PHILIP MORRIS IN THE BALTICS

Baltic Sustainability Report 2022

Transforming for good

About PMI

Philip Morris International (PMI) is a leading international tobacco company working to deliver a smoke-free future and evolving its smoke-free 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 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 revenue. 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.

About the Baltic Sustainability Report

This is PMI's first sustainability report on the Baltic countries – Lithuania, Latvia and Estonia. It covers our sustainability efforts in 2022 and maps our direction for the years ahead. It is an extension of the **PMI Integrated Report 2022**, published in April 2023.

While it aligns with PMI's global strategy, this report focuses on Environmental, Social & Governance (ESG) topics, in which we have the greatest possible impact in the Baltic countries, and which are the most important to our stakeholders as per the results of the local sustainability materiality assessment completed in October 2022.

The Baltic sustainability report focus is local rather than global, though many of our efforts also contribute to goals and targets on the global level. As we consolidate our sustainability efforts, we have identified a number of key performance indicators (KPIs) from our company's global initiatives that are the most relevant in guiding our work in the Baltic region. This report presents our progress in achieving those KPIs and future aspirations to moving forward in our sustainability journey in the Baltic region.

The report covers the period from January 1st, 2022 until December 31st, 2022.

☞ For more information, please visit **www.pmi.com** and **www.pmiscience.com**

Contents

OVERVIEW

STRATEGY

PRODUCT IMPACT

OPERATIONAL IMPACT

OVERVIEW

Message from our General Manager Baltic States

This is our inaugural annual sustainability report on the Baltics. Within these pages, we offer localized insights into our company's ongoing transformation and sustainable development.

Across all markets, PMI views sustainability not just as a means to minimize negative impact while maximizing operational efficiency with minimal resources, but also as a fundamental opportunity for innovation, growth and purpose-led, impact-driven, long-term value creation. In line with the global PMI strategy, sustainability is at the core of every step we take here in the Baltic States.

Although this is our first sustainability report, the sustainability journey in the Baltics began thirty years ago with PMI's initial investment in the Baltic countries. As the first foreign investor in the Baltic States after the Soviet Collapse, PMI held a privileged yet responsible role in setting new Western business standards in the region.

Therefore, before other local companies even considered concepts like zero-waste and carbon-neutrality, PMI in the Baltics was already implementing them. Thanks to the dedication of our local team, PMI's activities in the Baltics set a standard not only for other local companies, but also for the entire PMI globally. For example, the factory in Klaipėda in 2019 became the first PMI factory in the world to achieve the Carbon-Neutral certificate, a distinction that has been reaffirmed every year since then, including in 2022.

Similarly, PMI has always been a flagship in the Baltics regarding the creation of a workplace that is inclusive, empowering, and safe. Maintaining this position requires our commitment to constantly setting new workplace standards and staying one step ahead of other companies. This commitment was evident in 2022, when our entities in Lithuania secured the Top Employer award for the eighth consecutive year.

Workplace equality is also an area where PMI has been leading the way in the PMI global family and in the Baltics. Women hold 57 percent of the managerial positions in our Baltic offices, exceeding PMI's global 50 percent target. In 2020, Philip Morris companies were awarded the Equal Opportunities Wings by the Equal Opportunities Ombudsman.

We continue to stay ahead in securing our employees' physical, emotional and financial well-being. In 2022, we achieved zero safety accidents at our factory in Klaipėda. Moreover, in order to safeguard the financial well-being of our employees during economically challenging times, we conducted a second salary review within the year.

PMI companies in the Baltics have been working not only to make our operations more sustainable, but also to make our products more friendly to the environment and society. For several years now, PMI has been following a bold new vision: to completely replace cigarettes with less harmful smoke-free alternatives. This represents an unparalleled disruption to our business, which is inevitable on our way to achieving a smoke-free future.

The goal of a smoke-free future can only be achieved if all PMI markets make an effort. In 2022, throughout all three Baltic States we continued to share our vision and worked diligently with various stakeholders and institutions to accelerate this change. We are already seeing the results; in Lithuania, heated tobacco products made up a third of all tobacco sales. This means that many people who continued to smoke have chosen a science-based, less harmful alternative. I am proud that we are taking significant strides towards a smoke-free future and can share our experiences and learnings with other PMI markets.

However, it is of utmost importance that smoke-free products, as well as regular cigarettes, do not reach underage individuals. Thus, in the Baltic region we implement specially designed youth access prevention programs. Additionally, we are mindful of managing and minimizing the environmental impact of smoke-free devices. I am glad that in 2022, the global PMI program CIRCLE was launched in Lithuania, emphasizing the recycling of electronic devices used for heated tobacco products, further solidifying our commitment to sustainability.

None of our sustainability goals could have been achieved without the dedication, innovation, and commitment of our Baltic team. The efforts were further bolstered by the establishment of the Baltic Sustainability Working Group in 2022. This team has been the driving force behind all of our regional initiatives.

The sustainability journey in the Baltics is filled with opportunities to continue transforming, innovating, setting new standards, both locally and across PMI, and contributing to a vision of a smoke-free future that will change the world.

I hope that this report will not only highlight our sustainability efforts but also spark a dialogue. We kindly invite our stakeholders and society to read this report and learn about the progress that we, as a company, have made and our relentless dedication to transforming for the better. By working together constructively, we can make meaningful changes and complete our transformation, for good.

Mindaugas Dacys
General Manager Baltic States

PMI in the Baltic States

Philip Morris International was the first foreign investor in Lithuania after the restoration of independence of the Republic of Lithuania, and has been operating in the country since 1993. PMI has offices in all the three Baltic countries and a factory in Klaipėda, in Lithuania. Paying great attention to equal opportunities, the company fosters a diverse, inclusive corporate culture and gender pay equality.

In the Baltic region, we focus our corporate contributions and community support on sustainability and well-being.

In Latvia and in Estonia we have projects with local NGOs who help us to support socially vulnerable groups. We assure better integration into the society for disabled people. We increase awareness about domestic violence and human trafficking issues, as well assuring a counselling service for victims and better knowledge and skills improvement for the specialists.

Our primary focus lies in cultivating a culture of environmental stewardship and prioritizing the well-being of our team. To achieve these objectives, we have embraced a range of eco-friendly practices that encompass efficient waste management, active support for renewable energy initiatives, fostering favorable working conditions, and maintaining open lines of communication with the communities where we conduct our operations.

The new Philip Morris Lietuva factory that was built in 1997. It was the first foreign greenfield investment project in the Baltics.

The State Tobacco Factory that PMI aqcuired in 1993 and later, afer opening a new factory, donated for a symbolic sum of one litas to Klaipėda Municipality. Now it serves as a cultural centre.

Philip Morris Lithuania was established in 1993, when PMI acquired a major interest in the State Tobacco Factory. In 1997, PMI opened a new manufacturing facility in Klaipėda, Lithuania, the first greenfield project of its kind in the Baltics. In 2002, PMI for one symbolic litas donated the factory buildings to Klaipėda Municipality. For almost a century, the tobacco factory operated in the Old Town of Klaipėda, near the Dane River, and today has become a Cultural Factory, where many cultural and business organizations have settled. The factory in Klaipėda now ranks high among 50 PMI factories worldwide. In terms of its production capacity and potential, it is the second-largest PMI traditional tobacco factory in the EU and fourth in the world. By 2019, Philip Morris Lithuania also achieved a significant milestone when its Klaipėda factory became the first carbon-neutral factory for the entire PMI company, showcasing a commitment to sustainability and environmental responsibility. In 2022, Philip Morris Lithuania employed approximately 568 employees. Since the beginning of its operations until the end of 2022, Philip Morris International has invested a total of 362 million euros into its factory in Klaipėda.

PMI Reduced Risk Products were introduced to Lithuania in 2017.

In 1997, PMI opened an affiliate in Latvia, followed by **Philip Morris Latvia** in the capital Riga in 2000, which in 2022 employed around 27 people. PMI started to offer Reduced Risk Products to Latvia in 2018.

Philip Morris Estonia was established in Tallinn, in 1996. In 2022 it had around 20 employees. Reduced Risk Products were introduced to Estonia in 2020.

Philip Morris Baltic was established in 2006 in Vilnius, Lithuania as a headquarter for all the Baltic countries. In 2022, approximately 118 people were employed.

In 2022, Philip Morris Lithuania exported 98.4% of its production with primary export markets to countries in Europe and Asia. The factory's production accounts for a significant share of the region's exports and the Klaipėda seaport's load. In 2022, tobacco products accounted for 17.5% of Klaipėda County's exports.
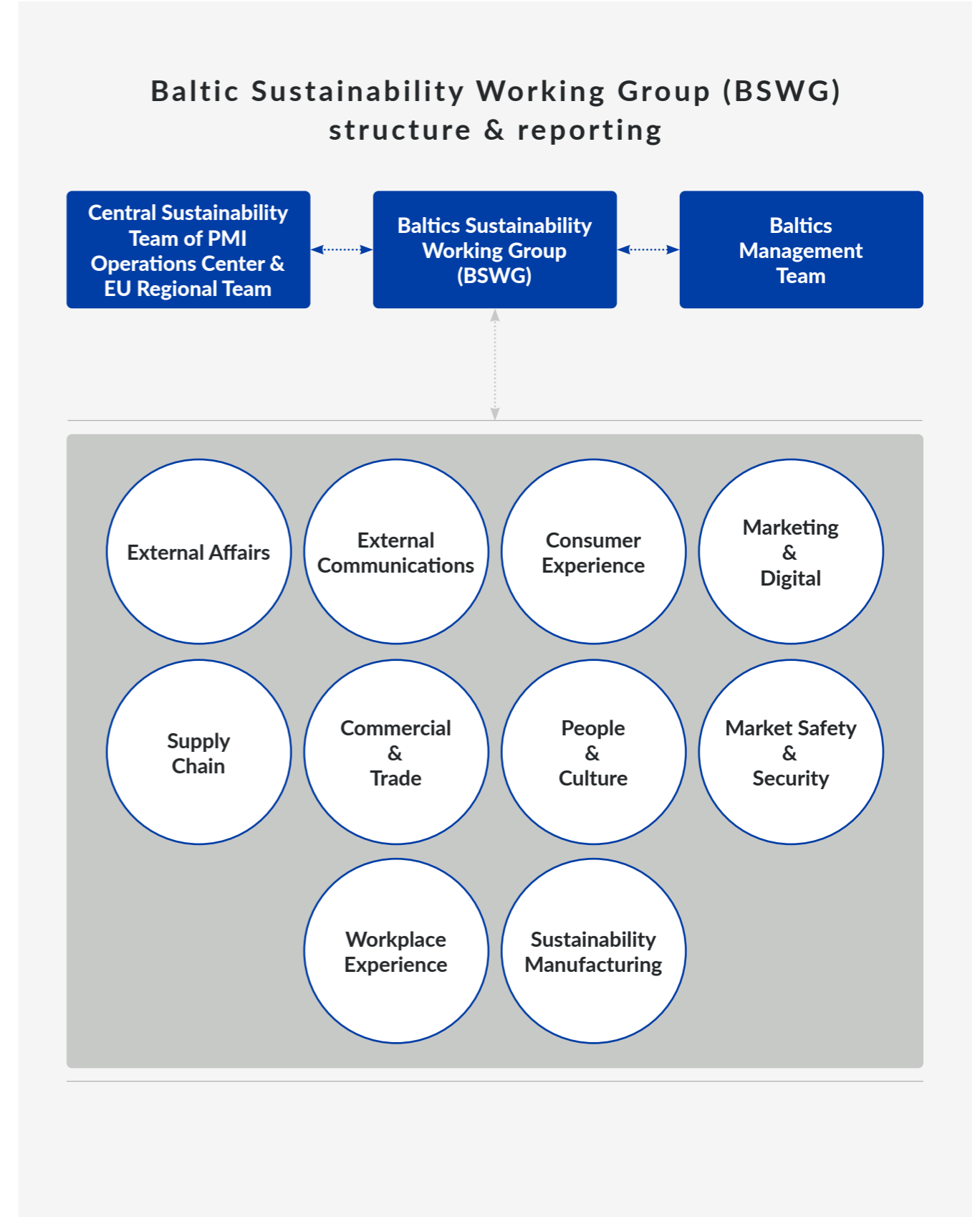
Sustainability governance and management in the Baltics

Integrating sustainability into our organization relies on a formal structure with clear accountabilities at different levels of the organization.

It is a result of a holistic approach and collective effort to embed key principles into every part of our work. For this reason, in 2022, a local Baltics Sustainability Working Group has been established. The group is a driver for coordination on all matters related to sustainability in our market.

The Baltics Sustainability Working Group has representatives from ten different functions that are leading different sustainability projects in our organization. The group members hold regular meetings to ensure the implementation of a sustainability strategy and to coordinate and deploy robust sustainability initiatives in line with the global sustainability strategic pillars.
The group innovates and tests bottom-up initiatives from the market level on sustainability areas that are unique to the Baltic States environment, to lead sustainable development and transparent communication.

Baltics Sustainability Working Group has a clear and structured reporting practice, as the group work is taking place in close cooperation with local and global management teams.

Baltic Sustainability Working Group (BSWG) structure & reporting

Central Sustainability Team of PMI Operations Center & EU Regional Team	Baltics Sustainability Working Group (BSWG)	Baltics Management Team

- External Affairs
- External Communications
- Consumer Experience
- Marketing & Digital
- Supply Chain
- Commercial & Trade
- People & Culture
- Market Safety & Security
- Workplace Experience
- Sustainability Manufacturing

2022 Global highlights

PRODUCT IMPACT

SOCIAL

24.9 m
Estimated total adult users of PMI's smoke-free products
(2021: 21.7 m)[1]

32.1%
Of net revenues derived from smoke-free products
(2021: 29.5%)[2]

73
Markets where PMI smoke-free products are available for sale, of which 42% in low- and middle-income countries
(2021: 71, 42%)[3]

USD 10.7 bn
Cumulative investment behind smoke-free products since 2008
(2021: USD 9.2 bn)[4]

91%
Of total shipment volume covered by youth access prevention programs in indirect retail channels
(2021: 91%)[5]

USD 0.3 bn
Annual net revenue from wellness and healthcare products
(2021: USD 0.1 bn)

ENVIRONMENT

86%
Recycling rate of *IQOS* devices returned to our centralized recycling hubs (weighted-average percentage of each device that is recycled)
(2021: 86%)[6]

68%
Of shipment volume covered by markets with anti-littering programs in place for combustible cigarettes

8.5%
Of shipment volume covered by markets with smoke-free consumables take-back programs[7]

OPERATIONAL IMPACT

SOCIAL

40.7%
Of management positions held by women, exceeding our 2022 target of 40%
(2021: 39.7%)

7
Human rights impact assessments conducted since 2018 in highest-risk countries
(2021: 5)

ENVIRONMENT

55%
Proportion of tobacco purchased at no risk of net deforestation of managed natural forest and no conversion of natural ecosystems
(2021: 37%)

Triple A
Score from CDP for climate, forest and water security for the third consecutive year

1 Figures pertain to total IQOS users. See Glossary.
2 For a definition of the net revenues related to smoke-free products, see Glossary. The 2022 figure includes the Swedish Match net revenues from November 11, 2022 (acquisition date) to December 31, 2022. 2021 data exclude the impact related to the Saudi Arabia customs assessments.
3 Including Swedish Match and excluding PMI Duty Free. Classification of low- and middle-income countries is based on the World Bank report issued in July 2022.
4 Investments reflect research, product and commercial development, production capacity, scientific substantiation, and studies on adult smoker understanding.
5 Total shipment volume includes cigarettes, other tobacco products (OTPs), and smoke-free product consumables. See PMI's ESG KPI Protocol 2022 for further details.
6 Recycling rate: percentage of the weight of each device that is recycled, weighted-average depending on the device type and processing facility (includes 80% recycling and 6% energy recovery). The 2022 data covers the CIRCLE hubs in Hungary and Japan.
7 Shipment volume includes heated tobacco units, e-vapor cartridges and e-vapor disposables. See PMI's ESG KPI Protocol 2022 for further details.

PMI's Statement of Purpose

PMI aims to completely replace cigarettes as soon as possible with smoke-free products that are scientifically substantiated to be less harmful than smoking, and to evolve in the longer term into a broader lifestyle, consumer wellness and healthcare company.

Our company's purpose is clearly articulated in PMI's Statement of Purpose, a declaration issued by our Board of Directors. The Statement of Purpose also recognizes those stakeholders most critical to long-term value creation and sustainability. Here are some excerpts from PMI's Statement of Purpose:

"The Company is actively accelerating the decline of cigarette smoking beyond what traditional tobacco control measures can achieve alone."

"PMI remains committed to accelerating the end of smoking and laying the foundations of a strong business in the areas of wellness and healthcare, as we strive to develop commercially successful products that have a net positive impact on society."

"PMI's key stakeholder constituencies, which are fundamental to both the achieving of its purpose and to the pace of its progress, will be affected in different ways by PMI's transformation."

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

About PMI'S Statement of Purpose

On March 24, 2022, PMI published its 2022 Proxy Statement, which contained a Letter from the Board of Directors that corresponds to PMI's Statement of Purpose. The groundwork for the Statement of Purpose was laid in the 2017 Proxy Statement in a letter to shareholders from the Board of Directors announcing for the first time our company's smoke-free vision. It was reaffirmed in the 2020 Proxy Statement.

Read **PMI's full Statement of Purpose**

OVERVIEW

STRATEGY

PRODUCT IMPACT

OPERATIONAL IMPACT

STRATEGY

Transforming for good

Our business transformation

We strive to become a company that has a net positive impact on society.

This ambition starts with researching, developing, and commercializing less harmful alternatives to cigarettes for those adults who otherwise would continue to smoke, ultimately allowing us to phase out cigarettes and become an entirely smoke-free business. As a next step, we are expanding our offerings to include products that fill critical unmet needs within the wellness and healthcare field.

To achieve our purpose, a radical transformation of our business is required. Our strategy is to responsibly transition from a cigarette company into a world-leading smoke-free business, while simultaneously exploring adjacent avenues of growth in wellness and healthcare.

Our North Star is to create a net positive impact that benefits our company, shareholders, consumers and society.

Transforming our company is not simply about substituting one product with another. It requires revamping our entire value chain and the way we engage with society. This necessitates a holistic review and overhaul of our entire business model and value proposition, which brings challenges and opportunities to all aspects of our business.

Product transformation

Innovating for better products
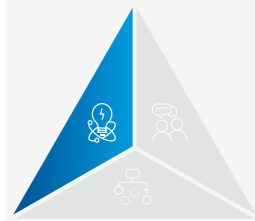
Our product lines are the most visible aspect of our transformation. Over the past decade and a half, we have harnessed scientific and technological advances to develop alternatives to cigarettes that are scientifically substantiated to be a better choice for adult smokers than continued smoking. We are working relentlessly to phase out cigarettes, by replacing them with less harmful alternatives as quickly as possible to achieve a smoke-free future.

We are increasing access for adult smokers by improving and expanding our portfolio of smoke-free products to meet their varying needs and preferences. We are progressing toward becoming a majority smoke-free company by 2025 in terms of our net revenue, and are taking concrete steps to grow our wellness and healthcare business organically and through strategic acquisitions of leading innovative companies.

Supporting transformation

Growth priorities

Emerging opportunities

Sustainability stands at the core of PMI's transformation. It spurs innovation, better positions the company for long-term success, and helps to address certain challenges stemming from our transition.

Simultaneously managing the impacts of two value chains—the one we are moving away from (our cigarette portfolio) and the one we are moving toward (our smoke-free portfolio)—while also managing the impacts of the transition itself makes our strategy even more complex.

In formulating and implementing our sustainability strategy, we must consider a range of trade-offs among different forms of capital.

While a transformation of this magnitude and complexity cannot be achieved overnight, we are committed to making it happen as fast as possible.
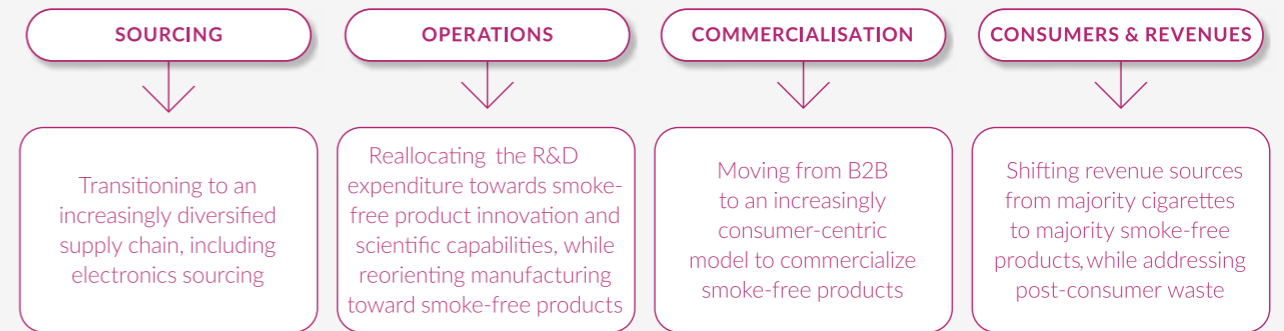
Internal transformation

A new organization and value chain

Since announcing our smoke-free vision, we have undergone a meaningful reorganization. We have helped our employees build the skills and capabilities they need to contribute fully to our business transition, while also investing in recruiting top talent and acquiring new capabilities. We are also incorporating new ways of working as we become an increasingly digitalized, project-based organization focused on consumer centricity, agility, and data-driven decision-making.

Moreover, we are working to integrate and leverage capabilities from our recent business acquisitions.

Beyond our own operations, we are transforming every step of our value chain to serve our company purpose. We recognize the challenges these changes pose and are actively helping all those impacted (in our direct and indirect operations) to best manage the transition.

SOURCING	OPERATIONS	COMMERCIALISATION	CONSUMERS & REVENUES
Transitioning to an increasingly diversified supply chain, including electronics sourcing	Reallocating the R&D expenditure towards smoke-free product innovation and scientific capabilities, while reorienting manufacturing toward smoke-free products	Moving from B2B to an increasingly consumer-centric model to commercialize smoke-free products	Shifting revenue sources from majority cigarettes to majority smoke-free products, while addressing post-consumer waste

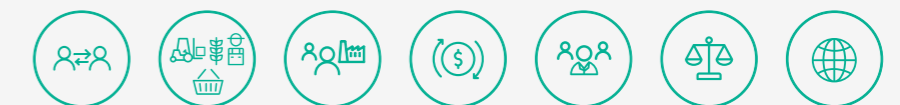**Read more about our value chain transformation**

External transformation

Changing the way we engage with stakeholders

Engaging with external stakeholders is critical to achieving our purpose. Our ability to successfully transform requires that we work together with various segments of society to create a paradigm shift, in which cigarettes become obsolete.

Continuous engagement also allows us to build a shared understanding of contingency issues, proactively respond to concerns, identify potential areas of compromise, and find solutions that are good for our stakeholders, as well as for our business and long-term success.

Read more about our stakeholder engagement

OVERVIEW

STRATEGY

PRODUCT IMPACT

OPERATIONAL IMPACT

Business transformation metrics

We realize that business transformation is a very company-specific journey, which ESG reporting standards do not adequately capture.

To make our progress both measurable and verifiable, we developed our Business Transformation Metrics, a bespoke set of financial and nonfinancial key performance indicators (KPIs).

These metrics showcase how we are allocating resources away from our legacy business as we advance toward a future in which we no longer make or sell cigarettes.

Business Transformation Metrics	2015 baseline	2020	2021	2022	2025 aspirations
Consumers & Revenues					
Total number of users of PMI smoke-free products (in millions)[1]*	0.2	18.3	21.7	**24.9**	
Estimated number of users who have switched to PMI smoke-free products and stopped smoking (in millions)[1]*	0.1	13.0	15.3	**17.8**	>40
Adjusted net revenues ratio (smoke-free/total)[2]*†	0.7%	24.2%	29.5%	**32.1%**	>50%
Annual net revenue from wellness and healthcare products (in billion USD)[3]*	n/a	n/a	0.1	**0.3**	≥ 1
Commercialization					
Number of markets where smoke-free products are available for sale[4]*	7	64	71	**73**	100
Proportion of markets where smoke-free products are available for sale that are low- and middle-income markets[5]*	17%	39%	42%	**42%**	>50%
Commercial (marketing) expenditure ratio (smoke-free/total)*	8%	76%	73%	**74%**	
Smoke-free product shipment ratio (smoke-free/total)[6]*†	0.6%	10.9%	13.3%	**15.1%**	>30%
Smoke-free product shipment volume (billion units)[6]*†	5	80	99	**114**	>250
Combustible tobacco product shipment volume (billion units)[6]*†	877	650	645	**641**	<550
Change in combustible tobacco product shipment volume (billion units) vs. 2015 baseline[6]*†	n/a	(25.8)%	(26.4)%	**(26.8)%**	~(40)%
Sourcing & Operations					
Adjusted R&D expenditure ratio (smoke-free/total)[7]*	70%	99%	99%	**99%**	
Supply chain direct spend expenditure (smoke-free/total)[8]	n/a	33%	35%	**43%**	
Number of factories producing smoke-free products out of total number of factories[9]*†	3 out of 48	9 out of 39	9 out of 38	**24 out of 53**	

Notes:
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, as presented in the Form 10-K for the fourth quarter and year ended December 31, 2022.
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. Where applicable, prior years' KPIs have been recalculated to reflect the reclassification on a comparative basis. Impacted metrics are marked with (†).
In 2023, we plan to evaluate our published aspirations to ensure they remain ambitious, reasonable and achievable in the context of a dynamic and evolving smoke-free industry, and the impacts of our recent acquisitions.

1 Figures pertain to total IQOS users, for the definition see the Glossary.
2 For a definition of the net revenues related to smoke-free products, see the Glossary. The 2022 figure includes Swedish Match net revenues from November 11, 2022 (acquisition date) to December 31, 2022. 2021 figure excludes the impact related to the Saudi Arabia customs assessments.
3 For the definition of the net revenue related to wellness and healthcare, see the Glossary. The 2021 figure includes portion of net revenues reported after acquisition of Fertin Pharma A/S, Vectura Group plc. and OtiTopic, Inc. that took place in the third quarter of 2021.
4 Including Swedish Match. For the definition of available for sale, see the Glossary.
5 Excluding PMI Duty Free. World Bank report issued in July 2022 is used on a comparative basis for income level classification. For definition of low- and middle-income markets, see the Glossary.
6 These indicators are calculated based on millions of units. For definition of smoke-free products and combustible tobacco products, see the Glossary. Smoke-free products shipment volume includes the volume of smoke-free products that can be converted into cigarette equivalent units, such as heat-not-burn, e-vapor and oral nicotine. Total shipment volume includes the listed smoke-free products, as well as combustible tobacco products: cigarettes and other tobacco products expressed in cigarette equivalent units. The data does not include Swedish Match and wellness and healthcare products.
7 Adjusted R&D expenditure excludes the asset acquisition cost related to OtiTopic, Inc. in 2021. Total reported R&D expenditure in 2021 including these items amounted to USD 617 million.
8 Direct spend focuses on materials used in the manufacture of our products; it includes tobacco leaf, direct materials, and electronic devices and accessories. The data excludes Swedish Match and Vectura Fertin Pharma.
9 The data reflects the number of factories operated and owned by PMI at the end of the respective year, including Swedish Match and Vectura Fertin Pharma. 2022 factories include eight facilities producing heated tobacco units, two producing other smoke-free consumables and 14 Swedish Match owned facilities, primarily engaged in the production of smoke-free products.

By reporting periodically on these KPIs, we enable external scrutiny and allow our stakeholders to assess the pace and scale of our transformation. The KPIs also permit the tracking of both year-on-year and cumulative progress. Aspirational goals linked to our Business Transformation Metrics give us a clear roadmap and offer our stakeholders visibility into the future toward which we aim to advance.

Over the years, in response to stakeholder feedback and to increase transparency around our business transformation, we have significantly expanded the number of metrics on which we report. In 2022, we reviewed this expansive set of metrics with the objective of streamlining our reporting to focus on those metrics that best measure our progress. The criteria we used in this evaluation mirrored those used to select KPIs for our Sustainability Index; namely, they should be relevant, measurable, comparable and verifiable.

Through this process, we reduced the number of Business Transformation Metrics from 28 to 14, allowing us to focus on those KPIs that best assess the impact of our transformation on consumers, the availability of our products, how our product portfolio is changing and how we allocate resources as we progress toward our 2025 aspirations. Several metrics removed from this table will continue to be reported in the Performance Metrics section of this report, with each data point linked to one of our key strategies. The remainder, such as the number of stores or number of retailers selling smoke-free products, are included in the body of this report as complementary data points, where relevant. The efforts undertaken in 2022 to streamline our Business Transformation Metrics were part of a broader ESG data relevancy review.

For all our Business Transformation Metrics, we aim to report our historical performance, ensuring a consistent scope and calculation methodology, and strive for external assurance. In 2022, 13 out of 14 Business Transformation Metrics were subject to external assurance by our statutory auditor, PwC, indicating that they are both measurable and verifiable. The supply chain direct spend expenditure (smoke-free/total) was not in the scope of the assurance.

Looking ahead

During 2023, almost seven years since announcing our transformation, we plan to re-evaluate all our business transformation aspirations to ensure that they remain ambitious, reasonable and achievable in the context of a dynamic and evolving smoke-free industry and our recent acquisitions. We will do this taking into consideration the learnings gathered since we set some of these aspirations in the early stages of our smoke-free journey. In particular, we will consider the impact of our business combination with Swedish Match, finalized in late 2022, and our agreement with Altria granting PMI full rights to commercialize IQOS in the U.S. as of April 2024. We will also assess and reflect changes in our value chain and the impact of recent external factors, including the COVID-19 pandemic and the war in Ukraine, where applicable. We intend to communicate any related changes within 2023.

OVERVIEW
STRATEGY
PRODUCT IMPACT
OPERATIONAL IMPACT

Anchoring sustainability at the core of our strategy
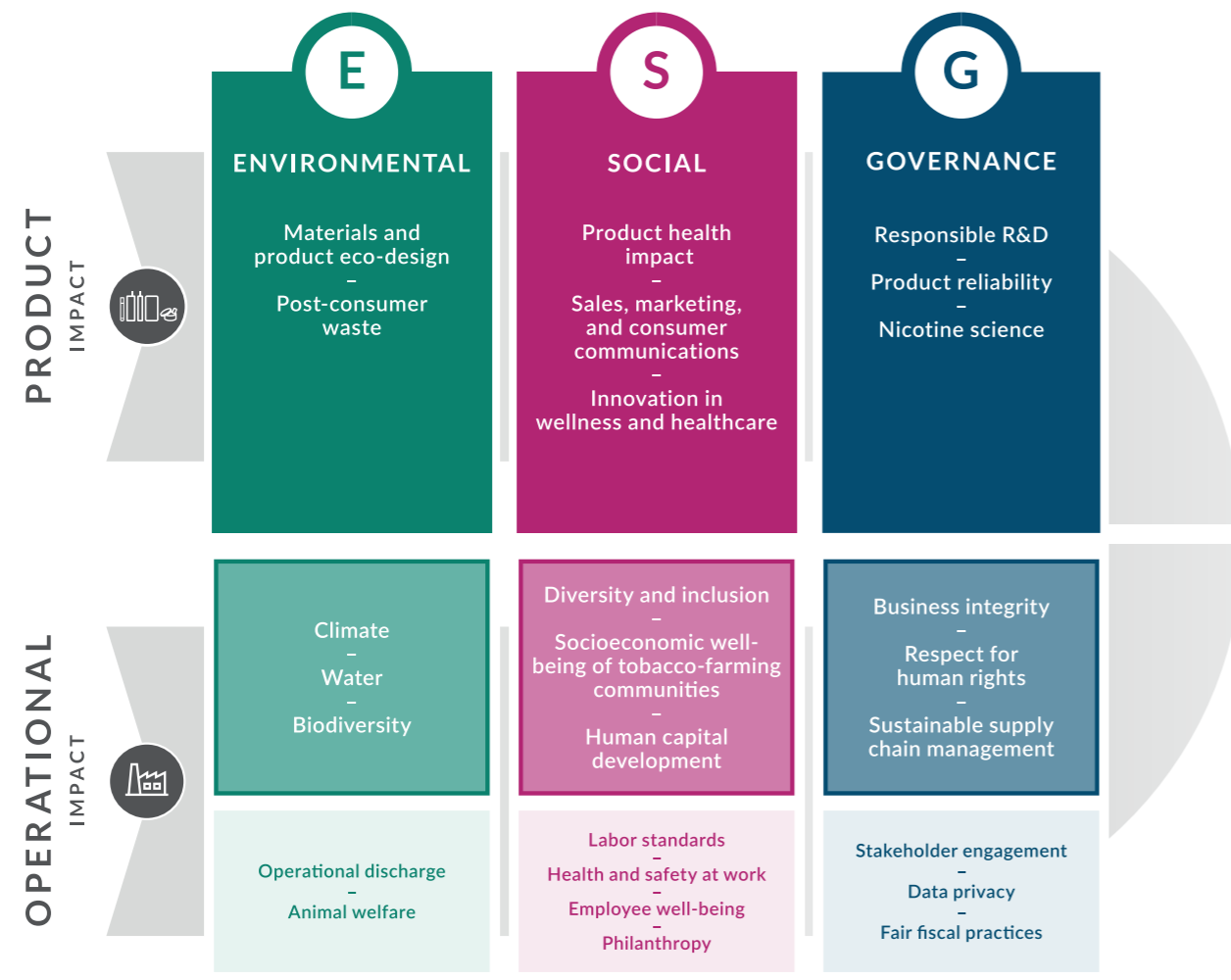
Our sustainability framework

We can only achieve our purpose by embedding sustainability in all we do.

Sustainability is more than just a means to minimize negative externalities and mitigate risks, while maximizing operational efficiency and resource optimization. We see it as a fundamental opportunity for innovation, growth and purpose-led, impact-driven, long-term value creation. Accordingly, we work hard to integrate sustainability into every aspect of our business and activities.

Our approach to sustainability is guided by the outcomes of our most recent sustainability materiality assessment, which considered and prioritized a long list of ESG topics.

The result was a structured ESG framework (depicted below) that showcases those ESG topics we focus and prioritize our resources on. This framework recognizes two distinct forms of issues: those that relate to our products (what we produce), which are part of the "Product Impact" pillar; and those related to our business operations (how we produce), which are part of the "Operational Impact" pillar. We classify each issue based on its environmental, social or governance-related nature.

Building on our ESG framework, we developed eight strategies (discussed on the next page) targeting our most pressing areas of impact. To accompany those strategies, we established 11 goals, which form the basis of our 2025 Roadmap and 19 metrics to measure progress via our Sustainability Index.

PRODUCT IMPACT

E — ENVIRONMENTAL
Materials and product eco-design
–
Post-consumer waste

S — SOCIAL
Product health impact
–
Sales, marketing, and consumer communications
–
Innovation in wellness and healthcare

G — GOVERNANCE
Responsible R&D
–
Product reliability
–
Nicotine science

OPERATIONAL IMPACT

ENVIRONMENTAL
Climate
–
Water
–
Biodiversity

Operational discharge
–
Animal welfare

SOCIAL
Diversity and inclusion
–
Socioeconomic well-being of tobacco-farming communities
–
Human capital development

Labor standards
–
Health and safety at work
–
Employee well-being
–
Philanthropy

GOVERNANCE
Business integrity
–
Respect for human rights
–
Sustainable supply chain management

Stakeholder engagement
–
Data privacy
–
Fair fiscal practices

Our sustainability strategy

Consistent with the outcomes of our sustainability materiality assessment, we have placed addressing the social impacts of our products at the core of our sustainability strategy. These are the areas on which we must focus our resources, to innovate and develop solutions that can contribute to solving some of society's most pressing challenges. This approach represents an opportunity for growth and is our strongest competitive advantage.

The health impact of cigarette smoking is the most significant and pressing negative externality that our strategy aims to address. Lessening this impact is the most valuable societal contribution we can make, and is the cornerstone of PMI's purpose and business strategy. Addressing this critical issue requires a three-pronged approach:

1. **Maximize the benefits of smoke-free products:** Research, develop and commercialize nicotine-containing products that are scientifically substantiated to be less harmful than cigarettes, and then seek to ensure that those adults who would otherwise continue to smoke have broad access to these products to expedite the decline of smoking prevalence.

2. **Purposefully phase out cigarettes:** Work to make cigarettes obsolete, with the aim that smoke-free products will ultimately replace cigarettes for those who continue to use nicotine, driving their obsolescence.

3. **Seek a net positive impact in wellness and healthcare:** Despite its critical importance, achieving a smoke- free future is not our final horizon. We are also exploring adjacent opportunities for growth in the wellness and healthcare field, leveraging the capabilities we have accrued and developed while transforming our business. It is through these emerging opportunities that we will achieve our ultimate goal.

Our approach to sustainability must also address other material ESG topics related to our products and business operations, including the environmental impact of our products, and the environmental and social impacts across our value chain. To address this broad range of considerations, our three-fold approach to addressing the social impact of our products is complemented with five other impact-driven strategies. Altogether, these eight strategies are equally divided between those that focus on the impacts of our products and those that focus on the impacts of our business operations. Last but not least, all-encompassing governance-related topics set the basis of our success.
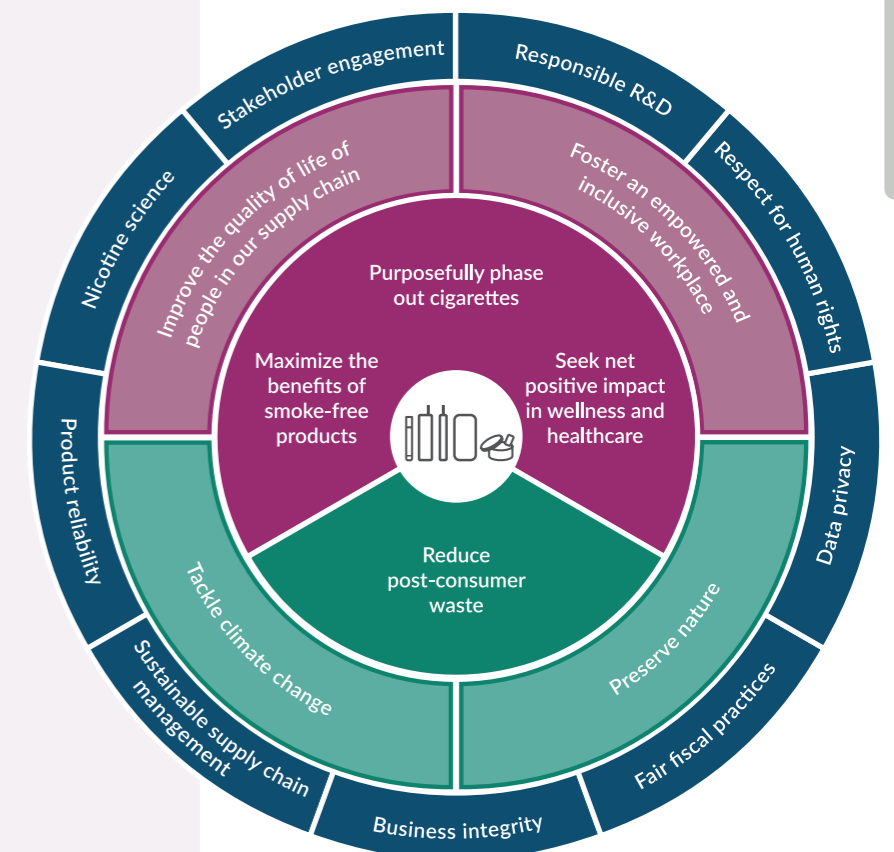
Our 2025 Roadmap

PMI's 2025 Roadmap, first introduced in 2019, outlines our key goals and informs the route of our company's long-term plan.

Running to the end of 2025, it is comprised of 11 headline goals, each connected to our eight strategies, which aim to address our priority ESG topics identified by our sustainability materiality assessment.

You can learn more about this mapping exercise in our 2021 Sustainability Materiality Report.

Our roadmap offers a straightforward direction to our stakeholders by clearly outlining the social and environmental impacts we aim to achieve with these strategies, in relation to both our products and our business operations.

We believe business can and must help to achieve the UN Sustainable Development Goals (SDGs) adopted in 2015. Accordingly, we have explicitly linked each of our eight strategies to the SDG(s) to which it aligns and can contribute towards achieving.

PRODUCT IMPACT

		Goals	Priority ESG topics	Primary SDGs
Purposefully phase out cigarettes	1	Intentionally work toward phasing out cigarettes, by ensuring that smoke-free products represent at least 30% of our shipment volumes and more than half of our net revenue by 2025, while continuing to reduce our combustible shipment volume	Product health impact	3 GOOD HEALTH AND WELL-BEING
Maximize the benefits of smoke-free products	2	Develop and commercialize science-based smoke-free alternatives, making them available in 100 markets (of which at least half are in low- and middle-income markets) and continuing to increase the total number of users	Product health impact / Sales, marketing, and consumer communications	3 GOOD HEALTH AND WELL-BEING
	3	Deploy robust youth access prevention programs in indirect retail channels and ensure that sales of our products abide by our Marketing Codes		
Seek net positive impact in wellness and healthcare	4	Leverage scientific and development capabilities to generate at least USD 1 billion in annual net revenue from products in wellness and healthcare	Innovation in wellness and healthcare	3 GOOD HEALTH AND WELL-BEING / 8 DECENT WORK AND ECONOMIC GROWTH
Reduce post-consumer waste	5	Reduce post-consumer waste and prevent littering by implementing comprehensive programs covering all our consumables	Materials and product eco-design / Post-consumer waste	8 DECENT WORK AND ECONOMIC GROWTH / 12 RESPONSIBLE CONSUMPTION AND PRODUCTION
	6	Follow eco-design and circularity principles for all smoke-free electronic devices		

OPERATIONAL IMPACT

		Goals	Priority ESG topics	Primary SDGs
Foster an empowered and inclusive workplace	7	Nurture a more diverse culture that promotes equity and inclusion, by providing access to lifelong learning to all our employees and improving gender and local representation in management globally	Diversity and inclusion / Human capital development	4 QUALITY EDUCATION / 5 GENDER EQUALITY / 8 DECENT WORK AND ECONOMIC GROWTH / 10 REDUCED INEQUALITIES
Improve the quality of life of people in our supply chain	8	Eradicate systemic child labor in our tobacco supply chain	Socioeconomic well-being of tobacco-farming communities	1 NO POVERTY / 8 DECENT WORK AND ECONOMIC GROWTH
	9	Ensure all contracted tobacco farmers make a living income, and partner with our direct suppliers to promote a living wage for their workers		
Tackle climate change	10	Achieve carbon neutrality in our operations and accelerate our decarbonization toward net zero across our value chain	Climate	13 CLIMATE ACTION / 15 LIFE ON LAND
Preserve nature	11	Promote biodiversity, address critical water challenges, ensure no conversion of natural ecosystems, and halt deforestation in both our tobacco and pulp and paper supply chains	Biodiversity / Water	6 CLEAN WATER AND SANITATION / 15 LIFE ON LAND

PMI sustainability index

We measure progress on our roadmap with a set of key performance indicators (KPIs) that collectively form our Sustainability Index.

In 2021, we developed PMI's Sustainability Index to measure and communicate progress rigorously and quantitatively against our aspirations, using a set of clearly defined and verifiable metrics. To better align with our shareholder and other stakeholder interests, the Compensation and Leadership Development Committee of PMI's Board of Directors has used the index to enhance the company's practices, explicitly linking compensation to sustainability and strengthening the link between long-term compensation and ESG performance.

PMI's Sustainability Index is comprised of 19 KPIs directly linked to our 11 Roadmap goals. As with our Roadmap, each KPI is aligned with one of two drivers: "Product Sustainability" (11 KPIs); or "Operational Sustainability" (8 KPIs).

Using predefined target ranges, we assess and award a score to each KPI annually. Thereafter, using a weight assigned to each KPI (informed by the results of our sustainability materiality assessment), we calculate the total Sustainability Index score. The performance results from the fiscal year 2022 are summarized on this page.

Our 2022 performance in the Product Sustainability pillar has left us on track to meet our goals in terms of our youth access prevention program coverage, and post-consumer waste management. That being said, our transformation agenda faced stronger than expected headwinds due to various external factors — most notably, the world geopolitical situation.

At the end of the year, we were broadly on track across our Operational Sustainability pillar, with two exceptions. Firstly, due to higher-than-anticipated female turnover and lower-than-anticipated internal promotions of women, we have faced challenges when aiming to meet our targeted proportion of women in senior roles.

Secondly, uncontrollable and unforeseeable events, like the war in Ukraine and its far-reaching consequences, compelled us to adapt our supply chain and logistics, slowing the pace of our scope for 3 greenhouse gas emissions reductions.

Aligned with our sustainability materiality assessment results, the Product Sustainability pillar—and, specifically, those KPIs linked to strategies addressing the social impacts of our products—is the most heavily weighted component of the index. Consequently, despite good progress across the majority of our ESG priority corridors, the total Sustainability Index score fell slightly behind the target in 2022.

Moving forward, we will attempt to ascertain the potential impact of these factors on our forward looking statements and aspirations. Read more about the challenges and highlights for each of our eight strategies in the designated feature boxes in the Product Impact and Operational Impact sections of this report.

PMI ESG KPI Protocol

Our ESG KPI Protocol 2021, published alongside our Integrated Report 2021, provides details about the PMI Sustainability Index. In conjunction with the current integrated report, we are also publishing PMI's ESG KPI Protocol 2022, detailing the definition, scope and methodology of each KPI included in the index. This updated version accounts for efforts undertaken during the year to make these KPIs even more robust.

	Key performance indicators	2022 performance	2022 progress	2025 aspirations	KPI weight	Contribution to total index score
PRODUCT						
Purposefully phase out cigarettes	1 Smoke-free product shipment ratio (smoke-free/total)[1]*	15.1%		> 30%	85%	
	2 Adjusted net revenues ratio (smoke-free/total)[2]*	32.1%		> 50%		
Maximize the benefits of smoke-free products	3 Number of markets where PMI smoke-free products are available for sale[3]*	73		100		
	4 Proportion of markets where smoke-free products are available for sale that are low- and middle-income markets[4]*	42%		> 50%		
	5 Total number of users of PMI smoke-free products (in millions)[5]*	24.9				
	6 Proportion of shipment volume covered by markets with youth access prevention programs in place in indirect retail channels[6]	91%		> 90%		
Seek net positive impact in wellness and healthcare	7 Annual net revenue from wellness and healthcare products (in billions USD)[7]*	0.3		≥ 1		
Reduce post-consumer waste	8 Proportion of shipment volumes covered by markets with anti-littering programs in place for combustible cigarettes	68%		≥80%	15%	
	9 Proportion of shipment volume covered by markets with end-of-life take-back programs in place for smoke-free consumables[8]	8.5%		≥80%		
	10 Proportion of PMI smoke-free devices with eco-design certification[9]	n/a		1		
	11 Cumulative number of smoke-free electronic devices refreshed or repaired since 2021 (in thousands)	157		1,000		
Product Sustainability performance					100%	67%
OPERATIONAL						
Foster an empowered and inclusive workplace	12 Proportion of women in senior roles[10]	30.5%		35%	50%	
	13 Proportion of PMI employees who have access to structured lifelong learning offers	80%		70%		
Improve the quality of life of people in our supply chain	14 Cumulative number of human rights impact assessments conducted since 2018, with findings addressed[11]	7		10		
	15 Prevalence of child labor among contracted farmers supplying tobacco to PMI	0.1%		0%		
	16 Proportion of contracted farmers supplying tobacco to PMI who make a living income	73%		100%		
Tackle climate change	17 Net carbon emissions in scope 1+2 (in thousands of metric tons)[12]	297,236		0	50%	
	18 CO_2e scope 3 absolute reduction versus 2019 baseline (in-line with science-based target)	7.9%		25%		
Preserve nature	19 Proportion of tobacco purchased at no risk of deforestation of managed natural forest and no conversion of natural ecosystems[13]	55%		100%		
Operational Sustainability performance					100%	33%
PMI Sustainability Index						100%

Key   Target missed   Target met   Target partially met   Target exceeded

Notes:

The 2022 metrics marked with an asterisk (*) are subject to PwC's Limited Assurance Report.

Our inventory of GHG emissions (scope 1, 2, and 3) in 2022 is subject to external verification by SGS (see the External Verification Statement for scope 1+2 here, for scope 3 here). For further details on the definitions, scope, calculation methodology, and data management for the metrics included in PMI's Sustainability Index, please refer to PMI's ESG KPI Protocol 2022.

1   These indicators are calculated based on millions of units. For definition of smoke-free products and combustible tobacco products, see Glossary. Smoke-free products shipment volume includes volume of smoke-free products that can be converted into cigarette equivalent units, such as heat-not-burn, e-vapor, and oral nicotine. Total shipment volume includes the listed smoke-free products as well as combustible tobacco products: cigarettes and other tobacco products expressed in cigarette equivalent units. The data does not include Swedish Match and wellness and healthcare products.

2   For definition of net revenues related to smoke-free products, see Glossary. 2022 figure includes Swedish Match net revenues from November 11, 2022 (acquisition date) to December 31, 2022.

3   Including Swedish Match.

4   Excluding PMI Duty Free. World Bank report issued in July 2022 is used on a comparative basis for income level classification. For definition of low- and middle-income markets, see Glossary.

5   Figures pertain to total IQOS users. See Glossary.

6   Total shipment volume includes cigarettes, OTPs and smoke-free product consumables.

7   For definition of net revenues related to wellness and healthcare, see Glossary.

8   In 2022, we redefined the minimum criteria which must be met by each market to be considered as having a take-back program in place. Shipment volume includes heated tobacco units, e-vapor cartridges, and e-vapor disposables.

9   To meet our 2025 aspiration, we may consider either a type 1 or type 2 and/or type 3 product environmental statements as defined by ISO 14020:2022, as constituting an "eco-certification".

10   Our diversity and inclusion data covers around 94% of PMI's total workforce, as it excludes fixed-term employees and those on a salary continuation.

11   Our assessments prioritize countries which are assessed as the highest risks from a human rights standpoint. They are determined based on key parameters such as PMI's footprint and the country's human rights risk profile, as determined by internationally recognized organizations.

12   Emissions from PMI-operated IQOS stores are partially excluded from Scope 1+2 emissions, as de minimis. In 2022, a portion of PMI's retail stores (representing approx. 10% of total retail surface area) have been included in the Scope 1+2 emissions.

13   For definitions, please see PMI's Zero Deforestation Manifesto.

Understanding our impacts and prioritizing ESG topics

PMI is leading a transformation in the tobacco industry, to create a smoke-free future and ultimately replace cigarettes with smoke-free products, to the benefit of adult smokers who would otherwise continue to smoke, society, the company and its shareholders.

Sustainability stands at the core of PMI's transformation, representing an opportunity for innovation, growth and long-term value creation, and a means to minimize the negative externalities while maximizing our operational efficiency and resource allocation. To remain successful in the long term, it is key for us to better understand and account for the impacts we have on society and the environment; the risks and opportunities that environmental, social and governance (ESG) issues may have on our business; and the views of our stakeholders around those ESG issues and where they expect our company to focus.

Baltics Sustainability Materiality Assessment 2022

In October 2022, we completed our first Baltics Sustainability Materiality Assessment that allowed us to identify, assess and prioritize ESG topics.

Methodology:
The list of 21 environmental/social/governance (ESG) sustainability topics has been identified and assessed by ranking it from three different perspectives:

1. **Stakeholder perspective.** The relevance and significance of the impact on stakeholder groups.

2. **Outward impact:** The impact on society and the planet at different stages of PMI's value chain.

3. **Inward impact:** The impact on PMI's overall performance and business, in terms of risks and opportunities that have or will have an impact on corporate value.

The anonymous online survey was conducted in all the three Baltic countries in the period of July and August. The online questionnaire has been filled in by 157 respondents, out of which 54% are our employees in the Baltics and 46% are external stakeholders (mostly retailers, media, business community & sustainability experts). Besides rating the ESG topics, the respondents answered additional questions about their familiarity with the tobacco industry, with PMI and it's activities. They rated their knowledge on sustainability and satisfaction with PMI's reporting and communication around sustainability, and how satisfied they are with it.

Main results:

The assessment revealed that the most important sustainability topics are employee well-being, operational discharge, post-consumer waste, health and safety at work, climate, product health impact and materials, and product eco-design. Some important sustainability topics such as employee well-being, health and safety at work were chosen as more important by PM employees, while others like product health impact were ranked higher by the other (external) stakeholders.

In general, the assessment revealed that sustainability matters to the respondents. The level of perceived knowledge of sustainability and satisfaction with PMI's reporting and communication around sustainability is moderate. More consistent information about PMI's practical actions in the field of sustainability and PMI's plans on innovative products and promoting sustainability in all areas would be appreciated by the respondents.
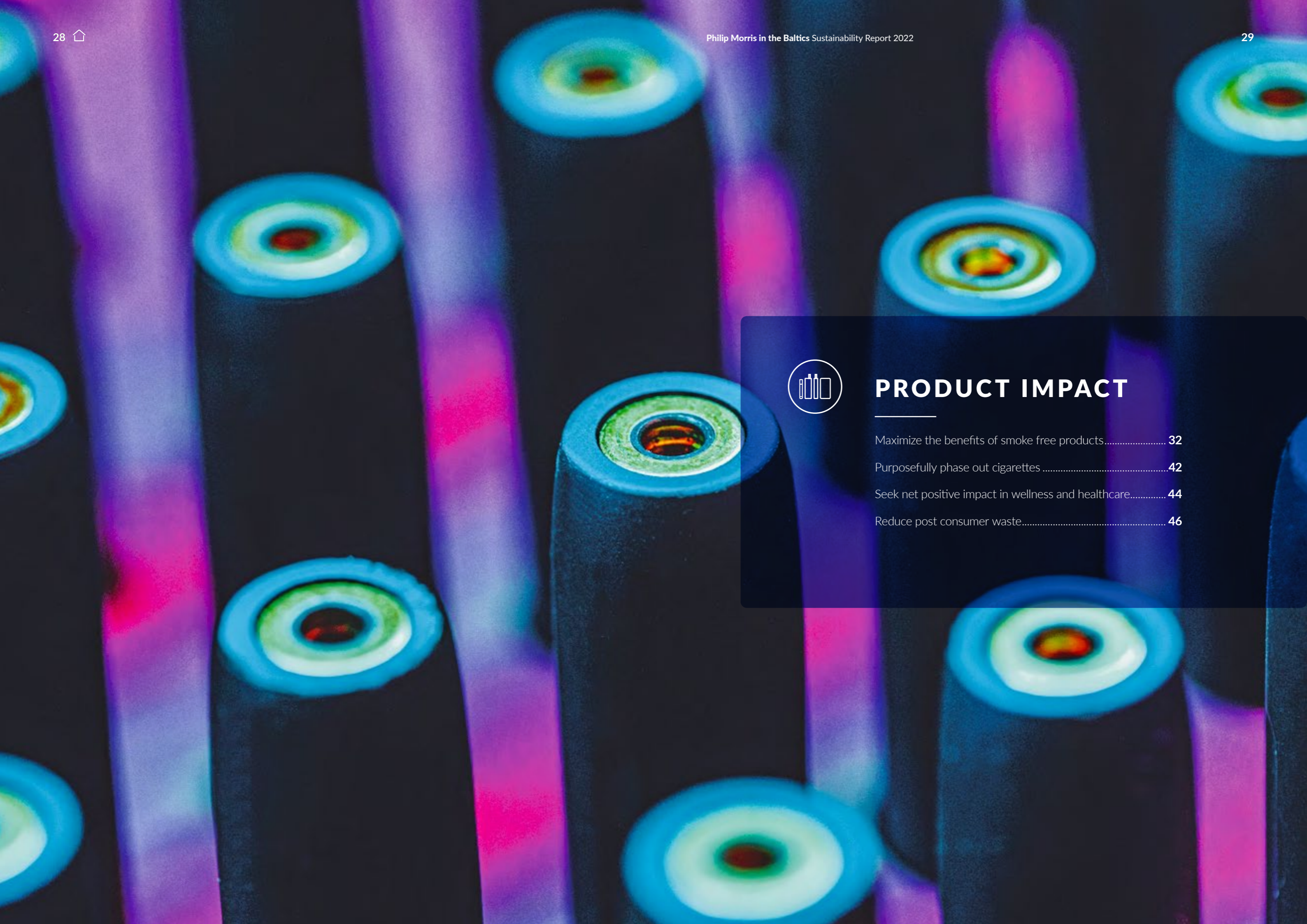
Looking ahead to 2030, the respondents believe that the most important sustainability topics will be related to ecology, climate, employee well-being, water and health.

The way forward:

By feeding findings from our local materiality assessments into our strategy, targets, KPIs, and reporting, we are able to keep pace with external and internal developments and ensure that our strategy addresses those areas in which we can have the most significant impact. Our 2022 Sustainability Materiality Assessment helped to identify the ESG topics on which we will work as priority topics.

In addition to our formal sustainability materiality assessments, we keep abreast of trends by engaging continuously with stakeholders and external organizations.

PRODUCT IMPACT

Our global aspirations

(SI) **Sustainability Index**

Maximize the benefits of smoke-free products

Maintain

>90%
Of shipment volume covered by markets with youth access prevention programs in indirect retail channels (SI)

2025

100
Number of markets where PMI smoke-free products are available for sale (SI)

>50%
Of markets globally where PMI smoke-free products are available for sale that are low- and middle-income markets (SI)

>40 m
Adult smokers globally who switched to PMI smoke-free products and stopped smoking

Purposefully phase out cigarettes

2025

>30%
Smoke-free product shipment ratio (smoke-free/total) (SI)

<550 bn
Combustible product shipment volume

>250 bn
Smoke-free product shipment volume

~40%
Reduction in our combustible product shipment volume versus 2015 baseline

>50%
Net revenue ratio (smoke-free/total) (SI)

Seek net positive impact in wellness and healthcare

2025

≥ USD 1 bn
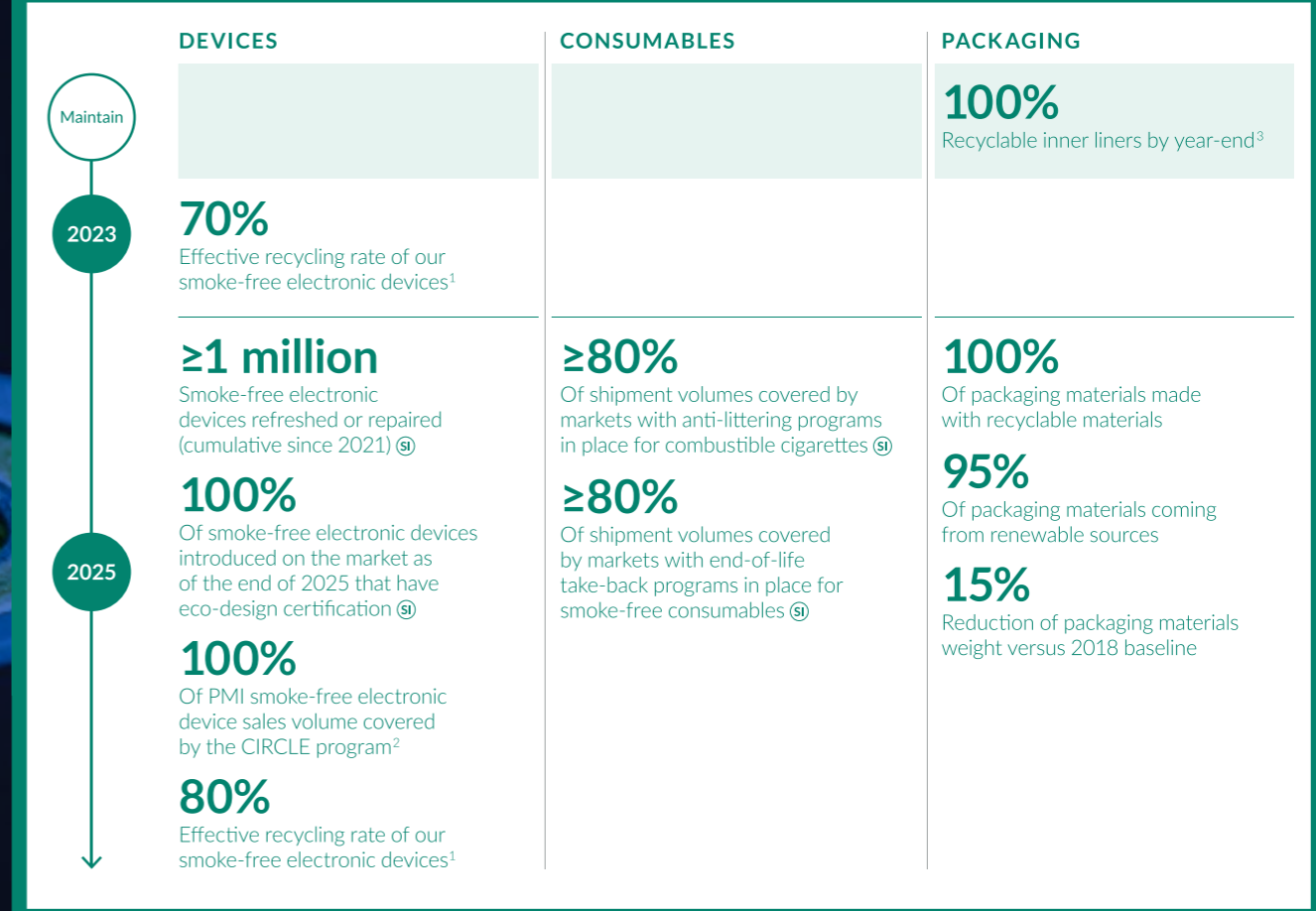Net revenues generated from wellness and healthcare products (SI)

Note:
In 2023, we plan to evaluate our published aspirations to ensure they remain ambitious, reasonable and achievable, in the context of a dynamic and evolving smoke-free industry, and the impacts of our recent acquisitions.

Reduce post-consumer waste

	DEVICES	CONSUMABLES	PACKAGING
Maintain			**100%** Recyclable inner liners by year-end[3]
2023	**70%** Effective recycling rate of our smoke-free electronic devices[1]		
2025	**≥1 million** Smoke-free electronic devices refreshed or repaired (cumulative since 2021) (SI)	**≥80%** Of shipment volumes covered by markets with anti-littering programs in place for combustible cigarettes (SI)	**100%** Of packaging materials made with recyclable materials
	100% Of smoke-free electronic devices introduced on the market as of the end of 2025 that have eco-design certification (SI)	**≥80%** Of shipment volumes covered by markets with end-of-life take-back programs in place for smoke-free consumables (SI)	**95%** Of packaging materials coming from renewable sources
	100% Of PMI smoke-free electronic device sales volume covered by the CIRCLE program[2]		**15%** Reduction of packaging materials weight versus 2018 baseline
	80% Effective recycling rate of our smoke-free electronic devices[1]		

Notes:
Aspirations referring to smoke-free electronic devices exclude disposable products and non-PMI-designed devices.
We plan to recalibrate our 2025 packaging aspirations as we plan for 2030, taking a fresh look at being impactful in an ever-changing environment.

1 The effective recycling rate is calculated based on the proportion of device sales volume covered by the CIRCLE program multiplied by the actual recycling rate of devices at the active CIRCLE hubs (weighted average), which includes actual recycling and energy recovery. The Russia CIRCLE hub was discontinued in 2022 and is therefore excluded from the reported recycling numbers of 2022.

2 We plan to recalibrate this aspiration in 2023 to account for regulatory and market developments. In particular, as of 2023, depending on the market circumstances (e.g. available waste treatment infrastructure and regulatory frameworks), collected devices may be considered covered by the CIRCLE program if they are either processed at our centralized CIRCLE hubs, through local e-waste streams, or by local recycling partners (under the governance of PMI central CIRCLE team to fulfil our standardized processing requirements and recycling rates performance).

3 For all markets where possible in compliance with local regulatory requirements.

Maximize the benefits of smoke-free products

At PMI, we are accelerating the end of smoking by making cigarettes obsolete. To that end, we are transforming our operations and value chain to develop, assess and commercialize smoke-free alternatives that are scientifically substantiated to represent better alternatives than continued smoking.

INWARD IMPACT:
The business case

Through our early and sustained investment in R&D and consequent leadership in technology and innovation, we have built a powerful position and competitive advantage in scientifically substantiated smoke-free products, which can help accelerate the decline in cigarette smoking.

By allocating the majority of our resources to the development and commercialization of smoke-free products, we are accelerating our progress toward becoming a smoke-free company, and in doing so are building legitimacy and stakeholder trust. Moreover, it allows us to expand our market share in the nicotine space, increasing our current and future revenue base as we seek to encourage all adults who would otherwise continue to smoke to switch to smoke-free products – this includes the estimated 130 million adult smokers of our cigarette brands, as well as the hundreds of millions of adult smokers who buy competitor brands. Furthermore our smoke-free product consumables a drive higher net revenues per unit than cigarettes, with the accretive product contribution per unit already helping to generate attractive returns on our significant upfront and ongoing investments in developing the smoke-free category.

It is critical to us to avoid that the marketing and sales of our products could discourage complete nicotine use and smoking cessation, encourage the initiation of nicotine use, or be of particular appeal to unintended audiences (including youth). Disregarding this would undermine our credibility, harm our reputation and potentially trigger adverse regulations hampering our ability to achieve a smoke-free future as fast as possible.

OUTWARD IMPACT:
The right thing to do

The best thing is to never start smoking. For those who do smoke, their best course of action is to quit tobacco and nicotine use altogether. However, many do not. Those adult smokers who would otherwise continue to smoke should have access to nicotine-containing alternatives that are scientifically substantiated to be less harmful than continuing to smoke. Scientific and technological innovations have made such solutions available today.

The vast majority of harmful compounds found in cigarette smoke and associated with smoking-related diseases are generated by combustion. Nicotine-containing products that do not involve combustion (smoke-free products), such as e-vapor, oral nicotine and heated tobacco products, while not risk-free, could present a much better alternative than continued smoking.

For adults who would otherwise continue to smoke, scientifically substantiated smoke-free products indeed represent a significant opportunity, as switching to these products has the potential to reduce the risk of developing smoking-related diseases versus continued cigarette smoking. Seizing this opportunity to achieve a public health benefit depends not only on the scientifically substantiated risk-reduction profile of these products, but also on adult smokers successfully switching to smoke-free products and stopping smoking cigarettes. It is therefore critical that smoke-free products are made available to all adult smokers, that adult smokers be informed of their existence and understand their benefits, that they find them acceptable and that they can afford to buy them.

Smoking in the World and in the Baltics

Overview of the global nicotine business

Products within the global tobacco and nicotine business fall into three main categories: combustible tobacco products, smoke-free products and therapeutic cigarette replacements (often known as nicotine replacement therapies, or NRTs). Combustible tobacco products (e.g. cigarettes, fine-cut tobacco, pipe tobacco, cigars and cigarillos) burn tobacco to deliver nicotine. Smoke-free products deliver nicotine without combustion. These products include heated tobacco (also known as heat-not-burn), e-vapor, and oral nicotine products, such as snus and nicotine pouches. By eliminating combustion, these products present, or have the potential to present, less risk of harm to adults who switch to them versus continued smoking. Therapeutic cigarette replacements, which include nicotine gum and patches, aim to help smokers quit smoking. These products deliver nicotine and require a pharmaceutical approval process to be followed; in some countries, their use requires a prescription from medical professionals.

Global prevalence of smoking

The WHO projects a decline in smoking prevalence (age 15+), from 21.1 percent in 2010 to an estimated 15.4 percent in 2025[1]. At the same time, the global adult population is growing by around 70 million people per year. The net effect of this declining smoking prevalence and the growth in population is a forecast of just under 1.1 billion smokers in 2025—essentially the same as in 2010[2]. Even if the WHO member states achieve their accelerated target for reduced smoking prevalence (a 30 percent reduction in the prevalence of tobacco use by 2025 versus 2010), we estimate that there will still be around 956 million smokers in 2025.

Situation in the Baltics

In Western societies, there has been a growing emphasis on the promotion of health and well-being, leading to a decline in smoking prevalence. This trend is also visible in the Baltics. However, despite that, the prevalence of smoking in Latvia, Lithuania and Estonia remains higher than the average both globally or in the European region (see the illustration below). As a result, it is imperative to prioritize the objective of attaining a smoke-free future for the region, including preventing and fighting illicit trade.

Tobacco smoking rates

Lithuania	27.4%
Latvia	35%
Estonia	26.7%
European region	24.8%
Global	17%
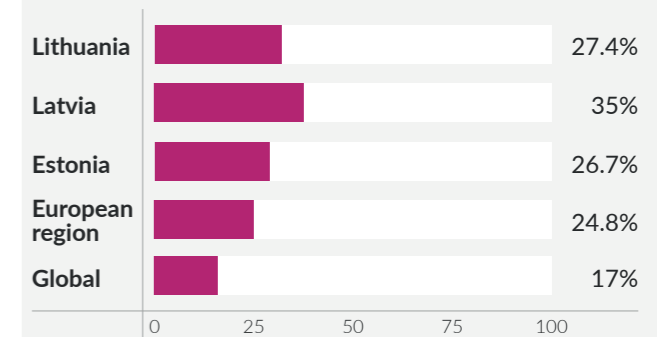
Tobacco smoking rates among people aged 15 years and older, 2020 estimates (age-standardized prevalence,%)

Source: WHO, Global Report on Trends in Prevalence of Tobacco Use 2000-2025, fourth edition (November 2021).

---

1 WHO, Global Report on Trends in Prevalence of Tobacco Use 2000-2025, fourth edition (November 2021).
2 WHO, Global Report on Trends in Prevalence of Tobacco Smoking 2015

Prevent and fight illicit trade

Illicit trade prevention

The increasingly interconnected and digitalized global economy provides more opportunities for criminal networks engaged in illicit activities such as the sale of counterfeit products, wildlife smuggling, narcotics, human trafficking and excise fraud.

The illicit tobacco trade provides a cheap and unregulated supply of tobacco products. It undermines public health policies across the world, hampers efforts to reduce the prevalence of smoking, damages legitimate businesses, stimulates organized crime, increases corruption and reduces government tax revenue.

It is estimated that illicit trade accounts for as much as 10 to 12 percent of global cigarette consumption and that governments worldwide lose USD 40 to 50 billion in tax revenue each year as a result.[1]

Many countries have initiated, or are considering actions, to prevent the illicit trade of tobacco products. In 2012, the FCTC adopted the Protocol to Eliminate Illicit Trade in Tobacco Products, which includes supply chain control measures, such as the implementation of tracking and tracing technologies and effective controls on the manufacturing and transactions in tobacco and tobacco products in Free Zones. The protocol came into force in September 2018, and the parties to it have started implementing its measures via national legislation.

---

1 U.S. Department of State, The Global Illicit Trade in Tobacco: A Threat to National Security, 2015

👆 Read more **about our approach and actions on PMI.com.**

Our perspective

To prevent the smuggling and counterfeiting of our products, we focus on securing our supply chain and leveraging product security technology and innovation to protect our products. These internal efforts are coupled with strong cross-sectoral collaboration. Illicit trade is a high-profit, low-risk crime that needs to be tackled by public-private coalitions able and willing to drive change. At PMI, we collaborate with law enforcement and other government authorities all over the world to counter illicit trade. To this end, we invest in global programs and promote the implementation and enforcement of effective regulations, such as the WHO's FCTC Protocol to Eliminate Illicit Trade in Tobacco Products. Public-private partnership and impactful regulatory frameworks are fundamental to achieving positive progress.

Fighting illicit trade in the Baltics

In the Baltic States, illicit trade poses a significant challenge due to the geographical location, which is in close proximity to non-EU countries such as Russia and Belarus. This issue not only poses a threat to public health but also impacts the national budgets adversely. In order to mitigate this, we are collaborating with various agencies and implementing both Empty Pack Surveys and Tracking and tracing, with the primary aim of curbing illegal trade.

Empty Pack Survey

Empty Pack Surveys are used to assess the extent of illicit cigarette trade in a region. These surveys involve collecting discarded cigarette packs from public places to identify their tax status based on tax stamps or health warnings. The results of an Empty Pack Survey can reveal the prevalence of illegal cigarette trade in a given area, potentially indicating the government revenue loss and public health risks due to non-compliance with the safety regulations.
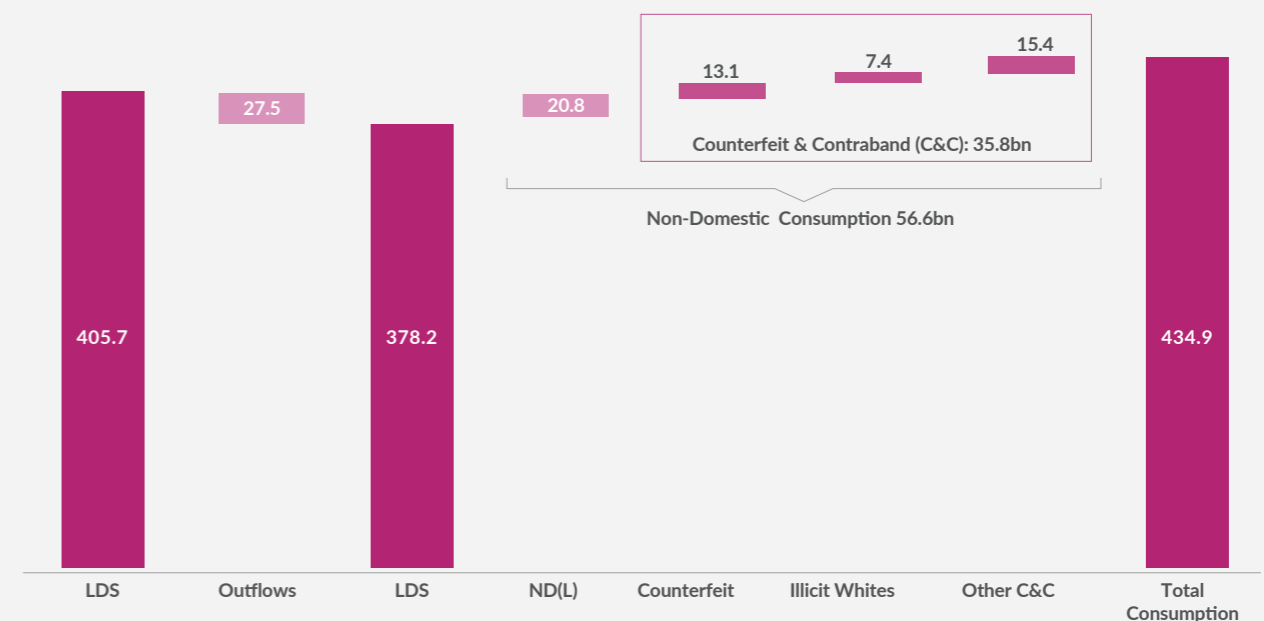
Since 2009, discarded empty cigarette packs have been collected from city streets all over Europe once a year to map out the share of domestic (duty paid), non-domestic and counterfeit products in each market. The Empty Pack Survey is funded by British American Tobacco, Imperial Tobacco, Japan Tobacco Int. and PMI. In the Baltics, it is conducted by independent research agencies.

Source: KPMG, Illicit cigarette consumption in the EU, UK, Norway and Switzerland (2022)

Tracking and tracing

In line with the EU Tobacco Product Directive, individual cigarette packs in the Baltics are identifiable by a unique identification code and a tamper-proof security feature, giving law enforcement authorities the possibility to trace packs by the place and date of production, through all distribution layers and points of sale.

Source: health.ec.europa.eu/tobacco/product-regulation_en

OVERVIEW

STRATEGY

PRODUCT IMPACT

OPERATIONAL IMPACT

Estimate of the total cigarette consumption in the EU27 (bn cigarettes)

The chart shows the approach of KPMG's reports to estimating the size and scale of illicit cigarette consumption, known as Counterfeit & Contraband (C&C), including Illicit Whites.

Using empty pack surveys, from market research agencies commissioned by tobacco manufacturers, and Legal Domestic Sales (LDS), provided by manufacturers and third-party market research agencies, this approach allows us to split the total cigarette consumption into its constituent parts. Legal Domestic Sales, available in every country, underpin the initial volume estimate, while empty pack surveys enable the estimate of additional "nondomestic" component of consumption.

Source: KPMG, Illicit cigarette consumption in the EU, UK, Norway and Switzerland (2022)

Counterfeit & Contraband (C&C): 35.8bn

Non-Domestic Consumption 56.6bn

LDS	Outflows	LDS	ND(L)	Counterfeit	Illicit Whites	Other C&C	Total Consumption
405.7	27.5	378.2	20.8	13.1	7.4	15.4	434.9

A European and Baltic challenge

The illicit cigarette trade has been a challenge for many years, and it is growing. In the EU, an estimated that 11.3 billion euros in tax revenue was lost in 2022 due to illicit cigarettes. In the Baltic countries, the tax revenue lost was 166 million euros.

While the total cigarette consumption continues to decline, the share of illicit cigarettes in Europe increased to 8.2 percent in 2022. The increase was largely driven by a continuous rise in counterfeit consumption in France, which now accounts for almost half (47%) of the illicit consumption in Europe.

In 2022, Lithuania saw a 6% decrease in its total consumption, largely attributed to a drop in legal domestic sales. Conversely, the consumption in Latvia and Estonia increased by 1% and 10%, respectively. In the case of Estonia, this increase was primarily due to reduced outflows and an increase in non-domestic inflows.

Lithuania and Latvia hold one of the highest shares of the illicit tobacco and nicotine products market within the EU. In 2022, these illicit products made up 18% of Lithuania's total tobacco consumption, and 15.2% in Latvia. By contrast, Estonia's illicit tobacco products represented a smaller fraction, accounting for just 5% of the country's total consumption.

However, two thirds of those surveyed in Lithuania identified this illegal tobacco market as a problem for the country, while 81% of respondents believe that it deprives the state of a large share of tax revenue. Also, 7 out of 10 agreed that, as long as illegal tobacco and nicotine products are available, the smoking habits of the population will not change. 79% say that this market undermines efforts to prevent the availability of smoking to minors.

The illicit production landscape within EU is seeing significant shifts in 2022, influenced by both the aftermath of the pandemic and ongoing geopolitical issues. Despite pandemic-related obstacles to sourcing and importing goods, Organised Crime Groups (OCGs) continue setting up production sites within the EU territory. This trend is further fuelled by the ongoing conflict in Ukraine, which is disrupting the supply from traditional illicit cigarette sources like Ukraine and Belarus, leading OCGs to move their production closer to the markets they serve.

The Baltic States the face long-term problem of cigarette smuggling across the EU external border, yet during recent years an increasing number of cigarettes are being counterfeited within the EU, and in 2021 four illicit factories were closed in Latvia. Thus, the capacity of the police and other law enforcement authorities to recognize and effectively address the illicit manufacturing and transporting of tobacco products within the country has become very important.

Source: KPMG, Illicit cigarette consumption in the EU, UK, Norway and Switzerland (2022)

Source: Leta.lv

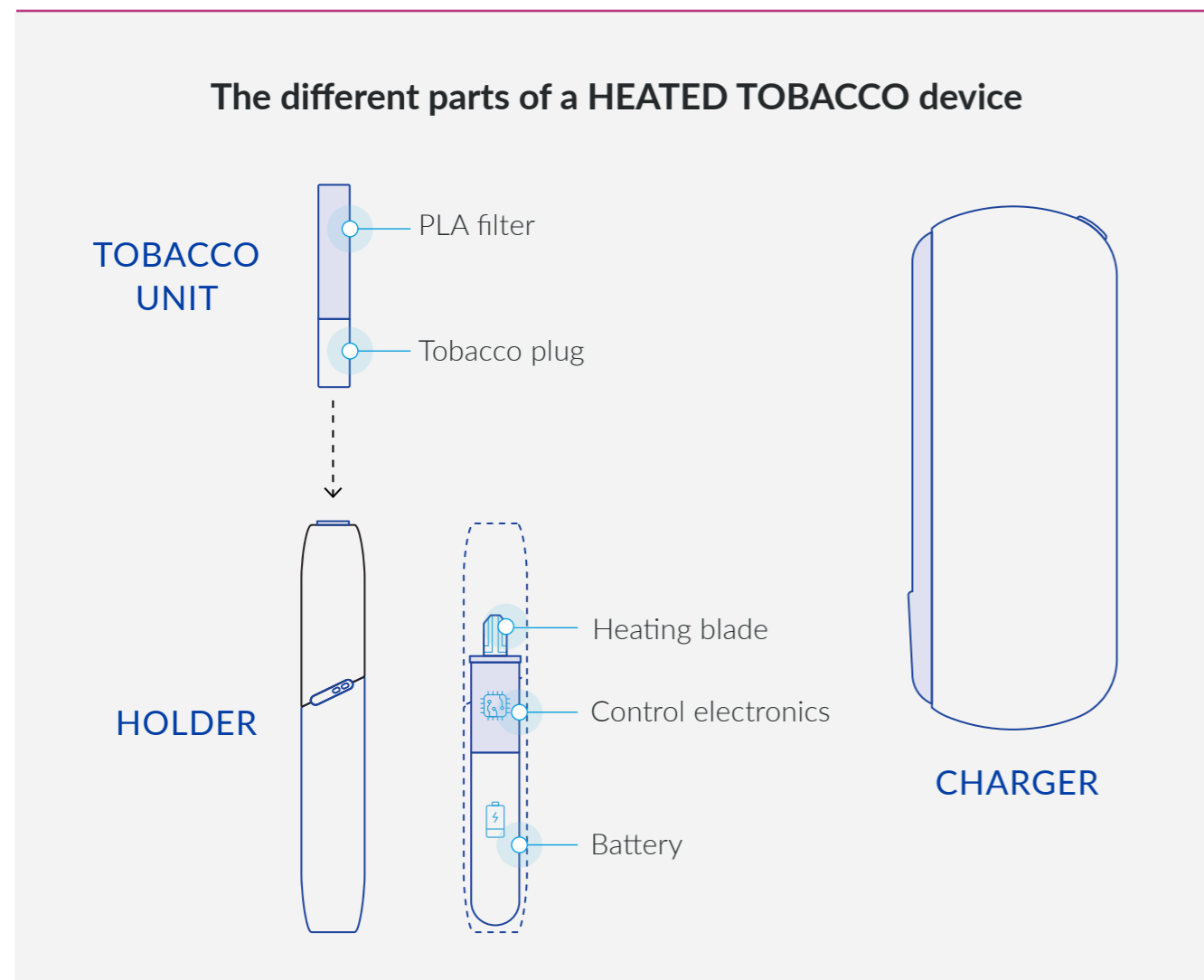### Our cooperation with local institutions

In order to fight the illicit trade, the cooperation of various parties and insititutions are of utmost importance and there are several actions that we are doing in this direction. Since 2020, we have had a Memorandum of Understanding with law enforcement agencies/governments in at least 2 out of the 3 Baltic countries. These memorandums explain how we cooperate with law enforcement institutions (directly or via business associations). In addition, every year we conduct a study in each of the Baltic countries in order to improve the awareness of illicit trade.

We also initiate and participate in various events regarding illicit trade. On June 30, 2022, the fourth National Forum Against Smuggling called *"Fighting Smuggling - Challenges and Successes"* was organized in cooperation with the Stockholm School of Economics in Riga, the non-governmental organization *Business Against Shadow Economy* (BASE) and the public opinion research company SKDS.

Meanwhile, on November 29, PMI forensics expert Alexander Trukhin together with Philip Morris Latvia External Affairs manager Madara Apsalone participated in presented PMI's work on the illicit trade prevention of tobacco products in an online seminar on about the illicit trade of excisable goods.
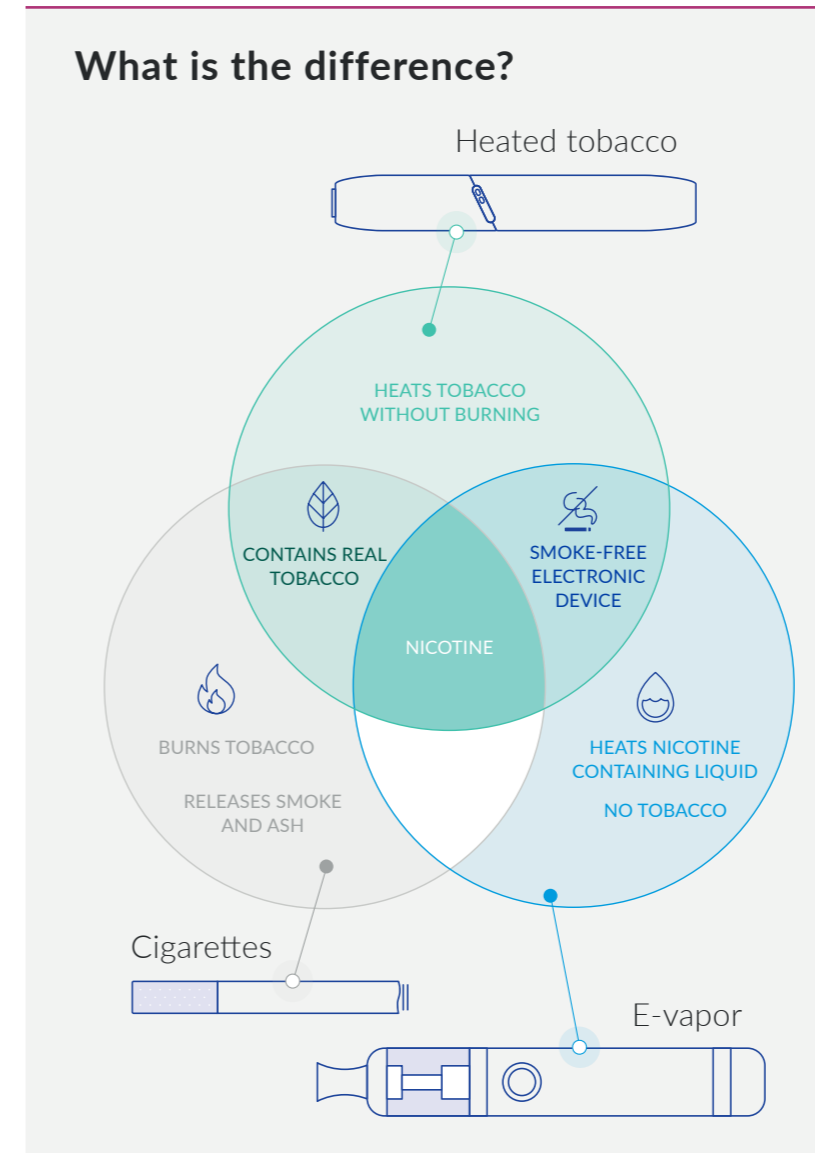
Smoke-free innovation

Smoke-free products deliver nicotine without combustion. These products include heated tobacco (also known as heat-not-burn), e-vapor, hybrid products (combining features of heated tobacco and e-vapor products), and oral tobacco and nicotine products such as snus and nicotine pouches. By eliminating combustion, these products present, or have the potential to present, less risk of harm to adults who switch to them versus the continued smoking of combustible alternatives.

The different parts of a HEATED TOBACCO device

TOBACCO UNIT
PLA filter
Tobacco plug

HOLDER
Heating blade
Control electronics
Battery

CHARGER

Heated tobacco

PMI's heated tobacco platform includes several battery-powered devices that heat specially designed tobacco units. The devices heat tobacco to a temperature below 350 degrees Celsius (°C) and releases a nicotine-containing aerosol that can be inhaled by the user.

The electronically heated tobacco units are novel products containing specially processed tobacco plugs designed to be heated but not burned, made of ground tobacco leaves.

What is the difference?

Heated tobacco

HEATS TOBACCO WITHOUT BURNING

CONTAINS REAL TOBACCO

SMOKE-FREE ELECTRONIC DEVICE

NICOTINE

BURNS TOBACCO

HEATS NICOTINE CONTAINING LIQUID

RELEASES SMOKE AND ASH

NO TOBACCO

Cigarettes

E-vapor

FDA decision on modified risk tobacco products

On 7 July 2020, the U.S. Food and Drug Administration (FDA) issued its decisions on Modified Risk Tobacco Product (MRTP) applications for IQOS and three HeatSticks variants (the IQOS tobacco heating system). The agency found that the issuance of the IQOS modified risk marketing orders would be "appropriate to promote the public health and is expected to benefit the health of the population as a whole." This decision follows the agency's April 2019 authorization of the marketing of the IQOS tobacco heating system as "appropriate for the protection of public health" pursuant to the Premarket Tobacco Product Application (PMTA) pathway.

This decision follows a review of the extensive scientific evidence package PMI submitted to the FDA in December 2016 to support its MRTP applications. The FDA authorized the marketing of the IQOS system with the following information:

- 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.

The tobacco in a cigarette burns at temperatures in excess of 600°C, generating smoke that contains high levels of harmful chemicals. But our heat-not-burn product heats tobacco to much lower temperatures, without combustion, fire, ash or smoke.

E-vapor

PMI's e-vapor platform is comprised of battery-powered devices, commonly known as e-cigarettes. The device's heating technology uses a metallic mesh with tiny holes to heat a prefilled, pre-sealed pod containing an e-liquid with nicotine. This generates a nicotine-containing vapour which is inhaled by the user. The weave distributes the heat evenly, with a low risk of overheating.

The pods are manufactured, assembled, pre-filled and pre-sealed in our production facilities. It also features puff-activated heating and a low-liquid-level detection system that ensures the consistency and quality of the vapour generated and inhaled.

Nicotine pouches and snus

Nicotine pouches and snus are a natural and important addition to our portfolio of smoke-free products, in our effort to accelerate an end to smoking. In 2021, PMI acquired the 150-year-old family-run Danish company, AG SNUS; and at the end of 2022, PMI acquired Swedish Match, a global leader in oral nicotine products. This will further increase the acceptability of our smoke-free value proposition, as we expand our presence into the oral smokeless category in harmony with the changing consumer trends and in line with a strategy that contributes to a world without cigarettes. This collaboration has offered the chance to work together toward achieving a shared vision—to replace cigarettes with smoke-free alternatives that are a better choice than continued smoking. Currently, these products are available in Latvia and in Estonia. Snus have been a niche product in Estonia since the 90s, and nicotine pouches have also been around from the 2000s when they gained more popularity, while Latvia first launched nicotine pouches Shiro in June 2022.

Preventing youth access and use of our products

We have developed a holistic and comprehensive approach to guard against youth access to our products through a suite of measures. These measures are deployed to ensure consumers are age-verified across all access channels when attempting to purchase our products, including our managed boutiques, our e-commerce platforms, and third-party retailers and online marketplaces. While the level of control we have over these channels varies, it is critically important that we make every effort to guard against youth access to our products, regardless of the point of sale.

Specific requirements set in our Marketing Codes to guard against youth access to our products

The global youth access prevention requirements included in our Marketing Codes apply to all our commercial activities, even when not required by local laws. These stringent standards, combined with our responsible approach to marketing (in terms of channels and content) reduce the likelihood that our products and related consumer communications reach or are particularly appealing to youth. A fundamental requirement is that a consumer's age must be verified before they can purchase our products - ensuring they are of legal age to purchase.

B2B Youth access prevention— engaging with our trade partners

We do not own or control the vast majority of retail outlets that sell our products: around 99 percent of our sales occur outside our managed channels. We set robust requirements and work with retailers to ensure they understand why they should not sell nicotine-containing products to youth. These measures complement the local regulations for youth access prevention, which we comply with and that retailers must enforce. Our youth access prevention (YAP) programs in indirect retail channels combine guidelines and tools that help our affiliates work more effectively with our trade partners to guard against sales of our combustible tobacco and smoke-free products to minors.

They are based on three pillars: (i) communication by our affiliates' heads to the trade partners reinforcing the YAP requirements set out in our Marketing Codes; (ii) online or in-person training sessions with retailers' staff; and (iii) materials such as stickers, banners or leaflets placed at the point of sale. We are committed to maintaining high coverage of our shipment volume (minimum 90 percent) with YAP programs in indirect retail channels. By the end of 2022, markets representing 91 percent of our total shipment volume were implementing such programs, and the Baltic markets were among them.
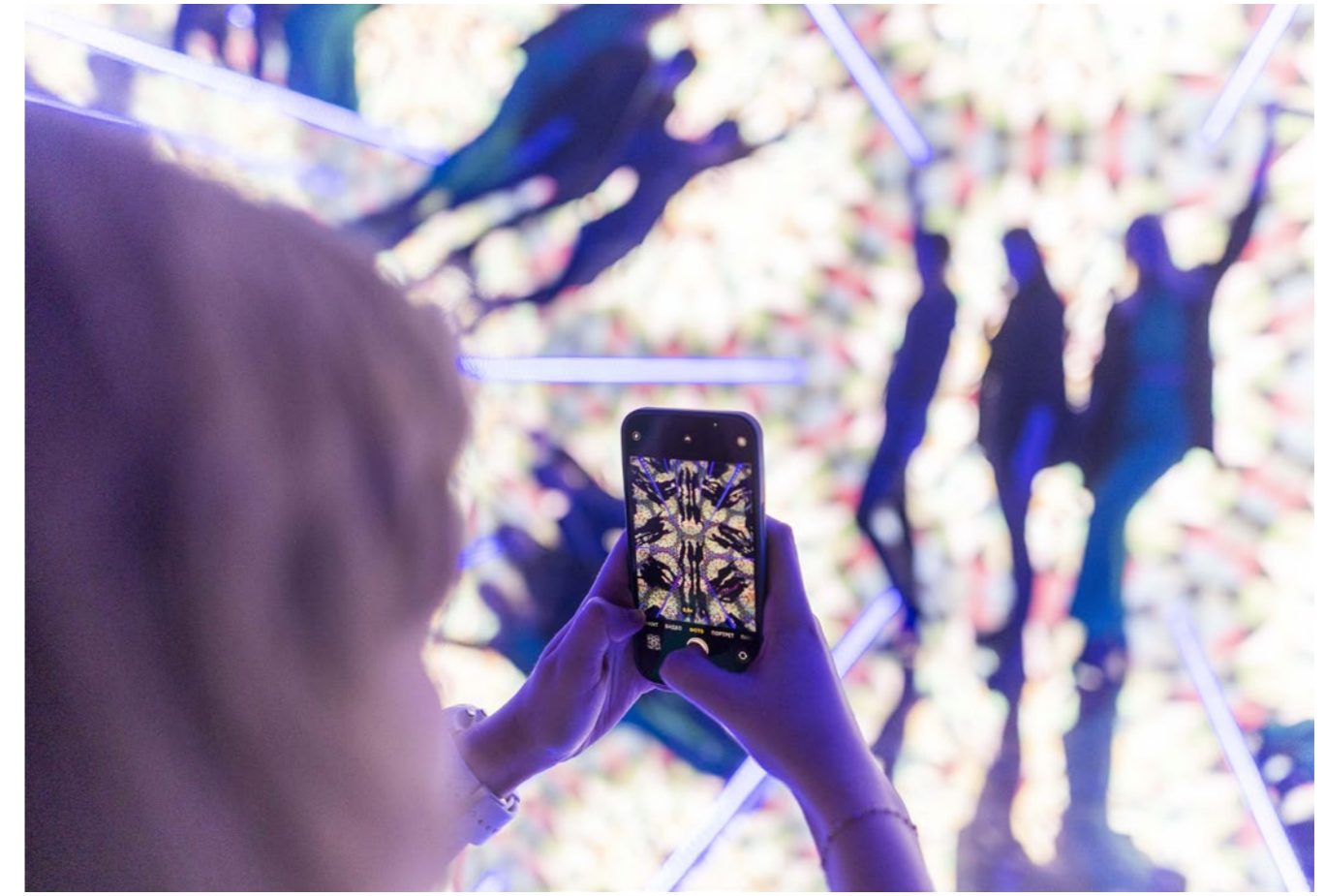
B2C Youth access prevention — efforts in our owned channels

At our brick and mortar brand retail outlets, any adult consumer who wishes to purchase our products must be age-verified by a trained salesperson. In 2022, when selling our products online, we implemented online age verification methods integrating the latest technologies. In the Baltics, while purchasing our products online, each individual has to verify their age through Smart-ID - a secure platform, used throughout the Baltics to authenticate yourself online, register in e-services and sign documents. This decision helps us ensure that only adults have access to PMI's products. Where the necessary technology is not available, alternative age-verification processes are applied, which include face-to-face age verification on delivery by couriers or at collection pick-up points. Mystery shopper programs remain an effective way to monitor compliance with our responsible marketing and commercialization requirements.

Enhanced electronic age-verification technology

Beyond the existing responsible marketing programs, we continue to look for technology to guard against unintended use and access to product information and purchase, while preventing youth from using nicotine or our smoke-free devices.

Purposefully phase out cigarettes

Our intention is not only to develop, scientifically substantiate and responsibly commercialize smoke-free products, to offer a better alternative to adult smokers, but to make sure these products ultimately, and as soon as possible, replace cigarettes completely.

INWARD IMPACT:
The business case

Despite being well on our way to delivering a smoke-free future, we still have some distance to travel, as our combustible tobacco product business still represents the majority of our revenue. The operating cash flows generated by cigarettes serve an essential role, supporting ongoing investments in the growth of smoke-free products and in building new capabilities in wellness and healthcare.

Staying competitive in the cigarette category during this interim period provides the infrastructure needed to support our smoke-free growth, allowing us to create a future where cigarettes no longer exist. Notably, where permitted, it remains the primary way we can engage and connect with adult smokers and trade partners, to raise awareness of smoke-free products and explain why they are a better option than continued smoking. Handing the market share to competitors and others is unlikely to provide them with strong motivation to follow our smoke-free lead.

Our legitimate ambition to maintain our market share in the declining combustible tobacco product category does not mean that we aim to continue selling cigarettes in the long term. Our purpose is clear: our smoke-free business is our focus area of growth, as these are the products needed to enable our transformation and, most importantly, to help make cigarettes obsolete.

Importantly, smoke-free products offer the prospect of higher and more sustainable returns than cigarettes over the long term, as is also recognized by the stock market in our valuation premium to cigarette-focused peers. The business case is thus crystal clear, with compelling financial incentives for us to transform as fast as possible.

OUTWARD IMPACT:
The right thing to do

Even though selling off our cigarette business would make our company achieve its smoke-free ambition faster, it would not resolve the cigarette problem—and indeed would risk exacerbating the issue, as a new owner would more likely be focused on maximizing cigarette consumption.

Our aim is not only to make our company smoke-free, but to make cigarettes obsolete. To achieve this, we will continue to responsibly and coherently sell cigarettes, taking a consistent, disciplined and steadfast approach to one day completely leaving them behind.

While contradictory on the surface, this is a necessary trade-off that is vital to driving a successful industry transition for the benefit of public health.

We are convinced that impactful and systemic change can best be achieved by transforming from the inside out, engaging constructively with different parts of society, and ultimately influencing our entire industry to follow our lead and adopt business models that also seek to completely replace cigarettes with smoke-free products for those who continue to use nicotine.

Approach and progress

Our priority is to a address the health impacts associated with smoking by offering smoke-free, science-based alternatives that have been proven to be a less harmful choice than cigarettes for those adults who would otherwise continue to smoke.

However, we do not believe it is enough to simply offer more choice to consumers. Rather, we are seeking to persuade adult smokers to switch to the better alternatives now available and put cigarettes behind them. To achieve this objective, we are dedicating the vast majority of our resources to commercializing our smoke-free products (see our Business Transformation Metrics). We also recognize that PMI alone cannot achieve a smoke-free future. Such systemic change requires a collaborative, multistakeholder approach. In particular, we are seeking to work with policymakers to ensure that scientifically substantiated smoke-free products replace cigarettes as quickly as possible for those who continue to use nicotine. We are also actively advocating for others in the industry to follow our lead by transforming their businesses, phasing out cigarettes and reporting transparently on progress by adopting our Business Transformation Metrics. In pursuing our vision of a smoke-free future, we are eager to see measures introduced that will drive large-scale consumer switching as quickly as possible. We are confident that the right mix of government leadership and commercial initiative would dramatically accelerate efforts to reduce the health burden of smoking. We believe that, with the right regulatory encouragement and support from civil society, cigarette sales can end within 10 to 15 years in many countries (see our Statement of Purpose).

Smoke-free future in the Baltics

We see a substantial advancement towards a smoke-free future in the Baltics. Not only the prevalence of smoking is going down, but also more and more adult smokers, who would otherwise continue to smoke, are switching to smoke-free alternatives.[1]

1 https://www.lrt.lt/naujienos/verslas/4/1829021/philip-morris-baltic-lietuvoje-kaitinamasis-ta-bakas-sudaro-trecdali-rukalu-rinkos

Public engagements for a smoke-free future

Despite the good progress, in the year 2022 we continued to communicate to society and policy makers about our mission towards a smoke-free future in the Baltics. On September 14th, Ignacio Suarez Gonzalez, Head of Scientific Engagement MEA at Philip Morris International, participated in a 5th seminar on Tobacco Harm Reduction (THR) organized by the Smokefree Business Association of Latvia. He shared our smoke-free vision and harm reduction approach, the main findings of our scientific assessment program and independent studies, as well as examples of a good regulatory approach, including the US FDA MRTP decision and policies adopted by Greece, Philippines, Switzerland, UK and New Zealand. Participants in the event discussed the potential of the THR policy and reduced risk smoke-free alternatives for adult smokers, as well as the global trends and opportunities, industry social responsibility and tackling illicit market issues.

Photo: Raul Mee

Also, on 23-24 March 2022, in Estonia, Margit Pulk, External Affairs Manager for Estonia, participated in a traditional marketing conference Password, named "The Next Big Thing: Business, Consumers and Marketing in 2023". The conference revealed the current trends and changes in the areas that are important to marketers, and the ways these trends affect product development, consumer behavior and marketing, while M. Pulk presented the topic "The end of the cigarette era. Could 2030 be smoke-free?"

Seek net positive impact in wellness and healthcare

Striving to become a company that has a net positive impact on society, we are expanding our offerings to include products that will address critical unmet consumer and patient needs within the wellness and healthcare space.

INWARD IMPACT:
The business case

As described in our Statement of Purpose, the critical next step in PMI's transformation is leveraging our expertise and capabilities to expand into products beyond tobacco and nicotine, as part of a natural evolution into a broader wellness and healthcare business.

Leveraging our company's expertise in aerosol chemistry and physics, best-in-class preclinical safety and toxicology and clinical research, and continued investments in capabilities and R&D programmes, we are developing innovative and differentiated products for unmet patient and consumer needs.

Although we are at the beginning of this journey, our intention is set: we are working towards furthering the transformation of our company and our deep belief in the opportunity these adjacent avenues of growth can bring in the long term, by leveraging our ability to monetize the skills and assets we have accrued and developed during the process of our transformation.

OUTWARD IMPACT:
The right thing to do

Researching and developing smoke-free alternatives that are scientifically substantiated to be less harmful than cigarettes was the first step in our journey to address our biggest negative externality: the impact of cigarette smoking on health.

In the process, we have expanded our social, human, intellectual and manufactured capital in ways that allow us to move from a value proposition centered on doing less harm, toward one where we can seek to have a net positive impact on society. The aim now is to use this capital to develop adjacent avenues of growth in wellness and healthcare.

PMI's investment and innovation approach in the wellness and healthcare space is part of a larger transformation that puts science, technology and sustainability at the heart of our company's future, delivering products and solutions that aim to improve people's lives and deliver a net positive impact on society.

To achieve this objective, we will rely on and expand upon our existing core capabilities, and seek partnerships with entrepreneurs and companies that have the proper experience and credibility in relevant fields.

Management approach

PMI has developed a strong foundation and significant expertise in life sciences—particularly with product formulation, aerosol chemistry and physics, device technology, clinical research, and best-in-class preclinical safety and inhalation models—gained during our transformation journey.

To complement our in-house science and innovation capabilities, we acquired three innovative and forward-looking companies in 2021 (read more in our Integrated Report 2021). In March 2022, we launched a new wellness and healthcare business, consolidating these three entities into Vectura Fertin Pharma. Vectura Fertin Pharma brings together Vectura's expertise in inhalation delivery systems used for prescription drugs, Fertin Pharma's leadership in oral and intra-oral delivery systems and OtiTopic's inhaled aspirin asset.

Vectura Fertin Pharma is centered on health, science and technology, to deliver innovative, best in-class or first-in-class products and solutions that are safe to use and can improve people's lives.

We are aiming to deliver new innovations in fields where a clear unmet medical or consumer need exists. We are focusing on specific opportunities in selected business areas, which comprise two growth categories—inhaled therapeutics and consumer health; as well as two additional business areas—nicotine replacement therapies and our Contract Development and Manufacturing Organization (CDMO).

1. **Inhaled therapeutics:** Developing these products uses our expertise and experience in device technology for medical applications and delivery and scientific assessment of aerosols, including our preclinical safety and toxicology, clinical, medical, regulatory and quality capabilities.
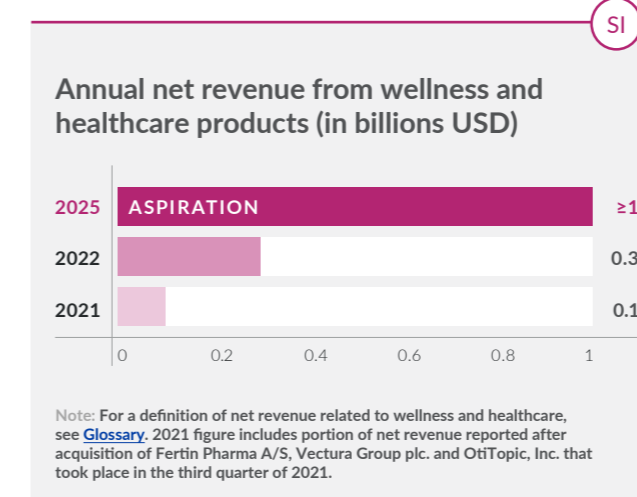
2. **Consumer health:** Moving into consumer health products will enable us to address benefit areas such as "energy with purpose". In addition to therapeutical applications, we are also evaluating cannabinoids for consumer health starting with CBD offerings, applying our expertise in assessing, efficacy and safety of novel oral delivery formats, inhalation science and technologies, and plant substrates.

3. **Nicotine replacement therapies:** There is an unmet need in the nicotine replacement therapy market, which combined with our existing expertise and ability to innovate, positions us well as a player in this market.

4. **CDMO:** Based on our unique technologies, delivery platforms and capabilities, we are striving to grow our CDMO business in both oral and inhalable solutions, and to expand it geographically.

Annual net revenue from wellness and healthcare products (in billions USD)   SI

Year		Value
2025	ASPIRATION	≥1
2022		0.3
2021		0.1

0   0.2   0.4   0.6   0.8   1

Note: For a definition of net revenue related to wellness and healthcare, see Glossary. 2021 figure includes portion of net revenue reported after acquisition of Fertin Pharma A/S, Vectura Group plc. and OtiTopic, Inc. that took place in the third quarter of 2021.

Reduce post-consumer waste

We understand the need to address the environmental impact of our products, in addition to their health impacts. We do this by embedding the principles of circularity and eco-design, implementing effective post-consumer waste management solutions, addressing litter and promoting the responsible disposal of products at their end-of-life.

INWARD IMPACT:
The business case

Many consumers consider the environmental impact of products and services in their purchase decisions. Regulators are also increasingly focusing on corporate responsibility for the use of materials such as plastics, as well as for product repairability and end-of-life management. Appropriately addressing post-consumer waste helps us enhance our brand equity and company reputation and meet consumer expectations. It also allows us to mitigate implications for our bottom line, as producers increasingly are asked to participate in cleanup costs, for instance.

Consumer expectations and regulatory trends also provide us with opportunities, motivating us to innovate in a way that can drive our competitive advantage by devising a more circular value chains. These value chains are linked not only to less waste and less litter, but also to better use of materials and higher operational efficiency—all of which are good for our bottom line.

OUTWARD IMPACT:
The right thing to do

Reducing and appropriately managing post-consumer waste means that we can extract, convert and use fewer raw materials from a planet with limited natural resources. This includes materials used in packaging, combustible products, smoke-free consumables and electronic devices. This can reduce our plastic and carbon footprints, and decrease our impact on the planet and society.

Moreover, committing to the safe and responsible disposal of this waste addresses society's concerns regarding the impacts of litter. Among others, there are concerns over the pollution resulting from plastic, tobacco and other materials, such as metals, potentially resulting in harm to wildlife and humans alike. We recognize our role in designing better products and working to protect nature and preserve the environment.

Addressing cigarette butt littering

Our approach

Around one million tons of cigarette filters are produced annually across the tobacco industry. Although most are disposed of properly post-consumption, too many are casually littered into the environment.

To tackle cigarette butt littering, we apply a three-pronged approach:

Design for circularity: Invest in R&D toward filters made of more sustainable, plastic-free alternatives that allow for faster biodegrading, resolving the issue of plastic litter altogether.

Encourage behavioral change: Inspire change in consumer habits through impactful anti-littering awareness programs and initiatives to empower consumers to dispose of cigarette butts properly. These initiatives include communications campaigns and cleanup activities to raise awareness, partnerships, portable disposal solutions and the improvement of public equipment solutions.

Reduce litter on the ground through efficient and cost-effective collection schemes: In the EU, cigarette manufacturers will be required to contribute to the costs of collecting and cleaning up cigarette butt litter. The Single-Use Plastics (SUP) Directive requires that producers participate in industry-wide Extended Producer Responsibility (EPR) schemes. EPR is an established governance scheme for circular waste management; it is now being used for the first time in the EU to address the problem of littering. We support the concept of an industry-wide EPR, provided such schemes are managed in a cost-efficient, proportionate and transparent way that addresses the objectives of reducing litter and changing consumer behavior.

Encouraging behavior change

While many consumers dispose of their waste properly, too much waste ends up in the environment. We seek to help change behaviors to prevent cigarette butt littering and encourage proper waste disposal. To that end, we run global and local awareness and anti-littering campaigns.

Tackling the issues of cigarette-butt littering locally

Smoking habits, environmental awareness, and disposal practices vary by country, so combating cigarette butt littering requires tailored approaches. Accordingly, our affiliates follow a global methodology, while also focusing on impactful, context-based strategies appropriate for our respective markets. These local anti-littering campaigns are run by our affiliates.
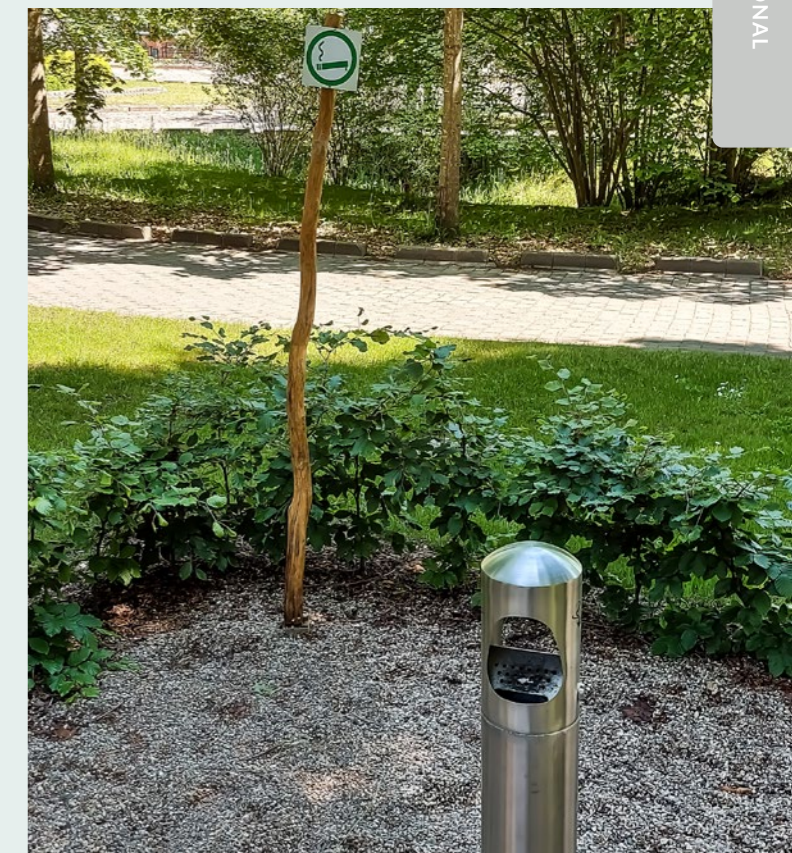
Action and awareness against littering in the Baltics

Our attempts to prevent littering in the Baltics are centered on encouraging a shift in consumer behavior through effective programs and strong collaboration with regional non-governmental organizations. We seek to prevent and reduce cigarette-butt littering by improving and optimizing our waste management infrastructure, increasing general awareness, educating society and changing behavior, as well as gathering and empowering anti-littering ambassadors.

One Step Towards a Cleaner Lithuania

In 2022, in Lithuania, we launched an anti-littering project, One Step Towards a Cleaner Lithuania, that included creative posters, creative portable ashtrays, an educational video, and working with local municipalities and waste management organizations. Within this project, that we developed together with the public organization For Clean Lithuania (lit. VšĮ „Už švarią Lietuvą"), we seek to educate society about the cigarette-butt littering (CBL) issue and to create means to dispose of cigarette butts correctly. Thus, our partner organized an anti-CBL poster and portable ashtray competition via design students and designer platforms, the best of which were selected to be used for various anti-littering initiatives. The project also involved the creation of an educational video.

Preventing Fires in Estonia

In 2022, in Estonia, together with Saku Voluntary Rescue Board (ee. MTÜ Saku Priitahtlikud Pritsimehed), we launched campaign aimed to increase fire safety and prevent future fire accidents in households and other places, such as in nature, offices and others. The project included a cigarette butt littering awareness communication campaign.

The main aim of the campaign was to increase public awareness and to get people to think about fire safety and how to prevent future fire accidents that are caused by cigarette butts in households and other environments. As part of the campaign, seven educational and preventive videos were produced and 200 homes visited, to distribute portable ashtrays and smoke detectors.

Source: TV3

What Disappears from the Eyes, Does Not Disappear in Nature

In 2022, in Latvia, in cooperation with Latvian Green Belt (lv. SIA "Zaļā josta"), we completed an anti-littering project named What Disappears from the Eyes, Does Not Disappear in Nature. The project involved several activities that targeted educating society about cigarette butt littering and reducing littering, such as a visual and a radio campaign, a photo contest, an environmental cleaning competition and more.

The visual campaign involved the famous cartoonist Gatis Šļūka, who designed three original visual materials with a message encouraging people not to throw cigarette butts into rainwater drains. In addition, we investigated the number of cigarette butts entering nature via the rainwater drains in Riga (an average of 174 cigarette butts were found per drain, per month). The results were widely communicated in the media and reached an audience of more than 1.4 million. During the photo contest, people collected cigarette butts and shared their creative photos with the public.

World Cleanup Day

Every year, in September, all Philip Morris offices in the Baltics participate in the global initiative World Cleanup Day in order to encourage behavioral change locally, to prevent cigarette butt littering and encourage proper waste disposal, as well as to design clean-up campaigns to raise public awareness of the littering problem. Even though clean-up events will not solve the problem itself, it can become an important factor in driving the needed change.

On September 16, 2022, local World Cleanup Day events took place in all the three Baltic States affiliates. In total, 75 of our local PMI employees and other volunteers participated in the event. Philip Morris Baltic and Philip Morris Latvia co-workers cleaned local rivers while kayaking, whereas the Philip Morris Estonia team visited Maarja Village, with which we have been cooperating in various charitable projects for almost 20 years. There the Estonian team cleaned and painted balconies, cut cloth for making carpets, and did the tour of the open-air art exhibition. During the event, we collected more than 130 kg of litter, cleaned more than 50 km of river shore, painted and cleaned several balconies, and cut hundreds of meters of cloth for making carpets.

In 2022, we added a global challenge element to the activity through a partnership with the Litterati mobile app, which allowed the participants to log, tally and share how much litter they had collected. The inclusion of such global affiliates in the world's largest litter cleanup event is part of our public sensitization efforts, and signals our broader commitment to tackle the issue of cigarette butt littering.

Smoke-free consumables

We seek to minimize the environmental impact of the consumables used in our smoke-free category. These include the heated tobacco units (HTUs) used with our heat-not-burn products (including the HEETS brand used with IQOS 3 DUO and previous generations, the TEREA sticks used with the new IQOS ILUMA and the Fiit sticks used with lil devices), VEEV pods used with our e-vapor devices, as well as VEEV NOW disposable devices.

With each product launch, we will evaluate the need for a consumables take-back program based on the environmental impact, consumer need and market feasibility.

In the interim, we are focused on establishing services to help our adult consumers reduce the end-of life impact of our products.

Smoke-free electronic devices

By integrating sustainability considerations into our product design—from the development to end of use—we can reduce the environmental impacts as well as the associated costs. With respect to our smoke-free product devices, our 2025 eco-design and circularity ambitions are as follows:

• Provide access to device collection and recovery to all IQOS users.
• Continue to reduce the carbon footprint of our smoke-free products in line with our science-based targets.
• Achieve eco-certification for all PMI smoke-free electronic devices introduced on the market as of the end of 2025.
• Pursue improvements in areas such as durability, design for repair and recycling.

Extending the smoke-free product life cycle

We strive for our products to last, and increasingly aim to refresh and repair them so they stay in use as long as possible. Achieving this starts with imposing high standards of quality and reliability and extends to proper care, steps to refresh, repair and refurbish devices, and recycling. In other words, we are evolving from a collection-for-recycling model to a collection-for-recovery one. This means we need

to develop criteria to facilitate the product triage needed to expand our refresh and repair capabilities. In this context, we have identified the following key dimensions to be addressed:

1. collection and triage of devices, distinguishing between those to be recycled and those to be refreshed or repaired;

2. refresh and repair capabilities that meet quality requirements, and re-marketing of products.

Local recycling program

Starting October 2022, in Lithuania, our collected electronic devices for heated tobacco products are part of our CIRCLE program (centralized inspection and recycling). It means that the electronic devices returned by our consumers are taken to the recycling hub for examination, disassembly and recycling. At the time of purchase, customers are informed about the possibility to return the devices.

In 2022 in Lithuania, about 12 tons of electronic devices have been collected through various programs and initiatives, and taken to the recycling hub in Hungary.

% of collected devices taken to be recycled (CIRCLE project)	Target 2022	Actual 2022	Target 2023	Target 2025
Lithuania	100%	100%	100%	100%
Latvia	n/a	n/a	100%	100%
Estonia	n/a	n/a	100%	100%

Portable ashtrays

Producing and giving away reusable pocket ashtrays is one of the ways to keep our planet clean and minimize the impact of our products on the environment. Pocket ashtrays are seen as trendy, practical and convenient. They are fire-resistant and keep odors from escaping, and they are compact and light enough to be carried around, which is necessary for their use.

We installed several poles with portable ashtrays last August, in cooperation with World Cleanup Day in Estonia, so that smokers could take one with them and discard the cigarette butts whenever convenient.

Konitopsihoidja - Maailmakoristuspäev

OPERATIONAL IMPACT

Our global aspirations

Foster an empowered and inclusive workplace

Maintain

100% of employees earning at least a living wage

≥30 employee Net Promoter Score

40% of management positions held by women

<0.65 collision rate in our fleet

Global EQUAL-SALARY certification

<0.3 Total Recordable Incident Rate (TRIR) for PMI employees, contracted employees, and contractors (per 200,000 hours worked)

2022

100% of PMI employees covered by parental leave principles

2023

32% of senior roles held by women

2025

70% of PMI employees with access to structured lifelong learning offers (SI)

35% of senior roles held by women (SI)

≥60% representation of local talent in the executive management teams of at least 80% of our markets or clusters

>70% perception of psychological well-being among our employees

≤60% representation of any gender in managerial roles in most of our functions and regions

≥20% representation of Asian talent in senior roles globally

Improve the quality of life of people in our supply chain

Maintain

>90% of PMI purchased tobacco volume for which labor practices and adherence to our Agricultural Labor Practices Code are systematically monitored

100% of contracted tobacco farmers and farmworkers supplying tobacco to PMI have access to personal protective equipment for the application of crop protection agents and prevention of green tobacco sickness

100% of tobacco farmworkers are provided with safe and adequate accommodation[1]

2022

100% of contracted farmers supplying tobacco to PMI paying their workers at least the minimum legal wage or agricultural benchmark

2025

100% of contracted farmers supplying tobacco to PMI make a living income (SI)

10 highest-risk countries covered by external human rights impact assessments, with findings addressed (SI)

0% prevalence of child labor among contracted farmers supplying tobacco to PMI (SI)

100% of critical suppliers from whom PMI sources sustainably

100% of contracted farmers supplying tobacco to PMI have basic water access

2030

100% contracted farmers supplying tobacco to PMI have access to basic sanitation and hygiene

(SI) **Sustainability Index**

Tackle climate change

2023

Zero coal used as curing fuel for the tobacco we source

2025

Carbon neutrality in our direct operations (scope 1+2) (SI)

35% reduction in absolute greenhouse gas (GHG) emissions in our tobacco supply chain versus 2019 baseline

100% of our manufacturing facilities certified carbon neutral

100% of electricity used and purchased in our factories derived from renewable sources

25% reduction in absolute scope 3 GHG emissions versus 2019 baseline (SI)

15% of suppliers by spend (covering purchased goods and services) will have science-based targets (SBT)

2030

50% reduction in absolute scope 1+2 GHG emissions versus 2019 baseline (SBT)

50% reduction in absolute scope 3 GHG emissions versus 2019 baseline (SBT)

50% reduction in absolute GHG emissions in our tobacco supply chain versus 2019 baseline

2040

Net zero GHG emissions in our value chain (scope 1+2+3) (SBT)

Preserve nature

Maintain

Zero gross deforestation of primary and protected forests associated with our tobacco supply chain

>70% of flue-cured tobacco purchased cured with renewable fuel sources (self-sufficient firewood or biomass)

100% of tobacco purchased without detection of residues attributable to the use of highly hazardous pesticides

≤3.1 Water ratio in our manufacturing facilities (water withdrawn in cubic meters per million cigarettes equivalent)

Virtually zero waste to landfill in manufacturing sites

2025

Zero net deforestation of managed natural forest and no conversion of natural ecosystems in our tobacco supply chain (SI)

100% of our tobacco-growing areas covered by local water risk assessments (cumulative since 2018)

Net positive impact on forests associated with our tobacco supply chain

100% of our manufacturing facilities certified to the Alliance for Water Stewardship (AWS) standard[1]

Zero gross deforestation of primary and protected forest associated with our supply of paper and pulp-based materials

2030

≥10 million cubic meters of water optimized in our tobacco-growing areas (cumulative since 2019)

Net zero deforestation of managed natural forest and no conversion of natural ecosystems in the paper and pulp-based products supply chain

2033

No net loss on ecosystems connected to PMI's value chain

Scale solutions **toward a positive impact** on water resources, measured as volume of water optimized and restored

2050

Contribute toward a net **positive impact** on nature

Contribute toward a **positive impact** on water resources

Note: In 2022, we strengthened our approach to monitoring the quality of life of people in our tobacco supply chain by introducing the Sustainable Tobacco Supply Chain (STSC) framework (read more in this section). Although it is still a requirement to monitor performance against our Agricultural Labour Practices (ALP) Code for all contracted farms, we decided to shift from reporting sustainability progress on all farmers contracted by PMI's suppliers or PMI leaf operations to farmers whose tobacco volumes are purchased and used in PMI products.

1 Scope is limited to farmers that provide accommodation to workers.

1 Aspiration pertains to priority manufacturing facilities identified based on-site overall risk in relation to the watershed, water withdrawal, water consumption, product portfolio, and other strategic considerations.

Foster an empowered and inclusive workplace

Our employees are drivers of innovation and the ambassadors of our purpose. We aspire to provide meaningful and fair employment, opportunities to grow, and a workplace that champions well-being, diversity, equity and inclusion.

INWARD IMPACT:
The business case

Our long-term business success relies on our people: human capital in the form of our employees' dedication, talent and passion. It is essential for us to provide a fair and inclusive workplace that upholds good working conditions and labour rights, protects the health and safety of our employees, promotes their wellbeing, and offers opportunities to grow, increase their skills and capabilities and improve their employability.

Investing in our people and providing them with meaningful opportunities helps us to recruit and retain talented individuals, who can contribute to our company's purpose and achieve high productivity and efficient operations in a context of rapid change. Furthermore, we strongly believe that an inclusive culture embracing diversity better attracts talent and improves decision-making, innovation, customer orientation and employee satisfaction.

OUTWARD IMPACT:
The right thing to do

Equitable and fair employment conditions are crucial for societal harmony and well-being, and are central to a sustainable and prosperous future for all. Effective professional development opportunities ensure that employees can pursue professional opportunities and contribute meaningfully to society.

By ensuring that all the people who work with us enjoy a safe and healthy work environment, and by attending to their physical and mental well-being, we can positively impact their lives beyond their time spent at work.

Moreover, by protecting and promoting diversity, equality, equity, inclusion and fair treatment—essential to unlocking social and economic development—we seek to instill in our people a sense of belonging and maintain an inclusive workplace culture. This can have positive spillover effects outside of our organisation, and sets an example for corporate best practice.

Empowered and inclusive workplace in the Baltics

In 1993, PMI was the first Western investor in the newly independent Lithuania and one of the first in the Baltic States. Together with its financial investments, PMI has brought to the region the tradition of an inclusive and respectful work culture and attitude to the team.

Since then, PMI in the region, especially in Lithuania's manufacturing sector, has always been a flagship in setting the progressive workplace standards for other employers and cultivating high expections of potential employees.

In 2022, we not only continued to dedicate ourselves to maintaining the satisfaction and well-being of our employees, but also to proactively explore how we can additionally improve our employees satisfaction across various dimensions, including, remuneration, inclusivity and equality, career advancement, safety, work-life balance and beyond.

We continued to keep our focus on mental well-being, a concern heightened not solely by the consequences of the pandemic, but also by the commencement of war in Ukraine.

Activities to support mental well-being

It is essential to raise the general awareness of mental health's importance, reduce taboos about difficulties, and develop mental health resilience skills, especially in the wake of the pandemic. Supporting the mental well-being of our colleagues in the Baltics during the last few years has been of utmost importance.

We have company-approved guidelines on emotional and mental health at work. We provide opportunities for employees to develop and improve their skills related to mental health through regular seminars and workshops. During the training sessions, managers and employees learn how to recognize stress and burnout at work, and how to help themselves and their employees in these situations.

Also, since the pandemic's beginning, we have been offering anonymous counselling from psychologists, lawyers, tax specialists and others, not only to our employees, but also to their family members. By giving our employees access to free and timely advice from a wide range of specialists, we promote their emotional well-being. This in turn ensures the well-being of our employees and increases the quality of their work.

Work-life balance in the Baltics

People in the Baltics tend to enjoy a healthy work-life balance. The amount and quality of leisure time is vital for people's overall wellbeing. According to the OECD Better Life Index, all of the Baltic countries are in the TOP 20 based on the metric of the best work-life balance. Lithuania has the lowest percentage of people working very long hours, at 1%; and all three Baltic States are below 2.2% (OECD average: 10%).

Source: https://www.oecdbetterlifeindex.org/

Fostering diversity, equity and inclusion

Mainstreaming equal opportunities in an organization means that every employee, regardless of gender, age, disability or other features, is given equal opportunities to fulfil their work commitments or advance in their careers. However, non-discrimination alone is not enough. Employers must take an active interest in the needs of different groups and consider them, i.e. by providing decent working conditions and encouraging a successful work-life balance.

To ensure equal opportunities for all employees, we apply this principle at every stage of the career cycle: selection, career planning, performance appraisal and development.

We start with clear expectations and aim to provide shortlists of candidates equally representing both genders. In addition, we regularly organize recruitment training for managers on recognizing when we apply unjustified subconscious stereotypes in our thinking, and how to avoid them to assess people and situations objectively.

When planning career changes and preparing for a managerial shift, development activities are publicly offered to all employees, regardless of seniority, performance, or other subjective criteria - the most important thing is that the development activities help the employee to achieve their goals.

This proactive policy of gender balance in managerial positions is yielding results – in 2022, 55 percent of the top positions in Philip Morris Lithuania were held by women.

Another critical aspect of ensuring equality is pay. Philip Morris Baltic and Philip Morris Lithuania are the first companies in Lithuania to receive the EQUAL-SALARY certificate, which confirms that men and women are paid the same salary for the same or similar work. In 2022, the companies gained the Equal-Salary certificate for the fourth time in a row.

All positions in the PMI companies in the Baltics are weighted and given a weight and a pay range. When a manager determines the remuneration of their employee, they can do so within the certain range, considering an employee's performance and competencies. There is also an annual review of the employee's remuneration based on their yearly performance: the process is automated, thereby avoiding any subjectivity on the part of the manager concerning gender or other personal characteristics.

Proportion of management positions held by women in the Baltics

	Actual 2020	Actual 2021	Target 2022	Actual 2022	Target 2023	Target 2025
Offices*	55%	59%	54%	57%	50%	50%
Factory*	44%	43%	30%	40%	50%	50%

*Offices – Philip Morris Baltic, Philip Morris Latvia, Philip Morris Estonia
**Factory – Philip Morris Lithuania

What is the EQUAL-SALARY certificate?

The EQUAL-SALARY Certification verifies that organizations have sustainable policies and practices to ensure that they pay their male and female employees equally for equal work. Achieving EQUAL-SALARY certification is an important building block on the road to creating a more inclusive, gender-balanced workplace. The certification is implemented by The EQUAL-SALARY Foundation – an independent, non-profit organization based in Switzerland.

Regular pulses and follow up actions

In October 2022, we held our annual Sustainability Culture Survey in the factory of Phillip Morris Lithuania. It aims to determine where each PMI factory stands in terms of culture in relation to the Environment, Occupational Safety and Health. This was the third Sustainability culture assessment in Phillip Morris Lithuania. 260 employees participated.

After assessing the five dimensions (leadership, planning and evaluation, installation and control, measurements and corrective actions, skills, and knowledge), we determined that, in 2022, the culture level in the Phillip Morris Lithuania factory could be described as a Dependent Sustainability Culture. In 2021, we were at the Reactive Sustainability Culture level, meaning all areas recorded an improvement.

Action plans have been drawn up for the identified areas for improvement, which forms part of both the Strategic Direction Setting session and the plan for 2023 to identify what aspects need to be changed to improve the sustainability culture in Philip Morris Lithuania.

Employee NPS (satisfaction) index in the Baltics

	Actual 2020	Actual 2021	Target 2022	Actual 2022	Target 2023	Target 2025
Offices*	74	47	55	42	40	n/a
Factory*	-10	-62	0	-9	10	n/a
All	12	-38	n/a	3	n/a	n/a

*Offices – Philip Morris Baltic, Philip Morris Latvia, Philip Morris Estonia
**Factory – Philip Morris Lithuania

- PMI conducts quarterly employee engagement surveys (Pulse surveys) covering areas such as engagement, personal well-being, psychological safety, inclusiveness and diversity, manager satisfaction, communication and global change management. Once a year, a comprehensive employee survey is conducted, in addition to the Pulse surveys, also covering the categories of emotional and psychological well-being, global change management, employee roles, quality of leadership, rewards and recognition.
- Employee opinion surveys and employee focus groups are also carried out on a range of topics, and employees are asked for their suggestions; for example, on internal communication, employee reward and recognition or environmental initiatives.

- At the beginning of each year, employees are invited to participate in a discussion aimed at mapping out a plan of initiatives to improve their mental and emotional health for the calendar year. During the year, staff are surveyed on the quality, content, additional needs, etc., of the initiatives.
- In addition to regular team meetings and sessions, the company organises a quarterly all-employee meeting with the company's management team, where employees can ask questions (openly or anonymously) about issues of concern to them, or express their position on a specific issue of work culture, employee well-being or other matters.

Top Employer for the eighth time

The Top Employers Institute, an independent certification institute in the Netherlands, ranks employers annually according to the best and latest HR trends and granted Global Top Employer certificates to PMI's companies in Lithuania for the 8th time in 2022.

The Top Employers Institute's survey covers in-depth areas such as HR strategy, work environment, talent attraction, development and career management, diversity, equality and inclusion, well-being, etc.

According to the survey results, the Philip Morris companies in Lithuania are ranked high, which gives us confidence in implementing initiatives such as the hybrid working model, employee emotional health programs, and strengthening employee involvement in the design and implementation of initiatives.

Ensuring employees' safety

We place a strong emphasis on ensuring not only the mental, but also physical safety of our employees. This aspect is extremely important in the Philip Morris Lithuania factory in Klaipėda, where people are involved in working with various machinery devices every day.

We believe that employees are often best aware of the potential risks within their work processes; therefore, we involve not only managers, but all employees in the development of safety initiatives.

In Philip Morris Lithuania, we have implemented the Mission Zero program, which aims to prevent incidents and accidents. Part of this program is the Report a Hazard system, enabling employees to report near misses, allowing for the proactive identification of problematic areas and risk mitigation.

In addition, all Philip Morris factories worldwide share information about incidents, assess the likelihood of recurrence, and take preventive measures to reduce risks.

To ensure maximum safety, we make safety an integral part of the company's culture. This is achieved through various means. For instance, every meeting at Philip Morris Lithuania starts with a discussion on workplace safety. We also provide theoretical and practical safety training beyond the legal requirements to minimize accident risks.

We also incentivize employees to participate actively in reporting unsafe behavior and make suggestions for improving safety during regular surveys. Both quantitative and qualitative surveys are made annually to gather feedback on the safety culture. This maintains a consistent link between employees and the management, even during remote work, allowing them tostay aligned on prioritized safety and health areas.

Recognizing the connection between safety and psychological well-being, Philip Morris Lithuania and Philip Morris Baltic operates a well-being program. This program comprises diverse initiatives to enhance both physical and mental health, including health assessments and fitness challenges.

The company also has an established communication line for employees to voice concerns about colleagues' or managers' behavior. Reports are thoroughly investigated by impartial and competent investigators. Upon confirming violations, appropriate measures are taken. This fosters an emotionally safe environment where each employee feels valued and significant.

0 safety incidents

In 2022, in Philip Morris Lithuania, which operates the tobacco factory in Klaipėda, zero safety incidents affecting employees were reported.

Ensuring well-being through various benefits

In 2022, we continued to invest in our team's well-being through various additional benefits. Our employees in the Baltics receive life and accident insurance and private health insurance, reimbursement for sports, fitness and personal development activities, an annual leave allowance, additional funds for private pension savings, allowances and extra days off, and various recognition programmes.

Extra care for parents

To assist parents returning to work after a break and facilitate a smoother integration of balancing work with child-rearing, we implement the "Happy Parents" program. Following parental leave, parents who return to work can, for the first month, operate on a flexible work schedule, not for the full workday, but for no less than 50 percent of their work hours, while still receiving 100 percent of their regular pay. We also provide additional allowances for parents whose children are starting the school for the first time and who are raising a child with a disability.

Addressing the historic inflation

In 2022, the Baltic countries witnessed historically high inflation rates, that jumped above the 20 percent mark and were the highest among EU countries. In order to help our employees to cope with the rising prices, we decided to additionally raise their wages.

Normally, we review salaries once a year in April, after the annual performance review. But in 2022, we decided to review the salaries of all our employees in the Baltics for the second time. This means that during the year 2022, the salaries increased by more than 20% on average.

Volunteering opportunities

We encourage our employees to volunteer with various charities and community organisations. Each year, we reimburse employees for up to 5 days of volunteering with a charity of their choice.

OVERVIEW

STRATEGY

PRODUCT IMPACT

OPERATIONAL IMPACT

Improve the quality of life of people in our supply chain

Our supply chain connects us with millions of people, from the farmers cultivating tobacco and other agricultural products, to workers at the supplier companies that provide the products and services used in our products or necessary to run our business.

INWARD IMPACT:
Risks and opportunities

As our business transforms, our supply chain evolves as well. Caring for the quality of life of the people in our supply chain is a major contributor to building preparedness, resilience and overall long-term success. Prioritizing our agricultural supply chain allows us to focus on a critical component of our business that is vulnerable to poverty and human rights abuses. This includes working with farmers who make a decent living from growing tobacco, other crops or other income-generating activity, which improves their livelihood and limits our potential exposure to child labor, forced labor and other labor-related violations, import bans and reputational damage. We anticipate that the time, energy and resources we have invested in developing, implementing and monitoring the implementation of our Agricultural Labor Practices program will provide the insights needed to ensure similar standards are met throughout the rest of our supply chain as we continue on our transformation journey.

OUTWARD IMPACT:
External impact

Promoting and adhering to sustainable business practices helps safeguard human rights, improve labor conditions, protect workers' health and safety, tackle social inequalities and contribute toward alleviating poverty.

Agricultural supply chains face specific sustainability and human rights challenges. The tobacco we source is cultivated in many regions of the world, including low- and middle-income countries, where it is typically grown on smallholder farms. The socioeconomic well-being of farmers and their families depends on many factors, including the nation's health and educational services, political stability, resilience to extreme weather events and conditions, access to markets and public infrastructure. Our supply chain activities and investments extend beyond our direct effect on farmers, impacting people's assets, capabilities, opportunities and standards of living.

Sustainable cooperation with suppliers in the Baltics

Upholding our dedication to minimizing environmental impact and ensuring the quality of life of the people in our supply chain, we extend our requirements throughout the entirety of our supply chain in the Baltics. This meticulous approach ensures that every aspect of our operations adheres to stringent eco-conscious standards and to our Responsible Sourcing Principles.

We rigorously regulate our relationships with suppliers, instilling accountability and aligning practices with our environmental values. Depending on the nature of the services procured, our contractual agreements underscore the necessity to abide by our internally established benchmarks.

These encompass adherence to our comprehensive occupational safety and environmental protocols, in addition to the globally recognized PMI code of conduct. Our suppliers are also expected to align with our policies concerning environmental preservation, employee safety and health.

Furthermore, our commitment extends to forbidding the use of undesirable or illicit substances, as well as adhering to the rules governing occupational safety within our organization.

Standardized agreements underscore the prohibition of activities such as bribery, corruption and money laundering, in line with legal and ethical parameters. Additionally, these agreements emphasize the prevention of unlawful trade and activities supporting terrorism.

Importantly, these requirements apply not only to our suppliers but also to subcontractors. We stipulate that suppliers must possess all the requisite licenses, permits, certifications and registrations mandated by the applicable laws, ensuring the execution of services and work in compliance with legal framework and safety regulations. This holistic approach ensures that our values of safety, environmental responsibility and ethical conduct resonate throughout our entire supply chain.

Tackle climate change

Climate change is among the greatest threats to society. There is broad scientific consensus about the urgent need to reduce greenhouse gas (GHG) emissions to limit the rise in the global temperature to 1.5 °C above pre-industrial levels, aligned with the Paris Agreement.

INWARD IMPACT:
The business case

For a business like ours—with a diversified agricultural supply chain that is sensitive to climate changes— abrupt climate variations can endanger the physical infrastructure, supply chains, and undermine progress. It can also become a risk for business growth by exacerbating systems-level disruptions for customers, investors, employees and communities.

It is therefore imperative for us to develop and implement strong mitigation and adaptation strategies that can prepare and mitigate how climate change may impact our business. We do that by reducing our GHG emissions, which increases efficiency and energy savings, and results in better profitability, as well as in fewer inputs used over outputs. We are also planning and investing in innovative low-carbon technologies, which require higher investments upfront but offer meaningful emissions reductions and payback over the medium and long term. These actions position us to better anticipate climate-related regulation, support climate policies and seize climate-related economic opportunities.

OUTWARD IMPACT:
The right thing to do

The climate crisis, as acknowledged by the international community, threatens all livelihoods, but especially those who are most vulnerable, exacerbating inequalities. It impacts human rights, biodiversity, water access, global health, and food security, and exacerbates environmental changes such as ecosystem degradation, drought, flooding and desertification.

While science tells us that climate change is irrefutable and unavoidable, it also tells us that it is not too late to limit global warming to the 1.5 °C threshold that is considered the limit beyond which climate-related impacts will be catastrophic. Achieving this goal will require fundamental transformations of critical aspects of society, including how we grow food crops, use land, transport goods and power our economies. The great challenge of our times is to find a way to effectively align the public and private sectors to take critical action and put aside existing siloed approaches and objectives.

Decarbonizing in the Baltic States

PMI has made great progress on a global scale to reduce its carbon footprint. We believe it is equally important to support such targets at a local level. In the Baltic region, efforts have been made to minimise our climate footprint by focusing on areas we can make an impact locally, such as initiatives to reduce littering, sourcing renewable energy for our offices, making our car fleet greener, as well as decarbonising the factory in Klaipėda, Lithuania.

Decarbonizing the Klaipėda Factory

Operating as one of PMI's largest factories, our Klaipėda facility in Lithuania places paramount importance on maintaining carbon neutrality and progressively lowering CO_2 emissions. We prioritize reducing absolute carbon emissions by optimizing efficiency and reducing consumption, while minimizing the use of fossil fuels and promoting the switch to renewable energy.

Philip Morris Lithuania, the entity overseeing the Klaipėda factory, has committed to a 7% annual reduction in overall energy consumption, but in 2022 the consumption was reduced even more - by 12 percent. This was achieved by continuously reducing production costs through the detection and elimination of energy losses, by upgrading equipment and by introducing the latest control technologies.

We compensate for the remaining unavoidable emissions in our direct operations by prioritizing in setting projects in our supply chain when possible and purchasing certified carbon credits when needed.

In Klaipėda, we ensure that, from the raw materials to the purchase of a product, pollution is minimised as much as possible, in the production process, in packaging and in all other processes. Philip Morris Lithuania meets Scopes 1+2 under the Carbon Neutral Certification Scheme.

Our three-pronged approach to decarbonization

REDUCE — SWITCH — OFFSET
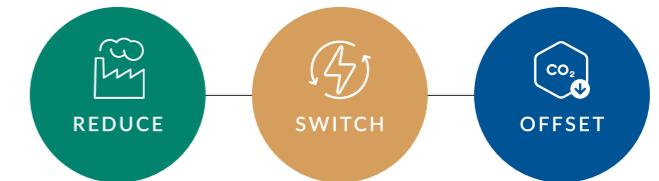
Over the past decade, the Klaipėda factory has upgraded its production equipment and introduced innovative thermal solutions to conserve energy. Heat recovered from the tobacco preparation process is repurposed for hot water and heating. To leverage renewable energy sources, a biomass boiler was installed for energy and heat generation, complemented by wind and water-based green energy since 2015. Artificial intelligence regulates the cooling and humidification of ventilation systems, optimizing resource usage.

Moreover, newer, more energy-efficient ventilation appliances have replaced the older counterparts. Besides, all our production uses energy-saving lamps. Many spaces have motion sensors to switch lights on/off, to avoid wasting electricity. A project to improve the energy performance of buildings has been launched - we are upgrading the insulation of the roofs and walls.

The factory's processes have been methodically systematized, integrating control mechanisms to monitor resource consumption. For example, we monitor electricity figures on a daily basis and compare them with production volumes. Any deviation is recorded in the system and the cause/fault is immediately investigated.

Philip Morris Lithuania has also mandated its suppliers to reduce CO_2 emissions and optimize their processes and packaging. Since 2019, we have been working with our suppliers to develop an emissions reduction strategy in line with our carbon reduction targets.

These comprehensive efforts led to the Klaipėda factory becoming the first PMI facility to attain a Carbon-Neutral certificate. An evaluation by myclimate, a Swiss climate protection organization, confirmed the factory's full reduction of greenhouse gas emissions. In 2022, Philip Morris Lithuania retained the Carbon-Neutral certificate. Any remaining emissions are offset, and resources are allocated to global initiatives such as water improvement programs.

Philip Morris Lithuania's efforts to neutralize CO2 emissions mark a significant stride toward Philip Morris International's overall objective of achieving carbon neutrality in all direct operations by 2025, and extending that to indirect operations by 2040.

Levent Garip
Director Manufacturing of Philip Morris Lithuania

" At the Philip Morris factory in Klaipėda, our commitment to sustainability is at the heart of everything we do. For many years, it has been a flagship of sustainability in the region and within the PMI group. In 2019, the factory became the first carbon-neutral factory among all PMI factories and one of the first in Lithuania.

In 2022, through rigorous energy efficiency measures, investments in renewable energy sources, and the daily dedication of each team member, we further reduced our carbon emissions. Additionally, our team is deeply committed to the zero-waste philosophy, which has led to the reduction of waste resulting from our activities.

We have also worked tirelessly to ensure the well-being of our employees and the communities in which we operate. In 2022, we achieved further success with our Mission Zero program, and we continue to create a workplace that fosters growth and development.

I would like to express my gratitude to our dedicated team members, partners and stakeholders, who have played a pivotal role in our sustainability journey. Together, we will continue to make strides towards a more sustainable future. "

Reducing emissions in our offices

In addition to our concentrated efforts aimed at reducing emissions in the Klaipėda factory, we are continually working on ways to save energy and minimize our carbon footprint in our administrative and commercial activities across all Baltic countries.

We consistently promote sustainable commuting practices among employees, by offering remote work options. Successful initiatives such as Car-Free Day also contribute to the overall decrease in our carbon footprint. Moreover, we provide our employees with eco driving lessons that help them drive more fuel-efficiently and safely. Within our offices, various sustainable initiatives are in place, including the encouragement to save energy by turning off lights and adopting conscious printing practices.

Regarding waste management measures, which are closely linked to waste reduction, we encourage all Baltic employees to actively participate in waste sorting, the reuse of pallets in our warehouses and the replacement of plastic bottles with water dispensers. These practices have significantly reduced our waste production. This reduction in waste translates to fewer materials being sent to landfills, where their decomposition would produce methane, a potent greenhouse gas.

Furthermore, we foster a culture of innovation through diverse initiatives that provide our employees with a platform to propose novel sustainability ideas. This effort holds the potential to unveil new methods of mitigating our environmental impact.

Advancing carbon neutrality in our fleet

In 2021, PMI introduced a new Global Vehicle Fleet policy with the objective of reducing carbon emissions within the company's fleet. Consequently, in 2022, we made investments in sustainable hybrid vehicles in the Baltics, coupled with more efficient driving practices to optimize energy consumption and enhance operational efficiency. We anticipate that these new vehicles will emit 40 percent fewer carbon emissions than the models they are replacing. We not only promote efficient driving practices, but also prioritize the safety of our employees. This includes offering safe driving lessons and implementing measures to prevent accidents within our car fleet.

Operational Impact PMI Baltics (4 affiliates)
KPI – Climate and nature

	Actual 2019	Actual 2020	Actual 2021	Target 2022	Actual 2022	Target 2023	Target 2025
CO2e scope 1 from fleet (T)	218.826	188.993	172.876	168.767	190.171	177.810	153.088
CO2e emissions from vehicles (g CO2e per km)	180	174	166	156	162.02	153	125.25
CO2e scope 1+2 (T)*	n/a	n/a	38.032	52.668	35.205	35.710	33.501

*market offices only, factory excluded

Preserve Nature

Natural capital is a wealth we all share and are depend on. It is essential that we protect, sustainably manage and nurture it.

INWARD IMPACT:
The business case

Our business activities rely on healthy ecosystems. The degradation and loss of natural capital can cause disruptions and increase production costs. The raw materials used in our products rely on fertile soil, stable climate conditions and access to water.

As a business with an agricultural supply chain, it is paramount that we take needed steps to protect and preserve the ecosystems where we operate. Even small changes to the balance of the natural environment can damage crop productivity, increase production costs linked to remediation and adaptation measures, and negatively impact farmers' livelihoods.

Promoting the efficient use of natural resources and taking steps to protect, preserve and improve them helps manage risks and prepare us to meet the regulatory frameworks that may emerge in response to increased awareness of our limited planetary boundaries, ecosystem degradation and biodiversity loss. Furthermore, we understand that we all have a responsibility to halt the destruction of natural habitats, including avoiding and compensating for losses, and a failure to play our part in helping address this global issue could lead to reputational damage for our company.

OUTWARD IMPACT:
The right thing to do

We collectively depend on soil, land, forests and water, which provide ecosystem services critical to human existence. Moreover, a healthy natural ecosystem plays a vital role in tackling climate change, with land and oceans absorbing and storing carbon from the atmosphere. Yet species richness and natural resources are being lost at an alarming rate.

Global scientific studies indicate that biodiversity is deteriorating worldwide at rates unprecedented in human history, with one million plant and animal species facing extinction, thousands of species already extinct, and several million hectares of natural forest lost each year despite international efforts to counter the trend. The unsustainable use of natural resources can lead to the loss of fundamental ecosystem services we depend on, including soil fertility, clean air and water, protection from natural disasters, and recreational and cultural inspiration, as well as subsequent loss of economic value. Often, it is the world's most impoverished communities that are most vulnerable to the negative impacts of changes in climate, biodiversity and ecosystem functions.

Preserving the Baltic nature

People in the Baltic countries take immense pride in their natural surroundings, which encompass vast old forests, numerous pristine lakes and rivers, vibrant wetlands and an extensive sandy coastline along the Baltic Sea. These ecosystems contribute to significant biodiversity, and we dedicate considerable efforts not only to preserving them, but also to enhancing their richness.

Chemical materials control

In our pursuit of minimizing potential impacts on the environment, Philip Morris Lithuania maintains an approved list of unauthorized chemicals. Contractors and direct employees are prohibited from using these chemicals. The process of chemical procurement involves multiple steps: Safety Data Sheets for the desired chemical are submitted to the Quality Department, which evaluates the potential risks. Upon approval from the Quality Department, the Sustainability Department assesses the material with respect to occupational safety and environmental risks. If the material is aligned with the stringent requirements and regulations, its usage is authorized. For hazardous materials, we actively seek less hazardous alternatives, evaluating both the occupational safety and environmental perspectives.

Preserving water and land

To mitigate environmental harm, the Klaipėda factory operates its own biological treatment plant. This facility employs microorganisms to assist in purifying the wastewater it generates. Our employees undergo training to handle emergency situations such as oil spills or chemical leaks, ensuring soil contamination is averted and proactive measures are taken.

Moreover, as of 2022, Philip Morris Lithuania initiated preparations for certification under the Alliance for Water Stewardship standard. This standard forms a pivotal element of our water management strategy.

The AWS standard is a universally applicable framework enabling organizations to comprehend their water consumption and impacts. It facilitates collaborative and transparent engagement with external stakeholders within the same catchment area, ultimately achieving sustainable management in the broader water context. PMI is committed to certifying all its factories to the AWS standard by 2025.

Waste reduction

Embracing a Zero Waste philosophy, the factory's employees actively work to minimize waste, pollution and environmental harm. We achieve this through waste sorting, composting, recycling, the use of reusable containers and investments in modern technologies. A formidable Zero Waste to Landfill target has been set, and in 2022, we achieved a 90.2% recycling rate, incinerating 9.65% with energy recovery, while only 0.15% of our waste ended up in landfills.

Employee engagement

In our endeavor to attain our conservation objectives, we organize various internal initiatives encouraging employees to contribute their ideas, such as waste reduction strategies. Furthermore, we involve our employees in environmental volunteering programs and collaborate on initiatives for the preservation of nature.

Issue Lead

We hope you have enjoyed our very first sustainability report for Philip Morris in the Baltics. It has been a pleasure to share our sustainability goals with you and the progress that we achieved in 2022.

Our work affects a wide range of internal and external social groups, and this report is our way of demonstrating our ESG efforts. While we are part of PMI's global strategy, we also hold a deep commitment to understanding what sustainability means to our local employees and community.

Our local sustainability materiality report has highlighted that these groups prioritize employee well-being, operational discharge, post-consumer waste, health and safety at work, climate, product health impact, and materials and product eco-design. Although this report shows significant progress in these areas, we plan to work even harder in the coming years to ensure that our actions benefit local communities to the fullest.

In addition to our sustainability materiality assessments, we maintain ongoing engagement with stakeholders and external organizations to stay ahead of their needs and keep up with the latest sustainability trends, ideas and insights. We believe that our cooperation with both our internal employees and external groups will continue to be even more seamless and effective through our Baltic Sustainability Working Group.

It's only through the partnership with external stakeholders that we can achieve the ambitious goal of a smoke-free future and phase out the consumption of cigarettes. The speed of this transformation and the solutions for deploying our capacity around the world depend on the willingness of the public, governments and regulators to engage in an open dialogue and work together to accelerate smoking cessation.

Such partnership is vital, as we strive to create a sustainable world for everyone. Thank you for joining us on this journey toward a better and sustainable smoke-free future.

Liudas Zakarevičius
Director External Affairs
Baltic States

Glossary of terms and acronyms

Aerosol – Gaseous suspension of fine solid particles and/or liquid droplets

ALP – Agricultural Labour Practices

Available for sale – When PMI products are available for general sale in the market, through direct retail, indirect retail or e-commerce. We consider PMI smoke-free markets to be available for sale when at least one variant of PMI smoke-free products is commercialised in any of our distribution channels

AWS – Alliance for Water Stewardship

B2B – Business to business

B2C – Business to consumer

CA – Cellulose acetate

Combustible tobacco product – The term we use to refer to cigarettes and other tobacco products that are combusted

Combustion – The process of burning a substance in oxygen, producing heat and often light

Contracted farmers – Tobacco farmers supplying to PMI and contracted, either directly by PMI (through the company's leaf operations) or through third-party leaf suppliers

Contractor – A person employed or working on behalf of a third-party company contracted by PMI, who remains under the direct supervision of his or her employer rather than PMI and is often involved in project-specific or outsourcing arrangements

E-liquids – A liquid solution that is used in/with e-cigarettes.
E-liquids contain different levels of nicotine in a propylene glycol and/or vegetable glycerin-based solution with various flavours.

E-vapor product – Electrical product that generates an aerosol by heating a nicotine or non-nicotine containing liquid, such as electronic cigarettes (or "e-cigarettes")

EPR – Extended Producer Responsibility

ESG – Environmental, Social and Governance

FCTC – WHO Framework Convention on Tobacco Control

FDA – U.S. Food and Drug Administration

General sale – Commercial initiative by which PMI provides PMI products to adult consumers in exchange for monetary value or other considerations, including activities such as sale-for purchase, renting, leasing, lending and loaning. Adult consumers must have access to PMI products without any purchase restrictions imposed by PMI that go beyond local regulations (e.g. club membership, registration, etc.)

GHG – Greenhouse gas

Heated tobacco units, or HTUs – The term we use 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)

HPHCs – The harmful or potentially harmful constituents, which have been identified as likely causes of tobacco-related diseases by various public health institutions

Human rights impact assessment, or HRIA – Assessments to identify human rights risks and adverse impacts

Illicit trade – Domestic non-tax paid products

IQOS **heat-not-burn devices** – Precisely controlled heating devices into which specially designed and proprietary tobacco units are inserted and heated to generate an aerosol

KPIs – Key performance indicators

Low- and middle-income markets, or LMIMs – Markets comprised of countries classified by the World Bank as low- and middle-income economies based on the Gross National Income (GNI) per capita; or where no World Bank classification exists, those with a GNI per capita below the World Bank LMIC threshold

LTIR – Lost Time Incident Rate

Managerial roles – The terms we use to refer to employees of different salary grades, regardless of their job title or function:

- **Junior roles** – Employees at salary Grade 9 or below
- **Managers** – Employees at salary Grade 10 to 13
- **Management positions** – Employees at salary Grade 10 and above
- **Senior roles** – Employees at salary Grade 14 and above

- **Senior leaders** – Employees in senior leadership roles, including all employees at salary Grade 17 and above

MRTP – Modified Risk Tobacco Product

Net revenue related to smoke-free products – Represent 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 revenue related to wellness and healthcare products – Represent 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.

NGOs – Non-governmental organisations

NRTs – Nicotine replacement therapies

OECD – Organisation for Economic Cooperation and Development

Offsetting – The act of purchasing a carbon credit generated outside the corporate's sphere of influence and retiring the unit on behalf of 1 ton of carbon that has been emitted by the corporate (source: International Carbon Reduction and Offset Alliance)

Other Tobacco Product or OTPs – Primarily roll-your-own and make your-own cigarettes, pipe tobacco, cigars and cigarillos, and does not include smoke-free products

PMI heat-not-burn products (also referred to as PMI heated tobacco products) – Include licensed KT&G heat-not-burn products

Reduced-risk products or RRPs –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. PMI has a range of RRPs in various stages of development, scientific assessment and commercialisation. PMI's RRPs are smoke-free products that contain and/or generate far lower quantities of harmful and potentially harmful constituents than those found in cigarette smoke

R&D – Research and development

SDGs – Sustainable Development Goals

Smoke – A visible suspension of solid particles, liquid droplets, and gases in air, emitted when a material burns

Smoke-free products or SFPs – The term we primarily use 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

Smoke-free product consumables – The term PMI uses to refer to heated tobacco units used with heat-not-burn products, e-vapor disposables, cartridges containing e-liquids that are used for e-vapor products, and oral nicotine products including snus and nicotine pouches

Tons (t) – "Tons" equates to "metric tons" throughout this report

Total IQOS users – 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.

Wellness and Healthcare products – The term we use to 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

WHO – World Health Organization

YAP – Youth access prevention

Baltic Headquarters

Philip Morris Baltics UAB
Jogailos str. 4
01116 Vilnius, Lithuania

www.pmi.com

Sustainability contact

Ieva Stanienė
Issue Lead Sustainability Baltics
Vilnius, Lithuania

ieva.staniene@pmi.com