup> Net revenues exclude excise taxes and VAT billed to customers.

PMI's balance sheet activity with the above related parties was as follows:

| (in millions)       | At December 31, |               |
|---------------------|-----------------|---------------|
|                     | 2022            | 2021          |
| <b>Receivables:</b> |                 |               |
| Megapolis Group     | \$ 478          | \$ 319        |
| Other               | 210             | 199           |
| <b>Receivables</b>  | <b>\$ 688</b>   | <b>\$ 518</b> |
| <b>Payables:</b>    |                 |               |
| Other               | \$ 31           | \$ 25         |
| <b>Payables</b>     | <b>\$ 31</b>    | <b>\$ 25</b>  |

The activities with the above related parties are in the ordinary course of business, and are primarily for distribution, service fees, contract manufacturing and license agreements. PMI eliminated its respective share of all significant intercompany transactions with the equity method investees.

## Note 7.

### Product Warranty:

PMI's heat-not-burn devices and e-vapor products are subject to standard product warranties generally for a period of 12 months from the date of purchase or such other periods as required by law. PMI generally provides in cost of sales for the estimated cost of warranty in the period the related revenue is recognized. PMI assesses the adequacy of its accrued product warranties and adjusts the amounts as necessary based on actual experience and changes in future estimates. Factors that affect product warranties may vary across markets but typically include device version mix, product failure rates, logistics and service delivery costs, and warranty policies. PMI accounts for its product warranties within other accrued liabilities. At December 31, 2022 and December 31, 2021, these amounts were as follows:

| (in millions)                   | At December 31, |               |
|---------------------------------|-----------------|---------------|
|                                 | 2022            | 2021          |
| Balance at beginning of period  | \$ 113          | \$ 137        |
| Changes due to:                 |                 |               |
| Warranties issued               | 107             | 154           |
| Settlements                     | (114)           | (177)         |
| Currency/Other                  | (2)             | (1)           |
| <b>Balance at end of period</b> | <b>\$ 104</b>   | <b>\$ 113</b> |



## Note 8.

### Indebtedness:

#### Short-Term Borrowings

At December 31, 2022 and 2021, PMI's short-term borrowings and related average interest rates consisted of the following:

| (in millions)  | December 31, 2022  |                       | December 31, 2021  |                       |
|--|--------------------|-----------------------|--------------------|-----------------------|
|  | Amount Outstanding | Average Year-End Rate | Amount Outstanding | Average Year-End Rate |
| Commercial paper   | \$ 912             | 4.4 %                 | \$ —               | — %                   |
| Bank loans   | 295                | 7.5                   | 225                | 12.0                  |
| U.S. dollar credit facility borrowings related to Swedish Match AB acquisition | 4,430              | 4.9                   | —                  | —                     |
|  | \$ 5,637           |                       | \$ 225             |                       |

Given the mix of subsidiaries and their respective local economic environments, the average interest rate for bank loans above can vary significantly from day to day and country to country.

The fair values of PMI's short-term borrowings at December 31, 2022 and 2021, based upon current market interest rates, approximate the amounts disclosed above.

#### Long-Term Debt

At December 31, 2022 and 2021, PMI's long-term debt consisted of the following:

| (in millions)   | December 31, |           |
|---|--------------|-----------|
|   | 2022         | 2021      |
| U.S. dollar notes, 0.875% to 6.375% (average interest rate 3.896%), due through 2044                                      | \$ 22,596    | \$ 19,397 |
| Foreign currency obligations:   |              |           |
| Euro notes, 0.125% to 3.125% (average interest rate 1.877%), due through 2039   | 8,116        | 7,687     |
| Swiss franc notes, 1.625% to 2.125% (average interest rate 1.768%), due through 2024                                      | 378          | 273       |
| Euro credit facility borrowings related to Swedish Match AB acquisition, (average interest rate 2.234%), due through 2027 | 5,850        | —         |
| Swedish krona notes, 1.395% to 3.654% (average interest rate 2.110%), due through 2029                                    | 343          | —         |
| Other (average interest rate 3.346%), due through 2029 <sup>(a)</sup>   | 203          | 224       |
| Carrying value of long-term debt  | 37,486       | 27,581    |
| Less current portion of long-term debt  | 2,611        | 2,798     |
|   | \$ 34,875    | \$ 24,783 |

<sup>(a)</sup> Includes mortgage debt in Switzerland as well as \$54 million and \$71 million in finance leases at December 31, 2022 and 2021, respectively.

The fair value of PMI's outstanding long-term debt, which is utilized solely for disclosure purposes, is determined using quotes and market interest rates currently available to PMI for issuances of debt with similar terms and remaining maturities. At December 31, 2022 and 2021 the fair value of PMI's outstanding long-term debt, excluding the aforementioned finance leases, was as follows:

| (in millions) | December 31, |           |
|---------------|--------------|-----------|
|               | 2022         | 2021      |
| Level 1       | \$ 28,919    | \$ 29,597 |
| Level 2       | 6,142        | 165       |

For a description of the fair value hierarchy and the three levels of inputs used to measure fair values, see Note 2. *Summary of Significant Accounting Policies*.

### ***Financing of the Swedish Match Acquisition***

In connection with PMI's all-cash recommended public offer to the shareholders of Swedish Match AB ("Swedish Match"), a public limited liability company organized under the laws of Sweden, for all the outstanding shares of Swedish Match, on May 11, 2022, PMI entered into a credit agreement relating to a 364-day senior unsecured bridge facility. The facility provided for borrowings up to an aggregate principal amount of \$17 billion, expiring 364 days after the occurrence of certain events unless extended. On June 23, 2022, PMI entered into a new €5.5 billion (approximately \$5.8 billion at the date of signing) senior unsecured term loan credit agreement consisting of a €3.0 billion (approximately \$3.2 billion at the date of signing) tranche expiring three years after the occurrence of certain events and a €2.5 billion (approximately \$2.6 billion at the date of signing) tranche expiring on June 23, 2027. In connection with the term loan facility, the aggregate principal amount of commitments under the 364-day senior unsecured bridge facility was reduced from \$17 billion to \$11 billion. On November 11, 2022, PMI acquired a controlling interest of 85.87% of the total issued shares in Swedish Match and has acquired 94.81% of its outstanding shares as of December 31, 2022.

PMI borrowed \$8.4 billion under the bridge facility by delivering notices of borrowing for advances of \$7.9 billion and \$0.5 billion on November 7, 2022 and November 10, 2022, respectively. All amounts borrowed under the bridge facility will become due on November 8, 2023 unless prepaid or such maturity date is extended pursuant to the terms of the bridge facility. On November 7, 2022, PMI also delivered notices of borrowing for advances totaling €5.5 billion under the term loan facility, of which €3.0 billion will become due on November 9, 2025 and €2.5 billion will become due on June 23, 2027 unless prepaid pursuant to the terms of the credit agreement. On November 21, 2022, PMI repaid \$4.0 billion under the bridge facility. As of December 31, 2022, outstanding borrowings under the bridge facility amounted to \$4.4 billion and \$1.1 billion commitments remained available for drawing. As of December 31, 2022, the €5.5 billion (approximately \$5.9 billion) term loan facility was fully drawn and remained outstanding. The proceeds under the bridge facility and the term loan facility were used, directly or indirectly, to finance the acquisition, including, the payment of related fees and expenses. For further details on this acquisition, see Note 3. *Acquisitions*.

### **Notes Outstanding:**

PMI's notes outstanding at December 31, 2022, were as follows:

**(in millions)**

| Type                  | Face Value | Interest Rate | Issuance      | Maturity      |
|-----------------------|------------|---------------|---------------|---------------|
| U.S. dollar notes     | \$600      | 2.625%        | March 2013    | March 2023    |
| U.S. dollar notes     | \$500      | 2.125%        | May 2016      | May 2023      |
| U.S. dollar notes     | \$750      | 1.125%        | May 2020      | May 2023      |
| U.S. dollar notes     | \$500      | 3.600%        | November 2013 | November 2023 |
| U.S. dollar notes     | \$900      | 2.875%        | May 2019      | May 2024      |
| U.S. dollar notes     | \$750      | 3.250%        | November 2014 | November 2024 |
| U.S. dollar notes     | \$1,000    | 5.125%        | November 2022 | November 2024 |
| U.S. dollar notes     | \$750      | 1.500%        | May 2020      | May 2025      |
| U.S. dollar notes     | \$750      | 3.375%        | August 2015   | August 2025   |
| U.S. dollar notes     | \$750      | 5.000%        | November 2022 | November 2025 |
| U.S. dollar notes     | \$750      | 2.750%        | February 2016 | February 2026 |
| U.S. dollar notes     | \$750      | 0.875%        | November 2020 | May 2026      |
| U.S. dollar notes     | \$500      | 3.125%        | August 2017   | August 2027   |
| U.S. dollar notes     | \$1,500    | 5.125%        | November 2022 | November 2027 |
| U.S. dollar notes     | \$500      | 3.125%        | November 2017 | March 2028    |
| U.S. dollar notes (a) | \$50       | 4.000%        | May 2013      | May 2028      |
| U.S. dollar notes     | \$750      | 3.375%        | May 2019      | August 2029   |
| U.S. dollar notes     | \$1,250    | 5.625%        | November 2022 | November 2029 |
| U.S. dollar notes     | \$750      | 2.100%        | May 2020      | May 2030      |
| U.S. dollar notes     | \$750      | 1.750%        | November 2020 | November 2030 |
| U.S. dollar notes     | \$1,500    | 5.750%        | November 2022 | November 2032 |
| U.S. dollar notes     | \$1,500    | 6.375%        | May 2008      | May 2038      |

(in millions)

| Type                |     | Face Value                     | Interest Rate | Issuance       | Maturity       |
|---------------------|-----|--------------------------------|---------------|----------------|----------------|
| U.S. dollar notes   |     | \$750                          | 4.375%        | November 2011  | November 2041  |
| U.S. dollar notes   |     | \$700                          | 4.500%        | March 2012     | March 2042     |
| U.S. dollar notes   |     | \$750                          | 3.875%        | August 2012    | August 2042    |
| U.S. dollar notes   |     | \$850                          | 4.125%        | March 2013     | March 2043     |
| U.S. dollar notes   |     | \$750                          | 4.875%        | November 2013  | November 2043  |
| U.S. dollar notes   |     | \$750                          | 4.250%        | November 2014  | November 2044  |
| U.S. dollar notes   | (b) | \$500                          | 4.250%        | May 2016       | November 2044  |
| EURO notes          | (c) | €600 (approximately \$761)     | 2.875%        | May 2012       | May 2024       |
| EURO notes          | (a) | €300 (approximately \$308)     | 0.875%        | September 2016 | September 2024 |
| EURO notes          | (c) | €500 (approximately \$582)     | 0.625%        | November 2017  | November 2024  |
| EURO notes          | (c) | €750 (approximately \$972)     | 2.750%        | March 2013     | March 2025     |
| EURO notes          | (a) | €200 (approximately \$205)     | 1.200%        | November 2017  | November 2025  |
| EURO notes          | (a) | €50 (approximately \$51)       | 1.200%        | December 2020  | November 2025  |
| EURO notes          | (a) | €50 (approximately \$51)       | 1.200%        | June 2021      | November 2025  |
| EURO notes          | (c) | €1,000 (approximately \$1,372) | 2.875%        | March 2014     | March 2026     |
| EURO notes          | (c) | €500 (approximately \$557)     | 0.125%        | August 2019    | August 2026    |
| EURO notes          | (a) | €300 (approximately \$308)     | 0.875%        | February 2020  | February 2027  |
| EURO notes          | (c) | €500 (approximately \$697)     | 2.875%        | May 2014       | May 2029       |
| EURO notes          | (c) | €750 (approximately \$835)     | 0.800%        | August 2019    | August 2031    |
| EURO notes          | (c) | €500 (approximately \$648)     | 3.125%        | June 2013      | June 2033      |
| EURO notes          | (c) | €500 (approximately \$578)     | 2.000%        | May 2016       | May 2036       |
| EURO notes          | (c) | €500 (approximately \$582)     | 1.875%        | November 2017  | November 2037  |
| EURO notes          | (c) | €750 (approximately \$835)     | 1.450%        | August 2019    | August 2039    |
| Swiss franc notes   | (a) | CHF100 (approximately \$104)   | 2.125%        | June 2013      | June 2023      |
| Swiss franc notes   | (c) | CHF250 (approximately \$283)   | 1.625%        | May 2014       | May 2024       |
| Swedish krona notes | (a) | SEK800 (approximately \$76)    | 1.600%        | February 2018  | February 2023  |
| Swedish krona notes | (a) | SEK200 (approximately \$19)    | floating      | February 2018  | February 2023  |
| Swedish krona notes | (a) | SEK250 (approximately \$24)    | floating      | October 2017   | October 2023   |
| Swedish krona notes | (a) | SEK1,000 (approximately \$95)  | 2.710%        | January 2019   | January 2026   |
| Swedish krona notes | (a) | SEK700 (approximately \$67)    | 1.395%        | February 2021  | February 2026  |
| Swedish krona notes | (a) | SEK100 (approximately \$10)    | 1.395%        | March 2021     | February 2026  |
| Swedish krona notes | (a) | SEK200 (approximately \$19)    | 1.395%        | September 2021 | February 2026  |
| Swedish krona notes | (a) | SEK200 (approximately \$19)    | 1.395%        | January 2022   | February 2026  |
| Swedish krona notes | (a) | SEK300 (approximately \$29)    | 2.190%        | April 2021     | April 2029     |

(a) Notes issued by Swedish Match AB. USD equivalents for foreign currency notes were calculated based on exchange rates on the date of acquisition.

(b) These notes are a further issuance of the 4.250% notes issued by PMI in November 2014.

(c) USD equivalents for foreign currency notes were calculated based on exchange rates on the date of issuance.

The net proceeds from the sale of the securities listed in the table above were primarily used for general corporate purposes, including working capital requirements and repurchase of PMI's common stock.

**Aggregate maturities:**

Aggregate maturities of long-term debt are as follows:

| (in millions)                             |    |        |
|---|----|--------|
| 2023                                      | \$ | 2,613  |
| 2024                                      |    | 4,572  |
| 2025                                      |    | 6,560  |
| 2026                                      |    | 3,307  |
| 2027                                      |    | 4,979  |
| 2028-2032                                 |    | 6,909  |
| 2033-2037                                 |    | 1,595  |
| Thereafter                                |    | 7,348  |
|   |    | 37,883 |
| Debt discounts and fair value adjustments |    | (397)  |
| Total long-term debt                      | \$ | 37,486 |

**Revolving Credit Facilities**

At December 31, 2022, PMI's total committed revolving credit facilities were as follows:

| Type<br>(in billions)   | Committed<br>Revolving Credit<br>Facilities |
|---|---|
| 364-day revolving credit, expiring January 31, 2023 <sup>(1)</sup>          | \$ 1.8                                      |
| Multi-year revolving credit, expiring February 10, 2026 <sup>(2)</sup>      | 2.0   |
| Multi-year revolving credit, expiring September 29, 2026 <sup>(3) (4)</sup> | 2.5   |
| Total facilities  | \$ 6.3                                      |

<sup>(1)</sup> On January 25, 2023, PMI entered into an agreement to amend and extend the term of its \$1.8 billion 364-day committed revolving credit facility from January 31, 2023, to January 30, 2024.

<sup>(2)</sup> On January 28, 2022, PMI entered into an agreement, effective February 10, 2022, to amend and extend the term of its \$2.0 billion multi-year revolving credit facility, for an additional year covering the period February 11, 2026 to February 10, 2027, in the amount of \$1.9 billion.

<sup>(3)</sup> Includes pricing adjustments that may result in the reduction or increase in both the interest rate and commitment fee under the credit agreement if PMI achieves, or fails to achieve, certain specified targets.

<sup>(4)</sup> On September 20, 2022, PMI entered into an agreement, effective September 29, 2022, to amend and extend the term of its \$2.5 billion multi-year revolving credit facility, for an additional year covering the period September 30, 2026 to September 29, 2027, in the amount of \$2.3 billion.

At December 31, 2022, there were no borrowings under these committed revolving credit facilities, and the entire committed amounts were available for borrowing.

These committed revolving credit facilities do not include any credit rating triggers, material adverse change clauses or any provisions that could require PMI to post collateral.

In addition to the committed revolving credit facilities discussed above, certain subsidiaries maintain short-term credit arrangements to meet their respective working capital needs. These credit arrangements, which amounted to approximately \$1.9 billion at December 31, 2022, and approximately \$2.3 billion at December 31, 2021, are for the sole use of the subsidiaries. Borrowings under these arrangements and other bank loans amounted to \$295 million at December 31, 2022, and \$225 million at December 31, 2021.

## Note 9.

### Capital Stock:

Shares of authorized common stock are 6.0 billion; issued, repurchased and outstanding shares were as follows:

|                             | Shares Issued | Shares Repurchased | Shares Outstanding |
|-----------------------------|---------------|--------------------|--------------------|
| Balances, January 1, 2020   | 2,109,316,331 | (553,421,668)      | 1,555,894,663      |
| Issuance of stock awards    |               | 1,479,068          | 1,479,068          |
| Balances, December 31, 2020 | 2,109,316,331 | (551,942,600)      | 1,557,373,731      |
| Repurchase of shares        |               | (8,514,629)        | (8,514,629)        |
| Issuance of stock awards    |               | 1,310,891          | 1,310,891          |
| Balances, December 31, 2021 | 2,109,316,331 | (559,146,338)      | 1,550,169,993      |
| Repurchase of shares        |               | (1,966,730)        | (1,966,730)        |
| Issuance of stock awards    |               | 2,014,448          | 2,014,448          |
| Balances, December 31, 2022 | 2,109,316,331 | (559,098,620)      | 1,550,217,711      |

On June 11, 2021, PMI's Board of Directors authorized a new share repurchase program of up to \$7 billion, with target spending of \$5 billion to \$7 billion over a three-year period. On July 22, 2021, PMI began repurchasing shares under this new share repurchase program. From July 22, 2021 through March 31, 2022, PMI repurchased 10.5 million shares of its common stock at a cost of approximately \$1.0 billion. During the first three months of 2022, PMI repurchased 2.0 million shares of its common stock at a cost of \$199 million. On May 11, 2022, PMI announced the suspension of its three-year share repurchase program following the recommended public offer to acquire the outstanding shares of Swedish Match from its shareholders. For further details, see Note 3. *Acquisitions*. Prior to the suspension of the program, PMI made no share repurchases during the second quarter of 2022.

At December 31, 2022, 33,284,616 shares of common stock were reserved for stock awards under PMI's stock plans, and 250 million shares of preferred stock, without par value, were authorized but unissued. PMI currently has no plans to issue any shares of preferred stock.

## Note 10.

### Stock Plans:

In May 2022, PMI's shareholders approved the Philip Morris International Inc. 2022 Performance Incentive Plan (the "2022 Plan"). The 2022 Plan replaced the 2017 Performance Incentive Plan, and there will be no additional grants under the replaced plan. Under the 2022 Plan, PMI may grant to eligible employees restricted shares and restricted share units, performance-based cash incentive awards and performance-based equity awards. Up to 25 million shares of PMI's common stock may be issued under the 2022 Plan. At December 31, 2022, shares available for grant under the 2022 Plan were 24,856,420.

In May 2017, PMI's shareholders approved the Philip Morris International Inc. 2017 Stock Compensation Plan for Non-Employee Directors (the "2017 Non-Employee Directors Plan"). A non-employee director is defined as a member of the PMI Board of Directors who is not a full-time employee of PMI or of any corporation in which PMI owns, directly or indirectly, stock possessing at least 50% of the total combined voting power of all classes of stock entitled to vote in the election of directors in such corporation. Up to 1 million shares of PMI common stock may be awarded under the 2017 Non-Employee Directors Plan. At December 31, 2022, shares available for grant under the plan were 894,346.

### *Restricted share unit (RSU) awards*

PMI may grant RSU awards to eligible employees; recipients may not sell, assign, pledge or otherwise encumber such awards. Such awards are subject to forfeiture if certain employment conditions are not met. RSU awards generally vest on the third anniversary of the grant date. RSU awards do not carry voting rights, although they do earn dividend equivalents.

During 2022, the activity for RSU awards was as follows:

|                              | Number of<br>Shares | Weighted-<br>Average Grant<br>Date Fair Value<br>Per Share |
|------------------------------|---------------------|--|
| Balance at January 1, 2022   | 4,640,764           | \$ 81.96   |
| Granted                      | 1,657,460           | 104.75   |
| Vested                       | (1,603,571)         | 78.49  |
| Forfeited                    | (175,183)           | 89.37  |
| Balance at December 31, 2022 | 4,519,470           | \$ 91.26   |

During the years ended December 31, 2022, 2021 and 2020, the grant date fair value of the RSU awards granted to PMI employees and the recorded compensation expense related to RSU awards were as follows:

| (in millions, except per RSU award granted) | Total Grant Date<br>Fair Value of RSU<br>Awards Granted | Weighted-<br>Average Grant<br>Date Fair Value<br>Per RSU Award<br>Granted | Compensation<br>Expense related<br>to RSU Awards |
|---|---|---|--|
| 2022  | \$ 174  | \$ 104.75   | \$ 135   |
| 2021  | \$ 166  | \$ 82.17  | \$ 139   |
| 2020  | \$ 148  | \$ 85.79  | \$ 129   |

The fair value of the RSU awards at the date of grant is amortized to expense over the restriction period, typically three years after the date of the award, or upon death, disability or reaching the age of 58. As of December 31, 2022, PMI had \$158 million of total unrecognized compensation costs related to non-vested RSU awards. These costs are expected to be recognized over a weighted-average period of approximately seventeen months, or upon death, disability or reaching the age of 58.

During the years ended December 31, 2022, 2021 and 2020, share and fair value information for PMI RSU awards that vested were as follows:

| (dollars in millions) | Shares of RSU<br>Awards that Vested | Grant Date Fair<br>Value of Vested<br>Shares of RSU<br>Awards | Total Fair Value<br>of RSU Awards<br>that Vested |
|-----------------------|-------------------------------------|---|--|
| 2022                  | 1,603,571                           | \$ 126  | \$ 174   |
| 2021                  | 1,256,441                           | \$ 121  | \$ 111   |
| 2020                  | 1,206,871                           | \$ 117  | \$ 102   |



### Performance share unit (PSU) awards

PMI may grant PSU awards to certain executives; recipients may not sell, assign, pledge or otherwise encumber such awards. The PSU awards require the achievement of certain performance metrics, which are predetermined at the time of grant, typically over a three-year performance cycle. The performance metrics for such PSU's granted during 2022 consisted of PMI's Total Shareholder Return ("TSR") relative to a predetermined peer group and on an absolute basis (40% weight), PMI's currency-neutral compound annual adjusted diluted earnings per share growth rate (30% weight), and a Sustainability Index, which consists of two drivers:

- Product Sustainability (20% weight) measuring progress on PMI's efforts to maximize the benefits of smoke-free products, purposefully phase out cigarettes, seek net positive impact in wellness and healthcare, and reduce post-consumer waste; and
- Operational Sustainability (10% weight) measuring progress on PMI's efforts to tackle climate change, preserve nature, improve the quality of life of people in its supply chain, and foster an empowered, and inclusive workplace.

The performance metrics for such PSU's granted during 2021 and 2020 consisted of PMI's TSR relative to a predetermined peer group and on an absolute basis (40% weight), PMI's currency-neutral compound annual adjusted diluted earnings per share growth rate (30% weight), and PMI's performance against specific measures of PMI's transformation, defined as net revenues from PMI's RRP's and any other non-combustible products as a percentage of PMI's total net revenues in the last year of the performance cycle (30% weight).

The aggregate of the weighted performance factors for the three metrics in each such PSU award determines the percentage of PSUs that will vest at the end of the three-year performance cycle. The minimum percentage of such PSUs that can vest is zero, with a target percentage of 100 and a maximum percentage of 200. Each such vested PSU entitles the participant to one share of common stock. An aggregate weighted PSU performance factor of 100 will result in the targeted number of PSUs being vested. At the end of the performance cycle, participants are entitled to an amount equivalent to the accumulated dividends paid on common stock during the performance cycle for the number of shares earned. PSU awards do not carry voting rights.

During 2022, the activity for PSU awards was as follows:

|   | Number of<br>Shares | Weighted-<br>Average Grant<br>Date<br>Fair Value<br>Subject to Other<br>Performance<br>Metrics<br>(Per Share) | Weighted-<br>Average Grant<br>Date<br>Fair Value<br>Subject to TSR<br>Performance<br>Metric<br>(Per Share) |
|---|---------------------|---|--|
| Balance at January 1, 2022              | 1,537,020           | \$ 82.14  | \$ 96.25   |
| Granted                                 | 472,840             | 104.92  | 143.89   |
| Vested                                  | (669,960)           | 77.26   | 83.59  |
| Adjustments for performance achievement | 223,320             | 77.26   | 83.59  |
| Forfeited                               | (56,030)            | 87.23   | 107.46   |
| Balance at December 31, 2022            | 1,507,190           | \$ 90.31  | \$ 115.45  |

During the years ended December 31, 2022, 2021 and 2020, the grant date fair value of the PSU awards granted to PMI employees and the recorded compensation expense related to PSU awards were as follows:

| (in millions, except per PSU award granted) | Weighted-<br>Average PSU Grant Date<br>Fair Value Subject to Other<br>Performance Factors |                  | Weighted-<br>Average PSU Grant Date<br>Fair Value Subject to TSR<br>Performance Factor |                  | Compensation<br>Expense related<br>to PSU Awards |
|---|---|------------------|--|------------------|--|
|   | Total   | Per PSU<br>Award | Total  | Per PSU<br>Award | Total  |
| 2022  | \$ 30   | \$ 104.92        | \$ 27  | \$ 143.89        | \$ 48  |
| 2021  | \$ 28   | \$ 81.86         | \$ 25  | \$ 106.93        | \$ 71  |
| 2020  | \$ 28   | \$ 86.04         | \$ 28  | \$ 80.36         | \$ 38  |

The grant date fair value of the PSU awards subject to the other performance factors was determined by using the market price of PMI's stock on the date of the grant. The grant date fair value of the PSU market-based awards subject to the TSR performance factor was determined by using the Monte Carlo simulation model. The following assumptions were used to determine the grant date fair value of the PSU awards subject to the TSR performance factor for the years ended December 31, 2022, 2021 and 2020:

|  | For the Years Ended December 31, |        |        |
|--|----------------------------------|--------|--------|
|  | 2022                             | 2021   | 2020   |
| Average risk-free interest rate <sup>(a)</sup> | 1.7 %                            | 0.2 %  | 1.4 %  |
| Average expected volatility <sup>(b)</sup>     | 28.3 %                           | 31.7 % | 23.5 % |

<sup>(a)</sup> Based on the U.S. Treasury yield curve.

<sup>(b)</sup> Determined using the observed historical volatility.

The fair value of the PSU award at the date of grant is amortized to expense over the performance period, which is typically three years after the date of the award, or upon death, disability or reaching the age of 58. As of December 31, 2022, PMI had \$42 million of total unrecognized compensation cost related to non-vested PSU awards. This cost is recognized over a weighted-average performance cycle period of approximately seventeen months, or upon death, disability or reaching the age of 58.

During the years ended December 31, 2022, 2021 and 2020, share and fair value information for PMI PSU awards that vested were as follows:

| (dollars in millions) | Shares of PSU Awards that Vested | Grant Date Fair Value of Vested Shares of PSU Awards | Total Fair Value of PSU Awards that Vested |
|-----------------------|----------------------------------|--|--|
| 2022                  | 669,960                          | \$ 54  | \$ 74                                      |
| 2021                  | 189,839                          | \$ 21  | \$ 16                                      |
| 2020                  | 343,806                          | \$ 35  | \$ 30                                      |

## Note 11.

### Earnings per Share:

Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents are participating securities and therefore are included in PMI's earnings per share calculation pursuant to the two-class method.

Basic and diluted earnings per share ("EPS") were calculated using the following:

| (in millions)  | For the Years Ended December 31, |          |          |
|--|----------------------------------|----------|----------|
|  | 2022                             | 2021     | 2020     |
| Net earnings attributable to PMI   | \$ 9,048                         | \$ 9,109 | \$ 8,056 |
| Less distributed and undistributed earnings attributable to share-based payment awards | 24                               | 26       | 20       |
| Net earnings for basic and diluted EPS   | \$ 9,024                         | \$ 9,083 | \$ 8,036 |
| Weighted-average shares for basic EPS  | 1,550                            | 1,558    | 1,557    |
| Plus contingently issuable performance stock units (PSUs)                              | 2                                | 1        | 1        |
| Weighted-average shares for diluted EPS  | 1,552                            | 1,559    | 1,558    |

For the 2022, 2021 and 2020 computations, there were no antidilutive stock awards.

## Note 12.

### Income Taxes:

Earnings before income taxes and provision for income taxes consisted of the following for the years ended December 31, 2022, 2021 and 2020:

| (in millions)                    | 2022      | 2021      | 2020      |
|----------------------------------|-----------|-----------|-----------|
| Earnings before income taxes     | \$ 11,634 | \$ 12,232 | \$ 10,953 |
| Provision for income taxes:      |           |           |           |
| United States federal and state: |           |           |           |
| Current                          | \$ (75)   | \$ 73     | \$ (80)   |
| Deferred                         | (139)     | 27        | 53        |
| Total United States              | (214)     | 100       | (27)      |
| Outside United States:           |           |           |           |
| Current                          | 2,553     | 2,616     | 2,600     |
| Deferred                         | (95)      | (45)      | (196)     |
| Total outside United States      | 2,458     | 2,571     | 2,404     |
| Total provision for income taxes | \$ 2,244  | \$ 2,671  | \$ 2,377  |

On August 16, 2022, the Inflation Reduction Act ("the Act") was signed into law in the U.S. The Act includes a new corporate alternative minimum tax and an excise tax on stock buybacks effective after December 31, 2022. As of December 31, 2022, PMI has determined that the Act had no significant tax impacts on its consolidated financial statements.

On March 11, 2021, the American Rescue Plan Act of 2021 ("the ARP Act") was signed into law in the U.S. to provide certain relief as a result of the COVID-19 pandemic. PMI has determined that the ARP Act had no significant impact on PMI's effective tax rate.

On July 20, 2020, the U.S. Department of the Treasury and the Internal Revenue Service released final and proposed regulations under the Global Intangible Low-Taxed Income ("GILTI") and other provisions of the Internal Revenue Code. PMI has analyzed these elective regulations and recorded the impact in its consolidated financial statements, as described below.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act and, on December 27, 2020, the Consolidated Appropriations Act, 2021 ("U.S. COVID-19 Acts") were signed into law in the U.S. to provide certain relief as a result of the COVID-19 pandemic. In addition, governments around the world have enacted or implemented various forms of tax relief measures in response to the economic conditions in the wake of COVID-19. PMI has determined that neither the U.S. COVID-19 Acts nor changes to income tax laws or regulations in other jurisdictions had a significant impact on PMI's effective tax rate, with the exception of the 2020 corporate income tax rate reduction in Indonesia.

At December 31, 2017, PMI recorded a one-time transition tax liability on its accumulated foreign earnings, which is payable over an eight-year period beginning in 2018. At December 31, 2022 and December 31, 2021, \$0.7 billion and \$0.9 billion of PMI's remaining long-term portion of transition tax liability, respectively, was recorded in "income taxes and other liabilities" on PMI's consolidated balance sheets.

At December 31, 2022 and 2021, U.S. federal and foreign deferred income taxes have been provided on all accumulated earnings of PMI's foreign subsidiaries.

PMI is regularly examined by tax authorities around the world and is currently under examination in a number of jurisdictions. The U.S. federal statute of limitations remains open for the years 2019 and onward. Foreign and U.S. state jurisdictions have statutes of limitations generally ranging from three to five years. Years still open to examination by foreign tax authorities in major jurisdictions include Germany (2018 onward), Indonesia (2014 onward), Russia (2022 onward) and Switzerland (2017 onward).

In October 2021, a subsidiary of PMI in Indonesia, PT Hanjaya Mandala Sampoerna Tbk ("HMS"), received a tax assessment in the amount of 3.8 trillion Indonesian rupiah (approximately \$260 million in the period of payment) primarily relating to corporate income taxes on domestic and other intercompany transactions for the years 2017 to 2019. HMS paid the assessment in the fourth quarter of 2021 in order to avoid potential penalties and filed an objection letter with the tax office in January 2022. The amount paid was

included in other assets in PMI's consolidated balance sheets at December 31, 2022 and 2021, and negatively impacted net cash provided by operating activities in the consolidated statements of cash flows in the period of payment.

It is reasonably possible that within the next 12 months certain tax examinations will close, which could result in a change in unrecognized tax benefits along with related interest and penalties. An estimate of any possible change cannot be made at this time.

A reconciliation of the beginning and ending amount of unrecognized tax benefits was as follows:

| <b>(in millions)</b>   | <b>2022</b> | <b>2021</b> | <b>2020</b> |
|--|-------------|-------------|-------------|
| Balance at January 1,  | \$ 89       | \$ 72       | \$ 63       |
| Additions based on tax positions related to the current year | 12          | 12          | 11          |
| Additions for tax positions of previous years                | 2           | 15          | 1           |
| Reductions for tax positions of prior years                  | (18)        | (1)         | (4)         |
| Reductions due to lapse of statute of limitations            | (6)         | (3)         | (1)         |
| Settlements  | (4)         | —           | —           |
| Other  | (3)         | (6)         | 2           |
| Balance at December 31,                                      | \$ 72       | \$ 89       | \$ 72       |

Unrecognized tax benefits and PMI's liability for contingent income taxes, interest and penalties were as follows:

| <b>(in millions)</b>                    | <b>December 31, 2022</b> | <b>December 31, 2021</b> | <b>December 31, 2020</b> |
|---|--------------------------|--------------------------|--------------------------|
| Unrecognized tax benefits               | \$ 72                    | \$ 89                    | \$ 72                    |
| Accrued interest and penalties          | 13                       | 18                       | 17                       |
| Tax credits and other indirect benefits | (3)                      | (7)                      | (9)                      |
| Liability for tax contingencies         | \$ 82                    | \$ 100                   | \$ 80                    |

The amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate was \$69 million at December 31, 2022. The remainder, if recognized, would principally affect deferred taxes.

For the years ended December 31, 2022, 2021 and 2020, PMI recognized income (expense) in its consolidated statements of earnings of \$2 million, \$(3) million and \$(1) million, respectively, related to interest and penalties associated with uncertain tax positions.

The effective income tax rate on pre-tax earnings differed from the U.S. federal statutory rate for the following reasons for the years ended December 31, 2022, 2021 and 2020:

|                                     | <b>2022</b> | <b>2021</b> | <b>2020</b> |
|-------------------------------------|-------------|-------------|-------------|
| U.S. federal statutory rate         | 21.0 %      | 21.0 %      | 21.0 %      |
| Increase (decrease) resulting from: |             |             |             |
| Foreign rate differences            | (0.5)       | (0.3)       | 0.6         |
| Dividend repatriation cost          | 0.7         | 0.6         | 0.4         |
| Global intangible low-taxed income  | 1.0         | 0.8         | 0.1         |
| U.S. state taxes                    | 0.1         | 0.2         | 0.2         |
| Foreign derived intangible income   | (0.8)       | (0.7)       | (0.6)       |
| Foreign exchange                    | (1.7)       | —           | —           |
| Other                               | (0.5)       | 0.2         | —           |
| Effective tax rate                  | 19.3 %      | 21.8 %      | 21.7 %      |

The 2022 effective tax rate decreased 2.5 percentage point to 19.3%. The change in the effective tax rate for 2022, as compared to 2021, was favorably impacted by changes in income tax reserves, a deferred tax benefit for unrealized foreign currency losses on intercompany loans related to the Swedish Match acquisition financing reflected in the consolidated statements of earnings (\$203 million), while the underlying pre-tax foreign currency movements fully offset in the consolidated statements of earnings and were reflected as currency translation adjustments in its consolidated statements of stockholders' (deficit) equity, and by a reduction in

deferred tax liabilities related to pension plan assets (\$40 million), partially offset by an increase in deferred tax liabilities related to the fair value adjustment of equity securities held by PMI (\$10 million). For further details, see Note 6. *Related Parties - Equity Investments and Other*.

The 2021 effective tax rate increased 0.1 percentage point to 21.8%. The change in the effective tax rate for 2021, as compared to 2020, was unfavorably impacted by repatriation cost differences and foreign tax credit limitations related to GILTI, partially offset by the corporate income tax rate reduction in the Philippines (enacted in the first quarter of 2021) and changes in earnings mix by taxing jurisdiction.

The 2020 effective tax rate was favorably impacted by the above-mentioned reduction of estimated U.S. income tax liabilities for years 2018 and 2019 due to the GILTI regulations and the corporate income tax rate reduction in Indonesia.

The tax effects of temporary differences that gave rise to deferred income tax assets and liabilities consisted of the following:

| (in millions)  | At December 31, |         |
|--|-----------------|---------|
|  | 2022            | 2021    |
| Deferred income tax assets:                            |                 |         |
| Accrued postretirement and postemployment benefits     | \$ 217          | \$ 234  |
| Accrued pension costs                                  | 277             | 392     |
| Inventory <sup>(1)</sup>                               | 22              | 177     |
| Accrued liabilities                                    | 158             | 168     |
| Net operating loss carryforwards and tax credits       | 384             | 408     |
| Other  | —               | 112     |
| Total deferred income tax assets                       | 1,058           | 1,491   |
| Less: valuation allowance                              | (378)           | (239)   |
| Deferred income tax assets, net of valuation allowance | 680             | 1,252   |
| Deferred income tax liabilities:                       |                 |         |
| Intangible assets                                      | (1,485)         | (591)   |
| Property, plant and equipment                          | (200)           | (140)   |
| Unremitted earnings                                    | (141)           | (206)   |
| Foreign exchange                                       | (175)           | (146)   |
| Other  | (32)            | —       |
| Total deferred income tax liabilities                  | (2,033)         | (1,083) |
| Net deferred income tax assets (liabilities)           | \$ (1,353)      | \$ 169  |

<sup>(1)</sup> Includes deferred tax charges of \$153 million in 2021 related to intercompany transactions.

At December 31, 2022, PMI recorded deferred tax assets for net operating loss carryforwards and tax credits of \$384 million, with varying dates of expiration, primarily after 2027, including \$173 million with an unlimited carryforward period. At December 31, 2022, PMI has recorded a valuation allowance of \$378 million against deferred tax assets that do not meet the more-likely-than-not recognition threshold.

At December 31, 2021, PMI recorded deferred tax assets for net operating loss carryforwards of \$408 million, with varying dates of expiration, primarily after 2026, including \$183 million with an unlimited carryforward period. At December 31, 2021, PMI has recorded a valuation allowance of \$239 million against deferred tax assets that do not meet the more-likely-than-not recognition threshold.

## Note 13.

### Segment Reporting:

PMI's subsidiaries and affiliates are primarily engaged in the manufacture and sale of cigarettes and smoke-free products, including heat-not-burn, vapor, and oral nicotine products. Excluding the Wellness and Healthcare segment and the 2022 acquisition of Swedish Match, PMI's segments are generally organized by geographic region and managed by segment managers who are responsible for the

operating and financial results of the regions inclusive of combustible tobacco and smoke-free product categories sold in the region. PMI currently has six geographical segments: the European Union; Eastern Europe; Middle East & Africa; South & Southeast Asia; East Asia & Australia; and Americas; as well as the Swedish Match segment and the Wellness and Healthcare segment. The Swedish Match segment represents the fourth quarter 2022 acquisition of the company. The Wellness and Healthcare segment reflects the operating results of PMI's new business, Vectura Fertin Pharma. For further details on these acquisitions, see Note 3. *Acquisitions*. PMI records net revenues and operating income to its geographical segments based upon the geographic area in which the customer resides.

PMI's chief operating decision maker evaluates geographical segment performance and allocates resources based on regional operating income, which includes results from substantially all product categories sold in each region. Business operations in the Wellness and Healthcare segment and the Swedish Match segment are managed and evaluated separately. Interest expense, net, and provision for income taxes are centrally managed and, accordingly, such items are not presented by segment since they are excluded from the measure of segment profitability reviewed by management. Information about total assets by segment is not disclosed because such information is not reported to or used by PMI's chief operating decision maker. Segment goodwill and other intangible assets, net, are disclosed in Note 5. *Goodwill and Other Intangible Assets, net*. The accounting policies of the segments are the same as those described in Note 2. *Summary of Significant Accounting Policies*.

PMI disaggregates its net revenues from contracts with customers by product category for each of PMI's six geographical segments and for the Swedish Match segment. For the Wellness and Healthcare business, Vectura Fertin Pharma discussed above, net revenues from contracts with customers are included in the Wellness and Healthcare segment. PMI believes this best depicts how the nature, amount, timing and uncertainty of its revenue and cash flows are affected by economic factors.

Net revenues by segment were as follows:

| (in millions)           | For the Years Ended December 31, |           |           |
|-------------------------|----------------------------------|-----------|-----------|
|                         | 2022                             | 2021      | 2020      |
| Net revenues:           |                                  |           |           |
| European Union          | \$ 12,119                        | \$ 12,275 | \$ 10,702 |
| Eastern Europe          | 3,725                            | 3,544     | 3,378     |
| Middle East & Africa    | 3,901                            | 3,293     | 3,088     |
| South & Southeast Asia  | 4,395                            | 4,396     | 4,396     |
| East Asia & Australia   | 5,132                            | 5,953     | 5,429     |
| Americas                | 1,903                            | 1,843     | 1,701     |
| Swedish Match           | 316                              | —         | —         |
| Wellness and Healthcare | 271                              | 101       | —         |
| Net revenues            | \$ 31,762                        | \$ 31,405 | \$ 28,694 |

Total net revenues attributable to customers located in Japan, PMI's largest market in terms of net revenues, were \$3.9 billion, \$4.6 billion and \$4.1 billion in 2022, 2021 and 2020, respectively. PMI had one customer in the East Asia & Australia segment that accounted for 12%, 15% and 14% of PMI's consolidated net revenues, and one customer in the European Union segment that accounted for 13%, 13% and 11% of PMI's consolidated net revenues in 2022, 2021 and 2020, respectively.



PMI's net revenues by product category were as follows:

| (in millions)   | For the Years Ended December 31, |           |           |
|---|----------------------------------|-----------|-----------|
|   | 2022                             | 2021      | 2020      |
| Combustible tobacco products:                               |                                  |           |           |
| European Union  | \$ 7,212                         | \$ 8,211  | \$ 8,052  |
| Eastern Europe  | 2,410                            | 2,240     | 2,250     |
| Middle East & Africa  | 3,567                            | 3,110     | 3,005     |
| South & Southeast Asia                                      | 4,372                            | 4,385     | 4,395     |
| East Asia & Australia                                       | 2,138                            | 2,414     | 2,468     |
| Americas  | 1,804                            | 1,706     | 1,577     |
| Swedish Match   | 70                               | —         | —         |
| Total combustible tobacco products                          | 21,572                           | 22,067    | 21,747    |
| Smoke-free products:  |                                  |           |           |
| Smoke-free products excluding Wellness and Healthcare:      |                                  |           |           |
| European Union  | 4,907                            | 4,064     | 2,650     |
| Eastern Europe  | 1,315                            | 1,304     | 1,128     |
| Middle East & Africa  | 334                              | 183       | 83        |
| South & Southeast Asia                                      | 23                               | 11        | 1         |
| East Asia & Australia                                       | 2,994                            | 3,539     | 2,961     |
| Americas  | 99                               | 137       | 124       |
| Swedish Match   | 246                              | —         | —         |
| Total smoke-free products excluding Wellness and Healthcare | 9,919                            | 9,237     | 6,947     |
| Wellness and Healthcare                                     | 271                              | 101       | —         |
| Total smoke-free products                                   | 10,190                           | 9,338     | 6,947     |
| Total PMI net revenues                                      | \$ 31,762                        | \$ 31,405 | \$ 28,694 |

Note: Sum of product categories or Regions might not foot to total PMI due to roundings.

Following the Swedish Match acquisition and a review of PMI and Swedish Match's combined product portfolio, PMI reclassified certain of its own products previously reported under its combustible tobacco product category to the newly created smoke-free product category to better reflect the characteristics of these products. This reclassification did not impact PMI's segment reporting, consolidated financial position, results of operations or cash flows in any of the periods presented.

Net revenues related to combustible tobacco products refer to the operating revenues generated from the sale of these products, including shipping and handling charges billed to customers, net of sales and promotion incentives, and excise taxes. These net revenue amounts consist of the sale of PMI's cigarettes and other tobacco products that are combusted. Other tobacco products primarily include roll-your-own and make-your-own cigarettes, pipe tobacco, cigars and cigarillos and do not include smoke-free products.

Net revenues related to smoke-free products refer to the operating revenues generated from the sale of these products, including shipping and handling charges billed to customers, net of sales and promotion incentives, and excise taxes, if applicable. These net revenue amounts consist of the sale of all of PMI's products that are not combustible tobacco products, such as heat-not-burn, e-vapor, and oral nicotine, also including wellness and healthcare products, as well as consumer accessories such as lighters and matches.

Net revenues related to wellness and healthcare products consist of operating revenues generated from the sale of products primarily associated with inhaled therapeutics, and oral and intra-oral delivery systems that are included in the operating results of PMI's new Wellness and Healthcare business, Vectura Fertin Pharma.

Operating income (loss) by segment were as follows:

| (in millions)            | For the Years Ended December 31, |           |           |
|--------------------------|----------------------------------|-----------|-----------|
|                          | 2022                             | 2021      | 2020      |
| Operating income (loss): |                                  |           |           |
| European Union           | \$ 5,788                         | \$ 6,119  | \$ 5,098  |
| Eastern Europe           | 1,166                            | 1,213     | 871       |
| Middle East & Africa     | 1,758                            | 1,146     | 1,026     |
| South & Southeast Asia   | 1,459                            | 1,506     | 1,709     |
| East Asia & Australia    | 1,919                            | 2,556     | 2,400     |
| Americas                 | 436                              | 487       | 564       |
| Swedish Match            | (22)                             | —         | —         |
| Wellness and Healthcare  | (258)                            | (52)      | —         |
| Operating income         | \$ 12,246                        | \$ 12,975 | \$ 11,668 |

Items affecting the comparability of results from operations were as follows:

- **Charges related to the war in Ukraine** - See Note 4. *War in Ukraine* for details of the \$151 million pre-tax charges in the Eastern Europe segment for the year ended December 31, 2022.
- **Swedish Match AB acquisition accounting related item** - See Note 3. *Acquisitions* for details of the \$125 million pre-tax purchase accounting adjustments related to the sale of acquired inventories stepped up to fair value included in the Swedish Match segment for the year ended December 31, 2022.
- **Impairment of intangibles** - See Note 5. *Goodwill and Other Intangible Assets, net* for the details of the \$112 million pre-tax impairment charge included in the Wellness and Healthcare segment within the operating income table above for the year ended December 31, 2022.
- **Asset impairment and exit costs** - See Note 20. *Asset Impairment and Exit Costs* for details of the \$216 million and \$149 million pre-tax charges for the year ended December 31, 2021 and 2020, respectively, as well as a breakdown of these costs by segment.
- **Saudi Arabia customs assessments** - See Note 18. *Contingencies* for the details of the \$246 million reduction in net revenues of combustible tobacco products included in the Middle East & Africa segment for the year ended December 31, 2021.
- **Asset acquisition cost** - See Note 3. *Acquisitions* for the details of the \$51 million pre-tax charge associated with the asset acquisition of OtiTopic, Inc. included in the Wellness and Healthcare segment within the operating income table above for the year ended December 31, 2021.
- **Brazil indirect tax credit** - Following a final and enforceable decision by the highest court in Brazil in October 2020, PMI recorded a gain of \$119 million for tax credits representing overpayments of indirect taxes for the period from March 2012 through December 2019; these tax credits were applied to tax liabilities in Brazil during 2021. This amount was included as a reduction in marketing, administration and research costs in the consolidated statements of earnings for the year ended December 31, 2020 and was included in the operating income of the Americas segment. An additional amount of overpaid indirect taxes of approximately \$90 million is dependent on the outcome of a challenge by the local tax authority.

Other segment data were as follows:

| (in millions)  | For the Years Ended December 31, |        |        |
|--|----------------------------------|--------|--------|
|  | 2022                             | 2021   | 2020   |
| Depreciation, amortization and impairment of intangibles expense:      |                                  |        |        |
| European Union   | \$ 349                           | \$ 342 | \$ 300 |
| Eastern Europe   | 137                              | 133    | 175    |
| Middle East & Africa   | 96                               | 97     | 83     |
| South & Southeast Asia   | 151                              | 164    | 154    |
| East Asia & Australia  | 151                              | 157    | 191    |
| Americas   | 74                               | 71     | 78     |
| Swedish Match  | 34                               | —      | —      |
| Wellness and Healthcare  | 197                              | 34     | —      |
| Total depreciation, amortization and impairment of intangibles expense | \$ 1,189                         | \$ 998 | \$ 981 |

PMI's total capital expenditures and total property, plant and equipment, net and other assets by geographic area were:

| (in millions)              | For the Years Ended December 31, |        |        |
|----------------------------|----------------------------------|--------|--------|
|                            | 2022                             | 2021   | 2020   |
| Capital expenditures:      |                                  |        |        |
| European Union             | \$ 682                           | \$ 498 | \$ 384 |
| Eastern Europe             | 52                               | 71     | 88     |
| Middle East & Africa       | 39                               | 37     | 22     |
| South & Southeast Asia     | 179                              | 52     | 57     |
| East Asia & Australia      | 24                               | 36     | 13     |
| Americas                   | 101                              | 54     | 38     |
| Total capital expenditures | \$ 1,077                         | \$ 748 | \$ 602 |

| (in millions)   | At December 31, |          |          |
|---|-----------------|----------|----------|
|   | 2022            | 2021     | 2020     |
| Long-lived assets:  |                 |          |          |
| European Union  | \$ 5,077        | \$ 4,787 | \$ 4,500 |
| Eastern Europe  | 541             | 635      | 668      |
| Middle East & Africa                                      | 244             | 289      | 375      |
| South & Southeast Asia                                    | 1,365           | 1,390    | 1,348    |
| East Asia & Australia                                     | 674             | 740      | 807      |
| Americas  | 1,282           | 666      | 784      |
| Total long-lived assets                                   | 9,183           | 8,507    | 8,482    |
| Altria Group, Inc. agreement                              | 1,002           | —        | —        |
| Financial instruments                                     | 456             | 210      | 650      |
| Total property, plant and equipment, net and Other assets | \$ 10,641       | \$ 8,717 | \$ 9,132 |

Long-lived assets consist of non-current assets other than goodwill; other intangible assets, net; deferred tax assets, equity investments, financial instruments and payment under the agreement with Altria Group, Inc, see Note 3, *Acquisitions*. PMI's largest markets in terms of long-lived assets are Switzerland, Italy and Indonesia. Total long-lived assets located in Switzerland, which is reflected in the European Union segment above, were \$1.4 billion, \$1.3 billion and \$1.3 billion at December 31, 2022, 2021 and 2020, respectively. Total long-lived assets located in Italy, which is reflected in the European Union segment above, were \$0.9 billion, \$0.9 billion and \$1.1 billion at December 31, 2022, 2021 and 2020, respectively. Total long-lived assets located in Indonesia, which is reflected in the South & Southeast Asia segment above, were \$0.9 billion, \$0.9 billion and \$0.7 billion at December 31, 2022, 2021 and 2020, respectively.

## Note 14.

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### Benefit Plans:

Pension coverage for employees of PMI's subsidiaries is provided, to the extent deemed appropriate, through separate plans, many of which are governed by local statutory requirements. In addition, PMI provides health care and other benefits to certain U.S. retired employees and certain non-U.S. retired employees. In general, health care benefits for non-U.S. retired employees are covered through local government plans.

Pension and other employee benefit costs per the consolidated statements of earnings consisted of the following for December 31, 2022, 2021 and 2020:

| <b>(in millions)</b>                           | <b>2022</b> | <b>2021</b> | <b>2020</b> |
|--|-------------|-------------|-------------|
| Net pension costs (income)                     | \$ (93)     | \$ (1)      | \$ (14)     |
| Net postemployment costs                       | 107         | 108         | 103         |
| Net postretirement costs                       | 10          | 8           | 8           |
| Total pension and other employee benefit costs | \$ 24       | \$ 115      | \$ 97       |

## Pension and Postretirement Benefit Plans

### Obligations and Funded Status

The projected benefit obligations, plan assets and funded status of PMI's pension plans, and the accumulated benefit obligation, plan assets and net amount accrued for PMI's postretirement health care plans, at December 31, 2022 and 2021, were as follows:

| (in millions)   | Pension <sup>(1)</sup> |            | Postretirement |          |
|---|------------------------|------------|----------------|----------|
|   | 2022                   | 2021       | 2022           | 2021     |
| Benefit obligation at January 1                                     | \$ 10,998              | \$ 12,243  | \$ 198         | \$ 198   |
| Service cost  | 233                    | 291        | 2              | 2        |
| Interest cost   | 78                     | 50         | 6              | 5        |
| Benefits paid   | (429)                  | (417)      | (9)            | (8)      |
| Employee contributions  | 141                    | 145        | —              | —        |
| Settlement, curtailment and plan amendment                          | (17)                   | (194)      | —              | —        |
| Actuarial losses (gains)  | (2,294)                | (559)      | (46)           | 5        |
| Currency  | (434)                  | (587)      | (5)            | (4)      |
| Acquisition of Swedish Match  | 316                    | —          | 85             | —        |
| Other   | 14                     | 26         | (2)            | —        |
| Benefit obligation at December 31,                                  | 8,606                  | 10,998     | 229            | 198      |
| Fair value of plan assets at January 1,                             | 9,337                  | 8,746      | —              | —        |
| Actual return on plan assets  | (1,061)                | 1,054      | —              | —        |
| Employer contributions, net of refunds                              | (3)                    | 269        | 9              | —        |
| Employee contributions  | 141                    | 145        | —              | —        |
| Benefits paid   | (429)                  | (417)      | (9)            | —        |
| Settlement  | (14)                   | (37)       | —              | —        |
| Currency  | (333)                  | (444)      | —              | —        |
| Acquisition of Swedish Match  | 303                    | —          | 3              | —        |
| Other   | (2)                    | 21         | —              | —        |
| Fair value of plan assets at December 31,                           | 7,939                  | 9,337      | 3              | —        |
| Net pension and postretirement liability recognized at December 31, | \$ (667)               | \$ (1,661) | \$ (226)       | \$ (198) |

(1) Primarily non-U.S. based defined benefit retirement plans.

At December 31, 2022 and 2021, actuarial losses (gains) consisted primarily of gains for assumption changes related to higher discount rates year-over-year for Swiss, German and Dutch plans.

At December 31, 2022 and 2021, the Swiss pension plan represented 64% and 65% of the benefit obligation, respectively, and approximately 60% and 60% of the fair value of plan assets at December 31, 2022 and 2021, respectively. At December 31, 2022 and 2021, the U.S. pension plans represented 7% and 4% of the benefit obligation, respectively, and approximately 6% and 3% of the fair value of plan assets at December 31, 2022 and 2021, respectively.

At December 31, 2022 and 2021, the amounts recognized on PMI's consolidated balance sheets for the pension and postretirement plans were as follows:

| (in millions)                          | Pension  |            | Postretirement |          |
|--|----------|------------|----------------|----------|
|  | 2022     | 2021       | 2022           | 2021     |
| Other assets                           | \$ 410   | \$ 323     |                |          |
| Accrued liabilities — employment costs | (32)     | (24)       | \$ (11)        | \$ (9)   |
| Long-term employment costs             | (1,045)  | (1,960)    | (215)          | (189)    |
|  | \$ (667) | \$ (1,661) | \$ (226)       | \$ (198) |

The accumulated benefit obligation, which represents benefits earned to date, for the pension plans was \$8.2 billion and \$10.4 billion at December 31, 2022 and 2021, respectively.

For pension plans with accumulated benefit obligations in excess of plan assets, the accumulated benefit obligation and fair value of plan assets were \$5.8 billion and \$5.0 billion, respectively, as of December 31, 2022. The accumulated benefit obligation and fair value of plan assets were \$7.5 billion and \$5.9 billion, respectively, as of December 31, 2021.

For pension plans with projected benefit obligations in excess of plan assets, the projected benefit obligation and fair value of plan assets were \$6.4 billion and \$5.4 billion, respectively, as of December 31, 2022. The projected benefit obligation and fair value of plan assets were \$8.6 billion and \$6.7 billion, respectively, as of December 31, 2021.

The following weighted-average assumptions were used to determine PMI's pension and postretirement benefit obligations at December 31:

|   | Pension |        | Postretirement |        |
|---|---------|--------|----------------|--------|
|   | 2022    | 2021   | 2022           | 2021   |
| Discount rate                                     | 3.03 %  | 0.86 % | 5.89 %         | 3.08 % |
| Rate of compensation increase                     | 1.98    | 1.77   |                |        |
| Interest crediting rate                           | 2.97    | 3.15   |                |        |
| Health care cost trend rate assumed for next year |         |        | 6.14           | 6.27   |
| Ultimate trend rate                               |         |        | 4.78           | 4.80   |
| Year that rate reaches the ultimate trend rate    |         |        | 2046           | 2029   |

The discount rate for the largest pension plans is based on a yield curve constructed from a portfolio of high quality corporate bonds that produces a cash flow pattern equivalent to each plan's expected benefit payments. The discount rate for the remaining plans is developed from local bond indices that match local benefit obligations as closely as possible.

### Components of Net Periodic Benefit Cost

Net periodic pension and postretirement health care costs consisted of the following for the years ended December 31, 2022, 2021 and 2020:

| (in millions)                                 | Pension |        |        | Postretirement |       |       |
|---|---------|--------|--------|----------------|-------|-------|
|   | 2022    | 2021   | 2020   | 2022           | 2021  | 2020  |
| Service cost                                  | \$ 233  | \$ 291 | \$ 268 | \$ 2           | \$ 2  | \$ 2  |
| Interest cost                                 | 78      | 50     | 68     | 6              | 5     | 6     |
| Expected return on plan assets                | (352)   | (371)  | (353)  | —              | —     | —     |
| Amortization:                                 |         |        |        |                |       |       |
| Net losses                                    | 181     | 314    | 265    | 2              | 3     | 2     |
| Prior service cost (credit)                   | (2)     | 1      | 1      | —              | —     | —     |
| Net transition obligation                     | —       | —      | 1      | —              | —     | —     |
| Settlement and curtailment                    | 2       | 5      | 4      | 2              | —     | —     |
| Net periodic pension and postretirement costs | \$ 140  | \$ 290 | \$ 254 | \$ 12          | \$ 10 | \$ 10 |

Settlement and curtailment charges were due primarily to employee severance and early retirement programs.



The following weighted-average assumptions were used to determine PMI's net pension and postretirement health care costs:

|  | Pension       |        |        | Postretirement |        |        |
|--|---------------|--------|--------|----------------|--------|--------|
|  | 2022          | 2021   | 2020   | 2022           | 2021   | 2020   |
| Discount rate - service cost           | <b>1.03 %</b> | 0.72 % | 1.25 % | <b>3.08 %</b>  | 2.84 % | 3.28 % |
| Discount rate - interest cost          | <b>0.71</b>   | 0.44   | 0.67   | <b>3.08</b>    | 2.84   | 3.28   |
| Expected rate of return on plan assets | <b>4.17</b>   | 4.43   | 4.59   |                |        |        |
| Rate of compensation increase          | <b>1.77</b>   | 1.79   | 1.82   |                |        |        |
| Interest crediting rate                | <b>3.15</b>   | 3.20   | 3.20   |                |        |        |
| Health care cost trend rate            |               |        |        | <b>6.27</b>    | 6.21   | 6.21   |

PMI's expected rate of return on pension plan assets is determined by the plan assets' historical long-term investment performance, current asset allocation and estimates of future long-term returns by asset class.

PMI and certain of its subsidiaries sponsor defined contribution plans. Amounts charged to expense for defined contribution plans totaled \$82 million, \$71 million and \$66 million for the years ended December 31, 2022, 2021 and 2020, respectively.

#### Plan Assets

PMI's investment strategy for pension plans is based on an expectation that equity securities will outperform debt securities over the long term. Accordingly, the target allocation of PMI's plan assets is broadly characterized as approximately 55% in equity securities and approximately 45% in debt securities and other assets. The strategy primarily utilizes indexed U.S. equity securities, international equity securities and investment-grade debt securities. PMI attempts to mitigate investment risk by rebalancing between equity and debt asset classes once a year or as PMI's contributions and benefit payments are made.

The fair value of PMI's pension plan assets at December 31, 2022 and 2021, by asset category was as follows:

| Asset Category<br>(in millions)                             | At December 31,<br>2022 | Quoted Prices<br>In Active<br>Markets for<br>Identical<br>Assets/Liabilities<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|---|-------------------------|---|---|--|
| Cash and cash equivalents                                   | \$ 79                   | \$ 79   |   |  |
| Equity securities:  |                         |   |   |  |
| U.S. securities   | 140                     | 140   |   |  |
| International securities                                    | 521                     | 521   |   |  |
| Investment funds <sup>(a)</sup>                             | 6,419                   | 4,870   | \$ 1,549  |  |
| Government bonds  | 178                     | 117   | 61  |  |
| Corporate bonds   | 302                     | 302   |   |  |
| Other   | 35                      | —   | 3   | 32 <sup>(c)</sup>                                  |
| Total assets in the fair value hierarchy                    | \$ 7,674                | \$ 6,029  | \$ 1,613  | \$ 32  |
| Investment funds measured at net asset value <sup>(b)</sup> | 265                     |   |   |  |
| Total assets  | \$ 7,939                |   |   |  |

<sup>(a)</sup> Investment funds whose objective seeks to replicate the returns and characteristics of specified market indices (primarily MSCI — Europe, Switzerland, North America, Asia Pacific, Japan; Russell 3000; S&P 500 for equities, and Citigroup EMU, Citigroup Non-EGBI EuroBIG, SBI AAA-BBB and JP Morgan EMBI for bonds), primarily consist of mutual funds, common trust funds and commingled funds. Of these funds, 57% are invested in U.S. and international equities; 15% are invested in U.S. and international government bonds; 16% are invested in corporate bonds and 12% are invested in real estate.

<sup>(b)</sup> In accordance with FASB ASC Subtopic 820-10, certain investments measured at fair value using the net asset value per share practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

<sup>(c)</sup> Amount relates to annuity policies of which the fair value is calculated using an actuarial model.

| Asset Category<br>(in millions)                             | At December 31,<br>2021 | Quoted Prices<br>In Active<br>Markets for<br>Identical<br>Assets/Liabilities<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|---|-------------------------|---|---|--|
| Cash and cash equivalents                                   | \$ 355                  | \$ 355  |   |  |
| Equity securities:  |                         |   |   |  |
| U.S. securities   | 193                     | 193   |   |  |
| International securities                                    | 658                     | 658   |   |  |
| Investment funds <sup>(a)</sup>                             | 7,317                   | 5,592   | \$ 1,725  |  |
| International government bonds                              | 210                     | 139   | 71  |  |
| Corporate bonds   | 278                     | 278   |   |  |
| Other   | 4                       | 3   | 1   |  |
| Total assets in the fair value hierarchy                    | \$ 9,015                | \$ 7,218  | \$ 1,797  | \$ —   |
| Investment funds measured at net asset value <sup>(b)</sup> | 322                     |   |   |  |
| Total assets  | \$ 9,337                |   |   |  |

<sup>(a)</sup> Investment funds whose objective seeks to replicate the returns and characteristics of specified market indices (primarily MSCI — Europe, Switzerland, North America, Asia Pacific, Japan; Russell 3000; S&P 500 for equities, and Citigroup EMU and JP Morgan EMBI for bonds), primarily consist of mutual funds, common trust funds and commingled funds. Of these funds, 59% were invested in U.S. and international equities; 15% were invested in U.S. and international government bonds; 14% were invested in corporate bonds, and 12% were invested in real estate.

<sup>(b)</sup> In accordance with FASB ASC Subtopic 820-10, certain investments measured at fair value using the net asset value per share practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

For a description of the fair value hierarchy and the three levels of inputs used to measure fair values, see Note 2. *Summary of Significant Accounting Policies*.

PMI makes, and plans to make, contributions, to the extent that they are tax deductible and meet specific funding requirements of its funded pension plans. Currently, PMI anticipates making contributions of approximately \$121 million in 2023 to its pension plans, based on current tax and benefit laws. However, this estimate is subject to change as a result of changes in tax and other benefit laws, as well as asset performance significantly above or below the assumed long-term rate of return on pension assets, or changes in interest and currency rates.

The estimated future benefit payments from PMI pension plans at December 31, 2022, are as follows:

| (in millions) |        |
|---------------|--------|
| 2023          | \$ 439 |
| 2024          | 378    |
| 2025          | 372    |
| 2026          | 384    |
| 2027          | 396    |
| 2028 - 2032   | 2,209  |

PMI's expected future annual benefit payments for its postretirement health care plans are estimated to be not material through 2032.

#### ***Postemployment Benefit Plans***

PMI and certain of its subsidiaries sponsor postemployment benefit plans covering certain designated salaried and hourly employees. The cost of these plans is charged to expense over the working life of the covered employees. Net postemployment costs were \$184 million, \$228 million and \$208 million for the years ended December 31, 2022, 2021 and 2020, respectively.

The amounts recognized in accrued postemployment costs net of plan assets on PMI's consolidated balance sheets at December 31, 2022 and 2021, were \$807 million and \$925 million, respectively.

The accrued postemployment costs were determined using a weighted-average discount rate of 5.6% and 3.1% in 2022 and 2021, respectively; an assumed ultimate annual weighted-average turnover rate of 2.9% and 2.9% in 2022 and 2021, respectively; assumed compensation cost increases of 2.8% in 2022 and 2.1% in 2021, and assumed benefits as defined in the respective plans. In accordance with local regulations, certain postemployment plans are funded. As a result, the accrued postemployment costs disclosed above are presented net of the related assets of \$30 million and \$46 million at December 31, 2022 and 2021, respectively. Postemployment costs arising from actions that offer employees benefits in excess of those specified in the respective plans are charged to expense when incurred.

#### ***Comprehensive Earnings (Losses)***

The amounts recorded in accumulated other comprehensive losses at December 31, 2022, consisted of the following:

| (in millions)                     | Pension    | Post-retirement | Post-employment | Total      |
|-----------------------------------|------------|-----------------|-----------------|------------|
| Net (losses) gains                | \$ (1,437) | \$ (14)         | \$ (753)        | \$ (2,204) |
| Prior service (cost) credit       | 70         | 1               | (21)            | 50         |
| Net transition (obligation) asset | (3)        | —               | —               | (3)        |
| Deferred income taxes             | 138        | 14              | 183             | 335        |
| Losses to be amortized            | \$ (1,232) | \$ 1            | \$ (591)        | \$ (1,822) |

The amounts recorded in accumulated other comprehensive losses at December 31, 2021, consisted of the following:

| (in millions)                     | Pension    | Post-retirement | Post-employment | Total      |
|-----------------------------------|------------|-----------------|-----------------|------------|
| Net (losses) gains                | \$ (2,495) | \$ (64)         | \$ (884)        | \$ (3,443) |
| Prior service (cost) credit       | 71         | 1               | (22)            | 50         |
| Net transition (obligation) asset | (3)        | —               | —               | (3)        |
| Deferred income taxes             | 278        | 24              | 214             | 516        |
| Losses to be amortized            | \$ (2,149) | \$ (39)         | \$ (692)        | \$ (2,880) |

The amounts recorded in accumulated other comprehensive losses at December 31, 2020, consisted of the following:

| (in millions)                     | Pension    | Post-retirement | Post-employment | Total      |
|-----------------------------------|------------|-----------------|-----------------|------------|
| Net (losses) gains                | \$ (4,147) | \$ (64)         | \$ (839)        | \$ (5,050) |
| Prior service (cost) credit       | 22         | 2               | (22)            | 2          |
| Net transition (obligation) asset | (3)        | —               | —               | (3)        |
| Deferred income taxes             | 570        | 24              | 204             | 798        |
| Losses to be amortized            | \$ (3,558) | \$ (38)         | \$ (657)        | \$ (4,253) |

The movements in other comprehensive earnings (losses) during the year ended December 31, 2022, were as follows:

| (in millions)  | Pension | Post-retirement | Post-employment | Total    |
|--|---------|-----------------|-----------------|----------|
| Amounts transferred to earnings:                         |         |                 |                 |          |
| Amortization:  |         |                 |                 |          |
| Net losses (gains)                                       | \$ 178  | \$ 3            | \$ 85           | \$ 266   |
| Prior service cost (credit)                              | (4)     | —               | —               | (4)      |
| Other income/expense:                                    |         |                 |                 |          |
| Net losses (gains)                                       | 2       | 1               | —               | 3        |
| Prior service cost (credit)                              | —       | —               | 1               | 1        |
| Deferred income taxes                                    | (28)    | (1)             | (20)            | (49)     |
|  | 148     | 3               | 66              | 217      |
| Other movements during the year:                         |         |                 |                 |          |
| Net (losses) gains                                       | 878     | 46              | 46              | 970      |
| Prior service (cost) credit                              | 3       | —               | —               | 3        |
| Deferred income taxes                                    | (112)   | (9)             | (11)            | (132)    |
|  | 769     | 37              | 35              | 841      |
| Total movements in other comprehensive earnings (losses) | \$ 917  | \$ 40           | \$ 101          | \$ 1,058 |

The movements in other comprehensive earnings (losses) during the year ended December 31, 2021, were as follows:

| (in millions)  | Pension  | Post-retirement | Post-employment | Total    |
|--|----------|-----------------|-----------------|----------|
| Amounts transferred to earnings:                         |          |                 |                 |          |
| Amortization:  |          |                 |                 |          |
| Net losses (gains)                                       | \$ 294   | \$ 4            | \$ 85           | \$ 383   |
| Prior service cost (credit)                              | 7        | (1)             | —               | 6        |
| Other income/expense:                                    |          |                 |                 |          |
| Net losses (gains)                                       | 5        | 1               | —               | 6        |
| Prior service cost (credit)                              | —        | —               | —               | —        |
| Deferred income taxes                                    | (51)     | (1)             | (20)            | (72)     |
|  | 255      | 3               | 65              | 323      |
| Other movements during the year:                         |          |                 |                 |          |
| Net (losses) gains                                       | 1,353    | (5)             | (130)           | 1,218    |
| Prior service (cost) credit                              | 42       | —               | —               | 42       |
| Deferred income taxes                                    | (241)    | 1               | 30              | (210)    |
|  | 1,154    | (4)             | (100)           | 1,050    |
| Total movements in other comprehensive earnings (losses) | \$ 1,409 | \$ (1)          | \$ (35)         | \$ 1,373 |

The movements in other comprehensive earnings (losses) during the year ended December 31, 2020, were as follows:

| (in millions)  | Pension  | Post-retirement | Post-employment | Total    |
|--|----------|-----------------|-----------------|----------|
| Amounts transferred to earnings:                         |          |                 |                 |          |
| Amortization:  |          |                 |                 |          |
| Net losses (gains)                                       | \$ 250   | \$ 3            | \$ 78           | \$ 331   |
| Prior service cost (credit)                              | 29       | —               | —               | 29       |
| Net transition obligation (asset)                        | 1        | —               | —               | 1        |
| Other income/expense:                                    |          |                 |                 |          |
| Net losses (gains)                                       | 3        | —               | —               | 3        |
| Prior service cost (credit)                              | 2        | —               | —               | 2        |
| Deferred income taxes                                    | (49)     | (1)             | (17)            | (67)     |
|  | 236      | 2               | 61              | 299      |
| Other movements during the year:                         |          |                 |                 |          |
| Net (losses) gains                                       | (682)    | (4)             | (142)           | (828)    |
| Prior service (cost) credit                              | (12)     | —               | (22)            | (34)     |
| Deferred income taxes                                    | 99       | 1               | 39              | 139      |
|  | (595)    | (3)             | (125)           | (723)    |
| Total movements in other comprehensive earnings (losses) | \$ (359) | \$ (1)          | \$ (64)         | \$ (424) |

## Note 15.

### Additional Information:

| (in millions)                                   | For the Years Ended December 31, |        |        |
|---|----------------------------------|--------|--------|
|   | 2022                             | 2021   | 2020   |
| Research and development expense                | \$ 642                           | \$ 617 | \$ 495 |
| Advertising expense                             | \$ 777                           | \$ 807 | \$ 637 |
| Foreign currency net transaction (gains)/losses | \$ 199                           | \$ 45  | \$ 90  |
| Interest expense                                | \$ 768                           | \$ 737 | \$ 728 |
| Interest income                                 | (180)                            | (109)  | (110)  |
| Interest expense, net                           | \$ 588                           | \$ 628 | \$ 618 |

## Note 16.

### Financial Instruments:

#### Overview

PMI operates in markets primarily outside of the United States of America, with manufacturing and sales facilities in various locations around the world. PMI utilizes certain financial instruments to manage foreign currency and interest rate exposures. Derivative financial instruments are used by PMI principally to reduce exposures to market risks resulting from fluctuations in foreign currency exchange and interest rates by creating offsetting exposures. PMI is not a party to leveraged derivatives and, by policy, does not use derivative financial instruments for speculative purposes. Substantially all of PMI's derivative financial instruments are subject to master netting arrangements, whereby the right to offset occurs in the event of default by a participating party. While these contracts contain the enforceable right to offset through close-out netting rights, PMI elects to present them on a gross basis in the consolidated balance sheets. Collateral associated with these arrangements is in the form of cash and is unrestricted. Financial instruments qualifying for hedge accounting must maintain a specified level of effectiveness between the hedging instrument and the item being hedged, both at inception and throughout the hedged period. PMI formally documents the nature and relationships between the hedging instruments and hedged items, as well as its risk-management objectives, strategies for undertaking the various hedge transactions and method of assessing hedge effectiveness. Additionally, for hedges of forecasted transactions, the significant characteristics and expected terms of the forecasted transaction must be specifically identified, and it must be probable that each forecasted transaction will occur. If it were deemed probable that the forecasted transaction would not occur, the gain or loss would be recognized in earnings.

PMI uses deliverable and non-deliverable forward foreign exchange contracts, foreign currency swaps and foreign currency options, collectively referred to as foreign exchange contracts ("foreign exchange contracts"), and interest rate contracts to mitigate its exposure to changes in exchange and interest rates related to net investments in foreign operations, third-party and intercompany actual and forecasted transactions. Both foreign exchange contracts and interest rate contracts are collectively referred to as derivative contracts ("derivative contracts"). The primary currencies to which PMI is exposed include the Euro, Egyptian pound, Indonesian rupiah, Japanese yen, Mexican peso, Philippine peso, Russian ruble and Swiss franc.



The gross notional amounts for outstanding derivatives as of December 31, 2022 and 2021, were as follows:

| (in millions)   | 2022      | 2021      |
|---|-----------|-----------|
| Derivative contracts designated as hedging instruments:     |           |           |
| Foreign exchange contracts                                  | \$ 17,627 | \$ 9,501  |
| Interest rate contracts                                     | 1,019     | 900       |
| Derivative contracts not designated as hedging instruments: |           |           |
| Foreign exchange contracts                                  | 21,755    | 10,337    |
| Total   | \$ 40,401 | \$ 20,738 |

The fair value of PMI's derivative contracts included in the consolidated balance sheets as of December 31, 2022 and 2021, were as follows:

| (in millions)   | Derivative Assets            |            |        | Derivative Liabilities             |            |        |
|---|------------------------------|------------|--------|------------------------------------|------------|--------|
|   | Balance Sheet Classification | Fair Value |        | Balance Sheet Classification       | Fair Value |        |
|   |                              | 2022       | 2021   |                                    | 2022       | 2021   |
| Derivative contracts designated as hedging instruments:                               |                              |            |        |                                    |            |        |
| Foreign exchange contracts  | Other current assets         | \$ 376     | \$ 166 | Other accrued liabilities          | \$ 126     | \$ 31  |
|   | Other assets                 | 341        | 22     | Income taxes and other liabilities | 147        | 187    |
| Interest rate contracts   | Other current assets         | —          | 7      | Other accrued liabilities          | 27         | 3      |
|   | Other assets                 | —          | —      | Income taxes and other liabilities | 56         | 3      |
| Derivative contracts not designated as hedging instruments:                           |                              |            |        |                                    |            |        |
| Foreign exchange contracts  | Other current assets         | 156        | 37     | Other accrued liabilities          | 165        | 75     |
|   | Other assets                 | —          | —      | Income taxes and other liabilities | 16         | —      |
| Total gross amount derivatives contracts presented in the consolidated balance sheets |                              | \$ 873     | \$ 232 |                                    | \$ 537     | \$ 299 |
| Gross amounts not offset in the consolidated balance sheets                           |                              |            |        |                                    |            |        |
| Financial instruments   |                              | (346)      | (126)  |                                    | (346)      | (126)  |
| Cash collateral received/pledged  |                              | (341)      | (93)   |                                    | (48)       | (151)  |
| Net amount  |                              | \$ 186     | \$ 13  |                                    | \$ 143     | \$ 22  |

PMI assesses the fair value of its foreign exchange contracts and interest rate contracts using standard valuation models that use, as their basis, readily observable market inputs. The fair value of PMI's foreign exchange forward contracts, foreign currency swaps and interest rate contracts is determined by using the prevailing foreign exchange spot rates and interest rate differentials, and the respective maturity dates of the instruments. The fair value of PMI's currency options is determined by using a Black-Scholes methodology based on foreign exchange spot rates and interest rate differentials, currency volatilities and maturity dates. PMI's derivative contracts have been classified within Level 2 at December 31, 2022 and 2021.

For the years ended December 31, 2022, 2021 and 2020, PMI's derivative contracts impacted the consolidated statements of earnings and comprehensive earnings as follows:

| (pre-tax, in millions)   |        |        |          | For the Years Ended December 31,                                   |   |       |        |  |        |          |
|--|--------|--------|----------|--|---|-------|--------|--|--------|----------|
| Amount of Gain/(Loss) Recognized in Other Comprehensive Earnings/(Losses) on Derivatives |        |        |          | Statement of Earnings Classification of Gain/(Loss) on Derivatives | Amount of Gain/(Loss) Reclassified from Other Comprehensive Earnings/(Losses) into Earnings |       |        | Amount of Gain/(Loss) Recognized in Earnings |        |          |
| 2022   | 2021   | 2020   |          |  | 2022  | 2021  | 2020   | 2022   | 2021   | 2020     |
| Derivative contracts designated as hedging instruments:                                  |        |        |          |  |   |       |        |  |        |          |
| Cash flow hedges:  |        |        |          |  |   |       |        |  |        |          |
| Foreign exchange contracts   | \$ 288 | \$ 138 | \$ (61)  |  |   |       |        |  |        |          |
|  |        |        |          | Net revenues   | \$ 233  | \$ 59 | \$ (3) |  |        |          |
|  |        |        |          | Cost of sales  | —   | —     | 7      |  |        |          |
|  |        |        |          | Marketing, administration and research costs                       | 30  | (10)  | 27     |  |        |          |
|  |        |        |          | Interest expense, net  | (7)   | (6)   | (6)    |  |        |          |
| Interest rate contracts  | 292    | 6      | (20)     | Interest expense, net  | (2)   | (1)   | (5)    |  |        |          |
| Fair value hedges:   |        |        |          |  |   |       |        |  |        |          |
| Interest rate contracts  |        |        |          | Interest expense, net <sup>(a)</sup>                               |   |       |        | \$ (83)                                      | \$ 1   | \$ —     |
| Net investment hedges <sup>(b)</sup> :   |        |        |          |  |   |       |        |  |        |          |
| Foreign exchange contracts   | 300    | 484    | (514)    | Interest expense, net <sup>(c)</sup>                               |   |       |        | 181  | 150    | 194      |
| Derivative contracts not designated as hedging instruments:                              |        |        |          |  |   |       |        |  |        |          |
| Foreign exchange contracts   |        |        |          | Interest expense, net  |   |       |        | 112  | 55     | 71       |
|  |        |        |          | Marketing, administration and research costs <sup>(d)</sup>        |   |       |        | (169)  | 215    | (368)    |
| Total  | \$ 880 | \$ 628 | \$ (595) |  | \$ 254  | \$ 42 | \$ 20  | \$ 41  | \$ 421 | \$ (103) |

<sup>(a)</sup> The gains (losses) from these contracts are offset by the changes in the fair value of the hedged item

<sup>(b)</sup> Amount of gains (losses) on hedges of net investments principally related to changes in exchange and interest rates between the Euro and U.S. dollar

<sup>(c)</sup> Represent the gains for amounts excluded from the effectiveness testing

<sup>(d)</sup> The gains (losses) from these contracts attributable to changes in foreign currency exchange rates are partially offset by the (losses) and gains generated by the underlying intercompany and third-party loans being hedged

### Cash Flow Hedges

PMI has entered into derivative contracts to hedge the foreign currency exchange and interest rate risks related to certain forecasted transactions. Gains and losses associated with qualifying cash flow hedge contracts are deferred as components of accumulated other comprehensive losses until the underlying hedged transactions are reported in PMI's consolidated statements of earnings. As of December 31, 2022, PMI has hedged forecasted transactions with derivative contracts expiring at various dates through May 2028. The impact of these hedges is primarily included in operating cash flows on PMI's consolidated statements of cash flows.

### Fair Value Hedges

PMI has entered into fixed-to-floating interest rate contracts, designated as fair value hedges to minimize exposure to changes in the fair value of fixed rate U.S. dollar-denominated debt that results from fluctuations in benchmark interest rates. For derivative contracts that are designated and qualify as fair value hedges the gain or loss on the derivative, as well as the offsetting gain or loss on the hedged items attributable to the hedged risk, is recognized in current earnings. The carrying amount of the debt hedged, which includes the cumulative adjustment for fair value gains/losses, as of December 31, 2022 was \$913 million, and is recorded in long-

term debt in the consolidated balance sheets. The cumulative amount of fair value gains/(losses) included in the carrying amount of the debt hedged was \$83 million as of December 31, 2022.

### ***Hedges of Net Investments in Foreign Operations***

PMI designates derivative contracts and certain foreign currency denominated debt instruments as net investment hedges, primarily of its Euro net assets. The amount of pre-tax gain/(loss) related to these debt instruments, that was reported as a component of accumulated other comprehensive losses within currency translation adjustments, was \$521 million, \$278 million and \$(465) million, for the years ended December 31, 2022, 2021 and 2020, respectively. The premiums paid for, and settlements of, net investment hedges are included in investing cash flows on PMI's consolidated statements of cash flows.

### ***Other Derivatives***

PMI has entered into derivative contracts to hedge the foreign currency exchange and interest rate risks related to intercompany loans between certain subsidiaries, third-party loans and acquisition related transactions. While effective as economic hedges, no hedge accounting is applied for these contracts; therefore, the gains (losses) relating to these contracts are reported in PMI's consolidated statements of earnings. Acquisition related transactions are included in investing cash flows on PMI's consolidated statements of cash flows.

### ***Qualifying Hedging Activities Reported in Accumulated Other Comprehensive Losses***

Derivative gains or losses reported in accumulated other comprehensive losses are a result of qualifying hedging activity. Transfers of these gains or losses to earnings are offset by the corresponding gains or losses on the underlying hedged item. Hedging activity affected accumulated other comprehensive losses, net of income taxes, as follows:

| (in millions)                                     | For the Years Ended December 31, |         |         |
|---|----------------------------------|---------|---------|
|   | 2022                             | 2021    | 2020    |
| Gain/(loss) as of January 1,                      | \$ 4                             | \$ (85) | \$ 3    |
| Derivative (gains)/losses transferred to earnings | (219)                            | (35)    | (20)    |
| Change in fair value                              | 481                              | 124     | (68)    |
| Gain/(loss) as of December 31,                    | \$ 266                           | \$ 4    | \$ (85) |

At December 31, 2022, PMI expects \$81 million of derivative gains that are included in accumulated other comprehensive losses to be reclassified to the consolidated statement of earnings within the next 12 months. These gains are expected to be substantially offset by the statement of earnings impact of the respective hedged transactions.

### ***Contingent Features***

PMI's derivative instruments do not contain contingent features.

### ***Credit Exposure and Credit Risk***

PMI is exposed to credit loss in the event of non-performance by counterparties. While PMI does not anticipate non-performance, its risk is limited to the fair value of the financial instruments less any cash collateral received or pledged. PMI actively monitors its exposure to credit risk through the use of credit approvals and credit limits and by selecting and continuously monitoring a diverse group of major international banks and financial institutions as counterparties.

## Note 17.

### Accumulated Other Comprehensive Losses:

PMI's accumulated other comprehensive losses, net of taxes, consisted of the following:

| (Losses) Earnings<br>(in millions)           | At December 31, |            |             |
|--|-----------------|------------|-------------|
|  | 2022            | 2021       | 2020        |
| Currency translation adjustments             | \$ (8,003)      | \$ (6,701) | \$ (6,843)  |
| Pension and other benefits                   | (1,822)         | (2,880)    | (4,253)     |
| Derivatives accounted for as hedges          | 266             | 4          | (85)        |
| Total accumulated other comprehensive losses | \$ (9,559)      | \$ (9,577) | \$ (11,181) |

#### *Reclassifications from Other Comprehensive Earnings*

The movements in accumulated other comprehensive losses and the related tax impact, for each of the components above, that are due to current period activity and reclassifications to the income statement are shown on the consolidated statements of comprehensive earnings for the years ended December 31, 2022, 2021, and 2020. For additional information, see Note 3. *Acquisitions (Transactions With Noncontrolling Interests)* for disclosures related to currency translation adjustments, Note 14. *Benefit Plans* for disclosures related to PMI's pension and other benefits and Note 16. *Financial Instruments* for disclosures related to derivative financial instruments.

## Note 18.

### Contingencies:

#### *Tobacco-Related Litigation*

Legal proceedings covering a wide range of matters are pending or threatened against us, and/or our subsidiaries, and/or our indemnitees in various jurisdictions. Our indemnitees include distributors, licensees, and others that have been named as parties in certain cases and that we have agreed to defend, as well as to pay costs and some or all of judgments, if any, that may be entered against them. Pursuant to the terms of the Distribution Agreement between Altria Group, Inc. ("Altria") and PMI, PMI will indemnify Altria and Philip Morris USA Inc. ("PM USA"), a U.S. tobacco subsidiary of Altria, for tobacco product claims based in substantial part on products manufactured by PMI or contract manufactured for PMI by PM USA, and PM USA will indemnify PMI for tobacco product claims based in substantial part on products manufactured by PM USA, excluding tobacco products contract manufactured for PMI.

It is possible that there could be adverse developments in pending cases against us and our subsidiaries. An unfavorable outcome or settlement of pending tobacco-related litigation could encourage the commencement of additional litigation.

Damages claimed in some of the tobacco-related litigation are significant and, in certain cases in Brazil, Canada and Nigeria, range into the billions of U.S. dollars. The variability in pleadings in multiple jurisdictions, together with the actual experience of management in litigating claims, demonstrate that the monetary relief that may be specified in a lawsuit bears little relevance to the ultimate outcome. Much of the tobacco-related litigation is in its early stages, and litigation is subject to uncertainty. However, as discussed below, we have to date been largely successful in defending tobacco-related litigation.

We and our subsidiaries record provisions in the consolidated financial statements for pending litigation when we determine that an unfavorable outcome is probable and the amount of the loss can be reasonably estimated. At the present time, except as stated otherwise in this Note 18. *Contingencies*, while it is reasonably possible that an unfavorable outcome in a case may occur, after assessing the information available to it (i) management has not concluded that it is probable that a loss has been incurred in any of the pending tobacco-related cases; (ii) management is unable to estimate the possible loss or range of loss for any of the pending tobacco-related cases; and (iii) accordingly, no estimated loss has been accrued in the consolidated financial statements for unfavorable outcomes in these cases, if any. Legal defense costs are expensed as incurred.

It is possible that our consolidated results of operations, cash flows or financial position could be materially affected in a particular fiscal quarter or fiscal year by an unfavorable outcome or settlement of certain pending litigation. Nevertheless, although litigation is subject to uncertainty, we and each of our subsidiaries named as a defendant believe, and each has been so advised by counsel handling the respective cases, that we have valid defenses to the litigation pending against us, as well as valid bases for appeal of adverse verdicts. All such cases are, and will continue to be, vigorously defended. However, we and our subsidiaries may enter into settlement discussions in particular cases if we believe it is in our best interests to do so.

#### *CCAA Proceedings and Stay of Tobacco-Related Cases Pending in Canada*

As a result of the Court of Appeal of Quebec's decision in both the *Létourneau* and *Blais* cases described below, our subsidiary, Rothmans, Benson & Hedges Inc. ("RBH"), and the other defendants, JTI Macdonald Corp., and Imperial Tobacco Canada Limited, sought protection in the Ontario Superior Court of Justice under the Companies' Creditors Arrangement Act ("CCAA") on March 22, March 8, and March 12, 2019 respectively. CCAA is a Canadian federal law that permits a Canadian business to restructure its affairs while carrying on its business in the ordinary course. The initial CCAA order made by the Ontario Superior Court on March 22, 2019 authorizes RBH to pay all expenses incurred in carrying on its business in the ordinary course after the CCAA filing, including obligations to employees, vendors, and suppliers. RBH's financial results have been deconsolidated from our consolidated financial statements since March 22, 2019. As part of the CCAA proceedings, there is currently a comprehensive stay up to and including March 31, 2023 of all tobacco-related litigation pending in Canada against RBH and the other defendants, including PMI and our indemnitees (PM USA and Altria), namely, the smoking and health class actions filed in various Canadian provinces and health care cost recovery actions. These proceedings are presented below under the caption "*Stayed Litigation — Canada.*" Ernst & Young Inc. has been appointed as monitor of RBH in the CCAA proceedings. In accordance with the CCAA process, as the parties work towards a plan of arrangement or compromise in a confidential mediation, it is anticipated that the court will set additional hearings and further extend the stay of proceedings. On April 17, 2019, the Ontario Superior Court ruled that RBH and the other defendants will not be allowed to file an application to the Supreme Court of Canada for leave to appeal the Court of Appeal's decision in the *Létourneau* and the *Blais* cases so long as the comprehensive stay of all tobacco-related litigation in Canada remains in effect and that the time period to file the application would be extended by the stay period. While RBH believes that the findings of liability and damages in both *Létourneau* and the *Blais* cases were incorrect, the CCAA proceedings will provide a forum for RBH to seek resolution through a plan of arrangement or compromise of all tobacco-related litigation pending in Canada. It is not possible to predict the resolution of the underlying legal proceedings or the length of the CCAA process.

#### *Stayed Litigation — Canada*

##### *Smoking and Health Litigation — Canada*

In the first class action pending in Canada, *Conseil Québécois Sur Le Tabac Et La Santé and Jean-Yves Blais v. Imperial Tobacco Ltd., Rothmans, Benson & Hedges Inc. and JTI-Macdonald Corp., Quebec Superior Court, Canada*, filed in November 1998, RBH and other Canadian cigarette manufacturers (Imperial Tobacco Canada Ltd. and JTI-Macdonald Corp.) are defendants. The plaintiffs, an anti-smoking organization and an individual smoker, sought compensatory and punitive damages for each member of the class who suffers allegedly from certain smoking-related diseases. The class was certified in 2005. The trial court issued its judgment on May 27, 2015. The trial court found RBH and two other Canadian manufacturers liable and found that the class members' compensatory damages totaled approximately CAD 15.5 billion, including pre-judgment interest (approximately \$11.5 billion). The trial court awarded compensatory damages on a joint and several liability basis, allocating 20% to our subsidiary (approximately CAD 3.1 billion, including pre-judgment interest (approximately \$2.3 billion)). In addition, the trial court awarded CAD 90,000 (approximately \$67,000) in punitive damages, allocating CAD 30,000 (approximately \$22,000) to RBH. The trial court estimated the disease class at 99,957 members. RBH appealed to the Court of Appeal of Quebec. In October 2015, the Court of Appeal ordered RBH to furnish security totaling CAD 226 million (approximately \$168 million) to cover both the *Létourneau* and *Blais* cases, which RBH has paid in installments through March 2017. The Court of Appeal ordered Imperial Tobacco Canada Ltd. to furnish security totaling CAD 758 million (approximately \$564 million) in installments through June 2017. JTI Macdonald Corp. was not required to furnish security in accordance with plaintiffs' motion. The Court of Appeal ordered that the security is payable upon a final judgment of the Court of Appeal affirming the trial court's judgment or upon further order of the Court of Appeal.

On March 1, 2019, the Court of Appeal issued a decision largely affirming the trial court's findings of liability and the compensatory and punitive damages award while reducing the total amount of compensatory damages to approximately CAD 13.5 billion including interest (approximately \$10.1 billion) due to the trial court's error in the calculation of interest. The compensatory damages award is on a joint and several basis with an allocation of 20% to RBH (approximately CAD 2.7 billion, including pre-judgment interest (approximately \$2.0 billion)). The Court of Appeal upheld the trial court's findings that defendants violated the Civil Code of Quebec, the Quebec Charter of Human Rights and Freedoms, and the Quebec Consumer Protection Act by failing to warn adequately of the dangers of smoking and by conspiring to prevent consumers from learning of the dangers of smoking. The Court of Appeal further held that the plaintiffs either need not prove, or had adequately proven, that these faults were a cause of the class members' injuries.



In accordance with the judgment, defendants were required to deposit their respective portions of the damages awarded in both the *Létourneau* case described below and the *Blais* case, approximately CAD 1.1 billion (approximately \$819 million), into trust accounts within 60 days. RBH's share of the deposit was approximately CAD 257 million (approximately \$194 million). PMI recorded a pre-tax charge of \$194 million in its consolidated results, representing \$142 million net of tax, as tobacco litigation-related expense, in the first quarter of 2019. The charge reflects PMI's assessment of the portion of the judgment that represents probable and estimable loss prior to the deconsolidation of RBH and corresponds to the trust account deposit required by the judgment.

In the second class action pending in Canada, *Cecilia Létourneau v. Imperial Tobacco Ltd., Rothmans, Benson & Hedges Inc. and JTI-Macdonald Corp.*, Quebec Superior Court, Canada, filed in September 1998, RBH and other Canadian cigarette manufacturers (Imperial Tobacco Canada Ltd. and JTI-Macdonald Corp.) are defendants. The plaintiff, an individual smoker, sought compensatory and punitive damages for each member of the class who is deemed addicted to smoking. The class was certified in 2005. The trial court issued its judgment on May 27, 2015. The trial court found RBH and two other Canadian manufacturers liable and awarded a total of CAD 131 million (approximately \$98 million) in punitive damages, allocating CAD 46 million (approximately \$34.3 million) to RBH. The trial court estimated the size of the addiction class at 918,000 members but declined to award compensatory damages to the addiction class because the evidence did not establish the claims with sufficient accuracy. The trial court found that a claims process to allocate the awarded punitive damages to individual class members would be too expensive and difficult to administer. On March 1, 2019, the Court of Appeal issued a decision largely affirming the trial court's findings of liability and the total amount of punitive damages awarded allocating CAD 57 million including interest (approximately \$42 million) to RBH. See the *Blais* description above for further detail concerning the security order pertaining to both *Létourneau* and *Blais* cases and the impact of the decision on PMI's financial statements.

RBH and PMI believe the findings of liability and damages in both *Létourneau* and the *Blais* cases were incorrect and in contravention of applicable law on several grounds including the following: (i) defendants had no obligation to warn class members who knew, or should have known, of the risks of smoking; (ii) defendants cannot be liable to class members who would have smoked regardless of what warnings were given; and (iii) defendants cannot be liable to all class members given the individual differences between class members.

In the third class action pending in Canada, *Kunta v. Canadian Tobacco Manufacturers' Council, et al., The Queen's Bench, Winnipeg, Canada*, filed June 12, 2009, we, RBH, and our indemnitees (PM USA and Altria), and other members of the industry are defendants. The plaintiff, an individual smoker, alleges her own addiction to tobacco products and chronic obstructive pulmonary disease ("COPD"), severe asthma, and mild reversible lung disease resulting from the use of tobacco products. She is seeking compensatory and punitive damages on behalf of a proposed class comprised of all smokers, their estates, dependents and family members, as well as restitution of profits, and reimbursement of government health care costs allegedly caused by tobacco products.

In the fourth class action pending in Canada, *Adams v. Canadian Tobacco Manufacturers' Council, et al., The Queen's Bench, Saskatchewan, Canada*, filed July 10, 2009, we, RBH, and our indemnitees (PM USA and Altria), and other members of the industry are defendants. The plaintiff, an individual smoker, alleges her own addiction to tobacco products and COPD resulting from the use of tobacco products. She is seeking compensatory and punitive damages on behalf of a proposed class comprised of all smokers who have smoked a minimum of 25,000 cigarettes and have allegedly suffered, or suffer, from COPD, emphysema, heart disease, or cancer, as well as restitution of profits.

In the fifth class action pending in Canada, *Semple v. Canadian Tobacco Manufacturers' Council, et al., The Supreme Court (trial court), Nova Scotia, Canada*, filed June 18, 2009, we, RBH, and our indemnitees (PM USA and Altria), and other members of the industry are defendants. The plaintiff, an individual smoker, alleges his own addiction to tobacco products and COPD resulting from the use of tobacco products. He is seeking compensatory and punitive damages on behalf of a proposed class comprised of all smokers, their estates, dependents and family members, as well as restitution of profits, and reimbursement of government health care costs allegedly caused by tobacco products.

In the sixth class action pending in Canada, *Dorion v. Canadian Tobacco Manufacturers' Council, et al., The Queen's Bench, Alberta, Canada*, filed June 15, 2009, we, RBH, and our indemnitees (PM USA and Altria), and other members of the industry are defendants. The plaintiff, an individual smoker, alleges her own addiction to tobacco products and chronic bronchitis and severe sinus infections resulting from the use of tobacco products. She is seeking compensatory and punitive damages on behalf of a proposed class comprised of all smokers, their estates, dependents and family members, restitution of profits, and reimbursement of government health care costs allegedly caused by tobacco products. To date, we, our subsidiaries, and our indemnitees have not been properly served with the complaint.

In the seventh class action pending in Canada, *McDermid v. Imperial Tobacco Canada Limited, et al., Supreme Court, British Columbia, Canada*, filed June 25, 2010, we, RBH, and our indemnitees (PM USA and Altria), and other members of the industry are defendants. The plaintiff, an individual smoker, alleges his own addiction to tobacco products and heart disease resulting from the use of tobacco products. He is seeking compensatory and punitive damages on behalf of a proposed class comprised of all smokers who



were alive on June 12, 2007, and who suffered from heart disease allegedly caused by smoking, their estates, dependents and family members, plus disgorgement of revenues earned by the defendants from January 1, 1954, to the date the claim was filed.

In the eighth class action pending in Canada, *Bourassa v. Imperial Tobacco Canada Limited, et al.*, Supreme Court, British Columbia, Canada, filed June 25, 2010, we, RBH, and our indemnitees (PM USA and Altria), and other members of the industry are defendants. The plaintiff, the heir to a deceased smoker, alleges that the decedent was addicted to tobacco products and suffered from emphysema resulting from the use of tobacco products. She is seeking compensatory and punitive damages on behalf of a proposed class comprised of all smokers who were alive on June 12, 2007, and who suffered from chronic respiratory diseases allegedly caused by smoking, their estates, dependents and family members, plus disgorgement of revenues earned by the defendants from January 1, 1954, to the date the claim was filed. In December 2014, plaintiff filed an amended statement of claim.

In the ninth class action pending in Canada, *Suzanne Jacklin v. Canadian Tobacco Manufacturers' Council, et al.*, Ontario Superior Court of Justice, filed June 20, 2012, we, RBH, and our indemnitees (PM USA and Altria), and other members of the industry are defendants. The plaintiff, an individual smoker, alleges her own addiction to tobacco products and COPD resulting from the use of tobacco products. She is seeking compensatory and punitive damages on behalf of a proposed class comprised of all smokers who have smoked a minimum of 25,000 cigarettes and have allegedly suffered, or suffer, from COPD, heart disease, or cancer, as well as restitution of profits.

#### *Health Care Cost Recovery Litigation — Canada*

In the first health care cost recovery case pending in Canada, *Her Majesty the Queen in Right of British Columbia v. Imperial Tobacco Limited, et al.*, Supreme Court, British Columbia, Vancouver Registry, Canada, filed January 24, 2001, we, RBH, our indemnitee (PM USA), and other members of the industry are defendants. The plaintiff, the government of the province of British Columbia, brought a claim based upon legislation enacted by the province authorizing the government to file a direct action against cigarette manufacturers to recover the health care costs it has incurred, and will incur, resulting from a “tobacco related wrong.”

In the second health care cost recovery case filed in Canada, *Her Majesty the Queen in Right of New Brunswick v. Rothmans Inc., et al.*, Court of Queen's Bench of New Brunswick, Trial Court, New Brunswick, Fredericton, Canada, filed March 13, 2008, we, RBH, our indemnitees (PM USA and Altria), and other members of the industry are defendants. The claim was filed by the government of the province of New Brunswick based on legislation enacted in the province. This legislation is similar to the law introduced in British Columbia that authorizes the government to file a direct action against cigarette manufacturers to recover the health care costs it has incurred, and will incur, as a result of a “tobacco related wrong.”

In the third health care cost recovery case filed in Canada, *Her Majesty the Queen in Right of Ontario v. Rothmans Inc., et al.*, Ontario Superior Court of Justice, Toronto, Canada, filed September 29, 2009, we, RBH, our indemnitees (PM USA and Altria), and other members of the industry are defendants. The claim was filed by the government of the province of Ontario based on legislation enacted in the province. This legislation is similar to the laws introduced in British Columbia and New Brunswick that authorize the government to file a direct action against cigarette manufacturers to recover the health care costs it has incurred, and will incur, as a result of a “tobacco related wrong.”

In the fourth health care cost recovery case filed in Canada, *Attorney General of Newfoundland and Labrador v. Rothmans Inc., et al.*, Supreme Court of Newfoundland and Labrador, St. Johns, Canada, filed February 8, 2011, we, RBH, our indemnitees (PM USA and Altria), and other members of the industry are defendants. The claim was filed by the government of the province of Newfoundland and Labrador based on legislation enacted in the province that is similar to the laws introduced in British Columbia, New Brunswick and Ontario. The legislation authorizes the government to file a direct action against cigarette manufacturers to recover the health care costs it has incurred, and will incur, as a result of a “tobacco related wrong.”

In the fifth health care cost recovery case filed in Canada, *Attorney General of Quebec v. Imperial Tobacco Limited, et al.*, Superior Court of Quebec, Canada, filed June 8, 2012, we, RBH, our indemnitee (PM USA), and other members of the industry are defendants. The claim was filed by the government of the province of Quebec based on legislation enacted in the province that is similar to the laws enacted in several other Canadian provinces. The legislation authorizes the government to file a direct action against cigarette manufacturers to recover the health care costs it has incurred, and will incur, as a result of a “tobacco related wrong.”

In the sixth health care cost recovery case filed in Canada, *Her Majesty in Right of Alberta v. Altria Group, Inc., et al.*, Supreme Court of Queen's Bench Alberta, Canada, filed June 8, 2012, we, RBH, our indemnitees (PM USA and Altria), and other members of the industry are defendants. The claim was filed by the government of the province of Alberta based on legislation enacted in the province that is similar to the laws enacted in several other Canadian provinces. The legislation authorizes the government to file a direct action against cigarette manufacturers to recover the health care costs it has incurred, and will incur, as a result of a “tobacco related wrong.”

In the seventh health care cost recovery case filed in Canada, *Her Majesty the Queen in Right of the Province of Manitoba v. Rothmans, Benson & Hedges, Inc., et al., The Queen's Bench, Winnipeg Judicial Centre, Canada*, filed May 31, 2012, we, RBH, our indemnitees (PM USA and Altria), and other members of the industry are defendants. The claim was filed by the government of the province of Manitoba based on legislation enacted in the province that is similar to the laws enacted in several other Canadian provinces. The legislation authorizes the government to file a direct action against cigarette manufacturers to recover the health care costs it has incurred, and will incur, as a result of a “tobacco related wrong.”

In the eighth health care cost recovery case filed in Canada, *The Government of Saskatchewan v. Rothmans, Benson & Hedges Inc., et al., Queen's Bench, Judicial Centre of Saskatchewan, Canada*, filed June 8, 2012, we, RBH, our indemnitees (PM USA and Altria), and other members of the industry are defendants. The claim was filed by the government of the province of Saskatchewan based on legislation enacted in the province that is similar to the laws enacted in several other Canadian provinces. The legislation authorizes the government to file a direct action against cigarette manufacturers to recover the health care costs it has incurred, and will incur, as a result of a “tobacco related wrong.”

In the ninth health care cost recovery case filed in Canada, *Her Majesty the Queen in Right of the Province of Prince Edward Island v. Rothmans, Benson & Hedges Inc., et al., Supreme Court of Prince Edward Island (General Section), Canada*, filed September 10, 2012, we, RBH, our indemnitees (PM USA and Altria), and other members of the industry are defendants. The claim was filed by the government of the province of Prince Edward Island based on legislation enacted in the province that is similar to the laws enacted in several other Canadian provinces. The legislation authorizes the government to file a direct action against cigarette manufacturers to recover the health care costs it has incurred, and will incur, as a result of a “tobacco related wrong.”

In the tenth health care cost recovery case filed in Canada, *Her Majesty the Queen in Right of the Province of Nova Scotia v. Rothmans, Benson & Hedges Inc., et al., Supreme Court of Nova Scotia, Canada*, filed January 2, 2015, we, RBH, our indemnitees (PM USA and Altria), and other members of the industry are defendants. The claim was filed by the government of the province of Nova Scotia based on legislation enacted in the province that is similar to the laws enacted in several other Canadian provinces. The legislation authorizes the government to file a direct action against cigarette manufacturers to recover the health care costs it has incurred, and will incur, as a result of a “tobacco related wrong.”

The table below lists the number of tobacco-related cases pertaining to combustible products pending against us and/or our subsidiaries or indemnitees as of December 31, 2022, December 31, 2021 and December 31, 2020:<sup>1</sup>

| Type of Case                        | Number of Cases<br>Pending as of<br>December 31, 2022 | Number of Cases<br>Pending as of<br>December 31, 2021 | Number of Cases<br>Pending as of<br>December 31, 2020 |
|-------------------------------------|---|---|---|
| Individual Smoking and Health Cases | 40  | 40  | 43  |
| Smoking and Health Class Actions    | 9   | 9   | 9   |
| Health Care Cost Recovery Actions   | 17  | 17  | 17  |
| Label-Related Class Actions         | —   | —   | —   |
| Individual Label-Related Cases      | 6   | 3   | 5   |
| Public Civil Actions                | 1   | 1   | 2   |

Since 1995, when the first tobacco-related litigation was filed against a PMI entity, 528 Smoking and Health, Label-Related, Health Care Cost Recovery, and Public Civil Actions in which we and/or one of our subsidiaries and/or indemnitees were a defendant have been terminated in our favor. Fourteen cases have had decisions in favor of plaintiffs. Ten of these cases have subsequently reached final resolution in our favor and four remain on appeal.

<sup>1</sup> Includes cases pending in Canada.

The table below lists the verdict and significant post-trial developments in the four pending cases where a verdict was returned in favor of the plaintiff:

| Date         | Location of Court/Name of Plaintiff                                   | Type of Case | Verdict  | Post-Trial Developments   |
|--------------|---|--------------|--|---|
| May 27, 2015 | Canada/Conseil Québécois Sur Le Tabac Et La Santé and Jean-Yves Blais | Class Action | On May 27, 2015, the Superior Court of the District of Montreal, Province of Quebec ruled in favor of the <i>Blais</i> class on liability and found the class members' compensatory damages totaled approximately CAD 15.5 billion (approximately \$11.5 billion), including pre-judgment interest. The trial court awarded compensatory damages on a joint and several liability basis, allocating 20% to our subsidiary (approximately CAD 3.1 billion including pre-judgment interest (approximately \$2.3 billion)). The trial court awarded CAD 90,000 (approximately \$67,000) in punitive damages, allocating CAD 30,000 (approximately \$22,000) to our subsidiary. The trial court ordered defendants to pay CAD 1 billion (approximately \$745 million) of the compensatory damage award, CAD 200 million (approximately \$149 million) of which is our subsidiary's portion, into a trust within 60 days. | In June 2015, RBH commenced the appellate process with the Court of Appeal of Quebec. On March 1, 2019, the Court of Appeal issued a decision largely affirming the trial court's decision. (See " <i>Stayed Litigation — Canada</i> " for further detail.) |

| Date         | Location of Court/Name of Plaintiff | Type of Case | Verdict   | Post-Trial Developments   |
|--------------|-------------------------------------|--------------|---|---|
| May 27, 2015 | Canada/Cecilia Létourneau           | Class Action | On May 27, 2015, the Superior Court of the District of Montreal, Province of Quebec ruled in favor of the <i>Létourneau</i> class on liability and awarded a total of CAD 131 million (approximately \$98 million) in punitive damages, allocating CAD 46 million (approximately \$34.3 million) to RBH. The trial court ordered defendants to pay the full punitive damage award into a trust within 60 days. The court did not order the payment of compensatory damages. | In June 2015, RBH commenced the appellate process with the Court of Appeal of Quebec. On March 1, 2019, the Court of Appeal issued a decision largely affirming the trial court's decision. (See “ <i>Stayed Litigation — Canada</i> ” for further detail.) |

| Date           | Location of Court/Name of Plaintiff | Type of Case      | Verdict  | Post-Trial Developments   |
|----------------|-------------------------------------|-------------------|--|---|
| August 5, 2016 | Argentina/Hugo Lespada              | Individual Action | On August 5, 2016, the Civil Court No. 14 - Mar del Plata, issued a verdict in favor of plaintiff, an individual smoker, and awarded him ARS 110,000 (approximately \$584), plus interest, in compensatory and moral damages. The trial court found that our subsidiary failed to warn plaintiff of the risk of becoming addicted to cigarettes. | On August 23, 2016, our subsidiary filed its notice of appeal. On October 31, 2017, the Civil and Commercial Court of Appeals of Mar del Plata ruled that plaintiff's claim was barred by the statute of limitations and it reversed the trial court's decision. On May 17, 2021 plaintiff filed a federal extraordinary appeal. On November 1, 2021, the Supreme Court of the Province of Buenos Aires dismissed plaintiff's federal extraordinary appeal. On November 10, 2021, plaintiff filed a direct appeal before the Federal Supreme Court. |

| Date          | Location of Court/Name of Plaintiff | Type of Case      | Verdict  | Post-Trial Developments  |
|---------------|-------------------------------------|-------------------|--|--|
| June 17, 2021 | Argentina/Claudia Milano            | Individual Action | On June 17, 2021, the Civil Court No. 9 - Mar del Plata, issued a verdict in favor of plaintiff, an individual smoker, and awarded her smoking cessation treatments, ARS 150,000 (approximately \$796), in compensatory and moral damages, and ARS 4,000,000 (approximately \$21,218) in punitive damages, plus interest and costs. The trial court found that our subsidiary failed to warn plaintiff of the risk of becoming addicted to cigarettes. | On July 2, 2021, our subsidiary filed its notice of appeal. In addition, plaintiff filed an appeal challenging the dismissal of the claim for psychological damages. As required by local law, our subsidiary deposited the damages awarded, plus interest and costs, in total ARS 6,114,428 (approximately \$32,435), into a court escrow account. Our subsidiary challenged the amount determined by the court. The Civil and Commercial Court of Appeals of Mar del Plata granted our subsidiary's challenge to the escrow amount determined by the trial court. As a result, on December 16, 2021, ARS 893,428 (approximately \$4,739) was returned to our subsidiary. If our subsidiary ultimately prevails, the remaining deposited amounts will be returned to our subsidiary. On May 31, 2022, the Civil and Commercial Court of Appeals of Mar del Plata ruled that the statute of limitations barred plaintiff's claim and reversed the trial court's decision. On June 15, 2022, plaintiff filed an extraordinary appeal. |

Pending claims related to tobacco products generally fall within the following categories:

*Smoking and Health Litigation:* These cases primarily allege personal injury and are brought by individual plaintiffs or on behalf of a class or purported class of individual plaintiffs. Plaintiffs' allegations of liability in these cases are based on various theories of recovery, including negligence, gross negligence, strict liability, fraud, misrepresentation, design defect, failure to warn, breach of express and implied warranties, violations of deceptive trade practice laws and consumer protection statutes. Plaintiffs in these cases seek various forms of relief, including compensatory and other damages, and injunctive and equitable relief. Defenses raised in these cases include licit activity, failure to state a claim, lack of defect, lack of proximate cause, assumption of the risk, contributory negligence, and statute of limitations.

As of December 31, 2022, there were a number of smoking and health cases pending against us, our subsidiaries or indemnitees, as follows:

- 40 cases brought by individual plaintiffs in Argentina (30), Canada (2), Chile (4), the Philippines (1), Turkey (1) and Scotland (1), as well as 1 case brought by an individual plaintiff in the United States District Court for the District of Oregon in May 2021. (See information regarding the provisions of the 2008 Share Distribution Agreement between PMI and Altria that provide for indemnities to PMI for certain liabilities concerning tobacco products under the caption "*Tobacco-Related Litigation*" described above), compared with 40 such cases on December 31, 2021, and 43 cases on December 31, 2020; and
- 9 cases brought on behalf of classes of individual plaintiffs, compared with 9 such cases on December 31, 2021 and 9 such cases on December 31, 2020.

The class actions pending in Canada are described above under the caption "*Smoking and Health Litigation — Canada.*"

*Health Care Cost Recovery Litigation:* These cases, brought by governmental and non-governmental plaintiffs, seek reimbursement of health care cost expenditures allegedly caused by tobacco products. Plaintiffs' allegations of liability in these cases are based on

various theories of recovery including unjust enrichment, negligence, negligent design, strict liability, breach of express and implied warranties, violation of a voluntary undertaking or special duty, fraud, negligent misrepresentation, conspiracy, public nuisance, defective product, failure to warn, sale of cigarettes to minors, and claims under statutes governing competition and deceptive trade practices. Plaintiffs in these cases seek various forms of relief including compensatory and other damages, and injunctive and equitable relief. Defenses raised in these cases include lack of proximate cause, remoteness of injury, failure to state a claim, adequate remedy at law, “unclean hands” (namely, that plaintiffs cannot obtain equitable relief because they participated in, and benefited from, the sale of cigarettes), and statute of limitations.

As of December 31, 2022, there were 17 health care cost recovery cases pending against us, our subsidiaries or indemnitees in Brazil (1), Canada (10), Korea (1) and Nigeria (5), compared with 17 such cases on December 31, 2021 and 17 such cases on December 31, 2020.

The health care cost recovery actions pending in Canada are described above under the caption “*Health Care Cost Recovery Litigation — Canada.*”

In the health care cost recovery case in Brazil, *The Attorney General of Brazil v. Souza Cruz Ltda., et al.*, Federal Trial Court, Porto Alegre, Rio Grande do Sul, Brazil, filed May 21, 2019, we, our subsidiaries, and other members of the industry are defendants. Plaintiff seeks reimbursement for the cost of treating alleged smoking-related diseases in certain prior years, payment of anticipated costs of treating future alleged smoking-related diseases, and moral damages. Defendants filed answers to the complaint in May 2020.

In the first health care cost recovery case in Nigeria, *The Attorney General of Lagos State v. British American Tobacco (Nigeria) Limited, et al.*, High Court of Lagos State, Lagos, Nigeria, filed March 13, 2008, we and other members of the industry are defendants. Plaintiff seeks reimbursement for the cost of treating alleged smoking-related diseases for the past 20 years, payment of anticipated costs of treating alleged smoking-related diseases for the next 20 years, various forms of injunctive relief, plus punitive damages. We are in the process of making challenges to service and the court's jurisdiction. Currently, the case is stayed in the trial court pending the appeals of certain co-defendants relating to service objections.

In the second health care cost recovery case in Nigeria, *The Attorney General of Kano State v. British American Tobacco (Nigeria) Limited, et al.*, High Court of Kano State, Kano, Nigeria, filed May 9, 2007, we and other members of the industry are defendants. Plaintiff seeks reimbursement for the cost of treating alleged smoking-related diseases for the past 20 years, payment of anticipated costs of treating alleged smoking-related diseases for the next 20 years, various forms of injunctive relief, plus punitive damages. We are in the process of challenging the court's jurisdiction. Currently, the case is stayed in the trial court pending the appeals of certain co-defendants relating to service objections.

In the third health care cost recovery case in Nigeria, *The Attorney General of Gombe State v. British American Tobacco (Nigeria) Limited, et al.*, High Court of Gombe State, Gombe, Nigeria, filed October 17, 2008, we and other members of the industry are defendants. Plaintiff seeks reimbursement for the cost of treating alleged smoking-related diseases for the past 20 years, payment of anticipated costs of treating alleged smoking-related diseases for the next 20 years, various forms of injunctive relief, plus punitive damages. In February 2011, the court ruled that the plaintiff had not complied with the procedural steps necessary to serve us. As a result of this ruling, plaintiff must re-serve its claim. We have not yet been re-served.

In the fourth health care cost recovery case in Nigeria, *The Attorney General of Oyo State, et al., v. British American Tobacco (Nigeria) Limited, et al.*, High Court of Oyo State, Ibadan, Nigeria, filed May 25, 2007, we and other members of the industry are defendants. Plaintiffs seek reimbursement for the cost of treating alleged smoking-related diseases for the past 20 years, payment of anticipated costs of treating alleged smoking-related diseases for the next 20 years, various forms of injunctive relief, plus punitive damages. We challenged service as improper. In June 2010, the court ruled that plaintiffs did not have leave to serve the writ of summons on the defendants and that they must re-serve the writ. We have not yet been re-served.

In the fifth health care cost recovery case in Nigeria, *The Attorney General of Ogun State v. British American Tobacco (Nigeria) Limited, et al.*, High Court of Ogun State, Abeokuta, Nigeria, filed February 26, 2008, we and other members of the industry are defendants. Plaintiff seeks reimbursement for the cost of treating alleged smoking-related diseases for the past 20 years, payment of anticipated costs of treating alleged smoking-related diseases for the next 20 years, various forms of injunctive relief, plus punitive damages. In May 2010, the trial court rejected our objections to the court's jurisdiction. We have appealed. Currently, the case is stayed in the trial court pending the appeals of certain co-defendants relating to service objections.

In the health care cost recovery case in Korea, the *National Health Insurance Service v. KT&G, et al.*, filed April 14, 2014, our subsidiary and other Korean manufacturers are defendants. Plaintiff alleges that defendants concealed the health hazards of smoking, marketed to youth, added ingredients to make their products more harmful and addictive, and misled consumers into believing that *Lights* cigarettes are safer than regular cigarettes. The National Health Insurance Service seeks to recover damages allegedly incurred in treating 3,484 patients with small cell lung cancer, squamous cell lung cancer, and squamous cell laryngeal cancer from 2003 to 2012. The trial court dismissed the case in its entirety on November 20, 2020. The Appellate court granted the Plaintiff a *de novo*



appeal in 2021 and determined that the appellate proceedings will take place in stages: wrongful conduct/product defect allegations first, then causation and finally issues such as standing/direct action.

*Label-Related Cases:* These cases, now brought only by individual plaintiffs, allege that the use of the descriptor “Lights” or other alleged misrepresentations or omissions of labeling information constitute fraudulent and misleading conduct. Plaintiffs' allegations of liability in these cases are based on various theories of recovery including misrepresentation, deception, and breach of consumer protection laws. Plaintiffs seek various forms of relief including restitution, injunctive relief, and compensatory and other damages. Defenses raised include lack of causation, lack of reliance, assumption of the risk, and statute of limitations.

As of December 31, 2022, there were 6 label-related cases brought by individual plaintiffs in Italy (1) and Chile (5) pending against our subsidiaries, compared with 3 such cases on December 31, 2021, and 5 such cases on December 31, 2020.

*Public Civil Actions:* Claims have been filed either by an individual, or a public or private entity, seeking to protect collective or individual rights, such as the right to health, the right to information or the right to safety. Plaintiffs' allegations of liability in these cases are based on various theories of recovery including product defect, concealment, and misrepresentation. Plaintiffs in these cases seek various forms of relief including injunctive relief such as banning cigarettes, descriptors, smoking in certain places and advertising, as well as implementing communication campaigns and reimbursement of medical expenses incurred by public or private institutions.

As of December 31, 2022, there was 1 public civil action pending against our subsidiary in Venezuela (1), compared with 1 such case on December 31, 2021, and 2 such cases on December 31, 2020.

In a public civil action in Venezuela, *Federation of Consumers and Users Associations (“FEVACU”), et al. v. National Assembly of Venezuela and the Venezuelan Ministry of Health, Constitutional Chamber of the Venezuelan Supreme Court*, filed April 29, 2008, we were not named as a defendant, but the plaintiffs published a notice pursuant to court order, notifying all interested parties to appear in the case. In January 2009, our subsidiary appeared in the case in response to this notice. The plaintiffs purport to represent the right to health of the citizens of Venezuela and claim that the government failed to protect adequately its citizens' right to health. The claim asks the court to order the government to enact stricter regulations on the manufacture and sale of tobacco products. In addition, the plaintiffs ask the court to order companies involved in the tobacco industry to allocate a percentage of their “sales or benefits” to establish a fund to pay for the health care costs of treating smoking-related diseases. In October 2008, the court ruled that plaintiffs have standing to file the claim and that the claim meets the threshold admissibility requirements. In December 2012, the court admitted our subsidiary and BAT's subsidiary as interested third parties. In February 2013, our subsidiary answered the complaint.

### ***Reduced-Risk Products***

In Colombia, an individual filed a purported class action, *Ana Ferrero Rebolledo v. Philip Morris Colombia S.A., et al.*, in April 2019 against our subsidiaries with the Civil Court of Bogota related to the marketing of our Platform 1 product. Plaintiff alleged that our subsidiaries advertise the product in contravention of law and in a manner that misleads consumers by portraying the product in a positive light, and further asserts that the Platform 1 vapor contains many toxic compounds, creates a high level of dependence, and has damaging second-hand effects. Plaintiff sought injunctive relief and damages on her behalf and on behalf of two classes (class 1 - all Platform 1 consumers in Colombia who seek damages for the purchase price of the product and personal injuries related to the alleged addiction, and class 2 - all residents of the neighborhood where the advertising allegedly took place who seek damages for exposure to the alleged illegal advertising). Our subsidiaries answered the complaint in January 2020, and in February 2020, plaintiff filed an amended complaint. The amended complaint modifies the relief sought on behalf of the named plaintiff and on behalf of a single class (all consumers of Platform 1 products in Colombia who seek damages for the product purchase price and personal injuries related to the use of an allegedly harmful product). In June 2021, our subsidiaries answered the amended complaint. The court has scheduled evidentiary hearings to take place in February 2023.

### ***Other Litigation***

The Department of Special Investigations of the government of Thailand (“DSI”) conducted an investigation into alleged underpayment by our subsidiary, Philip Morris (Thailand) Limited (“PM Thailand”), of customs duties and excise taxes relating to imports from the Philippines covering the period 2003-2007. On January 18, 2016, the Public Prosecutor filed charges against our subsidiary and seven former and current employees in the Bangkok Criminal Court alleging that PM Thailand and the individual defendants jointly and with the intention to defraud the Thai government, under-declared import prices of cigarettes to avoid full payment of taxes and duties in connection with import entries of cigarettes from the Philippines during the period of July 2003 to June 2006. The government sought a fine of approximately THB 80.8 billion (approximately \$2.4 billion). In May 2017, Thailand enacted a new customs act. The new act, which took effect in November 2017, substantially limits the amount of fines that Thailand could seek in these proceedings. PM Thailand believes that its declared import prices are in compliance with the Customs Valuation

Agreement of the World Trade Organization and Thai law and that the allegations of the Public Prosecutor are inconsistent with several decisions already taken by Thai Customs and other Thai governmental agencies. Trial in the case began in November 2017 and concluded in September 2019. In November 2019, the trial court found our subsidiary guilty of under-declaration of the prices and imposed a fine of approximately THB 1.2 billion (approximately \$36 million). The trial court dismissed all charges against the individual defendants. In December 2019, as required by the Thai law, our subsidiary paid the fine. This payment is included in other assets on the consolidated balance sheets and negatively impacted net cash provided by operating activities in the consolidated statements of cash flows in the period of payment. Both our subsidiary and the Public Prosecutor filed an appeal of the trial court's decision. The appellate court issued its decision on the appeals on June 1, 2022. The appellate court affirmed the findings of under-declaration of import prices of cigarettes but reduced the fine to approximately THB 122 million (approximately \$3.6 million) finding the trial court erred in its calculation of the under-declaration and fine. The appellate court affirmed the acquittals of the individual defendants. Our subsidiary has appealed the decision to the Supreme Court of Thailand. The Public Prosecutor has also filed an appeal challenging the dismissal of charges against the individual defendants and the amount of the fine imposed. Thailand is required to refund any payment made by our subsidiary in excess of any fine asserted by the courts.

The DSI also conducted an investigation into alleged underpayment by PM Thailand of customs duties and excise taxes relating to imports from Indonesia covering the period 2000-2003. On January 26, 2017, the Public Prosecutor filed charges against PM Thailand and its former Thai employee in the Bangkok Criminal Court alleging that PM Thailand and its former employee jointly and with the intention to defraud the Thai government under-declared import prices of cigarettes to avoid full payment of taxes and duties in connection with import entries during the period from January 2002 to July 2003. The government is seeking a fine of approximately THB 19.8 billion (approximately \$588 million). In May 2017, Thailand enacted a new customs act. The new act, which took effect in November 2017, substantially limits the amount of fines that Thailand could seek in these proceedings. PM Thailand believes that its declared import prices are in compliance with the Customs Valuation Agreement of the World Trade Organization and Thai law, and that the allegations of the Public Prosecutor are inconsistent with several decisions already taken by Thai Customs and a Thai court. Trial in the case began in November 2018 and concluded in December 2019. In March 2020, the trial court found our subsidiary guilty of under-declaration of the prices and imposed a fine of approximately THB 130 million (approximately \$3.9 million). The trial court dismissed all charges against the individual defendant. In April 2020, as required by Thai law, our subsidiary paid the fine. This payment is included in other assets on the consolidated balance sheets and negatively impacted net cash provided by operating activities in the consolidated statements of cash flows in the period of payment. Our subsidiary filed an appeal of the trial court's decision. In addition, the Public Prosecutor filed an appeal of the trial court's decision challenging the dismissal of charges against the individual defendant and the amount of the fine imposed. The appellate court issued its decision on the appeals on January 31, 2023. The appellate court affirmed the findings of under-declaration of import prices of cigarettes but reduced the fine imposed by the trial court. The appellate court directed the Public Prosecutor to coordinate with customs officials to calculate such reduced fine in accordance with the appellate court's decision, which will occur at a later date. The appellate court affirmed the acquittal of the individual defendant. Both the Public Prosecutor and our subsidiary may appeal the decision to the Supreme Court of Thailand. Thailand is required to refund any payment made by our subsidiary in excess of any fine assessed by the courts.

The South Korean Board of Audit and Inspection ("BAI") conducted an audit of certain Korean government agencies and the tobacco industry into whether inventory movements ahead of the January 1, 2015 increase of cigarette-related taxes by tobacco companies, including Philip Morris Korea Inc. ("PM Korea"), our South Korean subsidiary, were in compliance with South Korean tax laws. In November 2016, the tax authorities completed their audit and assessed allegedly underpaid taxes and penalties. In order to avoid nonpayment financial costs, PM Korea paid approximately KRW 272 billion (approximately \$217 million), of which KRW 100 billion (approximately \$80 million) was paid in 2016 and KRW 172 billion (approximately \$137 million) was paid in the first quarter of 2017. These paid amounts are included in other assets in the consolidated balance sheets and negatively impacted net cash provided by operating activities in the consolidated statements of cash flows in the period of payment. PM Korea appealed the assessments. In January 2020, a trial court ruled that PM Korea did not underpay taxes in the amount of approximately KRW 218 billion (approximately \$173 million). The tax authorities appealed this decision to the appellate court. In September 2020, the appellate court upheld the trial court's decision. The tax authorities have appealed to the Supreme Court of South Korea. In June 2020, another trial court ruled that PM Korea did not underpay approximately KRW 54 billion (approximately \$43 million) of alleged underpayments. The government agencies appealed this decision. In January 2021, the appellate court upheld the trial court's decision. The government agencies appealed to the Supreme Court of South Korea. If the tax authorities and government agencies ultimately lose, then they would be required to return the paid amounts to PM Korea.

The Saudi Arabia Customs General Authority issued its assessments requiring our distributors to pay additional customs duties in the amount of approximately 1.5 billion Saudi Riyal, or approximately \$396 million, in relation to the fees paid by these distributors under their agreements with our subsidiary for exclusive rights to distribute our products in Saudi Arabia. In order to challenge these assessments, the distributors posted bank guarantees. To enable the distributors' challenge, our subsidiary agreed with the banks to bear a portion of the amount the authority may draw on the bank guarantees. In September and October 2020, respectively, the distributors lost their challenges of the assessments. Both distributors appealed, and in June 2021, the Customs Appeal Committee in Riyadh notified the distributors of its decisions to largely reject their appeals. On the basis of the above-mentioned decisions, in June 2021, PMI recorded a pre-tax charge of \$246 million in relation to the period of 2014 through 2020 in line with existing and

contemplated arrangements with the distributors. The estimated amounts for 2021 and 2022 are immaterial. In accordance with U.S. GAAP, the charge was recorded as a reduction in net revenues on the consolidated statements of earnings for the three months and six months ended June 30, 2021. Despite the unfavorable decisions, our subsidiary believes that customs duties paid in Saudi Arabia were in compliance with the applicable law and the WTO Customs Valuation Agreement.

A putative shareholder class action lawsuit, *In re Philip Morris International Inc. Securities Litigation*, is pending in the United States District Court for the Southern District of New York, purportedly on behalf of purchasers of Philip Morris International Inc. stock between July 26, 2016 and April 18, 2018. The lawsuit names Philip Morris International Inc. and certain officers and employees as defendants and includes allegations that the defendants made false and/or misleading statements and/or failed to disclose information about PMI's business, operations, financial condition, and prospects, related to product sales of, and alleged irregularities in clinical studies of, PMI's Platform 1 product. The lawsuit seeks various forms of relief, including damages. In November 2018, the court consolidated three putative shareholder class action lawsuits with similar allegations previously filed in the Southern District of New York (namely, *City of Westland Police and Fire Retirement System v. Philip Morris International Inc., et al.*, *Greater Pennsylvania Carpenters' Pension Fund v. Philip Morris International Inc., et al.*, and *Gilchrist v. Philip Morris International Inc., et al.*) into these proceedings. A putative shareholder class action lawsuit, *Rubenstein v. Philip Morris International Inc., et al.*, that had been previously filed in December 2017 in the United States District Court for the District of New Jersey, was voluntarily dismissed by the plaintiff due to similar allegations in these proceedings. On February 4, 2020, the court granted defendants' motion in its entirety, dismissing all but one of the plaintiffs' claims with prejudice. The court noted that one of plaintiffs' claims (allegations relating to four non-clinical studies of PMI's Platform 1 product) did not state a viable claim but allowed plaintiffs to replead that claim by March 3, 2020. On February 18, 2020, the plaintiffs filed a motion for reconsideration of the court's February 4th decision; this motion was denied on September 21, 2020. On September 28, 2020, plaintiffs filed an amended complaint seeking to replead allegations relating to four non-clinical studies of PMI's Platform 1 product. On September 10, 2021, the court granted defendant's motion to dismiss plaintiffs' amended complaint in its entirety. Plaintiffs have filed an appeal with the U.S. Court of Appeal for the Second Circuit. We believe that this lawsuit is without merit and will continue to defend it vigorously.

In April 2020, affiliates of British American Tobacco plc ("BAT") commenced patent infringement proceedings, *RAI Strategic Holdings, Inc., et al. v. Altria Client Services LLC, et al.*, in the federal court in the Eastern District of Virginia, where PMI's subsidiary, Philip Morris Products S.A., as well as Altria Group, Inc.'s subsidiaries, are defendants. Plaintiffs seek damages and injunctive relief against the commercialization of the Platform 1 blade products in the United States. In April 2020, BAT affiliates filed a complaint against PMI, Philip Morris Products S.A., Altria Group, Inc., and its subsidiaries before the International Trade Commission ("ITC"). Plaintiffs seek an order to prevent the importation of Platform 1 products into the United States. The ITC evidentiary hearing closed on February 1, 2021. On May 14, 2021, the administrative law judge issued an Initial and Recommended Determination ("ID/RD") finding that the Platform 1 blade products infringe two of the three patents asserted by Plaintiffs, recommending that the ITC issue a Limited Exclusion order against infringing products, and recommending against a cease-and-desist, as well as recommending against a bond pending Presidential review of the ITC's Final Determination ("FD"). Defendants and Plaintiffs filed separate Petitions for Review with the ITC of the ID on May 28, 2021; on July 27, 2021, the ITC granted each of the petitions in part, deciding to review certain issues in the ID. Plaintiffs and Defendants also submitted brief statements of the public interest factors in issue to the ITC on June 15, 2021. On September 29, 2021, the ITC issued its FD finding a violation of section 337 of the U.S. Tariff Act and issued (a) a limited exclusion order against Philip Morris Products S.A., prohibiting, inter alia, the importation of Platform 1 product and infringing components; and (b) a cease-and-desist order against Altria Client Services, LLC and its affiliate prohibiting, inter alia, sales of imported Platform 1 products. The ITC predicated the orders on its finding that Platform 1 blade products infringe two patents owned by a BAT affiliate. The ITC also found that Platform 1 blade products do not infringe a third patent owned by a BAT affiliate. The ITC further held that there were insufficient concerns over public interest to prevent the issuance of remedial orders. Following the Presidential Review period, the orders became effective and Defendants filed a petition for review of the FD with the U.S. Court of Appeals for the Federal Circuit. Defendants also filed motions in the ITC and Federal Circuit for a stay of the orders pending disposition of the appeal; the ITC denied the motion on January 20, 2022 and the Federal Circuit denied the motion on January 25, 2022. The Federal Circuit heard oral argument on defendants' appeal of the FD on October 3, 2022 and a decision is awaited. We estimate that an adverse ruling is probable due to our inability to import the products and components impacted by the ITC's FD with immaterial financial impact. In the Eastern District of Virginia case, the defendants also counterclaimed that BAT infringed their patents relating to certain e-vapor products, seeking damages for, and injunctive relief against, the commercialization of these products by BAT. The trial of Defendant PMPSA's counterclaims took place from June 8-14, 2022 and, on June 15, 2022, the jury returned a verdict for PMPSA awarding approximately \$10.8 million in damages for infringement up to December 31, 2021 of two PMPSA patents by BAT's affiliate and two of BAT's e-vapor products; the jury also found BAT's affiliate did not infringe one of the two PMPSA patents and that the BAT affiliates had failed to prove one of the two PMPSA patents was invalid. PMPSA filed a motion for an injunction or, in the alternative, an ongoing royalty on August 12, 2022 which remains pending. Upon petition of Philip Morris Products S.A., the Patent Trial and Appeal Board ("PTAB") of the United States Patent and Trademark Office has instituted review of certain claims pertaining to four of the six patents asserted by BAT affiliates in both proceedings. On January 11, 2022, PTAB issued its final decision on one of the two patents underlying the ITC's FD, invalidating all challenged claims of BAT's patent. On March 30, 2022, PTAB issued its final decision on the second of the two patents underlying the ITC's FD, finding the challenged claims patentable. The parties have filed appeals of these PTAB results to the U.S. Court of Appeals for the Federal Circuit. On July 21, 2022, PMPSA filed a Request for Rehearing of PTAB's November 2020

decision not to institute review of certain claims in the second of the two patents underlying the ITC's FD; PTAB denied the Request on October 13, 2022.

In April 2020, BAT's affiliate commenced patent infringement proceedings, *Nicoventures Trading Limited v. PM GmbH, et al.*, against PMI's German subsidiary, Philip Morris GmbH, and Philip Morris Products S.A., in the Regional Court in Munich, Germany. Plaintiffs seek damages and injunctive relief against the commercialization of the Platform 1 blade products in Germany. In June 2021, the court stayed the proceeding in respect of one of the two patents asserted by BAT's Affiliate. Following the December 2022 confirmation of the revocation of the other BAT patent by the European Patent Office Board of Appeal, BAT withdrew its initial claim based on that patent; the stayed action based on the second patent remains pending.

In September 2020, BAT's affiliates commenced patent infringement and unfair competition proceedings, *RAI Strategic Holdings, Inc., et al. v. Philip Morris Products S.A., et al.*, against Philip Morris Products S.A. and PMI's Italian subsidiaries, Philip Morris Manufacturing & Technology Bologna S.p.A. and Philip Morris Italia S.r.l., in the Court of Milan, Italy. Plaintiffs seek damages, as well as injunctive relief against the manufacture in Italy of the Platform 1 blade heated tobacco units allegedly infringing the asserted patents and the commercialization of the Platform 1 blade products in Italy. As part of this proceeding, in October 2020, BAT's affiliates filed a request based on one of the two asserted patents seeking preliminary injunctive relief against the manufacture and commercialization of the Platform 1 blade products in Italy. In July 2022, the court dismissed plaintiffs' request for preliminary injunction in its entirety and plaintiffs did not appeal this ruling.

In October 2020, BAT's affiliates commenced patent infringement proceedings, *RAI Strategic Holdings, Inc., et al. v. Philip Morris Japan, Limited, et al.*, against PMI's Japanese subsidiary, Philip Morris Japan Limited, and a third-party distributor in the Tokyo District Court. Plaintiffs seek damages and injunctive relief against the commercialization of the Platform 1 blade products in Japan. On December 23, 2022, the Court dismissed BAT's claims with respect to one of the two patents that it asserted, finding no infringement; BAT filed an appeal of this dismissal.

In November 2020, BAT's affiliates commenced patent infringement proceedings, *RAI Strategic Holdings, Inc., et al. v. Philip Morris Romania SRL, et al.*, against PMI's Romanian subsidiaries, Philip Morris Romania S.R.L. and Philip Morris Trading S.R.L., and a third-party distributor in the Court of Law of Bucharest, Civil Registry. Plaintiffs seek damages and preliminary and permanent injunctive relief against the manufacture and commercialization of the Platform 1 blade products in Romania. In February 2021, the court dismissed plaintiffs' request for a preliminary injunction. In April 2021, the appellate court denied plaintiffs' appeal, confirming the dismissal of plaintiffs' request for preliminary injunction. Plaintiffs' proceeding requesting damages and a permanent injunction remains pending before the Court of Law of Bucharest, Civil Registry. In an October 14, 2021 hearing, the court stayed the proceeding.

In March 2021, BAT's affiliates commenced patent infringement proceedings, *RAI Strategic Holdings, Inc., et al. v. Philip Morris Korea, Co., Ltd.*, against PM Korea in the Seoul Central District Court. Plaintiffs seek damages and injunctive relief against the commercialization of the Platform 1 blade heated tobacco units in South Korea. On May 30, 2022, the Korean Patent Office issued a decision that all of the challenged claims in the patent asserted by Plaintiffs are invalid; Plaintiffs filed an appeal of this decision.

In July, 2021, Philip Morris Products, S.A. filed a claim at the High Court of Justice of England and Wales against BAT affiliates Nicoventures Trading Limited and British American Tobacco (Investments) Limited seeking revocation of the UK parts of two BAT European patents. In March, the BAT affiliates stated that they would consent to revocation of one of the patents and filed a counterclaim against Philip Morris Products S.A. and Philip Morris Limited seeking from the court a declaration that the remaining BAT affiliate patent is infringed by Platform 1 induction products, as well as damages and injunctive relief against the commercialization of the Platform 1 induction products in the U.K. The trial took place from September 21-28, 2022, and a decision is awaited.

Other patent challenges by both parties are pending in various jurisdictions.

We believe that the foregoing proceedings by the affiliates of BAT are without merit and will defend them vigorously.

We are also involved in additional litigation arising in the ordinary course of our business. While the outcomes of these proceedings are uncertain, management does not expect that the ultimate outcomes of other litigation, including any reasonably possible losses in excess of current accruals, will have a material adverse effect on our consolidated results of operations, cash flows or financial position.

### ***Third-Party Guarantees***

Until November 1, 2022, Medicago Inc. ("Medicago") was an equity method investee of Philip Morris Investments B.V. ("PMIBV"), a PMI subsidiary. On October 17, 2020, Medicago had entered into a contribution agreement with the Canadian government (the "Contribution Agreement") whereby the Canadian government agreed to contribute up to CAD 173 million (approximately \$131 million on the date of signing) to Medicago, to support its on-going COVID-19 vaccine development and clinical trials ("First Stage"), and for the construction of its Quebec City manufacturing facility ("Second Stage", and together with the First Stage, the "Project").



On March 31, 2022, the Contribution Agreement was amended (the "Contribution Agreement Amendment") to reflect an additional contribution from the Canadian government up to CAD 27 million (approximately \$22 million on the date of signing) to Medicago for the Second Stage. In August 2022, Medicago received the final tranche of the contribution from the Canadian government in relation to the First Stage, confirming thereby the completion of such first stage and consequently reducing by approximately CAD 123 million (approximately \$93 million on the date of signing) the Repayment Obligations (as defined below).

PMIBV and Mitsubishi Tanabe Pharma Corporation ("MTPC") are also parties to the Contribution Agreement and the Contribution Agreement Amendment as guarantors of Medicago's obligations thereunder on a joint and several basis ("Co-Guarantors"). The Co-Guarantors agreed to repay amounts contributed by the Canadian government plus interest, if Medicago fails to do so (the "Repayment Obligations"), and could be responsible for the costs of Medicago's other obligations (such as the achievement of specific milestones of the Project). The guarantees are in effect through March 31, 2026. It is reasonably possible that PMI will be responsible for a portion of these costs and obligations. The maximum amount of these obligations is currently non-estimable.

On November 1, 2022, PMIBV transferred all of the shares it owned in Medicago to MTPC Holdings Canada Inc., the majority shareholder of Medicago. MTPC assumed and agreed to perform all of PMIBV's obligations under the guarantees and to indemnify and save PMIBV harmless in respect of any and all claims related to the guaranteed obligations. On February 3, 2023, PMI learned through a public announcement that a decision has been taken to cease all operations at Medicago and to proceed with an orderly wind up of Medicago's business and operations.

PMI has determined that these guarantees did not have a material impact on its consolidated financial statements for the year ended December 31, 2022.

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## Note 19.

### **Sale of Accounts Receivable:**

To mitigate risk and enhance cash and liquidity management PMI sells trade receivables to unaffiliated financial institutions. These arrangements allow PMI to sell, on an ongoing basis, certain trade receivables without recourse. The trade receivables sold are generally short-term in nature and are removed from the consolidated balance sheets. PMI sells trade receivables under two types of arrangements, servicing and non-servicing. For servicing arrangements, PMI continues to service the sold trade receivables on an administrative basis and does not act on behalf of the unaffiliated financial institutions. When applicable, a servicing liability is recorded for the estimated fair value of the servicing. The amounts associated with the servicing liability were not material for the years ended December 31, 2022 and 2021. Under the non-servicing arrangements, PMI does not provide any administrative support or servicing after the trade receivables have been sold to the unaffiliated financial institutions.

Cumulative trade receivables sold, including excise taxes, for the years ended December 31, 2022 and 2021, were \$11.9 billion and \$11.8 billion, respectively. PMI's operating cash flows were positively impacted by the amount of the trade receivables sold and derecognized from the consolidated balance sheets, which remained outstanding with the unaffiliated financial institutions. The trade receivables sold that remained outstanding under these arrangements as of December 31, 2022, 2021 and 2020, were \$1.0 billion, \$0.9 billion and \$1.2 billion, respectively. The net proceeds received are included in cash provided by operating activities in the consolidated statements of cash flows. The difference between the carrying amount of the trade receivables sold and the sum of the cash received is recorded as a loss on sale of trade receivables within marketing, administration and research costs in the consolidated statements of earnings. For the years ended December 31, 2022, 2021 and 2020 the loss on sale of trade receivables was \$26 million, \$9 million and \$9 million, respectively.

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## Note 20.

### **Asset Impairment and Exit Costs:**

For the year ended December 31, 2022, PMI did not record any charges for asset impairment and exit costs related to restructuring activities. As previously discussed, PMI recorded a pre-tax impairment charge on intangibles of \$112 million for the year ended December 31, 2022 within the Wellness and Healthcare segment. For further details, see Note 5. *Goodwill and Other Intangible Assets, net*. For the years ended December 31, 2021 and 2020, PMI recorded total pre-tax asset impairment and exit costs related to

restructuring activities of \$216 million and \$149 million, respectively. These pre-tax asset impairment and exit costs were included in marketing, administration and research costs on the consolidated statements of earnings.

## South Korea

In 2021, PM Korea implemented a new business operating model, which required the restructuring of its current distribution agreements. As a result, PMI recorded exit costs of \$57 million in the year ended December 31, 2021, related to contract terminations and restructuring with certain distributors.

## Organizational Design Optimization

As part of PMI's transformation to a smoke-free future, PMI sought to optimize its organizational design, which included the elimination, relocation and outsourcing of certain operations center and centralized activities. In January 2020, PMI commenced a multi-phase restructuring project in Switzerland. PMI initiated the employee consultation procedures, as required under Swiss law, for the impacted employees. The consultation procedures for the first two phases were completed in 2020 with the final phases initiated and completed in 2021. Additionally, since the commencement of this multi-phase restructuring project in 2020, PMI launched a voluntary separation program in Switzerland for certain eligible employees and announced the outsourcing of certain activities in Argentina, Indonesia, Poland and the United States. This multi-phase restructuring project was completed in the fourth quarter of 2021.

For the years ended December 31, 2021 and 2020, PMI recorded pre-tax charges of \$159 million and \$149 million, respectively, related to the organizational design optimization. Since inception of this multi-phase restructuring project in January 2020 through December 31, 2021, approximately 1,020 positions in total were impacted, resulting in cumulative pre-tax charges of \$308 million related to the organizational design optimization program. Of this cumulative pre-tax amount, \$300 million related to separation program charges and \$8 million related to asset impairment charges.

## Asset Impairment and Exit Costs by Segment

During 2021 and 2020, PMI recorded the following pre-tax asset impairment and exit costs by segment related to restructuring activities:

| (in millions)                           | 2021  | 2020  |
|---|-------|-------|
| Separation programs: <sup>(1)</sup>     |       |       |
| European Union                          | \$ 68 | \$ 53 |
| Eastern Europe                          | 14    | 14    |
| Middle East & Africa                    | 17    | 18    |
| South & Southeast Asia                  | 21    | 22    |
| East Asia & Australia                   | 31    | 25    |
| Americas                                | 8     | 9     |
| Total separation programs               | 159   | 141   |
| Contract termination charges:           |       |       |
| East Asia & Australia                   | 57    | —     |
| Total contract termination charges      | 57    | —     |
| Asset impairment charges <sup>(1)</sup> |       |       |
| European Union                          | —     | 4     |
| Eastern Europe                          | —     | 1     |
| Middle East & Africa                    | —     | 1     |
| South & Southeast Asia                  | —     | 1     |
| East Asia & Australia                   | —     | 1     |
| Americas                                | —     | —     |
| Total asset impairment charges          | —     | 8     |
| Asset impairment and exit costs         | 216   | 149   |

<sup>(1)</sup> Organizational design optimization pre-tax charges in 2021 and 2020 were allocated across all geographical segments.



### *Movement in Exit Cost Liabilities*

The movement in exit cost liabilities for the year ended December 31, 2022 was as follows:

**(in millions)**

|                                      |    |      |
|--------------------------------------|----|------|
| Liability balance, January 1, 2022   | \$ | 142  |
| Charges, net                         |    | —    |
| Cash spent                           |    | (93) |
| Currency/other                       |    | (9)  |
| Liability balance, December 31, 2022 | \$ | 40   |

Future cash payments for exit costs incurred to date are anticipated to be substantially paid by the end of 2023.

### **Note 21.**

#### **Leases:**

PMI has operating and finance leases that are principally for real estate (office space, warehouses and retail store space), machinery and equipment, and vehicles. Lease terms range from 1 year to 71 years, some of which include options to renew, which are reasonably certain to be renewed. Lease terms may also include options to terminate the lease. The exercise of a lease renewal or termination option is at PMI's discretion.

PMI's operating and finance leases at December 31, 2022 and 2021, were as follows:

| <b>(in millions)</b>               | <b>At December 31,</b> |                |                  |                |
|------------------------------------|------------------------|----------------|------------------|----------------|
|                                    | <b>2022</b>            |                | <b>2021</b>      |                |
|                                    | Operating Leases       | Finance Leases | Operating Leases | Finance Leases |
| <b>Assets:</b>                     |                        |                |                  |                |
| Machinery and equipment            | \$ —                   | \$ 123         | \$ —             | \$ 108         |
| Other assets                       | 594                    | —              | 526              | —              |
| Total lease assets                 | \$ 594                 | \$ 123         | \$ 526           | \$ 108         |
| <b>Liabilities:</b>                |                        |                |                  |                |
| <b>Current</b>                     |                        |                |                  |                |
| Current portion of long-term debt  | \$ —                   | \$ 34          | \$ —             | \$ 48          |
| Accrued liabilities - Other        | 178                    | —              | 192              | —              |
| <b>Noncurrent</b>                  |                        |                |                  |                |
| Long-term debt                     | —                      | 20             | —                | 23             |
| Income taxes and other liabilities | 436                    | —              | 344              | —              |
| Total lease liabilities            | \$ 614                 | \$ 54          | \$ 536           | \$ 71          |

The components of PMI's lease cost were as follows for the years ended December 31, 2022, 2021 and 2020:

| (in millions)                       | For the Years Ended December 31, |        |        |
|-------------------------------------|----------------------------------|--------|--------|
|                                     | 2022                             | 2021   | 2020   |
| Operating lease cost                | \$ 248                           | \$ 259 | \$ 237 |
| Finance lease cost:                 |                                  |        |        |
| Amortization of right-of-use assets | 83                               | 54     | 31     |
| Interest on lease liabilities       | 1                                | 1      | 1      |
| Short-term lease cost               | 59                               | 55     | 49     |
| Variable lease cost                 | 23                               | 25     | 31     |
| Total lease cost                    | \$ 414                           | \$ 394 | \$ 349 |

Maturity of PMI's lease liabilities, on an undiscounted basis, as of December 31, 2022, were as follows:

| (in millions)                      | Operating Leases | Finance Leases |
|------------------------------------|------------------|----------------|
| 2023                               | \$ 202           | \$ 34          |
| 2024                               | 138              | 14             |
| 2025                               | 97               | 4              |
| 2026                               | 60               | 1              |
| 2027                               | 39               | 1              |
| Thereafter                         | 176              | 1              |
| Total lease payments               | 712              | 55             |
| Less: Interest                     | 98               | 1              |
| Present value of lease liabilities | \$ 614           | \$ 54          |

Other information related to PMI's leases was as follows for the year ended December 31, 2022, 2021 and 2020:

| (in millions)   | December 31,     |                |                  |                |                  |                |
|---|------------------|----------------|------------------|----------------|------------------|----------------|
|   | 2022             |                | 2021             |                | 2020             |                |
|   | Operating Leases | Finance Leases | Operating Leases | Finance Leases | Operating Leases | Finance Leases |
| Cash paid for amounts included in the measurement of lease liabilities in operating cash flows <sup>(1)</sup> | \$ 243           | \$ —           | \$ 259           | \$ —           | \$ 238           | \$ —           |
| Cash paid for amounts included in the measurement of lease liabilities in financing cash flows                | \$ —             | \$ 76          | \$ —             | \$ 26          | \$ —             | \$ 19          |
| Leased assets obtained in exchange for new lease liabilities  | \$ 255           | \$ 100         | \$ 64            | \$ 89          | \$ 149           | \$ 32          |
| Weighted-average remaining lease term (years)   | 10.3             | 2.1            | 8.3              | 1.7            | 10.1             | 1.6            |
| Weighted-average discount rate <sup>(2)(3)</sup>  | 3.4 %            | 4.4 %          | 3.6 %            | 5.3 %          | 4.3 %            | 6.7 %          |

<sup>(1)</sup> Cash paid included in the operating cash flows of finance leases is not material.

<sup>(2)</sup> PMI's weighted-average discount rate for operating leases is based on its estimated pre-tax cost of debt adjusted for country-specific risk.

<sup>(3)</sup> PMI's weighted-average discount rate for finance leases, excluding embedded leases, is based on its estimated pre-tax cost of debt adjusted for country-specific risk and where applicable the interest rate explicit to lease contracts.

## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of  
Philip Morris International Inc.

### *Opinions on the Financial Statements and Internal Control over Financial Reporting*

We have audited the accompanying consolidated balance sheets of Philip Morris International Inc. and its subsidiaries (the “Company”) as of December 31, 2022 and 2021, and the related consolidated statements of earnings, comprehensive earnings, stockholders’ (deficit) equity and cash flows for each of the three years in the period ended December 31, 2022, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

### *Basis for Opinions*

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control Over Financial Reporting. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As described in the Report of Management on Internal Control Over Financial Reporting, management has excluded Swedish Match AB from its assessment of internal control over financial reporting as of December 31, 2022 because it was acquired by the Company in a purchase business combination during 2022. We have also excluded Swedish Match AB from our audit of internal control over financial reporting. Swedish Match AB is a majority-owned subsidiary whose total assets and total third-party net revenues excluded from management’s assessment and our audit of internal control over financial reporting represent 4% and 1%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2022.

### *Definition and Limitations of Internal Control over Financial Reporting*

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the

maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### ***Critical Audit Matters***

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

#### ***Tobacco-Related Litigation for Smoking and Health Class Actions and Health Care Cost Recovery Actions***

As described in Note 18 to the consolidated financial statements, the Company has 9 smoking and health class actions and 17 health care cost recovery actions pending. The Company records provisions in the consolidated financial statements for pending litigation when management determines that an unfavorable outcome is probable and the amount of the loss can be reasonably estimated. Except as stated otherwise in Note 18, while it is reasonably possible that an unfavorable outcome in a case may occur, after assessing the information available, (i) management has not concluded that it is probable that a loss has been incurred in any of the pending smoking and health class actions and health care cost recovery cases; (ii) management is unable to estimate the possible loss or range of loss for any of the pending smoking and health class actions and health care cost recovery cases; and (iii) accordingly, no estimated loss has been accrued in the consolidated financial statements for unfavorable outcomes in these cases, if any.

The principal considerations for our determination that performing procedures relating to tobacco-related litigation for smoking and health class actions and health care cost recovery actions is a critical audit matter are that there was significant judgment by management when determining the probability of a loss being incurred and an estimate of the amount or range of the potential loss for each case, which in turn led to a high degree of auditor subjectivity, judgment and effort in evaluating management's assessment related to the loss contingencies associated with smoking and health class actions and health care cost recovery actions related claims.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's evaluation of smoking and health class actions and health care cost recovery actions, including controls over determining the probability and range of loss as well as controls over financial statement disclosures. These procedures also included, among others, obtaining and evaluating the letters of audit inquiry with external and internal legal counsel, evaluating the reasonableness of management's assessment regarding whether an unfavorable outcome is reasonably possible or probable and reasonably estimable, and evaluating the sufficiency of the Company's smoking and health class actions and health care cost recovery actions contingencies disclosures.

#### ***Preliminary Valuation of Trademarks and Customer Relationships - Acquisition of Swedish Match AB***

As described in Note 3 to the consolidated financial statements, the Company acquired a controlling interest in Swedish Match AB for consideration of \$14.5 billion in 2022, which resulted in \$4.5 billion of intangible assets preliminarily being recorded, of which \$4.1 billion relate to trademarks and customer relationships. Management applied significant judgment in estimating the preliminary fair value of intangible assets acquired, which involved the use of significant estimates and assumptions with respect to the timing and amounts of revenue growth rates, royalty rates, and discount rates for trademarks, and profit margins, customer attrition rates, and discount rates for customer relationships.

The principal considerations for our determination that performing procedures relating to the preliminary valuation of trademarks and customer relationships acquired in the acquisition of Swedish Match AB is a critical audit matter are the significant judgment by management when developing the preliminary fair value estimate of the trademarks and customer relationships acquired, which in turn led to a high degree of auditor judgment, and subjectivity in performing procedures and evaluating management's significant assumptions of revenue growth rates, royalty rates, and discount rates for trademarks, and profit margins, customer attrition rates, and

discount rates for customer relationships. In addition, the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the acquisition accounting, including controls over management's preliminary valuation of the trademarks and customer relationships acquired and controls over the development of significant assumptions related to revenue growth rates, profit margins, customer attrition rates, royalty rates, and discount rates. These procedures also included, among others, testing management's process for estimating the preliminary fair value of trademarks and customer relationships. Testing management's process included evaluating the appropriateness of the valuation methods, testing the completeness and accuracy of data provided by management, and evaluating the reasonableness of significant assumptions related to revenue growth rates, profit margins, customer attrition rates, royalty rates, and discount rates. Evaluating the reasonableness of the revenue growth rates and profit margins involved considering the past performance of the acquired business, as well as economic and industry forecasts. Professionals with specialized skill and knowledge were used to assist in the evaluation of the Company's valuation methods, the appropriateness of the discounted cash flow model, and the reasonableness of the customer attrition rate, royalty rate, and discount rate assumptions.

/S/ PRICEWATERHOUSECOOPERS SA

PricewaterhouseCoopers SA

Lausanne, Switzerland

February 10, 2023

We have served as the Company's auditor since 2008.

## Report of Management on Internal Control Over Financial Reporting

Management of Philip Morris International Inc. ("PMI" or "we") is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. PMI's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes those written policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of PMI;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America;
- provide reasonable assurance that receipts and expenditures of PMI are being made only in accordance with the authorization of management and directors of PMI; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the consolidated financial statements.

Internal control over financial reporting includes the controls themselves, monitoring and internal auditing practices and actions taken to correct deficiencies as identified.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In November 2022 we acquired Swedish Match. We have excluded the Swedish Match acquisition from our assessment of the effectiveness of internal control over financial reporting. Total assets excluding goodwill and intangible assets (which are included in our assessment) represent 4% of consolidated assets as of December 31, 2022. Total third-party net revenues represent 1% of consolidated net revenues for the year ended December 31, 2022.

Management assessed the effectiveness of PMI's internal control over financial reporting as of December 31, 2022. Management based this assessment on criteria for effective internal control over financial reporting described in *Internal Control — Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included an evaluation of the design of PMI's internal control over financial reporting and testing of the operational effectiveness of its internal control over financial reporting. Management reviewed the results of its assessment with the Audit Committee of our Board of Directors.

Based on this assessment, management determined that, as of December 31, 2022, PMI maintained effective internal control over financial reporting.

PricewaterhouseCoopers SA, an independent registered public accounting firm, who audited and reported on the consolidated financial statements of PMI included in this report, has audited the effectiveness of PMI's internal control over financial reporting as of December 31, 2022, as stated in their report herein.

February 10, 2023



**Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.***

None.

**Item 9A. *Controls and Procedures.***

PMI carried out an evaluation, with the participation of PMI's management, including PMI's Chief Executive Officer and Chief Financial Officer, of the effectiveness of PMI's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based upon that evaluation, PMI's Chief Executive Officer and Chief Financial Officer concluded that PMI's disclosure controls and procedures are effective. There have been no changes in PMI's internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, PMI's internal control over financial reporting.

In connection with the acquisition of Swedish Match, management is in the process of analyzing, evaluating and where necessary, implementing changes in controls and procedures. This may result in additions or changes to PMI's internal control over financial reporting. The Swedish Match acquisition has been excluded from the Report of Management on Internal Control over Financial Reporting as of December 31, 2022.

The Report of Management on Internal Control over Financial Reporting and the Report of Independent Registered Public Accounting Firm are included in Item 8.

**Item 9B. *Other Information.***

Not applicable.

**Item 9C. *Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.***

Not applicable.

## PART III

Except for the information relating to the executive officers set forth in Item 10 and the information relating to equity compensation plans set forth in Item 12, the information called for by Items 10-14 is hereby incorporated by reference to PMI's definitive proxy statement for use in connection with its annual meeting of stockholders to be held on May 3, 2023, that will be filed with the SEC on or about March 23, 2023 (the "proxy statement"), and, except as indicated therein, made a part hereof.

**Item 10. *Directors, Executive Officers and Corporate Governance.*****Information About Our Executive Officers as of February 10, 2023:**

| Name                  | Office   | Age |
|-----------------------|--|-----|
| Jacek Olczak          | Chief Executive Officer  | 58  |
| Massimo Andolina      | President, Europe Region   | 54  |
| Emmanuel Babeau       | Chief Financial Officer  | 55  |
| Werner Barth          | President, Combustibles Category & Global Combustibles Marketing                                       | 58  |
| Lars Dahlgren         | President, Smoke-Free Oral Products & Chief Executive Officer Swedish Match                            | 52  |
| Frederic de Wilde     | President, South and Southeast Asia, Commonwealth of Independent States, Middle East and Africa Region | 55  |
| Reginaldo Dobrowolski | Vice President and Controller  | 48  |
| Suzanne Rich Folsom   | Senior Vice President and General Counsel  | 61  |
| Stacey Kennedy        | President, Americas Region & CEO of PMI's U.S. Business  | 50  |
| Paul Riley            | President, East Asia, Australia, and PMI Duty Free Region  | 57  |
| Stefano Volpetti      | President, Smoke-Free Products Category & Chief Consumer Officer                                       | 51  |

Jacek Olczak – Age 58

Mr. Olczak was appointed as our Chief Executive Officer in May 2021. From January 2018 until May 2021, Mr. Olczak has served as our Chief Operating Officer, and from August 2012 until December 31, 2017, he served as our Chief Financial Officer. He joined PMI's Polish affiliate in 1993 and progressed through various roles in finance and general management positions across Europe, including as Managing Director of PMI's markets in Poland and Germany and as President of the European Union Region, before being appointed Chief Financial Officer. Prior to joining PMI, Mr. Olczak worked for BDO, an international network of public accounting, tax, consulting and business advisory firms.

Massimo Andolina – Age 54

Mr. Andolina was appointed as our President, Europe Region in January 2023, prior to which he served as our Senior Vice President, Operations since January 2018. He joined PMI in 2008 as Director, Operations Planning, and has held several various roles at PMI, including Vice President, Operations of Latin America & Canada Region from December 2010 to July 2013; Vice President, EU Operations, from August 2013 to June 2016; and Vice President, PMI Transformation from July 2016 to December 2017. Prior to joining PMI, Mr. Andolina held a variety of international positions in strategic marketing and general management for Tetra Pak International and in operations for R.J. Reynolds International.

Emmanuel Babeau – Age 55

Mr. Babeau was appointed as our Chief Financial Officer in May 2020. Prior to joining PMI in May 2020, Mr. Babeau served as the Deputy Chief Executive Officer of Schneider Electric, an energy and automation digital solutions company. In this position, he was in charge of Finance and Legal Affairs. Mr. Babeau joined Schneider Electric in 2009 as Executive Vice President Finance and a member of the Management Board. Mr. Babeau also served on the board of Sanofi S.A., a French multinational healthcare company, from 2018 to 2020. Mr. Babeau started his career in 1990 at Arthur Andersen, and from 1993 to 2009, he progressed through various positions at Pernod Ricard, a beverage company, the latest being Chief Financial Officer and Group Deputy Managing Director. Mr. Babeau also served as a non-executive director at Sodexo, a French food services and facilities management company, from January 2016 until December 2021. He currently sits on the board of Davide Campari-Milano N.V.

Werner Barth – Age 58

Mr. Barth was appointed as our President Combustibles Category & Global Combustibles Marketing in November 2021. Mr. Barth joined PMI in 1990 as Marketing Trainee at Philip Morris Germany and throughout his career he progressed through various roles at PMI in marketing, product management, brand supervision and general management. Prior to his current position, from 2015, Mr. Barth held the role of Senior Vice President, Marketing & Sales, and from 2018, he held the role of Senior Vice President, Commercial.

Lars Dahlgren – Age 52

Mr. Dahlgren was appointed as our President Smoke Free Oral Products and CEO Swedish Match in January 2023. Prior to PMI's acquisition of Swedish Match, he served as President and Chief Executive Officer of Swedish Match since June 2008, and as its Chief Financial Officer and Senior Vice President from July 2004 until June 2008. Prior to that, from April 2004 to July 2004, he was Acting Chief Financial Officer and Vice President of Finance at Swedish Match. Mr. Dahlgren joined Swedish Match in 1996 and has been a member of its Group Management Team since 2004.

Frederic de Wilde – Age 55

Mr. de Wilde was appointed as our President, South and Southeast Asia, Commonwealth of Independent States, Middle East and Africa Regions in January 2023, prior to which he served as President, European Union Region from July 2015. From July 2011 until July 2015, Mr. de Wilde held the role of Senior Vice President, Marketing & Sales. Mr. de Wilde joined PMI in 1992 as Brand Manager L&M at Philip Morris Belgium, and throughout his career, he progressed through various roles at PMI in marketing, sales and general management.

Reginaldo Dobrowolski – Age 48

Mr. Dobrowolski was appointed as our Vice President and Controller in August 2021. From May 2019 until August 2021, Mr. Dobrowolski was our Vice President, Corporate Financial Planning, Data & Reporting. Prior to that, Mr. Dobrowolski held various roles in our Finance department, including Director Corporate Financial Planning & Reporting from October 2014 until May 2019.

Suzanne Rich Folsom - Age 61

Ms. Folsom was appointed as our Senior Vice President and General Counsel in July 2020. She is responsible for all legal, compliance and governance matters at PMI. From March 2019 until July 2020, Ms. Folsom was a Partner and Co-Chair of the Investigations, Compliance and Strategic Response Group at Manatt, Phelps & Phillips, LLP, a U.S. law firm. From 2014 to 2018, Ms. Folsom served as the General Counsel, Chief Compliance Officer and Senior Vice President, Government Affairs and Global Public Policy at United States Steel Corporation, an American integrated steel producer. Ms. Folsom is an accomplished C-suite executive and attorney with deep experience advising management and boards of directors.

Stacey Kennedy – Age 50

Ms. Kennedy was appointed as our President, Americas Region & CEO of PMI's U.S. Business in January 2023. Previously, she served as our President, South and Southeast Asia Region from January 2018. From 2015 until 2018, Ms. Kennedy served as Managing Director for Germany, Austria, Croatia, and Slovenia. Ms. Kennedy began her career with Philip Morris USA in 1995 as a Territory Sales Manager. Throughout her career, she held a number of positions of increasing responsibility in commercial and general management.

Paul Riley – Age 57

Mr. Riley was appointed as our President, East Asia, Australia, and PMI Duty Free Region in January 2023. Previously, he served as our President, East Asia and Australia Region from January 2018. From 2015 until 2018, Mr. Riley served as President of Philip Morris Japan. Mr. Riley joined Philip Morris Australia in 1988. Over the following two decades, he held a number of positions in Australia, Hong Kong, and Japan, before being named Managing Director, Serbia & Montenegro in 2010. Mr. Riley returned to the Asia Region in 2013, when he became President of Philip Morris Fortune Tobacco Corporation in the Philippines.

Stefano Volpetti – Age 51

Mr. Volpetti was appointed as our President Smoke-Free Products Category & Chief Consumer Officer in November 2021. Mr. Volpetti joined PMI in June 2019 as Chief Consumer Officer. From February 2016 until May 2019, Mr. Volpetti served as the Vice President & Brand Franchise Leader of a multi-functional, global business unit at Procter & Gamble, a multinational consumer goods company. Mr. Volpetti spent 22 years at Procter & Gamble, progressing through various roles with increasing responsibility locally in Italy and Mexico, and on a regional level for the European market. Mr. Volpetti also served as Chief Marketing Officer at Luxottica Group S.p.A, an Italian eyewear conglomerate, in 2015.

### *Codes of Ethics and Corporate Governance*

We have adopted a code of ethics, which we call the Guidebook for Success. The Guidebook for Success complies with requirements set forth in Item 406 of Regulation S-K, applies to all of our employees, including our principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing similar functions. We have also adopted a code of business conduct and ethics that applies to the members of our Board of Directors. These documents are available free of charge on our website at [www.pmi.com](http://www.pmi.com).

In addition, we have adopted corporate governance guidelines and charters for our Audit, Finance, Compensation and Leadership Development, Product Innovation and Regulatory Affairs, Consumer Relationships and Regulation, and Nominating and Corporate Governance committees of the Board of Directors. All of these documents are available free of charge on our website at [www.pmi.com](http://www.pmi.com). Any waiver granted by Philip Morris International Inc. to its principal executive officer, principal financial officer or controller, or any person performing similar functions under our code of ethics, or certain amendments to the code of ethics, will be disclosed on our website at [www.pmi.com](http://www.pmi.com).

The information on our website is not, and shall not be deemed to be, a part of this Report or incorporated into any other filings made with the SEC.

Also refer to *Board Operations and Governance—Committees of the Board, Election of Directors—Process for Nominating Directors and Election of Directors—Director Nominees* and *Stock Ownership Information* sections of the proxy statement.

## **Item 11. *Executive Compensation.***

Refer to *Compensation Discussion and Analysis, Compensation of Directors, and Pay Ratio* sections of the proxy statement.

**Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.***

The number of shares to be issued upon exercise or vesting and the number of shares remaining available for future issuance under PMI's equity compensation plans at December 31, 2022, were as follows:

|   | Number of Securities<br>to be Issued upon<br>Exercise of Outstanding<br>Options and Vesting of<br>RSUs and PSUs<br>(a) | Weighted Average<br>Exercise Price of<br>Outstanding Options<br>(b) | Number of Securities<br>Remaining Available for<br>Future Issuance Under<br>Equity Compensation Plans<br>(excluding Securities<br>reflected in column (a))<br>(c) |
|---|--|---|---|
| Equity compensation plans<br>approved by stockholders | 7,533,850 <sup>1</sup>   | \$ —  | 25,750,766  |

<sup>1</sup> Represents 4,519,470 shares of common stock that may be issued upon vesting of the restricted share units and 3,014,380 shares that may be issued upon vesting of the performance share units if maximum performance targets are achieved for each performance cycle. PMI has not granted options since the spin-off from Altria on March 28, 2008.

Also refer to *Stock Ownership Information—Ownership of Equity Securities* section of the proxy statement.

**Item 13. *Certain Relationships and Related Transactions, and Director Independence.***

Refer to *Related Person Transactions and Code of Conduct* and *Election of Directors—Independence of Nominees* sections of the proxy statement.

**Item 14. *Principal Accounting Fees and Services.***

Refer to *Audit Committee Matters* section of the proxy statement.

## PART IV

### Item 15. *Exhibits and Financial Statement Schedules.*

(a) Index to Consolidated Financial Statements and Schedules

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| Consolidated Statements of Earnings for the years ended December 31, 2022, 2021 and 2020                       | 70          |
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Schedules have been omitted either because such schedules are not required or are not applicable.

(b) The following exhibits are filed as part of this Report:

|      |   |   |
|------|---|---|
| 2.1  | — | <a href="#"><u>Distribution Agreement between Altria Group, Inc. and Philip Morris International Inc. dated January 30, 2008 (incorporated by reference to Exhibit 2.1 to the Registration Statement on Form 10 filed February 7, 2008).</u></a>  |
| 2.2  | — | <a href="#"><u>Share Sale and Purchase Agreement by and among Claudio Topco B.V., Bagger-Sorenson &amp; Co. A/S and PMI Global Services, Inc., dated June 30, 2021 (portions of this Exhibit 2.1 have been omitted) (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed July 7, 2021).</u></a>                            |
| 3.1  | — | <a href="#"><u>Amended and Restated Articles of Incorporation of Philip Morris International Inc. (incorporated by reference to Exhibit 3.1 to the Registration Statement on Form 10 filed February 7, 2008).</u></a>   |
| 3.2  | — | <a href="#"><u>Amended and Restated By-Laws of Philip Morris International Inc., effective as of September 13, 2022 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed September 19, 2022).</u></a>  |
| 4.1  | — | <a href="#"><u>Specimen Stock Certificate of Philip Morris International Inc. (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form 10 filed February 7, 2008).</u></a>   |
| 4.2  | — | <a href="#"><u>Indenture dated as of April 25, 2008, between Philip Morris International Inc. and HSBC Bank USA, National Association, as Trustee (incorporated by reference to Exhibit 4.3 to the Registration Statement on Form S-3, dated April 25, 2008).</u></a>   |
| 4.3  | — | <a href="#"><u>Description of Common Stock.</u></a> <sup>x</sup>  |
| 4.4  | — | <a href="#"><u>Description of Debt Securities.</u></a> <sup>x</sup>   |
| 10.1 | — | <a href="#"><u>Employee Matters Agreement between Altria Group, Inc. and Philip Morris International Inc., dated as of March 28, 2008 (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed March 31, 2008).</u></a>   |
| 10.2 | — | <a href="#"><u>Intellectual Property Agreement between Philip Morris International Inc. and Philip Morris USA Inc., dated as of January 1, 2008 (incorporated by reference to Exhibit 10.4 to the Registration Statement on Form 10 filed March 5, 2008).</u></a>   |
| 10.3 | — | <a href="#"><u>Credit Agreement, dated as of February 12, 2013, among Philip Morris International Inc., the lenders named therein and Citibank Europe PLC, UK Branch (formerly, The Royal Bank of Scotland plc), as Administrative Agent (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed February 15, 2013).</u></a> |

|       |   |  |
|-------|---|--|
| 10.4  | — | <a href="#"><u>Extension Agreement, effective February 7, 2017, to the Credit Agreement, dated as of February 12, 2013, among Philip Morris International Inc., the lenders party thereto, Citibank Europe PLC, UK Branch (formerly, Citibank International Limited), as administrative agent (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed January 30, 2017).</u></a>  |
| 10.5  | — | <a href="#"><u>Extension Agreement, effective January 31, 2014, to Credit Agreement, dated as of February 12, 2013, among Philip Morris International Inc., the lenders party thereto and Citibank Europe PLC, UK Branch (formerly, The Royal Bank of Scotland plc), as Administrative Agent (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2014).</u></a>  |
| 10.6  | — | <a href="#"><u>Extension Agreement, effective as of February 10, 2015, to Credit Agreement dated as of February 12, 2013, among Philip Morris International Inc., the lenders named therein and Citibank Europe PLC, UK Branch (formerly, The Royal Bank of Scotland plc), as Administrative Agent (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed January 29, 2015).</u></a>   |
| 10.7  | — | <a href="#"><u>Amendment No. 1, dated as of July 20, 2015, to the Credit Agreement, dated as of February 12, 2013, among Philip Morris International Inc., the lenders named therein, The Royal Bank of Scotland plc, as resigning administrative agent, and Citibank Europe PLC, UK Branch (formerly, Citibank International Limited), as successor administrative agent (incorporated by reference to Exhibit 10.52 to the Annual Report on Form 10-K for the year ended December 31, 2015).</u></a> |
| 10.8  | — | <a href="#"><u>Credit Agreement, dated as of October 1, 2015, among Philip Morris International Inc., the lenders named therein, Citibank Europe PLC, UK Branch (formerly, Citibank International Limited), as Facility Agent, and Citibank, N.A., as Swingline Agent (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed October 5, 2015).</u></a>   |
| 10.9  | — | <a href="#"><u>Amendment No. 2, effective as of February 9, 2016, to the Credit Agreement dated as of February 12, 2013, with the lenders named therein and Citibank Europe PLC, UK Branch (formerly, Citibank International Limited), as administrative agent (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed January 28, 2016).</u></a>   |
| 10.10 | — | <a href="#"><u>Extension Agreement, effective as of October 1, 2016, to the Credit Agreement dated as of October 1, 2015, among Philip Morris International Inc., lenders named therein, Citibank Europe PLC, UK Branch (formerly, Citibank International Limited), as Facility Agent, and Citibank, N.A., as Swingline Agent (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed August 31, 2016).</u></a>   |
| 10.11 | — | <a href="#"><u>Extension Agreement, effective as of October 1, 2017, to the Credit Agreement, dated as of October 1, 2015, among Philip Morris International Inc., the lenders party thereto and Citibank Europe PLC, UK Branch (formerly, Citibank International Limited), as Facility Agent, and Citibank N.A., as Swingline Agent (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed August 29, 2017).</u></a>  |
| 10.12 | — | <a href="#"><u>Extension Agreement, effective as of February 6, 2018, to the Credit Agreement, dated as of February 12, 2013, among Philip Morris International Inc., the lenders named therein, Citibank Europe PLC, UK Branch (formerly, Citibank International Limited), as administrative agent (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed January 29, 2018).</u></a>  |
| 10.13 | — | <a href="#"><u>Extension Agreement, effective as of February 5, 2019, to the Credit Agreement dated as of February 12, 2013, among Philip Morris International Inc., the lenders named therein, Citibank Europe PLC, UK Branch (formerly, Citibank International Limited), as administrative agent (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed January 29, 2019).</u></a>   |
| 10.14 | — | <a href="#"><u>Amendment and Extension Agreement, effective February 4, 2020, to the Credit Agreement, dated as of February 12, 2013, among Philip Morris International Inc., each lender named therein and Citibank Europe PLC, UK Branch (formerly, Citibank International Limited), as administrative agent (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed February 3, 2020).</u></a>   |
| 10.15 | — | <a href="#"><u>Credit Agreement, dated as of February 10, 2020, among Philip Morris International Inc., the lenders named therein, Citibank Europe PLC, UK Branch, as Facility Agent, and Citibank, N.A., as Swingline Agent (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed February 11, 2020).</u></a>  |
| 10.16 | — | <a href="#"><u>Amendment and Extension Agreement, effective February 2, 2021, to the Credit Agreement, dated as of February 12, 2013, among PMI, the lenders named therein and Citibank Europe PLC, UK Branch (legal successor to Citibank International Limited), as administrative agent (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed February 2, 2021).</u></a>   |



|       |   |  |
|-------|---|--|
| 10.17 | — | <a href="#"><u>Amendment and Extension Agreement, effective February 10, 2021, to the Credit Agreement, dated as of February 10, 2020, among PMI, the lenders named therein, Citibank Europe PLC, UK Branch, as facility agent, and Citibank, N.A., as swingline agent (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed February 2, 2021).</u></a>                     |
| 10.18 | — | <a href="#"><u>Credit Agreement, dated as of September 29, 2021, among PMI, the lenders named therein, Citibank Europe PLC, UK Branch, as facility agent, and Citibank, N.A., as swingline agent (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed September 30, 2021).</u></a>   |
| 10.19 | — | <a href="#"><u>Amendment and Extension Agreement, effective February 1, 2022, to the Credit Agreement, dated as of February 12, 2013, among PMI, the lenders named therein and Citibank Europe PLC, UK Branch (legal successor to Citibank International Limited), as administrative agent (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed February 1, 2022).</u></a> |
| 10.20 | — | <a href="#"><u>Amendment and Extension Agreement, effective February 10, 2022, to the Credit Agreement, dated as of February 10, 2020, among PMI, the lenders named therein, Citibank Europe PLC, UK Branch, as facility agent, and Citibank, N.A., as swingline agent (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed February 1, 2022).</u></a>                     |
| 10.21 | — | <a href="#"><u>Credit Agreement, dated May 11, 2022, among PMI, the lenders named therein and Citibank Europe PLC, UK Branch, as facility agent (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed May 11, 2022).</u></a>  |
| 10.22 | — | <a href="#"><u>Credit Agreement relating to the Term Loan Facility, among PMI, the lenders named therein and Citibank Europe PLC, UK Branch, as facility agent, dated June 23, 2022 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed June 28, 2022).</u></a>   |
| 10.23 | — | <a href="#"><u>Amendment to the Bridge Credit Agreement, dated September 2, 2022 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed September 2, 2022).</u></a>  |
| 10.24 | — | <a href="#"><u>Amendment to the Term Loan Credit Agreement, dated September 2, 2022 (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed September 2, 2022).</u></a>   |
| 10.25 | — | <a href="#"><u>Amendment and Extension Agreement, dated as of September 20, 2022, to the Credit Agreement, dated as of September 29, 2021, among PMI, the lenders named therein, Citibank Europe PLC, UK Branch, as facility agent, and Citibank, N.A., as swingline agent (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed September 23, 2022).</u></a>               |
| 10.26 | — | <a href="#"><u>Purchase Agreement with Altria Client Services LLC, effective October 19, 2022 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed October 20, 2022).</u></a> **   |
| 10.27 | — | <a href="#"><u>Philip Morris International Inc. 2017 Performance Incentive Plan, effective May 3, 2017 (incorporated by reference to Exhibit B to the Definitive Proxy Statement filed on March 23, 2017).</u></a> *   |
| 10.28 | — | <a href="#"><u>Pension Fund of Philip Morris in Switzerland (IC), effective January 1, 2022.</u></a> x*  |
| 10.29 | — | <a href="#"><u>Summary of Supplemental Pension Plan of Philip Morris in Switzerland, effective December 15, 2022.</u></a> x*   |
| 10.30 | — | <a href="#"><u>Philip Morris International Inc. Amended and Restated Automobile Policy, dated as of October 1, 2019 (incorporated by reference to Exhibit 10.16 to the Annual Report on Form 10-K for the year ended December 31, 2020).</u></a> *   |
| 10.31 | — | <a href="#"><u>Philip Morris International Benefit Equalization Plan, amended and restated (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2019).</u></a> *  |
| 10.32 | — | <a href="#"><u>Form of Restated Employee Grantor Trust Enrollment Agreement (Executive Trust Arrangement) (incorporated by reference to Exhibit 10.18 to the Registration Statement on Form 10 filed February 7, 2008).</u></a> *  |
| 10.33 | — | <a href="#"><u>Form of Restated Employee Grantor Trust Enrollment Agreement (Secular Trust Arrangement) (incorporated by reference to Exhibit 10.19 to the Registration Statement on Form 10 filed February 7, 2008).</u></a> *  |
| 10.34 | — | <a href="#"><u>Philip Morris International Inc. 2017 Stock Compensation Plan for Non-Employee Directors (as amended and restated as of January 1, 2018) (incorporated by reference to Exhibit 10.26 to the Annual Report on Form 10-K for the year ended December 31, 2017).</u></a> *   |
| 10.35 | — | <a href="#"><u>Philip Morris International Inc. 2008 Deferred Fee Plan for Non-Employee Directors (incorporated by reference to Exhibit 10.24 the Annual Report on Form 10-K for the year ended December 31, 2020).</u></a> *  |

|       |   |  |
|-------|---|--|
| 10.36 | — | <a href="#"><u>Supplemental Letter to the Employment Agreement (as amended) with André Calantzopoulos (incorporated by reference to Exhibit 10.25 to the Annual Report on Form 10-K for the year ended December 31, 2020). The Employment Agreement was previously filed as Exhibit 10.22 to the Registration Statement on Form 10 filed February 7, 2008 and is incorporated by reference to this Exhibit 10.36.*</u></a>         |
| 10.37 | — | <a href="#"><u>Supplemental Letter to the Offer Letter with Drago Azinovic, dated December 4, 2008 (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q for the Quarter ended March 31, 2022)*</u></a>  |
| 10.38 | — | <a href="#"><u>Employment Agreement with Drago Azinovic, effective August 1, 2012. (incorporated by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q for the Quarter ended March 31, 2022)*</u></a>  |
| 10.39 | — | <a href="#"><u>Supplemental Letter to the Employment Agreement with Drago Azinovic, effective April 1, 2017 (incorporated by reference to Exhibit 10.5 to the Quarterly Report on Form 10-Q for the Quarter ended March 31, 2022)*</u></a>   |
| 10.40 | — | <a href="#"><u>Supplemental Letter to the Employment Agreement with Drago Azinovic, effective January 1, 2018 (incorporated by reference to Exhibit 10.6 to the Quarterly Report on Form 10-Q for the Quarter ended March 31, 2022)*</u></a>   |
| 10.41 | — | <a href="#"><u>Employment Agreement with Jorge Insuasty, effective January 1, 2021 (incorporated by reference to Exhibit 10.7 to the Quarterly Report on Form 10-Q for the Quarter ended March 31, 2022)*</u></a>  |
| 10.42 | — | <a href="#"><u>Supplemental letter to the Employment Agreement with Jorge Insuasty, effective April 1, 2022 (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the Quarter ended June 30, 2022)*</u></a>  |
| 10.43 | — | <a href="#"><u>Supplemental Letter to Employment Agreement with Marc S. Firestone (incorporated by reference to Exhibit 10.5 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2017). The Employment Agreement was previously filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 and is incorporated by reference to this Exhibit 10.43.*</u></a>                  |
| 10.44 | — | <a href="#"><u>Employment Agreement with Martin G. King, effective June 1, 2020 (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2020).*</u></a>   |
| 10.45 | — | <a href="#"><u>Restricted Stock Unit Agreement (2021 Grant) (Martin G. King) (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed February 9, 2021).*</u></a>  |
| 10.46 | — | <a href="#"><u>Performance Stock Unit Agreement (2021 Grant) (Martin G. King) (incorporated by reference to Exhibit 10.6 to the Current Report on Form 8-K filed February 9, 2021).*</u></a>   |
| 10.47 | — | <a href="#"><u>Separation Agreement and Release with Martin G. King, dated August 16, 2021 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed August 20, 2021).*</u></a>   |
| 10.48 | — | <a href="#"><u>Early Retirement Agreement and Release with Marc S. Firestone, effective November 3, 2020 (incorporated by reference to Exhibit 10.28 to the Annual Report on Form 10-K for the year ended December 31, 2020).*</u></a>   |
| 10.49 | — | <a href="#"><u>Supplemental Letter to the Employment Agreement (as amended) with Jacek Olczak (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2019. The Employment Agreement was previously filed as Exhibit 10.4 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, and is incorporated by reference to this Exhibit 10.49.*</u></a>        |
| 10.50 | — | <a href="#"><u>Supplemental Letter to the Employment Agreement (as amended) with Miroslaw Zielinski (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2019). The Employment Agreement was previously filed as Exhibit 10.2 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 and is incorporated by reference to this Exhibit 10.50.*</u></a> |
| 10.51 | — | <a href="#"><u>Early Retirement and Release Agreement with Miroslaw Zielinski, effective April 30, 2020 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed May 1, 2020).*</u></a>  |
| 10.52 | — | <a href="#"><u>Employment Agreement with Emmanuel Babeau, effective as of May 1, 2020 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed March 2, 2020).*</u></a>  |
| 10.53 | — | <a href="#"><u>Restricted Stock Unit Agreement (2021 Grant) (Emmanuel Babeau) (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed February 9, 2021).*</u></a>   |
| 10.54 | — | <a href="#"><u>Performance Stock Unit Agreement (2021 Grant) (Emmanuel Babeau) (incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K filed February 9, 2021).*</u></a>  |
| 10.55 | — | <a href="#"><u>Restricted Stock Unit Agreement (2022 Grant) (Emmanuel Babeau) (incorporated by reference to Exhibit 10.11 to the Quarterly Report on Form 10-Q for the Quarter ended March 31, 2022)*</u></a>  |
| 10.56 | — | <a href="#"><u>Performance Stock Unit Agreement (2022 Grant) (Emmanuel Babeau) (incorporated by reference to Exhibit 10.12 to the Quarterly Report on Form 10-Q for the Quarter ended March 31, 2022)*</u></a>   |

|       |   |  |
|-------|---|--|
| 10.57 | — | <a href="#"><u>Employment Agreement with Frederic de Wilde, effective July 1, 2011 (incorporated by reference to Exhibit 10.12 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2021).</u></a> *   |
| 10.58 | — | <a href="#"><u>Supplemental Letter to the Employment Agreement with Frederic de Wilde, effective July 1, 2015 (incorporated by reference to Exhibit 10.13 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2021).</u></a> *  |
| 10.59 | — | <a href="#"><u>Off-Cycle Restricted Stock Unit Agreement (2021 Grant) (Frederic de Wilde) (incorporated by reference to Exhibit 10.14 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2021).</u></a> *  |
| 10.60 | — | <a href="#"><u>Employment Agreement with Stefano Volpetti, effective June 1, 2019 (incorporated by reference to Exhibit 10.10 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2021).</u></a> *  |
| 10.61 | — | <a href="#"><u>Supplemental Letter to the Employment Agreement with Stefano Volpetti, effective June 1, 2019 (incorporated by reference to Exhibit 10.11 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2021).</u></a> *   |
| 10.62 | — | <a href="#"><u>Supplemental Letter to the Employment Agreement with Stefano Volpetti, effective November 1, 2021 (incorporated by reference to Exhibit 10.46 to the Annual Report on Form 10-K for the year ended December 31, 2021).</u></a> *  |
| 10.63 | — | <a href="#"><u>Restricted Stock Unit Agreement (Vesting in Installments), between Philip Morris International Inc. and Emmanuel Babeau, effective as of May 1, 2020 (incorporated by reference to Exhibit 10.33 to the Annual Report on Form 10-K for the year ended December 31, 2020).</u></a> * |
| 10.64 | — | <a href="#"><u>Supplemental Letter to the Employment Agreement with André Calantzopoulos, effective May 5, 2021 (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2021).</u></a> *  |
| 10.65 | — | <a href="#"><u>Supplemental Letter to the Employment Agreement with Jacek Olczak, effective May 5, 2021 (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2021).</u></a> *  |
| 10.66 | — | <a href="#"><u>Supplemental Letter to the Employment Agreement with Jacek Olczak, effective March 1, 2022 (incorporated by reference to Exhibit 10.8 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2022).</u></a> *   |
| 10.67 | — | <a href="#"><u>Restricted Stock Unit Agreement, between Philip Morris International Inc. and Emmanuel Babeau, effective as of May 1, 2020 (incorporated by reference to Exhibit 10.34 to the Annual Report on Form 10-K for the year ended December 31, 2020).</u></a> *                           |
| 10.68 | — | <a href="#"><u>Performance Stock Unit Agreement, between Philip Morris International Inc. and Emmanuel Babeau, effective as of May 1, 2020 (incorporated by reference to Exhibit 10.35 to the Annual Report on Form 10-K for the year ended December 31, 2020).</u></a> *                          |
| 10.69 | — | <a href="#"><u>Agreement with Louis C. Camilleri (incorporated by reference to Exhibit 10.25 to the Registration Statement on Form 10 filed February 7, 2008).</u></a> *   |
| 10.70 | — | <a href="#"><u>Form of Supplemental Equalization Plan Employee Grantor Trust Enrollment Agreement (Secular Trust) (incorporated by reference to Exhibit 10.31 to the Annual Report on Form 10-K for the year ended December 31, 2008).</u></a> *   |
| 10.71 | — | <a href="#"><u>Form of Supplemental Equalization Plan Employee Grantor Trust Enrollment Agreement (Executive Trust) (incorporated by reference to Exhibit 10.32 to the Annual Report on Form 10-K for the year ended December 31, 2008).</u></a> *   |
| 10.72 | — | <a href="#"><u>Philip Morris International Inc. Form of Indemnification Agreement with Directors and Executive Officers (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed September 18, 2009).</u></a> *  |
| 10.73 | — | <a href="#"><u>Philip Morris International Inc. Tax Return Preparation Services Policy (incorporated by reference to Exhibit 10.51 to the Annual Report on Form 10-K for the year ended December 31, 2014).</u></a> *  |
| 10.74 | — | <a href="#"><u>Form of Restricted Stock Unit Agreement (2020 Grants) (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed February 11, 2020).</u></a> *  |
| 10.75 | — | <a href="#"><u>Form of Performance Share Unit Agreement (2020 Grants) (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed February 11, 2020).</u></a> *   |
| 10.76 | — | <a href="#"><u>Form of Restricted Stock Unit Agreement (2021 Grants) (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed February 9, 2021).</u></a> *   |
| 10.77 | — | <a href="#"><u>Form of Performance Share Unit Agreement (2021 Grants) (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed February 9, 2021).</u></a> *  |
| 10.78 | — | <a href="#"><u>Form of Restricted Stock Unit Agreement (2023 Grant) (Emmanuel Babeau).</u></a> <sup>x*</sup>   |

|         |   |  |
|---------|---|--|
| 10.79   | — | <a href="#"><u>Form of Performance Share Unit Agreement (2023 Grant) (Emmanuel Babeau).</u></a> <sup>x*</sup>  |
| 10.80   | — | <a href="#"><u>Extension of Non-Competition Obligations for the Early Retirement Agreement with Mirosław Zielinski, dated November 27, 2022.</u></a> <sup>x*</sup>   |
| 10.81   | — | <a href="#"><u>Supplemental Letter to the Employment Agreement with Frederic de Wilde, effective January 31, 2023.</u></a> <sup>x*</sup>   |
| 10.82   | — | <a href="#"><u>Philip Morris International Inc. 2022 Performance Incentive Plan, effective May 4, 2022 (incorporated by reference to Exhibit 10.1 to the Current Report filed on May 6, 2022).</u></a> <sup>*</sup>  |
| 10.83   | — | <a href="#"><u>Form of Restricted Stock Unit Agreement (2022 Grants) (incorporated by reference to Exhibit 10.9 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2022).</u></a> <sup>*</sup>   |
| 10.84   | — | <a href="#"><u>Form of Performance Share Unit Agreement (2022 Grants) (incorporated by reference to Exhibit 10.10 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2022).</u></a> <sup>*</sup>   |
| 10.85   | — | <a href="#"><u>Form of Restricted Stock Unit Agreement (2023 Grants).</u></a> <sup>x*</sup>  |
| 10.86   | — | <a href="#"><u>Form of Performance Share Unit Agreement (2023 Grants).</u></a> <sup>x*</sup>   |
| 10.87   | — | <a href="#"><u>Form of Restricted Stock Unit Agreement (by tranches) (2023 Grants).</u></a> <sup>x*</sup>  |
| 21      | — | <a href="#"><u>Subsidiaries of Philip Morris International Inc.</u></a> <sup>x</sup>   |
| 23      | — | <a href="#"><u>Consent of independent registered public accounting firm.</u></a> <sup>x</sup>  |
| 31.1    | — | <a href="#"><u>Certification of the Registrant’s Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a> <sup>x</sup> |
| 31.2    | — | <a href="#"><u>Certification of the Registrant’s Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a> <sup>x</sup> |
| 32.1    | — | <a href="#"><u>Certification of the Registrant’s Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a> <sup>x</sup>  |
| 32.2    | — | <a href="#"><u>Certification of the Registrant’s Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a> <sup>x</sup>  |
| 101.INS | — | XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.  |
| 101.SCH | — | XBRL Taxonomy Extension Schema.  |
| 101.CAL | — | XBRL Taxonomy Extension Calculation Linkbase.  |
| 101.DEF | — | XBRL Taxonomy Extension Definition Linkbase.   |
| 101.LAB | — | XBRL Taxonomy Extension Label Linkbase.  |
| 101.PRE | — | XBRL Taxonomy Extension Presentation Linkbase.   |
| 104     | — | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)   |

\* Denotes management contract or compensatory plan or arrangement in which directors or executive officers are eligible to participate.

\*\* Schedules and certain portions of this exhibit have been omitted pursuant to Item 601(a)(5) and Item 601(b)(10)(iv) of Regulation S-K.

<sup>x</sup> Denotes exhibits filed herewith.

The exhibits filed herewith do not include certain instruments with respect to long-term debt of PMI, inasmuch as the total amount of debt authorized under any such instrument does not exceed 10 percent of the total assets of PMI on a consolidated basis. PMI agrees, pursuant to Item 601(b)(4)(iii) of Regulation S-K, that it will furnish a copy of any such instrument to the SEC upon request.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PHILIP MORRIS INTERNATIONAL INC.

By: /s/ JACEK OLCZAK  
(Jacek Olczak  
Chief Executive Officer)

Date: February 10, 2023

## POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Jacek Olczak, Emmanuel Babeau, and Darlene Quashie Henry and each of them, acting individually, as his or her true and lawful attorney-in-fact, each with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K for the year ended December 31, 2022, and other documents in connection herewith and therewith, and to file the same, with all exhibits thereto, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection herewith and therewith and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated:

| <u>Signature</u>  | <u>Title</u>                         | <u>Date</u>       |
|---|--------------------------------------|-------------------|
| <u>/s/ JACEK OLCZAK</u><br>(Jacek Olczak)                   | Chief Executive Officer and Director | February 10, 2023 |
| <u>/s/ EMMANUEL BABEAU</u><br>(Emmanuel Babeau)             | Chief Financial Officer              | February 10, 2023 |
| <u>/s/ REGINALDO DOBROWOLSKI</u><br>(Reginaldo Dobrowolski) | Vice President and Controller        | February 10, 2023 |
| <u>/s/ ANDRÉ CALANTZOPOULOS</u><br>(André Calantzopoulos)   | Executive Chairman                   | February 10, 2023 |
| <u>/s/ BONIN BOUGH</u><br>(Bonin Bough)                     | Director                             | February 10, 2023 |
| <u>/s/ MICHEL COMBES</u><br>(Michel Combes)                 | Director                             | February 10, 2023 |
| <u>/s/ DR. JUAN JOSÉ DABOUB</u><br>(Juan José Daboub)       | Director                             | February 10, 2023 |

|                                 |          |                   |
|---------------------------------|----------|-------------------|
| <u>/s/ WERNER GEISSLER</u>      | Director | February 10, 2023 |
| (Werner Geissler)               |          |                   |
| <u>/s/ LISA A. HOOK</u>         | Director | February 10, 2023 |
| (Lisa A. Hook)                  |          |                   |
| <u>/s/ JUN MAKIHARA</u>         | Director | February 10, 2023 |
| (Jun Makihara)                  |          |                   |
| <u>/s/ KALPANA MORPARIA</u>     | Director | February 10, 2023 |
| (Kalpana Morparia)              |          |                   |
| <u>/s/ LUCIO A. NOTO</u>        | Director | February 10, 2023 |
| (Lucio A. Noto)                 |          |                   |
| <u>/s/ FREDERIK PAULSEN</u>     | Director | February 10, 2023 |
| (Frederik Paulsen)              |          |                   |
| <u>/s/ ROBERT B. POLET</u>      | Director | February 10, 2023 |
| (Robert B. Polet)               |          |                   |
| <u>/s/ DESSISLAVA TEMPERLEY</u> | Director | February 10, 2023 |
| (Dessislava Temperley)          |          |                   |
| <u>/s/ SHLOMO YANAI</u>         | Director | February 10, 2023 |
| (Shlomo Yanai)                  |          |                   |



## Reconciliation of Non-GAAP Measures

### Reconciliation of Operating Cash Flow to Operating Cash Flow, excluding Currency

| For the Years Ended December 31, (in millions) (Unaudited)    | 2022      | 2021      | % Change |
|---|-----------|-----------|----------|
| Net cash provided by operating activities <sup>(1)</sup>      | \$ 10,803 | \$ 11,967 | (9.7)%   |
| Less: Currency  | (1,524)   |           |          |
| Net cash provided by operating activities, excluding currency | \$ 12,327 | \$ 11,967 | 3.0 %    |

<sup>(1)</sup> Operating cash flow

### Adjustments to Reported Diluted EPS

| For the Years Ended December 31, (Unaudited)                 | 2022    | 2021    | % Change |
|--|---------|---------|----------|
| Reported Diluted EPS   | \$ 5.81 | \$ 5.83 | (0.3)%   |
| Adjustments:   |         |         |          |
| Asset impairment and exit costs                              | —       | 0.12    |          |
| Amortization and impairment of intangibles                   | 0.15    | 0.05    |          |
| Saudi Arabia customs assessments                             | —       | 0.14    |          |
| Equity investee ownership dilution                           | —       | (0.04)  |          |
| Asset acquisition cost                                       | —       | 0.03    |          |
| Costs associated with Swedish Match AB offer                 | 0.06    | —       |          |
| Swedish Match AB acquisition accounting related item         | 0.06    | —       |          |
| Tax benefit associated with Swedish Match AB financing       | (0.13)  | —       |          |
| Charges related to the war in Ukraine                        | 0.08    | —       |          |
| Fair value adjustment for equity security investments        | (0.02)  | —       |          |
| Tax items  | (0.03)  | —       |          |
| Adjusted Diluted EPS   | \$ 5.98 | \$ 6.13 | (2.4)%   |
| Less: Net Earnings attributable to Russia and Ukraine        | 0.64    | 0.60    |          |
| Adjusted Diluted EPS, excluding Russia and Ukraine           | 5.34    | 5.53    | (3.4)%   |
| Less: Currency   | (0.85)  |         |          |
| Adjusted Diluted EPS, excluding Russia, Ukraine and Currency | \$ 6.19 | \$ 5.53 | 11.9 %   |

### Net Revenues by Product Category & Adjustments of Net Revenues for the Impact of Currency and Acquisitions

For the Years Ended December 31, (in millions) (Unaudited)

| 2022         |               |                                 |                   |  |                     | 2021         |         |                    |                                   |  | % Change in Net Revenues |
|--------------|---------------|---------------------------------|-------------------|--|---------------------|--------------|---------|--------------------|-----------------------------------|--|--------------------------|
| Net Revenues | Less Currency | Net Revenues excluding Currency | Less Acquisitions | Net Revenues excluding Currency & Acquisitions |                     | Net Revenues | Total   | Excluding Currency | Excluding Currency & Acquisitions |  |                          |
| \$ 21,572    | \$ (1,643)    | \$ 23,214                       | \$ 70             | \$ 23,144                                      | Combustible Tobacco | \$ 22,067    | (2.2) % | 5.2 %              | 4.9 %                             |  |                          |
| 10,190       | (1,013)       | 11,204                          | 445               | 10,759   | Smoke-Free          | 9,338        | 9.1 %   | 20.0 %             | 15.2 %                            |  |                          |
| \$ 31,762    | \$ (2,656)    | \$ 34,418                       | \$ 515            | \$ 33,903                                      | Total PMI           | \$ 31,405    | 1.1 %   | 9.6 %              | 8.0 %                             |  |                          |

Note: Sum of product categories might not foot to Total PMI due to roundings.

## Adjustments to Net Revenues, Combustible Tobacco Net Revenues, Operating Income & Operating Income Margin

| For the Years Ended December 31, (in millions) (Unaudited)   | 2022                         | 2021                         | %<br>Change   |
|--|------------------------------|------------------------------|---------------|
| <b>Net Revenues</b>  | <b>\$ 31,762</b>             | <b>\$ 31,405</b>             | <b>1.1 %</b>  |
| Less: Saudi Arabia customs assessments   | —                            | (246)                        |               |
| <b>Adjusted Net Revenues</b>   | <b>31,762</b>                | <b>31,651</b>                | <b>0.4 %</b>  |
| Less: Net Revenues attributable to Russia and Ukraine  | 2,591                        | 2,471                        |               |
| <b>Adjusted Net Revenues excl. Russia and Ukraine</b>  | <b>29,171</b>                | <b>29,180</b>                | <b>— %</b>    |
| Less: Currency   | (2,779)                      |                              |               |
| Less: Acquisitions   | 515                          |                              |               |
| <b>Adjusted Net Revenues, excl. Russia, Ukraine, Currency &amp; Acquisitions</b>                     | <b>\$ 31,435</b>             | <b>\$ 29,180</b>             | <b>7.7 %</b>  |
| <b>Combustible Tobacco Net Revenues</b>  | <b>\$ 21,572</b>             | <b>\$ 22,067</b>             | <b>(2.2)%</b> |
| Less: Saudi Arabia customs assessments   | —                            | (246)                        |               |
| <b>Adjusted Combustible Tobacco Net Revenues</b>   | <b>\$ 21,572</b>             | <b>\$ 22,313</b>             | <b>(3.3)%</b> |
| Less: Net Revenues attributable to Russia and Ukraine  | 1,542                        | 1,399                        |               |
| <b>Adjusted Combustible Tobacco Net Revenues, excl. Russia and Ukraine</b>                           | <b>20,029</b>                | <b>20,914</b>                | <b>(4.2)%</b> |
| Less: Currency   | (1,722)                      |                              |               |
| Less: Acquisitions   | 70                           |                              |               |
| <b>Adjusted Combustible Tobacco Net Revenues, excl. Russia, Ukraine, Currency &amp; Acquisitions</b> | <b>\$ 21,682</b>             | <b>\$ 20,914</b>             | <b>3.7 %</b>  |
| <b>Operating Income</b>  | <b>\$ 12,246</b>             | <b>\$ 12,975</b>             | <b>(5.6)%</b> |
| Less:  |                              |                              |               |
| Asset impairment and exit costs  | —                            | (216)                        |               |
| Amortization and impairment of intangibles   | (271)                        | (96)                         |               |
| Charges related to the war in Ukraine  | (151)                        | —                            |               |
| Saudi Arabia customs assessments   | —                            | (246)                        |               |
| Asset acquisition costs  | —                            | (51)                         |               |
| Swedish Match AB acquisition accounting related item   | (125)                        | —                            |               |
| Costs associated with Swedish Match AB offer   | (115)                        | —                            |               |
| <b>Adjusted Operating Income</b>   | <b>\$ 12,908</b>             | <b>\$ 13,584</b>             | <b>(5.0)%</b> |
| Less: Operating Income attributable to Russia and Ukraine  | 1,170                        | 1,068                        |               |
| <b>Adjusted Operating Income, excl. Russia and Ukraine</b>   | <b>11,738</b>                | <b>12,516</b>                | <b>(6.2)%</b> |
| Less: Currency   | (1,652)                      |                              |               |
| Less: Acquisitions   | 99                           |                              |               |
| <b>Adjusted Operating Income, excl. Russia, Ukraine, Currency &amp; Acquisitions</b>                 | <b>\$ 13,291</b>             | <b>\$ 12,516</b>             | <b>6.2 %</b>  |
| <b>Operating Income Margin</b>   | <b>38.6 % <sup>(1)</sup></b> | <b>41.3 % <sup>(2)</sup></b> | <b>(2.7)</b>  |
| <b>Adjusted Operating Income Margin</b>  | <b>40.6 % <sup>(3)</sup></b> | <b>42.9 % <sup>(4)</sup></b> | <b>(2.3)</b>  |
| Less: Operating income margin attributable to Russia and Ukraine                                     | 0.4                          |                              |               |
| <b>Adjusted Operating Income Margin, excl. Russia and Ukraine</b>                                    | <b>40.2 %</b>                |                              |               |
| Less: Currency   | (1.7)                        |                              |               |
| Less: Acquisitions   | (0.4)                        |                              |               |
| <b>Adjusted Operating Income Margin, excl. Russia, Ukraine, Currency &amp; Acquisitions</b>          | <b>42.3 %</b>                | <b>42.9 %</b>                | <b>(0.6)</b>  |

<sup>(1)</sup> 2022 Operating Income Margin was 38.6%, calculated as Operating Income of \$12,246 divided by Net Revenues of \$31,762

<sup>(2)</sup> 2021 Operating Income Margin was 41.3%, calculated as Operating Income of \$12,975 divided by Net Revenues of \$31,405

<sup>(3)</sup> 2022 Adjusted Operating Income Margin was 40.6%, calculated as Adjusted Operating Income of \$12,908 divided by Adjusted Net Revenues of \$31,762

<sup>(4)</sup> 2021 Adjusted Operating Income Margin was 42.9%, calculated as Adjusted Operating Income of \$13,584 divided by Adjusted Net Revenues of \$31,651

## Key Terms, Definitions and Explanatory Notes

### Financial

- All references to adjusted results reflect the exclusion of asset impairment, exit costs and other special items.
- "Adjusted net revenues" exclude the impact related to Saudi Arabia customs assessments.
- "Adjusted operating income margin" is calculated as adjusted operating income, divided by adjusted net revenues.
- Growth rates presented on an organic basis reflect adjusted results, excluding currency, acquisitions and disposals.
- Management reviews net revenues, operating income, operating income margin, operating cash flow and earnings per share, or "EPS," on an adjusted basis, which may exclude the impact of currency and other items such as acquisitions, asset impairment and exit costs, tax items and other special items. Additionally, starting in 2022 and on a comparative basis, for these measures other than net revenues and operating cash flow, PMI will include adjustments to add back amortization expense on acquisition-related intangible assets that are recorded as part of purchase accounting and contribute to PMI's revenue generation, as well as impairment of intangible assets, if any. Currency-neutral and organic growth rates reflect the way management views underlying performance for these measures. PMI believes that such measures provide useful insight into underlying business trends and results. Management reviews these measures because they exclude changes in currency exchange rates and other factors that may distort underlying business trends, thereby improving the comparability of PMI's business performance between reporting periods. Furthermore, PMI uses several of these measures in its management compensation program to promote internal fairness and a disciplined assessment of performance against company targets. PMI discloses these measures to enable investors to view the business through the eyes of management.
- Non-GAAP measures used in this report should neither be considered in isolation nor as a substitute for the financial measures prepared in accordance with U.S. GAAP. For a reconciliation of non-GAAP measures to the most directly comparable U.S. GAAP measures, see the relevant schedules provided with this report on pages R-1 and R-2.
- Given the impact of the war in Ukraine on the company's operations in Russia and Ukraine in 2022, PMI is also providing figures and comparisons excluding the company's operations in these two markets.

### Smoke-Free Products

- "Smoke-free products" (SFPs) is the term PMI primarily uses to refer to all of its products that are not combustible tobacco products, such as heat-not-burn, e-vapor, and oral nicotine. In addition, SFPs include wellness and healthcare products, as well as consumer accessories such as lighters and matches.
- "Reduced-risk products" (RRPs) is the term PMI uses to refer to products that present, are likely to present, or have the potential to present less risk of harm to smokers who switch to these products versus continuing smoking. PMI has a range of RRP in various stages of development, scientific assessment and commercialization. PMI's RRP are smoke-free products that contain and/or generate far lower quantities of harmful and potentially harmful constituents than found in cigarette smoke.
- Wellness and healthcare products primarily refer to products associated with inhaled therapeutics and oral and intra-oral delivery systems that are included in the operating results of PMI's new wellness and healthcare business, Vectura Fertin Pharma.
- "Heated tobacco units" (HTUs) is the term PMI uses to refer to heated tobacco consumables, which include the company's *BLENDS*, *HEETS*, *HEETS Creations*, *HEETS Dimensions*, *HEETS Marlboro* and *HEETS FROM MARLBORO* (defined collectively as *HEETS*), *Marlboro Dimensions*, *Marlboro HeatSticks*, *Parliament HeatSticks*, *SENTIA* and *TEREA*, as well as the KT&G-licensed brands, *Fiit* and *Miix* (outside of South Korea).
- Unless otherwise stated, all references to *IQOS* are to PMI's Platform 1 *IQOS* devices and heated tobacco consumables.
- "PMI heat-not-burn products" include licensed KT&G heat-not-burn products.
- "PMI HTUs" include licensed KT&G HTUs.
- "Total *IQOS* users" is defined as the estimated number of legal age (minimum 18 years) users of PMI heat-not-burn products, for which PMI HTUs represented at least a portion of their daily tobacco consumption over the past seven days.

The estimated number of adults who have "switched to *IQOS* and stopped smoking" reflects:

- In markets where there are no heat-not-burn products other than PMI heat-not-burn products, daily individual consumption of PMI HTUs represents the totality of their daily tobacco consumption in the past seven days;
- In markets where PMI heat-not-burn products are 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% is PMI HTUs.

Note: The above *IQOS* user metrics reflect PMI estimates, which are based on consumer claims and sample-based statistical assessments with an average margin of error of +/-5% at a 95% Confidence Interval in key volume markets. The accuracy and reliability of *IQOS* user metrics may vary based on individual market maturity and availability of information.

As of December 2020, PMI heat-not-burn products and HTUs include licensed KT&G heat-not-burn products and HTUs, respectively.

### Sustainability

- "ESG" stands for environmental, social and governance.
- The term "materiality," when used in the context of ESG topics, is defined in the referenced sustainability standards, and is not meant to correspond to the concept of materiality under the U.S. securities laws and/or disclosures required by the U.S. Securities and Exchange Commission.

# ☆☆☆ Swedish Match®

In 2022, PMI completed the largest transaction in its history with the approximately \$16 billion acquisition of Swedish Match – the global leader in oral nicotine.

Swedish Match is a majority smoke-free company, with leadership positions in the snus and nicotine pouch categories through brands such as *General*, *Goteborgs Rapé*, *ZYN* and *Volt*.

In the U.S. – the company's largest market – its *General* snus product has received a Modified Risk Tobacco Product (MRTD) authorization from the U.S. Food & Drug Administration (FDA), allowing reduced-risk claims. Together, *General* and PMI's *IQOS* are the only smoke-free products to have received MRTD authorizations to date from the FDA.



*"We are pleased to welcome Swedish Match and its employees into the PMI family. We look forward to supporting the team in continuing their remarkable success, including with the fast-growing ZYN brand in the U.S."*

– Jacek Olczak, Chief Executive Officer, PMI

*"We are excited to join forces with PMI to accelerate the achievement of our shared smoke-free ambition – to switch adults who would otherwise continue to smoke to better alternatives."*

– Lars Dahlgren, Chief Executive Officer, Swedish Match<sup>1</sup>



## The acquisition of Swedish Match positions PMI to:

- Create a comprehensive smoke-free product portfolio globally, underpinned by a leading R&D engine for science, innovation and growth
- Directly enter and compete in the important U.S. smoke-free market by further supporting and developing Swedish Match's oral nicotine portfolio and leveraging its substantial operational platform for other smoke-free products, including *IQOS*, over time
- Drive accelerated global expansion opportunities for Swedish Match's oral nicotine products through PMI's international commercial infrastructure and financial resources

<sup>(1)</sup> Following the acquisition, Mr. Dahlgren was appointed President, Smoke-Free Oral Products & CEO Swedish Match, effective January 1, 2023.





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