



PHILIP MORRIS  
NORDICS

TRANSFORMING FOR GOOD

# Towards a smoke-free future

Nordic Sustainability Report 2022

# About this report

This is PMI's fourth sustainability report on the Nordic countries – Denmark, Finland, Iceland, Norway, and Sweden. It covers our sustainability efforts in 2022 and maps out our direction for the years ahead. It is an extension of the PMI Integrated Report 2022, published in April 2023, and a supplement to the annual reports for the individual Nordic offices, which includes disclosure of sustainability efforts according to local regulations.

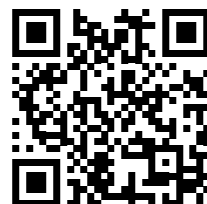
While it aligns with PMI's global strategy, the focus of this report is local rather than global, though many of our efforts also contribute to goals and targets on the global level. As we consolidate our sustainability efforts, we have identified a number of key performance indicators (KPIs) from our company's global initiatives that are most relevant in guiding our work in the Nordic region. This report presents what we have achieved so far, and what we are working to achieve moving forward.

## PMI Integrated Report 2022

The PMI Integrated Report is aligned with the International [Integrated Reporting Framework](#) to better detail PMI's business transformation and more fully capture our company's progress in delivering on the transformation.



Read Sustainability at PMI  
[pmi.com/sustainability](https://pmi.com/sustainability)



## PMI'S ACQUISITION OF SWEDISH MATCH

In November 2022, PMI acquired Swedish Match – a global leader in oral nicotine products such as snus and nicotine pouches.

The acquisition was an important milestone in PMI's journey towards a smoke-free future, an ambition it shares with Swedish Match.

This Nordic Sustainability Report does not comprehensively account for the impact of the acquisition due to its recent nature, but we look forward to sharing the progress achieved through the integration of our two businesses in our next report.



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# Leading the way towards a smoke-free future

In 2022, PMI continued the diligent work towards the vision of a smoke-free world. We have seen significant progress, not just as a company but also of the industry as a whole. As we continue on our transformation journey, where cigarettes are obsolete, we aim to keep leading the industry's smoke-free transition. The most sustainability contribution is about getting rid of cigarettes.

Since 2008, PMI has invested more than USD 10.5 billion in developing and commercializing smoke-free products. They now account for more than a third of our total global net revenues. Our ambition is for more than two-thirds of the company's total net revenues to come from products beyond nicotine in 2030.

## The Nordics in the front

The Nordics gives us a great platform to spearhead this transition. The region has some of the lowest prevalence of smoking in the world. Today, there are about 2.5 million smokers in the Nordics, and PMI want to play a crucial role in reducing that number even further in the near future.

With the lowest smoking rates in Europe, Sweden is on its way to becoming the world's first smoke-free country. Among men in Europe, Sweden has the lowest proportions of smokers and the lowest proportion of smoke-related deaths.

## Acquisition of Swedish Match a milestone

In 2022, the acquisition of Swedish Match marked a major milestone in our journey and will accelerate our transition. Together we are committed to a smoke-free future.

We also share a commitment to developing, scientifically substantiating, and responsibly commercializing smoke-free products that are an alternative to cigarettes.

Swedish Match's leading nicotine pouch product, will bolster our growing smoke-free portfolio of heated tobacco products and oral nicotine products. This will put us in a significantly stronger position to meet adult smokers who would otherwise continue to smoke.

The acquisition will also bring five production sites into our Nordic region.

“

*"The Nordics gives a great platform to spearhead the smoke-free transition"*

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## Global and Nordic agendas closely linked

In the Nordics, we are focusing on managing the social impact of our products by ensuring that they do not reach unintended audiences as a priority, and we continue to put in place youth access prevention safeguards in our direct and indirect retail channels.

Mindful of the importance of reducing post-consumer waste, we also made progress in implementing take-back programs for our smoke-free devices and

consumables. In Finland, we launched a recycling programme for nicotine pods and e-vapours.

In our tobacco supply chain, we are on track to reduce the prevalence of child labor among the farms from which PMI buys tobacco and to increase the proportion of contracted farmer supplying tobacco to PMI who make a living income.

We continue decarbonizing our direct operations. Our 2040 net-zero science-based target was validated by the Science Based Initiative and we are progressing well toward our target to purchase tobacco at no risk of deforestation or conversion of natural ecosystems.

## Together towards a smoke-free future

Even though we have progressed well in many areas, we know we must speed up our efforts even more and pave the way towards a smoke-free future.

But we cannot do this alone, at PMI we are constantly seeking to engage with stakeholders such as governments, the public health community, industry, and civil society, as we believe to partake in social dialogue and an open debate is key to making progress and in reaching our vision.

I would like to thank all colleagues and partners for continued support and hard work.



**Anette Rosengren**  
Managing Director,  
Philip Morris Nordics



# PMI's Statement of Purpose

In 2016, PMI announced the company's new purpose: to deliver a smoke-free future. PMI aims to completely replace cigarettes as soon as possible with smoke-free, science-based products and to evolve in the longer term into a broader lifestyle, consumer wellness, and healthcare company.

## Our perspective

At PMI, we aim to base our success on a future in which we no longer make or sell cigarettes, the most harmful form of nicotine consumption. In stark contrast with our competitors, PMI's value proposition is not to expand its portfolio of both combustible and smoke-free products to offer more choice to consumers. Rather, our goal is to lead an industry-wide transformation whereby cigarettes are phased out completely.

Our strategy is centered on researching and developing alternative products to cigarettes, promoting broad access to them by adult smokers who would otherwise continue to smoke, and working to ensure these products replace cigarettes and make smoking obsolete as soon as possible. To achieve this, we are actively shifting and reallocating resources, setting ambitious goals connected to this strategy, and transparently reporting on our progress.

## 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 science-based 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 space.

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.

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.

## OUR JOURNEY SO FAR



# Message from our global Chief Executive Officer



2022 was a remarkable year. Almost seven years since we announced our vision of a smoke-free future, the volume of combustible tobacco products made and sold by our company has decreased by 27 percent. This past year, we kept our relentless focus on that ambition, dedicating 99 percent of our research and development and 74 percent of our commercial expenditure to smoke-free products. I can proudly report that, in 2022, smoke-free products represented 32.1 percent of our net revenues, and we estimate that, by year-end, almost 25 million adults were using our main smoke-free product.

To further accelerate progress, we achieved two critical milestones in 2022: our acquisition of Swedish Match and the agreement to take full control of our main smoke-free product in the U.S. as of April 30, 2024. Swedish Match will also be a crucial component of our growth. Bringing together our two companies has expanded our portfolio and geographic footprint, placing a future free from cigarettes more firmly in our grasp. It is my hope that our stakeholders will judge us not for the company we were but for the company we are today and, importantly, the one that we are working hard to become. It is through constructive engagement that we will accelerate the pace of meaningful and impactful change and complete our transformation, for good.

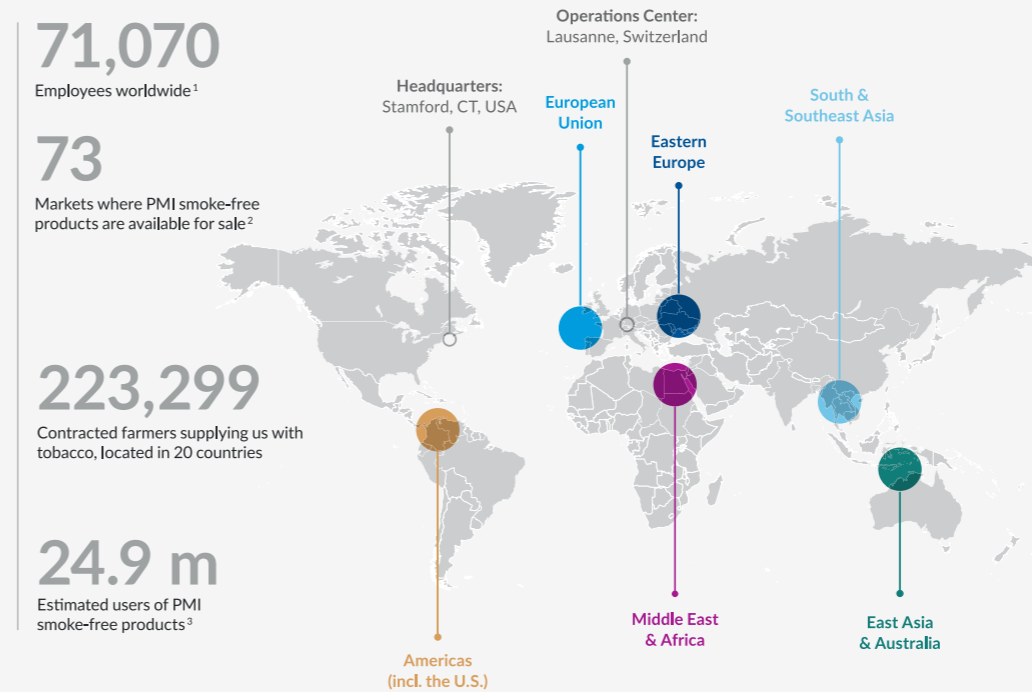
**Jacek Olczak**  
Chief Executive Officer

# PMI in the world

## 2022 overview by PMI segment

	European Union	Eastern Europe	Middle East & Africa	South & Southeast Asia	East Asia & Australia	Americas (incl. the U.S.)	Swedish Match	Wellness and Healthcare
Proportion of PMI's total 2022 net revenues generated by each segment	38%	12%	12%	14%	16%	6%	1%	1%
Proportion of 2022 net revenues derived from smoke-free products in each segment	40%	35%	9%	1%	58%	5%	78%	100%
Proportion of global workforce by segment	28%	8%	4%	35%	5%	10%	9%	2%
Number of PMI-owned manufacturing facilities in each segment	13	3	4	10	2	6	14	1

Notes:  
Figures in the above table are rounded. For definition of net revenues derived from smoke-free products, see [Glossary](#).  
As of December 31, 2022, we managed our business in six geographical segments, a Swedish Match segment (reflecting operating results from November 11, 2022 (acquisition date) to December 31, 2022) and a Wellness and Healthcare segment (which includes the operating results of our new Wellness and Healthcare business, Vectura Fertin Pharma). See [Glossary](#).



PMI-owned manufacturing facilities <sup>4</sup>	Third-party manufacturers	Third-party operators (in Indonesia)
<b>53</b>	<b>31</b>	<b>38</b>

1 Incorporating Vectura Fertin Pharma, as well as the 2022 acquisition of Swedish Match, PMI employed approximately 79,800 people worldwide at year-end 2022.  
2 Including Swedish Match.  
3 Figures pertain to total IQOS users. See [Glossary](#).  
4 Including Swedish Match and Vectura Fertin Pharma.

# PMI in the Nordic region

PMI's smoke-free alternatives are available for adult smokers all over the Nordics.

Since 2016, PMI's heated tobacco platform has been available in Denmark and Sweden. The third generation of the device has now been launched in both countries. In 2021, our e-vapor platform was introduced in Finland and oral snus and nicotine products was launched in Norway, Sweden and Denmark. Nicotine pouches was allowed in Finland in the spring of 2023.

PMI has offices in four of the five Nordic countries. The Nordic offices cooperate on sustainability initiatives under the direction of a Nordic Sustainability Manager collaborating on projects, events, and activities. During 2022 we established a cross functional sustainability network collaborating on projects, events and activities.

**Philip Morris Denmark** was established in 2001, but the history of PMI brands in Denmark dates to the 1950s. Based in Copenhagen, we employ 78 people to import and sell tobacco-based products. PMI Reduced Risk Products were introduced to Denmark in 2016.

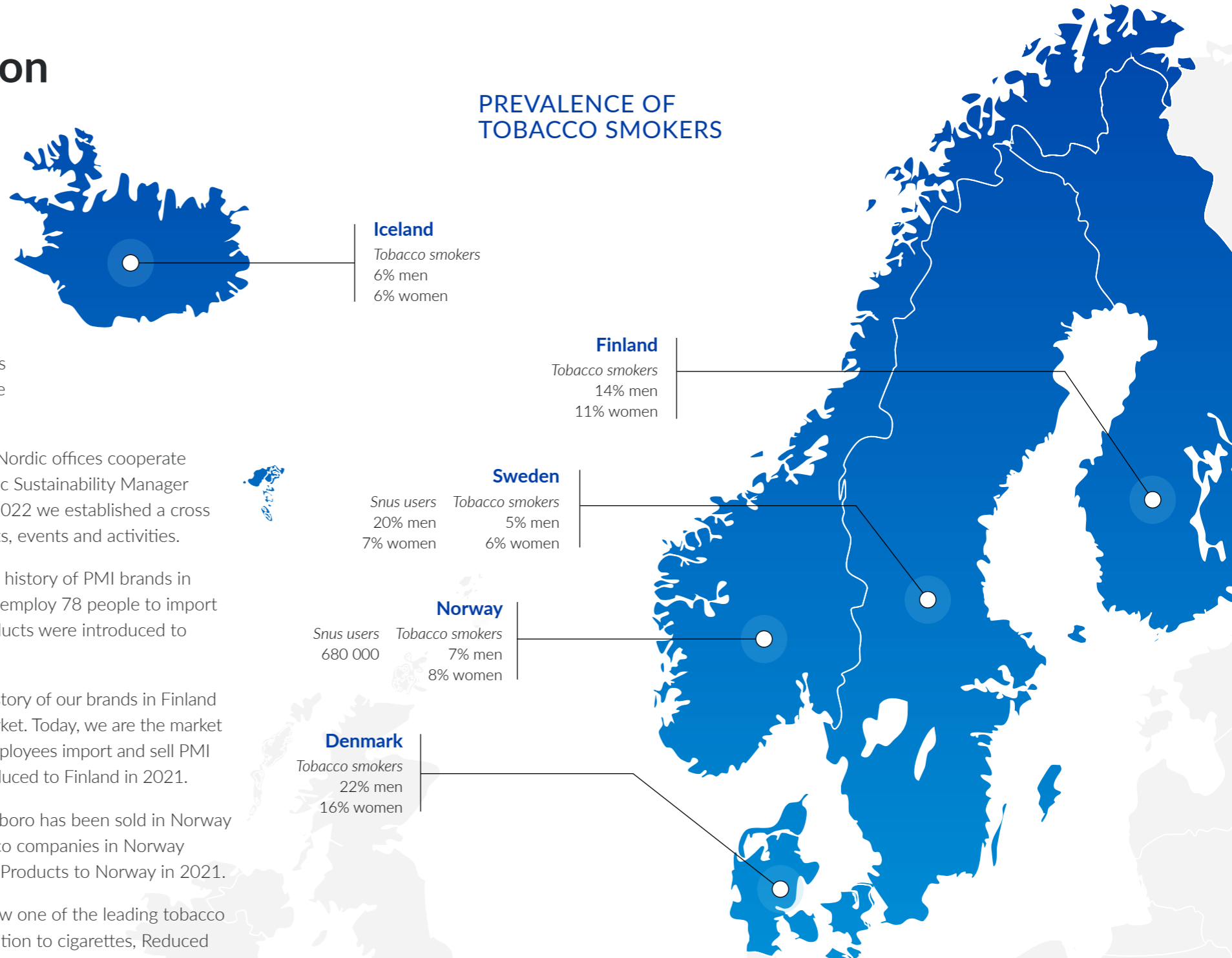
**Philip Morris Finland** was established in 2004, but the history of our brands in Finland goes back to 1962, when Marlboro first arrived in the market. Today, we are the market leader in Finland. Through a sales office in Helsinki, 21 employees import and sell PMI tobacco products. PMI Reduced Risk Products were introduced to Finland in 2021.

**Philip Morris Norway** was established in 2005, but Marlboro has been sold in Norway since the 1950s. Today, we are one of the leading tobacco companies in Norway employing 18 people. PMI started to offer Reduced Risk Products to Norway in 2021.

**Philip Morris Sweden** was established in 1969 and is now one of the leading tobacco companies in the country, employing 163 people. In addition to cigarettes, Reduced Risk Products from PMI were introduced to Sweden in 2019.

PMI products are available for purchase in **Iceland**, but we have no offices there.

## PREVALENCE OF TOBACCO SMOKERS



## DAILY SMOKERS 2022

**Sources:** The Danish Health Authority (2023), The Finnish Institute for Health and Welfare (2021), Statistics Norway (2023), Public Health Agency of Sweden (2022), Icelandic Directorate of Health (2022).

# Sustainability materiality assessment

PMI's sustainability materiality assessment is the foundation of our strategy – it allows us to identify, assess, and prioritise material ESG topics – environmental, societal, and governance factors most likely to have impact on or be affected by our business.

A complementary regional materiality assessment and prioritisation has been conducted in the Nordic countries. **In general, our Nordic stakeholder engagement and materiality assessment shows the same priorities as the global level; climate, littering, and our products' health impacts are and should be our main concerns.**

Our stakeholders value the development of smoke-free products for adult smokers who will not quit, and other strategies for improving health. Our business integrity, as well as working and living conditions throughout our value chain, are also of high concern to our stakeholders. We also should continue our work to prevent littering and reduce post-consumer waste from our products, in part by eco-design and use of biodegradable materials.

Environmental topics, such as minimising our impact on climate, biodiversity, and greenhouse gas emissions, will be even more important in 2030. As our world grows smaller and we become more co-dependant, social aspects such as transparency in governance, human rights, as well as socioeconomic well-being and better working conditions in poor countries, are expected to grow in importance.

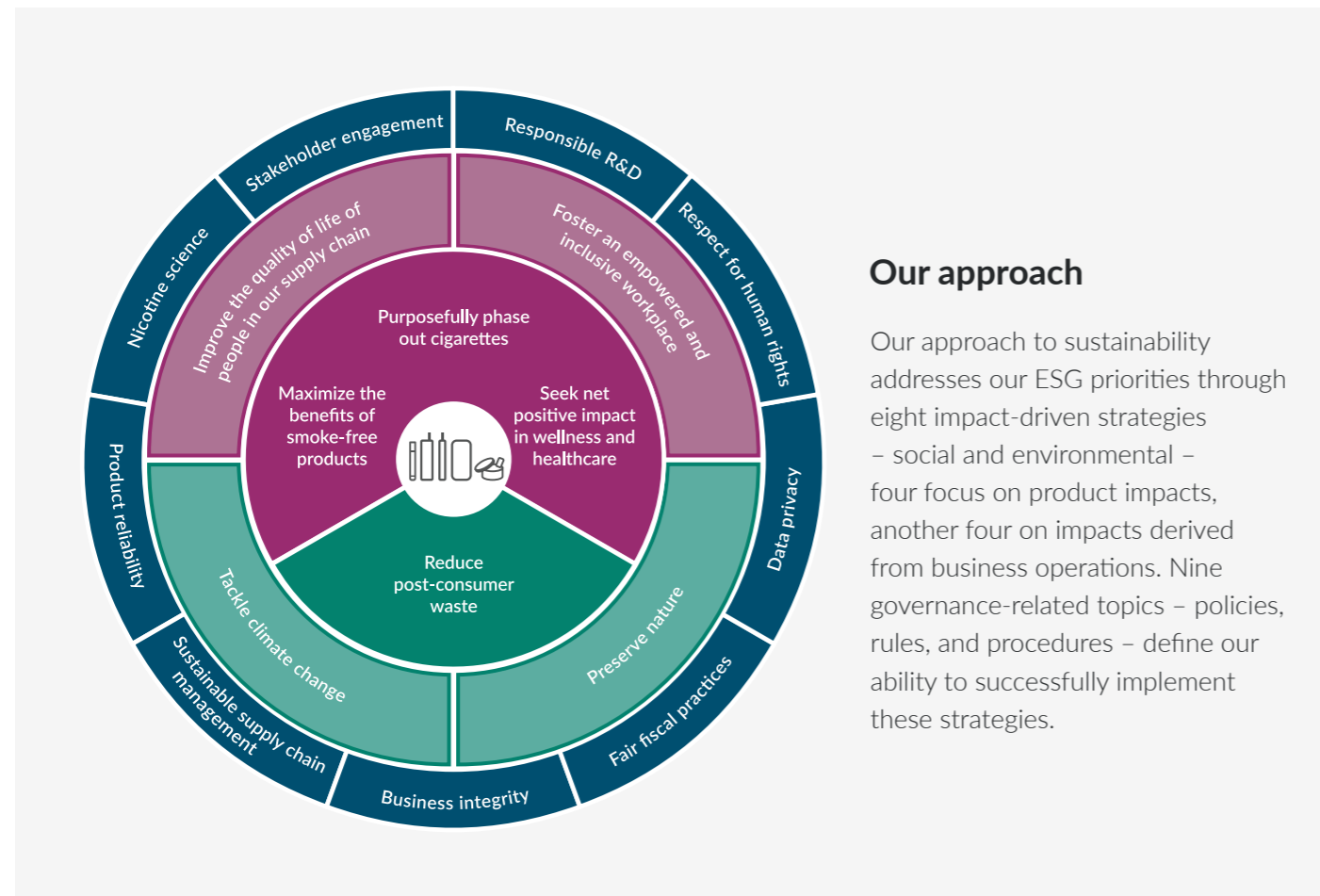


# Our sustainability strategy

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 our strongest competitive advantage.

The health impact of cigarette smoking is the most significant and pressing negative externality 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
2. Purposefully phase out cigarettes
3. Seek net positive impact in wellness and healthcare

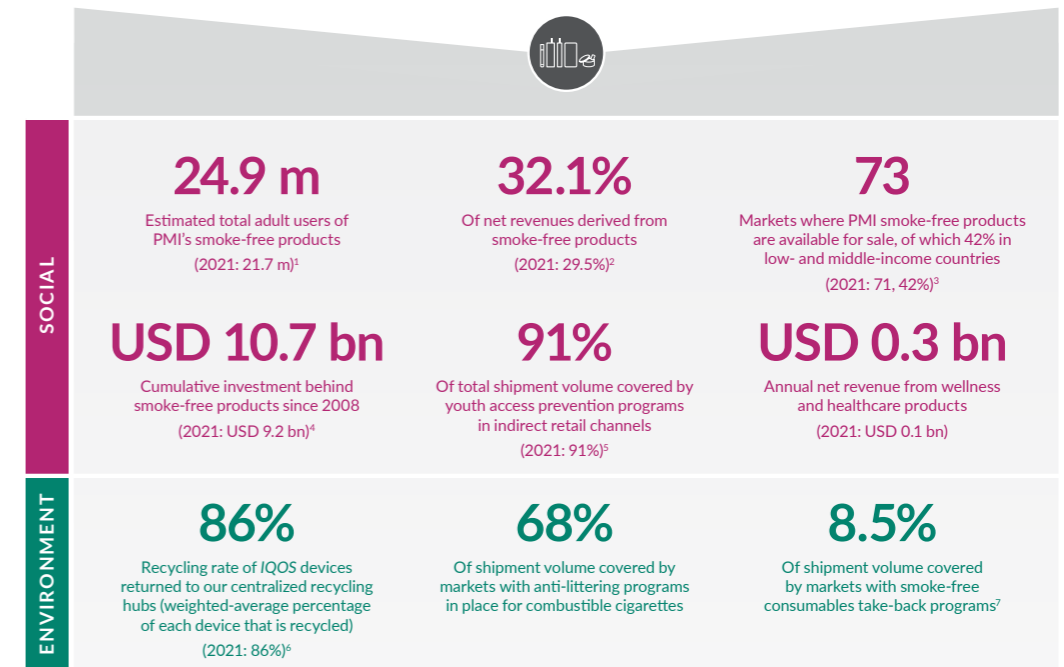


## Our approach

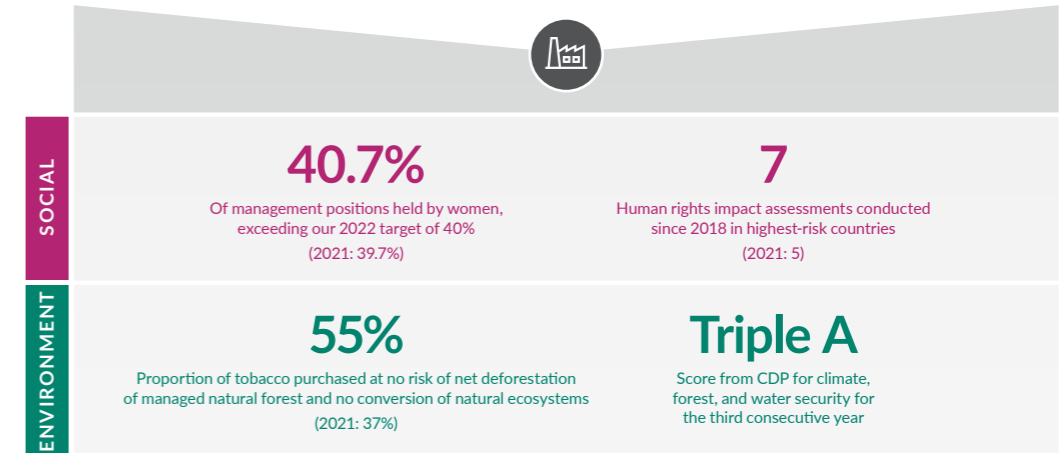
Our approach to sustainability addresses our ESG priorities through eight impact-driven strategies – social and environmental – four focus on product impacts, another four on impacts derived from business operations. Nine governance-related topics – policies, rules, and procedures – define our ability to successfully implement these strategies.

# 2022 Global highlights

## PRODUCT IMPACT



## OPERATIONAL IMPACT



1 Figures pertain to total IQOS users. See [Glossary](#).  
 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. 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 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 device type and processing facility (includes 80% recycling and 6% energy recovery). 2022 data cover 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.



# Our 2025 Road Map for the Nordics

The road-map for the Nordic countries outlines our key goals and informs the route of our long-term plan.

Running to the end of 2025, it comprises 8 headline goals connected to our strategy which aim to address priority ESG topics identified in the sustainability materiality assessment.

In the Nordics we focus on the areas where we can have the biggest impact locally, such on health, waste, workplace and illicit trade. Through the thorough work in our global operation, we also ensure full focus on improving the quality of life of people in our supply chain and actions to tackle climate change and nature on a global level.

As we believe business can and must contribute to achieve the UN Sustainable Development Goals (SDGs), we have linked each of our strategies to the corresponding SDG.

The 2022 performance shows that we are on track in our Product pillar and broadly on track across our Operational pillar.

In the Nordic report our focus is on the areas where we can have the biggest impact, such on health, waste, workplace and illicit trade.

[Explore PMI's 2025 global Road Map](#)

PRODUCT IMPACT



Goals	Key performance indicators	2022 Progress	2025 Aspirations	Primary SDGs
<b>Purposefully phase out cigarettes</b> 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 revenues by 2025 while continuing to reduce our combustible shipment volume	1. Smoke-free product shipment ratio (smoke-free/total)* 2. Commercial expenditure (smoke-free/total)*	15.1 % 74 %	>30 % -	<b>Product health impact</b> 
<b>Maximize the benefits of smoke-free products</b> Develop and commercialize science-based smoke-free alternatives, making them available in 100 markets (of which at least half in low- and middle-income markets) and continuing to increase the total number of users  Deploy robust youth access prevention programs in indirect retail channels and ensure that sales of our products abide by our Marketing Codes	3. Number of Nordic markets where PMI smoke-free products are available for sale 4. Total number of users of PMI smoke-free products (in millions)* 5. Number of interactions with point of sale (POS) in regards to YAP Goal: minimum ONE interaction PER POS = 100% Covering Sweden, Finland, Denmark, Norway	5 of 5 24.9 SE 100 % FI 100 % DK 96 % NO 100 %	5 of 5 - SE 100 % FI 100 % DK 99 % NO 100 %	<b>Product health impact, Sales, Marketing, Consumer Communication</b> 
<b>Reduce post-consumer waste</b> Reduce post-consumer waste and prevent littering by implementing comprehensive programs covering all our consumables  Follow eco-design and circularity principles for all smoke-free electronic devices	6. Number of anti-littering programs in place for combustible cigarettes 7. Number of deployed collection and recovery programs for smoke-free consumables, devices, snus, and nicotine pouches 8. Percentage of returned electronic devices that are recycled 9. % of returned pods that are recycled	77 100 % 100 %	100 100 % 100 %	<b>Materials and product, Post-consumer waste</b> 

OPERATIONAL IMPACT



<b>Foster an empowered and inclusive workplace</b> 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	10. Proportion of women in senior roles 11. Employee NPS (satisfaction) Index 12. Equal Salary Certified 13. Total number of volunteering hours engagement Nordics	36.8 % 43 Yes 243	40 % 48 Yes 900	<b>Wellbeing of employees and diversity in the workplace</b> 
<b>Tackle climate change</b> 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	14. Absolute CO2e Scope 1 + 2, office + fleet (metric tons)	590.29	Carbon neutral	<b>Climate</b> 
<b>Ensure peace, justice and strong institutions</b> Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels	17. Memoranda of Understanding with law enforcement agencies/ governments, in a given year number of countries 18. Number of laws enforcement officers/ officials met to exchange information and collaboration. Year by year, Emails, number of outreach, estimated total number 19. Tracking and tracing- percentage of packs sold with unique code applied (in Nordics %) 20. Country studies and analysis to improve awareness of illicit trade – number of Nordic countries (not including Iceland)	2 of 5 (SE and NO) 25 100 % 4 of 5	4 of 5 30 100 % 4 of 5	<b>Ensure peace, justice and strong institutions</b> 

\*Global KPIs

# Executing our sustainability strategy













## Anchoring sustainability at the core of our strategy

We can only achieve our purpose by embedding sustainability in all that we do. At PMI we see sustainability 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 mission

Accelerate the end of smoking by offering adult smokers who would otherwise continue to smoke scientifically substantiated alternatives than smoking and evolve in the longer term into a broader lifestyle, consumer wellness and healthcare company.

In the Nordics we are focusing on the areas below, where we can have the most impact locally.

					
					
<b>Purposefully phase out cigarettes</b>	<b>Maximize the benefits of smoke-free products</b>	<b>Reduce post-consumer waste</b>	<b>Foster an empowered and inclusive workplace</b>	<b>Tackle climate change</b>	<b>Ensure peace, justice and strong institutions</b>



## Purposefully phase out cigarettes

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 revenues by 2025 while continuing to reduce our combustible shipment volume\*

### Preparing for a smoke-free future

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

Addressing the impact of our combustible products on consumers' health is at the core of our strategy and company purpose. We deploy a four-pronged approach:

- Develop science-based alternatives to cigarette smoking
- Broaden access to smoke-free products for those adults who would otherwise continue to smoke, ensuring this helps accelerate smoking prevalence decline
- Purposefully phase out cigarettes
- Market all our products responsibly

Smoking is one of the major factors contributing to non-communicable diseases. The primary cause is the harmful chemicals emitted while burning tobacco and contained in the smoke. Therefore, our greatest contribution to the SDGs is to replace cigarettes with alternatives for those smokers that otherwise would continue to smoke.

### Access to smoke-free products

Our priority is to address the health impacts associated with smoking by offering smoke-free, science-based alternatives as an option to cigarettes for those adults who would otherwise continue to smoke. Eliminating combustion from nicotine-containing products is the way to significantly reduce their toxicity.

Replacing combusted cigarettes with smoke-free alternatives carries a significant public health potential, as we can help reduce our products' negative impact on



*"We would like to see that the authorities set an end date for cigarettes combined with a tobacco regulatory framework based on reducing harm."*



**Claude Guiron**  
Director Scientific  
Engagement Nordics

individuals and society. To maximise the potential of smoke-free, harm reduced, albeit not risk-free alternatives it is also important to limit the use of these new products only to those who otherwise would continue smoking.

\*During 2023, the goal was updated to: Intentionally work toward phasing out cigarettes by ensuring that smoke-free products represent 75 percent of our net revenues by 2030 while continuing to reduce our combustible shipment volume.

However, we do not believe it is enough to simply offer more choice to consumers. Rather, we are seeking to help adult smokers switch to the alternatives now available and leave cigarettes behind. We are seeking to work with relevant stakeholders to ensure these products replace cigarettes as quickly as possible.

We have, in the Nordics, a good chance of being global forerunners in becoming smoke-free. Daily tobacco smoking is already at low levels, and smoke-free alternatives such as snus are already established categories.

## The end of cigarettes in the Nordic region

Our goal is to stop selling cigarettes – combusted tobacco products – in the Nordics. The rate of daily smokers is already low and steadily declining. With the cooperation of health authorities, NGOs, and our business partners, we can make a smoke-free future a reality.

To become a more sustainable tobacco company, we must take every step possible to completely replace cigarettes with smoke-free alternatives. We're tapping into our R&D prowess and expertise to fundamentally transform our entire business model and build our future on smoke-free products.

At PMI International, we have more than 1,180 scientists, engineers, technicians, and support staff, each working in different, complex areas, and all playing a role in helping us to deliver a smoke-free future.

Until now, the majority of research on smoke-free tobacco and nicotine products has been carried out by companies developing these products. But more independent, high-quality studies are now increasingly available. To facilitate such studies, PMI's research is publicly available for scientists to audit, verify, or challenge.

In general, scientists agree with us that RRP's are not risk-free. Researchers also agree the combustion of tobacco is the main cause of the high levels of harmful substances in cigarettes.

A list of independent studies published on PMI's smoke-free products and/or our methods and results are openly available at [PMIscience.com](https://www.pmi.com/science).

## Reaching a smoke-free future faster

There is growing support for smoke-free alternatives. A growing number of public health institutions, experts, and governments support the role of alternatives for adult smokers and public health.

We are fully committed to replacing cigarettes with science-based alternatives as rapidly as feasible. But we cannot do it alone. In pursuing a vision of a smoke-free future, we are eager to see measures introduced that drive large-scale switching as quickly as possible. We are confident that the right mix of government leadership and commercial initiative will dramatically accelerate efforts to reduce the health burden of smoking.

A challenge is that we as a tobacco company are not allowed to communicate with smokers' and inform about the smoke-free alternatives.

Governments and public authorities therefore have a critical role to play in providing clear and accurate information to consumers about this new category of products and defining the regulatory frameworks that can accelerate large-scale switching. All tobacco and nicotine-containing products are not the same, and policy and regulation should reflect this.

## Public engagements for a smoke-free future

One way we are working to raise awareness on tobacco harm reduction is to take part in public debate and business forums, to reach out in different arenas and engage local communities.

We advocate for a comprehensive and risk-proportionate regulatory framework that acknowledges that not all tobacco and nicotine products are the same.



*PMI participated in several seminars at the yearly political events at Almedalen in Sweden, and at the Soumi Areena Political Festival in Finland, to discuss how to contribute to better public health by phasing out cigarettes. In Finland PMI also arranged a smoke-free cruising.*



*A Danish delegation of politicians visiting our Science Centre the Cube in Neuchatel, Switzerland.*



## Maximise the benefits of smoke-free products

Develop and commercialize science-based smoke-free alternatives, making them available in 100 markets (of which at least half in low- and middle-income markets) and continuing to increase the total number of users.

Deploy robust youth access prevention programs in indirect retail channels and ensure that sales of our products abide by our Marketing Codes.

Our priority is to address the negative health impacts associated with smoking by phasing out our sale of cigarettes and developing smoke-free, scientifically substantiated alternatives to encourage smokers, who otherwise would continue to smoke, to switch. Our purpose is to make our legacy product, the cigarette, obsolete.

By focusing our commercial expenditure on encouraging adult smokers who otherwise would not quit, to switch fully to alternatives, we aim to reach as many adult smokers as possible in as many countries as possible.

PMI's heated tobacco platform has been available in Sweden and Denmark since 2016. In 2021, with the introduction of our e-vapor platform in Finland, and oral snus products launched in Norway, smoke-free alternatives are now widely available for adult smokers all over the Nordics.

Our retailers have been educated on point-of-sale advice and communication in accordance with the principles of PMI's marketing code for all available products.

### 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, albeit not risk-free of harm to adults who switch to them versus continued smoking of combustible alternatives.

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*Snus has a long history in Sweden and Norway and is a major factor in keeping smoking prevalence among the lowest levels in the world.*

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### Heated tobacco

PMI's heated tobacco platform is battery-powered devices that heats specially designed tobacco units. The devices heats tobacco without burning it 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.

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.

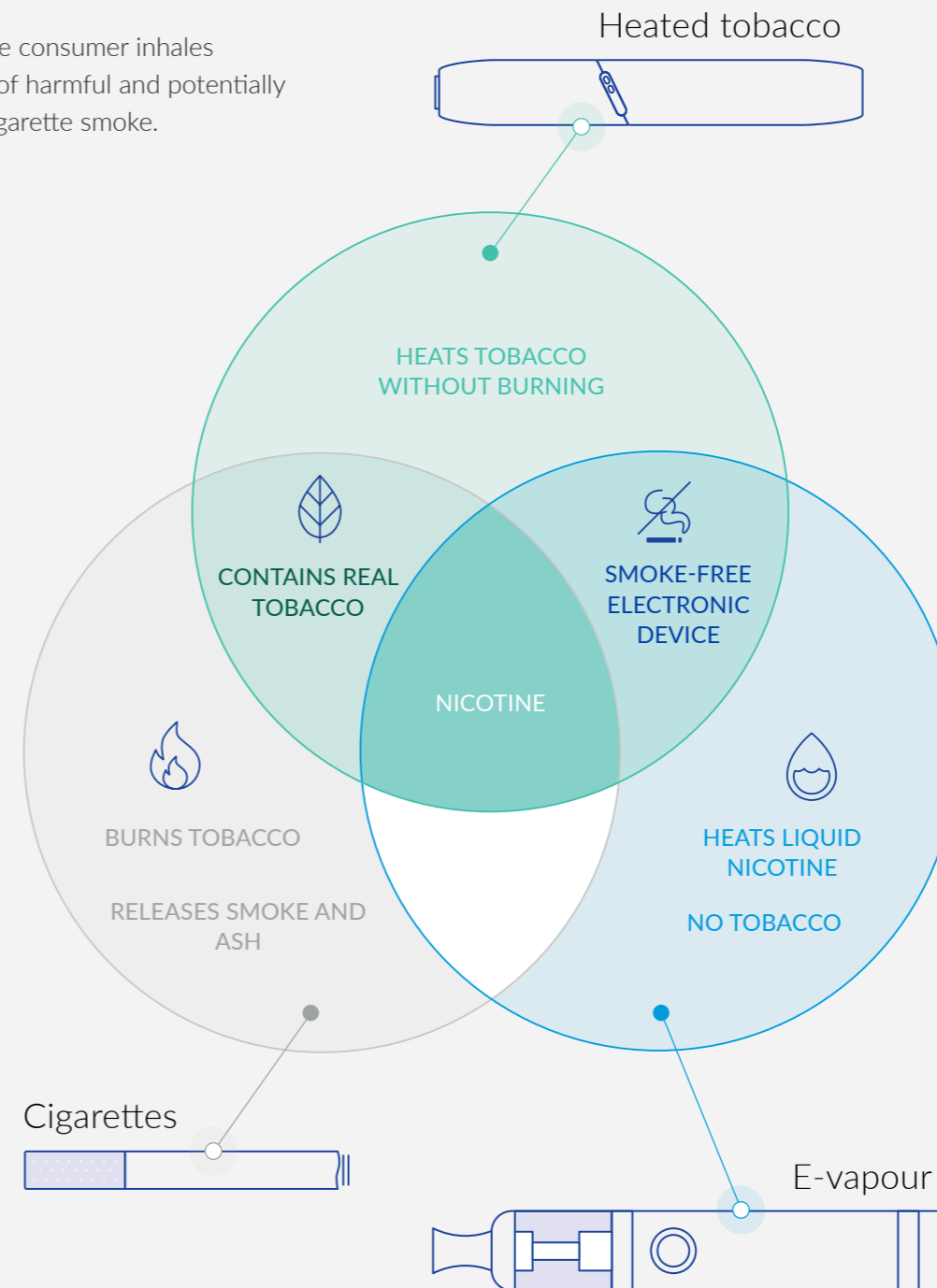
### E-vapor

PMI's e-vapor platform comprises 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 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.

### WHAT IS THE DIFFERENCE?

The nicotine-containing vapour the consumer inhales contains significantly lower levels of harmful and potentially harmful chemicals compared to cigarette smoke.



## Snus and nicotine pouches

Nicotine products for oral use, such as snus and nicotine pouches, are new additions to PMI's portfolio in the Nordic countries. In 2021, two new brands were acquired through the acquisition of Danish AG Snus – nicotine pouches and traditional snus. They have been redeveloped and relaunched as PMI products; snus in Norway in 2021, as well as all-white snus in 2022, nicotine pouches in Denmark in 2022, and both snus and nicotine pouches in Sweden in 2022. In November 2022, PMI acquired Swedish Match – a global leader in oral nicotine products such as snus and nicotine pouches.

The oral category remains small outside these markets. Snus is banned in the EU, Sweden is an exemption. Nicotine pouches have emerged as credible smoke-free alternatives in recent years. With the acquisition of AG Snus and Swedish Match, PMI's capabilities in this area have grown, and we expect additional product and market launches in 2023.



### Snus

Snus is tobacco placed in the mouth under the lip. It comes in loose format and in small pouches.

### All white snus

PMI's All White snus is only sold in Norway. It contains a low amount of tobacco as well as plant fibres, nicotine, and flavour.

### Nicotine pouches

Nicotine pouches contain plant fibres with added nicotine and flavour. They do not contain tobacco.

“

*Swedish Match joining PMI in late 2022 means significantly enhanced prospects to progress toward accelerating our common goal to make cigarettes obsolete. Following PMI's acquisition of Swedish Match, we will contribute towards the expansion of, and increase in access to, smoke-free products as together we are now present in the large, attractive, and growing U.S. smoke-free market. We will also drive accelerated global expansion opportunities for Swedish Match's oral nicotine products through PMI's international commercial infrastructure.*



**Lars Dahlgren**

President, Smoke-Free Products (SFP) Oral Products and CEO Swedish Match

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## Protecting future generations

As a leading manufacturer of tobacco and nicotine products, we have a critical role to play in guarding against youth access to our products. Accordingly, we have developed an enhanced suite of measures designed to ensure a holistic approach to guard against youth access to our products.

We only offer our products to persons who legally smoke and our retail partners are key to enforcing this. We provide our partners with education, guidance, and support to help them understand the important role they play in preventing underage smoking and other nicotine use. Their mission is two-pronged: if you're under-aged you should not have access to our products; and if you do not already smoke, you should not start. The retailers' role and mission are parts of the principles of PMI's Marketing Code. PMI only works with partners who follow our code.

Although legislation differs between the Nordic countries on how they regulate smoke-free products, PMI consistently applies our Marketing Codes and only markets our products to adult smokers. This includes new products, such as snus and nicotine pouches, which in some cases were only recently regulated as other nicotine products. In Sweden, a new law came into force on August 1, 2022.

## OPEN platform

Guidance includes educational materials on Youth Access Prevention (YAP) for both combustible and smoke-free products. A basis for information and other content is the digital OPEN platform which is available for retail store partners in all countries except Norway, more than 5,000 retailers, as well as yearly in-store, points of sale visits.

**Praktiske skridt, du kan tage i din butik, for at hindre unges adgang til tobak og nikotin.**

**Spørg altid om ID, når en kunde ser mindreårig ud. Du kan bede om enten pas, ID-kort eller kørekort.**

**Studer billedet for at se, om der er en stærk lighed.**

**Sørg for, at fødselsdatoen og udløbsdatoen er gyldige.**

**Lyt ikke til undskyldninger! Husk, at det er okay at sige nej til at betjene en kunde, der ikke opfylder alderskravene.**

Through OPEN, they have access to information, announcements, and articles on youth access prevention, training, quizzes, campaign material to use in-store, invites to anti-littering events and other content.

We develop local and engaging material to inspire retail staff to engage and return to our content. The goal is for all staff to refresh their knowledge and training on an annual basis.

## Age verification

A further goal of Youth Access Prevention (YAP) is that all PMI electronic devices like our heated tobacco and electronic cigarette platforms will soon have age verification.

Pilots of proprietary age verification technology embedded in our products were conducted in New Zealand and the island of Corsica in 2020 and 2021. These tests highlighted that it is critical to ensure a simple and easy to use mechanism for consumers to be age verified, as well as to activate their devices. An overly complex age-verification process would represent a barrier in their decision to abandon cigarette smoking and switch to a smoke-free alternative.

**MINORS SMOKING PREVENTION**  
ASK ONCE, THINK TWICE

**At PMI, we are committed to promoting the prevention of underage smoking worldwide.**

However, it is not easy to prevent minors from gaining access to tobacco or other nicotine-containing products. We cannot do this without our reseller partners. So we would like to say a warm thank you for everything you are already doing. Ready to do more?



**KYSY KERRAN. MIETI KAHDESTI.**

MIETÄ I OLET EPÄVARMA ASIAKKAAN IÄSTÄ. KYSY AINA HENKILÖLLISYYSKORTISTA, MIETI KAHDESTI, ETTET MYI TUOTTEITA ALLE 18-VUOTIAILLE.

Kuinka hyvin selvität mahdollisista konfliktitilanteista myymälässä? Ota selvää vastaamalla alla olevaan kyselyyn.

**PELAA PELIÄ**



## Marketing is one of the defining strengths of PMI and its brands

Our Marketing Codes were updated and rolled out in the organization during 2021.

Tobacco marketing is subject to extensive restrictions, including outright bans, throughout the world. What many people don't realize, however, is that our own standards are, in many places, higher than those of some governments. In such cases, we follow our Marketing Codes. If the opposite occurs and local laws set a stricter standard than our Codes, we, of course, follow the law. Here are a few examples of how these rules apply in our day-to-day marketing:

- **We don't use cartoons**, youth-oriented celebrities, or models who are or appear to be under the age of 25
- **We don't engage in product placement** in movies or on television – and we decline every request we receive
- **We don't place the names or logos** of our cigarette brands on any promotional items likely to be used or seen by minors

All our marketing professionals, wherever they are in the world, must adhere to these marketing practices at all times.

### Our global marketing practices worldwide follow four core principles:

1. We market and sell our products to adult smokers
2. We warn consumers about the health effects of our products
3. Our marketing is honest and accurate
4. We respect the law



“This is important for real and would have a real positive effect on the 2.5 million smokers in the Nordics. To partake in the open debate is key to make progress and to reach our vision of a smoke-free future.”

Anette Rosengren, Managing Director, PMI Nordics, at the Stockholm Media Week, discussing communication in connection to PMI's smoke-free transition.



## Focus of making cigarettes obsolete

Beyond our primary focus of replacing cigarettes with alternatives for adults who would otherwise continue to smoke – thereby reducing the negative impacts of our products on the health of our consumers – we understand the need to address the environmental impact of our products by embedding principles of circularity and eco-design, implementing effective post-consumer waste management solutions, addressing litter, and promoting responsible disposal of products at their end-of-life.

### We care for our environment

The Nordic countries are frequently recognised as being good places to live. One of the contributory factors to this is the region's commitment to the natural environment. Denmark, Finland, Iceland, Norway, and Sweden consistently score highly on indexes of the world's most environmentally conscious countries.

The geographical features of the region contribute to ecological awareness and pride. The fjords of Norway, the glaciers of Iceland, the forests of Sweden, the beaches of Denmark, as well as the many, many lakes of Finland. The region is home to some of the longest coastlines and oldest mountains of the world.

The Nordic nations have cultivated a deep commitment to the protection of our nature. Even our cities rank among the most sustainable in the world.

### Reducing waste from our products

- **Cigarettes:** We aim to reduce cigarette butt littering by encouraging behaviour change, through awareness-raising campaigns together with our partners, and by empowering consumers to dispose of cigarette butts appropriately. We work continuously to replace the plastic in cigarette filters with more sustainable alternatives.
- **Smoke-free consumables:** As we grow our smoke-free business, we seek to ensure that the consumables used with our electronic devices are disposed of responsibly at their end-of-life and that users have access to recycling schemes that have an environmental benefit, are economically viable, and are valued by consumers.
- **Smoke-free electronic devices:** To reduce the depletion of finite resources, we aim to integrate sustainability into our product design, drive circularity by improving recyclability, and increase opportunities to refresh and repair used devices.
- **Packaging:** We strive to minimize packaging materials and improve their circularity by increasing their recyclability and promoting the use of materials made from renewable resources.

## Local activities 2022

During the year, we participated in an anti-litter seminar and panel discussion with the Finnish NGO Keep the Archipelago Tidy in the Parliament in Helsinki.

We also deployed collection and recovery programs for smoke-free consumables in Finland, resulting in almost 30% of retailers offering pods returns.

In Sweden, we successfully launched take-back programs for snus cans at several festivals such as Storsjöran, to raise awareness.

In Denmark, we launched an information campaign aiming at create awareness that heat-not-burnt devices can be recycled.

In Norway we participated in various events such as gold tournaments in festivals to raise awareness on anti-littering.

## Recycling of smoke-free consumables and devices

There is a risk that our smoke-free consumables used with our heat-not-burn devices could be littered. But we have good indication that the littering rate is lower than for cigarette butts.

The non-combustible nature of these products eliminates the need for consumers to throw their filters on the ground to extinguish them. Our analysis of consumer behaviour shows a willingness to put used smoke-free tobacco stick filters back in the case to be properly disposed of later.

In all countries where our electronic device for heated tobacco is sold, they can be returned for inspection, disassembly, and recycling in line with strict regulatory requirements, as part of the CIRCLE programme (centralised inspection and recycling).



Building sustainability considerations, such as source and circularity, into product design is a way to control environmental and social impacts across the life cycle of a product – from development and manufacture to use and disposal.

## Local recycling programme for e-vapors and pods

In Finland, we have introduced a recycling programme for nicotine pods and e-vapors together with a local partner.

## COLLECTION AND RECOVERY PROGRAMS FOR SMOKE-FREE CONSUMABLES



The solution was launched with the device in early 2021 and collection points have been set up at 470 locations across the country.

Unbranded recycling boxes are placed next to the cashier of stores that sell the e-vapor platform. Consumers are advised to drop used nicotine pods, as well as broken e-vapor devices, in the box for recycling. Some stores provide reusable pouches for collecting the pods and delivering them to the recycling box in retail stores. Our local partner then separates metal and plastic from the collected units and pods.

## Pocket ashtrays available in all markets

Our reusable pocket ashtrays have been launched in all Nordic markets. They are available through our NGO partners, retail partners, and online stores. Finland was last to introduce them and already 22 000 units have been distributed.

The pocket ashtrays are perceived to be smart, useful, and convenient. They are fire-proof and prevents odour from leaking, and they are small and light enough to be carried around, which is essential for them to be used. Except for in Denmark, the ashtrays are branded with our partner NGOs. The Danish version is neutral.

All ashtrays have a URL or QR-code that leads to local websites with information on the consequences of cigarette butt littering and advice on how to enable better decisions.

### Number of pocket ashtrays:

**Sweden:** approx. 25 000 pcs

**Denmark:** 55 000 pcs

**Finland:** 22 000 pcs

**Norway:** approx. 2 000 pcs

**fimpa rätt med open och håll sverige rent**

Nu kan du förbeställa portabla askkoppar direkt från OPEN. Skynda dig - vi har bara 100 lådor tillgängliga.

### Fimpa Rätt

**En cigarettfimp på vift**

En av tre cigarettfimpar hamnar på gatan. Och när du kastar en fimp på gatan, i skogen, i en sjö eller till och med när du stänger den i avloppet, så slutar det med att den förorenar vår natur och våra hav.

Det tar åtskilliga månader och år för en cigarettfimp att brytas ner, beroende på omgivningen. Och du blir kanske inte förvånad över att cigarettfimpar är ett vanligt skräp i Sverige och i hela världen.

**Vårt mål - En rökfri framtid**

MINSKA PLASTMÄNGDEN I VÅRA PRODUKTER MED 50% FRAM TILL 2025. (JÄMFÖRT MED 2021)

Fimpa rätt är Philip Morris AB:s initiativ tillsammans med Håll Sverige Rent att minska nedskräpningen i Sverige.

Nu kan du som butik vara med och göra en skillnad redan idag. Vänd på bladet för att se hur din butik kan bidra!

Ongoing communications activity in Sweden, together with Håll Sverige Rent, to promote portable ashtrays.

## World Cleanup Day

Every year, in September, our Nordic team on sites in Stockholm, Copenhagen, Oslo and Helsinki get together to participate in the global initiative World Cleanup Day. The team spend the day picking up rubbish and litter in the streets, squares, and parks.

This year the team gathered almost 40 kg of cigarette butts, snus pouches litter and packages while contributing to cleaning up the cities. This is equivalent to more than 180 000 butts.

With this activity we also support the important work that the local anti-littering organisations are doing. Håll Sverige Rent, Hold Danmark Rent, Sneipfritt, and Pidä Saaristo Siistinä ry are all important and appreciated partners to us.



**CIGARETTE BUTTS THE MOST COMMON TYPE OF LITTER IN SWEDEN**

**Top 3 litter in Sweden**

1. Cigarette butts 48%
2. Snus pouches 17%
3. Single-use plastics 15%

*Source: The Keep Sweden Tidy Foundation 2023*



## 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 and inclusion.

### Decent work and economic growth

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

Investing in our people and providing meaningful employment helps us to recruit and retain talented individuals, achieve high productivity and efficient operations in a context of rapid change, and deliver on our company's purpose.

By protecting and promoting equality, diversity, equity, and fair treatment – human rights that are essential to unlocking social and economic development – we

seek to instil in our workers a sense of belonging and maintain an inclusive workplace culture.

### Fostering diversity, equity, equality, and inclusion

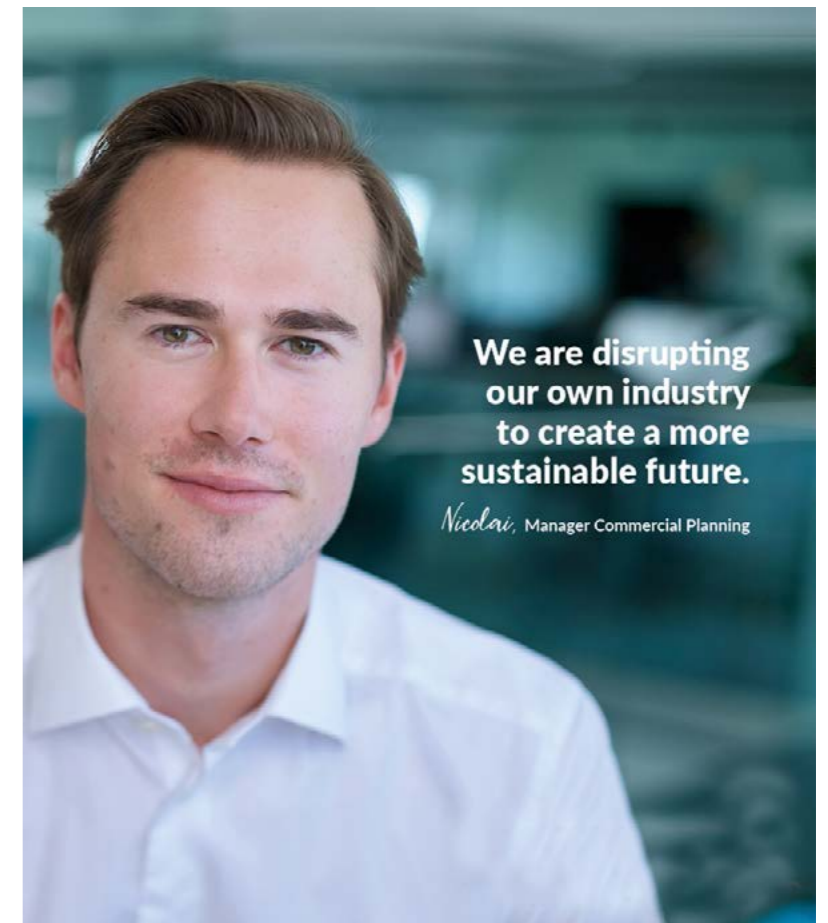
A gender gap is a talent gap. Building a gender balanced organisation, therefore, remains one of our top priorities. Globally, 31.0 percent of our employees were women in 2022, and 32.2 percent of our managerial roles were held by women. In the Nordics 38.4 percent of managers were women.

In the Nordic region we use a balancing hiring strategy to bring us closer to gender equality. We use software that helps us compose ads that will attract more diverse applicants. We provide unconscious-bias training for recruiters and for hiring managers. Applicant selection is weighted, and female applicants get their first meeting with female managers.

Our Nordic offices received an Equal Salary Certification in 2020. This includes an external audit of our policies, salaries, and career paths, with interviews and focus groups on equal treatment. The certification is valid for three years.

We have employees of 26 nationalities working at our Nordic offices and we are convinced this makes our company stronger.

All our efforts, both global and local, has led to PMI being certified as a Global Top Employer for the fifth year in a row, by the Top Employers Institute.





## Tackle climate change

Achieve carbon neutrality in our operations and accelerate our decarbonization toward net zero across our value chain.

Climate change is among the greatest threats to society. There is broad scientific consensus about the urgency of setting more ambitious emission reduction targets to limit the rise in the global temperature to 1.5 degrees Celsius above preindustrial levels.

Our value chain spans the globe — from factories in Lithuania and laboratories in Singapore to farms in Argentina and our local office in Copenhagen and end-of-life recycling of smoke-free consumables in Gothenburg, Sweden.

Given the size and reach of our company, our actions, practices, and policies have the potential to significantly impact sustainable consumption and waste, production patterns, and the environment at large. Our business activities rely on healthy ecosystems, and we understand the impacts of climate change across all areas of our operations. Carbon neutrality remains a top priority.

Our climate strategy aims to address pertinent climate change risks and build resilience while seizing opportunities presented by a low-carbon future. To deliver on our climate ambition, we rely on robust carbon footprint accounting, analysis of climate change-related risks and opportunities, ambitious mitigation targets, clear management and governance structures, and key enablers such as our internal carbon pricing.

PMI has aligned with the recommendations of the **Intergovernmental Panel on Climate Change (IPCC)** Special Report (2018). We are currently integrating the latest information from IPCC Sixth Assessment Report (2021) to further improve scope and direction of our climate action. Another relevant step has been to update the baseline of the accounting, moving it from 2010 to 2019, to include changes in footprint and business model.

Our work to reduce absolute emissions is guided by science-based targets aligned with a scenario of an increase in global temperatures of no more than 1.5 degrees Celsius above pre-industrial levels. Our targets, approved by the **Science Based Targets initiative (SBTi)**, commit us to reducing our absolute scope 1+2 greenhouse gas (GHG) emissions by 50 percent by 2030 versus our 2019 baseline, and to reducing our absolute scope 3 GHG emissions by 50 percent within the same timeframe.

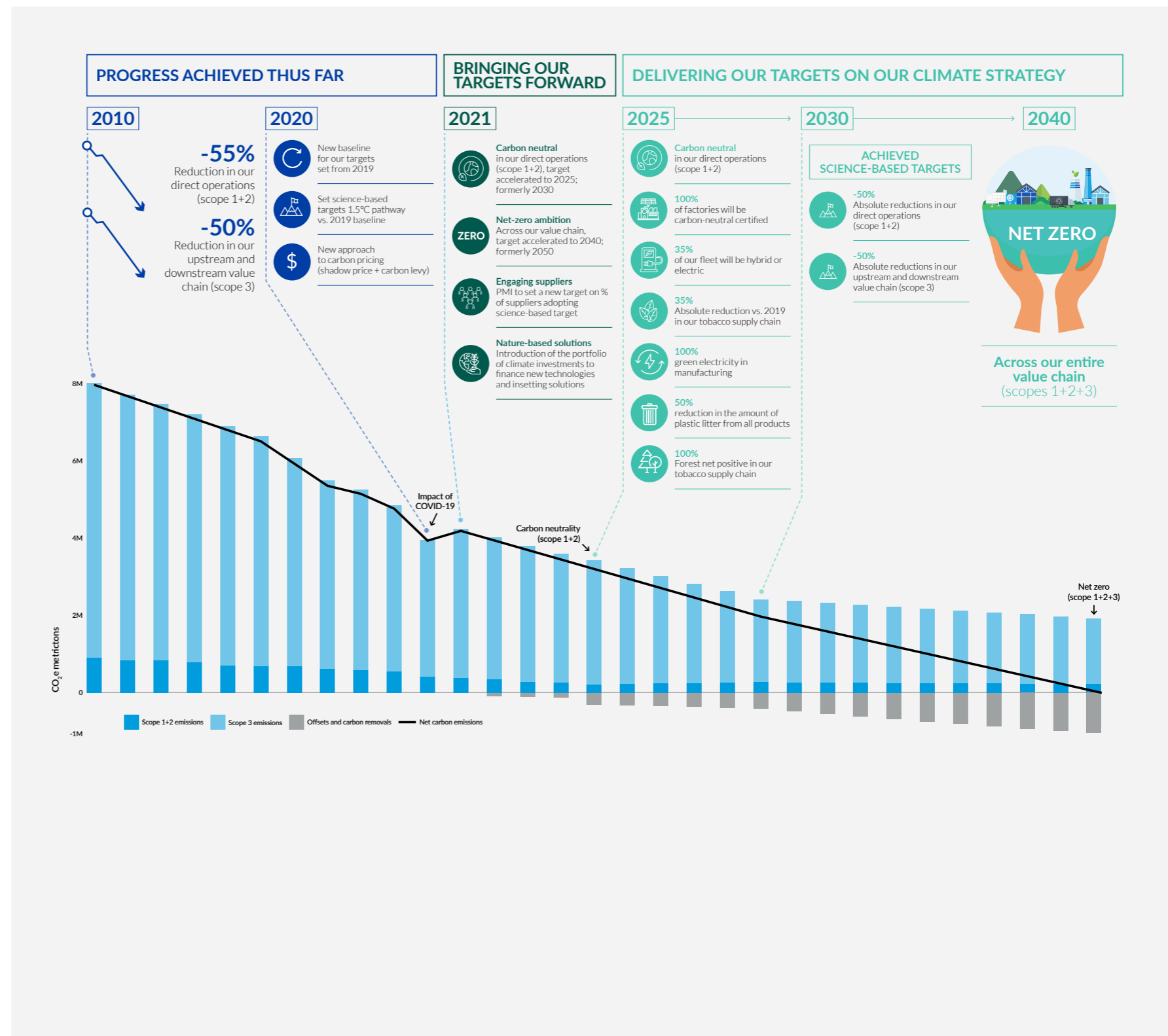


# PMI's Low-Carbon Transition Plan

Our Low-Carbon Transition Plan (LCTP) was published in October 2021. It provides a transparent and detailed view of how we plan to achieve our climate ambitions, how we will measure success, and how we will report on progress. The LCTP describes our approach to carbon pricing, our portfolio of climate investments, and our governance and management arrangements and other tools that will help us deliver on our climate targets.

The plan brings forward PMI's ambitions to achieve carbon neutrality in our direct operations (scopes 1+2) by five years, to 2025, and to achieve carbon neutrality across our entire value chain (scopes 1+2+3) by 10 years, to 2040 – 10 years earlier than the previous 2050 goal. \*

The plan also introduces a new goal for PMI's critical suppliers to adopt SBTs in line with the SBTs that PMI has already committed to, aligned with the 1.5°C pathway necessary to meet the goals of the Paris Agreement.



## Decarbonisation in the Nordics

From an operational perspective, our global sustainability functions coordinate the company's activities with regional sustainability working groups and local market coordinators. This helps to ensure that our global strategies and programmes can be implemented at the market level and that local realities are reflected in our global efforts.

We are proud of the progress PMI has made on a global scale. We believe it is equally important to support these targets at a local level. In the Nordic region, efforts have been made to minimise our climate footprint focus on areas we can impact locally, such as initiatives to **reduce littering**, sourcing renewable energy for our offices, and making our car fleet greener. Our offices in Stockholm and Copenhagen are equipped with solar panels on the roofs.

## Decarbonising factories

The Nordic markets are supplied with tobacco products from several factories, among them PMI's factory in Klaipeda, Lithuania. Over the past decade, PMI has worked on optimising the factory's energy usage to reduce carbon emissions. This includes upgrading its utilities equipment – such as chillers and compressors – and facilitating heat recovery to optimize the fuel used to heat the buildings. The factory also has a biomass boiler producing energy from renewable resources, and offsets its remaining carbon emissions from the burning of natural gas with biogas certificates that meet the highest standards. In 2019, it was the first of our factories to go carbon neutral.

## Fostering carbon neutrality in our fleet

Following the development of our carbon neutrality strategy for our fleet of vehicles in 2020, PMI instituted a new Global Vehicle Fleet policy early in 2021. To reduce carbon emissions in our fleet, we invest in sustainable hybrid and electric vehicles, and more effective driving to optimize energy consumption while improving operational efficiency. We anticipate these new vehicles will emit 40 percent less carbon emissions than the models they replace.

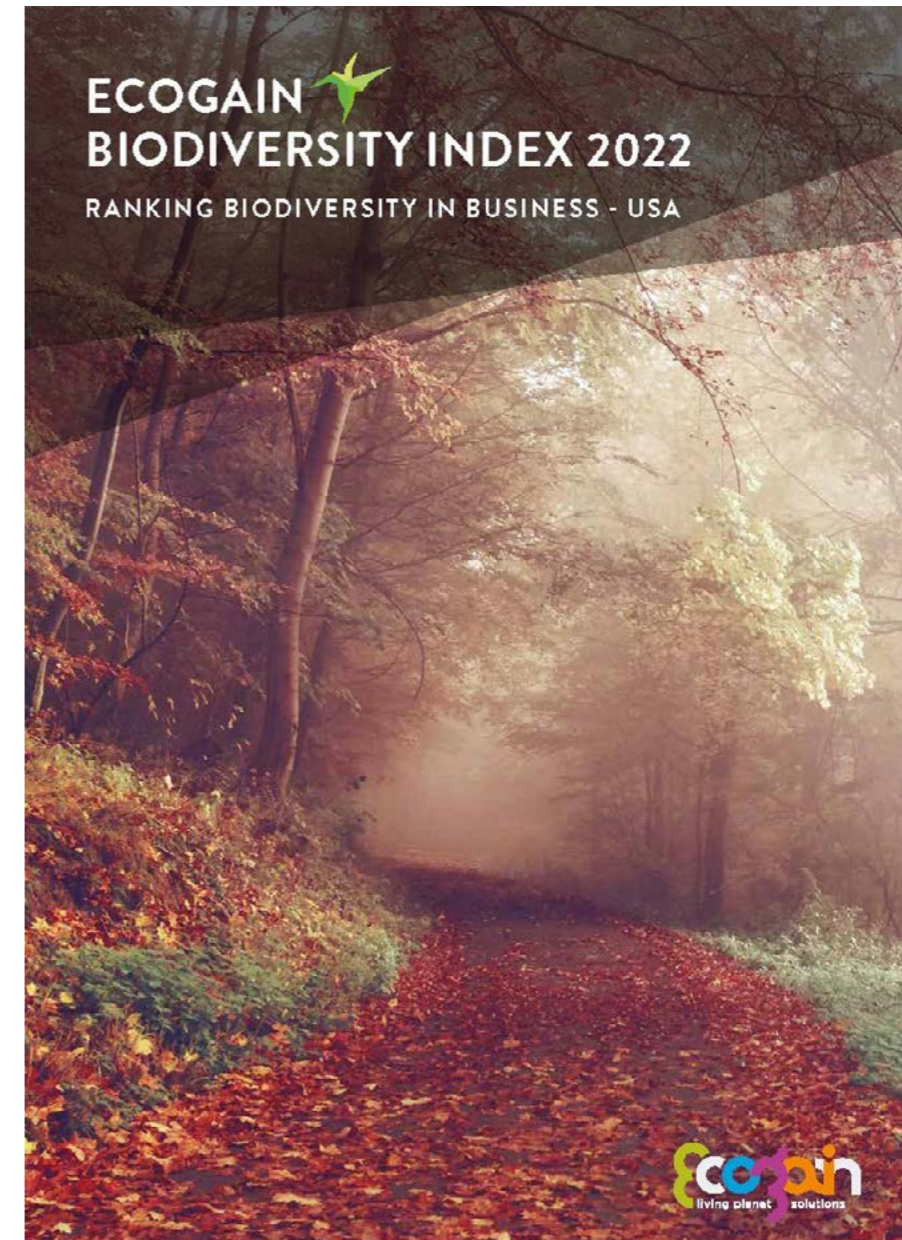
Today all vehicles in the Nordics are sustainable hybrids or electric vehicles.

## PMI tops the EBI ranking

Philip Morris International tops the Ecogain Biodiversity Index (EBI) list for the US this year. The index examines how large companies report on biodiversity in their sustainability reports; how they identify, set goals, implement measures and follow up on biodiversity. The main purpose of the index is to provide an overview of how businesses perform in setting targets and mitigating biodiversity impact and inspire companies to act and report on the subject in a transparent manner.

PMI lands this top position by conducting a thorough mapping of its impacts on biodiversity throughout its value chain, both upstream, downstream, and in the company's direct operations. Time-bound goals have been set for a net positive impact on forests by 2025, as well as "zero net deforestation of managed natural forests and no conversion of natural ecosystems by 2030". Philip Morris is also engaged with the Task Force on Nature-related Financial Disclosures (TNFD), a of global engagement in biodiversity that is rare among the top 100 largest US companies.

The Ecogain Biodiversity Index 2022 is the fifth edition of the report. In 2022, the EBI included the 300 largest companies in Europe, and for the first time the 100 largest listed companies in the United States.





# Ensure peace, justice and strong institutions

Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

## The price of illicit trade

The links between illicit trade and organised crime are well established, all the way to arms trade, human trafficking networks and terrorist financing. Through smuggling, counterfeiting, and tax evasion, governments lose tax revenues, legitimate businesses are damaged, and consumers are exposed to cheap, poorly made, and unregulated products. This also undermines health efforts to reduce smoking prevalence and prevent youth initiation.

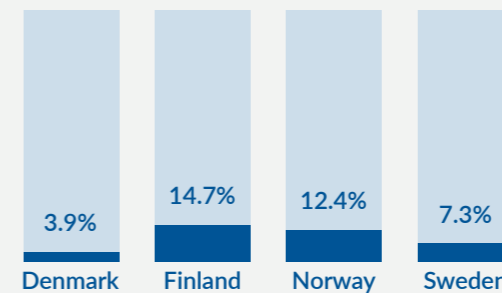
Raising awareness of the illicit trade and sharing information on how to address it is an important step forward. PMI addresses illicit trade by maintaining the integrity of our supply chain and cooperating with customs and law enforcement agencies to safeguard the legitimate supply and purchase of our goods, and to prevent and reduce the illicit trade of our products.

We invest in preventive and protective measures, including due diligence of importers, distributors and wholesalers, and comprehensive, digital track-and-trace solutions for our tobacco and smoke-free products across our entire supply chain.

PMI works with local customs and law enforcement to prevent illicit trade. Customs officers are trained in identifying our products and find out their origin, market, and possible connection to other incidents all over the world.

The KPMG report provides valuable information that is shared with local law enforcement. According to interviews with law enforcement agencies included in the KPMG report, the production and distribution of counterfeit cigarettes within EU is increasing, with criminal organizations centering their activities toward higher-taxed and higher-priced EU member states and gaining larger profits. Countries such as Belgium, Denmark, France, and Germany are witnessing a growth in cigarette seizures and raids on clandestine manufacturing operations.

### PERCENTAGE OF CONTRABAND AND COUNTERFEIT OF TOTAL CIGARETTE CONSUMPTION 2022



### ILLICIT CIGARETTE CONSUMPTION IN THE EU, UK, NORWAY AND SWITZERLAND (2022)

This report is an annual study that estimates the scale and development of the illicit cigarette market in the 30 European countries. It is commissioned by Philip Morris and prepared by KPMG, and it covers all 27 member states as well as United Kingdom, Norway and Switzerland.



## Improve the quality of life of people in our supply chain

Eradicate systemic child labour in our tobacco supply chain

Ensure all contracted tobacco farmers make a living income, and partner with our direct suppliers to promote a living wage for their workers

Promoting and adhering to sustainable business practices helps safeguard human rights, improve labour conditions, protect workers' health and safety, tackle social inequalities, and alleviate 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 our over 350,000 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.

As our business transforms, our supply chain evolves as well. Promoting fair working and living conditions in our broader supply chain is therefore increasingly important. Caring for the quality of life of the people in our supply chain is consistent with our business purpose and way of working and is a major predictor of our long-term success. It is not only right, but also the best business practice.

### Agricultural Labour Practices

Sound standards and practices to manage our supply chain sustainably and safeguard human rights are vital prerequisites to harnessing the connections in our supply chain to improve the quality of life of those involved. A principal aim of PMI is to provide a decent livelihood to all contracted farmers in our tobacco supply chain.

This has been a focus since we introduced our Agricultural Labour Practices (ALP) programme in 2011. The mid- and long-term targets that we have committed to cover labour standards, income, work hours, health and safety, accommodation, and access to water, sanitation, and hygiene.

Our ALP Code, based on International Labour Organization (ILO) conventions and aligned with the United Nations Guiding Principles on Business and Human Rights (UNGPs), includes seven principles and 33 measurable standards applicable to all the contracted farmers from whom we source tobacco (more than 286,000 farms in 28 countries). Our integrated production system enables traceability at the farm level. And we have a robust due diligence framework in place to evaluate the implementation of our ALP Code.

## Zero child labour in our supply chain

We maintain a relentless focus on preventing incidents of child labor and take immediate action when they arise. Our objective is to eradicate child labour cases in our tobacco supply chain that are repetitive and systemic by 2025. We acknowledge that isolated cases might persist, and we will remain alert and tackle them promptly when identified.

We updated our methodology for calculating child labor prevalence in 2022 in line with our new STSC framework. Child labor datasets now depict the prevalence of child labor among contracted farmers supplying tobacco to PMI purchased volume. This sets a new baseline moving forward. Learn more in PMI's ESG KPI Protocol 2022.

We use International Labour Organization (ILO) standards to measure our progress toward our target of zero child labor. Our methodology centers on preventing the employment of children under age 18 doing hazardous tasks, under age 15 being hired, and under age 13 doing any tobacco-related tasks. It reinforces our risk-based due

diligence processes by improving visibility and granularity on child labor across our sourcing markets.

Child labor prevalence was 0.1 percent in 2022 in our purchased tobacco. While this data point does not reflect child labor prevalence in our total contracted farm base, the continuous reduction in child labor incidences among farmers supplying tobacco to PMI that we have observed gradually, is due to years of implementation of our ALP program, continuous training, and targeted interventions. While isolated cases of child labor do persist, systemic cases have been broadly eradicated in the farms we contract with.

Our field technicians continued to conduct farm-by-farm monitoring and to support farmers in addressing and remedying child labor risks and incidents. During 2022, field technicians monitored 100 percent of contracted farms supplying tobacco to PMI for child labor-related issues.

The decrease in child labor incidences is mainly attributed to Malawi, North Macedonia, and Pakistan where we observed the positive impact after many years of implementation of the ALP program.



### ALP Code Standards

- No child labour
- Fair income and work hours
- Fair treatment
- No forced labour or human trafficking
- Safe work environment
- Freedom of association
- Terms of employment

# Performance in ESG ratings, rankings, and indices

At PMI, we understand the value of participating in ESG ratings: it helps us assess our sustainability performance, benchmark ourselves against our peers, and, most importantly, identify areas for improvement on which we act when they can meaningfully contribute to improving our company's performance in line with our sustainability strategy.

- We prioritize our participation in ESG ratings that are most useful to us and our stakeholders, based on:
- The credibility of the methodology and our ability to interpret and use the results
- Recognition of the rating among the investor community, as well as participation by our competitors and peers

- Its value as a learning opportunity, including a sufficient feedback loop to allow us to improve over time
- Resources required, which should not undermine our company's focus on performance improvement
- The organization's openness to dialogue, allowing us to understand expectations and results, share knowledge, correct factual inaccuracies, and provide input on ratings enhancements

The following table provides an overview of certain ratings that evaluate PMI's performance but is not intended to represent all ratings PMI is featured in.

		2022 score (and year-on-year trend)	
<b>S&amp;P Global Corporate Sustainability Assessment</b>	PMI was selected for the third year in a row as a member of the Dow Jones Sustainability North America Index (score as of March 17, 2023).	84/100	Member of <b>Dow Jones Sustainability Indices</b> <small>Powered by the S&amp;P Global CSA</small>
<b>Sustainalytics</b>	PMI maintained its "Medium ESG Risk" classification (score as of November 30, 2022).	24.1	
<b>MSCI</b>	PMI maintained a rating of BBB in the MSCI ESG Rating assessment (score as of December 23, 2022).	BBB	
<b>CDP Climate, Forest, Water Security</b>	PMI was awarded a Triple A score for the third consecutive year in recognition of its efforts to combat climate change, protect forests, and promote water security.	AAA	
<b>CDP Supplier Engagement</b>	PMI earned a place on CDP's Supplier Engagement Leaderboard for the sixth consecutive year.	Leaderboard	
<b>Bloomberg Gender-Equality Index</b>	PMI was included for the third year in a row in the 2023 Bloomberg Gender-Equality Index (GEI) for its transparency in gender reporting and advancing women's equity.	Index member	
<b>S&amp;P ESG Evaluation</b>	PMI scored 62/100, based on its ESG Profile Score (59/100) and Preparedness Opinion ("Adequate +3"). The former is based on entity-specific scores and sector/region scores (score as of February 3, 2023; report available <a href="#">here</a> )	62/100	
<b>Tobacco Transformation Index</b>	PMI ranked second out of 15 tobacco companies assessed, leading the industry in the "Strategy and Management," "Capital Allocation & Expenditure," and "Marketing Policy & Compliance" categories (score as of September 2022).	3.69/5	
<b>ISS ESG</b>	PMI achieved industry leadership, maintaining a rating of "C" (score as of August 2, 2022).	C	
<b>State Street R-Factor</b>	Outperformer within the tobacco industry; industry average score of 56 (score as of February 1, 2023)	65	

Key Improve Maintain

Philip Morris International tops the EBI ranking list for the US in 2022

The Ecogain Biodiversity Index examines how large companies report on biodiversity in their sustainability reports; how they identify, set goals, implement measures and follow up on biodiversity. The main purpose of the Ecogain Biodiversity Index (EBI) is to provide an overview of how businesses perform in setting targets and mitigating biodiversity impact and inspire companies to act and report on the subject in a transparent manner.

# Further reading



**Celebrating 10 years of the ALP program**

**CELEBRATING 10 YEARS OF THE ALP PROGRAMME**

In 2021, we commemorated the 10th anniversary of our ALP programme. A dedicated report contains reflections on progress made, achievements celebrated, and recognitions of the challenges ahead.

**Download the report here**  
[pmi.com/sustainability/pmi-celebrates-10-years-of-its-agricultural-labor-practices-program](https://pmi.com/sustainability/pmi-celebrates-10-years-of-its-agricultural-labor-practices-program)

## PMI Nordics Sustainability Report 2022



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