



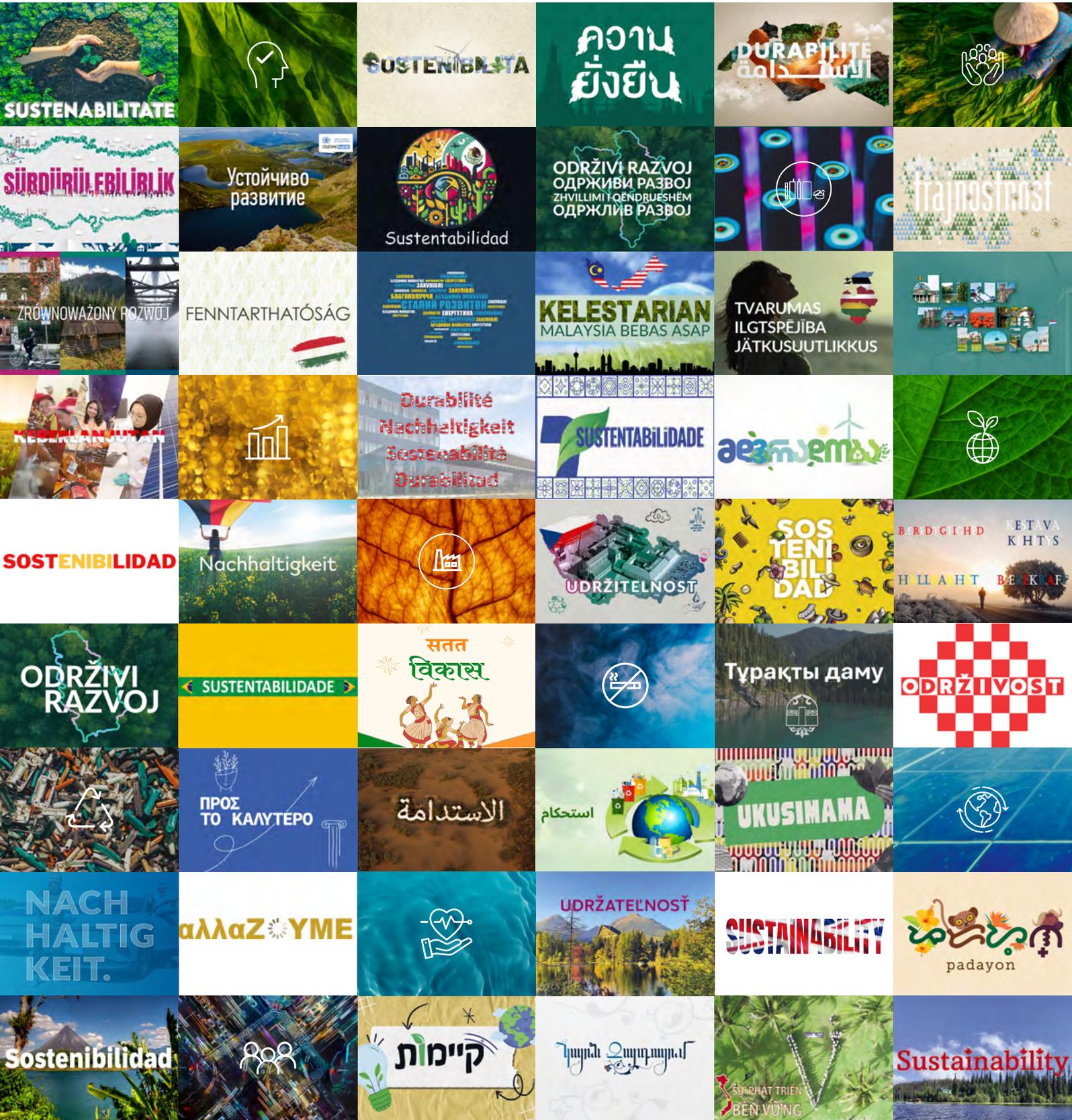
PHILIP MORRIS
INTERNATIONAL

we were

we are transforming for good

we will be

INTEGRATED REPORT 2023





About PMI

Philip Morris International (PMI) is a leading international tobacco company, actively delivering a smoke-free future and evolving its portfolio for the long term to include products outside of the tobacco and nicotine sector.

The company's current product portfolio primarily consists of cigarettes and smoke-free products. Since 2008, PMI has invested USD 12.5 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 2022, PMI acquired Swedish Match – a leader in oral nicotine delivery – creating a global smoke-free champion led by the companies' IQOS and ZYN brands.

The U.S. Food and Drug Administration (FDA) has authorized versions of PMI's IQOS Platform 1 devices and consumables and Swedish Match's *General snus* as Modified Risk Tobacco Products (MRTPs). As of December 31, 2023, PMI's smoke-free products were available for sale in 84 markets, and PMI estimates that approximately 20.8 million adults around the world had already switched to IQOS and stopped smoking. Smoke-free products accounted for approximately 37% of PMI's total full-year 2023 net revenues. With a strong foundation and significant expertise in life sciences, PMI announced in February 2021 its ambition to expand into wellness and healthcare areas and, through its Vectura Fertin Pharma business, aims to enhance life through the delivery of seamless health experiences.

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

About this report at a glance

We are pleased to present PMI's Integrated Report 2023, which aims to provide an objective description of our business model, strategy, performance, and prospects in relation to our priority economic, environmental, social, and governance topics. Contents of this report are shaped by a formal sustainability materiality assessment conducted in 2021 (read more about it [here](#)).

Unless otherwise indicated, the data contained herein cover our operations worldwide for the full calendar year 2023 or reflect the status as of December 31, 2023. Where not specified, data comes from PMI financials, nonfinancials, or estimates.

Unless explicitly stated, the data, information, and aspirations in this report do not incorporate PMI's wellness and healthcare business, Vectura Fertin Pharma. Regarding the Swedish Match acquisition, completed late 2022, unless otherwise indicated, this report does not include information pertaining to its sustainability performance. As we evolve, we will, where material and feasible, include them in our sustainability reporting in future reporting periods.

This report is accompanied by a set of publications that will be available for download on PMI.com or will be issued shortly after this report publication:

- [Reporting indices](#) mapping content of this report against the Universal Standards of the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB)
- [Performance data](#) available in one place for download
- [Sustainability Strategy and 2023 Performance Highlights and Top 10 Takeaways](#) summarizing the content of this report
- Country-level [case studies and market stories](#) shedding light on the work of our markets in various sustainability areas around the world
- [Sustainability KPI Protocol 2023](#), providing details on calculation methods, definitions, and the scope of key sustainability performance indicators included in [PMI's Sustainability Indices](#)
- [PMI's Task Force on Climate-related Financial Disclosures \(TCFD\) Report 2022](#)
- [PMI Sustainability Materiality Report 2021](#)

→ [Read more about this report here](#)

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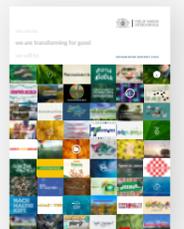
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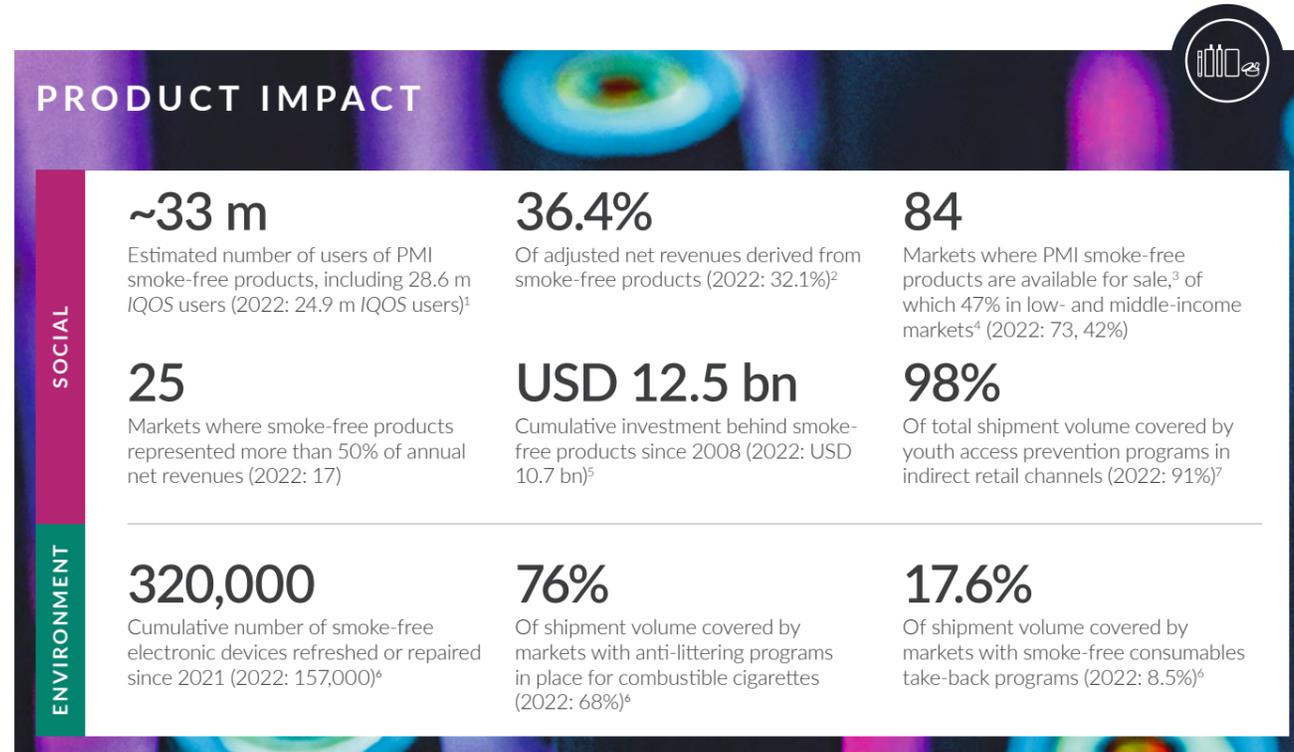
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The cover of this report compiles designs submitted by our teams in various markets around the world, whose passion and commitment are essential drivers of progress in our sustainability strategy. The cover showcases the word or concept of "sustainability" in their local language, reflecting the diverse realities and local communities where we operate.



2023 highlights



1 Figures are based on IQOS user panels and PMI Market Research. Estimated user numbers for oral nicotine and e-vapor are approximate, with further methodology details to be provided in future disclosures. See [Glossary](#).
 2 For definition of net revenues related to smoke-free products, see [Glossary](#). Data excludes the impact related to termination of distribution arrangement in the Middle East in 2023.
 3 For definition of available for sale, see [Glossary](#).
 4 Excluding PMI Duty Free. World Bank report issued in 2023 is used on a comparative basis for income level classification. For definition of low- and middle-income markets, see [Glossary](#).
 5 Investments reflect research, product and commercial development, production capacity, scientific substantiation, and studies on adult smoker understanding. Figures do not include Swedish Match and Vectura Fertin Pharma.
 6 See PMI's Sustainability KPI Protocol 2023 for further details.
 7 Total shipment volume includes cigarettes, other tobacco products (OTPs), and smoke-free product consumables. See [PMI's Sustainability KPI Protocol 2023](#) for further details. Data excludes Swedish Match and Vectura Fertin Pharma.

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, while in the longer run laying the foundation of a strong business in the areas of broader lifestyle, consumer wellness, and healthcare.

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.

Excerpts from PMI's Statement of Purpose:

"In 2016, with the full support of the Board of Directors, PMI announced its new purpose of delivering a smoke-free future. Since then, PMI has fully aligned its employees with this purpose and swiftly shifted its organizational focus and resources to smoke-free alternatives. PMI is essentially disrupting its traditional business from the inside out and is leading the industry in this unprecedented transformation."

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

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](#).

"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."

"To make its progress both measurable and verifiable, PMI developed a set of bespoke key performance indicators called Business Transformation Metrics. This set of metrics allow stakeholders to assess both the pace and the scale of its transformation and showcase how it is allocating resources away from its traditional cigarette business, aiming to base success on a future where it no longer makes or sells cigarettes."

[→ Read PMI's full Statement of Purpose](#)

André Calantzopoulos
Executive Chairman



Message from PMI's Executive Chairman

"PMI's purpose is driven by its commitment to transform for good, which guides its long-term strategy and resource allocation. By being clear and consistent about our purpose, we have successfully adapted to the changing needs and preferences of our consumers and stakeholders. Understanding sustainability as an opportunity for innovation and growth has allowed us to create products that are actively accelerating the decline of cigarette smoking, beyond what traditional tobacco control measures can achieve alone. But to phase out cigarettes completely, this is not enough: policy and regulation can complete this change or perpetuate the status quo. A smoke-free future is attainable, and the benefits it can bring to the people who would otherwise continue to smoke, and hence to global public health, are enormous. However, PMI will not succeed on its own. We can maximize this opportunity by achieving a consensus that smoke-free alternatives, when subject to proper government oversight and regulation, are part of a sound tobacco policy. We stand ready to engage with any country that wishes to regulate in the interest of public health, banning cigarettes and allowing adult smokers to access better, less harmful alternatives."



Message from our Chief Executive Officer



2023 allowed us to reflect on the strides we have made. It was a year marked by unity, determination, and a continued commitment to our vision of a smoke-free future—evident in every endeavor we undertook and each challenge we transformed into an opportunity for growth.

Our persistent dedication to accelerating the end of smoking resulted in a 27.9 percent cumulative decline in the shipment volume of combustible tobacco products (versus 2015, before we began our company's transformation).

Through consistent strategic investment in our business transformation—four consecutive years of 99 percent of our R&D and approximately 74 percent of commercial expenditure dedicated to smoke-free products—we have seen smoke-free products grow to represent 36.4 percent of our adjusted net revenues. Present in 84 markets, of which 39 are low- and middle-income, and empowered by approximately 33 million users of our smoke-free products, including 20.8 million adults who have switched to IQOS and successfully stopped smoking, our smoke-free products continue to prove the most powerful opportunity to make cigarettes obsolete.

Importantly, we continued to deploy responsible commercialization practices guarding against the use of our products by unintended audiences such as underage. In particular, during 2023 we continued strengthening governance for youth access prevention activities in our indirect retail programs.

In preparation for the launch of IQOS in the U.S., in 2023 we submitted to the U.S. Food and Drug Administration (FDA) Premarket Tobacco Product Applications (PMTAs) and Modified Risk Tobacco Product Applications (MRTPAs) for IQOS ILUMA. In addition to strengthening our intellectual capital, we also devoted the year to building robust social and human capital in the region. Our efforts emphasized nurturing a workforce capable of delivering our innovative products with the excellence our consumers expect of us. This report mentions some of the challenges and opportunities ahead in the section "Foster an empowered and inclusive workforce."

The acquisition of Swedish Match positions us well to seize the substantial smoke-free opportunity in the U.S., which we approach with the rigor and innovative spirit that have become the hallmarks of our company. By joining forces with Swedish Match, we expect to accelerate the achievement of our joint smoke-free ambitions, switching more adults who would otherwise continue to smoke to better alternatives faster than either company could achieve separately. Our journey toward integrating Swedish Match into PMI includes, of course, integrating it into our sustainability strategy.

I am pleased to see it has commenced with fervor. In 2023, we completed a combined carbon footprint analysis, which allows us to know and report accurately on PMI's scope 1+2+3 emissions, inclusive of Swedish Match.

While Swedish Match's sustainability performance is not yet fully integrated into the remainder of the report, our transparent approach maintains that we will diligently update and incorporate relevant nonfinancial data as our integration processes mature over the coming years, and will be ready to respond to regulatory reporting requirements.

Our journey toward addressing the impacts of both our products and operations continued to gain momentum in 2023. We strengthened our product stewardship with comprehensive retail safeguards and take-back initiatives—crucial efforts improving circularity of our electronics by extending the life of approximately 320,000 smoke-free devices. This success is a testament to our leadership in advancing circular economy practices within the industry as we pave the way toward our ambitious 2025 objective to embed eco-design and circularity principles in all our smoke-free electronic devices. We also published our first Human Rights Report and completed our eighth human rights impact assessment since 2018, on track to achieving 10 by 2025. This most recent assessment applied a gender lens to our human rights impact, focusing on risks specific to women's rights.

Despite this progress, we continue to face challenges—driven mostly by our inability to fully control outcomes, and importantly, impacts of our programs. For example, ensuring a sustainable supply chain is not an easy task, especially when it comes to environmental and social issues. As a result, many of the challenges we face are not unique to our company, but rather pervasive in all multinational companies with complex and diverse supply chains. Part of this is driven by the lack of visibility and transparency that currently exists on some of our lower-tier suppliers, who operate in different countries and regions with varying regulations and standards related to greenhouse gas (GHG) emissions or human rights, for example.

In addition to that, pursuing sustainability goals may require trade-offs between economic, environmental, and social objectives, such as balancing efficiency, quality, and innovation with environmental protection, human rights, and social justice. It also entails additional costs for monitoring, auditing, training, and improving supplier performance. Last but not least, we continue to face challenges related to coordination and collaboration: achieving a sustainable supply chain requires us to work with various stakeholders, such as suppliers, customers, competitors, industry associations, governments, NGOs, and international organizations.

As we continue to lead an industry transformation and to expand our electronics supply chain, building an ecosystem to maximize the circularity of our devices remains a big challenge to overcome.

Two years ago, eager to expand our company's purpose and evolve into a broader lifestyle, consumer wellness, and healthcare business, we announced the extension of our value proposition and innovative capability to commercialize products that go beyond tobacco and nicotine. While the reaction of some vocal individuals and organizations in the external environment has delayed our ability to fully harness the potential of the assets and capabilities we have built over our transformation journey, we remain convinced that this business can provide a very sizable, yet long-term, potential.

We remain eager and fully committed to making cigarettes obsolete. Our progress could be even bolder if we were not confronted in some geographies with some governments refusing to develop policy and regulate in the interest of public health, rejecting harm reduction principles and thereby depriving millions of smokers from access to smoke-free products and information about their benefits compared with continued smoking. These policies can result in severely slowing down the decline of smoking prevalence: there is overwhelming evidence that regulatory acceptance and the creation of an environment in which adult smokers can learn about smoke-free products can lead to significant acceleration of the decline in smoking. Moreover, the rigorous implementation of responsible practices across our value chain—from product design, development, and commercialization—limits to a great extent any access and use of tobacco- and nicotine-containing products by unintended audiences.

Our business imperative is clear: We are dedicated to maximizing the benefits and capitalizing on our smoke-free product growth and are proactive seeking opportunities that can drive positive change.

As we encounter new challenges, our people's enduring resilience and their exceptional talent and depth of purpose ensure we are well-equipped to emerge stronger and more adaptive. I ask that you consider this Integrated Report 2023 an open invitation for you to observe our ongoing transformation and partake in the dialogue that will shape the course of our future. Together, let us continue this journey—pursuing progress, embracing innovation, and fostering sustainability—as we transform for good and advance ever closer to a smoke-free future.

Jacek Olczak
Chief Executive Officer



Our global footprint

73,704

Employees worldwide¹

~33 m

Estimated number of users of PMI smoke-free products, including 28.6 m IQOS users²

84

Markets where PMI smoke-free products are available for sale³

50

PMI-owned manufacturing facilities⁴

306,000

Contracted farmers supplying us with tobacco, located in 23 countries⁵

32

Third-party manufacturers

38

Third-party operators (in Indonesia)

¹ Incorporating Vectura Fertin Pharma, as well as the 2022 acquisition of Swedish Match, PMI employed approximately 82,700 people worldwide at year-end 2023.
² Figures are based on IQOS user panels and PMI Market Research. Estimated user numbers for oral nicotine and e-vapor are approximate, with further methodology details to be provided in future disclosures. See [Glossary](#).
³ For definition of available for sale, see [Glossary](#).
⁴ Data reflects the number of factories operated and owned by PMI at the end of the respective year.
⁵ Figure pertains to tobacco farmers whose tobacco is included in PMI packed products.

2023 overview by PMI segment

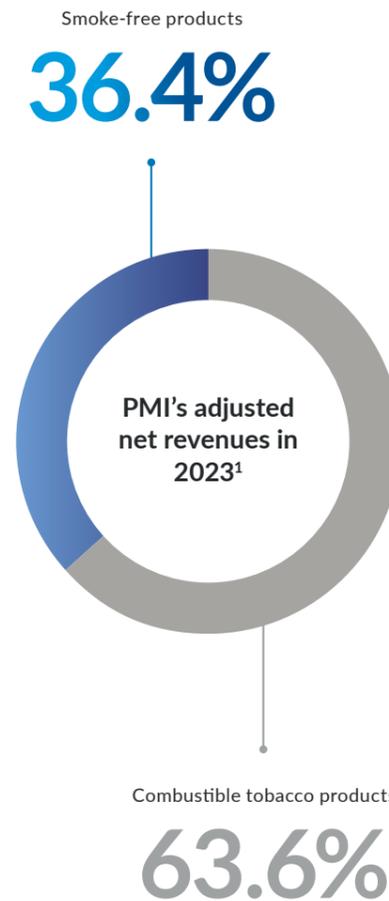
	Europe	SSEA, CIS, and MEA	EA, Australia, and PMI DF	Americas	Wellness & Healthcare	Swedish Match
Proportion of PMI's total adjusted net revenues generated by each segment	38%	30%	18%	6%	1%	7%
Proportion of adjusted net revenues derived from smoke-free products in each segment	41%	12%	57%	4%	100%	83%
Proportion of global workforce by segment	30%	44%	5%	10%	2%	9%
Number of PMI-owned manufacturing facilities in each segment	13	13	2	7	1	14

Notes:
 Figures in the above table are rounded.
 For definition of net revenues derived from smoke-free products, see [Glossary](#).
 As of December 31, 2023, we managed our business in four geographical segments, a Swedish Match segment, and a Wellness and Healthcare segment (which includes the operating results of our new Wellness and Healthcare business, Vectura Fertin Pharma). See [Glossary](#). Following the combination and the progress made in 2023 toward the integration of the Swedish Match business into the existing PMI regional segment structure, we changed our segment reporting by including Swedish Match results in the four existing geographical segments on February 27, 2024. For more information, please access the corresponding 8-K as filed with the SEC on February 27, 2024 [here](#).

Consistent with our vision to make PMI a truly global leader in the smoke-free category, on October 20, 2022, PMI announced that it had reached an agreement with Altria Group, Inc., to end the companies' commercial relationship covering IQOS in the U.S.—the world's largest smoke-free market—as of April 30, 2024. Under this agreement, effective May 1, 2024, PMI will hold the full rights to commercialize IQOS in the U.S. The acquisition, completed in December 2022, and the related ongoing integration of Swedish Match, is laying the foundation for our smoke-free deployment into the U.S. Our intent is to provide better alternatives to the estimated over 28 million Americans who currently smoke cigarettes.¹ We do not have any intention of selling cigarettes in the U.S.

¹ Source: Centers for Disease Control and Prevention, [Data and Statistics, Smoking and Cigarettes](#).

Our product portfolio



Smoke-free products

Our smoke-free product portfolio is composed of multiple categories that do not require combustion to be consumed, including heat-not-burn, e-vapor, and oral products (such as snus and nicotine pouches).² Our two leading smoke-free products are commercialized under the IQOS and ZYN brands. IQOS is a heat-not-burn product that uses electronics to heat tobacco or a non-tobacco substrate in a controlled manner to generate an aerosol. ZYN is an oral nicotine pouch product that does not contain tobacco. Our e-vapor products, VEEV ONE and VEEV NOW, generate an aerosol by heating a nicotine-containing e-liquid formulation. We are also present in other oral tobacco product categories, including snus and moist snuff categories.



Combustible tobacco products

We seek to maintain our competitive position in the cigarette market while we transition away from combustible tobacco products.³ This provides us with better access to trade partners and adult smokers, which enhances our ability to switch adults who would otherwise continue smoking to smoke-free alternatives. Remaining competitive in the cigarette market also helps us finance the necessary R&D, manufacturing, and commercialization investments for our smoke-free portfolio. Moreover, it paves the way for the rest of the industry to follow our lead. Our cigarette brands are sold in approximately 175 markets, in many of which they hold the number one or number two market share position. Our portfolio includes a wide range of premium, mid-price, and lower-price brands, including *Marlboro*, *L&M*, *Chesterfield*, *Philip Morris*, and *Parliament*.

¹ For definition of net revenues related to smoke-free products, see [Glossary](#). 2023 figure includes Swedish Match.
² Smoke-free products is the term we primarily use to refer to all our products that are not combustible tobacco products. See [Glossary](#) for details.
³ Following the acquisition of Swedish Match, we now also have a presence in the cigar category.



Message from our Chief Financial Officer



As the CFO of our company, I am compelled to share not just a financial narrative, but one that weaves together the myriad nonfinancial factors that are also important to our enduring success.

Strategic foresight unites our nonfinancial aspirations with financial outcomes. This is consistent with our purpose, which increasingly resonates with our stakeholders and we believe powerfully demonstrates the interplay between societal impact and the generation of long-term shareholder returns.

Nearly eight years into our commitment to deliver a smoke-free future, our company finds itself bridging two worlds: remaining competitive in the legacy cigarette market while leading the way in the development and commercialization of smoke-free products that promise a less harmful future for adults who would otherwise continue to smoke.

Our goal is to make cigarettes obsolete by effecting system-level change. Significant advances in our sustainability agenda have fortified this resolve. At PMI, sustainability is not just a part of our corporate strategy; it is at the core of our business transformation. Notably, our efforts contribute to mitigating climate change, protecting nature, and fostering inclusive growth that benefits our workforce and our supply chain. These endeavors are parallel to our smoke-free objectives—both demand transformative solutions that transcend individual actions.

Transformation is an arduous, continual process. In 2023, we continued to navigate the complexities of global markets and regulation. We operate in a resilient legacy cigarette business while simultaneously building an entirely novel and improved category of products. Having invested approximately USD 12.5 billion in scientifically researching, developing, and commercializing smoke-free products since 2008—which accounted for nearly 40 percent of our total net revenues in the last quarter of 2023—we are living the future we envisioned nearly a decade ago when we set out our smoke-free vision.

Our commitment to transformation is unwavering, but we have been clear from the start that we cannot accomplish it alone. Collaboration and a multistakeholder approach are vital to realizing the change we seek. In a world that demands change, it is imperative that governments stay on top of technological and scientific developments, while ensuring that innovative products are appropriately regulated.

Pressing environmental and social concerns, including those related to human rights, climate change, product health impacts, youth access prevention, and circularity, also steered our course in 2023. Addressing these issues well is not merely a corporate ethos but a business imperative that directly correlates with risk mitigation and long-term value creation for our stakeholders and society. This path aligns with investor interests that are increasingly geared toward companies that demonstrate environmental and social stewardship. Further, it directly contributes to our competitive advantage and market positioning. Our shift in executive remuneration, with the PMI Sustainability Index now dictating 30 percent of executive Performance Share Unit (PSU) long-term compensation, marked a groundbreaking step in further integrating nonfinancial and financial performance. In 2023, we introduced our second iteration of the Sustainability Index, which will serve the 2023–25 PSU cycle.

Our financial returns are supported by our sustainability performance, acknowledged by key ESG ratings, which aim to attract investments that can fuel our business. In 2023, our leadership in this area was recognized by our inclusion in the Dow Jones Sustainability World Index and top ranking in the tobacco sector for the first time. Furthermore, we maintained our position in the Dow Jones Sustainability North America Composite Index for the fourth consecutive year. Inclusion in these indices validates our long-term economic, environmental, and social sustainability efforts and positions PMI among the top 10 percent of the largest 2,500 companies in the S&P Global Broad Market Index.

Moreover, we are proud to have attained “Prime” status according to the ISS ESG rating methodology. PMI is the only company in the tobacco industry to have received this prestigious qualification. We also obtained a Triple A score from CDP for the fourth consecutive year, underscoring our commitment to environmental performance and transparency. Our transparent and robust reporting practices were acknowledged by the annual WBCSD Reporting Matters publication, which has recognized PMI as a top performer for three consecutive years.

While we celebrate these achievements, it is important to acknowledge the long road ahead and that addressing our most material issue—phasing out the world of cigarettes—remains our top priority and the core of our strategy. Success requires us to be dynamic in our core business while seeking out new territories for innovation and growth. Each step we take is aimed at nurturing the trust and confidence of those we serve, fully aware of the magnitude of our undertaking.

We will continue to report on our progress transparently and pursue milestones that reflect our ambitions. As we present this 2023 Integrated Report, let this commitment be clear: delivering a smoke-free future and excelling in our sustainability aspirations are not just ethically sound decisions; they are the bedrock of our strategy and the key to our shared success. We invite you to explore this report to gain further insights into our aspirations, challenges, achievements, and ongoing efforts to transform our business, for good.

Emmanuel Babeau
Chief Financial Officer

Operating context

Market trends

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. The category includes inhalable products (including heat-not-burn and e-vapor products) and oral products (such as snus or nicotine pouches). By eliminating combustion, these products present, are likely to 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, among other forms, 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 prescriptions from medical professionals.

Overview of main smoke-free products available on the market

Inhaled products

TOBACCO CONTAINING

Heat-not-burn products



Heat-not-burn products, also known as heated tobacco products, electrically heat tobacco or a nicotine substrate, using either inductive or resistive heating, just enough to release a nicotine-containing aerosol without burning. They are used with heated tobacco units designed for heating that contain a tobacco plug (made from tobacco leaves that are ground and reconstituted into tobacco sheets that are then crimped) or a non-tobacco substrate infused with nicotine.

NON-TOBACCO CONTAINING

Heat-not-burn products



E-vapor products



E-vapor products are battery-powered devices, commonly known as e-cigarettes, that vaporize a liquid solution containing nicotine and flavors to create an inhalable aerosol. While traditional e-vapor products come with rechargeable batteries and replaceable or refillable cartridges, disposable e-vapor products are single-use devices that come prefilled with e-liquid.

Oral products

TOBACCO CONTAINING

Snus and moist snuff



Snuff consists of finely ground tobacco. Snus contains moist powdered tobacco that is wrapped in a cellulose pouch. Moist snuff and snus products are placed between the gum and the cheek or upper lip, with nicotine absorbed into the bloodstream mainly via the mucous membranes in the mouth.

NON-TOBACCO CONTAINING

Nicotine pouches



Nicotine pouches contain nicotine, together with water, flavorings, and plant-based fibers. The nicotine in the pouches is extracted into the saliva and is absorbed mainly via the mucous membranes in the mouth before entering the bloodstream.

Note: The visual above depicts the main smoke-free products available on the market. It is not representative of PMI specific products, nor aimed at providing an extensive illustration of all smoke-free products available on the market. For an overview of PMI smoke-free product characteristics, please visit [PMLscience.com](https://www.pmlscience.com).

Prevalence of tobacco smoking worldwide

Combustible tobacco products currently represent the largest share of the global tobacco and nicotine business, with cigarettes remaining the dominant tobacco product used by nicotine consumers worldwide.

Even with the decline in smoking prevalence, efforts to curb the habit of smoking have been outstripped by population growth.¹ Reports show that in 2022 an estimated 1 billion people worldwide continued to smoke.²

While the World Health Organization's (WHO) reports no longer offer projections related to smoking prevalence, it estimates that the total number of tobacco users by 2030 will be approximately 1.2 billion.²

We believe that, with the right policies and regulation, by 2030 less harmful alternatives can represent a larger share of the 1.2 billion—and thus contribute to further decrease smoking prevalence.

¹ The Lancet, [The Global Burden of Tobacco](#), 27 May 2021.
² WHO Global Report on Trends in Prevalence of Tobacco Use 2000-2030, 16 January 2024.

Emergence of smoke-free alternatives

In recent years, the development, commercialization, and subsequent adoption of various smoke-free products have led to rapid category growth. Within the nicotine industry, smoke-free products have begun to replace combustible tobacco products.

In particular, the heat-not-burn segment volume grew in the international market (which excludes China and the U.S.) at a compound annual growth rate (CAGR) of 20 percent over the past three years, driven both by increased adoption in the initial launch markets and geographic expansion. This is the largest smoke-free category by both retail value and volume in the international market.

Overall, we expect the smoke-free segment volume to grow by 10 to 15 percent between 2024 and 2026.

Competition

As in other consumer goods sectors, manufacturers in the tobacco and nicotine industry compete primarily on product quality, brand recognition, brand loyalty, taste, R&D, innovation, packaging, customer service, marketing, advertising, retail price, and, increasingly, adult smoker willingness to convert to their brands of smoke-free products.

Global shares of market 2023, including cigarettes and heated tobacco units

	2023
China National Tobacco Corporation	~33.1%
Philip Morris International	14.1%
British American Tobacco	~11.1%
Japan Tobacco	~10.3%
Imperial Brands	~3.8%
Altria Group	~1.5%
Other	~26.1%

Note: Global market includes China and the U.S.
Source: PMI financials or estimates.

Smoke-free products

There is increasing competition in smoke-free products, with more tobacco manufacturers shifting their resources toward developing, acquiring, and commercializing these products.

Despite advances in science and technology that present the opportunity to phase out combustible tobacco products, the business strategy of most international cigarette manufacturers appears to be focused on continuing to grow cigarette sales while expanding their portfolios to also include smoke-free alternatives.

In 2016, we were the first company to announce its smoke-free vision and commitment to phasing out cigarettes, encouraging adults who would otherwise continue to smoke to switch completely to better alternatives. Importantly, we established Business Transformation Metrics to report progress on our transformation in a transparent manner.

We remain optimistic that the growing interest in the smoke-free category can allow us to continue advancing our transformation and also lead the industry to adopt a similar strategy, thereby accelerating the end of smoking.



Combustible cigarettes

The global combustible cigarette sector includes four large international manufacturers—British American Tobacco, Imperial Brands, Japan Tobacco, and PMI—along with two major manufacturers focused primarily on their respective domestic markets: China National Tobacco Corporation in China and Altria Group, Inc. in the U.S. (Altria is the parent company of Philip Morris USA, which operates exclusively in the U.S. and is not affiliated with Philip Morris International).

Our perspective

At PMI, we 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 to those of 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 wherein cigarettes are phased out completely.

Our strategy is centered on researching and developing better products than cigarettes, promoting broad access to them among adults 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.

We are aspiring for less than one-third of our total net revenues to derive from combustible tobacco product sales by 2030. As of year-end 2023, PMI smoke-free products represented 36.4 percent of our annual adjusted net revenues and 18.6 percent of our total shipment volume.

PMI total international share of market (in %)

	2023	2022	2021
Cigarettes	23.7%	23.6%	23.7%
Heated tobacco units	4.7%	4.1%	3.5%
Total	28.3%	27.7%	27.2%

Source: PMI financials or estimates.
 Note: International market excludes China and the U.S., reflects cigarettes and HTUs, and includes cigarillos in Japan. Sum of share of market by product categories might not foot to total due to rounding.

Regulation and taxation

The harms associated with smoking have led policymakers, legislators, and regulators to impose rigorous restrictions on the manufacturing, marketing, and consumption of cigarettes, including high excise taxes, minimum age requirements, and designated smoking areas. Additional restrictions and mandates apply to packaging design and health warnings, ingredients and flavors, marketing, advertising, promotion, and other forms of sponsorship.

Much of the regulation that shapes the tobacco industry's operating environment is influenced by the WHO's Framework Convention on Tobacco Control (FCTC). The FCTC has established a global agenda to reduce the prevalence of tobacco use and nonsmokers' exposure to tobacco smoke.

While there is currently no global consensus on how best to regulate or tax smoke-free products, a growing number of authorities recognize that the risk profile of these products differs from cigarettes and should be regulated differently to promote their adoption as a better alternative for those adults who would otherwise continue to smoke.

Our perspective

PMI supports a comprehensive approach to the regulation of all tobacco- and nicotine-containing products. In addition to discouraging initiation and promoting cessation, commonsense regulation should encourage adults who smoke and would not otherwise quit to switch completely to scientifically substantiated smoke-free alternatives, which can be a better choice than continued smoking.

We advocate for a comprehensive and risk-proportionate regulatory and fiscal framework that recognizes that not all tobacco- and nicotine-containing products are the same. Regulation and taxation should subject the most harmful products to the most restrictive measures while encouraging those adults who would otherwise continue to smoke to switch to the less harmful alternatives now available.

At the same time, increasing the acceptability of smoke-free products for adult smokers must be balanced against the objective of minimizing use by unintended audiences, in particular youth. Any regulation needs to account for this. Therefore, we support putting in place safeguards against unintended use and robust post-market monitoring of real-world data to assess the actual impact of policy interventions, and to allow targeted and timely policy adjustments. Such an approach would significantly accelerate the phasing out of combustible tobacco products and promote public health.

As innovation in this space is ever increasing, the risk for noncompliant products entering the market also increases, so additional focus should be placed by authorities to ensure enforcement of laws and regulations.

Illicit trade prevention

The increasingly interconnected and digitalized global economy provides more opportunities to 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 smoking prevalence, damages legitimate businesses, stimulates organized crime, increases corruption, and reduces government tax revenue. We generally estimate that, excluding China and the U.S., illicit trade may account for as much as approximately 15 percent of global cigarette consumption; this includes counterfeit, contraband, and the persistent problem of "illicit whites," which are cigarettes legally purchased in one jurisdiction for the sole purpose of being exported and illegally sold in another jurisdiction where they have no legitimate market.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 manufacturing and transactions in tobacco and tobacco products in Free Zones (i.e., special economic areas that benefit from tax and duty exemptions). The protocol came into force in September 2018, and parties to it have started implementing its measures via national legislation.

Our perspective

To prevent the smuggling and counterfeiting of our products, we focus on securing our supply chain with advanced track and tracing technologies and on leveraging state-of-the-art security feature 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 worldwide 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 partnerships and impactful regulatory frameworks are fundamental to progress.

Read more about our approach and actions on [PMI.com](https://www.pmi.com)

¹ U.S. Department of State, [The Global Illicit Trade in Tobacco: A Threat to National Security](https://www.state.gov/global-illicit-trade-in-tobacco-a-threat-to-national-security), 2015.

Stakeholder engagement

PMI regards stakeholder engagement as fundamental to the creation of shared and sustainable value. Actively seeking open dialogue with our stakeholders allows us to understand their expectations and respond appropriately. Continuous engagement also enables us to build a shared understanding of contingency issues, proactively respond to concerns, identify potential areas of compromise, stay abreast of global trends and market expectations, address misinformation, and find solutions that are good for our stakeholders and business.

Our stakeholder engagement incorporates both structured and ad hoc interactions. Above all, it is guided by transparency, integrity, and respect, and governed by our [Code of Conduct](#) and its accompanying Policies, summarized in this [overview of our engagement principles](#).

Read more about our approach and engagement with key stakeholder groups, as well as our sustainability-related memberships and alliances, on [PMI.com](https://www.pmi.com).

Megatrends

We operate on a global scale in a fast-paced world. Our long-term success requires that we monitor, anticipate, and respond to the challenges and opportunities shaping our reality today and in the future.

Global trends intersect with our strategies and initiatives and inform how we interact with the external environment. Several trends existed before COVID-19, including political conflict and war (and their far-reaching impacts), but have been amplified and accelerated by the global pandemic, which disrupted supply chains and business operations and heightened the impact of certain trends.

Read more about our identified megatrends on [PMI.com](https://www.pmi.com).

Strategy

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Value creation

Resources and relationships



Human

Our success depends on developing the skills, knowledge, and experience of our 73,704 employees worldwide, of whom 43 percent are women.¹ Our employees represent 139 nationalities.



Intellectual

Innovation underpins our business transformation. In 2023, we invested USD 709 million in R&D, of which 99 percent continues to be dedicated to smoke-free products. Innovation also guides process improvements, from sourcing to manufacturing, logistics, and sales. Our acquisition of leading innovative companies to advance our nascent wellness and healthcare business has enriched our R&D with access to valuable patents and expertise.



Natural

In 2023, we sourced around 308,000 tons of packed tobacco, a material integral to our products. Other raw materials and natural resources used in our business include paper and pulp-based products, metals, water, and energy. We seek to source these materials sustainably and use them efficiently.



Manufactured

Our facilities—such as our R&D centers, 50 factories,² 38 consumer call centers, and 286 IQOS stores³—and nearly 21,500 vehicles allow us to develop, manufacture, deliver, and commercialize a multi-category smoke-free product portfolio to meet the demands of our consumers.



Social

Building stakeholder trust is essential. In addition to our shareholders, we develop and sustain relationships with a network of over 26,000 suppliers,⁴ 306,000 contracted farmers from whom we source tobacco, around 130 million consumers of our cigarette brands, and approximately 33 million users of our smoke-free products (including approximately 28.6 million IQOS users),⁵ our leading smoke-free product. Our relationships also extend to the retailers of our products, the communities in which we operate, regulators and other government officials, nongovernmental organizations (NGOs), and the multistakeholder initiatives in which we participate.



Financial

Our business activities require financial capital, which we strive to allocate efficiently to optimize value and drive sustainable growth. This capital is provided by our equity and debt holders, as well as by the cash flow generated by our operations. Our company's market capitalization as of December 31, 2023, was approximately USD 146 billion, and PMI's net debt was USD 44.9 billion. At that time, PMI's long-term credit was rated A2 by Moody's, A- by Standard & Poor's and A by Fitch.

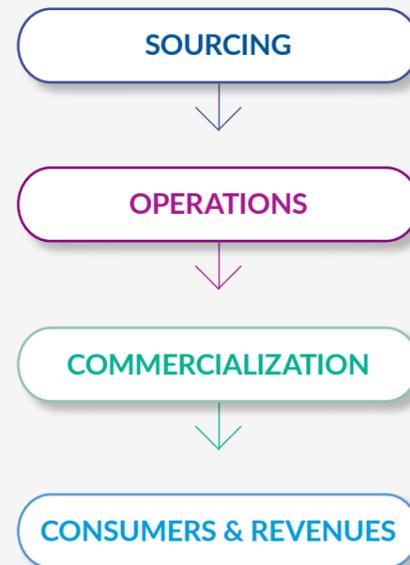
Key activities

Our mission

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

Our value chain transformation

To achieve this mission, all segments of our value chain—including sourcing, operations, commercialization, and consumers and revenues—are undergoing rapid transformation. Learn more by viewing our expanded value chain transformation infographic on [PMI.com](https://www.pmi.com).



Value created in 2023



Human

- Expanded lifelong learning program to 77 percent of PMI employees across the organization
- Heightened employees' sense of belonging and ability to connect with colleagues based on shared characteristics or life experiences by facilitating employee resource groups in partnership with external subject matter experts



Intellectual

- Reached around 3,720 patents that relate to smoke-free products granted in IP5 jurisdictions
- Published 532 scientific publications since 2008 to share our methods and findings
- Completed 287 toxicological assessment studies, 29 clinical assessment studies, and 69 perception and behavior studies on smoke-free products since 2015
- Invested a cumulative USD 12.5 billion to develop, scientifically substantiate, and commercialize smoke-free products since 2008⁶



Natural

- Reduced total value chain absolute CO₂e emissions (scope 1+2+3) by 13 percent⁷ and absolute CO₂e emissions from direct operations (scope 1+2) by 36 percent versus 2019⁷
- Purchased 94 percent of tobacco at no risk of deforestation of managed natural forest and no conversion of natural ecosystems, and maintained 100 percent of tobacco purchased at no risk of deforestation of primary and protected forests
- Covered 76 percent of shipment volume by markets with anti-littering programs in place for combustible cigarettes
- Covered 17.6 percent of shipment volume by markets with end-of-life take-back programs in place for smoke-free consumables⁸
- Optimized 8.1 million cubic meters of water in our tobacco supply chain since 2019
- Achieved 89 percent recycling rate of IQOS devices in the context of our CIRCLE program (weighted-average percentage of each device that is recycled)⁹
- Refreshed or repaired a cumulative number of 320,000 smoke-free electronic devices since 2021
- Virtually zero waste to landfill achieved in 99.9 percent of our manufacturing operations



Manufactured

- Expanded our portfolio to commercialize 13 smoke-free (heat-not-burn and e-vapor) devices and 86 taste variants for PMI heated tobacco units to meet the needs and preferences of adult smokers
- Extended the number of markets in which PMI smoke-free products are available for sale to 84, of which 39 are in low and middle-income markets¹⁰



Social

- Reached approximately 33 million users of our smoke-free products, including approximately 28.6 million IQOS users, of whom an estimated 20.8 million have switched to IQOS and stopped smoking¹¹
- Maintained high proportion of shipment volume—98 percent—covered by youth access prevention programs in our indirect retail channels¹²
- Continued to monitor and reduce prevalence of child labor among contracted farmers supplying tobacco to PMI, achieving 0.1 percent in 2023, and resolving 97 percent of identified cases
- Fostered a living income among contracted farmers supplying tobacco to PMI (achieving 96 percent) and a minimum wage for tobacco farmworkers (achieving 99.8 percent)
- Completed eight human rights impact assessments since 2018, as well as ongoing monitoring and implementation of action plans
- Representation of women in management positions increased to 41.8 percent (up from 40.7 percent in 2022) and our employee inclusion Net Promoter Score (iNPS) increased to 62 versus 56 in 2022



Financial

- Derived 36.4 percent of our annual adjusted net revenues from smoke-free products out of total adjusted net revenues of USD 35.3 billion¹³
- Achieved an 18.6 percent smoke-free product shipment ratio¹⁴
- Reported USD 2.3 billion in corporate income taxes
- USD 74 billion in excise tax paid on PMI products
- Increased annualized dividend rate to USD 5.20 per share; 16 consecutive years with a dividend increase since becoming a public company in 2008

Note: Presentation of information in this visual is informed by the Integrated Reporting Framework of the IFRS Foundation.

1 Incorporating Vectura Fertin Pharma, as well as the 2022 acquisition of Swedish Match, PMI employed approximately 82,700 people worldwide at year-end 2023.
 2 Data reflects the number of factories operated and owned by PMI, including the factories in our Swedish Match and Vectura Fertin Pharma businesses, at the end of the respective year.
 3 Excluding Russia, including only boutique stores.
 4 Suppliers refer to tier 1 suppliers; for definitions, see [Glossary](#).
 5 Figures are based on IQOS user panels and PMI Market Research. Estimated user numbers for oral nicotine and e-vapor are approximate, with further methodology details to be provided in future disclosures. See [Glossary](#).
 6 Investments reflect research, product and commercial development, production capacity, scientific substantiation, and studies on adult smoker understanding. Figures do not include Swedish Match and Vectura Fertin Pharma.
 7 Including Swedish Match.
 8 Shipment volume includes heated tobacco units, e-vapor cartridges, and e-vapor disposables. See [PMI's Sustainability KPI Protocol 2023](#) for further details.

9 Recycling rate: percentage of the weight of each device that is recycled, weighted-average depending on device type and processing facility. Reporting in 2023 includes CIRCLE hubs (Hungary and Japan) and validated local recycling vendors that started recycling activities, namely South Korea and Egypt. Including recycling (89%) and incineration with energy recovery (4%).
 10 Excluding PMI Duty Free. World Bank report issued in 2023 is used on a comparative basis for income level classification. For definition of low- and middle-income markets, see [Glossary](#).
 11 Figures are based on IQOS user panels and PMI Market Research. Estimated user numbers for oral nicotine and e-vapor are approximate, with further methodology details to be provided in future disclosures. See [Glossary](#).
 12 See [PMI's Sustainability KPI Protocol 2023](#) for further details.
 13 For definition of net revenues related to smoke-free products, see [Glossary](#). Data excludes the impact related to termination of distribution arrangement in the Middle East in 2023.
 14 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. Data does not include wellness and healthcare products.

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. In the longer term, we intend to consider avenues beyond smoke-free products and continue to explore the potential expansion of our offerings to include products that fill critical unmet needs within the wellness and healthcare space.

To achieve our purpose, we are radically transforming our business. 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 and employees, shareholders, consumers, and society.

Transforming our company is not simply about substituting one product with another. It requires changing our entire value chain, as well as the way in which we engage with society. This has required 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 specific 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 developing and implementing our sustainability strategy, we must consider a range of trade-offs among different forms of capital (read more [here](#)).

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

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. To achieve a smoke-free future, we work relentlessly to phase out cigarettes by replacing them with these less harmful alternatives as quickly as possible. We are increasing access for adult smokers by improving and expanding our portfolio of smoke-free products to meet their varying needs and preferences.

With an eye on the longer term, we are taking concrete steps to build the foundations for our wellness and healthcare business.

Supporting transformation



Combustible tobacco products

Growth priorities



Smoke-free products

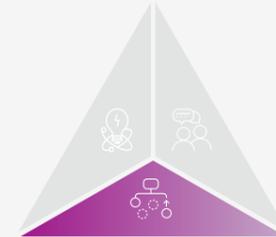
Emerging opportunities



Wellness and healthcare

Internal transformation

A new organization and value chain



Since announcing our smoke-free vision, we have undergone a meaningful reorganization, which unfolds as we progress on our transformation journey.

Internally, we continue to invest in our employees to upskill their knowledge and build the capabilities they need to contribute fully to our business transition. Simultaneously, we are 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.

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.

Value chain

SOURCING

Transitioning to an increasingly diversified supply chain, including electronics sourcing



OPERATIONS

Reallocating R&D expenditure toward smoke-free product innovation and scientific capabilities, while reorienting manufacturing toward smoke-free products



COMMERCIALIZATION

Moving from B2B to an increasingly consumer-centric model to commercialize smoke-free products



CONSUMERS & REVENUES

Shifting revenue source 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 with multiple 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, and for our business and long-term success.

Key stakeholder groups



[Read more about our stakeholder engagement](#)



Message from our Chief Sustainability Officer



We are delighted to share with you an update on the remarkable progress our company has made. The past year was filled with important developments, and we remain steadfast in our commitment to sustainability as a driving force behind our purpose-led approach to business.

Since the beginning of sustainability at PMI, our strategy has gone beyond minimizing negative externalities and mitigating risks.

Deeply connected to our transformation strategy, sustainability has always been intended to embody a profound opportunity for innovation, growth, and long-term value creation. Our dedication reflects our response to the concerns of our shareholders and other stakeholders alike.

Comparable and reliable nonfinancial data allow external stakeholders to understand not only our performance but also how we are responding to a rapidly changing environment and planning for the long term, fostering a more sustainable and transparent business landscape. From a strategic standpoint, ESG data help inform our organization on how, when, and where to allocate resources to make our sustainability efforts relevant, meaningful, and fully aligned with our business priorities.

We firmly believe that high-quality data are a prerequisite for accurate and meaningful reporting. Consequently, in 2023 we continued developing robust systems and processes to ensure sound data governance and integrity. This approach allows us to measure and account for our progress effectively while addressing the concerns of our diverse stakeholders, including shareholders. As we forge ahead, we remain committed to transparent, consistent, and reliable reporting practices.

Country-level case studies that shed light on our work on priority sustainability areas and market stories that seek to complement our reporting, by connecting and highlighting the impact that our initiatives are seeking to have on society and the environment around the world are available on [PMI.com](https://www.pmi.com). The cover of this report intends to reflect the diversity of contexts in which we operate and how progress on sustainability is delivered on the ground: it includes designs prepared by our local teams in different markets, showcasing what sustainability means to them.

We will continue to leverage integrated reporting to communicate holistically how we identify and address the most material ESG-related risks related to both our operations and product offerings.

During 2023 we conducted a light sustainability materiality refresh to reassess and further confirm our priority ESG topics. To do this, we considered changes to the external landscape since 2021, including geopolitical shifts. We also considered changes to our business, product portfolio, and geographic expansion.

The sustainability materiality refresh completed in 2023 also allowed us to assess our preparedness to comply with current and upcoming regulatory requirements, notably the EU Taxonomy Regulation and the EU Corporate Sustainability Reporting Directive (CSRD). As a company with an important presence in the EU region, we will be required to comply with this Directive in the coming years. Related to governance, we have taken significant steps to strengthen the role, structure, and processes of our risk functions by improving synergies with our sustainability team. These enhancements are intended to make progress toward ensuring that ESG considerations are fully integrated into our risk management practices.

By embedding sustainability in our risk management practices, we strengthen our ability to respond to regulation, navigate future challenges, seize opportunities, and drive sustainable value creation for all stakeholders, including our shareholders.

Moreover, we remain vocal in our support and active in an engagement that endorses efforts toward further harmonization and standardization of nonfinancial reporting. In line with this, we continue participating in consultations with the International Sustainability Standards Board (ISSB). In 2023, we also engaged with the International Auditing and Assurance Standards Board (IAASB) and participated in a consultation focused on standards for assurance on sustainability reporting. Further, after completing a full climate change risk and opportunities assessment and publishing our first Task Force on Climate-related Financial Disclosures (TCFD) report in April 2023, we are proud to be an early adopter of the Taskforce on Nature-related Financial Disclosures (TNFD) framework. Looking ahead, we anticipate this trend to continue and new regulatory developments and evolving stakeholder expectations to further shape how companies define success and report their performance.

As we present this Integrated Report 2023, we emphasize that delivering a smoke-free future is not just a priority; it is the essence of our purpose. The path we tread is marked by our ambition to lead, our vow to operate transparently, and our dedication to ensuring that cigarettes are relegated to history. We acknowledge the difficulties that lie ahead and reaffirm our dedication to the vision that propels us forward: one where cigarettes are supplanted by smoke-free alternatives in the shortest time frame possible.

We would like to express our gratitude to our employees, partners, and stakeholders who challenge and push us to do better.

We understand that our journey toward sustainability relies on building trust and legitimacy with all of them. And so, to all our stakeholders, I would like to say: your support and engagement have been vital in helping us drive our progress thus far. We value your feedback, ideas, comments, and questions as they inspire us to continuously improve and find better solutions. As we enter a new year, we are energized by the opportunities that lie ahead and remain committed to our purpose, dedicated to sustainability, and focused on transforming for good.

Jennifer Motles
Chief Sustainability Officer



Business Transformation Metrics

We recognize that business transformation is a company-specific journey, which sustainability reporting standards and frameworks fail to adequately capture.

To make our progress toward achieving our purpose of becoming a smoke-free business 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 will no longer base our success on making or selling cigarettes.

By transparently reporting periodically on these KPIs—sharing both year-on-year and cumulative progress—we enable external scrutiny and allow our stakeholders to assess the pace and scale of our transformation.

For all our Business Transformation Metrics, we aim to report our historical performance, ensuring a consistent scope and calculation methodology, and we strive for external assurance. In 2023, 14 out of 15 Business Transformation Metrics were subject to external assurance by our independent auditor, PwC, confirming that our transformation is both measurable and verifiable (read PwC's limited assurance report [here](#)).

Business transformation aspirations

Aspirations linked to our Business Transformation Metrics give us a clear roadmap. Early in our transformation journey, we set ambitious 2025 aspirations that grounded our purpose and gave direction to both our organization and external stakeholders as we ventured into what was then uncharted territory. Our commitment to champion a smoke-free future remains unwavering. However, nearly eight years since announcing our smoke-free vision, and with more data and a better understanding of the business environment, it was prudent to pause and revisit our aspirations as we look toward the next horizon: 2030.

We have undertaken significant business development activities in recent years. Most notably, we acquired Swedish Match in 2022. As the undisputed leader of the nicotine pouch category, Swedish Match fits squarely into our smoke-free strategy and is accretive to our growth. This means we are now fueling our transformation with two powerful engines: ZYN and IQOS. One key rationale for the combination was to enter the world's largest smoke-free market of the U.S. ZYN is already well-established in the market, and we plan to start commercializing IQOS in 2024 with select pilot city tests.

Since we started our journey with IQOS in 2014 with one device and two consumables, our portfolio has evolved and expanded. Our smoke-free portfolio now consists of three categories of tobacco and non-tobacco containing products, 13 different smoke-free (heat-not-burn and e-vapor) devices, and multiple consumables (notably 86 taste variants for PMI heated tobacco units).

As we fine-tune our strategy, our aspirations must also be able to account for challenges linked to uncontrollable factors—especially those related to the operating environment born primarily from policy and regulation (or lack thereof) in certain countries that directly influence our ability to communicate about or, in extreme cases, even commercialize our smoke-free products. Such challenges have directly contributed to a stronger-than-anticipated resilience of the combustible tobacco product business and thus influenced the pace of our transformation. Other, unforeseen challenges relate to the continued repercussions of the COVID-19 pandemic, the ever-evolving geopolitical situation, and related global supply chain disruptions.

Against this backdrop, our priority in the short to medium term is to capitalize on our smoke-free products' growth potential, including in the U.S. Accordingly, while we still believe in the natural fit and considerable potential that wellness and healthcare can bring to our business in the longer run, we recognize that more investment, research, and development are required before we generate meaningful incremental net revenues. Consequently, our strategic re-prioritization—particularly following our acquisition of Swedish Match—results in us no longer maintaining our aspiration of deriving USD 1 billion net revenues from this business by the end of 2025.

Our refreshed business transformation-related aspirations are as follows:

- By 2030, we aim to be a substantially smoke-free business, with smoke-free products representing over two-thirds of our annual net revenues globally.
- By 2030, we aspire for around 60 of our markets to have smoke-free products making up over 50 percent of our net revenues. Of these markets, we aim for around 40 to derive more than 75 percent of their net revenues from smoke-free products and around 20 to derive between 50 and 75 percent of their net revenues from smoke-free products.

- By the end of 2025, we remain committed to expanding the geographic availability of PMI's smoke-free products to 100 markets, of which at least half are targeted to be low- and middle-income markets.

Moreover, in markets where our smoke-free products were available for sale¹ as of the end of 2023, our combustible tobacco product shipment volume decreased by more than 33 percent versus 2015, when our transformation had just started (and by 27.9 percent in all markets). If we continue on this trajectory, we expect that the growth of smoke-free products and consequent replacement of cigarettes will translate into a more than 50 percent decline of our combustible tobacco product shipment volume in these markets by 2030.

¹ For definition, see [Glossary](#).

Business Transformation Metrics		2015 baseline	2021	2022	2023	Aspirations
Consumers & Revenues	Total number of users of PMI smoke-free products (in millions) ^{1*}	0.2	21.7	24.9	28.6	
	Estimated number of users who have switched to PMI smoke-free products and stopped smoking (in millions) ^{1*}	0.1	15.3	17.8	20.8	
	Adjusted net revenues ratio (smoke-free/total) ^{2*}	0.7%	29.5%	32.1%	36.4%	>2/3 by 2030
Commercialization	Number of markets where smoke-free products are available for sale ^{3*}	7	71	73	84	100 by 2025
	Number of markets where adjusted net revenues from smoke-free products exceed 50% of adjusted total net revenues ^{4*}	0	10	17	25	~60 by 2030
	Number of markets where adjusted net revenues from smoke-free products exceed 75% of adjusted total net revenues ^{4*}	0	0	0	3	~40 by 2030
	Proportion of markets where smoke-free products are available for sale that are low- and middle-income markets ^{4*}	17%	42%	42%	47%	>50% by 2025
	Commercial (marketing) expenditure ratio (smoke-free/total) ^{5*}	8%	73%	74%	74%	
	Smoke-free product shipment volume – heated tobacco units (billion units) ^{6*}	0	95	109	125	
	Shipment volume – nicotine pouch (million cans) ^{6*}	0	1	42	421	
Sourcing & Operations	Combustible tobacco product shipment volume (billion units) ^{6*}	877	645	642	633	
	Change in combustible tobacco product shipment volume (billion units) vs. 2015 baseline ^{6*}	n/a	(26.4)%	(26.8)%	(27.9)%	
	Adjusted R&D expenditure ratio (smoke-free/total) ^{6*}	70%	99%	99%	99%	
	Supply chain direct spend expenditure (smoke-free/total) ^{7*}	n/a	35%	43%	41%	
	Number of factories producing smoke-free products out of total number of factories ^{8*}	3 out of 48	9 out of 38	14 out of 49	16 out of 50	

* The 2023 metrics marked with an asterisk (*) are subject to PwC's Limited Assurance Report.

Notes: Unless otherwise stated, all applicable business transformation metrics include Swedish Match related data as of November 11, 2022 (acquisition date), as well as Vectura Fertin Pharma. In 2023, we evaluated and republished a new set of aspirations for 2030 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. See [Glossary](#).
 2 For definition of net revenues related to smoke-free products, see [Glossary](#). Data excludes the impact related to termination of distribution arrangement in the Middle East in 2023 and the impact related to the Saudi Arabia customs assessments in 2021.
 3 For definition of available for sale, see [Glossary](#).

4 Excluding PMI Duty Free. World Bank report issued in 2023 is used on a comparative basis for income level classification. For definition of low- and middle-income markets, see [Glossary](#).
 5 These indicators are calculated based on millions of units. For definition of heated tobacco units and combustible tobacco products, see [Glossary](#). Combustible tobacco products shipment volume includes cigarettes and other tobacco products expressed in cigarette equivalent units.
 6 Adjusted R&D expenditure excludes asset acquisition cost related to OtiTopic, Inc. in 2021. Total reported R&D expenditure in 2021 including these items amounted to USD 617 million.
 7 Direct spend focuses on materials used in the manufacture of our products; it includes tobacco leaf, direct materials, and electronic devices and accessories. Data excludes Swedish Match and Vectura Fertin Pharma.
 8 Data reflects the number of factories operated and owned by PMI at the end of the respective year. As of 2023, "Smoke-free products factories" is defined as manufacturing facilities producing heated tobacco units and oral nicotine products. Additionally, in 2023, PMI evolved its approach to report the number of factories based on location instead of based on plant. If a facility is one location, but has several physical areas (plants), the facility is counted as one. To provide comparability, 2022 data has been restated on the same basis.

Anchoring sustainability at the core of our strategy

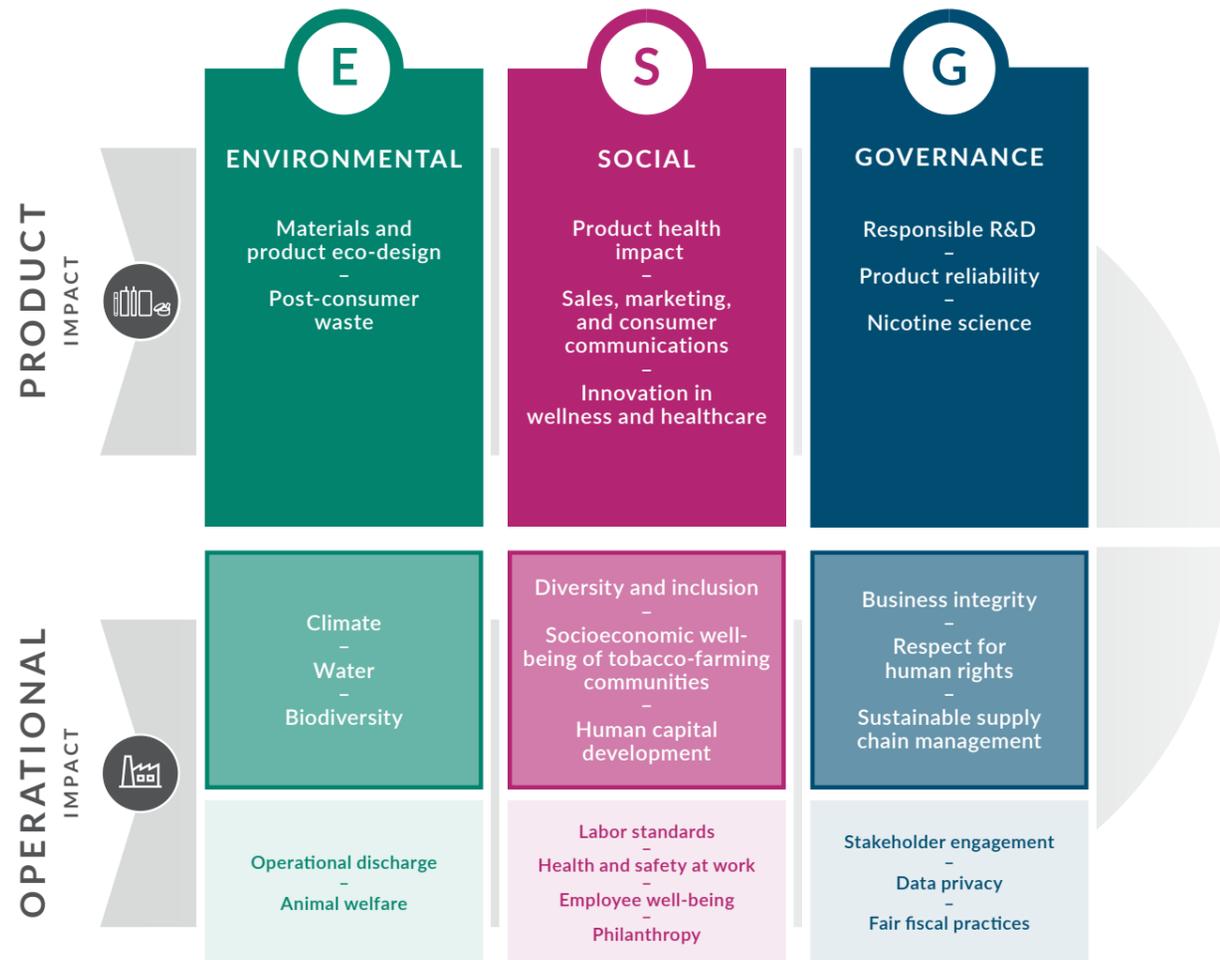
We can only achieve our purpose by embedding sustainability in every aspect of our business.

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.

Our approach to sustainability is guided by the outcomes of our most recent full-fledged sustainability materiality assessment (read more [here](#)). During 2023, we conducted a light refresh of our assessment, accounting for two meaningful developments: our change in footprint (driven both by the acquisition of Swedish Match and by our announcement to enter the U.S. in 2024) and recent regulatory developments—especially those focused on mandatory nonfinancial disclosures. Besides minor calibration, this internal review confirmed the outcomes of the 2021 assessment and did not result in changes to our priority ESG topics.

The result of this assessment is 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, and to properly address these priority issues, 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.



Our sustainability strategy

Consistent with the outcomes of our sustainability materiality assessment, addressing the social impacts of our products stands at the core of our sustainability strategy.

The health impact of cigarette smoking is the most significant negative externality we aim 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. Focusing our resources on innovating and developing solutions that can contribute to solving some of society's most pressing challenges represents an opportunity for growth and our strongest competitive advantage.

We deploy a three-pronged approach to address the social impacts of our products:

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.

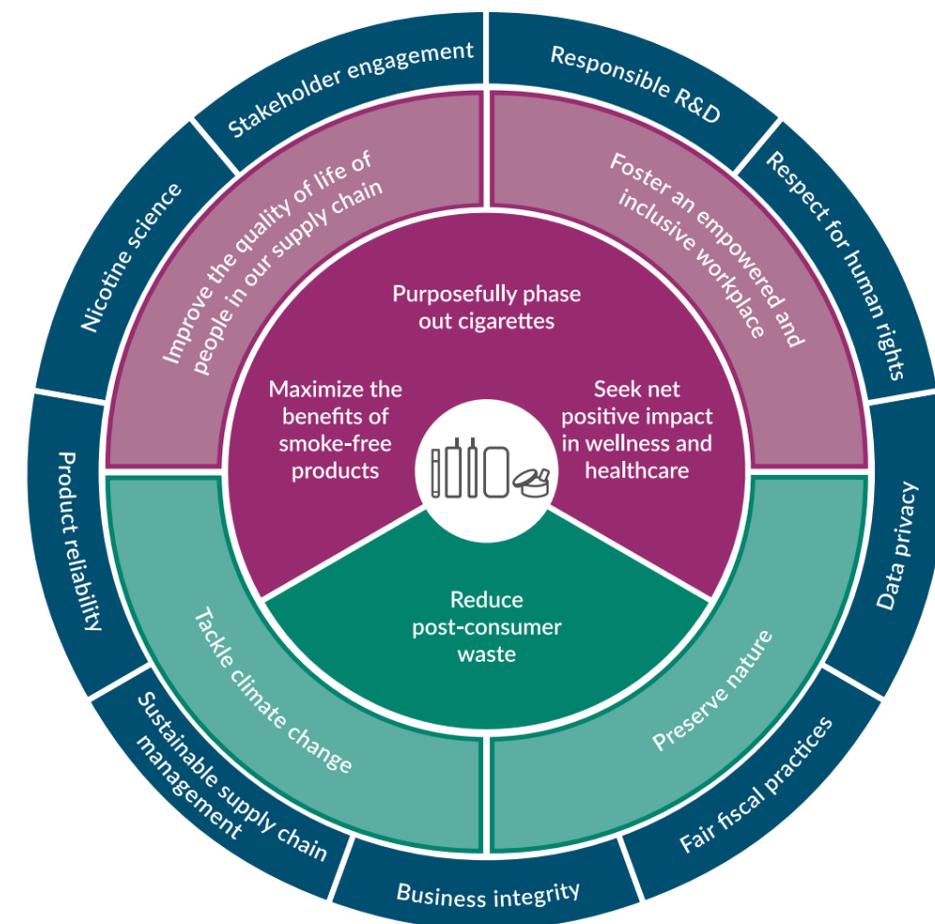
2. Purposefully phase out cigarettes:

Work to make cigarettes obsolete, with the aim that smoke-free products ultimately replace cigarettes for those who continue to use nicotine, driving their obsolescence.

3. Seek net positive impact in wellness and healthcare:

With a longer horizon in mind, we are exploring adjacent opportunities for growth in wellness and healthcare, leveraging the capabilities we have accrued and developed while transforming our business.

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 outlines our key goals and informs the route of our company's long-term plan.

Running to the end of 2025, it comprises 11 headline goals, each connected to our eight strategies, which aim to address the 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 straightforward direction to our stakeholders by clearly outlining the social and environmental impacts we aim to achieve with our strategies in relation to both our products and our 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 toward achieving.

Specific performance metrics (all available [at the end of this report](#)) allow us to measure the progress we are making toward achieving our aspirations and evaluate the effectiveness of our programs. We provide on this page a summary of our performance in 2023, which we further detail in the respective sections of this report.

PMI Sustainability Index

PMI's Sustainability Index directly connects our 2025 Roadmap to specific KPIs and aspirations, allowing us to link sustainability performance to long-term executive compensation (read more [here](#)).

Progress key

- Progress with challenges
- Progress on track
- Progress further than anticipated

	Goals	Progress in 2023	Performance summary	Priority ESG topics and primary SDGs	
PRODUCT IMPACT	Purposefully phase out cigarettes 1 Intentionally work toward phasing out cigarettes by ensuring that we become a substantially smoke-free company by net revenues by 2030 and continue to reduce our combustible shipment volume		Smoke-free products represented 36.4 percent of our adjusted annual net revenues in 2023 (2022: 32.1 percent), ¹ and 18.6 percent of our total shipment volume (2022: 15.3 percent). ² Meanwhile our combustible tobacco product shipment volume decreased by 27.9 percent versus 2015.	Product health impact 3	
	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 low- and middle-income markets) and continue to increase the total number of users 3 Deploy robust youth access prevention programs in indirect retail channels and ensure that sales of our products abide by our Marketing Codes		By the end of 2023, our smoke-free products were available for sale in 84 markets, ³ of which 47 percent were low- and middle-income markets (2022: 73; 42 percent). ⁴ We estimate that approximately 33 million adults worldwide were using our smoke-free products, including around 28.6 million adults worldwide who were using IQOS (2022: 24.9). ⁵	Product health impact; Sales, marketing, and consumer communications 3	
			While we focus in the short- to medium-term on capitalizing on our smoke-free products' growth potential, we remain convinced of the longer-term potential of our wellness and healthcare business.		Innovation in wellness and healthcare 3 8
			We have expanded the scope of anti-littering programs for cigarette butts to 76 percent of sales volumes while continuing to roll out end-of-life take-back programs for smoke-free consumables, now covering 17.6 percent of sales volumes. ⁶		
	Reduce post-consumer waste 5 Reduce post-consumer waste and prevent littering by implementing comprehensive programs covering all our consumables 6 Follow eco-design and circularity principles for all smoke-free electronic devices		Smoke-free products—and heated tobacco products, in particular—are a relatively new product category. As such, they are generally not covered by existing product category rules. We have further defined our framework for eco-design and integrated several sustainable design principles into select pilot projects.		
		OPERATIONAL IMPACT	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		In 2023, 32.0 percent of senior roles were held by women. We continued to expand opportunities for learning and development: By the end of 2023, 77 percent percent of our employees worldwide could access structured lifelong learning offers.
Improve the quality of life of people in our supply chain 8 Eradicate systemic child labor in our tobacco supply chain 9 Ensure all contracted tobacco farmers make a living income; partner with our direct suppliers to promote a living wage for their workers			In 2023, child labor prevalence affected 0.1 percent of our purchased tobacco and, while we broadly eradicated systemic child labor issues in the farms we contract with, we remain committed to eradicating isolated cases. ⁷	Socioeconomic well-being of tobacco-farming communities 1 8	
			In 2023, we strengthened our tobacco farmer living income calculation methodology and, by the end of the year, 96 percent of contracted farmers supplying tobacco to PMI made a living income.		
Tackle climate change 10 Achieve carbon neutrality in our operations and accelerate our decarbonization toward net zero across our value chain 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			In 2023, our CO ₂ e scope 1+2 emissions decreased by 36 percent versus our 2019 baseline and our net CO ₂ e scope 1+2+3 emissions decreased by 13 percent within the same time frame, which keeps us on track to reach carbon neutrality in our direct operations by 2025 and net zero across our value chain by 2040. ⁸	Climate 13 15	
			In 2023, we achieved 94 percent of tobacco purchased at no risk of net deforestation of managed natural forest and no conversion of natural ecosystems, and 95 percent of paper, board, and pulp-based supplies purchased at no risk of gross deforestation of primary and protected forests. ⁹ Our water stewardship initiatives have contributed to optimizing a total of 8.1 million cubic meters of water in our tobacco-growing areas since 2019, putting us well on track to achieving our aspiration to optimize 25 million cubic meters of water by 2033. ¹⁰	Biodiversity; Water 6 15	

Note: Goals 1 and 4 were adjusted to reflect revised aspirations linked to our business transformation (read more [here](#)).

1 For definition of net revenues related to smoke-free products, see [Glossary](#). Data excludes the impact related to termination of distribution arrangement in the Middle East in 2022.
 2 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. Data does not include wellness and healthcare products.

3 For definition of available for sale, see [Glossary](#).
 4 Excluding PMI Duty Free. World Bank report issued in 2023 is used on a comparative basis for income level classification. For definition of low- and middle-income markets, see [Glossary](#).
 5 Figures are based on IQOS user panels and PMI Market Research. Estimated user numbers for oral nicotine and e-vapor are approximate, with further methodology details to be provided in future disclosures. See [Glossary](#).
 6 Shipment volume includes heated tobacco units, e-vapor cartridges, and e-vapor disposables. See [PMI's Sustainability KPI Protocol 2023](#) for further details.
 7 For further details on how we calculate the prevalence of child labor in PMI's tobacco supply chain, please see [PMI's Sustainability KPI Protocol 2023](#).

8 Including Swedish Match.
 9 For definitions, please see [PMI's Zero Deforestation Manifesto](#) and [PMI's Sustainability KPI Protocol 2023](#).
 10 Indicator is based on the World Resources Institute's volumetric benefit accounting methodology and is verified by an external third party.

Governance and management

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Board of Directors and Company Management

PMI's governance structure is designed to ensure we act with integrity and hold ourselves and our business to the highest ethical standards. Integrating sustainability into our Company relies on a formal structure with clear accountabilities at different levels of the organization.

Our Board of Directors

The primary responsibility of the Board of Directors is to support the long-term success of our Company. The Board establishes broad corporate policies, sets strategic direction, and oversees Company Management—the individuals responsible for PMI's day-to-day operations. The Board has established various standing committees to assist with the performance of its responsibilities and has adopted corporate governance guidelines that—together with the Company's charter, bylaws, Board committee charters, code of ethics, code of business conduct and ethics for directors, and related-person transactions policy—serve as the governance framework for the Company. Each of these documents is available on [PMI.com](https://www.pmi.com).

Sustainability responsibilities: Board of Directors

While the Nominating and Corporate Governance Committee (NCGC) oversees the Company's sustainability strategies and performance, several other committees are tasked with oversight responsibility for specific sustainability topics. For instance, the Audit and Risk Committee reviews with management and internal and independent auditors any sustainability information to be included in the Company's financial reporting framework and the internal controls and procedures related to sustainability materiality assessments and disclosures. The Compensation and Leadership Development Committee (CLDC) is responsible for executive compensation matters, which consists of, among others, evaluating the Company's performance in relation to the PMI Sustainability Index. PMI's Chief Sustainability Officer, a member of PMI's management, updates the CLDC, the NCGC, and the full Board of Directors at least once per year on sustainability-related matters, including progress in priority areas and an overview of key initiatives.

[PMI's 2024 Proxy Statement](#) contains detailed information on our Board and committee structure, the independence and diversity of its members, and the responsibilities and meeting frequency of each committee.

Our Company Management

PMI's Company Management primarily consists of our Chief Executive Officer, his direct reports leading our different business functions and regions, and other senior management, such as the Vice President of Treasury and Corporate Finance, the Vice President & Controller, and the Deputy Chief Financial Officer & Head of Finance Transformation. Our Company Management, which totals 27 employees as of March 11, 2024, of whom five are women, includes the 11 employees who are executive officers under Section 16 of the Securities Exchange Act of 1934. A biography of each member of our Company Management can be found on [PMI.com](https://www.pmi.com).

Sustainability responsibilities: Company Management

Anchoring our sustainability priorities with executive responsibilities and accountabilities helps embed our strategy into our daily operations.

Members of Company Management are responsible for driving progress and delivering on our sustainability aspirations within their respective areas of responsibility. We have included feature boxes for each of our eight strategies in dedicated chapters of this report to highlight reporting lines for specific topics.

Composed of members of Company Management, including our Chief Executive Officer, PMI's Sustainability Committee meets at least four times per year. In 2023, quarterly Sustainability Committee meetings focused on the review of the Company's performance against the current Sustainability Index (vesting in 2024) and the introduction of a new Sustainability Index (vesting in 2025), public sustainability disclosures (including PMI's Integrated Report 2022 and TCFD Report 2022) and reporting strategy, performance of the Company in ESG ratings, outcomes of PMI's 2023 sustainability materiality assessment refresh, the Swedish Match integration progress, and progress of key sustainability initiatives.

Sustainability governance and management

Board of Directors

Full Board of Directors

Nominating and Corporate Governance Committee (NCGC)

Other Committees of the Board

Company Management

Sustainability Committee

- Members of Company Management, including Chief Executive Officer
- Meets quarterly
- Reviews and validates sustainability materiality analysis, strategy, commitments, goals, and annual reporting

Chief Financial Officer

Operational management and program delivery

Sustainability Group

- Senior representatives from global functions
- Meets quarterly
- Ensures alignment and coordination of efforts across the different functions in the Company, provides recommendations for program portfolio, and monitors performance

Chief Sustainability Officer

Sustainability Team

- Defines corporate sustainability materiality and strategy, coordinates program implementation by working closely with all business functions and with markets, and manages reporting on performance

Working groups

- Cross-functional representatives
- Meet periodically
- Coordinate development and deployment of specific cross-functional programs

Global functions and markets

Drive execution of sustainability programs, including development of policies, procedures, and roadmaps, establishment of performance metrics and targets, and monitoring and reporting on progress within the organization

All PMI employees

Play a critical role in delivering progress on sustainability



Sustainability Index

In 2021, we developed PMI's Sustainability Index to measure objectively and communicate rigorously progress toward our aspirations, using a set of clearly defined and verifiable metrics. Our Sustainability Index comprises KPIs that are aligned with our 2025 Roadmap.

Linking our sustainability performance to long-term executive compensation

Our long-term executive compensation program reflects our commitment to position sustainability at the core of our corporate strategy.

In 2022, to better align with shareholder and other stakeholder expectations, the Compensation and Leadership Development Committee of PMI's Board of Directors decided to enhance the Company's practices, explicitly strengthening the link between long-term executive compensation and sustainability performance. For that purpose, our Sustainability Index was linked to part of our performance share unit (PSU) award and represents 30 percent of its total for the 2022–2024 performance cycle.

Over the past two years, a number of our shareholders and other stakeholders singled out the incorporation of the Sustainability Index into our PSU performance metrics as a positive development. Accordingly, we have continued the practice of linking our sustainability performance to our long-term equity compensation by leveraging an updated version of the Sustainability Index for subsequent three-year PSU cycles.

For more information, please refer to PMI's [2024 Proxy Statement](#).



PRODUCT SUSTAINABILITY

OPERATIONAL SUSTAINABILITY

Sustainability Index mechanics

Using predefined target ranges approved by our Board of Directors, we assess and assign 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 (read more about the index mechanics [here](#)). The index is based on three-year cycles. The number of KPIs in the index, and relative weightings, are not identical for each PSU cycle. To avoid confusion while maintaining transparency, PMI invites stakeholders to consult the following sources:

- PMI's annual Proxy Statement for disclosure of performance achievement for vested awards.
- PMI's annual Integrated Report for disclosure of the structure of the version of the index introduced in the year on which the report is focused. Accordingly, our Integrated Report 2022 presented the Sustainability Index informing the PSU 2022–24 cycle; this year's report introduces the Sustainability Index informing the PSU 2023–25 cycle and next year's report will introduce the Sustainability Index informing the 2024–26 cycle, and will report on vesting performance for the Sustainability Index 2022–24.
- For details on the definition, scope, and methodology for the 2023 reported figures pertaining to each KPI included in the Sustainability Indices for the cycles 2022–24 and 2023–25, please visit [PMI's Sustainability KPI Protocol 2023](#).

For greater transparency, [PMI.com](#) discloses the structure of each version of the Sustainability Index.

Sustainability Index 2023–2025

The 2023–25 Sustainability Index has 16 KPIs; most are the same as in the 2022–24 Sustainability Index, guided by our 2021 sustainability materiality assessment and aligned with our 2025 Roadmap. While the 2023–25 Sustainability Index retains a KPI measuring progress toward achieving scope 3-related ambitions, the KPI used has been replaced to align with our recently introduced Forest, Land, and Agriculture (FLAG) science-based target, which measures absolute GHG reductions for scope 3 in agriculture. We also removed three KPIs linked to the Product Sustainability part of the index, to account for our revamped business transformation aspirations (read more [here](#)). Accordingly, the weight of the KPIs removed has been adjusted on a pro rata basis within the Product Sustainability category to ensure the distribution of parts within the index remains 20 percent Product Impact and 10 percent Operational Impact.

Sustainability Index 2023–2025

	Key performance indicators	2025 aspirations	KPI weight
PRODUCT IMPACT	Purposefully phase out cigarettes	1 Adjusted net revenues ratio (smoke-free/total)*†	>50%
	Maximize the benefits of smoke-free products	2 Number of markets where smoke-free products are available for sale*†	100
		3 Proportion of markets where smoke-free products are available for sale that are low- and middle-income markets*†	>50%
		4 Proportion of shipment volume covered by markets with youth access prevention programs in place in indirect retail channels†	>90%
		5 Proportion of shipment volumes covered by markets with anti-littering programs in place for combustible cigarettes	≥80%
	Reduce post-consumer waste	6 Proportion of shipment volume covered by markets with end-of-life take-back programs in place for smoke-free consumables	≥80%
		7 Proportion of PMI smoke-free devices with eco-design certification	100%
		8 Cumulative number of smoke-free electronic devices refreshed or repaired since 2021 (in thousands)	>1,000
Product Sustainability performance			100%
OPERATIONAL IMPACT	Foster an empowered and inclusive workplace	9 Proportion of women in senior roles†	35%
		10 Proportion of PMI employees who have access to structured lifelong learning offers †	70%
	Improve the quality of life of people in our supply chain	11 Cumulative number of human rights impact assessments conducted since 2018, with findings addressed†	10
		12 Prevalence of child labor among contracted farmers supplying tobacco to PMI	zero
		13 Proportion of contracted farmers supplying tobacco to PMI who make a living income	100%
	Tackle climate change	14 Net carbon emissions in scope 1+2 (in thousands of metric tons)†	zero
		15 CO ₂ e scope 3 FLAG absolute reduction versus 2019 baseline (in line with science-based target)† ¹	18%
	Preserve nature	16 Proportion of tobacco purchased at no risk of deforestation of managed natural forest and no conversion of natural ecosystems	100%
Operational Sustainability performance			100%
PMI Sustainability Index			100%

The metrics marked with an asterisk (*) are subject to limited PwC's Assurance Report in 2023. For definitions of the KPIs please refer to the [PMI's Sustainability KPI Protocol 2023](#). The aspirations for metrics marked with a cross (†) include Swedish Match's operations in the Sustainability Index 2023–25. Note: The Sustainability Index reflects KPIs approved by the Compensation and Leadership Development Committee of PMI's Board of Directors on a yearly basis, and is not intended to reflect, among others, the current forward-looking goals or aspirations of the Company. ¹ Typographical error corrected April 11, 2024.



Operational management and program delivery

Approach to sustainability programs

Our harmonized approach to designing and managing material sustainability topics is built on the following foundational elements:

- A deep understanding of the topic, context, materiality, external expectations, and interdependencies with other issues.
- Governance structures for target setting and policies that formally guide our actions and ambitions, oversee progress, and establish accountability.
- Performance indicators that allow us to define success, measure progress, and evaluate our efforts.
- Aspirations (which also include interim targets) linked to KPIs that drive improvement and provide clarity on desired outcomes.
- Concrete activities to achieve progress against communicated ambitions.
- Transparent reporting on progress, which encourages dialogue by allowing stakeholders to scrutinize our actions.

The sustainability landscape is dynamic. We continuously update and strengthen our programs as knowledge improves, progress is made, or the relative importance of topics fluctuates.

Integrating ESG drivers into a business strategy can significantly enhance sustainability performance. Accordingly, our Chief Sustainability Officer (CSO) reports to PMI's Chief Financial Officer, a member of our Company Management and head of the Sustainability, Finance, and Strategy functions—three essential components that work hand in hand to drive strong and coherent value creation and deliver long-term success.

Our CSO leads the integration of sustainability across our business, updates the Sustainability Committee—composed of members of Company Management—and hosts the Sustainability Group at least quarterly.

The CSO also heads PMI's Sustainability Team, which leads PMI's sustainability materiality analysis, defines strategy, manages reporting on performance, and coordinates strategy implementation across business functions and markets.

Program-specific working groups meet periodically to coordinate the strategy, aspirations, and performance of specific sustainability programs across functions.

At the regional and market level, dedicated sustainability coordinators help ensure that sustainability priorities are cascaded and programs are localized. Under central guidance, market coordinators meet monthly to ensure a concerted effort and that progress is achieved and tracked in a consistent manner, including via KPIs derived from the PMI Sustainability Index.

Understanding our impacts and prioritizing ESG topics

A robust sustainability materiality analysis allows us to identify, assess, and prioritize ESG topics. Our [2021 sustainability materiality assessment](#) helped identify the ESG topics on which we should focus. In line with the principle of double materiality, the assessment consisted of a five-pronged approach that evaluated both outward and inward impacts and considered stakeholder expectations.

In 2023, we undertook an internal materiality refresh exercise that largely confirmed our 2021 findings.

In addition to our formal sustainability materiality assessments, we keep abreast of trends by engaging continuously with stakeholders and external organizations (read more [here](#)) and analyzing key external megatrends (read more [here](#)). Further, our enterprise risk assessment considers sustainability-related risks and opportunities and leverages the Company's sustainability materiality assessment process (read more [here](#)).

Additional targeted, topic-specific assessments—including, among others, climate change-related risk and opportunities (CCRO) assessments, water risk assessments, human rights impact assessments and saliency mapping, and product life-cycle assessments—complement our more holistic efforts. Read more about how we integrate ESG-related risks into our broader enterprise risk management processes [here](#).

Governance structures and policies

Integrating sustainability into our Company relies on a formal governance and management structure with clear accountabilities at every level of the organization. Our business is governed by a set of policies and principles. Our [Code of Conduct](#) sets clear standards and expectations addressing key risk areas. The code is complemented by a set of internal policies, which provide more specific guidance on the various topics covered by the code (read more in the "[Uphold business ethics and integrity](#)" section of this report). Within the sustainability area, a set of thematic publications and commitments is available for download on [PMI.com](#). They guide our work and express our view on specific issues considered critical from an environmental or social perspective. Read more in the policies and standards feature boxes in each of our eight impact sections.

Performance indicators and aspirations

Clearly articulating progress against our aspirations and explaining how we measure progress is imperative. For internal and external stakeholders, this provides clarity on what we aim to achieve and visibility into the way forward, ensuring we hold ourselves accountable.

Our complete set of sustainability-related performance indicators—alongside our respective aspirations, where applicable—can be found in the [Reporting and performance](#) section of this report and are available for download on [PMI.com](#).

Activities to deliver on our aspirations

We discuss activities in place to deliver on our ambitions throughout the eight impact sections of this report. These activities are carried out by a range of internal functions. For each topic disclosure, we clearly highlight reporting lines that demonstrate who has responsibility and accountability for each strategy.

One important commonality shaping the way we design and implement programs is our understanding that many of the challenges we face are systemic and cannot be addressed in isolation. Accordingly, we support and engage with a range of organizations and initiatives that seek to drive change. Learn more [here](#). Further, we recognize that many factors beyond our direct or indirect control can influence our ability to progress against our aspirations. Despite sound planning, our work must account for some level of uncertainty, especially as our ambitions extend beyond our organization's fences.

Reporting

Transparently reporting on governance, strategy, aspirations, programs, and metrics for our ESG priorities helps us communicate progress in a structured way. We complement our annual Integrated Report with additional materials online, including reporting indices, case studies, and downloadable data, as well as dedicated disclosures that dive deeper into specific ESG topics. You can learn more about our approach [here](#) and visit our sustainability resources page [here](#) to learn more.

Regulators and other stakeholders continue to expect increased transparency, reliability, and accountability in sustainability information. Consequently, the sustainability reporting landscape is evolving to include more mandatory reporting requirements.

PMI supports harmonization efforts that enhance the robustness and comparability of sustainability information. We are well positioned to align our reporting with emerging expectations because our voluntary Integrated Report, alongside other disclosures such as our [2022 TCFD Report](#), [2021 Low Carbon Transition Plan](#), and annual submissions to CDP, already consider and seek alignment with voluntary standards and frameworks that either form the basis of or contribute significantly to the development of emerging regulation (read more [here](#)).

Connectivity and trade-offs

Sustainability challenges do not exist in a vacuum. They are often linked, and we must consider their interdependencies—including the direction of causality and magnitude—as we craft appropriate strategies and develop programs to address our Company's impacts. Where possible, we seek solutions that are mutually reinforcing. Addressing one topic may, however, limit how we tackle another. Necessary trade-offs often occur in the course of our business transformation. Given the multifaceted and complex nature of sustainable development, trade-offs are inherent to decision-making. In some circumstances, we are compelled to make sacrifices in one sustainability area to obtain benefits in another, at least for a period. In designing our strategies and programs, it is vital that we accurately analyze, comprehend, and account for situations of forced compromise. This process is guided by our sustainability materiality assessment, which serves as a compass with which to calibrate and prioritize competing ESG issues. When appropriately addressed, some trade-offs serve as a source of innovation, pressing us to define novel ways to address the tensions that are present. By embedding an integrated approach to sustainability within our business, we are able to monitor and tackle multiple issues simultaneously, identifying effective solutions that leverage interdependencies to achieve progress.



Risk management

Our risk management practices address significant and emerging strategic, external, inherent process, and project deployment risks that could undermine our ability to achieve our principal business objectives and create value over time. Within this context, ESG-related risks and opportunities are considered as part of our risk management practices.

Risk governance

We assign ownership of each prioritized key risk area to a member of our Company Management. Furthermore, risk oversight is conducted by the full Board of Directors, as well as by Board committees in their respective areas of responsibility. Throughout the year, Company Management regularly updates the Board and its committees on the evolution of key risk areas. Our Enterprise Risk Management (ERM) practices are designed to support Company Management and the Board in their respective roles and to ensure the adequacy of PMI's responses against each key risk area.

Additionally, as part of our risk management practices, we have established the Corporate Risk Governance Committee (CRGC), consisting of a subset of our Company Management and other key leaders from the organization. The CRGC is tasked with identifying and monitoring developments in key risk areas and oversees the Company's governance, risk management, and compliance environment and strategy, including the establishment, maintenance, and enhancement of effective risk management and assurance capabilities within PMI.

The CRGC consists of senior executive officers, including the Chief Executive Officer, Chief Financial Officer, Senior Vice President Operations, Senior Vice President & General Counsel, Vice President & Controller, Chief Digital and Information Officer, Chief Risk Assurance Officer, Chief Information Security Officer, and Chief Compliance Officer, among others. In addition, the Vice President & Corporate Secretary is informed of any risk management observations or insights shared with the CRGC. The committee receives updates related to the Company's risk management practices at least once per quarter.

Risk management

Our risk management model is facilitated through a combination of practices deployed by "first line" business, "second line" risk management, and "third line" audit functions.

First line business functions own risks and define risk responses. Business functional stakeholders actively identify risks and monitor their programs in response to those risks. In addition, they leverage PMI's Risk Control Self-Assessment (RCSA) capability at an early stage to evaluate operational end-to-end process risks and the effectiveness of internal controls.

Beyond the first line, our risk management framework involves a leading ERM function reporting to the Chief Risk Assurance Officer, as well as an Internal Controls function and various specialist risk functions (e.g., Compliance, Information Security, Data Privacy, Quality Compliance, Operations Risk and Resilience, etc.) as second line risk management functions. The second line is responsible for providing expertise and support, monitoring and challenging to the first line on risk-related matters, such as risk identification, prioritization, monitoring, and response.

The ERM function plays a leading role in orchestrating the delivery of a consistent view of PMI's risk landscape and defining the necessary enterprise-wide risk management structures and capabilities. Our continuous enterprise risk assessment practices are a cornerstone of these efforts, bringing together various functions, including business, risk management, assurance, and internal controls. As part of such practices, key risk areas are identified and prioritized based on four essential dimensions: impact, likelihood, velocity, and interconnectivity with other risks.

Next to ERM, our third line comprises the Risk & Assurance function as an internal, independent audit function, structurally reporting to the Audit and Risk Committee of the Board. It is responsible for providing an independent and objective opinion on the effectiveness of first line implemented risk responses and various subject matters.

Taking a holistic approach, these functions collaborate to continuously identify, assess, and respond to evolving or emerging strategic, external, inherent process, and project deployment risks.

Our risk management framework



* PMI's Enterprise Risk Management (ERM) and Internal Audit / Assurance activities are organizationally consolidated within our Risk & Assurance function

As required by the U.S. Securities and Exchange Commission and the applicable laws and regulations, all of PMI's material risk factors are disclosed in 10-K and 10-Q submissions to the U.S. Securities and Exchange Commission. Our latest submissions are available on [PMI.com](https://www.pmi.com).

Risk management for sustainability

Given the significance of our sustainability practices in achieving our strategic ambitions, we have adapted our risk management framework to address uncertainties related to our sustainability agenda.

As such, we proactively manage sustainability risks and opportunities to safeguard our long-term enterprise value, ensure access to sustainable financing and meet the expectations of our shareholders and other stakeholders.

Our specific ESG-related risk management practices are organized around the following key activities:



1. Strategic risk management

The Company's strategic risk management program, as orchestrated by the ERM function, targets, among others, risks impacting our ability to achieve the objectives outlined in our sustainability agenda. At a corporate level, ownership of ESG-related strategic risks is assigned to the Chief Financial Officer, who appointed the Chief Sustainability Officer to manage ESG-related risk response efforts.

Beyond the umbrella ESG-related strategic risk category, we are working on embedding specific ESG-related risks linked to our Company's most material sustainability topics within other strategic risks. Our strategic risk management efforts involve strategic risk working groups composed of subject-matter experts. These groups regularly identify, (re)assess, and define responses to key risk drivers and factors that have the potential to impact our ability to meet growing stakeholder and shareholder expectations as we progressively adopt sustainable practices and to respond to the dynamic evolving regulatory landscape surrounding our sustainability agenda.

2. Sustainability materiality assessment

Our most recent sustainability materiality assessment—conducted in 2021 and refreshed in 2023—considered both inward and outward impacts (read more [here](#)). The ERM function provided input into the inward (or financial materiality) aspect of this assessment.

In 2023, the ERM and Sustainability functions commenced structural efforts to actively integrate specific sustainability materiality assessment practices within our broader enterprise-wide risk assessment practices as orchestrated by the ERM function. This work will help ensure an aligned and consistent view between the assessed risk severity and impact of ESG topics as part of the sustainability materiality assessment. It will lay the foundation for adapting our assessment methodology in line with regulatory expectations moving forward.

3. Specialized ESG-related risk assessments

ESG-related risks can be multifaceted and vary in nature. To comprehensively address them, we perform specialized risk assessments. Examples of such assessments have been reported in PMI's [Human Rights Report](#) and [Task Force on Climate-related Financial Disclosures \(TCFD\) Report 2022](#) and have been performed to identify nature- and biodiversity-related risks and dependencies.

These assessments are designed to delve into the unique aspects and intricacies of specific sustainability matters. By performing these specialized assessments, we can pinpoint and address the nuances of the underlying identified ESG-related risks, ensuring that risk management responses are tailored to the distinctive characteristics of each concern.

We progressively integrate the risks and insights identified by these specialized risk assessments into our broader enterprise-wide risk management practices. Moreover, we build synergies by aligning terminology, processes, methodologies, and capabilities across functions to strengthen integration.

4. Risk management of sustainability performance

We put specific risk management practices in place to identify, assess, and respond to risks in relation to key performance indicators (KPIs) used to measure our progress against our sustainability aspirations. As a priority, we developed a comprehensive approach to manage risks and opportunities that could impact the achievement of our performance targets linked to KPIs as defined within the Sustainability Index (read more [here](#)). Our quarterly forecasting process, which measures the progress against our defined performance targets, is enhanced by incorporating specific risk management activities to identify and assess potential risks that could hinder our ability to achieve our targets. Our priority is to ensure robust governance surrounding the Sustainability Index is in place. We regularly monitor KPIs and adjust them as necessary, by implementing cross-functional risk responses.

Reginaldo Dobrowolski
Vice President and Controller



“Our nonfinancial disclosures have been evolving from initially being voluntary to become driven by mandatory regulatory requirements and external stakeholder expectations. To address this, in 2023 we set up a dedicated team within our Internal Controls function, collaborating with our Sustainability, ERM and business functions to develop a robust internal control framework for nonfinancial reporting. This partnership aims to embrace a notion of ‘control and assurance by design’ to establish, from its onset, trustworthy and transparent nonfinancial disclosures.”

Marie-Pauline Lauret
Chief Risk Assurance Officer



“Where our specific ESG-related risk management practices were initially deployed on a voluntary basis, recent developments in response to emerging regulatory requirements demanded further collaboration amongst our Sustainability and Risk teams. In 2023, we continued seeking ways to leverage our enterprise risk management practices to embed environmental and social matters, and we set up a specialized team to support and deliver assurance on nonfinancial disclosures.”



Product impact

- Maximize the benefits of smoke-free products p44
- Purposefully phase out cigarettes p64
- Seek net positive impact in wellness and healthcare p70
- Reduce post-consumer waste p74

Our aspirations

Sustainability Index

KPI included in Sustainability Index 2022–2024 or 2023–2025

Maintain → **2025**

<p>90% </p> <p>Of PMI's total shipment volume covered by markets with youth access prevention programs in indirect retail channels</p>	<p>100 </p> <p>Number of markets where PMI smoke-free products are available for sale</p>	<p>>50% </p> <p>Of markets globally where PMI smoke-free products are available for sale that are low- and middle-income markets</p>
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→ **2030**

<p>>2/3 </p> <p>Net revenue ratio (smoke-free/total)</p>	<p>~60</p> <p>Markets where net revenues from smoke-free products exceed 50% of total net revenues</p>	<p>~40</p> <p>Markets where net revenues from smoke-free products exceed 75% of total net revenues</p>
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2023 → **2025**

<p>DEVICES</p> <p>CONSUMABLES</p> <p>PACKAGING</p>	<p>>70%</p> <p>Effective recycling rate of our smoke-free electronic devices¹</p>	<p>≥1 million </p> <p>Smoke-free electronic devices refreshed or repaired (cumulative since 2021)</p>	<p>100% </p> <p>Of smoke-free electronic devices introduced on the market as of the end of 2025 that have eco-design certification</p>	<p>90%</p> <p>Of PMI smoke-free electronic device sales volume covered by the CIRCLE program²</p>
	<p>≥80% </p> <p>Of shipment volumes covered by markets with anti-littering programs in place for combustible cigarettes</p>	<p>≥80% </p> <p>Of shipment volumes covered by markets with end-of-life take-back programs in place for smoke-free consumables</p>	<p>95%</p> <p>Of packaging materials coming from renewable sources</p>	<p>15%</p> <p>Average packaging weight reduction for combustible products versus 2018 baseline</p>
			<p>100%</p> <p>Proportion of packaging formats that are designed for recyclability</p>	

Notes: Aspirations referring to smoke-free electronic devices exclude disposable products and non-PMI-designed devices.

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 recycled within the scope of the CIRCLE program (weighted average) excluding energy recovery. Excludes disposable products and non-PMI-designed devices.
 2 Excludes disposable products and non-PMI-designed devices. We recalibrated our 2025 aspiration to 90 percent during 2023 to account for regulatory and market developments. Collected devices are considered covered by the CIRCLE program if they are either processed at our centralized CIRCLE hubs or by validated local recycling partners.



PRODUCT IMPACT

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 products that are scientifically substantiated to be a better alternative to 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 that can help accelerate the decline of cigarette smoking. By allocating the majority of our resources to the research, development, and commercialization of these better alternatives to continued cigarette smoking, we are accelerating our progress toward becoming a smoke-free company and, in doing so, are building legitimacy and stakeholder trust. Moreover, pioneering smoke-free alternatives to cigarettes allows us to grow our overall market share in the nicotine space, increasing our current and future revenue base as we seek to encourage all adult smokers (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) who would otherwise continue to smoke to switch to better alternatives. Further, our smoke-free product consumables drive higher net revenues per unit than cigarettes, with the accretive product contribution per unit already helping to generate returns on our significant investments in developing the smoke-free category.

It is critical for us that the marketing and sale of our products does not interfere with cessation efforts but does encourage switching to better alternatives among those adults who do not quit. Importantly, we also aim to ensure that we do not encourage initiation of nicotine use and that we avoid appealing to youth and other unintended audiences. Disregarding these principles could significantly undermine our credibility, harm our reputation, and even trigger regulation that could hinder our ability to engage freely with adult consumers or enter certain markets, thereby impeding us from achieving our purpose.

OUTWARD IMPACT

The right thing to do

The best choice a person can make 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 adults who would otherwise continue to smoke should have access to nicotine-containing products that represent a better alternative than continued smoking.

Scientific and technological innovation have made such alternatives 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 heat-not-burn products, while addictive and not risk-free, are likely to present a much better alternative than continued smoking.

For adults who would otherwise continue to smoke, scientifically substantiated smoke-free products represent a significant opportunity, as switching to these products has the potential to reduce the risk of developing smoking-related diseases versus continued cigarette use.

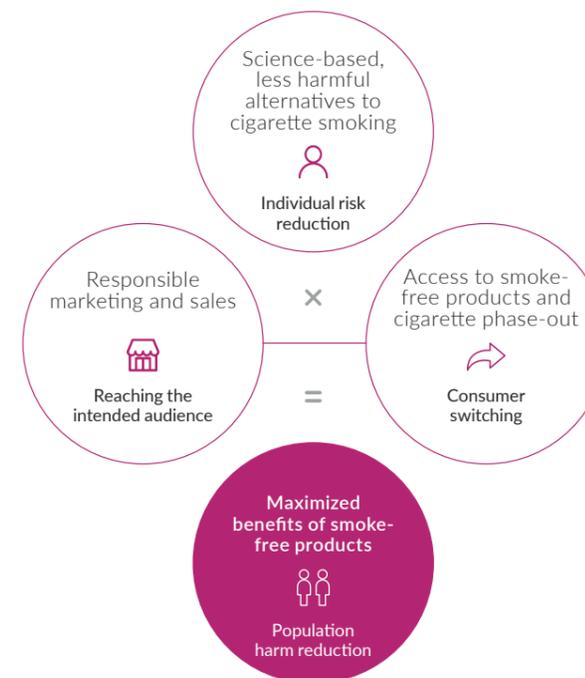
Seizing this opportunity to achieve a public health benefit depends not only on the scientifically substantiated risk-reduction profile of these smoke-free products but also on adult smokers successfully switching to them and stopping cigarette use completely. It is therefore critical that all adult smokers are made aware of and have access to smoke-free products, understand their benefits versus continued smoking, find them acceptable, and can afford to buy them.

In this section	Developing science-based alternatives to cigarettes	46
	Broadening access to smoke-free products	49
	Marketing and selling our products responsibly	57

Management approach

To maximize the benefits of our smoke-free products to individual smokers and the population as a whole, we deploy a threefold approach.

Firstly, we focus on researching and developing less harmful alternatives to continued cigarette smoking for the benefit of those adults who would otherwise continue to smoke. It is vital that the health risk profile of these smoke-free products be thoroughly assessed and scientifically substantiated. Our research program is inspired by long-held practices of the pharmaceutical industry and is in line with the 2012 draft guidance from the U.S. Food and Drug Administration (FDA) for Modified Risk Tobacco Product (MRTP) applications. We follow scientific standards, including Good Laboratory Practices (GLP) and Good Clinical Practices (GCP). Our assessment program covers a wide range of areas, pre- and post-market. It encompasses product development, laboratory clinical research, perceptions and behavior, and monitoring the in-market use of the smoke-free products we commercialize.



PMI's policies and standards

[PMI Science: Our Standards](#)

[Marketing Code for Non-Combusted Alternatives](#)

[Marketing Code for Combusted Tobacco Products](#)

Secondly, we work to ensure that adult smokers have access to and successfully switch to smoke-free products, which can help accelerate the decline in smoking prevalence. By "access," we mean:

- **Awareness:** Adult smokers are conscious that smoke-free products exist and understand the benefits of switching to them (relative to continued cigarette use).
- **Acceptability:** Adult smokers who would otherwise continue to smoke consider smoke-free products an adequate and viable alternative to cigarettes.
- **Availability:** Smoke-free products are conveniently attainable and available for purchase by adult smokers.
- **Affordability:** The cost of smoke-free products is reasonable to enable smokers to acquire them and facilitate switching.

Thirdly, we deploy responsible marketing and sales practices to propel our smoke-free vision while guarding against the risk of use by unintended consequences, such as youth access, to our products.

The role of regulation

An essential element of optimal access is a regulatory framework that allows smoke-free products to be sold in a particular market, permits engagement with adults who smoke to increase their understanding, and facilitates smoke-free portfolio expansion to improve acceptability and affordability.

Our commercialization activities across the world are guided by applicable laws and a set of core principles (read more [here](#)).

Management

Developing, improving, and assessing smoke-free products is a cross-functional responsibility jointly headed by our Chief Life Sciences Officer, Chief Product Officer, President of Smoke-Free Inhaled Products & Chief Consumer Officer, and President, Smoke-Free Oral Products, all members of PMI's Company Management.

Our President of Smoke-Free Inhaled Products & Chief Consumer Officer and President, Smoke-Free Oral Products oversee PMI's smoke-free products growth trajectory, fostering consumer centricity and leveraging the strengths of our markets and regions. Their teams work hand in hand with our markets, led by our Company's regional presidents, to support the responsible expansion of smoke-free products worldwide and ensure the deployment of all smoke-free product marketing and sales activities is in accordance with applicable laws and PMI's Marketing Codes.

Progress in 2023

Highlights

- We improved availability by expanding into new countries in 2023: as of year-end, our smoke-free products were available for sale in 84 markets worldwide, including 39 low- and middle-income markets. Further, we were able to expand IQOS ILUMA, the latest generation of our main heat-not-burn product, to 51 markets by year-end (2022: 16 markets).
- We increased acceptability to adult consumers by expanding our range of tobacco- and non-tobacco-containing consumables in the heat-not-burn category with the launch of TEREA CRAFTED, DELIA and LEVIA.
- To improve our offer in the affordability space with regards to smoke-free devices, we introduced lil solid EZ in more than 20 markets, coupled with a continued focus on BONDS in select low- and middle-income markets.
- While aiming to broaden awareness, we remained committed to guarding against unintended consequences. Accordingly, we strengthened governance for youth access prevention activities in our indirect retail programs.
- We refreshed our e-vapor product portfolio with the introduction of VEEV ONE and VEEV NOW, currently present in 26 markets. We also expanded our oral smokeless commercialization, launching ZYN in 10 markets. Thanks to the acquisition of Swedish Match, our oral nicotine category growth has positioned us as a leader in the U.S.

Challenges

- Restrictive regulations, including bans of smoke-free products, are in force in certain markets. This can hinder our ability to operate with smoke-free products in these geographies and effectively deprives adult smokers of accessing accurate information about better alternatives to continued smoking, or even prevents access to such products while leaving the most harmful—combustible products—the only legally available option if they do not quit smoking.
- Bans of the use of characterizing flavors in smoke-free alternatives such as heated tobacco products, already introduced in the EU or contemplated by regulators in other geographies, may undermine the role of such products in accelerating the decline of smoking rates by discouraging switching to better alternatives by those adults who would otherwise continue to smoke.
- The lack of an effective regulatory framework and its enforcement, particularly for vaping products, including youth access prevention measures and product standards, undermines the integrity of the category and public support for harm reduction and hinders progress because it creates ambiguity around which types of innovation and prevention measures will be deemed acceptable, disrupting the level playing field.
- Despite a political and regulatory need for disease-specific and epidemiological data, there are headwinds within the scientific community that make it challenging in practice to collect and publish science-based findings funded by the tobacco sector.

Developing science-based alternatives to cigarettes

Since 2008, PMI has invested USD 12.5 billion in research, product development, scientific assessment, and manufacturing capacity to advance tobacco harm reduction and maximize the benefits that smoke-free products can bring to public health.

PMI's scientific assessment of smoke-free products

We continued to dedicate almost all our R&D expenditure (99 percent in 2023) to noncombustible products, which include smoke-free as well as wellness and healthcare products.

Between 2015 and year-end 2023, our R&D work and its associated innovations resulted in around 3,720 patents granted for smoke-free technologies by the world's five largest intellectual property offices (IP5).

PMI has also further diversified its smoke-free product portfolio (see an overview [here](#)) to provide adult smokers who want to switch with multiple better choices than continued smoking. None of these products involve combustion, and therefore all of them expose the human body to significantly lower levels of toxicants, compared with cigarette smoking. Although addictive and not risk-free, this makes them a better choice for adults than continued smoking.

Evidence available to date on our smoke-free products has already demonstrated, or at least points firmly in the direction of, harm reduction.

Heat-not-burn

Our most thoroughly assessed smoke-free product is the IQOS tobacco heating system. The available data range from aerosol chemistry to toxicology as well as clinical and behavioral studies. The data consistently demonstrate that IQOS is a better alternative to cigarettes for existing adult smokers. These data resulted in the U.S. FDA determining that the marketing of the original version of IQOS, which relied on a heating technology using a blade, in the U.S. would be appropriate to promote public health.

In addition to the original version of IQOS, a newer version (IQOS ILUMA) is now available using induction technology. Most of the studies referenced above were conducted with the blade version of IQOS and additional research was conducted with the induction technology. We believe that there is full comparability between the subsequent versions, and that the data from the studies conducted with the blade version of IQOS remain valid and applicable to the newer version.

In 2023, for IQOS ILUMA we completed a pharmacokinetic study and a clinical study over five days to assess the exposure to toxicants in users of the product. The studies demonstrated that product acceptance was similar between IQOS ILUMA (with induction heating technology) and our previous IQOS platform (with blade heating technology). It also found that the magnitude of reduction of exposure to toxicants was similar between the two versions of IQOS.

Moving forward, we are planning to further evaluate the harm reduction potential of IQOS and to launch studies in countries including Japan and other countries around the world where IQOS has been in the market for a number of years and have a sizeable population using the product.

Our strategy is to show direct benefit of switching from smoking to IQOS on the health of smokers with a smoking-related disease in its early stages, evaluating symptoms, function, and mortality, and healthcare utilization, such as hospitalization. The primary diseases we are targeting are chronic obstructive pulmonary disease (COPD), where beneficial changes from switching from cigarettes to IQOS could be rapid for some symptoms and functions, and in cardiovascular disease, such as heart attack and stroke, where the beneficial effects from switching from cigarettes to smoke-free products could be seen in about two years.

For COPD, we have started a three-year study to assess progressive lung damage from smoking compared with using IQOS. We will start a six-month study assessing symptoms and functional impairment in COPD with the same product. We plan to retrospectively analyze real-world data for COPD-related hospitalization in subjects using heated tobacco products. For cardiovascular disease, we plan to conduct an outcome study assessing mortality, heart attack, and stroke, preferably retrospectively using real-world data. In some markets, we intend to launch a product registry to establish a research infrastructure on our products that would allow long-term follow-up on various aspects such as product use trajectories and health effects and benefits compared with smoking.

It is important to recognize that real-world-evidence studies are challenging to conduct as medical and insurance records need to be linked to product use. In addition, high data quality must be ensured for all data we want to evaluate, for example mortality status. Real-world-evidence studies have limitations in terms of what they can or cannot show.

Our scientific research

We conduct rigorous scientific studies to substantiate the harm reduction potential of our smoke-free products compared with continued cigarette use, including aerosol characterization, nonclinical, clinical, perception, and behavior studies as well as real-world evidence studies.

Our scientific assessment is built on a collaborative approach and expertise in multiple fields, such as chemistry, biology, clinical, medical, behavioral, and data sciences. Since 2015, we have completed a total of 287 toxicological assessment studies, 29 clinical assessment studies, and 69 perception and behavior premarket and post-market (surveillance) studies on smoke-free products.

The results of our studies are publicly available on our dedicated scientific website, [PMIScience.com](https://pmiscience.com), published in peer-reviewed scientific publications, and have been submitted to numerous regulatory authorities, including the U.S. Food and Drug Administration (FDA). Further, our periodically updated [scientific booklet](#) provides the most up-to-date findings of our assessment program.





Harm reduction potential of oral smoke-free products: snus and nicotine pouches

Similar to heat-not-burn products, oral tobacco products do not combust tobacco, so they inherently expose the body to lower levels of toxicants and do not expose the lungs directly to any toxicants. A study published in 2023 screened oral tobacco and nicotine products for 36 compounds identified as relevant harmful or potentially harmful constituents in the context of oral tobacco and nicotine products. Only four of these compounds (excluding nicotine) were measurable with current technological capabilities in ZYN nicotine pouches, and only 15 were measurable in snus.¹

ZYN showed no presence of polycyclic aromatic hydrocarbons or nitrosamines. The number of harmful and potentially harmful constituents measurable with current capabilities was comparable between ZYN and oral nicotine replacement therapies (including gum and lozenges).

Snus showed no presence of polycyclic aromatic hydrocarbons, which are known carcinogens, and only traces of nitrosamines NNN and NNK—two strong, tobacco-specific carcinogens found in tobacco products. Generally, nominal amounts of these carcinogens are around sevenfold lower (in micrograms per gram of tobacco) in snus compared with reference cigarettes.

Moreover, real-world and epidemiological data for snus in Sweden provides evidence of population-level harm reduction, which the U.S. FDA reviewed as part of their authorization of the modified risk claim for snus. "Using General Snus instead of cigarettes puts you at lower risk of mouth cancer, heart disease, lung cancer, stroke, emphysema, and chronic bronchitis." It is important to note that between 1980 and 2023, use of oral nicotine products in Sweden increased, while smoking prevalence fell from about 35 percent of the adult male population to about 6 percent.² This period also saw a reduction in ischemic heart disease and lung cancer in Swedish men.³

It would be reasonable to assume that the data from snus would apply to the nicotine pouch ZYN, given some fundamental assumptions are met. For example, the chemical composition of nicotine pouches contain the same or less amount of harmful and potentially harmful constituents compared with snus. No additional harmful or potentially harmful constituents are added to the nicotine pouch compared with the constituents in snus. Nicotine exposure for users of nicotine pouches is comparable with that of a snus user. And finally, the nicotine pouch is used in a similar way as snus.

- 1 Back et al. BMC Chemistry (2023) 17:9. <https://doi.org/10.1186/s13065-023-00918-1>
- 2 Incidence data: Swedish National Board of Health and Welfare Statistical Database (Accessed 5/2023); prevalence data: 1980–1998 – Henningfield J, Fagerstrom K Tobacco Control 2001;10:253–257
- 3 2004–2022 – National Public Health Survey/Living Habits/Tobacco and Nicotine (Accessed 6/2023)

E-vapor

We conducted a study in humans in the U.K. that compared four groups over five days in confinement: a group of smokers who continued smoking, two groups of smokers who switched to our e-vapor product with either tobacco or menthol flavor, and a group that stopped smoking.¹ Results at day five showed reduced exposure to harmful and potentially harmful constituents in the e-vapor group subjects that were comparable with subjects who stopped smoking for the duration of the study. Compliance with the allocated intervention was 100 percent due to the study being conducted in confinement and under the control of the study staff.

Growing external scientific consensus

We welcome and encourage independent research and verification of our products, methods, and results. Over the past several years, a growing number of organizations and institutions have initiated or completed studies on our smoke-free products or on the methodologies and results supporting them.

¹ Source: Wong et al. Archives of Toxicology (2021) 95:1805–1829. <https://doi.org/10.1007/s00204-021-03020-4>; <https://pubmed.ncbi.nlm.nih.gov/33963423/>

These include public health institutions in several countries that have used their findings to inform policies and regulations, as shown [here](#).

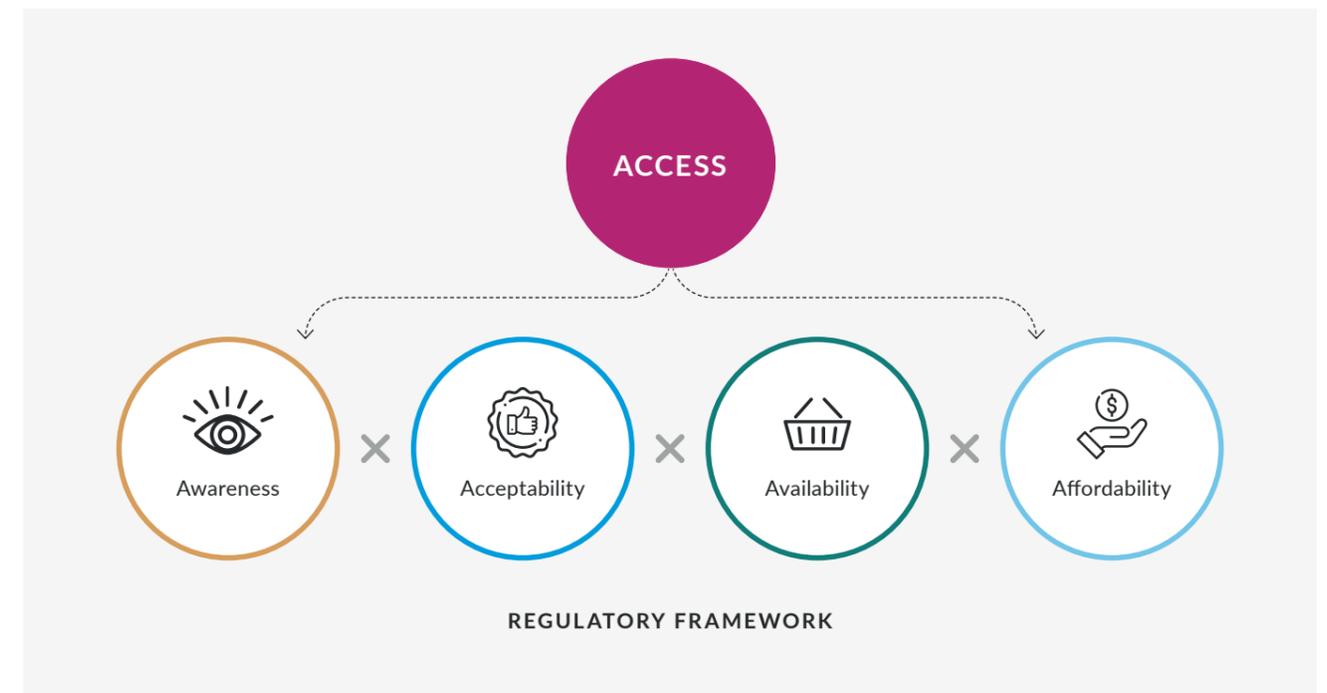
The number of independent studies on heated tobacco products published each year—many of them on PMI's heat-not-burn products—has significantly increased over the past years, as shown on [PMIScience.com](#).

In general, these studies confirm important elements of our research results. However, some third-party research studies have reported different results, approached data interpretation differently (e.g., used smoking cessation as the comparator), have methodological differences, or have overstated conclusions. Addressing some of the above and developing more of a consensus in the scientific community could drive a faster impact on public health but requires an open dialog and discussion between industry, academia, and regulators. Refusing a scientific debate or prohibiting the publication of valid scientific results conducted by the industry hinders scientific and public health progress.

Broadening access to smoke-free products

The introduction of smoke-free products in the marketplace has the potential to reduce the individual risk of smoking-related disease versus continued smoking and benefit public health.

However, that potential can only be realized if adults who would otherwise continue to smoke switch to these better products. While adhering to strict marketing codes, we work relentlessly to enhance consumer awareness and the acceptability, availability, and affordability of our smoke-free alternatives to cigarettes. As of the end of 2023, we estimate that approximately 33 million adults were using our smoke-free products.¹ This includes some 28.6 million adults worldwide who were using our IQOS heated tobacco products, of whom an estimated 20.8 million had fully switched and stopped smoking.



INCREASING AWARENESS

Adults who would otherwise continue to smoke should understand the risks and benefits of switching to better alternatives. They also should know that smoke-free products are not risk-free and contain nicotine, which is addictive. The best choice a smoker can make is to quit tobacco and nicotine altogether.

As of the end of 2023, we estimate that around 23 percent of the adult smokers in the markets in which PMI commercializes IQOS were aware of the product's features and benefits compared with continued cigarette use.² It is clear that the lack of information about—and awareness of—smoke-free products continues to present a significant hurdle to achieving population-level tobacco harm reduction.

The regulatory environment is key to driving consumer awareness and encouraging adult smokers to switch to better alternatives. When PMI enters markets with regulations that limit or prevent direct communication with consumers, smokers adopt smoke-free products at a median rate of 2 percent after six years. In markets where we can communicate more openly, we see a median 7 percent adoption rate after six years and a best-in-class market adoption rate of 15 percent.³

- 1 Figures are based on IQOS user panels and PMI Market Research. Estimated user numbers for oral nicotine and e-vapor are approximate, with further methodology details to be provided in future disclosures.
- 2 Excludes Russia, Albania, Bahrain and Kuwait.
- 3 The median rate reflects the median quarterly HTU market share six years after the launch of IQOS. The data reflect markets (i) where IQOS has been present for at least six years and (ii) qualify as PMI top-40 income markets for 2022. "Markets where we can communicate more openly" reflect markets that have regulations that are generally more permissive with respect to communication and awareness building for heated tobacco products compared with cigarettes. "Best-in-class" markets reflect the median share of the top five markets where we can communicate more openly.



Informing adult nicotine users about the smoke-free category

There is widespread confusion about basic concepts underpinning the smoke-free products category. This leads to misunderstandings about the harm reduction potential of scientifically substantiated smoke-free products for adults who would otherwise continue to smoke, and slows down the decline in cigarette smoking prevalence.

We seek to improve awareness of the smoke-free product category among adult smokers, enhance understanding of key concepts underpinning it—such as the role of combustion, nicotine, and tar, and the potential for harm reduction—and address widespread misconceptions.

Reaching out to smokers via cigarette packaging

Where permitted, we seek to engage with adult smokers via our cigarette packaging. We do this using JustScan, an online platform available on devices in more than 60 markets, as of year-end 2023. Adults who purchase our cigarettes can access content about smoke-free products through a QR code or weblink typically featured on the cigarette pack itself or on an insert.

In markets where smoke-free products are available, we leverage JustScan to drive brand awareness among adult smokers and support their conversion to better alternatives. Engagement via JustScan has proven successful. Over 40 percent of adult smokers who have accessed it have demonstrated interest in receiving more information or trying smoke-free products.

Communication at the point of sale and other retail locations

We also leverage offline communication to engage with our consumers and other adult smokers about our smoke-free products. For example, we place communication materials in indirect retail points of sale and other locations, such as hotels, restaurants, and cafes.

In 2023, this allowed us to reach approximately 1.3 million adult consumers across 36 markets globally, increasing awareness of our smoke-free products and explaining their potential benefits compared with continued smoking. Our direct retail universe leverages trained staff who can engage appropriately with adult smokers and apprise them of the benefits of smoke-free alternatives compared with continued smoking. We have implemented face-to-face trainings as well as digital training modules in approximately 50 percent of our indirect retail point of sales.

Digital communication

Our online presence also drives awareness among legal-age consumers. Our primary channel of our online communications is conducted through our age-gated IQOS.com website, which contains a listing of scientifically substantiated smoke-free product statements to enable adult smokers to better understand how our smoke-free products fundamentally differ from cigarettes.

Where allowed, we deploy customer care initiatives and other commercialization activities leveraging communication platforms, which include inbound/outbound phone calls, emails, SMS, and messaging applications. Where permitted, we complement this engagement via our social media accounts targeting legal-age nicotine users. Best-in-class search engine optimization (SEO) allows us to engage with legal-age nicotine users and provide them with useful information about our smoke-free products in a responsible manner (learn more about our approach to responsible marketing [here](#)).

Smoke-free products consumer engagement

Our consumer programs facilitate awareness. For example, the refer-a-friend program allows current adult users to introduce smoke-free products to an adult friend who already uses nicotine products and share their firsthand experience of the benefits of a smoke-free journey. Our consumer relationship management (CRM) initiative ensures our user base is always up to date with relevant information about our smoke-free transformation while respecting their privacy.

We also utilize communication campaigns and platforms to build a sense of community. For example, Together Forward is an integrated campaign that aims to address the motivations and desires of millions of diverse adults across the globe who would otherwise continue to smoke. It seeks to help them make better choices. Within this campaign, we have built a brand engagement platform called Together X: Experience the Unexpected. It organizes national and cross-national events for adult users of our smoke-free products that are co-created with our consumers.



STRIVING FOR HIGH PRODUCT ACCEPTABILITY

Consumer acceptance is critical. Even the lowest-risk product would not confer any benefit to individual and public health if adult smokers did not switch to it.

We conduct post-market studies to understand how our smoke-free products are used, helping us evaluate their acceptance among adult users.

We consider conversion a critical indicator of whether our smoke-free products meet consumer expectations. The conversion rate is the percentage of adults who switch to our less harmful products and successfully stop smoking cigarettes versus the total number of adult users.¹ In 2023, the global average full conversion rate for our leading smoke-free product, IQOS, was approximately 73 percent.

We deploy a broad set of engagement actions to help adult smokers navigate our portfolio of better products and successfully embark on their smoke-free journeys. For example, where permitted, we allow adult nicotine users to try our heat-not-burn products before purchase via guided trials and lending programs, and we support consumers in the first 90 days of their smoke-free conversion journey via onboarding programs that provide information on the chosen product and available flavors. As part of these engagement efforts, we reinforce scientifically substantiated statements regarding the potential benefit of switching to smoke-free alternatives versus continued smoking.

Acceptability is driven by a seamless, consumer-centric, and superior consumer experience deployed by our go-to market infrastructure and our broad set of programs and services. We consider Net Promoter Scores (NPS) to be strong indicators that the commercial engine we have built creates high satisfaction among our consumers. We have seen a growing channel NPS in 75 percent of our markets, which places us best in class in the tobacco industry and as a strong competitor within the broader consumer goods category.

Expanding our smoke-free portfolio

We understand it is impossible for any one product to meet the individual preferences of all adult smokers. To accelerate the decline of smoking prevalence, we continue to expand our multi-category portfolio of better, science-based alternatives to cigarettes. We offer a broad variety of experiences, technologies, tastes, and price options to suit the wide-ranging preferences and needs of adult smokers. In 2023, we significantly expanded our smoke-free portfolio, offering 13 smoke-free (heat-not-burn and e-vapor) devices for sale by year-end.

Heat-not-burn

With heated tobacco unit (HTU) manufacturing constraints now normalized following the COVID-19 pandemic and reconfiguration following disruption from the war in Ukraine, we were able to expand IQOS ILUMA, the latest generation of our main heat-not-burn product, to 51 markets by year-end (2022: 16 markets).

IQOS ILUMA is bladeless and has significantly enhanced consumer experience, resulting in higher NPS and strong growth in launch markets. We also invest in novel consumables with different price points and responsible flavor directions (read more about the role of flavors [here](#)).

Oral nicotine

Our oral nicotine products do not produce vapor and smoke altogether, making their use convenient.

Acquiring Swedish Match in late 2022 has allowed us to expand both our product portfolio and geographic footprint. Within this category, ZYN has delivered rapid acceleration of our smoke-free business, with U.S. sales volumes growing by over 50 percent since the acquisition. ZYN now represents 72.8 percent of the U.S. nicotine pouches market.²

The international expansion of nicotine pouches remains a key medium-term opportunity. Expanding our presence in the oral smokeless category will further increase the acceptability of our smoke-free value proposition. It also aligns with changing consumer trends and our strategy to help bring an end to cigarettes globally.

E-vapor

In the e-vapor category, our approach in select markets is progressing, with VEEV ONE and VEEV NOW commercialized in 26 markets as of year-end 2023 (2022: 12).

¹ Considering that individual consumption of PMI heated tobacco units represents the totality of their daily tobacco consumption in the past seven days or, for markets where there are also competitors' heated tobacco products, at least 70 percent of their daily individual consumption is with PMI heated tobacco products. See [Glossary](#).

² Based on a 13-week period.



The role of flavors and nicotine in smoke-free product acceptability

The responsible use of flavors is a critical factor in helping adults who would otherwise continue to smoke to fully switch from combustible tobacco products to smoke-free alternatives. We seek to expand our flavor offerings in a manner that guards against use by unintended audiences, including youth (read more about youth access prevention [here](#)).

The difference in taste between smoke-free products and adult smokers' preferred cigarette brands can be an obstacle. Tobacco taste remains the most popular flavor, with 91 percent of exclusive legal-age smokers of cigarettes globally using tobacco flavors.¹

Currently, *TEREA*, used with *IQOS ILUMA*, delivers a superior tobacco experience with eight classic tobacco variants. We are further exploring ways to enhance our tobacco flavor experience.

In addition to the HTU products we currently offer, we began launching products such as *TEREA CRAFTED* (initially deployed in Switzerland), a curated collection of tobacco flavors mixed with botanicals such as rosemary, star anise, and clove. By year-end, we offered 86 taste variants for PMI heated tobacco units.

While reinforcing our leadership in tobacco taste, we are also investing in novel consumables for our heat-not-burn products that go beyond tobacco to increase acceptability among adult smokers.

For example, we have launched *LEVIA*, our innovative consumable product line that contains nicotine but does not contain tobacco. Instead of tobacco, the core of the *LEVIA* stick is made up of ingredients mostly derived from cellulose-based ingredients which are carefully processed and act as a neutral carrier without additional aromas. This allows us to infuse the flavors and nicotine into the stick to experience the *LEVIA* flavors to the fullest.

LEVIA is designed to be used only with *IQOS ILUMA* devices. When heated by *IQOS ILUMA* devices, it creates a nicotine-containing aerosol. *LEVIA* sticks are not risk-free and provide nicotine, which is addictive. The absence of tobacco does not mean that this product is safer than other sticks used with *IQOS ILUMA*.

Within our oral category, mint-type flavors continue to lead the *ZYN* portfolio, representing over 60 percent of sales. We have seen growth in our unflavored variants, which now represent about one-fifth of our portfolio.

Finally, within the e-vapor category, we have developed a proprietary e-liquid formulation using genuine tobacco flavors from real tobacco leaves. *VEEV Accents* delivers real tobacco taste and demonstrates better conversion and retention rates of adult smokers than regular tobacco flavors. This has been shown not only in our consumer research but also in the product's significantly better sales performance in retail stores compared with regular tobacco variants in our first launch market, Canada.

Evolving device range, personalization, and flexibility

IQOS is evolving to give users more flexibility to customize and personalize their devices. Our device range has evolved from a single model in standard colors into a full range of models and a wider palette of color choices. To maximize lifestyle integration, we elevate our approach by offering limited editions and accessories, creating an engaging story-led communications approach, and expanding our partnership footprint.

Supporting adult smokers to switch to smoke-free products

In addition to product characteristics, it is essential that we have the right infrastructure in place to support adult smokers along every step of their journey away from cigarettes.

In line with the requirements of our Marketing Codes, we deploy consumer programs in a holistic direct retail channel ecosystem, allowing our adult consumers to find and purchase products conveniently.

Digital capabilities also help us serve adult consumers more efficiently and engage with them in a more personalized fashion via a specific electronic customer relationship management (eCRM) conversion journey.



¹ Source: PMI Financials or estimates as of July 2023



The role of regulation

Our ability to make our smoke-free products available for sale to adult smokers depends on several factors—including some beyond our control—that dictate our capacity to scale and legally commercialize our products in certain countries.

Tobacco and nicotine product marketing covering smoke-free products is subject to extensive restrictions worldwide, including outright marketing bans in some countries. Such regulatory environments limit our ability to increase awareness of and access to smoke-free products as it makes it difficult or sometimes impossible to enter a market (by banning the sale of smoke-free products) or restricting opportunities to raise awareness among adults who would otherwise continue to smoke that better alternatives to cigarettes exist. Excessively restrictive regulations may also limit our ability to offer adult smokers acceptable alternatives, for example in case of complete bans of smoke-free products with characterizing flavors. Taxing all tobacco- and nicotine-containing products without differentiating or recognizing their different risk profile also hinders our ability to shift adult smokers to better alternatives (read more about our perspective on regulation [here](#)).

Encouragingly, we have witnessed growing scientific and regulatory consensus supporting science-backed smoke-free products. An increasing number of governments now complement traditional tobacco control measures (i.e., those intended to discourage smoking initiation and encourage cessation) with a harm-reduction-based approach (i.e., providing adults who would otherwise continue to smoke with access to scientifically substantiated smoke-free alternatives). Visit [PMI.com](https://www.pmi.com) for an overview of significant regulatory developments in recent years.

We call on governments to regulate the industry, implement responsible marketing practices, and enable a level playing field with appropriate product standards, strong youth access prevention safeguards, and commercial and fiscal regulation.

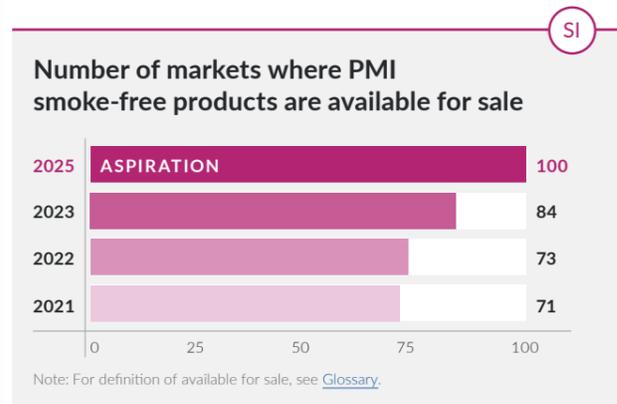


EXPANDING PRODUCT AVAILABILITY

To achieve our vision for a smoke-free future, we are working to ensure these better alternatives are available in as many countries as possible.

Making our smoke-free products available in an increasing number of markets

As of year-end 2023, our smoke-free products were available for sale in 84 markets, either in key cities or nationwide (2022: 73). We aspire to make them available in at least 100 markets by 2025.



Our geographic expansion improved year-on-year but is still constrained by certain regulatory factors.

In 2023, we focused on expanding the availability of our smoke-free products, most notably our flagship heat-not-burn product, *IQOS ILUMA*. By year-end, *IQOS ILUMA* was available in 51 markets (2022: 16), while our e-vapor products, including *VEEV ONE* and *VEEV NOW*, were commercialized in 26 markets (2022: 12). Our oral products were commercialized in more than 30 markets.

Beyond external factors, such as the regulatory landscape, the rate at which we can roll out smoke-free products globally depends on certain internal constraints. Notably, we must evaluate the products' commercial viability based on the size and capacity of our local organizations across the 175 markets in which our cigarette products are present and prioritize internal resources accordingly.

Further, our ability to manufacture smoke-free products at scale requires significant investment in our production capacity. To launch these new products, we must build factories or convert existing cigarette factories and modernize our production lines. As of the end of 2023, including Swedish Match and Vectura Fertin Pharma, 16 of our 50 factories worldwide were either partially or fully dedicated to the manufacture of our heated tobacco units or oral nicotine products (2022: 14 out of 49). This includes the opening of a new factory dedicated to the production of heated tobacco units in the U.S.

Unlocking the opportunity for IQOS in the U.S.

In October 2022, we announced an agreement with Altria Group, Inc. to end the companies' commercial relationship covering *IQOS* in the U.S. as of April 30, 2024. Thereafter, PMI will have full rights to commercialize *IQOS* and other smoke-free products in that market, providing a clear pathway to reach the estimated more than 28 million Americans who currently smoke cigarettes.¹

We view *IQOS* as a very substantial growth opportunity in the U.S., given the clear demand among adult smokers for credible smoke-free alternatives to cigarettes and the limited success to date that existing offerings have had in terms of enabling adults to switch away from cigarettes entirely. Furthermore, there are ample opportunities in this market to build adult smoker awareness and understanding of smoke-free products.

This is especially the case for *IQOS* given its MRTP FDA authorizations, allowing the product to be marketed in the U.S. with reduced exposure claims. In 2023, we also submitted Premarket Tobacco Product Applications (PMTAs) and Modified Risk Tobacco Product Applications (MRTPAs) for *IQOS ILUMA* heated tobacco products with the U.S. Food and Drug Administration (FDA).

¹ Source: Centers for Disease Control and Prevention, [Data and Statistics, Smoking and Cigarettes](#).

Increasing availability within each market

In addition to international expansion, we must ensure our smoke-free products are conveniently available to adult consumers within the markets in which we operate.

When launching a product in a new market, our strategy has been to start in a key city, then progress to smaller cities, and eventually, the entire geography.

Beyond our geographic footprint, we seek to increase availability within markets by leveraging a variety of retail channels, including:

- Direct retail channels, such as brand retail locations (e.g., *IQOS* stores) and e-commerce websites (where permitted). As of the end of 2023, there were over 1,300 direct retail touchpoints (including 286 permanent PMI-owned *IQOS* boutiques and 120 temporary touchpoints) worldwide and e-commerce sites for our smoke-free products in 58 markets (2022: >1,800; 285; 140; 56).
- Indirect retail channels, such as tobacconists, convenience stores, gas stations, consumer electronics or vape stores, and online channels. Some of these retailers only sell smoke-free consumables while others allow consumers to purchase smoke-free devices. Others—called "*IQOS* partners"—offer consumers a wide range of services and experiences, including product trials for existing adult nicotine users. As of the end of 2023, there were 3,900 *IQOS* partners worldwide and over 900,000 points of sale at which our smoke-free product consumables were sold (2022: 3,259; over 800,000).

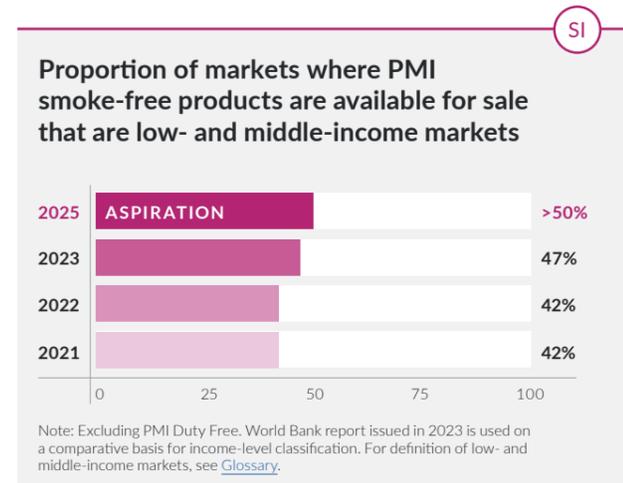


ADDRESSING PRODUCT AFFORDABILITY

Price must not be a barrier to achieving a smoke-free future. Besides working to increase awareness, acceptability, and the availability of smoke-free products across markets, we must ensure that our portfolio includes products that are affordable by all adult smokers. Our vision of a smoke-free future can only materialize if all adult smokers who don't quit tobacco and nicotine altogether can afford to and do switch to better alternatives.

This means deploying inclusive solutions to meet the needs of different population segments while accounting for the economics of smoke-free products—which are significantly different from those of cigarettes.

We have progressed on our 2025 aspiration to have low- and middle-income markets represent at least half of the markets where we commercialize our smoke-free products. As of the end of 2023, our smoke-free products were available in 39 low- and middle-income markets, or 47 percent of the markets where we commercialize them globally (2022: 30; 42 percent).



Devices

Some of our smoke-free products—such as our heat-not-burn products and e-vapes—require the use of electronic devices together with consumables. These quality devices rely on innovative technologies and incur significant development and production costs to ensure they meet our science-based harm reduction objectives.

To alleviate the cost barrier some adult smokers who would like to switch may experience, we deploy various solutions across certain markets, such as:

- **A range of price points:** Our diversified portfolio offers a variety of price points to facilitate access by adult consumers regardless of their income. Beyond IQOS, we aim to broaden our legal-age smoke reach with a lower-priced heat-not-burn portfolio, currently consisting of *BONDS by IQOS*, available in a few selected low- and middle-income markets, and *lil solid*, commercialized in 31 markets.
- **Lending and refunds:** We allow adult consumers to try the product for a defined period before paying the full upfront price. Depending on its condition, consumers may return the device for a refund.
- **Payment in installments:** We are piloting “buy now, pay later” solutions in specific markets where purchase barriers can hinder access to our smoke-free products.
- **Trade-in:** To further minimize barriers to purchase, consumers can exchange their current device for a newer version and benefit from a discount.
- **Second life:** We remarket used products that have been collected and refreshed or repaired according to stringent standards (read more [here](#)).
- **Extended life:** We continuously work to enhance device longevity, which lowers the average annual cost for the adult user while also improving the devices' ecological footprint (read more [here](#)). Further, our boutiques, flagship stores, and trade partners make available an extended set of free support services, such as professional cleaning of devices, airflow checks, and firmware upgrades. Our contact centers assist adult consumers with their devices and ensure their purchase is complemented by best-in-class after-sale support.

Smoke-free consumables

Our smoke-free consumables are of three types: those that can be used without a device (e.g., nicotine pouches), those that require a device (e.g., heated tobacco units or e-liquid cartridges), and those that are all-in-one (e.g., our disposable e-vapor product). Several factors contribute to their price and, therefore, their affordability.

The recommended price of our consumables is determined by costs related to R&D, production, compliance, and commercialization, as well as the excise taxation regime in the countries where they are sold.

Looking at our most broadly available smoke-free product, IQOS, overall costs of the heated tobacco units are, on average, much higher than those of cigarettes, due to additional R&D, manufacturing, and commercialization costs as well as costs for devices. However, a key factor driving tobacco and nicotine product retail prices is the excise tax. Taxing products according to their risk profile is a strong demand measure that can contribute to behavioral change and encourage adult smokers to switch to less harmful alternatives. Accordingly, excise taxes on cigarettes generally tend to (and should) be much higher than those on smoke-free products.

The combined effect of manufacturer costs and tax differences is such that the price at which the consumer buys heated tobacco units is typically below that of premium cigarettes—or can even be at the low end of cigarette pricing. As of the end of 2023, we estimate that our heated tobacco units are, on average, priced the same as or lower than an adult smoker's current cigarette brand for 68 percent of smokers in the geographies where we commercialize IQOS (2022: 65 percent).

To accelerate category and share growth, we are expanding the reach of our induction consumables. In select markets, there is an opportunity to further our reach among legal-age smokers via a below-premium proposition. *SENTIA* was developed with a focus on the essentials of taste at a more affordable price. It was launched in Japan in April 2022. In 2023, building on our success and learnings in Japan, we developed *DELIA*, the consumer-qualified name outside Japan, with the same spirit and essence of taste at a more affordable price for select markets.

Marketing and selling our products responsibly

Our marketing and sales policies and practices reflect our commitment to market all our products responsibly. This means increasing adult consumers' awareness and understanding of our smoke-free product portfolio while guarding against the risk of access by unintended audiences.

Marketing Codes

Our Marketing Codes embody PMI's commitment to ethical behavior and lay the groundwork for responsible product development, design, marketing, consumer engagement, and sales practices. They comprise one [Code for Non-Combusted Alternatives](#) and one [Code for Combusted Tobacco Products](#). Internal implementation guidelines accompany these codes.

A glance at our path to integrate Swedish Match

Information and data in this section do not integrate Swedish Match and thereby exclude the U.S. However, beginning in November 2023, PMI Marketing Codes and the associated implementation guidelines have been rolled out across the Swedish Match organization. A U.S.-specific Marketing Code for smoke-free products became effective in early 2024.

Our affiliates' marketing practices in the U.S. set a high benchmark for the industry. Our affiliates do not use social media influencers in the U.S. and refuse all requests for such partnerships. Moreover, Swedish Match's own digital platforms used to engage with ZYN consumers are age-gated and restricted to current legal-age nicotine users. Our U.S. affiliates also support the We Card and TruAge initiatives, which are programs designed to prevent underage purchase of age-restricted products at retail. Swedish Match's advertising features only individuals aged 35 or older. Learn more [here](#).

Moreover, all Swedish Match employees who are directly involved in developing or deploying product, packaging, advertising, marketing, engagement, or sales initiatives will participate in mandatory training on the Marketing Code and implementation guidelines.



Employee and third-party training

Our responsible commercialization efforts rely on our employees and the third parties with whom we work strictly adhering to our responsible marketing policies. All PMI employees involved in our commercialization activities must follow the Marketing Codes and be trained on them at least every two years. Third parties we engage and who are involved in commercialization activities (including agencies, promotional staff, and call center agents, among others) must also be trained at least annually on the relevant parts of the codes and follow those portions that relate to the roles they perform.

Our Marketing Codes-related training includes global compliance e-learning courses, an instructor-led classroom, and online training sessions for our employees and third parties.

Around 67,000 people participated in at least one Marketing Codes-related training session in the past two years. Of this total, approximately 27,000 were PMI employees and around 40,000 were third-party workers. In 2023, we delivered Marketing Codes training to new hires and refresher courses, including specific training on youth access prevention, to PMI salespersons engaged in brand retail or our contact centers.

Monitoring and remediation

We have infrastructure in place to monitor compliance with our Marketing Codes and provide any necessary clarification to functions or markets regarding code implementation. During 2024, we will build on the learnings from self-assessments and internal monitoring to strengthen the foundation for external monitoring, which can complement and add robustness to our processes.

Self-assessments

Our codes require that a self-assessment program be implemented to evaluate compliance at market level. In 2023, all our markets completed the self-assessment questionnaire for the second consecutive year.

We conducted our 2023 self-assessment program and collected input from over 110 markets, which represents receiving answers to nearly 11,000 checks. The process allowed us to confirm a high level of compliance with the requirements in scope for this wave. As part of this wave, we also tracked the completion rate of delivering trainings and sending youth access prevention letters as part of our youth access prevention programs (read more [here](#)), both due by year-end, and could confirm that all markets completed this important undertaking.

Internal monitoring

Our Compliance function investigates potential incidents of noncompliance with applicable laws, regulations, the PMI Code of Conduct, and PMI Policies, including PMI's Marketing Codes. In 2023, there were 28 substantiated allegations of violations of our Marketing Codes (2022: 14). In response to these violations, PMI took disciplinary action against the involved individuals as appropriate, ranging from verbal warnings or counseling, written warnings, and suspensions to termination of employment.

Complementing the self-assessments performed, audits conducted by our Risk & Assurance function's internal audit team in 2023 found that issues related to compliance with the Marketing Codes for PMI's Combusted Tobacco Products and Non-Combusted Alternatives were insignificant in nature, and these issues were mainly procedural. As an outcome of the enterprise risk assessment, the internal audit team conducted market and global function audits that covered local as well as global processes and controls.

Processes and controls were reviewed in each of these markets and global functions, and auditors conducted field visits to certain points of sale to assess the steps taken to implement and to comply with our Marketing Codes. No significant issues related to youth access were identified in the locations visited based on the audit procedures performed by the internal audit teams. Audit procedures vary per audit depending on various factors, but generally include field visits, testing of the age verification process, and inspecting programs that have been deployed such as marketing and communications.

We require the inclusion of strict minimum contractual requirements in our agreements with third-party retailers who sell tobacco and other nicotine products, requiring them to ensure the products are being sold to age-verified consumers prior to sale, as mandated by our codes. Those were generally implemented in accordance with the codes' requirements and we are not aware of any breach that would have required the termination of an existing contractual relationship.

Ensuring that our marketing and commercialization activities reach intended audience

As part of our governance process for premarket assessment of flavored products, we conducted six studies on our heat-not-burn and e-vapor products in seven markets in 2023, including interviews with more than 9,500 adults who were not consumers of tobacco or nicotine-containing products. The results of those studies show very low intention to use our smoke-free products among adult former users of tobacco or nicotine-containing products (between 1.3 percent and 3.3 percent across the six studies) and adults who had never used tobacco or nicotine-containing products (between 0.7 percent and 2.7 percent across the same six studies).

We do not conduct studies involving individuals under the legal age to purchase tobacco or nicotine-containing products. However, results of our studies among the youngest legal-age adults who were not consumers of tobacco or nicotine-containing products—those aged 18 (or higher, depending on the legal age in the country) to 24—show very low intention to use our smoke-free products (between 0.7 percent and 3.3 percent across the six studies).

We also conduct post-market studies to understand how our smoke-free products are used and by whom, once made available for purchase in the market.

These studies confirm the results of our premarket perception and behavior assessment studies, measure the extent to which adult smokers switch to our smoke-free products, and monitor whether never and former smokers use our smoke-free products.

The data from recent post-market studies conducted in Asia and Europe—involving, per country and year, between 3,000 and 7,000 adults from the general population as well as about 2,000 adults from IQOS user samples—confirm that IQOS is reaching the intended audience (adult smokers). These studies also confirm that IQOS use by adults who had never smoked or had already quit using tobacco and nicotine products is very low. Specifically, the results in these markets show that more than 96 percent of IQOS users were already using tobacco products when they switched to IQOS.

Finally, the results from our premarket perception and behavior assessment studies, which are conducted as part of PMI's scientific assessment of IQOS, show that adult consumers understand that IQOS presents less risk of harm than cigarettes but is not risk-free; this is confirmed by our post-market studies.¹

¹ AlMoosawi S, Bajec M, Mainy N, Kallischnigg G, Zwisele B, Fischer K, Magnani P, Roulet S. Risk perception of IQOS™ and cigarettes: Temporal and cross-country comparisons. *SSM Popul Health*. 2022 May 17;18:101123. doi: 10.1016/j.ssmph.2022.101123. PMID: 35669892; PMCID: PMC9162949

Preventing youth access and use of our products

We have developed a holistic and comprehensive approach to guard against youth access to our products.

These measures primarily consist of ensuring that, when attempting to purchase our products, potential buyers are age-verified across all access channels, including PMI-managed boutiques, PMI e-commerce platforms, third-party retailers, and online marketplaces. While our control over these channels varies, we make every effort to guard against youth access to our products regardless of the point of sale.

Vaping made right

Vaping made right is critical to sustainable growth.

The e-vapor segment poses several key issues that overshadow its harm reduction benefits and, altogether, jeopardize business longevity. Next to environmental impact and noncompliance with existing product regulations, one of the most pronounced concerns is the potential appeal, access, and use of e-vapor products by youth.

We are disrupting the status quo, leading by example, and preventing youth access through a responsible approach to product development, communication, and commercialization.

We offer a selection of crafted flavors appealing to mature palates but no dessert-like tastes. Our devices are not flashy, nor game- or beauty-inspired. They represent curated designs, colors, materials, and finishes, following strict flavor communication guidelines and responsible marketing practices.

These practices apply to our full e-vapor category.



Specific requirements in our Marketing Codes to guard against youth access

The global youth access prevention requirements 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 (regarding channels and content), guard against the likelihood that our products and related consumer communications will reach or appeal to youth.

Age verification

A fundamental requirement is that a consumer's age be verified prior to product purchase. Only those of legal age—or at least 18 years old in markets without a higher minimum legal age—are permitted to buy our products.

The methods used to age-verify consumers vary by channel and market. For instance, individuals attempting to purchase products through a PMI-operated branded website may be asked to upload a copy of their ID or provide certain personal data which can identify them.

In the case of the latter, we then use that data to identify that person and verify that they are of legal age via a reliable third-party database (such as one operated by a financial institution or government agency).

Alternatively, when purchasing at our branded brick-and-mortar retail location, an individual will be age-verified visually by a trained salesperson and asked for a copy of their ID in case of doubt.

Marketing communications

PMI's Marketing Codes requirements also shape our creative materials, ensuring, for instance, that they do not contain images of youth-oriented celebrities or of models who are, or appear to be, under 25 years of age. They also guard against product placement.

Consequently, we place our advertising, marketing, and sales materials in locations where at least 75 percent of the audience is reasonably estimated to be above legal age or at least 18 years old in markets without a minimum legal age.

Digital content creators

Digital channels play an important role in allowing adult users to access accurate information about our products. Last year, we completed a controlled pilot program for digital content creators. These are adult users who create content about our products, such as technical reviews, product unboxing, or describing their personal conversion journey. The decision to run the pilot was fundamentally based on the existence of established social media age-gating features, which help guard against the content becoming accessible by unintended audiences. In addition, we use reputable audience analysis tools to validate that the social media audience of creators we collaborate with is fulfilling the same strict demographic criteria we apply to all our communication channels.

Assessment of flavors

By design, smoke-free products do not burn tobacco and, therefore, provide a different sensory experience from cigarettes. Flavors can help adults who would otherwise continue to smoke to overcome barriers related to acceptability and switch completely to better alternatives.

Our product portfolio, including cigarettes and smoke-free products, features a wide range of taste variants so it can adequately cater to individual adult consumers' taste preferences (read more [here](#)).

PMI is committed to using flavors responsibly and has a central governance process under which all new flavored product variants are evaluated.

In addition, flavored product propositions are assessed premarket to minimize the risk of adverse consequences, including appealing to youth and other unintended audiences. The assessment framework considers, among other things, the flavor dimension of the product, how the product will be labeled and marketed, and the regulatory and commercial environment.

Moreover, our flavored product variants are named in a way that either gives no indication to consumers about the flavor direction (beyond tobacco, menthol or kretek) for combustible and heat-not-burn products, or is intended to be factual (e-vapor and oral nicotine products), avoiding names that could particularly appeal to unintended audiences.

In 2023, we built out internal capabilities to extend this governance process to our full oral nicotine category.

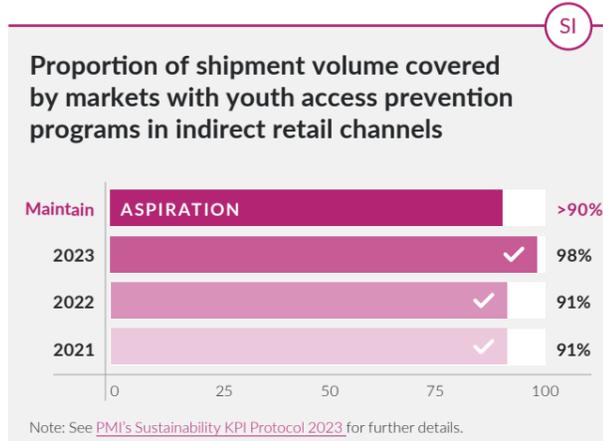
Youth access prevention in indirect retail: engaging with our trade partners

We do not own or control the vast majority of retail outlets that sell our products. A significant portion of our cigarettes and smoke-free consumables are sold in indirect 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 local regulations for youth access prevention, which we comply with and which retailers must enforce.

In 2023, we continued strengthening our youth access prevention program for indirect retail:

- Increased global footprint: markets where PMI has minimal business presence are required to comply with the program via distributors or third parties where such deployment is possible.
- Proof of performance guidelines for markets provide evidence on the program implementation.
- New centralized data collection and storage tool for program plans and results.
- Improved governance and program oversight by central and regional cross-functional teams.

By the end of 2023, markets representing 98 percent of our total shipment volume were implementing such programs, which supplement our Marketing Codes requirements.



Youth access prevention in direct retail: efforts in our owned channels, in-person and online

At our brick-and-mortar branded retail outlets, any consumer who wishes to purchase our products must be age-verified by a trained salesperson. When selling our products online, we implement age-verification methods integrating the latest technologies, such as data match, ID match, call center video calls, and facial analysis age verification. We made significant progress in implementing online age-verification technologies during the year, increasing from 22 markets representing 64 percent of smoke-free product shipments in 2022 to 32 markets reaching 71 percent of shipments in 2023.

Enhanced online age-verification

When performing age verification online, there are several options implemented by our markets. One option is to ask the consumer to upload a copy of their ID so that we can validate their age. Alternatively, we can leverage third-party databases from reliable and credible sources (e.g., government organizations, telephone network operators, or banks). Here we ask the consumer to provide us with personal data that enables us to identify them, which we then use to validate that they are an adult in such third-party database. Another option is for a contact center agent to age-verify a consumer face-to-face via a virtual video call.

During 2023, PMI continued making progress on our commitment to develop, test, and deploy a range of enhanced online age-verification technologies for our e-commerce sites. For example, Yoti—certified by the Age Check Certification Scheme in the UK—is an innovative facial analysis age verification tool which has been tested across multiple industries and proven a reliable means of verifying that an individual is an adult. It simplifies and speeds up the purchase experience for our adult consumers and in the past year was piloted in five markets with IQOS and VEEV e-commerce sites, with additional expansion planned in 2024.

Where the necessary technology is not available, or where a person cannot be age-verified using any of these methods, we apply alternative processes. These include face-to-face age verification by couriers on delivery or at collection pickup points.

Age-verification technology in our electronic devices

On-device access restriction through age-verification technology could serve as an incremental measure to complement our existing suite of youth access prevention tools to help prevent unintended audiences from accessing our electronic smoke-free devices—when and where commercially feasible and viable. Since 2020, PMI has invested in R&D and tested a range of novel technologies and user experiences that aim to verify the age of consumers prior to the first usage of our electronic smoke-free devices. These have varied across our smoke-free products (from IQOS ILUMA to VEEV and BONDS by IQOS).

From 2021 to 2023, these technologies and consumer experiences were tested in iterative consumer research labs in France, Japan, and the Philippines. Simultaneously, live market tests with real trade partners and consumers were conducted in France and New Zealand.

Our findings demonstrated positive acknowledgment from adult consumers and trade partners alike that restricting access to nicotine-containing products to adults is the right thing to do. However, they also demonstrated that 28 percent of consumers felt negatively about the consumer experience, indicating that it was intrusive, impractical, and represented a barrier to purchase and conversion to better alternatives to continued smoking.

We will utilize current and future learning to guide our ambitions around device-level age verification and assess our aspirations, remaining steadfast in our commitment to prevent access to these products by unintended audiences.

Monitoring effectiveness of youth access prevention programs

Mystery shopper programs—in which legal-age adults attempt to buy our product and then report back to us on whether they were age-verified—remain an effective way to monitor compliance with our responsible marketing and commercialization requirements.

In 2023, our focus has been on laying the foundation for a company-wide mystery shopping program, ensuring the most efficient and effective verification system of compliance with our youth access prevention requirements. Starting from the identification of worldwide best practices from regulated industries, we have developed the plan, identified the best business partners, and developed a methodology to identify focus markets (based on key parameters such as youth smoking prevalence and markets' rule of law index).



Looking ahead

Badrul Chowdhury
Chief Life Sciences Officer



“Policymakers and regulators express the need for real-world data (e.g., disease-specific, epidemiological) before they can embrace tobacco harm reduction, but few within the scientific world appear willing to participate in that data collection and analysis. We are launching studies in countries where the inhaled smoke-free products have been in the market for a number of years and have reasonable market penetration. Our strategy is to show direct benefit in patients with disease by evaluating datasets of symptoms, function, and mortality, and in healthcare utilization, such as hospitalization. Internationally, *IQOS ILUMA* products have demonstrated how ground-breaking consumer-centric innovation can lead more adults to stop smoking. We believe that same success can be replicated in the U.S. and drive a rapid decrease in smoking rates among adults. Following our PMTA and MRTP applications, we are awaiting decisions from the U.S. FDA.”

Stefano Volpetti
President, Smoke-Free Inhalable Products & Chief Consumer Officer



“During 2024, to build further robustness in PMI’s approach to guarding against youth access, we will review current practices and work on testing new ways to complement our preventive measures. This will include exploring ways to strengthen the monitoring of the implementation of our Marketing Codes and commercialization practices. In particular, we intend to pilot our revamped mystery shopper program in select markets in the course of 2024 for our own channels, with the expectation to scale it for a global rollout in 2025. We will aim to focus on direct retail (online and in person) where we have the highest level of control. As we do so, we plan to develop clear standards to define deployment criteria, program scope, and governance, and to issue detailed market-level guidelines with the aim of objectively measuring and reporting on the effectiveness of our youth access prevention efforts.”

Stacey Kennedy
President, Americas Region & CEO of PMI’s U.S. Business



“As we plan to enter the United States market with *IQOS*, adults who would otherwise continue smoking will be offered a range of smoke-free options that are a better choice than cigarettes. Swedish Match’s nicotine pouch business is a homegrown success, and, as of the end of 2023, *ZYN* was available via e-commerce and in over 150,000 stores nationwide. In 2024, we will expand our smoke-free portfolio in the United States with PMI’s *IQOS* heat-not-burn product. As we help deliver a cigarette-free U.S., we continue to guard against underage access by restricting marketing and sales to those aged 21 and above, including by age-gating our digital channels. As we further our market expansion, we will ensure that our marketing and commercialization practices follow the stringent requirements of our Marketing Code.”

Massimo Andolina
President, Europe Region



“Awareness plays an important role in accelerating adult smoker conversion to smoke-free products. While a significant number of adult smokers are conscious that smoke-free products exist, not many understand the benefits of switching to them (relative to continued cigarette use); importantly, even fewer smokers believe these benefits are true. This is because in many countries where we operate, restrictions related to consumer communication forbid us from openly engaging with them to properly raise awareness. We focus our efforts on reaching adult smokers, while also avoiding unintended audiences such as youth or never smokers. During 2024, we will continue to work on building awareness, focusing on lagging audiences in higher-awareness countries, and building infrastructure, visibility, and especially organizational capabilities in the more restricted, lower-awareness ones. In doing so, we will leverage learning on what has worked so far and replicate where applicable (e.g., re-creating awareness-building approaches that proved successful in restrictive high-awareness countries; deploying experiential retail infrastructure in rural areas; continuing to build credible brands), but also on innovative ways to credibly reach consumers both digitally and physically, and continuing to develop programs that allow us to help smokers better understand the value proposition of our products and strengthen their credibility.”

Frederic de Wilde
President, South and Southeast Asia, Commonwealth of Independent States, Middle East and Africa Region



“Affordability plays a fundamental role in maximizing access to smoke-free products. We recognize the need to continue expanding our portfolio to develop and offer better alternatives than smoking for adults who would otherwise continue to smoke among different segments of the population, especially in the growing economies. We are committed to serving the over half a billion smokers in these countries globally who deserve better alternatives to continuing smoking. This is why we created this region, to focus on their needs and preferences, and to allow availability of and information on our products while improving our routes to market. We are also adapting our products and programs to different trade environments to ensure that we can improve access to smoke-free products, including by offering adult smokers more affordable solutions. This is how we can make a difference and continue to effectively address the health impact of our combustible products. As of the end of 2023, we were present in 39 low- and middle-income markets worldwide. Looking ahead, we remain committed to ensure that at least half of the markets where we make smoke-free products available for sale worldwide are LMICs.”

Paul Riley
President, East Asia, Australia, and PMI Duty Free Region



“As a key driver of acceptability, a broad product portfolio can help us accelerate the pace of our transformation, switching adults, who will continue to smoke, away from cigarettes. The *IQOS ILUMA* induction system, with its superior induction heating technology, has been successful in facilitating conversion to heat-not-burn products, complemented by *TEREA* consumables addressing consumer preference for flavors and innovation. At the end of 2023, *TEREA* was the number one tobacco brand in Japan, overtaking both combustible and heated tobacco competitor offerings. The commitment to support adult smokers to switch to smoke-free products continues. We believe our focus on refining the heat-not-burn consumables portfolio to address the needs of full flavor cigarette smokers across different price categories, and enhancements to the communication and onboarding processes at scale, will help us to drive this ambition.”



PRODUCT IMPACT

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 also 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 revenues. The operating cash flows generated by cigarettes serve an essential role, supporting ongoing investments to drive 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. Exiting the cigarette category and therefore ceding market share to competitors is unlikely to provide them with strong motivation to follow our smoke-free lead.

Our legitimate ambition to maintain 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.

Smoke-free products offer the prospect of higher and more sustainable returns than cigarettes over the long term, as reflected in the premium observed in our equity valuation multiples relative to the majority of our cigarette-focused peers. The business case is 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 also to make cigarettes obsolete. To achieve this, we will continue to responsibly sell cigarettes, taking a consistent, disciplined, and steadfast approach to one day completely leaving them behind.

While perhaps contradictory in the eyes of some stakeholders, 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 address the health impacts associated with smoking by offering smoke-free, science-based alternatives that have been proven to be a better 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.

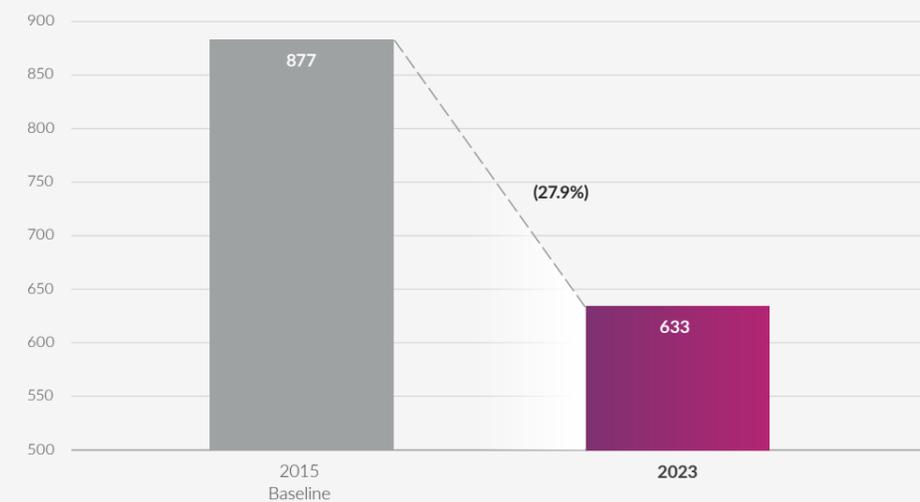
To achieve this objective, we are dedicating the vast majority of our resources to commercializing our smoke-free products (see our [Business Transformation Metrics](#)) and are committed to market all our products responsibly, guided by our marketing and sales policies and practices (read more [here](#)).

We also recognize that PMI alone cannot achieve a smoke-free future. Such systemic change requires a collaborative, multistakeholder approach. In particular, we encourage policymakers for scientifically substantiated smoke-free products to 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 their progress by adopting our [Business Transformation Metrics](#).

In pursuing our vision of a smoke-free future, we are eager to see measures introduced that 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 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](#)).

Combustible tobacco product shipment volume (billion units) and change versus 2015 baseline*



* For definition of combustible tobacco products, see [Glossary](#).

Maximize the benefits of smoke-free products

Purposefully phase out cigarettes

Seek net positive impact in wellness and healthcare

Reduce post-consumer waste



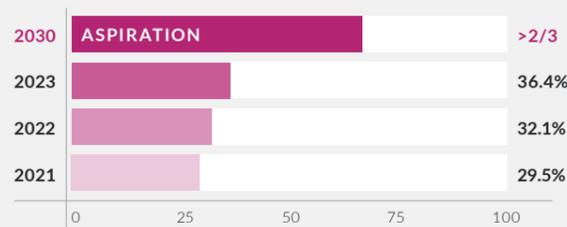
Allocating our resources to smoke-free products

Our efforts center on the development of scientifically substantiated, better alternatives to smoking and broadening access to smoke-free products for adults who would otherwise continue smoking. The [Maximize the benefits of smoke-free products](#) chapter of this report details our approach and the progress achieved to date on these fronts.

Our efforts have led to a continued rapid increase in the proportion of our total net revenues represented by smoke-free products, reaching 36.4 percent in 2023—thus accounting for over one-third of our total business in less than a decade since beginning our transformation.

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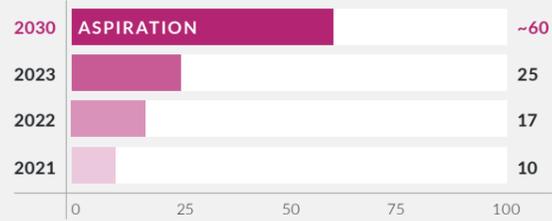
Adjusted net revenue ratio (smoke-free/total)



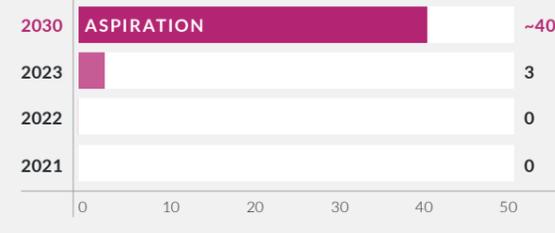
Note: For definition of net revenues related to smoke-free products, see [Glossary](#). Data exclude the impact related to termination of distribution arrangement in the Middle East in 2023 and the impact related to the Saudi Arabia customs assessments in 2021.

Moreover, as of the end of 2023, smoke-free products represented over 50 percent of adjusted net revenues in 25 of the 84 markets where we commercialized them (2022: 17), and over 75 percent of the adjusted net revenues in three of these markets.

Number of markets where adjusted net revenues from smoke-free products exceed 50% of adjusted total net revenues



Number of markets where adjusted net revenues from smoke-free products exceed 75% of adjusted total net revenues

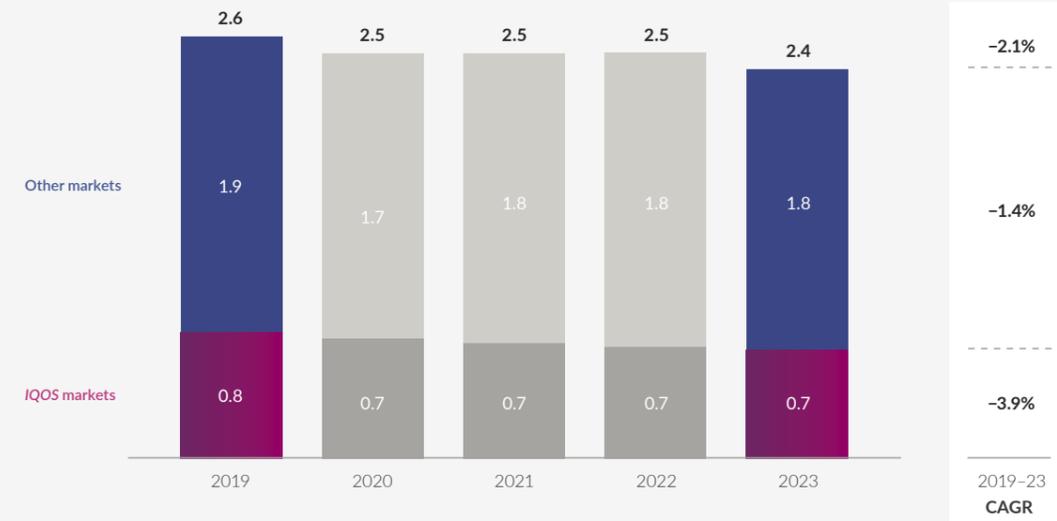


Our transformation also translates to a shift in the composition of our total shipment volumes. In 2023, we shipped a total of 145 billion units of smoke-free products (2022: 116) and a total of 633 billion units of combustible tobacco products (2022: 642). Otherwise put, the proportion of smoke-free products in our total shipment volume grew to 18.6 percent in 2023, versus 15.3 percent in 2022. Importantly, our combustible tobacco product shipment volume has decreased by 27.9 percent versus a 2015 baseline.

Moreover, in markets where our smoke-free products were available for sale¹ as of the end of 2023, our combustible tobacco product shipment volume decreased by more than 33 percent versus 2015. If we continue on this trajectory, we expect that the growth of smoke-free products and consequent replacement of cigarettes will translate into a more than 50 percent decline of our combustible tobacco product shipment volume in these markets by 2030.

While the global cigarette category is already in structural decline, our intention is to accelerate the decline by maximizing adult smoker access to better alternatives. Overall, the total international cigarette industry has been declining at a moderate rate of 2.1 percent between 2019 and 2023, mainly driven by secular trends, regulations, and price elasticity. When looking at industry dynamics in key IQOS markets² within the same timeframe, we observe a much more pronounced decline of approximately 4 percent, which notably reflects the growth of the smoke-free category.

Moderate industry decline, more pronounced in IQOS markets¹: Cigarette industry evolution (in '000bn cigarettes)



¹ IQOS markets include all markets that launched IQOS by 2023 and reached a share of market of >5% nationally.
 Note: Excluding China and U.S. Reflects cigarette industry sales volume, including cigarillos in Japan.
 Source: PMI Financials or estimates.

Advocating for appropriate regulation and taxation to drive cigarette obsolescence

Regulation of all nicotine-containing products (including both combustible tobacco products and smoke-free products) is essential. We advocate for a comprehensive and risk-proportionate regulatory and taxation framework that acknowledges that not all tobacco and nicotine products are the same. Regulation and taxation should subject the most harmful products—those that combust tobacco—to the most restrictive measures and should encourage those adults who would otherwise continue to smoke to switch to less harmful alternatives. Read more about the role of regulation in accelerating smoking decline by improving access to better alternatives [here](#).

Government action heavily influences how quickly society can see an end to cigarettes. To accelerate the timeline, regulators and public health authorities can ensure that adult smokers have access to accurate information about smoke-free products. They can introduce product standards to ensure that only scientifically substantiated smoke-free products are commercialized and promote responsible marketing practices.

And, through risk-proportionate regulation and taxation, they can provide the right incentives to encourage adults who smoke and would otherwise continue smoking to switch from cigarettes to alternatives that are scientifically substantiated to be better. Importantly, this would also further encourage manufacturers to direct their investments and R&D toward these better products.

Overall, we are encouraged by 2023 regulatory and fiscal developments, as an increasing number of governments have complemented, or plan to complement, traditional tobacco control measures (i.e., those intended to discourage smoking initiation and encourage cessation) with a harm reduction approach (i.e., providing adults who would otherwise continue to smoke with access to scientifically substantiated smoke-free alternatives).

We continue to engage with governments, regulators, and legislators to support the development of differentiated legislation and regulations that will enable adult smokers to understand there are different tobacco- and nicotine-containing products and their corresponding risk profiles compared with continued smoking. In addition, we strongly support regulation that helps accelerate switching to maximize the benefits of smoke-free products while minimizing unintended consequences, like access and use by unintended users, in particular underage.

¹ For definition, see [Glossary](#).
² IQOS markets include all markets that launched IQOS by 2023 and reached a share of market of >5% nationally.



We call on governments to assess the science and evidence and responsibly regulate smoke-free products. Cigarettes and combustible tobacco products should have the strictest regulation and highest level of taxation, taking into account unintended consequences (e.g., illegal market). Smoke-free products regulation and taxation should be differentiated versus combusted products, so to nudge smokers who would otherwise continue to smoke to switch to these better alternatives, while providing strong youth access prevention safeguards.

Staying competitive in the cigarette market while hastening its end

Despite being well on our way to delivering a smoke-free future, we still have some distance to travel. Maintaining our competitive position in the cigarette market during the transition period is essential.

It allows us to focus our commercial efforts on raising awareness of—and informing adult smokers about—smoke-free products and the benefits of switching to those versus continued smoking.

As an example, it allows us to deploy JustScan, a mobile digital platform allowing adult smokers to access online content about smoke-free products by scanning a QR code or using a weblink typically featured on the cigarette pack itself or an insert (read more in the [Maximize the benefits of smoke-free products](#) chapter).

It also generates the financial resources needed to continue investing in scientific research, product development, and the manufacture and commercialization of smoke-free products. Importantly, it maintains competitive pressure on the rest of the industry, increasing the incentive to also invest in smoke-free products.

Supply and demand measures that can accelerate change

We believe that a clear roadmap agreed by political, regulatory, and public health stakeholders, supported by both civil society and businesses, offers the best prospect for further accelerating the end of smoking.

Such a roadmap may consist of elements addressing:

- Increased investment in prevention, quitting campaigns, and cessation services, with a particular focus on vulnerable populations
- Measures to address adult smokers' confusion about the role of combustion in the development of smoking-related disease
- Misunderstanding about the relative harms of nicotine, i.e., while it is addictive and not risk-free, it is not the primary cause of smoking-related diseases
- Regulatory and fiscal differentiation between combustible tobacco products and noncombustible forms of tobacco and nicotine, coupled with robust safeguards against unintended use
 - Regulation and tax should recognize the different risk profiles and economics of smoke-free products versus cigarettes
 - Communication to adult smokers should only be permitted for smoke-free products
 - Differentiated flavors, labelling and product display for smoke-free products versus cigarettes
 - Differentiated tax (cigarettes should be taxed much higher) to incentivize smokers to switch to smoke-free products and industry to invest
 - Safeguards against unintended use
 - Minimum age and enforcement measures (access control), retail licensing, technology on age verification
 - Bans on marketing that appeals to minors (e.g., social media influencers with mainly youth audience, youth-appealing characters on ads, kid friendly food and drink, etc.)
 - We advocate for regulations on flavors that we believe are predominantly appealing to adult smokers and can help them switch to smoke-free products (such as tobacco, menthol, and mint). The use of any additional flavors should undergo stringent scrutiny to guard against unintended use (in particular among underage, absent fully enforced controls on underage sales) and in any event be strictly regulated.
- Post-market monitoring and surveillance to assess public health outcomes and the impact of policy interventions
- Phase-out measures that help to achieve countries' set smoke-free targets
- Post-phase-out support for adult smokers who still continue smoking
- Robust anti-illicit trade policies

Looking ahead

Jacek Olczak
Chief Executive Officer



“While cigarette sales today remain the largest part of PMI’s business in most countries, this is changing rapidly. PMI is actively accelerating the decline in cigarette smoking beyond what traditional tobacco control measures can achieve alone. It is important to note, however, that no phase-out plan will work unless phase-out policies and regulations take a comprehensive approach to driving commensurate reductions in demand for cigarettes. This should include measures to ensure fewer people initiate smoking, more people quit smoking, and those who don’t quit are encouraged to switch away from cigarettes to better, smoke-free products. We believe that with the right kind of policies and regulations, many countries could soon be on the verge of beginning the phase-out of cigarettes altogether. While PMI has a vital role to play in accelerating the transition from cigarettes to smoke-free alternatives, we cannot achieve this objective alone. We will continue to engage with our industry peers, the tobacco control community, policymakers, and all relevant stakeholders with an interest in bringing about the end of smoking.”

Emmanuel Babeau
Chief Financial Officer



“Industry disruption only looks easy in hindsight. At present, we are in mid-stride: with one foot in our past, operating in a fiercely competitive legacy cigarette business, and one foot in our bold future, building an entirely novel and improved category of products. We recognize the magnitude of the challenge and remain committed to continuing to lead, track progress, and report on it transparently to ensure that cigarettes become obsolete as soon as possible.”

Werner Barth
President, Combustibles
Category and Global
Combustibles Marketing



“Cigarettes continue to represent a sizeable portion of our volumes and an opportunity to engage with adult smokers around better alternatives than smoking. We are committed to selling them responsibly while transitioning to smoke-free products. We will continue implementing our youth access prevention efforts globally and investigate ways of continuing to strengthen their enforcement.”



PRODUCT IMPACT

Seek net positive impact in wellness and healthcare

As we work to become a company that has a net positive impact on society, we believe in the importance of continuing to invest in a future that allows us to expand our offerings to products that are suited to 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](#), with a longer horizon in sight, 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 capabilities, and continued investment in our capabilities and R&D programs, we intend to develop and responsibly commercialize innovative and differentiated products to address unmet patient and consumer needs.

Although we are at the beginning of this journey, our intention is set: we are transforming our Company to ultimately have a net positive societal impact. Pursuing adjacent avenues of growth by tapping into the skills and assets we have accrued and developed over the course of our transformation will bring long-term value.

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 most significant 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. With an eye on the long term, we intend to use this capital to develop adjacent avenues of growth in wellness and healthcare.

PMI's investment and innovation approach in wellness and healthcare is part of a larger transformation that puts science, technology, and sustainability at the heart of our Company's future. We aim to deliver products and solutions that improve people's lives.

To achieve this objective, we will rely on and expand our existing core capabilities and seek partnerships with respected entrepreneurs and companies that offer complementary experience and qualifications in relevant fields.

Management approach

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

Our business model for the wellness and healthcare category is not necessarily to pursue or internalize the entire value chain, from drug identification and upstream development to downstream commercialization. Instead, we aim to use our technology platforms to rethink and reposition existing medication and consumer health products to address specific unmet needs. Central to our efforts will be our skills in device and formulation development, our responsible commercialization, and our experience in product assessment. For skills we do not have, we will partner, outsource, and orchestrate an ecosystem to bring products to market.

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. The business 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 products and solutions that are safe to use and can improve people's lives.

We aim to deliver innovations in fields with clear unmet medical or consumer needs. Leveraging and enabling the unique R&D capabilities of Vectura Fertin Pharma, we see sizable long-term potential in the pharmaceutical, medical, and consumer wellness segments.

While still recognizing the natural fit and considerable potential wellness and healthcare can add to our business in the longer term, we are prioritizing our smoke-free products' growth potential in the short to medium term.

More investment, research, and development is still required before generating meaningful revenues in the wellness and healthcare segment. Therefore, we have retired our previously stated aspiration to derive USD 1 billion from this business by the end of 2025.

At present, we are focused on specific opportunities in inhalable medicines; medical cannabinoids; consumer wellness products; nicotine replacement therapy (NRT); and our Contract Development and Manufacturing Organization (CDMO).

- 1. Inhaled therapeutics:** We can apply our expertise and experience in device technology for medical applications and the delivery and scientific assessment of aerosols, including preclinical safety and toxicology, clinical, medical, regulatory, and quality capabilities to develop these products.
- 2. Consumer health:** We are moving into consumer health products targeting the energy segment, offering consumers innovative, healthier, and holistic solutions to enhance their physical and mental energy levels. We are evaluating CBD offerings. This area of R&D taps into our expertise in assessing the quality of novel oral delivery formats, inhalation science and technologies, and plant substrate formulations.
- 3. Nicotine replacement therapies (NRTs):** There is an unmet need in the nicotine replacement therapy market, which, combined with our existing expertise and ability to innovate, positions us well to participate in this market segment.
- 4. Contract Development and Manufacturing Organization (CDMO):** Drawing on our unique technologies, delivery platforms, and capabilities, we strive to grow our CDMO business—serving other companies in the pharmaceutical and consumer health and wellness industry on a contract basis—and expand it geographically.

Management of Vectura Fertin Pharma

In 2023, we further refined the operating model we had defined for Vectura Fertin Pharma the year prior. We established the leadership team for this new business, the organizational build-up, decision-making procedures, and scientific governance, as well as key processes. Vectura Fertin Pharma is operationally separate from other businesses owned by PMI. This means the business has its own executive leadership team overseeing day-to-day operations and dedicated governance for projects.

The business is headed by the President of Vectura Fertin Pharma. It is collectively supported by the leadership team, employees, and a substantial investment by PMI to enable its continued build-out. Its operational model is based on distinct product categories with governance designed to enable efficient delivery of the product pipeline. Oversight is strengthened by stage-gate review committees, scientific advisory boards, and functional review boards. Revenues generated by Vectura Fertin Pharma are reinvested into its wellness and healthcare business.



Progress in 2023

Vectura Fertin Pharma is developing a pipeline of products to support PMI's ambition to explore adjacent avenues of growth beyond smoke-free products.

Since its inauguration in 2022, Vectura Fertin Pharma has consistently refined its business and portfolio strategy based on lessons learned, advice from its scientific advisory board, and the macroeconomic challenges and business headwinds it faces.

The business's net revenues related to wellness and healthcare products amounted to USD 0.3 billion in 2023. They primarily consisted of operating revenues generated from the sale of inhaled therapeutics and oral and intra-oral delivery systems through the CDMO or co-development business. In parallel, Vectura Fertin Pharma has re-evaluated the development of its proprietary pipeline assets to ensure its resources are focused on projects with a high probability of success.

In 2023, Vectura Fertin Pharma continued its organizational build-up across its business categories while also undertaking product development activities, establishing new B2C capabilities, and honing its marketing and commercial expertise.

In inhaled therapeutics, the Company received its first clinical trial results for its inhalable aspirin product in development. While it was observed that the experimental product had a rapid-onset effect (the key medical advantage sought), there was significant variability in the actual inhaled doses among patients subject to trial. The study was therefore deemed unsuccessful and, as a result, product design improvements are required.

In the area of neuropathic pain, Vectura Fertin Pharma is working with a third party on an inhaled drug-device combination, progressing work on the early development pathway toward clinical proof of concept in 2025. The Company is on track to deliver on its aspirations for this product and other inhaled therapeutics products in development.

In 2023 Vectura Fertin Pharma also created the foundations for a category expansion that seeks to explore medical cannabis. Progress consisted of building new capabilities, including building the framework for a rigorous patient and healthcare professional insights program to inform its product development. The team worked on developing oral and inhalable CBD-containing products, with the aim of commercializing them using a partnership approach.

In 2023, the business made its first consumer health minority investment in Neuro through PMI's corporate venture capital fund PMEP. Neuro is a U.S. company developing and marketing gum and mints which seek to provide consumers with energy, calm, or focus.

In December 2023, the first Vectura Fertin Pharma consumer health product was launched under Vectura Fertin Pharma's partnership with Neuro. Called "Sleep & Recharge" and containing the active ingredient melatonin, the product was developed by and is manufactured by Vectura Fertin Pharma.

In nicotine replacement therapies (NRT), Vectura Fertin Pharma continues to explore potential opportunities to disrupt the market with over 200 patents and a dedicated science center.

PM Equity Partner

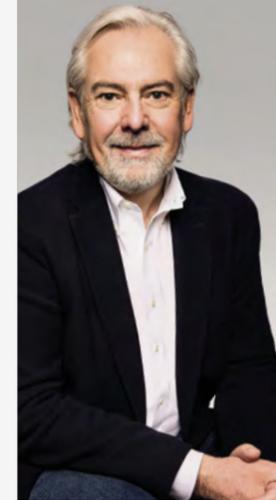
PM Equity Partner Sàrl (PMEP), PMI's corporate venture capital arm, was launched in 2016. To date, it has committed USD 350 million to build and develop a portfolio of minority strategic investments, from early- to growth-stage companies, to support delivery of our smoke-free vision and beyond nicotine objectives. PMEP invests across four main corridors:

- Wellness and healthcare
- Inhalable therapeutics
- Smoke-free products
- Impact Investing

Read more about PMEP [here](#).

Looking ahead

Jacek Olczak
Chief Executive Officer



"Some years ago, we opened a chapter we called 'beyond nicotine,' which we presented externally as 'seeking net positive impact in wellness and healthcare.' When we began communicating about 'beyond nicotine' and started crafting an ambitious long-term vision for our business, we did not know exactly how it would unfold. Unfortunately, how some vocal individuals and organizations in the external environment have reacted to PMI entering this space has delayed our ability to fully harness the potential of the assets and capabilities we have built over our transformation journey. Against this backdrop, we are exploring different configurations that could allow us to maximize these in the future.

While we will continue to explore the potential expansion of our offerings in the wellness and healthcare space, our current priority is on developing and commercializing science-based smoke-free products—especially as we prepare to enter the U.S. with IQOS. We remain convinced that our wellness and healthcare business can provide a very sizable, yet long-term, potential—especially in the field of pharmaceutical, medical, and consumer wellness segments."



PRODUCT IMPACT

Reduce post-consumer waste

We understand that our product proposition needs to address both the health impacts of our products, as well as their environmental impact. To address the latter, we embed principles of eco-design and circularity. We also implement effective post-consumer waste management solutions to reduce waste, prevent littering, and promote the responsible disposal of products at end-of-life.

INWARD IMPACT

The business case

Many consumers consider the environmental impact of products and services in their purchase decisions. Regulators also are increasingly focused on corporate responsibility regarding the manufacture and use of materials (e.g., single-use plastics, electronic device repairability, packaging, end-of-life management). Appropriately addressing post-consumer waste mitigates negative impacts on our bottom line, as producers increasingly are asked to participate in cleanup costs or cover a significant share of the product end-of-life waste management cost. It also helps us to enhance our brand equity and corporate reputation, and to meet consumer expectations.

Heightened consumer expectations and regulatory trends further motivate us to innovate in ways that can drive competitive advantage. Devising more circular value chains not only reduces waste and litter but also promotes 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 we extract, convert, and use fewer raw materials from a planet with limited natural resources. By reducing materials used in our packaging, combustible products, smoke-free consumables, and electronic devices, we can reduce our environmental footprint and decrease our negative impact on the planet and society.

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

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Management approach

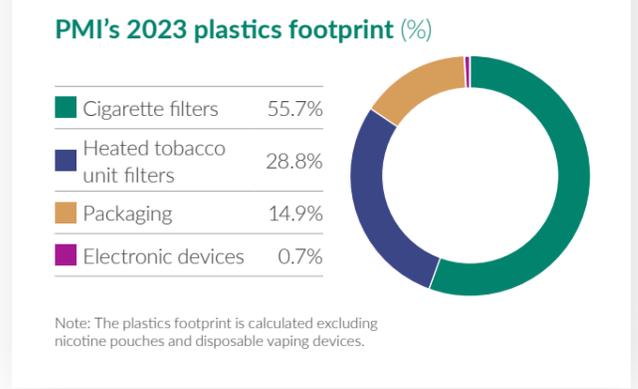
We aim to preserve resources, reduce waste, and prevent inappropriate disposal of our products, including littering. We seek to design and implement impactful strategies tailored to our entire product portfolio, including packaging and tied to specific aspirations:

- **Cigarettes:** We aim to reduce cigarette butt littering by encouraging behavior change through impactful awareness-raising campaigns and by empowering consumers to dispose of cigarette butts properly. We also invest in R&D and continuously work toward replacing our filters with plastic-free alternatives.
- **Smoke-free consumables:** As we grow our smoke-free business, we seek to prevent littering behaviors inherited from smoking. Our programs to prevent littering focus on raising awareness and ensuring consumption behavior that includes the responsible disposal of our products after use. We have in place end-of-life take-back programs that consist of simple and convenient ways for our consumers to collect and return their used consumables to us so we can manage this waste responsibly.
- **Smoke-free electronic devices:** With each new generation of our products, we aim to improve the consumer experience and device performance, including its robustness and durability. We seek to minimize waste and raw material extraction and increase resource efficiency by incorporating recycled materials into our products where feasible. We also integrate eco-design principles into the early stages of product design to improve, among other considerations, product recyclability and repairability. These measures also improve our ability to refresh and repair used devices. We contribute to circularity by scaling our end-of-life and end-of-use take-back programs and finding ways to make repair services more accessible to our consumers.
- **Packaging:** We incorporate the principles of the circular packaging economy and design for recyclability. We also seek to, wherever possible, reduce our carbon footprint and intensity, by reducing packaging material, size, volume, and weight. We seek to only use the minimum amount of material needed to adequately protect our product.

Further, we inform our strategy by considering policy and regulation governing post-consumer waste. Specifically, we are considering how government-regulated extended producer responsibility (EPR) schemes can effectively support efforts to reduce post-consumer waste toward a more sustainable and circular economy.

Striving to reduce plastic

As a global manufacturer, we source plastic materials and plastic-containing items for a variety of products, including devices, packaging, pods in our e-vapor devices, and the filters in our heated tobacco units and cigarettes. We are working to reduce plastic across our product categories. Globally in 2023, we purchased approximately 160,000 tons of plastic. The largest share was cellulose acetate, a bio-based plastic used in the filters of cigarettes and heated tobacco units. Learn more about our plastic reduction activities in general on the following pages and for filters specifically [here](#).



PMI's policies and standards

- [Environmental Commitment](#)
- [Sustainable Design Framework](#)

Management

Our President of Smoke-Free Inhaled Products & Chief Consumer Officer and our President of Combustibles Category & Global Combustibles Marketing drive our agenda on post-consumer waste management for their respective categories. Additional efforts to improve product design and increased circularity are steered cross-functionally, involving teams headed by our Chief Product Officer and Senior Vice President Operations. With regards to our smoke-free products, dedicated cross-functional platforms monitor strategies and progress related to our smoke-free product sustainability initiatives.

Maximize the benefits of smoke-free products

Purposefully phase out cigarettes

Seek net positive impact in wellness and healthcare

Reduce post-consumer waste





Progress in 2023

Highlights

- We continued consumer-testing new filter materials in an effort to reduce our plastic and carbon footprint by replacing cellulose acetate (CA) in our cigarette filters.
- To appropriately address the post-consumer waste of our smoke-free consumables, we improved market guidance for end-of-life take-back programs to provide options that are more adaptable to local realities based on market maturity and available waste management infrastructure.
- We have pivoted to local recycling solutions to appropriately respond to regulatory developments. Moreover, we have begun piloting local repair options to make these services more accessible to consumers.
- Our packaging reduction efforts yielded significant results in both smoke-free and combustible categories, closing approximately half of the remaining gap in reaching our 2025 aspirations.

Challenges

- Consumer acceptance of any new filter material continues to be one of the barriers to the adoption of filters not composed of CA.
- We face challenges in implementing consumable end-of-life take-back programs due to regulatory restrictions related to shipping waste and the limits on local recycling capabilities. The relatively low value of recycled materials compared with recycling costs also impacts the business case for implementation.
- Today, the fragmented regulatory frameworks across countries impact our ability to efficiently collect electronic devices and process them as e-waste for circularity, posing complexity for reverse logistic operations and valorization of post-consumer waste through efficient treatment.
- The limited availability of recycled content directly influences the rate at which we can incorporate it in our packaging. This is because recycled content must be approved for use in contact-sensitive applications as well as a lesser environmental impact (compared with nonrecycled content).

Addressing cigarette butt littering

Although most cigarette butts are disposed of properly, too many are casually littered into the environment.¹

To tackle cigarette butt littering, we center our work along two pillars:

- 1. Sustainable design:** We invest in researching and developing filters made of plastic-free alternatives.
- 2. Encourage behavior change:** We inspire change in consumer habits through impactful anti-littering awareness programs and initiatives to empower consumers to dispose of cigarette butts properly, regardless of filter materials.

Sustainable design

From an environmental perspective, the most sustainable scenario would be for our products to generate zero litter post-consumption. We continue to work toward this end, seeking options that avoid, or at least significantly reduce, the impact of cigarette butts on the environment. We are working to develop filters with a lower environmental footprint. We know materials changes alone will not solve the problem of littering. Still, they may help mitigate the environmental impacts of residual littering by those smokers who do not engage in behavioral change driven by anti-littering programs.

To replace CA in our combustible cigarette HTU filters, we evaluate alternative filter materials via extensive analytical testing, machinability trials, and prototype testing to understand whether consumers will accept them.

Any new nonplastic filter material or design must satisfy the following criteria:

- Acceptable taste characteristics and experience for consumers
- Meets quality and performance criteria that are consistent with CA filter product design
- Similar or reduced material carbon footprint compared with CA filters
- Favorable to industrialization at scale

Some materials we have tested have met one or more of these criteria, but we have yet to find an alternative to CA that satisfies them all.

EU Single-Use Plastics Directive

The Single-Use Plastics (SUP) Directive requires that manufacturers of tobacco products with filters containing plastic participate in industry-wide extended producer responsibility (EPR) schemes to bear certain cost of managing the post-consumption waste from tobacco product filters. EPR is an established governance scheme for circular waste management.

We continue to explore and test options as new materials and processes become available, and science and innovation evolve. In 2023, we accelerated our efforts to develop filter prototypes composed of materials and technologies that are classified as nonplastic according to EU guidelines (associated with the Single-Use Plastic Directive), and tested some of them among consumers in multiple markets. The results have encouraged us to further invest in this endeavor and key learnings from these efforts are helping us focus our efforts moving forward.

Encourage behavior change

While many consumers dispose of their cigarette butts properly, too many butts end up in the environment. We believe that to change this reality consumers need to know that cigarette filters contain plastic and should not be littered in the environment.

Consumer insights data show us that only about one-quarter of adult smokers are aware that CA is one of the main constituents of cigarette filters and only about half of them mention either the cigarette filter or the plastic wrap outside the pack as main pollutants.¹

Accordingly, to drive behavior change, we will continue to focus on raising awareness and ensuring that littering is considered socially unacceptable. This requires that we develop and implement actions that account for local realities and the socioeconomic and cultural specificities of the various places where we operate.

Our anti-littering toolkit for markets has two focuses:

- 1. Reach activities:** Convey the message directly to consumers, mainly via our owned channels. Examples include on-pack and point-of-sale messaging.
- 2. Impact activities:** Raise awareness of the issue beyond the consumers of our brands and develop solutions in partnership with civil society organizations, local governments, and other stakeholders. Examples include corporate communication campaigns, initiatives to identify litter hotspots and improve public infrastructure, making portable ashtrays available, etc.

In order to meet their objective, our markets must deploy at least one reach and one impact activity each year.

Focus on filter materials

Tobacco product filters are traditionally made from CA, a bio-based material considered to be one of the world's first plastic materials derived from wood-based cellulose. The material is used in many applications and different forms, such as in eyeglass frames, textiles, and medical consumables, among others.

There is a range of scientific views regarding the environmental impact of CA, including the sustainability of feedstock, its footprint, and its end-of-life impact. PMI researchers continue efforts to develop more sustainable, nonplastic alternatives to our filters.

Biodegradation is often discussed as a solution to the problem of plastic litter accumulating in the environment. We support the development of standards for measuring biodegradability of alternative materials to plastics that would reflect real-world conditions, particularly their value in addressing the problem of littering. As science-based policies evolve, we seek to align our R&D activities with them as we continue to pursue viable and more sustainable alternatives to CA.

Beyond these R&D activities, and acknowledging that littering is a behavior, we remain focused on encouraging consumer behavior change to prevent cigarette butt littering and on implementing end-of-life take-back programs for our smoke-free consumables (read more [here](#)).

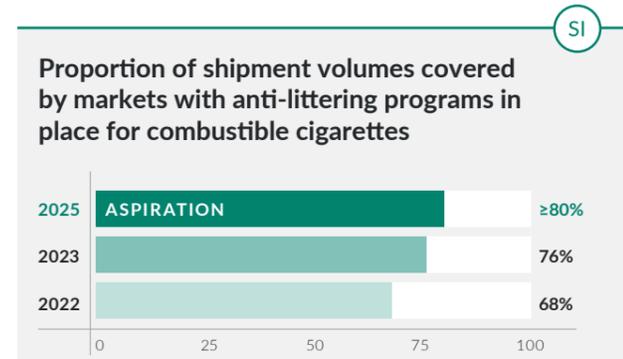
¹ OPINION-WAY, Enotiko, "Les fumeurs et la gestion de leurs mégots dans les lieux publics extérieurs", Paris, April 2019 see at [OPINION-WAY-Etude-Consommateurs.pdf \(alcome.eco\)](#)

¹ Based on claimed response as part of PMI cigarette butt littering impact knowledge check conducted in 2022 in France, Indonesia, Japan, Kuwait, Netherlands, the Philippines, Poland, Saudi Arabia, Spain, and Switzerland.



Tackling cigarette butt littering locally

Global campaigns and activities to raise awareness and reduce littering are driven by individual markets, each with unique challenges and opportunities related to the issue. For example, smoking habits, environmental consciousness, and disposal practices vary by country. By allowing markets to drive their own activities, we ensure the efforts respond to local contingencies and are tailored to each location's specific needs and circumstances, thereby increasing impact. Our affiliates follow a global methodology, yet also focus on impactful, context-based strategies appropriate for their respective markets. These local anti-littering campaigns are run by our affiliates, with central support and guidance.



In 2023, over 55 markets put in place anti-littering programs for combustible cigarettes, moving us closer to our 2025 aspiration of 80 percent weighted coverage, within regulatory restrictions.

You can find case studies and market stories that share details about the different creative solutions our markets have introduced reach and impact activities on [PMI.com](https://www.pmi.com).

They explain how local realities are relevant when deploying successful programs, and consist of concrete examples of what local initiatives can look like. Collectively, they seek to address the issue of cigarette butt littering at all levels of activity, from on-the-ground activations, local partnerships, experts, and trade partners to local authorities and online campaigns. We believe that markets that activate these types of multilevel campaigns have a better chance of making littering socially unacceptable.

Some examples from around the world include:

- In September 2023, PMI's affiliate in **Kazakhstan** kicked off the fourth iteration of their "Stop Musor" (Stop Litter) campaign. Read more in our online market story [here](#).
- PMI's affiliate in **Colombia** initiated "Bogotá No es un Cenicero" (Bogotá is Not an Ashtray) in Bogotá in 2022 and continued this campaign in 2023. Read more in our online market story [here](#).
- In **Germany**, PMI's affiliate actively supports the KIPPEN-BUDDIES project, an initiative under the broader ALLES IM FLUSS campaign by nonprofit organization wirBERLIN. Read more in our online market story [here](#).

Raising awareness globally

Tackling littering with global campaigns and activities will allow us to address the issue on a larger scale and with a greater impact. We seek to educate and engage our employees, consumers, and other relevant external stakeholders, as well as local communities. Our efforts aim to reduce littering. Coordinating our efforts enables consistency and more effective and efficient use of our resources.

Cleanup campaigns are predominantly designed to raise public awareness of the littering problem in the communities in which they occur. They are not intended to resolve littering overnight or replace more cost-efficient public cleaning services. In 2023, as part of our annual mobilization around World Cleanup Day—the world's largest litter cleanup event—we engaged over 6,000 PMI employees in over 60 countries in a global cleanup challenge. We estimate that we reached over 16,000 people globally, including our employees, their relatives, and members of partner organizations.

We also continued to host "[Our World Is Not an Ashtray](#)," an online nonbranded corporate platform that seeks to educate, inspire, and engage the public on the issue of littering. Through this campaign, we share facts and figures, testimonials, and calls to action. Some of our affiliates also use this platform for local awareness-raising initiatives.

Multistakeholder engagement

We understand that scalable solutions require multistakeholder engagement with environmental organizations and public authorities as well as cross-industry collaboration to achieve the right kind of partnership.

To better address post-consumer waste, PMI continues to collaborate with Litterati. We utilize Litterati's technology to engage users in documenting litter through geotagged images. This contributes to insightful analysis that helps us identify littering hotspots and implement effective prevention strategies, such as placing more bins in high-litter areas. Read more in our online market story [here](#).

PMI and Litterati's partnership, initiated in 2019 with the "CleanDeinWien" campaign in Austria, continues to develop post-consumer waste management solutions. With the learnings from market activities, we aim to expand best practices to global campaigns and initiatives.

For example, in 2023 PMI's affiliate in Bulgaria conducted research and activation events in Sofia with the support of the Litterati team that demonstrated tangible results. A park experiment revealed a 56 percent decrease in cigarette butt littering density in locations where the team displayed informative campaign posters and handed out portable ashtrays. The campaign reflects a localized effort aligning with Philip Morris Bulgaria's waste management strategy, with plans for future activities and integration with art festivals. Read more about the work in PMI's affiliate in Bulgaria, including its broader [#ChangeThePicture](#) campaign, in our online market story [here](#).

Managing waste from our smoke-free consumables

Over the long term, we aim to reduce our post-consumer waste by design and explore lower-carbon, recyclable, and biodegradable alternatives to the materials currently used in our smoke-free consumables (read more about plastics in our filters [here](#)). In the interim, we are focused on scaling our end-of-life take-back programs.

The consumption and post-consumption behaviors related to our smoke-free products differ drastically from cigarette consumption. Unlike cigarettes, our smoke-free consumables do not require combustion to be used; in turn, they do not need to be stubbed out after use, and they do not contain smelly smoke residues. Consequently, we have observed that consumers tend to be more likely to hold on to the product post-consumption and keep it until they can dispose of it properly.

At the end of 2023, we conducted a large-scale survey involving close to 2,000 adult participants in Germany, Italy, and Japan. Across these markets, on average, 47 percent of respondents said they were less likely to litter HTUs than cigarettes butts, and only a small minority (5 percent) of respondents reported they were more likely to litter HTUs than cigarettes.

We seek to minimize the environmental impact of HTUs used in our heat-not-burn devices and pods used with our e-vapor devices. Since our smoke-free portfolio is diverse, so is the impact each product can have on the environment based on their different designs, composition, and consumption methods. As our portfolio evolves, we seek to design and deploy tailored post-consumer waste management programs based on the specificities of each product category.

We continue to require that affiliates launching VEEV pods and TEREAs HTUs put in place end-of-life take-back programs prior to launch (with an intent to recycle collected products). We deem such programs for all of our heat-not-burn and e-vapor consumables to be business critical based on their environmental impact, consumer needs, and market feasibility.



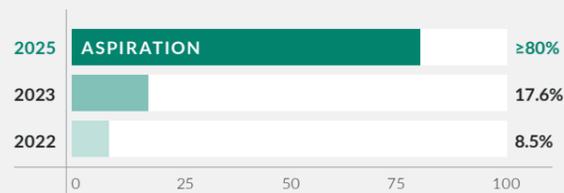
Disposable e-vapor products

Our disposable e-vapor products, including VEEV NOW, are categorized as consumables within PMI. Similar to other smoke-free consumables, we seek to minimize the environmental impact of these products. We continue to require that affiliates launching VEEV NOW put in place end-of-life take-back programs prior to launch (with an intent to recycle collected products).

Deploying end-of-life take-back programs

To mitigate the risk of littering, we set an aspiration to implement context-based, impactful end-of-life take-back programs to collect and manage post-consumer waste from our smoke-free consumables in markets representing at least 80 percent of our smoke-free shipment volume as part of our [Sustainability Index](#). The programs align with global requirements to ensure consistency and comparability over time but are adapted to deployment realities in each market.

Proportion of shipment volumes covered by markets with end-of-life take-back programs in place for smoke-free consumables



Note: Shipment volume includes heated tobacco units, e-vapor cartridges, and e-vapor disposables. See [PMI's Sustainability KPI Protocol 2023](#) for further details.

Since launching our end-of-life take-back program in 2021, we have expanded the program to 28 markets around the globe (2022: 12 markets).

Among our consumers, the program has generated increasing awareness, positive sentiment, and interest in participating.

Despite our progress, we recognize the difficulties markets face in executing these programs. Recycling smoke-free consumables is a technical process that requires recycling partners to separate and process multiple material streams, and many of these streams do not produce valuable outputs. It is, therefore, difficult to find strategic partners at the local level willing to collect and properly recycle consumables. This systemic issue requires more time for markets to be able to find the right local partners to build a long-term strategic partnership.

In addition, there are differences between product categories depending on the material composition of the consumables.

Building on learnings from previous years and the growth and expansion of our portfolio, our guidance for markets evolved to respond to new realities, and in 2023 we decided to decentralize the process of developing end-of-life take-back programs and empower markets to craft local solutions informed by basic criteria, which we centrally communicate through tools, frameworks, principles, and databases.

The guidance we offer provides a holistic understanding of our product portfolio, a regulatory overview, market learnings to date, a roll-out guide to support preparation and implementation, post-consumer waste management principles and guidelines, and standard operating procedures to ensure consistency, impact, and credible program deployment.

The updated guidance encourages markets to consider a broader range of mechanisms for their end-of-life take-back programs and to focus on locally relevant cost-effective and impactful programs.

In response, we have managed to support markets in launching a locally relevant program in 16 new markets in 2023, bringing the total to 28 markets to date.

Improving the sustainability of our smoke-free devices

By integrating sustainability considerations into our product design—from choice of materials to end-of-use and end-of-life—we can reduce environmental impacts, improve circularity, and better manage associated costs. We aim to understand and manage environmental impacts across our entire value chain, including assessing and extending the life cycles of our smoke-free devices.

Improving the sustainability profile of our smoke-free products is particularly important as we continue to expand our product portfolio to incorporate products with electronic components for adults who would otherwise continue to smoke or consume nicotine. These products are at the heart of our transition to a smoke-free future.

We work with our electronics suppliers and retail partners to progress on these topics. We have also been engaged with the World Business Council for Sustainable Development (WBCSD) on its Circular Transition Indicators (CTI) project.

Utilizing life-cycle analysis

We use life-cycle analysis (LCA) to assess the carbon footprint of our products, from tobacco sourcing to end-of-use and end-of-life. This analysis applies to devices, consumables, and packaging. In 2023, we further increased our internal LCA modulation capabilities, allowing us to incorporate LCA simulations as early as the design phase. As a result, we now have a single tool with which to assess our footprint across smoke-free categories.

On average:¹

- Our heat-not-burn product category (including both consumables and devices) has an average carbon footprint of approximately 28.4 kg CO₂e/year, of which consumables contribute 84 percent and devices 16 percent. This reflects a slight increase compared with 2022 due to the introduction of new consumables and devices in our portfolio.
- Our e-vapor product category (including both consumables and devices) has an average carbon footprint of approximately 15.4 kg CO₂e/year, of which consumables contribute 96 percent and devices 4 percent. There has been a decrease of 3.3 kg CO₂e/year compared with 2022 due to the introduction of new consumables and devices with lower carbon footprints

Our heat-not-burn and e-vapor products have a higher carbon footprint than do combustible cigarettes. This is primarily due to the inclusion of an electronic device, which involves new components and requires electricity to charge.

¹ In line with the adaptation of our LCA calculation method to an EPD PCR, we anticipate that reported values will increase in the coming year. Figures are based on data compiled from different LCAs. Scope includes materials, manufacturing, and end-of-life, but excludes logistics.

To mitigate these additional product impacts, we aim to decrease our total carbon footprint through smart materials selection, sustainable design practices, the collection and triage of devices, expanding our refresh and repair capabilities for device life extension, and remarketing refurbished products (read more about device second life [here](#)).

In addition to the impact of electronic devices, the process used to manufacture consumables is more resource-intensive than for cigarettes due to the production of cast leaf tobacco, which requires more water and energy. Learn more about our efforts to conserve water [here](#) and decarbonize our operations [here](#).

Eco-design certification

We aim to drive continuous improvement in future product generations. To this end, we have explored eco-design standards and identified the criteria applicable to smoke-free products to further embed sustainability into the early stages of the product design process and across the product cycle.

2025

Aspiration SI

100%

Of smoke-free electronic devices introduced on the market as of the end of 2025 have eco-design certification

Note: For further details please see [PMI's Sustainability KPI Protocol 2023](#). In 2023, 100% of product project briefs in scope had eco-design certification requirements included.

Embedding eco-design principles in our products through an end-to-end approach helps minimize impacts related to materials selection and sourcing, components production, product manufacturing, use, and product end-of-life stages. Our framework helps us anticipate and proactively implement design features that may be regulated in the future.

Eco-design certification can drive product performance by raising environmental and social standards and educate consumers so they can make more informed choices.

Smoke-free products—and heated tobacco products, in particular—are a relatively new product category. As such, they are not covered by existing product category rules, making it challenging to find external partners to work with or recognized eco-labels for them.

In 2023, we further defined our framework for eco-design and initiated the application of several sustainable design principles into select pilot projects.



Extending the smoke-free product life cycle

We strive to extend our product life cycles. Achieving this starts with imposing high standards of quality and reliability (read more [here](#)) and extends to preserving devices through proper device care, enabling their refresh, repair, and refurbishment, and establishing take-back programs.

Preserve through proper device care

We strive to help users of smoke-free electronic products extend the life of their devices through better care. We aim to minimize consumer pain points with simple tips based on usage and behaviors to optimize legal-age user experience. Firmware updates, proper charging, and regular device cleaning at home or professionally in our boutiques help reduce the number of devices ending up as waste.

Building on this work, we are leveraging our B2C commercialization model and related processes and tools in our sales channels (e.g., our stores, e-commerce websites, and IQOS coaches) to prolong the life of our devices and avoid unnecessary e-waste through appropriate device care. These efforts may include engaging with the consumer both in person or remotely to explain device functionality, thus avoiding unnecessary product replacements through accurate device diagnosis and streamlined procedures for returns, warranties, and loyalty programs. We aim to introduce new tools that will allow us to build predictive models to further enhance our device life cycle.

The combination of product quality improvements and consumer-facing efforts has contributed to increased device longevity. This extended life cycle has led us to explore a range of additional services that would not otherwise be viable. For example, in the Swiss market in 2023, we piloted our first cosmetic-part servicing plan for *ILUMA ONE* and *ILUMA MID*, allowing users to change the casing of their functioning devices.

Battery replaceability

Along with other mandatory requirements around safety, labeling, and due diligence, the newly adopted EU Batteries Regulation requires portable batteries to be readily removable and replaceable directly by consumers, from 2027 onwards.

To ensure compliance with this new regulatory framework, electronic consumer products using lightweight portable batteries would need to be redesigned in order to facilitate the reuse, repair, and recycling of batteries and improving the circularity of products.

Further guidance from EU institutions is expected to complement and clarify this design requirement and potential exemption cases. In this regard, we continue to proactively prepare for and anticipate regulation by ensuring that we are embedding eco-design principles that will respond to these requirements.

Promote device second life: refresh and repair

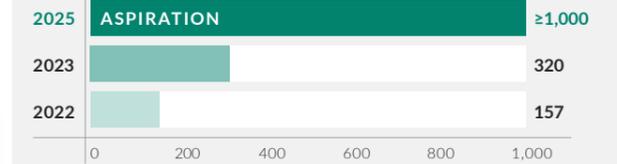
We strive to establish commercially viable programs for devices that, once returned, can find a second life in the economy.

As part of various commercial programs, we also have active device take-back programs in 18 markets (2022: 10 markets). Device take-back programs provide our consumers the opportunity to return their old and unused devices to us for proper disposal. Collected devices are either given a second life or recycled. The parts that are not recyclable are incinerated with energy recovery.

We are continuing to mature our circular model. To guide us in this journey, we have set an ambitious aspiration to refresh or repair at least 1 million smoke-free electronic devices by 2025 (cumulative since 2021), which we are on track to achieve.

Successful second-life strategies rely on the ability to collect and sort devices, distinguish between those to be recycled and those to be recovered, and repair or refresh devices according to quality and safety standards. Also vital is simplifying the experience for consumers and making it more accessible.

Number of smoke-free electronic devices refreshed or repaired (cumulative since 2021, in thousands)



In 2023, we made strong progress against our 2025 aspiration. We shifted our focus on refresh and repair capabilities from *IQOS DUO* to *IQOS ILUMA MID*. In parallel, we started building and qualifying repair and refresh capabilities for *ILUMA ONE* for deployment in 2024.

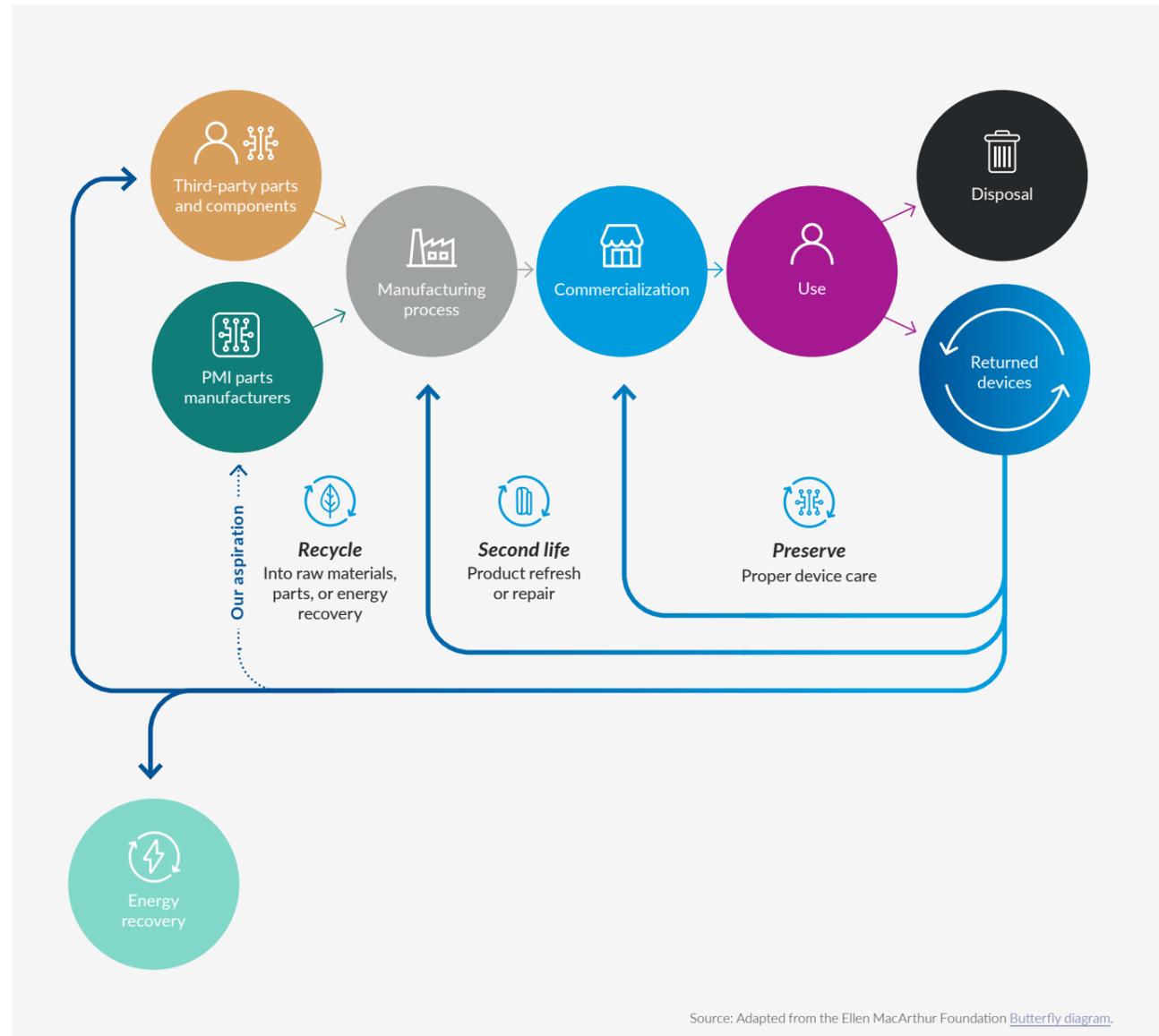
During 2023, we expanded our refreshed portfolio in the Netherlands, Portugal, and Switzerland, and we will continue deploying in other markets.

An important purchase driver for many adult smokers considering converting to smoke-free alternatives is the upfront price of the device. Typically, refreshed devices are priced 20 to 30 percent lower than new devices, diversifying the price point offering (read more about affordability [here](#)). Overall increases in Net Promoter Scores (NPS) in our e-commerce channels demonstrate that these offerings have had a positive impact on consumer satisfaction. For example, during the same period in 2023, *IQOS Refreshed* owners in the Swiss market reported an NPS of 54.4 compared with the average *IQOS* user NPS of 38.9, demonstrating significantly increased satisfaction among *IQOS Refreshed* users.

Enhance circularity: device recycling

For those products that cannot be given a second life, our CIRCLE hubs inspect, process, and separate materials for recycling.

We continued to face logistical and regulatory complexity as we worked to onboard markets into the CIRCLE hubs in certain countries, limiting our pace of deployment. To address these challenges, we began looking at more local recycling options to complement our CIRCLE hubs solutions. We expanded the scope of our CIRCLE program to include six local recycling solutions where transportation to our central hubs was not possible.



Source: Adapted from the Ellen MacArthur Foundation [Butterfly diagram](#).

REDUCE POST-CONSUMER WASTE

Maximize the benefits of smoke-free products

Purposefully phase out cigarettes

Seek net positive impact in wellness and healthcare

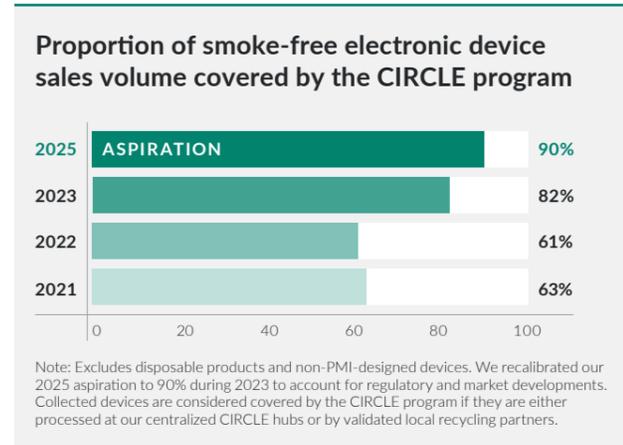
Reduce post-consumer waste

Reduce post-consumer waste



We have put in place strong governance mechanisms to identify local solutions and maintenance of all onboarded markets and may change or remove local partners if they do not meet or exceed our minimum requirements related to recycling performance, transparency of reporting, auditability, certifications, and no direct waste to landfill policy.

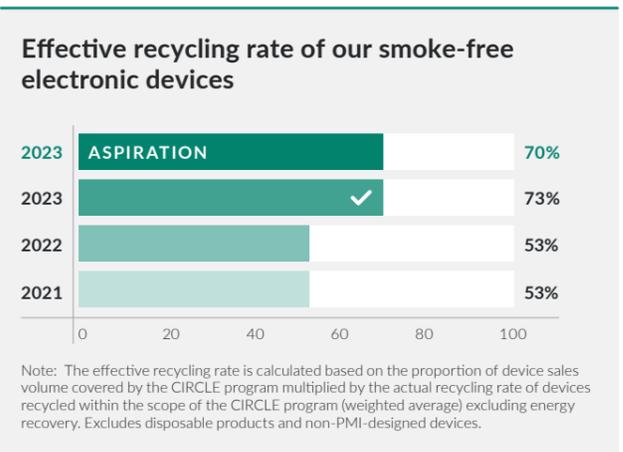
By year-end, we had expanded the scope of our CIRCLE programs to include local solutions in different markets including Egypt, Indonesia, Italy, Serbia, and South Korea. Globally, including validated local solutions, we achieved CIRCLE coverage of 82 percent of market volume in 2023 (2022: 61 percent).



In 2023, we met our effective recycling rate aspiration. Our CIRCLE hubs in Hungary and Japan continued to drive excellence in e-waste management.

Validated local solutions in Egypt and South Korea initiated recycling activities during the year. The recycling rate at our local solutions is mainly driven by their dismantling capabilities to separate the different components and to find capable local downstream recyclers.

Our CIRCLE hub activities produced 315 tons of shredded materials coming from dismantled devices during 2023. The recycling rate of our products in our CIRCLE hubs in Hungary and Japan and the two validated solutions that initiated recycling activities combined stood at 89 percent in 2023 (excluding 4 percent energy recovery through incineration). We remain committed to maintaining an overall combined recycling rate higher than 80 percent.



During the year, we reconsidered our use of the effective recycling rate metric. We determined that this metric is not broadly comparable across companies, does not provide additional insights into PMI-specific performance compared with the recycling rates and coverage of smoke-free electronic device sales by the CIRCLE program, and may not be easy for users of this report to interpret. We therefore will continue reporting on the smoke-free electronic device sales covered by the CIRCLE program and the overall recycling rate of our devices at the CIRCLE hubs and local validated solutions, but will discontinue our reporting on the effective recycling rate.

Currently, we are exploring the use of recycled content sourced from third parties in certain parts and components of our products. At the same time, we are researching potential applications to close the loop by integrating recycled material, including from our portfolio, if possible, into our own products in the future. Battery components, specifically lithium, are recovered and sold to battery producers for new battery production.

Reducing and improving packaging

As our product portfolio changes, so does our packaging, which continues to evolve in line with our expansion into new product categories, adaptations to better meet consumer expectations, and shifts in regulation.

Our sustainable packaging strategy seeks to keep pace with these changes, reflecting best-in-class leadership in packaging recyclability and packaging material reduction. In 2023, we revisited each element of our existing strategy to test for continued relevance in an external sustainability landscape that has grown in sophistication.

We continue to invest in proprietary research and to test alternative materials and formats for potential displacement of hard-to-recycle packaging across our consumable portfolio and participate in multistakeholder initiatives to remain apprised of packaging trends, new technologies, and regulation.

A glance at our path to integrate Swedish Match

Swedish Match data is not included in the "Reducing and improving packaging" sub-section.

The packaging most closely associated with nicotine pouches across geographies and brands is a rigid single-use polypropylene can, which poses immensely different sustainability challenges compared with the mostly fiber-based packaging formats associated with the other types of products offered by PMI.

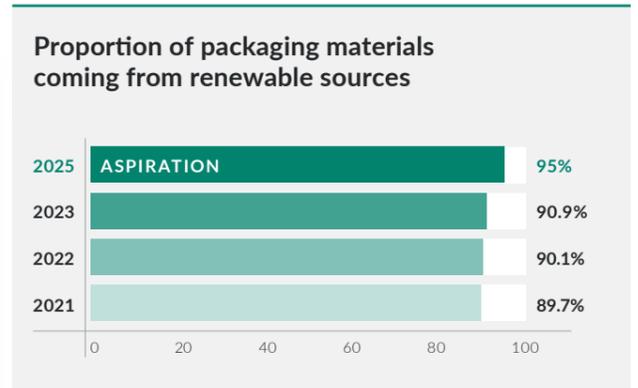
The integration of these offerings into PMI's portfolio provides a great opportunity to design the next generation of nicotine pouch packaging according to the hierarchy of circular economy principles. As we continue to integrate Swedish Match into PMI operations, we will leverage our existing processes to best evaluate packaging alternatives. This will include refill and reuse options, as well as the potential to reduce materials use and incorporate carbon footprint advantaged recycled content.

Utilize renewable sources

Renewable sources are those that can replenish themselves at a sustainable rate, such as from properly managed agricultural sources. To date, over 90 percent of our packaging comes from renewable materials and we maintain close to 90 percent chain of custody (CoC) of our sourcing of these materials, positioning us well within our industry.

We recognize that in the context of the scalable and circular packaging economy, renewability is lower in the ideal packaging hierarchy than reduction, reuse, and recyclability. It is also more a consequence of a portfolio rich in fiber-based packaging than a reflection of specific initiatives intended to increase renewability as an attribute.

As such, we have determined that our renewable sources aspiration is less relevant and strategic than when we set it in 2018 and have decided to retire it. We will instead amplify our efforts to improve recyclability and will focus in 2024 on identifying opportunities where regulation, infrastructure, and performance criteria allow the incorporation of recycled content.



Within our portfolio, the term renewable sources mainly refers to fiber-based material used in our paperboard packaging, which remained the primary packaging material we used in 2023, representing around 383,140 tons, or 92 percent, of our total packaging portfolio. Paper and board are primarily used in packs and bundles, inner liners, and shipping cases.

Of this, 88 percent was sourced from suppliers with CoC certified according to the Forest Stewardship Council (FSC), Programme for the Endorsement of Forest Certification (PEFC), or Sustainable Forest Initiative (SFI) standards.

REDUCE POST-CONSUMER WASTE

Maximize the benefits of smoke-free products

Purposefully phase out cigarettes

Seek net positive impact in wellness and healthcare

Reduce post-consumer waste



We work in close partnership with our major suppliers to achieve the highest possible proportion of CoC-certified board material to ensure our packaging does not contribute to deforestation. In collaboration with industrial material and machine suppliers, we focus on reducing material consumption. For example, we are engaged in 4evergreen, a cross-industry alliance of over 100 members representing the entire life cycle of fiber-based packaging. Its members work together on guidelines, tools, and alignment within the paper recycling value chain toward the goal of reaching a 90 percent recycling rate for this stream by 2030.

Plastics represented 24,610 tons, or 5.9 percent, of our global packaging footprint in 2023. Plastics are primarily used in the overwrap of our packs and bundles, as well as in pouches, seal inner liners, and labels.

Currently, the plastic wrap around our packs of consumables and secondary cardboard packaging is designed for recycling (learn more [here](#)). In 2023, we continued our plastic reduction efforts, removing 59 tons of plastic film by reducing material thickness. Moving forward, we will incorporate this program into our overall material reduction aspirations since we have reached the point at which plastic wrap has been reduced to the minimum required for product protection. We will also explore introducing recycled content according to the previous guidelines discussed around regulation, infrastructure, and carbon footprint benefits.

The limited amount of aluminum we used across our packaging formats in 2023 represented 2,220 tons, of which 100 percent was Aluminum Stewardship Initiative (ASI) certified, either under the performance standard or the CoC.

As we adjust our approach to reporting on packaging formats that are designed for recycling, we will integrate inner liners as a specific component of our designed-for-recycling metric (learn more about these concepts [here](#)).

Other materials, such as inks and composites used in tobacco product packaging, represented 6,960 tons, or 2 percent, of our global packaging footprint. These will also be integrated into our designed-for-recycling reporting moving forward.

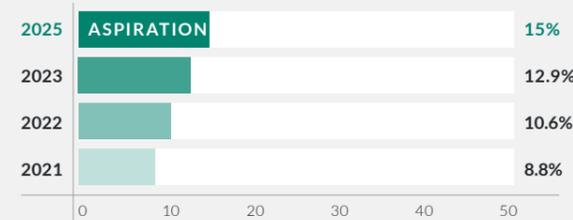
Reduce packaging

In 2023, we reconsidered our aspiration regarding absolute packaging weight reduction. In the past, we based the reporting of weight reduction on all packaging materials we procured and in absolute terms. While this simplified reporting, it failed to provide transparency to our stakeholders on our packaging weight reduction efforts. We will be decoupling these from supply chain and inventory contributions by moving to a packaging intensity calculation based on a standard number of servings (e.g., 20 cigarette sticks or smoke-free product consumables).

Going forward, we will report on the average packaging intensity reduction for two distinct product categories versus the 2018 baseline: combustibles and heat-not-burn consumables, as these are the primary volume drivers for this metric. We will retain our aspiration of a 15 percent reduction by 2025 in each of these categories.

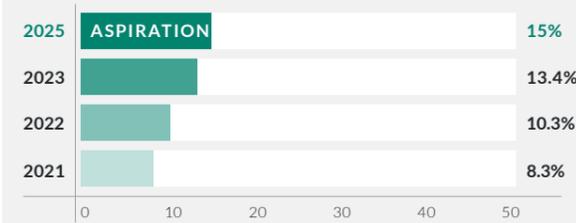
We continued our program to reduce consumption of our main material, paperboard. By the end of 2023, we achieved an estimated annual reduction of 2,000 tons of paperboard across our portfolio, for both combustibles and smoke-free products. Between 2018 and year-end 2023, this resulted in a reduction of more than 13,700 tons of paperboard. As previously stated, going forward this program will integrate plastic reduction efforts into our overall material reduction work.

Average packaging weight reduction for combustible tobacco products versus 2018 baseline



We made significant progress on reducing the average packaging weight within our product range in 2023. For example, we reduced by 4.5 percent the weight of the board used in several pack formats in the combustible category and by 11 percent in the heat-not-burn category.

Average packaging weight reduction for heat-not-burn products versus 2018 baseline



Within the e-vapor category, the packaging of our recently launched VEEV ONE Mobility Kit has been redesigned to reduce the amount of material required and minimize unnecessary plastic. This resulted in a 53 percent reduction in pack volume and a 95 percent reduction in plastic per pack.

Digital printing

Sustainable packaging activities go beyond material and format; they also include how we manufacture and convert our pack materials.

Over the past few years, PMI has led and driven progress with the disruptive technology of digital printing. This technology platform helps our commercial teams learn and react to consumer needs as we grow new categories. It also supports PMI pack sustainability goals by removing converting steps, reducing logistics and CO₂ emissions, and even reducing needed inventories and material waste, as we can now differentiate our materials later in the value chain. For example, in 2023 we saved 606 tons of metal by avoiding the purchase of some printing cylinders.

Improve circularity

To improve our packaging footprint, we focus on recyclable packaging.

In 2023, we restated our forward-looking aspiration to focus on design for recyclability for our packaging. In the past, we broke this data into the material components of a packaging format that are technically ready for recycling (i.e., can be recycled only if the correct market infrastructure is in place). Going forward, we will focus on packaging formats and will reflect this approach in our updated aspiration. The term packaging format refers to what the consumer needs to dispose of after usage and can, in some cases, have several components (e.g., inner liner, hinged lid), integrated into one format (e.g., pack). This change was made to better represent the reality for the consumer, who is unlikely to separate all elements of a package after use unless specifically instructed to do so.

Proportion of packaging formats that are designed for recyclability



Note: Prior years' data have been restated for alignment with the principles of design for recyclability by format, as well as expanding coverage of the portfolio.

We have continued to ensure that the vast majority of our packaging is designed for recyclability. For example, in 2023, we started deployment of a new solution for other tobacco product (OTP) pouches, moving away from nonrecyclable formats to formats designed to be recycled.

At the same time, we recognize that without established collection and infrastructure in the markets we serve, claims on design for recyclability can be interpreted as misleading. This is why we are driving toward 100 percent as an aspiration but will never claim 100 percent recyclability of our portfolio in practice.

REDUCE POST-CONSUMER WASTE

Maximize the benefits of smoke-free products

Purposefully phase out cigarettes

Seek net positive impact in wellness and healthcare

Reduce post-consumer waste



In reality, the recycling landscape is highly complex. Even if all packaging were collected and routed to the appropriate facilities for recycling, yields for both fiber-based and plastic-based processes are not 100 percent, due to a variety of factors. Any claims of infinite recyclability, of any material or format, do not reflect reality in even the most advanced markets for post-consumer processing.

It is our responsibility as a leader in sustainable packaging to help drive the parts of the value chain that will improve the rates at which materials are truly recycled using processes that are lower in carbon footprint than equivalent virgin materials.

We believe these updated aspirations, along with our approach to recycling, will best demonstrate our efforts and progress in this area. Moving forward, we will work to further understand the effective packaging recycling rates for the most common packaging formats in our highest-volume markets to better focus our efforts in the post-consumer waste management chain.

Beyond ensuring our packaging is designed for recyclability, we seek to ensure recyclable content is actually recycled by helping consumers understand how to recycle their packaging. For example, several markets utilize bar codes on packs that leads directly to information about how to recycle the packaging when scanned by smartphone.

We are also exploring reusable components within our logistics footprint and packaging. For example, we now reuse filter trays in our factories up to three times to reduce material consumption, saving an estimated 500 tons of material in 2023.

Recycled content

We have programs in place to increase the use of recycled content in our packaging but face some structural challenges.

The availability of recycled polypropylene, particularly for sensitive contact applications, remains scarce due to the underdeveloped circular materials supply chain. This scarcity leads to a high cost premium for recycled materials that does not necessarily provide an overall carbon footprint benefit versus the use of virgin materials.

The use of chemically recycled polypropylene, for example, remains contested, as industrial processes are starting to scale and third parties are pressure-testing the environmental claims of material suppliers. We continue to monitor this area and apply our own due diligence, and will provide transparency on our use of chemically recycled material for packaging in our reporting. We are actively seeking partnerships to improve the post-consumer value chain for recycled polypropylene.

Despite these challenges, individual markets have made progress on incorporating recycled content into packaging. For example, in 2023, we launched a commercial initiative in four new markets featuring packs with all board made from recycled waste originating in the packaging value chain.

The regulatory landscape for product packaging is also evolving, particularly in Europe with the forthcoming European Packaging and Packaging Waste Regulation that seeks to ensure packaging becomes more reusable and recyclable and that over-packaging and packaging waste is reduced. Such an EU-wide framework is expected to help in harmonizing regulatory approaches to post-consumer waste management, including efficient sorting and recycling at scale to improve packaging material circularity. This has the potential to help customers to understand recycling properties of products they choose and help to drive progress toward a more circular economy across the industry.

Looking ahead

Scott Couts
Senior Vice President,
Operations



“Our efforts to find suitable alternatives to replace cellulose acetate in our cigarette and heated tobacco unit filters are under way and will continue into 2024. With regard to packaging, we are focused on delivering against our 2025 aspirations and will continue deploying programs to reduce packaging weight and to ensure all our packaging formats are designed for recycling. The Swedish Match integration into PMI will bring a new and challenging dimension to our packaging portfolio. We recognize this as a great opportunity to take a refreshed look at more circular packaging solutions, such as refill or reuse, for this growing format as we drive alignment with our PMI sustainability goals.”

Bin Li
Chief Product Officer



“In 2024, we will continue maturing PMI’s eco-design program by further embedding these principles across our devices, consumables, and accessories portfolio. Concretely, on the devices portfolio, we will continue improve our eco-certification framework by testing the application of eco-friendly design specifications into select pilot projects in our heat-not-burn and e-vapor categories, and seek to obtain independent verification of the implementation of this framework. In this context, we also plan to evolve our LCA methodology and apply it to select variations of our smoke-free devices. Moreover, we will review PMI’s repair strategy with the aim to refine our design guidelines for repair and recycle, and work on improving device robustness with the aim to extend product longevity and minimize electronic waste. Within our consumables portfolio, we will continue exploring technical solutions to reduce the plastic content in heat-not-burn consumables. Finally, across our accessories portfolio, we will drive further adoption of environmentally responsible materials in our offerings. Building on our progress to date, we remain committed to maintaining a recycling rate within our CIRCLE program above 80 percent.”

Werner Barth
President, Combustibles
Category & Global
Combustibles Marketing



“We will continue deploying and expanding the reach and impact of the anti-littering programs we deploy across the many countries in which we operate, leveraging our awareness-raising efforts to the greatest extent possible, to prevent inappropriate disposal and inspire behavioral change in consumers’ habits. Meanwhile, we will also continue to explore and test nonplastic filter materials that fulfill demanding criteria and meet consumer expectations.”

Stefano Volpetti
President, Smoke-Free
Inhaled Products and
Chief Consumer Officer



“We will remain committed to anchoring sustainability in our brands. During 2024, we will deploy our sustainability roadmap (covering product design, packaging, post-consumer waste management initiatives, and consumer-facing communications) for our fairly recent categories of e-vapor and oral products. Reducing post-consumer waste remains a strong focus, and we expect to expand the geographical coverage of our smoke-free consumables end-of-life take-back program. Our aim is to reach 80 percent of global volume coverage and we are on track to achieving that. As we continue to deploy our program at scale, we plan to conduct studies to better understand use patterns and inform our waste treatment strategies. Further, understanding the importance of prolonging the lifespan of our devices, we plan to scale the deployment of our second-life IQOS proposition to reach our 2025 aspiration.”



Operational impact



Foster an empowered and inclusive workplace

p92



Improve the quality of life of people in our supply chain

p110



Tackle climate change

p126



Preserve nature

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1 We measured perception of psychological well-being on a five-point scale from very bad to very good through our ongoing company-wide employee survey.
 2 For the purpose of measuring progress against this indicator, PMI uses the nationality data of employees recorded in our HR systems. The determination of Asian nationalities is based on the regional groupings as listed by the United Nations, and we consider the following regions: Central and Southern Asia, Eastern and South-Eastern Asia.
 3 Scope is limited to farmers who provide accommodation to workers (approximately 4 percent of the total farmer base in 2023).
 4 Virtually zero waste to landfill is achieved when the landfill diversion rate is equivalent to 99 percent or greater. This aspiration covers our manufacturing site and PMI-owned tobacco stemmeries.
 5 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. PMI sites that are in low to medium water risk areas and below 2.5% of PMI manufacturing water footprint are excluded.

*Scope covers Swedish Match operations.
 Note: Aspirations marked with "SI" symbol are constituents of the PMI Sustainability Index, which is tied to our long-term executive compensation for the period vesting either in 2024 (see Sustainability Index 2022-2024 here) or in 2025 (see the PMI Sustainability Index 2023-2025 here).

Our aspirations

SI Sustainability Index

KPI included in Sustainability Index 2022-2024 or 2023-2025

People icon Maintain → 2025

- 100%** of PMI employees earning at least a living wage
- ≥30** employee Net Promoter Score (eNPS)
- <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)
- ≥40%** of management positions held by women

- 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%** score on self-perception of psychological well-being among our employees¹
- ≥20%** of senior roles held by Asian talent globally²

Head icon Maintain → 2025 → 2030

- >90%** 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 contracted farmers supplying tobacco to PMI paying their workers at least the minimum legal wage or agricultural benchmark
- 100%** of tobacco farmworkers are provided with safe and adequate accommodation³

- 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 contracted farmers supplying tobacco to PMI that have basic water access
- 100%** of spend with critical suppliers from whom PMI sources sustainably

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

Globe icon Maintain → 2025 → 2030 → 2040

- Zero** coal used as curing fuel for the tobacco we source
- 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
- 18%** reduction in absolute scope 3 Forest, Land and Agriculture (FLAG) GHG emissions versus 2019 baseline ^{SI}
- 100%** of electricity used and purchased in our factories derived from renewable sources
- 15%** of suppliers by spend (covering purchased goods and services) will have science-based targets (SBT)
- 75%** reduction of CO₂e intensity in tobacco curing versus 2019 baseline
- 50%** reduction in absolute scope 1+2 GHG emissions versus 2019 baseline (SBT)*
- 33.3%** reduction in absolute scope 3 FLAG GHG emissions versus 2019 baseline (SBT)*
- 27.5%** reduction in absolute scope 3 industrial GHG emissions versus 2019 baseline*
- 50%** absolute reduction of CO₂e scope 3 in our tobacco supply chain
- 72%** reduction in absolute scope 3 FLAG GHG emissions versus 2019 baseline (SBT)*
- 90%** reduction in absolute scope 1+2+3 GHG emissions versus 2019 baseline (SBT)*
- Net zero** GHG emissions in our value chain (scope 1+2+3) (SBT)*

Plant icon Maintain → 2025 → 2030 → 2033 → 2050

- Zero gross deforestation** of primary and protected forests associated with our tobacco supply chain
- 100%** of tobacco purchased without detection of residues attributable to the use of highly hazardous pesticides
- >70%** of flue-cured tobacco purchased cured with renewable fuel sources (self-sufficient firewood or biomass)
- ≤3.1** water ratio in our manufacturing facilities (water withdrawn in cubic meters per million cigarettes equivalent)
- Virtually zero** waste to landfill in manufacturing operations⁴
- Zero** net deforestation of managed natural forest and no conversion of natural ecosystems in our tobacco supply chain ^{SI}
- Net positive impact** on forests associated with our tobacco supply chain
- 100%** of our tobacco-growing areas covered by local water risk assessments (cumulative since 2018)
- 100%** of our manufacturing facilities certified to the Alliance for Water Stewardship (AWS) standard⁵
- Zero gross deforestation** of primary and protected forest associated with our supply of paper and pulp-based materials
- Zero net** deforestation of managed natural forest and no conversion of natural ecosystems in the paper and pulp-based products supply chain
- No net loss** on ecosystems connected to PMI's value chain
- ≥25 million cubic meters** of water optimized in our tobacco-growing areas (cumulative since 2019)
- Scale solutions toward a **positive impact** on water resources, measured as volume of water optimized and restored
- Contribute toward a **positive impact** on nature
- Contribute toward a **positive impact** on water resources



OPERATIONAL IMPACT

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.

INWARD IMPACT

The business case

Our long-term business success relies on our people—on the dedication, talent, and passion they bring to work. Accordingly, it is essential for us to provide a fair and inclusive workplace that upholds good working conditions and labor rights, protects the health and safety of employees, promotes well-being, and offers opportunities to grow, upskill, and improve their employability.

As our Company continues to rapidly transform, appreciating the value of human capital becomes key. Investing in our people and enhancing their skills, knowledge, and experience by providing meaningful opportunities helps us to recruit and retain talented individuals who can contribute fully to our Company's mission in a context of change. Furthermore, we strongly believe that an inclusive culture that embraces 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 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 the workplace.

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

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Management approach

Our ambition is to be an employer of choice, fostering an inclusive culture wherever we operate in the world.

This means ensuring that our employees experience fair working conditions, opportunities to develop skills and boost their employability, and a workplace that protects and promotes their psychological and physical health, safety, and well-being.

The importance of human capital development is center to our strategy. Training and communications help employees understand the standards and processes relevant to their roles and how to apply them in their daily work. We use multiple formats and languages to optimize our reach across the organization.

We ensure our employees are informed of their rights by their local People & Culture (P&C) teams, our [Code of Conduct](#) and related principles and practices—including our Workplace Integrity policy, and Global Non-Discrimination and Anti-Harassment policy—and collective labor agreements.

As a global company, we consider it our duty to ensure that our entire workforce (regardless of local or national regulation) is treated fairly, respectfully, and in line with our principles. We operate in multiple countries with widely varying legal employment frameworks. For example, in some countries the right to freedom of association is restricted; in such cases, we strive to work with employees' consultative committees and other suitable mechanisms of representation.

We value dialogue with properly appointed employee representatives (e.g., trade unions and works councils, European Works Council) and regularly engage with them and learn from best practices. This dialogue occurs at local, regional (e.g., European Federation of Food, Agriculture and Tourism Trade Unions), and global (e.g., the IUF - International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers' Associations) levels.

We encourage our employees to speak up about employment-related concerns, ask questions, and recommend improvements via their supervisors, P&C teams, our Ethics & Compliance function, or our helpline (read more [here](#)).

PMI takes allegations of sexual harassment and discrimination seriously and will investigate allegations and apply disciplinary measures (up to and including termination), as appropriate. See the "[Uphold business ethics and integrity](#)" section for more information about our Speaking Up program and Compliance investigations.

Management

Employee-related matters are the responsibility of all members of Company Management and functional heads. Beyond reporting lines, dedicated teams within our People & Culture function—headed by our Chief People & Culture Officer, a member of Company Management—lead efforts on labor relations, employee engagement, talent attraction and retention, human capital development, performance management, and compensation.

Our Chief Diversity Officer oversees the development and deployment of strategies to foster diversity, improve inclusion, and promote well-being in the workplace. Our Senior Vice President, Operations oversees the Company's health and safety strategy and performance on health and safety across our manufacturing sites, fleet, and offices.

Our internal communications team, headed by our Senior Vice President, Global Communications, facilitates greater employee engagement and nurtures a positive workplace culture.

Workplace integrity principles at PMI

We strive to maintain an inclusive, safe, and professional environment. We promote diversity, equity, and inclusion in our organization, ensuring that all employment-related decisions are merit-based. We do not tolerate harassment, discrimination, abuse or misuse of company assets or resources, violence, or the use of alcohol or drugs. We do not engage in or condone child labor, forced labor, or other human rights abuses. We encourage effective engagement and dialogue with employees and their properly appointed representatives. Read more in our representatives (read more in our [Code of Conduct](#)).



PMI's policies and standards

- [Code of Conduct](#)
- [Human Rights Commitment](#)
- [Environmental, Health, and Safety \(EHS\) Manufacturing Sustainability Commitment](#)
- [Fleet Safety policy](#)

Foster an empowered and inclusive workplace

Improve the quality of life of people in our supply chain

Tackle climate change

Preserve nature



Progress in 2023

Highlights

- Our aspiration of maintaining at least 40 percent representation of women in managerial roles has been exceeded for the second consecutive year: in 2023, we achieved 41.8 percent, up from 40.7 percent in 2022.
- Our employee engagement remained above external benchmarks despite a challenging external context in many countries this year.
- We saw a significant increase in the usage of our learning platforms, Udemy and Rosetta Stone, as a result of our efforts promoting lifelong learning offers.
- We expanded our portfolio of employee resource groups (ERGs) by introducing two new ones dedicated to supporting parents and caregivers, and to promoting intergenerational collaboration. These enhance our existing array of ERGs, which are instrumental in fostering inclusion throughout the organization.

Challenges

- While setting and implementing global diversity and inclusion standards as a multinational company with a broad geographical footprint is essential, we must remain mindful to respect local cultures and sensitivities in the countries where we operate.
- Project and construction activities in our manufacturing sites have increased. This reinforces the need to improve the quality of method statements and ensure proper supervision of such activities.
- As we expand our operations in the U.S., it is essential that we build a competitive U.S. organization, while growing organizational capabilities at pace and at scale.
- Fostering an empowered and inclusive workplace, with a workforce reflective of our consumers and wider society, requires us to increase our efforts to equip each and every leader in our Company, encouraging them to embrace inclusion in their day-to-day interactions with their teams.

A glance at our path to integrate Swedish Match

Workplace information and data for Swedish Match, which employed around 7,400 people as of December 31, 2023, is not included in this report. Following our acquisition, we are welcoming Swedish Match employees with unique know-how, who will be instrumental in the success of our common vision to make cigarettes obsolete, and are seeking to ensure their smooth inclusion in PMI.

Our preliminary assessment as we began the integration process highlights the need to join efforts in improving diversity across the organization, in particular within senior roles. We anticipate existing gaps will be addressed as we pursue our integration journey and ensure that our diversity, equity, and inclusion (DEI) strategy is implemented across our entire organization.

We are partnering with Swedish Match to ensure we harness and retain the capabilities across both organizations through onboarding the Swedish Match workforce and building collaboratively the future ways of working.

We will continue integrating the Swedish Match workforce during 2024 and expect to disclose further information and data in a consolidated fashion in our next integrated report.

Providing fair employment

All employees, irrespective of role, location, or length of service, have the right to work under fair and just conditions. Treating people with respect and dignity is central to the fundamental principles that guide our business conduct and unite us as a company.

Maintaining sound labor relations

Maintaining sound labor relations promotes sustainable success for our business and our employees. We achieve this by creating an environment conducive to proactive, productive, and results-oriented collaboration among management, employees, and their properly appointed representatives.

We respect employees' rights to form or join trade unions and other employee representative organizations of their choice. In 2023, we had 85 collective labor agreements in 35 countries, covering 63 percent of our workforce (2022: 79, 35, 61 percent).

We have continued to build on our commitment to further develop and strengthen local labor relations strategies and action plans by supporting affiliates as they develop their three-year labor relations plan. In 2023, we have completed the work for 15 affiliates, including follow-up sessions on the original plans for some of them.

One point of concern is the working conditions and standards for workers throughout our supply chain (read more about PMI's Responsible Sourcing Principles (RSP) implementation [here](#)).

Providing fair compensation

We are committed to upholding and promoting a fair and just workplace, rewarding employees based on their performance.

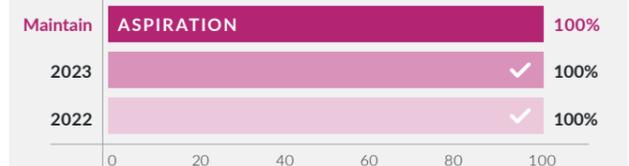
Our compensation, recognition, and benefits programs, platforms, and policies differ by location, taking into account local regulations, agreements, needs, and preferences. Most programs incorporate bonus plans, life insurance, long-term illness and disability plans, retirement-related arrangements, and paid leave programs for all employees. Furthermore, there are some global elements, such as our Employee Assistance Program.

We regularly review our offerings to ensure they meet the evolving needs of our workforce.

Upholding a living wage for our employees

We are committed to ensuring that all our employees globally earn at least a living wage. Paying at or above the living wage benefits employees, their families and communities, and our business. It fosters talent attraction, retention, and productivity, while securing our social license to operate. A living wage, distinct from a minimum wage, provides an employee with the means to enjoy a decent standard of living, including the ability to buy goods and services and accumulate savings. A living wage takes local living standards into account.

Proportion of employees earning at least a living wage



Promoting employee volunteering

PMI has a long-standing commitment to support the communities where our employees live and work and from which we source tobacco. Support takes many forms, including monetary contributions, in-kind donations (see the list of our 2023 social contributions [here](#)), and employee volunteer work. All PMI employees are eligible to take two days per year of paid leave for volunteering activities. In addition, the Company commits to match—with up to five additional paid leave days—any additional volunteer work employees choose to do in their own time.

We also continue to support [Projects with a Heart](#), a global grassroots, employee-driven philanthropic movement that connects internal employee donors and would-be volunteers with people in need. In 2023, PMI employees initiated more than 300 humanitarian projects, impacting the lives of over 50,000 people across 34 countries.



We have worked with leading sustainability consultancy BSR since 2018 to assess living wages for our employees globally. We plan to keep conducting a living wage assessment at least every two years and initiate actions as necessary to ensure that we continue to meet our global living wage commitment to our employees.

Our most recent survey in 2023 confirmed that we continue to pay at or above the living wage for all our employees worldwide.

We are also committed to improving the quality of life of the people in our supply chain (read more [here](#)).

Equal pay for equal work

In April 2022, we achieved recertification of our initial global EQUAL-SALARY certification from 2019. This global certification verifies that PMI continues to pay female and male employees equally for equal work in all the markets where we operate.¹ This is an essential building block on the road to creating a more inclusive and diverse workplace and maintaining our status as a top employer.

Maintain

Aspiration

Global EQUAL-SALARY certification

Equal pay for equal work is a first step in ensuring that women's work is not undervalued. With this foundation in place, we are now working to close our gender pay gap (the average pay for women versus the average pay for men), including by, among other actions, improving gender diversity at senior levels of the Company (read more [here](#)).

Third-party workforce

In 2023, we established a cross-functional program to improve management of our third-party workforce, i.e., individuals that we do not directly employ but who are engaged through external entities such as staffing agencies, outsourced providers, or independent contractors. These external workers often provide specialized skills or services on a temporary or project basis. We have developed a policy which will be deployed in 2024, as well as piloted in Switzerland and the UK a management system to enhance the visibility of our third-party workforce.

¹ Excluding Russia.

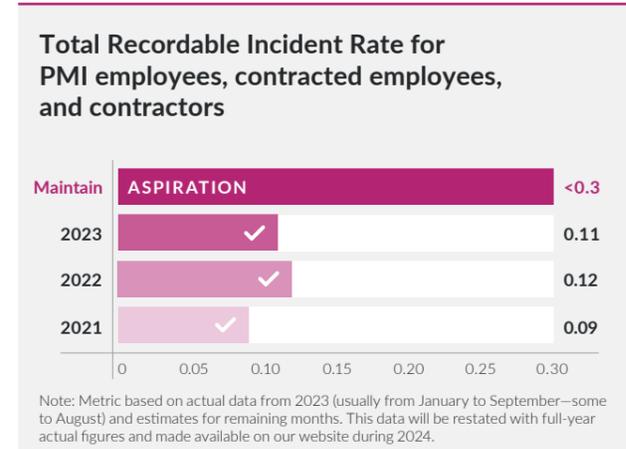
Protecting the health, safety, and security of our employees

We have embedded clear methodologies, procedures, and robust controls in our factories, offices, and fleet aimed at ensuring that our employees and others on-site stay safe.

The health and safety of employees and contractors in manufacturing facilities, offices, and our fleet is covered by our management systems, which are based on recognized guidelines and standards, including ISO 45001:2018 (Occupational Health and Safety Management Systems), and assessed and audited internally and externally.

These systems enable us to analyze safety losses and to prioritize, plan, and monitor health and safety performance. We routinely update our standards and train our staff to ensure teams understand and align with the requirements.

Our health and safety performance monitoring covers PMI employees, contracted workers employed by a temporary employment agency (we had over 4,600 contracted employees on average per month in 2023, compared with around 7,000 in 2022), and contractors when on PMI premises (see [Glossary](#) for definitions).



In 2023, our Total Recordable Incident Rate (TRIR) for employees, contracted employees, and contractors was 0.11 (2022: 0.12). We are proud of the progress made to date and remain committed to sustainably maintaining a TRIR below 0.3.

Our Lost Time Incident Rate (LTIR) for employees, contracted employees, and contractors was 0.08 in 2023 (2022: 0.07). We do not set targets on lost time incidents as we wish to handle every incident with the same level of importance, quality of analysis, mitigating action, and worldwide reapplication of learnings, regardless of whether the incidents result in lost time.

Embedding a safety culture across PMI

Our ambition is to create an interdependent culture in which highly skilled individuals and autonomous teams own responsibility for health and safety, and the workplace environment.

In our markets, we use a variety of communication platforms to increase engagement on market and fleet safety, as well as sustainability topics. In 2023, we enhanced the criteria of our recognition programs. We identified over 100 improvement initiatives embedded across three categories, and over 20 employees were recognized for their contributions to fleet safety and environmental sustainability.

In our factories, we conduct annual sustainability culture assessments involving representatives from all levels of the local organizations, combined with anonymous employee surveys, to evaluate our sites' safety cultures, identify opportunities for improvement, and check the effectiveness of our actions.

In 2023, our employee survey drew over 16,000 participants (including almost 2,000 contractors) and returned a score of 4.19/5 (2022: nearly 15,000 participants and a score of 4.17/5). Site leadership teams take ownership to prioritize the gaps and incorporate identified actions and their follow-up into each site's master plan.

Another example of how we embed safety in manufacturing is through our "risk-hunting days," first introduced in 2022. These series of events consist of an education campaign focused on raising awareness and helping employees identify top factory risks, followed by organized visits to areas outside participants' regular work spaces to seek out hazards and potentially unsafe conditions.

This process helps employees learn how to identify risks and importantly to feel comfortable reporting issues as they occur. In 2023, "risk-hunting" days were held in all our factories, attracting more than 5,600 participants, including contractors, across the globe. In all, more than 23,000 potential hazards were identified, classified, prioritized, and followed up on.

Moreover, each manufacturing site has established an Environmental, Health, and Safety (EHS) pillar, which focuses on building capabilities across the organization to autonomously identify, classify, and mitigate risks. This is done through daily management systems applied at all levels of the organization, which consists of incorporating EHS results, issues, and in-process measures review into the daily work, in order to identify risks and take timely actions.

The root causes of all occurred incidents and near misses are identified, analyzed, and communicated to ensure learning and application of new insights. These capabilities are an integral part of our teams' upskilling, enabling our manufacturing sites to develop an interdependent sustainable culture.

Safety in manufacturing

Health and safety in our factories is coordinated centrally by our Global Manufacturing Sustainability team. At site level, each facility has a dedicated team that ensures standards are met on the ground.

As part of ISO 45001:2018 requirements, each site performs an annual management review, which highlights its main risks and opportunities and planned actions. The review is conducted in alignment with the site's entire management team.

External certification helps us continuously improve and drive efficiency. In 2023, 100 percent of our factories that individually produce the equivalent of a minimum of 3 billion cigarettes annually were covered by global multi-site certification to ISO 45001:2018. The process requires yearly third-party surveillance audits of sampled sites and resulted in zero major or minor nonconformities for the second consecutive year. This highlights the excellence in some crucial parts of an effective occupational health and safety (OHS) management system, including but not limited to:

- Prioritization and integration of action plans with quantified targets to address OHS risks
- Integration of actions to prepare for and respond to emergency situations
- Evaluation of progress in reducing and preventing health issues and risks against targets
- Internal inspections
- Procedures to investigate work-related injuries, ill health, diseases, and incidents

All manufacturing sites perform full-scope risk assessments to identify hazards and implement necessary controls. Our corporate targets on incidents help us evaluate the effectiveness of our safety policies and programs.



Historically, the emphasis on safety topics has been predominantly directed toward the production floor. We work to extend focus and enhance safety measures and protocols across all areas of our facilities, including nonproduction areas where we record an important proportion of incidents. This year we introduced dedicated safety inspections to nonproduction areas (i.e., utilities rooms, waste water treatment plants, warehouses, waste storage areas) to all affiliates.

During 2023 we faced incidents in our construction activities. Concretely, there were two incidents involving contractors related to work at heights and overall construction management process. This reinforced the need to improve the level of detail in methodology statements and ensure the proper supervision of complex construction activities.

We conducted an in-depth review of our internal processes, from design and procurement through execution. We have strengthened our procurement processes, and deployed our first internal construction safety manual to help ensure that construction activities are supervised by a dedicated construction management services expert.

No employee, contracted employee, or contractor occupational fatality occurred in our manufacturing sites in 2023.

Safety and security in our markets

A dedicated team manages safety in our commercial and sales environments, as well as physical security across PMI. This team works closely with stakeholders across our business, developing and deploying risk-focused procedures, programs, and training courses, fostering engagement at the country level, and using technology, monitoring systems, and performance indicators to evaluate progress. This helps ensure the safety of company personnel in the office, in the field, on the road, and while traveling.

Through our fleet safety management program—based on recognized standards, including ISO 14001 and ISO 39001—we equip PMI with standards, tools, training, and capabilities to protect the safety of all personnel driving company vehicles.

To achieve our aspiration of zero preventable fleet safety accidents, we provide safe vehicles and driver safety awareness programs. Our aim is to reduce high-severity collisions, with an ongoing goal of eliminating fatal accidents completely.

To improve driver behaviors, we leverage awareness campaigns, training, and connected fleet technologies. By the end of 2023, 85 percent of our working-tool cars were equipped with vehicle telematics systems, providing drivers and the Company with accurate data on driving behaviors. Telematics and subsequent analytics allow us to reduce collisions, injuries, and fatalities, and decrease carbon emissions. We aim to have all our over 17,000 working-tool vehicles equipped with tools and new ways of working by 2024.

Our immersive, global fleet safety e-learning program launched in 2021 is tailored to each driver's core competency score, driving style, and local traffic conditions. This program is connected to onboard vehicle telematics systems where legally permitted, which helps us assess driver competencies and real-world driving behaviors.

In 2023, in the third wave of our global fleet safety e-learning program, 95 percent of the current company drivers commenced the program, which includes eco-driving modules. Of the Company's approximately 21,000 drivers, two-thirds have completed the program, and the remaining one-third is currently enrolled. Starting in 2024, we expect to continue implementing this technology-enriched annual program for the next three years.

Together, our standards, programs, and technology are creating significant improvements in road safety.



The implementation of behavioral fleet safety programs and technology has contributed to further decreasing the number of fleet collisions (severe incidents), further decreasing our collision rate from 0.44 collision rate in 2022 to 0.40 in 2023.

Significant fleet safety and sustainability improvements were realized in Indonesia, the PMI affiliate with the largest number of working-tool cars and the highest fleet safety risk. Full implementation of vehicle telematics technology (in more than 4,500 vehicles), an outstanding participation rate in PMI's global fleet safety e-learning program (99.8 percent), and the exceptional leadership from the country management team contributed to the elimination of fleet safety-related fatalities (0 in 2023 versus 8 in 2022), a 50 percent reduction in the collision rate (from 0.64 in 2022 to 0.31 in 2023), and improvements in fuel efficiency and CO₂e emissions.

Although we continue to show progress in this area across our markets, it is to our deep regret that some of our employees were involved in three separate road traffic accidents in 2023 that led to three fatalities among members of the public (2022: nine fatalities). The accidents occurred in the South and South East Asia region and involved challenging circumstances related to the public members on the road. The investigation of these incidents emphasized the importance of continuing our defensive-driving trainings, along with our technology-enhanced robust fleet safety management program.

As with our systemic approach to manufacturing safety, all fleet safety and security incidents are subject to thorough investigation and in-depth root cause analysis, including cooperation with law enforcement authorities where applicable, and robust corrective actions have been implemented to prevent the risk of reoccurrence in these markets and in similar operating environments.

In 2023, our Security & Market Safety department also maintains a comprehensive security management program to assess and mitigate physical security risks for company personnel and assets. Physical security incident data are collected and maintained separately from PMI's health and safety performance metrics. Continuous improvement efforts to improve preemptive security controls, particularly in high-risk locations, have resulted in zero fatalities related to security risks in PMI's operating environment, inclusive of the Swedish Match footprint.

To continuously improve knowledge and awareness of security and safety practices among local teams, we deployed a program in 2023 whereby a group of over 50 trained PMI professionals was formed to act as a center for expertise. They help markets improve their safety maturity levels (assisting them to set action plans), promote the enhancement of existing safety tools and procedures, and support event investigation (i.e., understanding what really led someone to act in an unsafe way).

To complement these efforts, we extended usage of our security incident reporting platform to introduce virtual or remote safety audit tools. All PMI markets (which cover offices, warehouses, and fleet) undergo an annual risk assessment. In 2023, these audits covered warehouses in six markets and fleet safety in another six markets. This approach helps ensure the safety of markets even when employees are operating remotely.

Developing our human capital

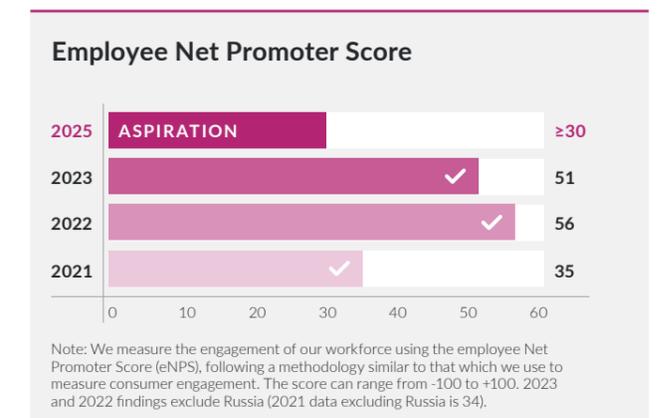
We provide our employees with opportunities to learn, develop, and contribute to our ambitious company purpose. Learning new skills enables employees to adapt to our evolving needs and expectations. It also deepens their sense of belonging and helps them to recognize the positive impact they are having on the Company. Helping our people grow and expand their skill sets also positively impacts the communities in which they live and work.

In 2023, we were proud to have been certified as a global Top Employer by the Top Employers Institute for the eighth year in a row. PMI is one of only 15 organizations to have been accorded this recognition. In addition, our affiliates were also recognized as leading employers in 33 countries.

Listening to our employees

Ongoing listening to our employees helps us to understand what matters most to them and better respond to their needs. Each year, we conduct a company-wide employee survey to better understand employee engagement and satisfaction. The annual survey is supported with shorter surveys throughout the year.

Monitoring employee sentiment continuously over years and benchmarking ourselves against other organizations allows us to enable and enhance the culture and behaviors that underpin our desired ways of operating.





In 2023, we collected 47,328 responses and achieved an eNPS of 51 (2022: 46,306, 56). This is 36 points above the global benchmark provided by our external partner IPSOS Karian and Box, and 21 points above our aspiration to maintain an eNPS of 30.

During the year, we deployed an enhanced methodology to capture employee engagement, using an index comprising six questions (gathering inputs through our company-wide survey). Accordingly, our Employee Engagement Index reached 85 percent in 2023. Going forward, we will monitor engagement based on this improved index which provides a more holistic understanding of the underlying drivers of engagement of our colleagues and more actionable insights.

From each company-wide survey, we analyze what are the most important drivers of engagement. In 2023, these drivers were PMI's compelling smoke-free vision, well-being benefits, career opportunities, and cross-functional collaboration.

In addition, we leverage a holistic approach to employee listening during various moments in an employee's career at PMI, such as onboarding, change of position, or a promotion. We also introduced a new quarterly report for such surveys in 2023 to better highlight key areas of success and where potential improvements could be sought.

Talent management

PMI's ambition to deliver a smoke-free future helps to attract and retain talent by providing purpose and the opportunity to contribute toward making a positive societal impact. We seek to equip line managers with the tools and knowledge needed to keep employees fully engaged and support their personal and professional growth.

Recruiting and retaining talent

Our overall employee turnover rate has increased slightly from 9.3 percent in 2022 to 10.3 percent in 2023. This includes 4.4 percent voluntary turnover (2022: 4.6 percent).

While we recognize that with continuous transformation comes the need to recruit external talent to bring in new skill sets, we prioritize upskilling our employees and fostering internal mobility over external hires, when possible. Our internal careers market provides transparency and easy access to opportunities for current employees, supporting their growth and increasing job satisfaction.

During 2023, around 4,200 employees were promoted to more senior positions, with an additional 8,400 employees moving positions. During the year, we hired more than 12,100 people worldwide, the majority of whom were hired into entry-level roles.

To support line managers, we launched the People Manager hub in November 2023, which is a go-to place for guidance, tools, and trainings to help people managers on their managerial journey. The hub has been visited more than 17,000 times since launch.

Attracting and developing young talent

Our early-career programs aim to equip new graduates, interns, and apprentices with the skills and knowledge needed to jump-start their careers. Our Company currently offers three different types of early-career programs, available in close to 50 markets. In 2023, we welcomed over 800 people into our Company as graduates, interns, and apprentices.

As our business evolves, it's imperative that we build the right capabilities and skills—and not just for today but for the longer term. We also must ensure early-career hires are equipped with the right tools and resources to support their development and help them feel they are an integral part of the organization.

Performance and career development

Regular reviews of performance and career development support employee growth and contribute to skills management and the development of human capital within PMI.

In 2023, 86 percent of our employees were covered by formal performance reviews against their individual objectives.¹

Our performance management approach is built on two adjacent elements: our delivery against objectives derived from the company strategy and our behavioral assessment conducted through continuous feedback from multiple sources. In 2023, we extended the approach to include non-managerial positions. In total, almost 49,000 employees are now using this approach.

Leadership programs

To manage our talent pipeline needed to meet our evolving organizational needs, we have developed a core curriculum that gives leaders and potential leaders the resources, tools, and motivation they need to succeed. These programs include the following:

- Our development pathway for high-potential employees, "Accelerate," expanded from 70 participants in 2022 to 140 in 2023. This program empowers key talents to prepare for more complex or critical roles. It supports them in becoming future leaders at PMI.
- In 2023, 1,700 line managers (of which almost 50 percent were women), newly hired or appointed, were trained in our "License to Lead" program, focused on developing critical people management capabilities.

- Our "Women in Leadership" program, since 2021, focuses on personal growth, development, and senior leader sponsorship. It offers strategies and tactics to navigate common barriers, build confidence, and create a sense of community and belonging. In 2023, over 50 female leaders participated in the eight-month program.
- "Elevate" is a global program to support the development and career progression of women in managerial roles. Following its successful pilot in 2022, we launched eight central cohorts of 15 women each this year, from across our organization. Five of those cohorts were region-based, while the other three were dedicated to the Operations function.

Mentorship program – iGrow

For more than three years, all PMI employees have had access to iGrow, an employee-led, cross-company mentoring program. This program offers employees at all levels unique opportunities to create connections across the organization to learn from each other. In 2023, over 2,300 individuals from 79 countries have participated. At the end of the year, 90 percent of participants reported that the mentoring program has contributed to creating a more inclusive and supportive work environment.

Technical flagship programs

We continue to develop blended training programs that cater to our employees' diverse learning needs while equipping them with relevant skills for the future.

The Brand Accelerator program supports PMI's long-term vision by upskilling managers and above in commercial functions, starting at the top of the organization. Through this program, we aim to establish a common language and consistent approach to brand building and key commercial activities based on best practices.

As of the end of 2023, more than 1,000 participants had completed the nine-month journey, 82 percent of whom reported having high confidence in key tasks, with 66 percent saying they have already acted on some of the things they learned.

Our Brand Accelerator program received a gold Brandon Hall Group Excellence Award for Best Use of Blended Learning in 2023.

Continuous employee learning and development

We know that external acquisition of talent and businesses alone will not provide all the capabilities we require in PMI. Creating opportunities for PMI employees to upskill, re-skill, and have new experiences is equally, if not more, important. Much of this employee development comes from being supported and having space to learn "on the job," as well as having access to opportunities to contribute to projects outside of their traditional role and responsibilities.

In 2023, we defined our workforce capability model, which articulates the technical, core business, and leadership capabilities that are critical for our Company's success. This is the backbone of our PMI-wide learning catalog, which will be launched in 2024.

Boosting employability

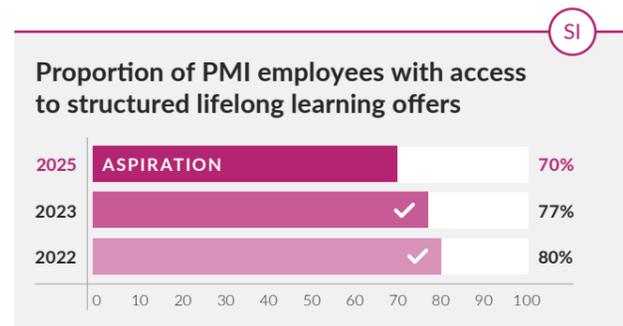
We seek to provide PMI employees with access to structured learning activities to meet personal and professional growth aspirations.

Our lifelong learning offers include access to learning opportunities (e.g., courses, resources, sessions, and communities) provided by PMI that empower individuals to proactively develop skills relevant for current and future employability and performance.

In 2023, we continued to strengthen our digital learning offerings, expanding access for various content digital platforms to all digitally enabled employees. These platforms include the following:

- FUSE digital learning platform offers a wide range of content, from foundational knowledge of our products and science, to effective leadership, well-being management, and IT and digital capability development. It also allows employees to access two externally provided solutions (Rosetta Stone and Udemy). At the end of 2023, more than 56,000 employees had access to this platform with over 36,000 active users.
- Our digital language learning program, through our partnership with Rosetta Stone, continues to be available to all employees worldwide. At the end of 2023, more than 9,000 employees were actively learning or perfecting a new language.
- In 2023, we continued to promote Udemy, an external content library for digital learning, and make it more accessible to all our digitally enabled employees. Our partnership with Udemy, provides a broad range of development offerings and skills trainings in multiple languages. Collectively, our employees spent over 55,000 hours learning in Udemy.

¹ The calculation is based on the almost 57,000 employees maintained in PMI's central human resources (HR) system as of November 1, 2023.



Future of work

Every employee should be prepared to face an unknown and rapidly changing future. Accordingly, we take steps to boost the employability of our workforce, with particular focus on the more vulnerable sectors, for example with the global deployment of lifelong learning offers.

In our manufacturing organization, we saw the need to proactively equip our technicians with capabilities that will help them become more confident with their future careers. To address this, we have piloted the Own Your Future Program across six manufacturing sites. This program provides a career planning approach and targeted learning offers that will help our technicians address their skill gaps.

In addition, we have implemented a global outplacement policy which outlines a standard framework to ensure employees across the world are treated equally in case of layoff or restructuring. It offers a standard portfolio of services to support employees' career transitions beyond PMI through coaching, trainings, networking, and job fairs, as well as placement services.

Fostering diversity, equity, and inclusion

We regard our employees' diversity as one of our greatest assets. We therefore seek to cultivate an inclusive environment in which the full power of a diverse workforce can be realized, because all employees feel respected, supported, and engaged.

Enhancing diversity and championing equity

At PMI, we celebrate all types of diversity, both demographic (e.g., race, ethnicity, sexual orientation, gender identity or expression, age, creed, national identity, marital or family status, and visible or invisible disability) and experiential (how people think, work, communicate, and live). Our global forward-looking aspirations, however, specifically center on gender diversity, and having a talent mix that is representative of our consumer base.

Advancing gender diversity and empowering women

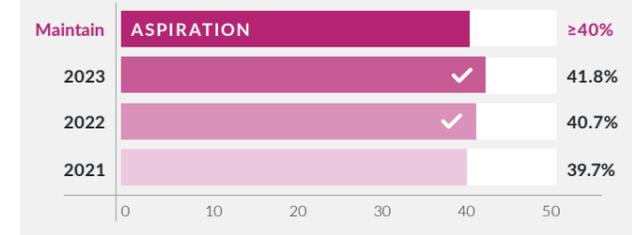
A gender gap is a talent gap. Building a gender-diverse organization and improving gender inclusion at PMI are therefore top priorities.

Improving gender diversity in leadership

Our aspiration is to have at least 40 percent of management roles filled by women globally, while increasing gender diversity in managerial roles in most of our functions and regions.

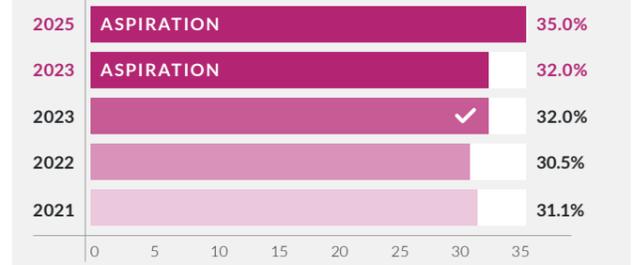
Globally, 42.9 percent of our employees were women in 2023, and 41.8 percent of our management positions were held by women (2022: 42.1 percent, 40.7 percent).

Proportion of management positions held by women



We also set an aspiration to have at least 32 percent of senior roles held by women globally by 2023 and 35 percent by 2025. In 2023, women represented 32.0 percent of senior positions (2022: 30.5 percent).

Proportion of senior roles held by women



We achieved our aspiration of having 32 percent female representation in senior roles by the end of 2023. This was a result of collective efforts across our regions and business functions management in maintaining equity and fairness in our recruitment, retention, and promotion practices.

We continue investing in training and development programs to increase gender diversity in senior roles. Examples include our global "Women in Leadership" and "Elevate" programs (read more [here](#)).

Towards the end of 2023, PMI became a hiring partner for the Bring Women Back to Work (BWBW) initiative. BWBW is a nonprofit organization based in Switzerland, aiming to reintegrate women who have taken a career break into the workforce. Following our internal "Make Your Comeback" program, launched by Philip Morris Pakistan, our partnership with BWBW is an exciting opportunity for us to further support women to re-enter the professional sphere with confidence and to showcase our continued commitment to gender equity.

CASE STUDY

Building confidence and HOPE in Indonesia

An example of our commitment to promote employability and reskilling is our voluntary program in Indonesia, HOPE. It aims to equip hand-rolling employees with the skills, knowledge, and resources to establish a new daily life beyond retirement.

[Read the case study here](#)



Closing the gender pay gap

PMI's global EQUAL-SALARY certification gives us confidence that we provide equal pay for equal work (read more [here](#)).

Alongside equal pay, we seek to close our gender pay gap, defined as the percentage difference between the average pay for men and for women.

When we look at our company as a whole, without adjusting for factors such as location, tenure, seniority, or education, the average pay for men was 29 percent higher than pay for women in 2023 (2022: 30 percent).

This gap needs to be viewed in the context of two factors – our overall workforce demographics and underrepresentation of women in senior leadership roles. With respect to our demographics, over a third of PMI employees are hand-rolling cigarettes at our manufacturing facilities in Indonesia. These employees are mostly women and they are competitively paid on a piece-work basis. This employment opportunity, while empowering thousands of women in the country, impacts our global gender pay gap. If we exclude the Indonesian piece rate employees from the calculation, our 2023 pay for women was slightly higher than for men.

Over the past years, our efforts on attracting, upskilling, promoting, and retaining female talent are contributing to gradually closing the gap with representation of women increasing among our managerial population.

Raw gender pay gap

	2023	2022
PMI's global mean (average) raw gender pay gap ¹	29%	30%

¹ The mean gender pay gap is calculated as the percentage difference between the sum of annual base salary, bonus, and stock options.

Share of women in each pay quartile

	2023	2022
Top pay quartile globally	39%	37%
Upper-middle pay quartile globally	35%	34%
Lower-middle pay quartile globally	24%	25%
Lowest pay quartile globally	76%	73%

Focusing on local representation

We seek to strengthen the diversity of nationalities within our global workforce and, in particular, to grow local talent within executive management teams.

Our employees represented 139 nationalities at year-end 2023, contributing to an international culture that many employees value. Despite this international composition, we aspire to increase the diversity in our leadership to better reflect PMI's geographic footprint, consumer base, and the diversity of its overall workforce. Employees in all positions, including management, need to better reflect PMI's geographic footprint.

Top five nationalities in PMI's workforce and their respective representation in our overall workforce and in management positions

	Overall workforce	Management positions
Indonesian	31.3%	7.4%
Filipino	6.9%	3.5%
Polish	5.9%	8.1%
Russian	4.4%	6.3%
Italian	4.4%	4.6%
Other nationalities	47%	70%

We have set an ambition to develop local talent for leadership positions, and we aspire to have at least 60 percent representation of local talent in executive management teams in 80 percent of our markets and clusters. To support this aspiration, we are exploring more flexible ways of working in PMI and looking into different solutions to overcome potential language barriers, in our global events and programs.

Proportion of markets with at least 60% representation of local talent in the executive management teams



Our second key focus is to increase Asian representation in senior roles to at least 20 percent by 2025. This will help bridge the current representation gap.



Building a culture that promotes and protects inclusion

PMI prides itself on its culture of respect, innovation, and mutual support. We seek to foster a culture of feedback, dialogue, psychological safety, and collaborative and supportive leadership styles. Only a truly inclusive culture will allow us to benefit fully from the value diversity can bring to our organization.

Creating a safe space for our employees to take an active role

Our employee resource groups (ERGs) play an important role in driving inclusion at PMI. Each of them focuses on a different dimension of diversity and helps raise awareness and understanding, creates a sense of belonging and connection, and promotes allyship across our Company.

Each ERG is led by a committee of employee volunteers, sponsored by a member of Company Management, and most are supported by an external subject-matter expert. They are open to all PMI employees.

In 2023, we launched two new global ERGs:

- **Parents@PMI** aims to create an inclusive community of enthusiastic caregivers and leverage the workforce's diverse experiences and available resources to support PMI parents in managing their responsibilities and establishing a healthy work-life balance.
- **advantAGE** promotes intergenerational collaboration by supporting employees of all ages throughout their careers by fostering a workplace that welcomes age diversity and promotes intergenerational collaboration and understanding.

Learn more about our six global ERGs [here](#).

In 2023, we also maintained our focus on the local expansion of our ERGs, to be able to meet the specific needs of different geographies. By the end of the year, we had over 50 local ERG chapters established, and participation in our global ERG events reached more than 11,000 attendees.

Raising awareness and knowledge

Our mission is to fuel an ongoing and productive dialogue on diversity, equity, and inclusion (DEI), while designing and driving strategies and initiatives to ensure equality, equity, representation, safety, and well-being. In 2023, we conducted a range of activities to foster engagement on DEI topics.

Measuring inclusion

In 2023, we continued to capture employee sentiment on inclusion, through iNPS (inclusion Net Promoter Score), as part of our global employee listening survey (read more [here](#)). Through iNPS, we ask our employees how likely they would be to recommend PMI to their friend or colleague from an underrepresented group as an inclusive place to work. We also ask our colleagues to voluntarily self-identify as part of an underrepresented group based on gender, nationality, sexual orientation, ethnicity, disability, creed, or other dimension. We do this to be able to see and assess the difference between the overall PMI score and the iNPS for underrepresented groups.

Compared with 2022, we observed an increase both in the total PMI iNPS (amounted to 62 versus 56, in 2022) and iNPS among underrepresented groups (42 versus 35, in 2022). To better understand and analyze the drivers of the feeling of inclusion, we also ran a dedicated inclusion study in six pilot markets. As per the initial results, uniqueness and belonging are the key drivers for inclusion but they need to be supported by psychological safety and fairness at organizational level. We are considering learnings from this study and our company-wide employee survey to develop a comprehensive inclusion index that we will use as of 2024 to measure and report on inclusion.



To communicate and cascade our global DEI strategy, we continued to hold bimonthly community calls with our in-market DEI representatives as well as monthly ERG connect sessions.

To date, our global ERGs have collectively organized over 20 events to raise awareness on a variety of issues and promote allyship and inclusion networking. More than 10 percent of PMI employees globally have participated in an ERG-hosted event or initiative and receive regular updates on ERG activities.

We also continue to offer employees access to online unconscious bias training, personalized cultural diversity training and workshops, as well as newly introduced psychological safety resources, including an "Escape Game" simulation with psychological safety theme. These trainings raise awareness of implicit bias and the various ways it shows up in organizations and helps employees minimize biases when making decisions. Through these learning platforms, participants receive practical tools and techniques to combat prejudice and preconceived notions that constitute barriers to inclusion. In 2023, we organized several "train the trainer" sessions to conduct cultural diversity workshops and discussions in their respective market or function.

To raise awareness of the need to be intentional in our efforts to build a more inclusive workplace, we dedicated March 2023 to our "All IN for Inclusion" campaign. Throughout this month, we organized global events, hosted virtual coffee chats with our employee resource groups, and released several new resources, along with practical tips for daily inclusion.

During and after this month, we received very positive feedback about our focus on inclusion (including the sharing of simple but intentional behaviors), which has been reflected in the iNPS scores in the April 2023 survey. Our global webinar hosted around 2,000 colleagues who participated in the live event, and our digital engagement campaigns triggered attention from all over the world. Having a panel of speakers from diverse backgrounds and different seniority level, and the open discussion with senior leaders (most of whom participated in the live event), set a very powerful example.

Following the March events, we continued to cascade our Inclusion Workshop to different functional management teams, including an action planning session to ensure inclusion at key moments, such as meetings, onboarding, and talent review discussions.

In late 2023, we introduced "I'm Remarkable" workshops, open to all employees and delivered by the DEI team and ERG representatives. The workshops celebrated the workplace achievements of members of underrepresented groups and challenged social perceptions around self-promotion. By the end of 2023, there were approximately 30 workshops held, virtually or in person, with more than 400 employees participating.

Promoting mental health and well-being

We seek to promote an environment that supports employee well-being as an enabler of professional and personal fulfillment, sustainable high performance, and business results.

Building a holistic approach to well-being

Our vision is to provide an environment which nourishes people's energy.

Well-being of employees is an outcome of an inclusive work environment. We developed a holistic global framework, launched in 2021, which helps us move toward realizing this aspiration.

We defined well-being as physical and psychological needs, and self-fulfillment, underpinned by ways of working, leadership behaviors, and psychological safety. We are guided by this framework in the development of an integrated data-driven roadmap of priority actions supported by insights gathered through our employee listening surveys, benchmarks of best-in-class practices, and the help of external experts. This year, we focused on the physical needs and psychological needs in our initiatives, such as annual leave guidelines, and we launched BeWell, a network of well-being champions across the Company.

To enable markets to implement this global framework in a holistic and structured way, and thus help them improve the well-being of their employees, we conducted a market maturity assessment pilot in 2023. Sixteen markets from different regions completed a dedicated questionnaire, providing both quantitative data through surveys and P&C data, but also participating in qualitative interviews and workshops.

During the process, markets shared their initiatives and were exposed to best practices within and outside of PMI to help inform local well-being strategies, benefits, and action planning. Each market received a maturity score, ranging from 1 = "minimum" to 5 = "enlightened." The results showed us that we are doing well in many locations, with most markets rated as a level 4 (proactive).

All participating markets received a dedicated report, outlining their results, areas of improvement, and examples of best practices, to support and inform the development of their 2024 action planning.

For this project, we partnered with consultants and used the approach outlined in WBCSD's [Healthy People, Healthy Business report \(2022\)](#) as a starting point, as well as other external guidelines.

Measuring well-being to drive action

Data and insights are key to introducing relevant interventions in support of employee well-being (read more about data privacy [here](#)).

As part of our regular employee listening (read more [here](#)), we ask employees three times a year to answer questions related to perceptions of psychological well-being. We avoid "open text" boxes to help prevent the identification of individuals and the collection of any health-related data. There are also minimum reporting thresholds to maintain confidentiality. Well-being is measured on a five-point scale, from very bad to very good. All PMI employees are invited to participate in this survey. In 2023, 47,574 employees completed the survey out of the 53,584 invited to participate (89 percent response rate). In October 2023, 72 percent of employees responded "good" or "very good" on these statements (2022: 74 percent).

These results show that we maintained our employees' well-being above 70 percent, exceeding our annual aspiration and external benchmarks, specifically in positive responses to the statement "PMI cares about my well-being," which we track regularly alongside the self-perception of psychological well-being.

In our company-wide survey, we include questions related to key well-being drivers identified in an in-depth study we conducted in 2021 to ensure that our initiatives are targeted.



In our fall 2023 survey, we incorporated well-being questions pertaining to sense of control over job (decisions on how to manage your work and ability to share your needs), perceived demand (workload and deadlines), and support (feeling that PMI cares about your well-being).

The survey results gave us additional insights into priority areas, such as managing workloads and establishing reasonable deadlines, which can be addressed through organizational support, and by empowering colleagues to prioritize self-care.

We will continue to track progress on this indicator, and aim to continue achieving scores that exceed 70 percent.

Promoting the importance of self-care

One of the most basic needs is sufficient time to recharge, so it is important for us to provide our employees with ample paid time off work. We launched internal annual leave guidelines in early 2023, which outline that all our employees should have the opportunity to take all or most of their annual leave entitlement during the year it is granted and fully disconnect from work. The guidelines aim to ensure that all our employees can fully utilize their annual leave benefits, and set out our suggested standards for paid annual leave policies and practices across PMI affiliates.

We also ran a global fitness challenge, with over 20 markets and over 3,000 employees taking part. The desired impact of the initiative was to encourage people to look after their health. As a result of this initiative, the large majority of the participants felt motivated to continue working on their health and well-being after the challenge was completed.

A global focus on mental health

Mental health is a critical component of employee well-being, and we have made removing the stigma around mental health a top priority.

To equip employees to support themselves and others, we refreshed our self-paced, online training, which we make available to our employees on our internal e-learning platform, PMI Campus. Our "Mental Health for All" training offers insights into the science of mental health, teaches employees how to spot signs of common problems and offer their help, and introduces proven and easy self-care practices. The training is available in 10 languages and has been incorporated into our leadership and management development programs and our well-being champions training.

After a successful pilot, we have continued our well-being champions training program, which aims to remove the stigma around conversations about mental health and help employees prioritize self-care. As of the end of 2023, over 200 employee volunteers had been trained as well-being champions. Moreover, more than 80 colleagues from our P&C and Security & Market Safety functions received training to become trainers themselves. The trainers adjust the training materials to local language and cultural nuances, and deliver it locally to champions in over 25 markets.

To bring this community of trained champions together, we launched BeWell, a network for our well-being champions, which has an executive sponsor, as well as a steering committee representing our colleagues in diverse locations around the globe.



From feedback we have received from our well-being champions, we know that people managers could benefit from a better understanding on how to support someone returning to work after a prolonged absence, especially due to a mental health condition. In response, we developed and launched return-to-work materials, offering best practice tips for managers.

We continued to promote the awareness of the importance of well-being and self-care by running several global awareness campaigns. In May, we focused on mental health, and in October, we focused on celebrating our well-being champions and the support available for self-care at PMI.

Supporting our employees

We aim to provide well-being offerings that meet employee needs and expectations and that are anchored in the local contexts of where our people live and work.

Family and caregiver support

We seek to promote an inclusive and equitable vision of care through our global parental leave principles, which provide all PMI employees who are primary caregivers a minimum of 18 weeks of fully paid parental leave and secondary caregiver employees a minimum of eight weeks of fully paid parental leave (read more on [PMI.com](https://www.pmi.com)).

In parallel, we continue to provide access to an external online platform called Circle-In, launched in 2021. The platform offers resources to support employees with the professional and personal challenges they may encounter as caregivers, and we developed a new employee resource group for parents (read more about our ERGs [here](#)).

We also provided support to parents returning to work from parental leave and parents of small children through our global parent peer coaching program in partnership with [parents@work](#). The program participants benefit from personal exchanges with a PMI experienced parent who is a trained peer coach. This tailored program supports parents to cope with common parental challenges while recognizing that the experiences are shared by other parents at PMI. By the end of 2023, we had four global cohorts and 28 trained peer coaches.

Back-up childcare services or childcare subsidies through company or government support are available in around half of our markets. Approximately two-thirds of our markets also offer private spaces to be used as lactation rooms for breastfeeding, or other lactation benefits through company or governmental support.

Paid family or care leave beyond parental leave is offered in more than half of our markets. Examples may include care for a child, spouse, partner, dependant, parent, sibling, or other designated relation with a physical or mental health condition.

Supporting our employees and their families

Our global Employee Assistance Program (EAP) offers first-line support to our employees and their close relatives in the areas of psychological, financial, and legal counseling. Support is provided in local languages across all 92 countries under high standards of confidentiality. By the end of 2023, the program covered 100 percent of our total workforce maintained in PMI's central HR system.¹ The majority of countries are served by a global provider, with the remainder covered by local schemes. For instance, Indonesia has a local EAP solution covering all its employees (approximately 20,000), which is managed locally.

Flexible working arrangements

In 2023, we continued Smart Work, a global hybrid work plan that generally permits employees to work remotely up to 60 percent of the time each month, with the remainder spent on-site. The program is deployed and adjusted locally to account for cultural, operational, tax, and legal factors, which vary at the national level.

By year-end 2023, all our markets had implemented Smart Work. We will use our learnings to adjust our guidelines and provide resources to support employees and managers to help use time most productively in the hybrid world, as well as to support an individual's well-being. In addition, in almost two thirds of our markets, employees have the option of choosing to work part-time.

¹ The calculation is based on the almost 57,000 employees maintained in PMI's central HR system.

Looking ahead

Frederic Patitucci
Chief People & Culture Officer



“Starting in 2024, we plan to roll out a new company-wide ‘PMI DNA’ program centered around our people being at the core of our business success and integrated into everything we do; it will focus on three core values: (1) we care, (2) we are better together, and (3) we are game changers. Further, during the year we plan to establish a global network to create a global-local feedback loop on all labor relations matters. We will also work on leveraging our enhanced approach to employee listening to inform our organizational strategy. Committed to human capital development, we will continue to expand and improve our learning portfolio and platforms supporting employability and measuring the impact of our interventions. Integration of Swedish Match and expansion of our U.S. business remain key priorities, as well as continuing to meet our living wage commitments and deploying our third-party workforce policy.”

Mimi Kurniawan
Chief Diversity Officer



“In 2024, we will continue all our efforts to improve gender diversity in our leadership. Yet we understand that gender is just one aspect of diversity. Going forward we will continue addressing the need for local talent representation mirroring our consumer base. Providing support in setting up local ERG chapters is our priority moving forward, as we continue to appreciate ERGs’ role in improving inclusion and a sense of belonging for underrepresented employees. We also aim to expand BeWell and make the resources available to employees and people managers to take care of their mental and physical health. We are developing inclusive leadership workshops, tools, and training resources to equip each employee with the tools needed to be truly inclusive leaders in everything they do and measure our progress through the Inclusion Index.”

Scott Couts
Senior Vice President, Operations



“Safety is in everything we do, not as a task, but as a mindset that we seek to embrace across the organization. The robustness of our environmental, health, and safety (EHS) policies and practices ensures that PMI continues to be a safe place to work. We will continue to do everything to prevent accidents on the road or in the workplace, operating responsibly and continuing on our journey to interdependent culture by enhancing our efforts on people training. We will drive our EHS standards adherence through leadership, ownership, and discipline from everyone with a continuous focus on contractors, nonroutine activities, and construction.”



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 and farmworkers who cultivate our tobacco and other agricultural products to workers at the supplier companies that provide the products and services we need to run our business.

INWARD IMPACT

The business case

Caring for the quality of life of the people in our supply chain is a major contributor to our preparedness, resilience, and long-term success.

We anticipate that the time, energy, and resources we have invested in developing, implementing, and monitoring the application of our due diligence processes to monitor and improve the quality of life of those working in our tobacco supply chain will allow us to continue to gather learnings that will help us uphold high standards throughout the rest of our supply chain, with a particular focus on our relatively recent yet fast expanding electronics supply chain.

This will enable us to continue fostering sustainable and responsible corporate behavior anchored in human rights and environmental considerations in our value chain. Importantly, as new rules norming how businesses address and report on the impacts of their supply chains emerge, strategic focus on this topic will allow us to limit our potential exposure to human rights issues, child labor, forced labor, and other labor-related violations, import bans, as well as reputational damage.

OUTWARD IMPACT

The right thing to do

Promoting and adhering to sustainable business practices in our direct and indirect operations helps safeguard human rights, improve labor conditions, protect workers' health and safety, tackle social inequities, and contribute toward alleviating poverty. As a globally operating company with hundreds of thousands of people engaged in our value chain, our substantial scale provides us with the opportunity to contribute meaningfully to the advancement of fair labor standards and to fostering prosperity.

Within our supply chain we can find parts of our business that are particularly vulnerable to the effects of poverty, including human rights abuses.

The tobacco we source is often grown on smallholder farms in many regions of the world, including low- and middle-income countries. Working to improve farmers' livelihoods mitigates the risks of human and labor rights violations, including child labor and forced labor. Activities and investments in our supply chain extend beyond our direct effect on farmers, impacting people's assets, capabilities, opportunities, and standards of living. As our business continues to transform, we are cognizant of the specific risks facing the electronics sector supply chain, including pervasive modern slavery risks.

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Management approach

Sound governance, policies, and practices to manage our supply chain responsibly (read more [here](#)) and safeguard human rights (read more [here](#)) are vital prerequisites to harnessing the connections in our supply chain to improve the quality of life of those who are part of it.

Tobacco is the core material used in our legacy products—cigarettes, and in most of our smoke-free alternatives. Accordingly, a long-standing and principal aim of PMI is to provide a decent livelihood to all contracted farmers supplying tobacco to PMI. This has been a focus since we introduced our Good Agricultural Practices (GAP) and our [Agricultural Labor Practices \(ALP\)](#) program in 2011, revised and updated in 2018 by our [ALP Step Change](#).

The mid- and long-term aspirations connected to this cover fundamental human rights, such as child labor, income, working hours, health and safety, accommodation, and access to water, sanitation, and hygiene.

Our Leaf team, tobacco suppliers, contracted farmers, and farmworkers are regularly trained on the ALP Code. Our integrated production system (IPS) enables traceability at the farm level (read more [here](#)). Moreover, we have a robust due diligence framework in place to evaluate the implementation of the ALP Code (read our 10-year anniversary report [here](#)).

Monitoring the implementation of our ALP Code

Our due diligence framework to evaluate the implementation of our ALP Code comprises internal farm-by-farm monitoring by field technicians, employed by our suppliers or our own Leaf operations, whose role is to visit the farms, oversee and support the crop production, and monitor the implementation of social and environmental practices. This internal monitoring is complemented by external assessments performed by Control Union, an independent third-party auditor who check ALP program implementation and progress (from a management system perspective) and by local specialized third parties that verify social practices in high-risk markets (learn more on [PMI.com](#)).

We use a risk-based approach to prevent, identify, mitigate, and address human rights and labor rights incidents in our tobacco supply chain. This entails ongoing collaboration with key stakeholders—including suppliers, farmers and farmer associations, civil society organizations, academics, governments, and the private sector—to tackle persistent and systemic issues in the agricultural sector.

Since 2018, we have deployed a step change approach to our ALP program focused on four priority areas to ensure:

- Eliminating child labor
- Payment of at least a minimum legal wage or agricultural benchmark
- The availability and appropriate use of personal protective equipment (PPE)
- Adequate accommodation for workers where farmers choose to provide housing

Step Change aims to resolve the root causes of these persistent issues in priority countries—which we assess periodically—and is guided by our long-term strategic partner on the ALP program, Verité.

Beyond tobacco, we are leveraging the extensive learnings from the ALP program and our human rights impact assessments to address challenges in our electronics supply chain. We are also exploring pathways to promote a living wage across our broader supply chain. We are at the early stage of this journey and are focused on building our understanding and identifying meaningful strategies to deploy in the years to come, grounded in our [Human Rights Commitment](#) and [Responsible Sourcing Principles \(RSP\)](#).



PMI's policies and standards

[Human Rights Commitment](#)

[Responsible Sourcing Principles \(RSP\)](#)

[Agricultural Labor Practices \(ALP\) Code](#)

[Good Agricultural Practices \(GAP\)](#)



We understand that promoting fair working conditions and a living wage across a global and complex supply chain must rely on data that are often fragmented or unavailable. In that context, we participate in the Business Commission to Tackle Inequality (BCTI) efforts led by the World Business Council for Sustainable Development (WBCSD), a cross-sectoral and multistakeholder coalition of organizations and their leaders with the mission of mobilizing the private sector to tackle inequality and generate shared prosperity for all. In May 2023, the BCTI published their flagship report, [Tackling Inequality: Agenda for Business Action](#), a case for business efforts to tackle inequality and to identify and assess inequality-related risks and opportunities.

In addition, in 2023, PMI became a launch sponsor for the Wage Indicator Foundation's mission to publish its living wage benchmarks and make them freely accessible in over 2,300 regions within at least 165 countries. Publishing this data will be a first step toward massively increasing access to living wage benchmarks across the world, ensuring equal access to data for all stakeholders involved in wage-setting practices and closing the living wage gap.

Sustainable Tobacco Supply Chain (STSC) framework

At the forefront of our approach to continuously strengthen our ALP program is PMI's Sustainable Tobacco Supply Chain (STSC) framework, a comprehensive approach that PMI initiated in 2022. The aim of this approach is to address sustainability risks and impacts in the countries where PMI sources its tobacco.

In this respect, during 2022 we analyzed past results from internal monitoring and various external assessments and decided to revisit our methodologies to become more stringent in our purchasing practices. Our aim is to ensure that PMI's packed products contain tobacco that is cultivated and sourced aligned with key sustainability criteria, as per our ALP program requirements. This framework breaks down our tobacco supply base into three categories: (1) PMI's supplier farm base, applying PMI's GAP and ALP; (2) eligible farmers contracted by suppliers, who comply with a predefined set of sustainability criteria aligned with ALP requirements; and (3) eligible contracted farmers supplying tobacco to PMI. The sustainability progress included in this report pertains only to category (3), i.e., farmers whose tobacco volumes are directly included in PMI's purchased tobacco, whom we refer to as "contracted farmers supplying tobacco to PMI."

It is important to note that, while the data reported confirms that the tobacco we purchase is almost completely free from key labor issues (read more [here](#)), this does not mean that labor issues, including child labor, do not continue to exist in the tobacco-growing areas from which we source. Read more about the STSC framework [here](#).

It is worth mentioning that the data reported in this report exclude opportunity purchases, i.e., unplanned purchases or purchases from new suppliers for which we do not have access to a full set of sustainability information. During 2023, we further refined our controls and system to monitor these volumes and ensure they do not exceed 10 percent of our total purchased volume in any given year.

We are committed to sourcing sustainably from all our critical suppliers (read more [here](#)) and conducting human rights impact assessments in our 10 highest-risk markets by 2025 (read more [here](#)).

Management

PMI's Senior Vice President of Operations, a member of our Company Management, is responsible for our strategy related to supply chain management and relevant programs. Operational responsibility for our agricultural supply chain work lies with our Vice President, Global Technical Operations. A management team oversees its implementation. Operational responsibility for PMI's work in the broader supply chain, including electronics, lies with PMI's Chief Procurement Officer. Our Operations Sustainability department is responsible for strategy development and stakeholder engagement, and acts as the center of expertise related to potential social issues.

Progress in 2023

Highlights

- We continued to support farmer income through enhanced productivity, continuous training, and alternative income initiatives. In addition, we invested in strengthening our farmer income data collection processes, providing us with a more holistic view of farmers' income levels globally.
- We introduced the household dependency model in our living income KPI calculation, which allows us to analyze in more granularity the segments of farmers' groups falling below the living income and assess their required income levels based on specific family size.
- We continued initiatives to prevent children from being used as farm labor through various interventions, including targeted training and after-school and school improvement programs.
- We piloted two Responsible Business Alliance (RBA) tools and resources—the Responsible Factory Initiative and Responsible Labor Initiative—to further enhance our electronic suppliers' capabilities and improve their sustainability performance.
- We completed our first gender-inclusive human rights impact assessment in Pakistan. This work covered our operations in Pakistan, our manufacturing facilities, and our tobacco supply chain.

Challenges

- We face challenges evaluating, measuring, and reporting quantifiable impacts of social initiatives in the absence of globally accepted standards and guidance. Continuous improvements we do make—though useful moving forward and further enhancing data reliability—make it difficult to compare and analyze year-on-year trends and progress.
- As we progress toward our aspiration of having 100 percent of contracted farmers supplying tobacco to PMI who have basic water access by 2025, we face challenges in reaching isolated farmers with water access, sanitation, and hygiene (WASH) interventions.
- The increasing share of smoke-free consumables in our product portfolio is leading to a gradual decrease in our demand for tobacco leaf.
- Despite our best efforts, isolated cases of child labor—even when systemic occurrences are addressed—may persist. It is tackled promptly when identified.
- Despite improved data collection and farmer income modelling, we still face challenges with the verifiability of non-tobacco income data.

A glance at our path to integrate Swedish Match

Supply chain data and information in this section does not include Swedish Match.

Notably, sustainable policies and practices in place prior to the acquisition continued to apply in Swedish Match's supply chain during the year. Concretely, during 2023 Swedish Match continued to ensure that their suppliers would adhere to their Supplier's Code of Conduct. More specifically, with regard to due diligence in the smoke-free tobacco supply chain, Swedish Match continues to be part of the Sustainable Tobacco Program (STP)—an industry-wide initiative developed by tobacco manufacturers designed to assure standards in agricultural practices, environmental management, and key social and human rights.

As integration progresses, we will work to expand PMI's existing stringent due diligence programs to Swedish Match's supply chain. Considering the complexity, wide-scale, and diversified nature of our respective supply chains, we expect to gradually integrate Swedish Match in our supply chain-related sustainability data reporting where material by 2026.



Promoting fair working and living conditions in our tobacco supply chain

Since the introduction of our ALP program, over a decade ago, we have put in place several initiatives to continuously strengthen our policies, practices, processes, and methodologies.

Our intention is to influence the rest of the industry and our partners in tobacco-growing countries, to accelerate actions to address sustainability challenges. We will also continue to implement targeted initiatives to address labor issues identified on the ground within our broader total farm base of contracted farmers.

Contributing toward alleviating poverty in our tobacco supply chain

We aim to improve the livelihoods of the farmers supplying tobacco to PMI, thereby advancing the socioeconomic development of the communities in which they live. We see this as fundamental to addressing social inequality and other human rights issues born from poverty.

Assessing income levels in our tobacco sourcing markets

Robust analyses and studies to define living income values and assess current farmer incomes (and the potential delta between the two) form the backbone of our approach to poverty alleviation across our sourcing markets.

The living income value determines the net annual income required for a household to afford a decent standard of living for its members. It is based on a variety of mechanisms, depending on the economic characteristics of individual countries from which we source tobacco.

For identified priority and low- and middle-income countries, we use the following Anker Research Institute's proposed methodologies (see [Glossary](#) for further details):

- **Full benchmark:** Since 2020, we have tasked Social Accountability International with conducting full living income benchmark studies (in line with the methodology of Anker Research Institute). This starts with the analysis of secondary data (e.g., government-issued household welfare surveys). The resulting benchmarks are then adjusted through on-the-ground field visits. Following India, Mexico, and Pakistan, in 2023, we finalized a full benchmark study in the Philippines.

- **Reference value:** For some countries, such as Argentina, Mozambique, and Turkey, when determining living income rates, Anker Research Institute's approach is to use reference values established in previous years, which represent typical or average living incomes for rural and urban areas within each country. They are not location-specific, and so are not representative of a particular region or city.
- **Regional adjustments:** In markets where Anker benchmarks already existed covering other regions than our sourcing footprint, Anker conducted regional adjustments. This approach relies on previous full benchmark assessments conducted in the country and splits the country into regions that share similar characteristics. If needed, these assessments are complemented with on-the-ground adjustments by researchers from Anker Research Institute. In 2023, we finalized this work in India.

To establish the living income status of farmers in higher-income markets from which we source tobacco (such as Canada, Greece, Italy, North Macedonia, Spain, and the U.S.), we partner with BSR, the global provider of living wage estimates for PMI employees (formerly Business for Social Responsibility). We use BSR's living wage benchmarks, alongside the reference family size, to assess whether farmers in these countries are achieving a living income. In 2023, BSR provided us with living wage benchmarks for two additional higher-income markets: South Africa and Switzerland.

We periodically review the living income benchmarks to account for annual inflationary increases, and revise farmer income studies to consider market dynamics that may impact farmers' overall income.

In parallel to establishing the living income values, we assess the income level of farmers supplying tobacco to PMI in each sourcing market to determine the potential delta between the two. We include both on-farm and off-farm activities, net of production costs, as well as remittances or subsidies.

On-farm activities include income generated from the sale of tobacco and the production of other crops and livestock. Off-farm income derives from revenue-generating activities outside of the farm, such as waged employment. These analyses rely on our internal farm-by-farm monitoring and also incorporate studies performed by our local partners (read more about our living income methodology in [PMI's Sustainability KPI Protocol 2023](#)).

Our STSC framework also dictated how we reported our living income KPI in 2023 (i.e., reporting on contracted farmers supplying tobacco to PMI).

Living income program methodology

As our living income program has become more sophisticated and mature, we have been able to develop a more granular approach to analyze farmers' income based on extensive research on existing methodologies.

Accordingly, in those markets where we still have farmers below living income, we have adopted a secondary layer of analysis, called the household dependency model. This is applied for those segments below living income, where we further segment our most vulnerable farmer base to account for household size (instead of relying on averaged data). This enables us to establish—in a more granular way—the income in relation to family size. We can then assess whether a household can achieve the equivalent living income. This allows us to better identify potential income gaps and, most importantly, it helps us focus our efforts on the most vulnerable households and develop targeted initiatives to increase their income.

We rolled out this new methodology in 2023 and applied it to report on the year's progress, thereby setting a new baseline.

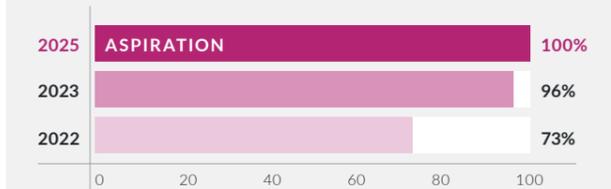
A crucial component of the rollout was to engage with our suppliers in order to improve the collection of household-related data, which is essential to the new methodology. In order to strengthen internal supplier knowledge, we commissioned the Anker Research Institute to conduct three targeted webinars during the year for PMI's suppliers and relevant company stakeholders, reaching close to 200 participants. The objective was to further explain relevant living income concepts and explain the change in methodology. We believe this helped foster a more robust implementation of the program.

Implementing targeted interventions to close the living income gap

In 2023, we significantly improved the number of contracted farmers supplying tobacco to PMI who make a living income. This increase can be attributed to multiple factors, including:

- Significant improvements in data collection and farmer income modeling which has allowed for a more holistic and comprehensive analysis of farmer income, particularly for non-tobacco income, where previously data were limited.
- The introduction of the household dependency model, which takes into account the size of the family when assessing the farmer income versus the living income benchmark.
- Further expansion of initiatives that aim to improve farmer income levels. While we tailor activities to local realities and needs, our strategy is universal: we aim to improve tobacco crop productivity and competitiveness while supporting households in diversifying their sources of income.

Proportion of contracted farmers supplying tobacco to PMI who make a living income



Note: Excludes China and Switzerland due to restrictions on farmer income data as well as benchmark development in China. In 2023, we applied new methodology which requires updated family size definitions for our farm profile data, and a resulting detailed and robust set of family size data for each farmer's family. Considering this preparatory work, we were only able to implement this secondary layer of modeling for Indonesia in 2023. As of 2024, household dependency modelling will be applied for all markets/farmer segments below living income. See [PMI's Sustainability KPI Protocol 2023](#) for further details on methodology.

As we get closer to our aspiration of reaching 100 percent of contracted farmers supplying tobacco to PMI earning a living income, we continue to monitor and design comprehensive action plans, with the aim to exceed the living income benchmark targets required to achieve a decent standard of living. We also continue to monitor the potential impact of climatic shocks or market volatility, including inflationary changes impacting farmers' income.

Mindful that we set a very high ambition, and that a small portion of farmers may not reach the living income benchmark, despite our best efforts, by 2025, we are working to strengthen our focus and shift our resources toward those most vulnerable farmers and their households.



Improving productivity

We support farmers in their efforts to maximize efficiencies on their farms. Some examples include supporting them to hire only the labor required, to make judicious use of inputs (such as fertilizer), to find ways to increase yields per hectare, to improve irrigation, and to mechanize certain steps of tobacco cultivation.

In Malawi in 2023, we introduced, together with a third party, a soil health program based on correcting the acidic pH of the soil. This program benefits the entire crop rotation. By focusing on applying lime, reducing tillage, improving soil organic carbon, and ultimately increasing the yields of crops such as corn, the farmer has more disposable income.

During the 2023 crop year, we also further expanded the mechanization projects of Burley tobacco in Vinukonda, India. This involved the introduction of an additional two seeder machines and 371 sewing machines. The cumulative total of 14 seeder machines, 294 cultivator and fertilizer applicators, 805 sucker applicators, and 885 sewing machines have helped improve productivity by reducing labor demands per hectare. Increased productivity and reduced labor requirements translated to cost savings for farmers. Based on the latest study, we are currently able to reduce labor hours by up to 8 percent, which translates into savings of USD 63 per hectare with the combination of seeder machines, cultivators, sucker applications, and sewing machines.

Additionally, we expanded initiatives to promote sun-cured production with an additional 664 hectares introduced in India during the 2023 crop year. To date we have introduced 228 cultivators and fertilizer applicators, 1,235 sucker applicators, and 164 sewing machines. By targeting a proper crop window with consideration of weather and field selection and ensuring farmers followed best practices, such as plant spacing, proper fertilizer application, and top dressing, we increased farm productivity by around 3 percent versus 2022.

Although on a small scale, these projects are indicative of initiatives we implement on the ground.

Supporting households in diversifying their income

We also look at opportunities to implement other income-generating activities. Notably, cultivating complementary crops beyond tobacco can improve farmer income while enhancing resilience against climate change and economic uncertainty. In 2023, we estimate that around 70 percent of our contracted farmers grew crops other than tobacco.

In Mozambique, in a bid to tackle child labor, we developed a treadle pump program in 2018 to provide an innovative way to irrigate tobacco nursery crops with reduced labor. We found that the pumps also irrigate winter crops more effectively. Consequently, we incorporated a starter kit of winter crop seeds and fertilizer to be provided to treadle pump beneficiaries in their first year of receiving the pumps. A 2020 internal study found that farmers who grew two to three crop cycles per year generated an additional income of USD 300 to 400 (i.e., representing approximately 15 percent of the average annual income). Furthermore, a 2022 farmer income study demonstrated that these farmers can increase their vegetable garden sizes, thereby increasing the amount of vegetables they can produce per cycle for sale or consumption. In 2023, we provided winter crop kits to 1,320 treadle pump beneficiaries from 2022 and placed an order for an additional 1,264 pumps that were distributed to beneficiaries in early 2024. Since 2018, we have distributed 7,384 pumps.

Beyond Mozambique, we deploy similar targeted initiatives to support households in diversifying their income in various tobacco-growing countries, such as India, Indonesia, and Malawi.

Mitigating the impact of the gradual decrease in our tobacco demand

The growth of our smoke-free business will result in a simultaneous decline in our cigarette business. While this consequence is fully intended, it also translates into a gradual decrease in our demand for tobacco leaf, which will impact our contracted farmers. Since 2016, our demand for leaf has fallen approximately 17 percent. This has resulted in a reduction in the volume of tobacco we purchase in some markets and the elimination of our sourcing activities in others.

We seek to minimize the effects of the gradual decrease in tobacco demand by improving tobacco-farming communities' socioeconomic well-being and resilience. We do this through a dedicated assessment of the unique realities and contingencies that define each country or region from which we source tobacco, building an understanding of the local ecosystem so we can tailor and implement sustainable solutions that help farmers transition to sustainable alternative livelihoods where needed.

In some cases, farmers are not heavily reliant on tobacco production for their livelihoods, have the means to switch to other crops easily, or will continue to grow tobacco for other customers. In other geographies, we provide additional support to mitigate the negative impact of our reduced purchases.

The initiatives we implement to help contracted farmers earn a living income include improving crop productivity and helping them diversify their crop production. We expect these efforts to play an important role in minimizing the potential negative economic impacts on contracted farmers of our transformation and consequential reduction in demand for tobacco.

Empowering women involved in tobacco farming

Around the world, women participate in agriculture as members of family farming households and as hired wage labor on farms owned and operated by other households or companies.

Many of the gender inequalities women face in general are exacerbated for women in agriculture. Globally, less than 15 percent of agricultural land is owned by women, and women involved in tobacco farming often face structural and cultural barriers.¹

Since our ALP Step Change in 2018, our ALP program has deployed several initiatives focused on women empowerment across our sourcing markets.

For example, since 2020 we have been delivering “train the trainer” workshops to empower women in our tobacco-growing areas in India. To date, 846 women participating in 87 self-help groups (SHG) have been trained in leadership skills and micro-entrepreneurship. Since 2020, 707 micro-enterprises have been established, of which 423 were directly funded by PMI and 284 were funded by SHG members who previously had established their own businesses (read more in our dedicated ALP Progress Update [here](#)).

Another example is our Access to Farmer Families project introduced in 2022 in Pakistan, a country where many tobacco-related activities (e.g., stringing or sometimes curing) take place in people's homes. Given the country's cultural considerations related to women, male field technicians are unable to access the homes, which leads to blind spots in our monitoring. To address this, we continued this project in 2023, working with 10 women, called social mobilizers, who are tasked with raising awareness of and providing training on Agricultural Labor Practices (mainly on safety and child labor topics) and conducting farm-by-farm monitoring, including in homes, which are inaccessible to male field technicians.

During 2023, we also completed a human rights impact assessment (HRIA) in Pakistan, where we introduced for the first time a gender-inclusive lens in our analysis. Our work included our tobacco supply chain there (read more about it [here](#)).

In Malawi, we continue to expand the Village Saving Loans Associations (VSLA) initiative, a woman empowerment centered program in which affordable cash loans are made available to VSLA members, facilitating them to start up or further expand existing micro-enterprises. The initial program commenced in 2019 and has grown to a total of 213 groups with approximately 3,909 women members involved to date. An impact assessment conducted in 2021 showed a significant positive impact on the financial well-being of the members involved, with an estimated USD 160 additional income from nonfarm enterprises.

In 2023, in collaboration with USAID, the VSLA initiative scope was expanded to the provision of mini drip kits to 446 members from 26 VSLA groups. The aim of this arm of the project is to encourage group members to collectively cultivate combined vegetable sites, which are expected to generate an additional USD 120 income per annum for the members involved, in addition to improving households' food security.



Promoting crop diversification in Brazil

Philip Morris Brazil, in partnership with the Brazilian Agricultural Research Corporation from the Ministry of Agriculture, Livestock, and Food Supply (EMBRAPA), has been working to help rural community members who have the space to create and maintain smallholdings to grow a range of plants, fruits, and vegetables, through a project called “Home Garden.”

[Read the story here](#)

¹ Source: Food and Agriculture Organization of the United Nations (FAO).

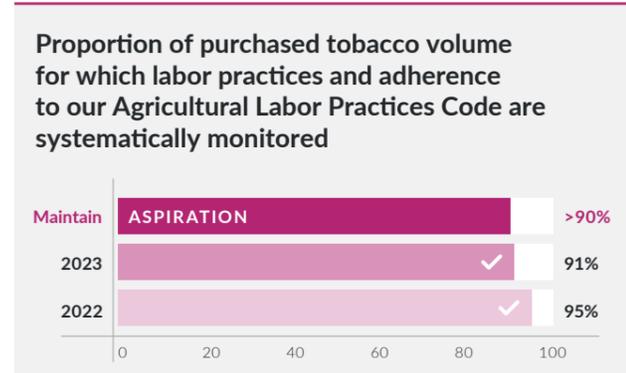


Eliminating labor abuses

Our ALP Code principles include no child labor, fair income and working hours, no forced labor or human trafficking, a safe work environment, fair treatment, freedom of association, and established terms of employment.

In 2023, 3,121 field technicians contracted by PMI or our leaf suppliers systematically monitored the implementation of our ALP Code principles and measurable standards on 91 percent of tobacco volume purchased by PMI. The remaining percentage pertains mainly to spot unplanned purchases for which sustainability data were not available.

Our 2023 ALP monitoring farm-level dataset covers 21 of the 23 countries from which we sourced in 2023. Tanzania and Uganda were not included in this dataset as these volumes are classified as opportunity purchases (read more [here](#)).



In 2023, field technicians reported a total of 7,301 prompt actions across all sourcing markets, of which 88 percent were related to safe working environment issues, 3 percent to child labor incidents, and 7 percent to income and working hours. In total, 94 percent of the prompt actions raised were resolved during the year, with the remaining 6 percent of prompt actions followed up not yet resolved, predominantly due to the timing of the crop stage.

Across the countries from which we source tobacco, the most recurrent and complex challenges relate to a safe work environment and the use of personal protective equipment (PPE). This is an area where we continue focusing our efforts through regular training and continuous improvements in the comfort and usability of PPE.

Strengthening our controls

In addition to internal farm-by-farm monitoring, Control Union conducted an external assessment in Thailand in 2023, evaluating the management system in place for ALP implementation, reviewing prompt action protocols and procedures to identify, record, and address issues, and examining the internal capacity to implement the ALP program.

We will publish the findings of this assessment once complete. This brought the total number of Control Union external assessments conducted on our total base of contracted farmers to 39 since 2013 (all available on [PMI.com](#)).

We recently revised guidelines to help clarify the role of external verification under the STSC framework (read more about the framework [here](#)) and slightly modified the aim of the guidelines to focus on increasing confidence in internal monitoring data, validating this data, and identifying potential data discrepancies so suppliers can implement corrective actions, such as more regular unannounced visits, targeted training, etc.

In 2023, external verifications by local third-party organizations were undertaken in Argentina, Malawi, Mexico, and Mozambique, covering our eligible farm base of contracted farmers. Some data discrepancies were highlighted in Argentina, Mexico, and Mozambique. Action plans have been agreed with the suppliers and external verifications will be repeated in 2024 to ensure that identified issues were addressed in a timely fashion. The external verification in Malawi showed an adequate level of alignment between internal monitoring and the external verification's results.

In addition, we cancelled the external verification in Turkey since some of the areas under the scope of the verification were affected by the 2023 earthquake. However, we conducted an internal assessment mimicking the external verification methodology, which demonstrated positive correlation between suppliers' internal monitoring data collected in the field and PMI's internal assessment results.

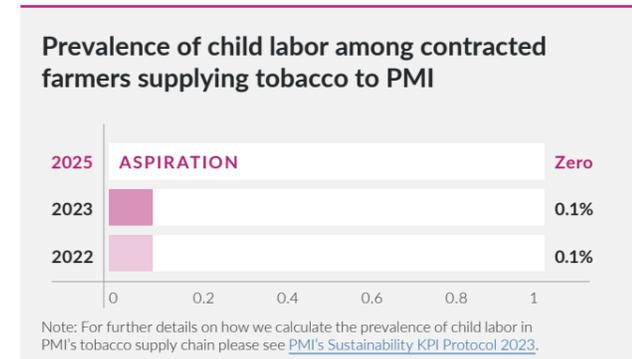
The vast majority of our relationships with contracted farmers supplying us with tobacco feature a shared commitment to continuous improvement in addressing social issues. As part of our STSC framework, the list of eligible farmers from whom we may source tobacco for our finished products includes pre-selected farmers based on their performance implementing PMI ALP Code requirements.

With regard to PMI's supplier farm base and PMI Leaf operations' farmer base, a consequence management and due diligence process is still being implemented to strengthen and enforce the implementation of ALP across the entire supply chain.

Eliminating child labor

We maintain a relentless focus on preventing incidents of child labor, and we take immediate action when they arise.

Our objective is to eradicate, by 2025, child labor cases in our tobacco supply chain. While we are confident that child labor (as a systemic issue in our supply chain) has been eradicated, we acknowledge that isolated cases might persist due to farmer turnover or unintentional misbehaviors, and we will remain alert and tackle them promptly when identified.



In line with our STSC framework, our child labor datasets depict the prevalence of child labor among contracted farmers supplying tobacco to PMI.

We use International Labour Organization (ILO) standards to measure our progress toward our aspiration of zero child labor. Our methodology centers on preventing children under age 13 from doing any tobacco-related tasks, restricting employment to those aged 15 and older, and preventing anyone under age 18 from engaging in hazardous tasks. This focus reinforces our risk-based due diligence processes by improving visibility and granularity on child labor across our sourcing markets.

Child labor prevalence affected 0.1 percent of the contracted farmers supplying tobacco to PMI in 2023. While this data point does not reflect child labor prevalence in PMI's global supplier farm base, we have seen a continuous reduction in child labor incidences among farmers supplying tobacco to PMI due to years of implementation of our ALP program, ongoing training, and targeted interventions. While isolated cases of child labor do persist, systemic cases have been broadly eradicated in the farms we contract.

Our field technicians conduct farm-by-farm monitoring and support farmers in addressing and remedying child labor risks and incidents. During 2023, field technicians recorded a total of 217 prompt actions. In total, these prompt actions involved 357 children, with 94 percent of them being the farmers' children.

Total number of prompt actions recorded in 2023 relating to child labor among contracted farms supplying tobacco to PMI, by type

	2023
Children under 18 performing hazardous tasks	207
Children under 15 hired	3
Children under 13 performing light work	7

Granular information on child labor, which provides the age breakdown and types of issues identified, allows us to address them more efficiently with targeted interventions.

Turkey, Mozambique, and Pakistan recorded the largest total number of child labor prompt actions during 2023, while we saw a decrease in child labor prompt actions in the Philippines and Indonesia. In the case of child labor cases in Turkey, we saw a reduction in child labor prompt actions originating from our regular volume purchases during 2023; however, we had additional prompt actions related to purchased volumes originating from the current and previous crop seasons, which we were required to purchase due to challenges faced with market dynamics.

Continued progress made in Malawi demonstrates how targeted interventions can maintain the reduced risk of prevalence of child labor. A key initiative was our primary school feeding and after-school activity program, piloted in 2019. In 2023, we increased the number of schools in this program, bringing it to a total of 19 schools with over 19,000 children participating (not limited to our contracted farmers' children).

We have a scholarship program in place in response to the fact that only 41 percent of children who start school in Malawi complete their primary education, and that only 16 percent of 14- to 17-year-olds enroll in secondary school.

For our initial 2022/23 scholarship program cohort, we sponsored 50 secondary school learners and 30 university students. During the 2023/24 intake, we expanded this to another 90 secondary school learners and 30 tertiary students, bringing the total beneficiaries to 200 learners. The long-term plan is to support a total of 625 participants with comprehensive scholarships.

Our intent with this initiative is not only to address child labor issues in our supply chain but also to contribute to the development of future leaders in Malawi by providing end-to-end educational support for children in tobacco-farming communities.



To ensure the successful implementation of the full program, we'll continue to support the primary school feeding program and after-school activities to promote increased attendance and improve the completion rate at primary schools (with a target of 60 percent of learners being selected for secondary school).

Despite the improvements reflected above, we stay alert to potential child labor issues in all sourcing markets, with particular attention to Turkey, Mozambique, and Pakistan.

Types of prompt actions recorded in 2023 relating to hazardous work performed by children among contracted farms supplying tobacco to PMI

	2023
Harvesting or handling green tobacco	52%
Stringing	25%
Carrying heavy loads	6%
Working with sharp tools	3%
Driving a tractor or operating machinery	1%
Handling or applying CPA or fertilizer	1%
Other	12%

The most common tasks field technicians found the children performing were harvesting or handling green tobacco as well as stringing tobacco. We noted a significant reduction in the prompt actions related to the handling or applying of crop protective agents (CPAs), a challenge previously faced in Turkey in 2022. This reduction was a result of targeted training sessions conducted with our supplier's management and a resulting increase in unannounced visits by field technicians to the farmers. We keep a continued focus on reducing the risk of the remaining child labor incidences occurring.

Of all child-labor-related prompt actions recorded in 2023, 97 percent were resolved, and the remaining 3 percent had monitored action plans in place.

Field technicians further support our efforts to remediate prompt actions and eradicate child labor by raising awareness and educating farmers on the issue, promoting school access and attendance, conducting vocational training, and supporting initiatives to improve household income levels.

In many geographies, the findings of external assessments related to child labor are aligned with our internal monitoring data, which show continued improvement in our visibility on the ground and the accuracy of our internal data. We remain focused on further strengthening our controls, for example by increasing the number of unannounced visits and improving the training of field technicians on monitoring techniques. In addition to stronger controls, in Mexico, where the risk of presence of children in the field on Saturdays was reported, we introduced an action plan to also open the childcare centers on Saturdays to provide migrant children a safe space while their parents are in the fields.

Promoting a safe working environment

In line with PMI's ALP Code, we require all contracted farmers supplying tobacco to PMI to provide a safe workplace to prevent accidents and injury and minimize health risks. In 2023, field technicians recorded a total of 6,394 prompt actions related to unsafe working environments.

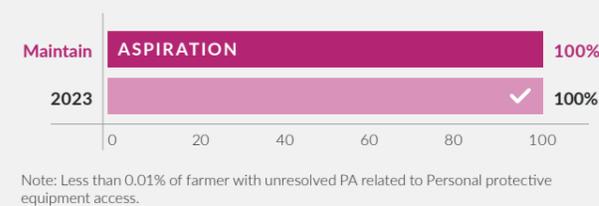
Critical focus areas for PMI include addressing the non-use of PPE when handling green tobacco, incorrect storage of CPA containers, and working at height without protection.

During the year, we focused on ensuring access to appropriate PPE for all our contracted farmers supplying tobacco to PMI and their farmworkers. Understanding the hazards related to certain tobacco tasks and encouraging behavior change is vital to safeguarding the health and safety of those involved.

Prompt actions recorded in 2023 relating to safe working environment issues among contracted farms supplying tobacco to PMI primarily related to exposure to CPA due to not wearing proper PPE (39 percent), exposure to green tobacco sickness due to not wearing proper PPE (30 percent), CPAs being stored in a way that could cause a health and safety incident (13 percent), and working at height without protection (13 percent).

These topics are always part of annual training provided to farmers, and a focus of our efforts on the ground.

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



We also monitor the provision of safe and adequate accommodation by farmers to workers, where relevant (in 2023, around 4 percent of farmers supplying tobacco to PMI provided accommodation to workers). In 2023, we updated our ALP Global Accommodation Standards, first issued in 2020.

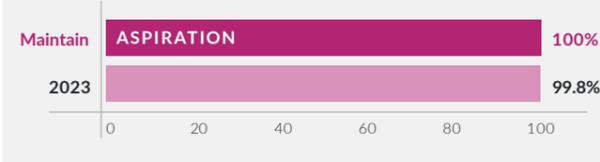
Proportion of tobacco farmworkers provided with safe and adequate accommodation



Advancing minimum wages for farmworkers

In a typical crop season, approximately 26 percent of farmers supplying tobacco to PMI hire workers. Income earned by farmworkers during a pay period or growing season should be enough to meet their basic needs. Our ALP Code requires that the wages of all workers (including temporary, piece-rate, seasonal, and migrant workers) meet—at a minimum—the national legal standard or formalized agricultural benchmark standard.

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



Tackling the challenges linked to minimum wage

While encouraged by the progress made so far, we know that wage-related challenges relate not only to substandard payment but also to informal terms of employment, inconsistency between the supply of and demand for labor, and workers' lack of knowledge about their rights. We will continue monitoring this issue to proactively address potential payment gaps and engaging in multistakeholder efforts that contribute to address wage-related challenges. The targeted initiatives we are implementing include rolling out mechanization for labor-intensive tasks and piloting payment support to workers.

In 2023, monitoring of the contracted farmers supplying tobacco to PMI who hire workers found that 99.8 percent of farmers paid their workers at least the minimum wage. Field technicians recorded a total of 523 prompt actions related to farmers paying less than the minimum wage to their workers; 55 percent of these prompt actions were resolved during the season.

Despite targeted initiatives such as awareness raising, remediation, and increasing farm efficiencies, unresolved prompt actions related to minimum wage payments were reported in Turkey. While we saw a reduction in minimum wage prompt actions originating from our regular volume purchases during 2023, we had additional prompt actions related to purchased volumes originating from the current and previous crop seasons, which we were required to purchase due to challenges faced with market dynamics.

Enhancing access to WASH among tobacco-farming communities

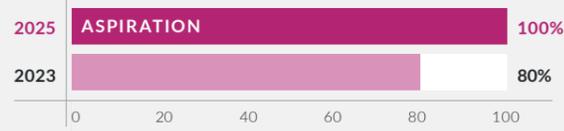
There is a well-established link between poverty and inadequate access to water, sanitation, and hygiene (WASH). Enhancing WASH infrastructure can substantially improve the well-being and livelihoods of community members.

To ensure that all contracted farmers supplying tobacco to PMI have basic drinking water access by 2025 and sanitation and hygiene access by 2030, we developed a framework guided by the Joint Monitoring Programme (JMP) for Water Supply, Sanitation and Hygiene, established by the World Health Organization (WHO) and UNICEF.

We performed an internal assessment and found that some PMI tobacco sourcing locations in rural areas do not have basic drinking water access. Argentina, Malawi, and Mozambique were identified as our priority markets for drinking water interventions. We have integrated WASH into our broader ALP monitoring process and have implemented solutions to bring safe drinking water to these locations, including drilling boreholes, protecting springs, and providing continuous household-level solutions.



Proportion of contracted farmers supplying tobacco to PMI that have basic water access



Note: Covers priority markets only (Argentina Burley, Malawi, and Mozambique). Estimated based on surveys that indicate whether the farmer has an improved drinking water source within 1 km or 30-minute round trip.

2030

Aspiration



Proportion of contracted farmers supplying tobacco to PMI have basic sanitation and hygiene

Since its inception, we estimate that our WASH program in Africa has benefited approximately 310,000 community members.¹ Women and children benefited the most from this initiative, which reduces the amount of time they must spend collecting water supplies. This has had a positive impact on women-led businesses and school attendance.

In Argentina, by protecting springs, we ensured that both farmers and community members have access to water that is less likely to cause runoff contamination. Sustainability of WASH infrastructure is one of our greatest challenges, which we aim to mitigate by working closely with the local communities and establishing water committees.

Although we have met our aspiration to reach 75 percent of contracted farmers supplying tobacco to PMI who have access to water by 2025, we continue to face challenges in reaching isolated farmers with WASH interventions.

In these cases, water source interventions, such as boreholes, are not feasible because of groundwater challenges or the cost/benefit proves challenging. Therefore, we have explored innovative household-level solutions to help farmers treat their water.

In Malawi and Mozambique, more than 80 percent of farmers supplying tobacco to PMI now have access to water. As we work to increase reach, boreholes were drilled to provide protected wells, which improved cost-effectiveness. In 2023, 250 protected wells were built, serving over 44,000 people in these two countries.

Developing and implementing household-level solutions to improve access to water and sanitation for our farmers

In response to challenges around reaching isolated farmers, PMI rolled out a pilot in 2023 to assess various household water treatment solutions (HWTS). These are focused on providing clean drinking water to those smallholder farmers who are isolated, often with limited or non-existent underground water sources nearby. The HWTS pilot evaluated seven innovative solutions, covering more than 2,000 smallholder farmers.

PMI followed the World Health Organization (WHO) evaluation criteria to assess the solutions, measuring their effectiveness, appropriateness, acceptability, cost, and availability, among others. As a result of the trials, we identified several suitable solutions, and will incorporate them into our WASH strategy going forward. This will allow us to provide safe drinking water to those farmers who, because of their isolated location, previously didn't have access.

Promoting fair working and living conditions in our broader supply chain

We aim to leverage our experience in our tobacco supply chain to promote high labor standards and advance the socioeconomic well-being of workers across our broader supply chain.

Proportion of spend with critical suppliers from whom PMI sources sustainably



Note: Sustainable sourcing is determined based on a minimum threshold score of 45 out of 100 in EcoVadis (direct materials) or 125 out of 200 in RBA with no open priority issues (electronics). All tobacco purchased by contracted farmers, thereby covered by PMI's integrated production system, is considered sustainable.

Our Responsible Sourcing Principles (RSP) set out ambitions and expectations for our suppliers, including human and labor rights considerations. In 2023, we deployed our newly updated RSP (read more [here](#)).

We monitor adherence to the RSP and the sustainability performance of our critical suppliers through tailored due diligence instruments. For our electronics suppliers (read more [here](#)), we rely on the Validated Assessment Program (VAP) and Customer Managed Audits (CMAs) of the Responsible Business Alliance (RBA) and also conduct targeted human rights impact assessments (HRIAs) with selected suppliers (read more [here](#)). For our direct materials suppliers, we rely on the EcoVadis platform.

Our electronics supply chain

We aim to proactively address specific social risks in our growing electronics supply chain.

We continued to leverage resources from the RBA and gathered data through the VAP and CMAs during the year. These highlighted that the most common social issues relate to working time, wages and benefits, and emergency preparedness. Our suppliers have all developed relevant corrective action plans to address the issues identified.

Our focus in 2023 was to strengthen the due diligence framework for our current electronics suppliers to address potential human rights risks and issues, and leveraging the HRIAs to further engage with suppliers and their workers. We also leveraged RBA tools and resources to enhance suppliers' capabilities and ultimately improve their overall sustainability performance.

Addressing social impacts in our electronics supply chain

When partnering with our suppliers, we engage extensively with them to embed our RSP in their operations. From contractual commitments, to ongoing training, to regular audits, we work with suppliers to ensure their practices live up to our RSPs.

When we were made aware in the second half of 2023 of concerns related to labor practices at one of our electronics suppliers in Malaysia, we engaged immediately with the supplier's senior leadership and the Responsible Business Alliance (RBA) to commission a Specialty Vendor Assessment Program (SVAP) audit. The audit aimed to determine the veracity of the allegations and the extent of any substantiated failings.

The RBA's SVAP audit identified several issues (mainly pertaining to recruitment practices and management of overtime) and, at our request, the supplier engaged the RBA's advisory function to develop a corrective action plan (CAP) to address the audit's findings. The supplier has begun to remediate the failings identified, and we have engaged our strategic partner, Verité, to monitor, verify, and report directly to PMI on the supplier's progress in implementing the CAP.

We suspended a significant portion of our work with the supplier to reflect the gravity of the situation and enable the supplier to prioritize the actions necessary to ensure that corrective measures are implemented effectively while minimizing potential detrimental impact on the workers concerned.

The resumption of those projects, and indeed any continued work with the supplier, is conditional on the supplier remediating the findings from the RBA's SVAP audit.

We have developed a methodology to assess a supplier's sustainability profile to prioritize and select targeted interventions. We base our analysis on the following criteria: inherent country risk profile, suppliers' current audit performance, and suppliers' overall sustainability maturity. We also take into account contextual specificities, including the percentage of vulnerable groups (e.g., presence of migrant workers in the suppliers' workforce).

We understand the importance of engaging and aligning with our suppliers to achieve our global sustainability aspirations. Based on our risk assessment methodology, PMI started piloting two initiatives in 2023 to foster opportunities to improve suppliers' sustainability performance:

- **Responsible Factory Initiative (RFI)**, a program focused on helping suppliers with lower maturity in sustainability topics to identify potential misalignment of their practices with the RBA Code of Conduct and address them accordingly. This strengthens their preparation for the RBA audit. This pilot, which started in mid-2023, will run for 12 months. Two suppliers located in China are participating in the pilot. Initial learnings show positive results in addressing issues identified, which mainly related to limited, or lack of, formalization of processes and procedures related to health and safety, environmental management, and working conditions.

¹ This number is calculated based on stakeholder engagement, whereby our local teams interviewed the chiefs of each village where we have implemented these initiatives.



- **Responsible Labor Initiative (RLI)**, a program that aims to build and strengthen the capabilities of PMI's suppliers and their recruitment agencies through targeted training and support. It raises awareness of how to identify and address potential forced labor issues. The pilots started in mid-2023 and are expected to be completed by July 2024. The focus has been our electronics supply chain in Malaysia, given the country human rights-related risk profile. Four suppliers and eight of their recruitment agencies are in scope for this pilot and have been requested to actively engage with RBA during the course of this exercise. The first training was delivered in December 2023 and the second one is scheduled for January 2024.

Our direct materials supply chain

Our supply chain, beyond tobacco and electronics, is broad and complex (read more [here](#)), potentially linked to a large set of social and environmental risks. Areas of attention on supplier actions concern lack of risks assessments around corruption and information security. Improvement opportunities regarding supplier reporting capabilities were raised, mainly related to human rights and governance issues.

To address these risks, we focus on critical suppliers (read more [here](#)). In 2023, our critical suppliers of direct materials assessed in EcoVadis achieved an average Social score of 61 out of 100. To address the issues identified, we engaged with suppliers showing lower sustainability performance. We organized deep-dive review sessions of their CAPs before their reassessment.

In 2023, we actively supported 10 supplier CAP reviews with underperforming suppliers. Overall, 13 suppliers that re-assessed in 2023 as part of current and previous CAP review cycles improved their scorecards. The average score increase was of 10 points versus previous assessment in EcoVadis.

Meanwhile, our broad and in-depth human rights impact assessments (HRIAs)—which we aim to conduct in our 10 highest-risk countries by 2025—provide granular insights into social challenges along our value chain (read more about how we tackle human rights issues [here](#)).



Human rights impact assessment in Pakistan

In 2023, we conducted an HRIA in Pakistan, one of PMI's highest-risk markets.

[Read the case study here](#)

Looking ahead

Scott Coutts
Senior Vice President,
Operations



"We are proud of our progress in addressing labor and human rights challenges in our tobacco supply chain, and we are committed to continue delivering meaningful impact and improving the livelihood of people in our supply chain. The evolving regulatory landscape makes our efforts only more relevant, as we seek to increase transparency on the social impacts in our supply chain and reinforce our ongoing due diligence processes. We will continue to ensure robust monitoring and quality reporting accompany our social programs, and we will leverage on the learnings gathered to expand our efforts in our fast-evolving non-tobacco supply chain, with a particular focus on electronics.

Following our acquisition of Swedish Match, a significant stream for the years ahead will focus on ensuring that their supply chain's performance, monitoring, and reporting is integrated with ours diligently, building on existing synergies and assessing actual and potential social impacts to adjust our strategy as needed. Our aim is to pursue and strengthen our social strategy across our integrated supply chain holistically, designing initiatives, related measurements of progress, and aspirations that can guide our work moving forward.

We are acutely aware of the role we play in creating positive impact for the many people in our supply chain and have set ambitious aspirations for ourselves. We, however, recognize that external environmental and socioeconomic factors, and dependencies, influence our ability to fully control and make progress toward these aspirations. We understand the systemic nature of many of the issues we are trying to resolve and the need for a multistakeholder approach to tackle them effectively. For that, we will continue to engage with our suppliers, business partners, others in the private sector, as well as with specialized organizations, academics, and governments."

Pedro Braga
Vice President, Global
Technical Operations



"Our Agricultural Labor Practices (ALP) program has been the cornerstone of our social strategy and a key focus for PMI for more than 10 years. In 2024, we will conduct a revision of our ALP Code, as well as analyze and update the list of hazardous tasks related to child labor. This work will help us account for new risks pertaining to local and global socioeconomic circumstances and new requirements introduced in new laws. We will also strengthen our grievance mechanisms, revamping existing escalation processes for potential forced labor and ethical recruitment issues. We will, accordingly, deploy it in relevant sourcing markets.

Our aspiration to ensure that all contracted farmers supplying tobacco to PMI earn a living income by 2025 remains unchanged. In 2024, we plan to undertake a living income benchmark exercise in Indonesia and will update all existing living income values to account for inflationary impacts. Moreover, as we sophisticate our impact-driven approach to tackle issues related to poverty and inequality, we will shift our focus toward investing in initiatives that improve the income of the most vulnerable farmers supplying tobacco to PMI, who are still not achieving a living income—aiming to create interventions that drive a tangible and verifiable positive impact on farmers' livelihoods. This change shall allow for improved data auditability and further align with emerging regulation."

Hafed Balhadj
Chief Procurement Officer



"During 2024, we plan more targeted supplier engagements to deploy, align, and build capabilities that will help our suppliers implement the requirements of our Responsible Sourcing Principles (RSP). We are supporting RSP compliance through our supplier due diligence programs by applying the EcoVadis and RBA methodologies. During 2024, we plan to further this work by going deeper into industry-specific issues to build a more robust supplier base and to ensure sustainable performance for the future.

We have made excellent progress toward our aspiration to achieve 100 percent of critical suppliers from whom PMI sources sustainably by 2025. We plan to expand this work beyond critical suppliers of direct materials and electronics in the future.

We have piloted two RBA programs to improve the sustainability performance of our electronics suppliers: the Responsible Factory Initiative and the Responsible Labor Initiatives. In 2024 we will assess the effectiveness of this work and, if deemed successful, plan for expansion in line with our human rights impact assessment methodology, UN Guiding Principles on Business and Human Rights, and OECD Due Diligence Guidance for Responsible Business Conduct."



OPERATIONAL IMPACT

Tackle climate change

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

INWARD IMPACT

The business case

Climate change and its effects can threaten our business continuity and endanger our supply chain—especially our agricultural supply chain which is particularly sensitive to abrupt climate variations. Furthermore, it can present risks with direct impacts on our physical infrastructure, in particular our manufacturing sites. It can also imperil business growth by exacerbating systems-level disruptions affecting various stakeholders, including customers, employees, and communities.

For that, we put in place policies and practices that allow us to identify climate-related risks, anticipate and respond to climate-related regulation in a timely way, support climate policies, and seize climate-related economic opportunities.

Developing and implementing robust mitigation and adaptation strategies can minimize the extent to which climate change impacts our business. One fundamental strategy is to reduce our GHG emissions, which allows us to increase efficiency, deliver energy savings, and boost profitability by promoting fewer inputs used over outputs.

OUTWARD IMPACT

The right thing to do

The climate crisis, as acknowledged by the international community, threatens the livelihoods of all, but especially those most vulnerable, exacerbating inequalities. It impacts human rights, biodiversity, water access, global health, and food security, and intensifies environmental threats such as ecosystem degradation, drought, flooding, and desertification. While science tells us that climate change is irrefutable and unavoidable, it also tells us it is not too late to limit global warming to the 1.5°C threshold which is considered the point beyond which climate-related impacts will be catastrophic.

Achieving this goal requires fundamentally transforming how we grow food crops, use land, transport goods, and power our economies. Implementing carbon emissions reduction initiatives throughout our direct and indirect operations can contribute to the mitigation of global climate change and its effects, especially in regions most vulnerable to climate-related disruptions. Our commitment to climate action can also serve as a catalyst and encourage others—especially those connected to our value chain—to adopt strategies that can amplify the overall impact of efforts deployed to combat climate change.

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Management approach

Our climate strategy aims to address pertinent climate change-related risks and build resilience while seizing opportunities presented by a low-carbon future.

To deliver on our climate ambitions, we rely on robust carbon footprint accounting, regular analysis of climate change-related risks and opportunities, ambitious mitigation targets, implementation of adaptation measures, clear management and governance structures, and key enablers such as our internal carbon pricing.

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. We choose to compensate for the remaining unavoidable emissions in our direct operations by prioritizing insetting projects in our supply chain when possible and purchasing certified carbon credits when needed. Our Portfolio of Climate Investments (PCI) guides our approach to compensation.

Our three-pronged approach to decarbonization



We support the Paris Agreement and have set a science-driven decarbonization roadmap. Our near-term 2030 absolute carbon emissions reduction targets, including our most recently approved FLAG and industrial emission reduction commitments, and long-term 2040 commitment to net zero emissions have been validated by the Science Based Targets initiative (SBTi) and are aligned with a scenario of an increase in global temperature of no more than 1.5°C above preindustrial levels. To further enable GHG emission reductions in our value chain, we have set a target for the percentage of supply chain spend covered by suppliers that have their own science-based targets. The SBTi validated our targets in 2023.

Our decarbonization efforts cover our entire value chain. Guided by our GHG footprint model, we have in place specific mid-term targets and strategies that account for our most significant impacts on climate, and we conduct periodic climate change risk and opportunity assessments to inform our efforts.

We use internal carbon pricing, including shadow carbon pricing and an internal carbon levy, to incentivize and drive reductions in GHG emissions.

We incentivize our employees through monetary rewards or other forms of recognition for the successful implementation of climate-related initiatives and seek to raise awareness among our entire workforce of climate change impacts through regular internal communications and training.

In selecting direct materials suppliers, we consider their transparency in disclosing emissions factors and demonstration of significant carbon intensity reductions.

To be successful, combating climate change cannot occur in isolation. PMI engages with sustainability-related initiatives and organizations, including the Business Ambition for 1.5°C, and we have publicly reported in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Our affiliates also belong to national business associations that are engaging with governments to advance progress on climate protection at the local level.

Management

Our Senior Vice President, Operations, a member of Company Management, is tasked with addressing climate-related risks across all company activities. This individual reports findings to the Nominating and Corporate Governance Committee of PMI's Board of Directors. From an operational standpoint, our Operations, Combustible Category, Smoke-free Category, Product, and Finance functions coordinate the company's climate change-related activities.



PMI's policies and standards

- [Environmental Commitment](#)
- [Responsible Sourcing Principles](#)
- [Good Agricultural Practices program](#)
- [Zero Deforestation Manifesto](#)
- [Sustainable Design Framework](#)

Foster an empowered and inclusive workplace

Improve the quality of life of people in our supply chain

Tackle climate change

Preserve nature



Progress in 2023

Highlights

- We continued to reduce scope 1+2 carbon emissions in line with our SBT for absolute reduction of greenhouse gas (GHG) emissions, and further progressed on our path toward carbon neutrality in our direct operations with an increased focus on delivering efficiency gains.
- We are one of the first few companies to have scope 3 FLAG and Industrial emission targets validated by the Science Based Targets initiative (SBTi), setting the necessary focus to continue developing and delivering targeted carbon reduction strategies across our value chain in the coming years.
- For the tenth consecutive year, we were awarded an A score by CDP in recognition of our efforts to combat climate change and provide environmental transparency.
- During the year, we continued to refine and strengthen our internal approach to carbon pricing, launching a pilot to apply our shadow carbon price to select scope 3 activities.

Challenges

- As part of our strategy to progressively replace spend-based accounting in our GHG inventory with primary data, the engagement with our suppliers and data collection process becomes increasingly more complex and resource-intensive. Nonetheless, we expect this effort will contribute to enhancing data quality and GHG accounting from our suppliers, drive reductions across our value chain, and enable us to fulfill upcoming regulatory requirements.
- The geopolitical situation and adverse impact of supply chain disruption have continued to impact our decarbonization plans in 2023, requiring us at times to assume trade-offs between financial and natural capital to ensure business continuity (e.g., sourcing from less mature suppliers or less favorable origins to ensure security of supply).
- Our rapid business transformation to deliver a smoke-free future means we must double-down efforts to increase efficiency, as smoke-free products imply higher manufacturing emissions than cigarettes.
- We face an adverse impact on our carbon emissions due to the post-COVID normalization of activities with more employees returning to office, as well as sales activities (fleet-related emissions) ramping up in several markets.

Integrating Swedish Match in our GHG footprint

In 2023, we successfully integrated the greenhouse gas (GHG) inventory of Swedish Match, acquired in 2022, into PMI's value chain carbon accounting. This section of the report therefore presents data in a consolidated fashion, unless otherwise specified.

Extensive work was undertaken to assess the materiality of Swedish Match's inventory in relation to PMI's, and to identify potential gaps according to the criteria of the Greenhouse Gas Protocol's 'Corporate Standard' and 'Corporate Value Chain (Scope 3) Standard.' As part of this exercise, the approach to account for Swedish Match's emissions from scope 3 categories '1 Purchased goods and services' and '7 Employee commuting' was revised and aligned with PMI's GHG accounting methodology. Additionally, scope 3 category '2 Capital goods' was calculated for Swedish Match for the first time.

After these methodological updates, Swedish Match's 2023 footprint represented 10.8 percent of PMI's 2023 scope 1+2 emissions and 5.4 percent of PMI's 2023 scope 3 emissions. As a result of inventory integration, 2019-2023 emissions were re-baselined to include Swedish Match's emissions.

We are currently working to integrate Swedish Match activities within our low carbon transition plan, thereby extending our various mitigation and adaptation strategies and initiatives to their operations.

In view of the inventory integration, our science-based targets will undergo a revalidation process by SBTi in early 2024 to ensure alignment between our ambitions and latest GHG inventory.

Overview of our carbon footprint

We calculate our GHG footprint annually, following guidance from the Greenhouse Gas Protocol and accounting for all emissions generated across our value chain. Our GHG inventory undergoes a yearly external verification according to the ISO 14064-3:2006 and the results of the verification are published on [PMI.com](https://www.pmi.com).¹

We seek to improve the environmental performance of our direct operations which represented 7.9 percent of our overall carbon footprint in 2023, and where we have operational control.

Our upstream emissions represented 88.0 percent of our total GHG footprint in 2023. It is critical therefore, that we work within our tobacco supply chain and with our broader supply chain partners to drive impact.

Downstream emissions represented 4.1 percent of our total footprint in 2023. We have aspirations to embed eco-design principles in all our smoke-free products by 2025 (read more [here](#)), to extend our electronic smoke-free device life cycle (read more [here](#)), and to reduce our packaging footprint (read more [here](#)).

Absolute GHG emissions in our value chain (scope 1+2+3) (in thousands of metric tons)



¹ Climate-related figures presented in this report do not include GHG emissions from wellness and healthcare acquisitions made in 2021, which we have since consolidated into Vectura Fertin Pharma. These emissions represented 2.4 percent of PMI's scope 1+2 emissions and 3.1 percent of scope 3 emissions in 2023 and were calculated in line with PMI's methodology. They are currently excluded from the inventory as they are below our materiality threshold set at 5 percent for scope 1+2 and scope 3 each, and are therefore not considered material. Noting recent regulatory developments, during 2024, we plan to further assess Vectura Fertin Pharma scope 3 carbon footprint and accordingly reevaluate their integration into our GHG inventory.

Overall, in 2023, our emissions decreased in absolute terms by 13 percent across our value chain versus 2019. Although our emissions have dropped from our baseline year, they have not fallen as much as planned. Read more about challenges faced and ways we have responded in 2023 in this section.

Importantly, PMI has advanced its data verification process to allow for timely publication of relevant sustainability metrics, including those related to our GHG inventory. With this advancement, certain sustainability metrics in this report are based on actual data from 2023 (typically from January to September, or for some to August) and estimates for remaining months. This data will be restated with full-year actual figures and made available on our website during 2024.

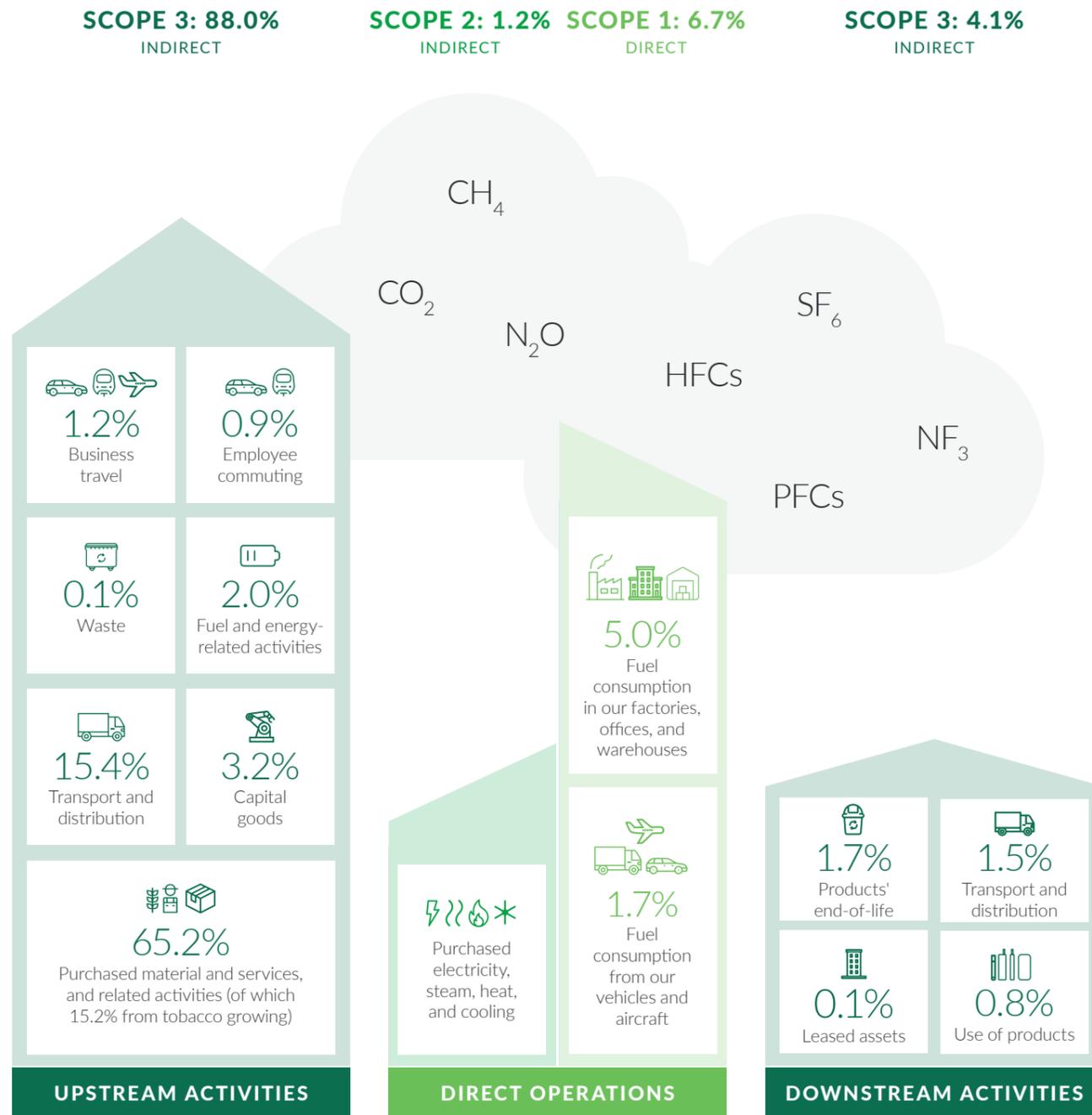
For more information on PMI's approach to GHG calculations and materiality thresholds, please refer to [PMI's Sustainability KPI Protocol 2023](#) and [carbon footprint methodology](#).

PMI's TCFD Report 2022

After completing our most recent climate change risks and opportunities (CCRO) assessment in 2022 across our value chain aligned with international expectations such as those of the Paris Climate Agreement and the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), we published our inaugural TCFD Report in 2023. This report is intended to be updated periodically to further align with TCFD recommendations. Read the report [here](#).



Carbon emissions along our value chain in 2023



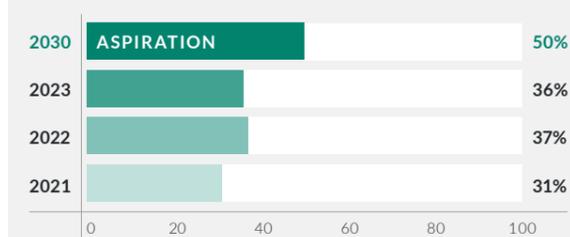
Carbon neutrality in our direct operations

Our direct operations are the parts of our value chain over which we have the greatest control. Combined, our scope 1+2 emissions represented 7.9 percent of our total carbon footprint in 2023, of which 63.9 percent were generated by our factories, and 9.8 percent were generated by Swedish Match's direct operations (including factories, offices, other facilities, and fleet).

To achieve our ambition of carbon neutrality in PMI's direct operations (scope 1+2) by 2025, we combine good management practices with strategic energy-related investments. We invest in optimizing energy and process efficiencies and replacing fossil fuel-based energy with renewable sources. We compensate for our unavoidable emissions after we have maximized our emissions reduction.

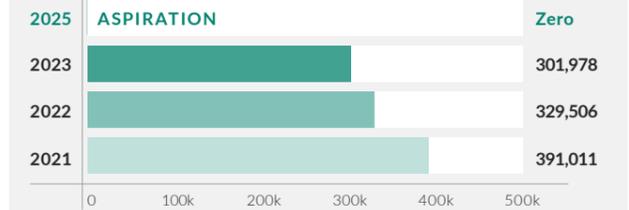
As of year-end 2023, with a 36 percent absolute GHG emission reduction versus our 2019 baseline, we are well on track to meet our SBTi-validated target of a 50 percent reduction in our direct operations by 2030 versus our 2019 baseline, while absorbing the scope 1+2 emissions from Swedish Match's operations.

Reduction in absolute scope 1+2 GHG emissions versus 2019 baseline



We are likewise on track to achieve our 2025 aspiration to be carbon neutral in PMI's direct operations (scope 1+2).

Net CO₂e scope 1+2 (metric tons)



Note: The Net CO₂e scope 1+2 emissions excluding Swedish Match were equal to 265,518 metric tons in 2023 and 297,236 in 2022.

Decarbonizing PMI factories

In 2023, PMI factories accounted for 5.1 percent of our total carbon footprint.

Our strategy to decarbonize our factories focuses on enhancing energy efficiency and switching to renewables. It is underpinned by the development and deployment of low-carbon technologies. Our efforts are coordinated under our global "Drive 4 Zero" program, aimed at increasing resource efficiency, reducing energy consumption, raising awareness among our employees and increasing PMI's renewable energy consumption, ideally through self-generation.

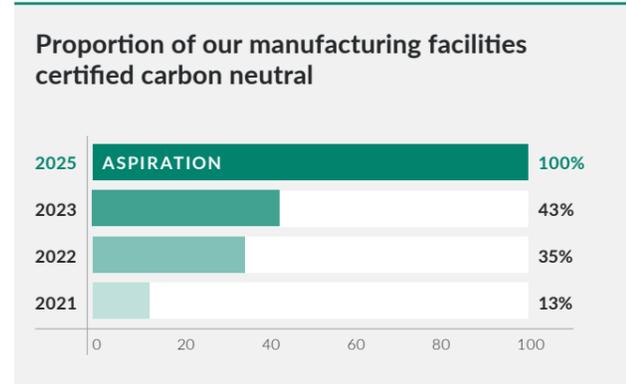
In 2023, we revamped our Drive 4 Zero program, which evolved to cover the entire energy life cycle. From sourcing to utilization, it ensures an integrated approach where sustainability is embedded in every facet, valued alongside economic and business continuity considerations.

As one component of our Drive 4 Zero program, we seek to leverage technology to achieve significant carbon savings. In 2023, we focused on implementing our Zero Carbon Technology (ZCT) initiatives aimed at fostering the transition to renewable energy and driving emission reductions in our manufacturing sites.

While every solution is tailored to the specific energy profile of the site, our efforts are based on a general framework that considers self-generated renewable energy, electrification of heat production systems, and switch to bio-based fuels where possible. Through the ZCT program, we expect to replace 35 percent of our fossil fuel consumption with green energy and to increase the share of in-house produced electricity to more than 10 percent of the electricity we use in manufacturing by 2025. The program was expanded in 2023, adding two manufacturing sites to its scope, for a total of nine ZCT projects around the globe.



Our efforts in 2023 led to an overall reduction of 40 percent in our absolute GHG emissions in PMI factories versus the 2019 baseline. During the year, we certified as carbon neutral five additional reporting entities in Argentina, Indonesia, Jordan, and Serbia, bringing the total to 21 reporting entities (18 factories) certified to date. In addition, we have moved from individual to cluster carbon neutral declaration, grouping all factories in scope under a single declaration. We remain on track to certify all PMI manufacturing sites by the end of 2025.¹ We publish certifications for all carbon-neutral sites [here](#).



Our markets worldwide are undergoing carbon neutrality certification, following efforts to reduce GHG emissions and compensating for their remaining emissions through PMI's Portfolio of Climate Investments. To date, 11 markets have been certified as carbon neutral (the certifications are available on [PMI.com](https://www.pmi.com)).

Promoting energy efficiency

We rely first on promoting efficient energy use in our factories. We achieve this by deploying programs and frameworks across our factories to advance a zero-loss mindset and empower employees to identify and implement operational efficiencies related to resource optimization. This includes energy savings and environmental benefits such as reduced water consumption and waste generation (read more about maximizing resource efficiency in our operations [here](#)).

In alignment with the renewed Drive 4 Zero approach, PMI's factories have identified and delivered over 200 initiatives to date, optimizing energy consumption and improving efficiency. We have successfully piloted innovative artificial intelligence solutions applied to HVAC systems, heat pumps for heat waste recovery, alternative conditioning solutions such as adiabatic humidification, and more granular energy KPI monitoring and management systems.

Addressing data quality challenges in Mexico

In 2022, our Mexican manufacturing site faced technical issues related to the performance of the biomass boiler, which is one of the technologies we put in place at the site to switch to renewables, driving carbon emission reductions. This resulted in an unforeseen increased consumption of natural gas that negatively impacted the site's carbon footprint. Simultaneously, discrepancies in the metering system used to calculate the site's natural gas consumption were identified, raising concerns about the reliability of collected data and related analyses.

To tackle the issue, we deployed internal and external resources to run an investigation and root cause analysis. While preliminary data suggests an unfavorability ranging from one-to-two percent out of PMI's total scope 1+2 emissions (i.e., below our materiality threshold of five percent), we have decided to pause the affiliate's carbon neutrality certification to ensure alignment with our principles and practices related to carbon neutrality. In the meantime, building on the learnings of this experience, we have developed and started implementing additional protocols to ensure such issues are prevented or can be promptly identified and addressed more effectively.

Switching to renewable energy

We continue our gradual switch to renewable energy sources. Many of our zero-carbon technologies (ZCTs) such as photovoltaic panels, biomass boilers and heat pumps, and tri-generation processes (combining cooling, heating, and power) generate renewable energy. In total, 4 percent of the energy used in PMI's factories was self-generated in 2023 (2022: 5 percent). From the self-generated portion, 39 percent was generated through renewable sources (2022: 28 percent).

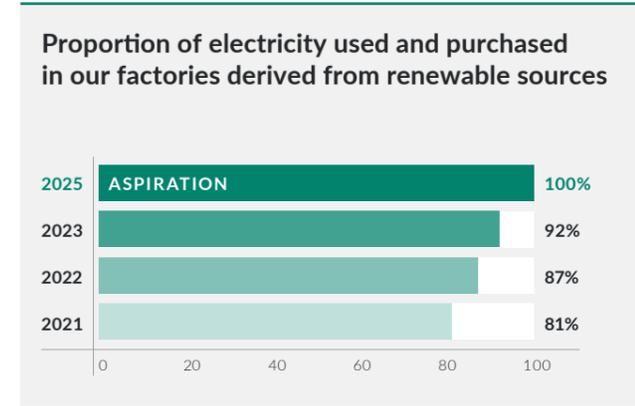
In 2023, through our ZCT program, we enabled the switch-off of the gas-fired tri-generation system in our factory in Turkey and installed 5.5 MW of solar panels, abating more than 40 percent of their 2023 emissions (compared with 2022). In our factories in Indonesia (Sukorejo), Philippines (Batangas), and Italy we have completed the installation of more than 10 MW of photovoltaics.

To deliver on our aspiration to enhance in-house electricity self-generation through renewable energy, we conducted a comprehensive feasibility assessment for our global manufacturing operations. Subsequently, we initiated implementation or expansion projects for solar photovoltaics in our factories located in Argentina, Italy, Lithuania, Mexico, and Portugal. Upon completion, these projects will collectively add 9.5 MW to our self-generated capacity.

We sourced and certified as biogenic close to 50 percent of the liquid CO₂ supply chain for our affiliate in the Netherlands and 100 percent for our Indonesian and Philippines affiliates. This resulted in a total reduction of around 12 kilotons CO₂e in our scope 1 emissions.

In addition to self-generated renewable, we continue to consider opportunities to source electricity through power purchase agreements (PPAs).

In 2023, in alignment with the renewed Drive 4 Zero approach, we redesigned the sourcing process of renewable energy certificates (RECs), seamlessly integrating it into the overall energy life-cycle management process. Furthermore, we strategically decided to purchase additional RECs to offset a further 11,136 metric tons of CO₂ compared with 2022.



In 2023, we made progress on our aspiration of having 100 percent of electricity used and purchased in PMI's factories be derived from renewable sources by 2025, achieving 92 percent.

Cross-industry collaboration to explore energy-related technology solutions

In late 2023, we announced a new collaboration with Ferrari to study ways to support the decarbonization journey of our respective factories located in Italy's Emilia Romagna region. Our collaboration aims to identify solutions for industrial electrification in the areas of generation, storage, and transformation of renewable energy. The intent is to bring together our two companies' technological capabilities to explore and test solutions, including evaluating the potential for low-carbon hydrogen as a fuel source in manufacturing applications—notably where electrification may not offer a viable solution—due to water scarcity. A first study, expected to be completed by late 2024, will explore the viability of long-duration energy storage technologies.

Reducing GHG emissions in PMI's offices and other facilities

PMI's offices and warehouses accounted for 0.4 percent of our total carbon footprint in 2023.

During the year, we continued refining the level of granularity of our carbon accounting, leveraging our growing number of carbon-neutral offices and warehouses to increase the collection of primary data and enhance our methodology and results.

As many of our offices and warehouses are leased and located in multi-tenanted buildings, usually managed locally, identifying and deploying impactful energy efficiency and carbon reduction initiatives is challenging. To address this, we introduced a global best practice sharing platform, leveraging the over 700 initiatives collected through a 2022 employee-engagement campaign, where over 200 employees shared their ideas on how to reduce energy consumption and contribute to our carbon emission reduction journey, listing initiatives from all affiliates and making them accessible to the sites to support their decarbonization journey.

The intention of this shared repository is to foster best practices sharing and enable cross-market collaboration. We expect this platform will help accelerate the implementation of GHG emission reduction initiatives. Our first consideration in the identification of reduction initiatives is the availability of renewable energy, and, where feasible, its incorporation in our market's yearly plans.

Although this database is in its infancy, currently all our carbon neutral markets are contributing to its development, with other markets also beginning to participate.

Beginning in 2023, we have incorporated sustainability criteria as part of our building scorecard for any new leased and rental spaces, ensuring a formal, sustainability-driven, decision-making process regarding our future footprint.

Overall, this has allowed us to decrease carbon emissions from PMI's offices and warehouses by 64.6 percent versus the 2019 baseline (2022: 63.7 percent).

¹ Carbon neutrality certification plans for PMI's factories in Russia and Ukraine remain on hold due to the Russian invasion of Ukraine. Excludes Swedish Match.



Fostering carbon neutrality in PMI's fleet

Our fleet of over 21,000 vehicles accounted for 1.7 percent of our total carbon footprint in 2023. Approximately 80 percent of our fleet is composed of working-tool vehicles, used primarily to visit point-of-sale locations and distribute our products. The remainder are benefit vehicles.

To reduce carbon emissions in our fleet, we invest in sustainable powertrains and effective driving to optimize energy consumption and improve operational efficiency.

Our internal Global Vehicle Fleet policy frames our fleet strategy and moves us to a more centralized operating model to help ensure that every PMI affiliate contributes to our global carbon neutrality aspiration.

In 2023, we continued to select more environmentally friendly powertrains in our fleet renewal decisions. By year-end, vehicles with electrified powertrains (electric or hybrid) represented 27 percent of our fleet globally (2022: 19 percent). We remain focused on retiring our most polluting cars subject to the availability of appropriate infrastructure, legislation, and technological innovation.

We leverage eco-training and telematics where legally permitted to improve driver behavior and further engage employees in our sustainability agenda. We completed the second wave of our e-learning program in 2023 with an overall completion rate of 98 percent (2022 first wave: 94 percent). In September 2023, we commenced the third wave for drivers who had not been included yet.

Enhancing safe driving behaviors has a direct impact on the eco-driving practices of individual drivers. Moreover, 85 percent of our working-tool cars are equipped with telematics—a technology that provides the driver with data on driving behaviors to improve road safety behaviors and decrease carbon emissions (2022: 65 percent). Read more [here](#).

Recognizing the benefits of these programs, we are working closely with the e-learning providers to extend the value of their services. We believe using these aggregated insights (based on telematics) will allow us to provide specific and timely e-learning modules to further enhance their safety and the safety of other road users while also contributing to carbon emission reductions.

Compensating for unavoidable emissions

Unavoidable or residual emissions refer to emissions that cannot be eliminated or reduced through current technology or practices. To achieve our carbon neutrality ambition, we strive to maximize our emissions reductions, and we compensate for the residual emissions occurring in our direct operations.

We have continued our efforts to certify our factories, offices and warehouses as carbon neutral, focusing primarily on efficiency gains and a switch to renewable energy.



Switching to hybrid or electric vehicles in Switzerland

Philip Morris Switzerland is working to switch company and fleet vehicles to hybrid or electric to ensure every part of the organization is working toward our sustainability commitments.

[Read the story here](#)

Accordingly, for the 18 factories (21 reporting entities) and 11 markets which were certified as carbon neutral in 2023, we have reduced our absolute emissions by 45 percent versus our 2019 baseline, with the remaining 55 percent being compensated.

Our long-term goal is to further explore insetting projects in our supply chain to generate carbon credits and focus our investments on nature-based solutions. As we prepare the organization for the complexity of these projects, and considering their lead time to generate credits, PMI's Portfolio of Climate Investments (PCI) purchases carbon credits from the voluntary market to meet our 2025 carbon neutrality aspiration.

Our PCI investments brings both standardization and a robust technical approach to compensation. This results in a pool of purchased high-quality carbon credits available for PMI's compensation activities that fulfill attributes on both environmental and social impacts.

Our approach to carbon pricing

Assigning a price—and hence a theoretical cost—to carbon emissions makes the intangible tangible and further incentivizes action to reduce the emissions that contribute to global warming. PMI has used two complementary internal carbon pricing instruments since 2020: a shadow price and a carbon levy. We revise our shadow price and carbon levy annually to reflect changes in our risks and emission profile. We also conducted a carbon pricing benchmark assessment, and evaluated external factors, such as inflation rates and developments in emissions trading schemes in 2022.

In 2023, the integration of our shadow carbon price into the preparation and financial evaluation of business proposals aimed at structurally reducing our carbon emissions, supported the approval of 63 carbon emission-reduction projects, including three projects under our ZCT program.

We apply a carbon levy of USD 11 per ton of CO₂e to help determine investments required to compensate our emissions through offsetting or insetting initiatives. The levy is designed to internalize costs and support behavioral change by setting a virtual internal tax on selected business units for their GHG emissions. This helps us determine a budget for the PCI described below.

Deploying our Portfolio of Climate Investments (PCI)

The PCI is a bespoke initiative we introduced in 2021 to standardize and provide transparency in our approach to investments in projects generating carbon credits.

To support decarbonization efforts, PMI believes that limiting the use of market approaches (offsetting) in the short term by exploring direct investment in our supply chain in the medium and long term (insetting) will result in a climate investment strategy that is cost-effective, transparent, consistent, and of high quality. Accordingly, we have significantly reduced our budget to buy fewer carbon credits from the market and allocate investments in our projects through our insetting strategy.

This will allow us to address inward and outward impacts simultaneously with a more holistic approach to tackling environmental issues, ensuring we attain co-benefits through our generation of carbon credits. We expect to sustain a minimum budget to operationalize specific projects or engagement opportunities in the voluntary carbon market.

The PCI is supervised by an advisory committee composed of cross-functional PMI senior leaders (including, among others, our Chief Sustainability Officer and Senior Vice President Operations). The committee revises and validates the proposals prepared by the project team and approves the allocation of resources to the proposed climate solutions through an investment strategy that leverages the budget generated by PMI's carbon levy scheme.

If additional funding is required for specific investments, such as unlocking innovative climate solutions or research and development (R&D), the advisory committee that governs the PCI decides on approval.

We apply a set of mechanisms and rules—the PCI quality criteria and due diligence protocol—to efficiently evaluate which climate solutions are most appropriate to pursue. We continue investing in nature-based solutions focused on protecting nature by avoiding deforestation, improving nature through community projects, and fostering natural ecosystems beyond forests.

Carbon Border Adjustment Mechanism (CBAM)

The Carbon Border Adjustment Mechanism (CBAM) is the European landmark tool aimed at putting a fair price on the carbon emitted during the production of carbon intensive goods that are entering the European Union (EU), and encouraging cleaner industrial production in non-EU countries.

The CBAM will initially apply to imports of certain goods and selected precursors whose production is carbon intensive and at most significant risk of carbon leakage: cement, iron and steel, aluminum, fertilizers, electricity, and hydrogen. In the future, the CBAM is expected to be extended to other sectors covered by the EU Emissions Trading Scheme (ETS).

As of October 1, 2023, the CBAM Regulation (EU) 2023/956 entered into application, with a first transitional phase that will last until December 2025. During this phase EU importers must report on a quarterly basis the emissions embedded in CBAM goods imported in the preceding quarter, without paying a financial adjustment, giving time for the definitive system to be put in place. The first relevant reporting period for importers ends on January 31, 2024.

Once the definitive system enters into force starting January 1, 2026, EU importers will need to declare each year the quantity of goods imported into the EU in the preceding year and their embedded GHG emissions. They will then surrender the corresponding number of CBAM certificates.

PMI has already set up proper internal governance for the transitional period applicable to all the in-scope European affiliates importing CBAM goods. In parallel, readiness work for the definitive phase kicking off in 2026 is ongoing. PMI is already engaging with major suppliers of CBAM goods to determine the specific embedded emissions ensuring the completeness and correctness of the reports according to the new EU methodology. This exercise has been greatly enabled by our thorough and robust GHG accounting process and supplier engagement related to scope 3 primary data collection.



To assess whether an investment will meet our quality criteria and generate a positive impact, we apply an external due diligence process managed with a proprietary methodology developed with PMI's carbon finance adviser, Clarmondial. This methodology considers GHG mitigation, biodiversity conservation, and community benefits analyzing evidence and third-party reporting with quantitative estimations of the impacts on the environment and society generated by projects. Clarmondial also helped PMI in establishing relationships that can support the company's long-term climate, community, and nature-related aspirations. In 2023, PMI's PCI invested around USD 1.2 million in projects focused on nature-based solutions (2022: USD 6.6 million). These projects are taking place in Cambodia and China, and they aim to generate carbon credits through forest conservation and afforestation, respectively. Moreover, the PCI focused on securing high-quality offsets to support PMI's decarbonization journey and provided the carbon offsets required for the five manufacturing sites and 11 markets that achieved carbon neutrality certification during the calendar year.

Insetting in our tobacco supply chain to compensate for our direct emissions

We promote insetting by exploring nature-based solutions in our tobacco supply chain. This allows us to compensate for residual emissions generated by our direct operations while also advancing the well-being and socioeconomic development of tobacco-farming communities and creating co-benefits such as more resilient ecosystems and improved safe water access for our farming communities.

In 2021, we identified an insetting project opportunity in our supply chain in Mozambique and kicked off the project in 2023. We assessed two additional insetting project opportunities in North and South America aligned

Pricing carbon in scope 3

In 2023, PMI leveraged its long-standing experience of working with a shadow carbon price for its scope 1+2 emissions to develop its first internal carbon price pilot project for scope 3, focusing on ocean shipping activities.

The exercise was intended to develop a carbon price reference to assess carbon emissions and value them as a criterion on offered transport services for PMI ocean logistics. We calculated a reference carbon price range that represents the cost per ton of CO₂e to mitigate risks related to climate change, through implementation of carbon emission reduction technologies leading to different levels of decarbonization of the maritime sector.

The application of the resulting internal carbon price for ocean shipping will support the creation of more favorable conditions in the selection process for suppliers that invest in reducing carbon emissions in our supply chain and will result in lower-than-average carbon footprint for the service proposed.

with our "Perfect Forest™" concept, wherein value is created by implementing sustainable forestry practices (read more about our Perfect Forest™ concept [here](#)).

Foreseen project outcomes include carbon sequestration through the reforestation of degraded land, ecosystems restoration, and social benefits to local communities such as securing access to sustainable wood to tobacco farmers who depend on it. During 2023, we completed the project feasibility study which resulted in a positive outcome for the value generated and paved the way for the executive implementation assessment.

Carbon reduction in our value chain

The vast majority (88.0 percent) of our carbon footprint lies in our upstream value chain. The main sources of carbon emissions include purchased goods and services and related activities, transportation and distribution, tobacco growing, and business travel and employee commuting.

A smaller percentage (4.1 percent) of our carbon footprint comes from our downstream value chain, including the use and end-of-life phases of our products (read more [here](#)), and the transportation and distribution of finished goods.

In line with our 2040 net zero ambition, we introduced a new categorization of our scope 3 emissions, becoming one of the first companies to have our scope 3 FLAG and Industrial emission targets validated by the Science Based Targets initiative (SBTi).

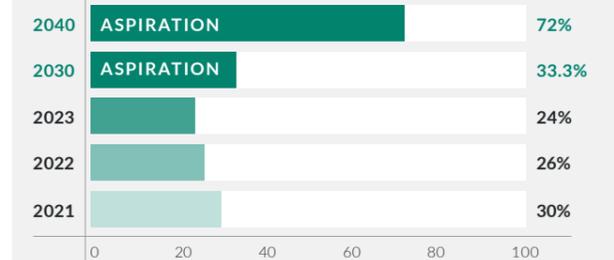
PMI has set a 33.3 percent reduction target in absolute scope 3 FLAG GHG emissions versus 2019 baseline and a 27.5 percent reduction target in absolute scope 3 industrial GHG emissions versus 2019 baseline. Our new FLAG target, which includes Swedish Match emissions, was included in PMI's Sustainability Index for the 2023–2025 PSU cycle (read more about the Sustainability Index [here](#)).

PMI's adoption of Forest, Land, and Agriculture (FLAG) emissions reductions targets

In 2023, the Science Based Targets initiative (SBTi) has verified PMI's Forest, Land, and Agriculture (FLAG) emissions reductions targets, with PMI being one of the first companies to have their own science-based FLAG target validated.

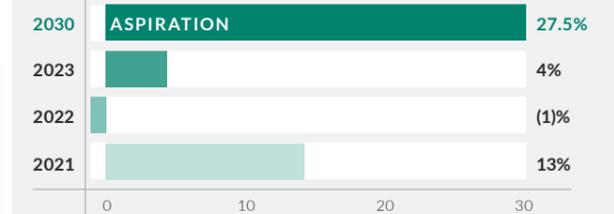
As a company operating with a significant agricultural supply chain, the adoption of a science-based FLAG target provides us with a sound trajectory toward the further reduction of GHG emissions arising from land use.

Reduction in absolute scope 3 FLAG GHG emissions versus 2019 baseline



Our upstream and downstream value chain combines to form our scope 3 GHG emissions. Our 2023 data reflect a 10 percent decrease in our overall scope 3 GHG emissions versus our 2019 baseline, accounting for the inclusion of Swedish Match's related GHG emissions. While our emissions have dropped from our baseline year, they did not fall as much as planned in 2023.

Reduction in absolute scope 3 Industrial GHG emissions versus 2019 baseline*



*Note: For further details on scope 3 calculation please refer to the PMI Value Chain Methodology.

Our planned programs delivered reductions to expectation and are highlighted throughout this section. We faced unforeseen challenges in 2023 due to unfavorable business conditions and the execution of business continuity plans, mostly linked to the sourcing of materials. Some decisions demanded changes that resulted in unavoidable trade-offs which, while ensuring the security of supply and business continuity, compromised natural capital. These included:

- **Change in sourcing:** Increase in tobacco volume purchased from known geographies with higher carbon footprints to enable business activities, as well purchasing tobacco from new origins with higher carbon footprints.
- **Change in stock:** Purchasing additional materials as part of business continuity plans to build up our stock of raw materials, including tobacco and semi-finished products to ensure finished products were available in specific markets.



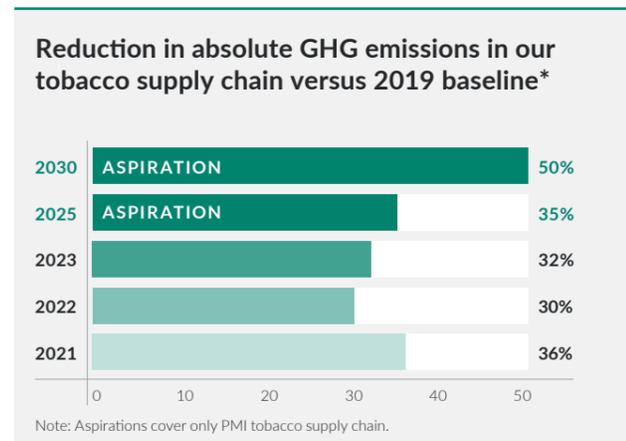
On the other hand, in 2023, targeted actions were implemented to reverse past years' supply chain disruption impacts, allowing for example to reduce by more than 40 percent emissions related to air shipments (versus 2022), and developing our first internal carbon price pilot project for scope 3, focusing on ocean shipping activities (read more [here](#)).

The more we know about the drivers of our emissions, as well as the emissions and profiles of our suppliers, the more effective our activities and projects can be designed to achieve our targeted reductions. In 2023, we continued our efforts to expand and enhance our primary data collection from suppliers in multiple categories, including tobacco and direct materials. We also engaged with suppliers across our logistics categories to collect primary data, making our methodology more robust and enabling us to shift from spend base to primary data.

Beyond our SBTi-validated target on the percentage of supply spend covered by suppliers with their own science-based targets, we incorporated additional sustainability criteria (such as carbon emissions) into selected tender processes related to our direct materials sourcing, steering business decisions in line with our ambitions (learn more about how we help accelerate the sustainability journey of our suppliers, including in the area of climate action, [here](#)).

Our tobacco supply chain

Our tobacco supply chain, including Swedish Match, represented around 15.2 percent of our total carbon footprint in 2023, with most activities contributing to our scope 3 FLAG emissions (61 percent). The main sources of emissions include the use of fertilizers, the process of curing tobacco, and increasingly mechanized activities as described in this section.



We are relentlessly working to achieve an absolute reduction in carbon emissions in PMI's tobacco supply chain of 35 percent by 2025 and 50 percent by 2030 versus our 2019 baseline.

As we progress with the identification of opportunities related to synergies in Swedish Match's tobacco supply chain, we aim to progressively apply PMI's best practices and sustainability programs to enable further carbon emission reduction.

Decarbonizing tobacco curing in PMI's value chain

We mainly source three types of tobacco: Burley, Oriental, and Virginia. While Burley and Oriental tobaccos, once harvested, are air- and sun-cured to dry out the leaves, Virginia tobacco which represents approximately half of our purchased volume is generally cured using an external heat source—a process called "flue-curing." Curing barns can be heated with diesel, natural gas, coal, LPG, firewood, or biofuels containing agricultural or wood-sawing by-products.

The GHG emissions of flue-cured tobacco represented 5.0 percent of our total carbon footprint in 2023.

Having achieved a 77 percent reduction in GHG emissions per kilogram of flue-cured tobacco between 2010 and 2020, we established an additional and more ambitious target to reach 75 percent reduction in carbon emissions generated by curing one kilogram of flue-cured tobacco by 2025 (versus our 2019 baseline). To deliver on this ambitious target, we focus on improving curing-barn efficiency and increasing the use of renewable fuels.

In 2023, we made good progress in most markets, achieving a 51.4 percent reduction in emissions per kilogram of tobacco from flue-curing versus 2019. We continued the supplier auditing process run by an external partner based on our Monitoring, Verification, and Reporting (MVR) Framework for Sustainable Curing Fuels. These audits covered all flue-cured origins to verify carbon reduction activities and data on fuel use per kilogram of tobacco cured.

Improving curing barn efficiency

As most farmers own their curing barns, we collaborate with them and our suppliers to provide guidance and support to make the barns more thermal-efficient. We support improvement projects, which typically aim to enhance combustion efficiency, ventilation, heating control, and insulation.

In 2023, the improvement projects we carried out increased the efficiency of 13,897 barns—adding to a cumulative total of 116,703 barns upgraded since 2014—with a focus on Brazil, China, Mozambique, Pakistan, and the U.S. For example, in our Brazil flue-cured market, we conducted a pilot study to assess the feasibility of using photovoltaic energy systems in curing barns to reduce overall fuel consumption.

In parallel, through our suppliers, we continued to deliver training to farmers on fuel consumption efficiency, barn maintenance, and fuel sustainability attributes.

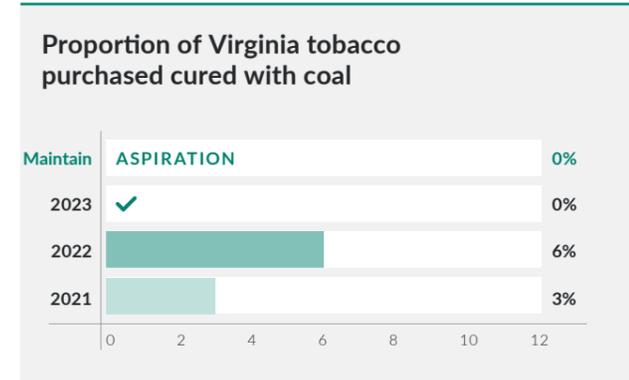
Increasing the use of renewable fuels

To reduce GHG emissions, we are gradually phasing out fossil fuels, such as diesel, in favor of renewable fuels, including sustainable firewood and biomass. Our MVR allows us to systematically monitor the sustainability of all fuel types used in our tobacco supply chain. We published an abbreviated version of our MVR framework in 2023 to drive awareness of its requirements and enable the sharing of best practices across the industry (read more [here](#)).

In 2023, 76 percent of our purchased flue-cured tobacco was cured with renewables (2022: 74 percent). We will maintain a focus on reducing the use of fossil fuels and ensuring that the firewood and other wood-based materials used to cure the tobacco we purchase do not contribute to the deforestation of primary forests. Our MVR enables us to monitor this.

In 2023, for the third consecutive year, 100 percent of the tobacco we purchased was cured with no risk of gross deforestation of primary or protected forests (read more about our forestry management ambitions and progress [here](#)).

Another driver of progress is our continued phase-out of coal by converting curing infrastructures to enable the switch to renewable fuels.



In 2023, we achieved our ambition of having 0 percent of the flue-cured tobacco we purchased cured with coal, down from 6 percent in 2022.

This was achieved by collaborating with our suppliers to convert coal to biomass alternatives and increasing controls on the supply chain, which has multiple additional benefits beyond emission reductions. As a result, 100 percent of the tobacco we purchased from China was cured with biomass. Additionally, our supply chain partners in China piloted electrical energy curing barns that will further contribute to emission reductions. As a year-on-year ambition, we aim to maintain this achievement.

Reducing GHG emissions from fertilizers

In 2023, emissions related to the use of fertilizers in tobacco production contributed to 8.4 percent of our total carbon footprint.

Nitrogen-based fertilizers are essential in commercial agriculture to assist farmers in obtaining appropriate yields and quality attributes. Achieving a continuous decrease of fertilizer application is challenging, so we are addressing fertilizer emissions from different angles, including conducting trials of different fertilizer options and expanding mechanization to improve yields without increasing fertilizer requirements.

For example, in Argentina, we are conducting an ongoing pilot testing the optimization of water and fertilizer inputs by converting to drip irrigation. Although this trial is still in progress, it has shown a reduction in overall fertilizer and water use to date, thereby reducing GHG emissions associated with fertilizers and preventing excess nutrient loss and agricultural runoff.

The path toward net zero

In 2023, we started an innovative pilot project with a third-party consultant to obtain primary data on carbon removals resulting from good agricultural practices in our tobacco supply chain. The project builds on geographic information systems (GIS) information, meteorological data and machine learning to identify changes in all carbon pools in the select tobacco growing areas. Results from this pilot will help us understand the emission reduction and removal potential of specific agricultural practices (e.g., regenerative agriculture) and potentially contribute to achieve our FLAG target.



Our broader supply chain

A significant portion of our emissions arises from our upstream nontobacco supply chain: this segment accounted for 72.8 percent of our total value chain emissions in 2023. Engaging with our broader supply chain to contribute to suppliers' transition toward a net zero economy is, therefore, at the heart of our approach.

Beyond tobacco, our most carbon-intensive supplies (representing 36 percent of our total carbon footprint in 2023) are the direct materials used in the manufacturing of our products, such as pulp and paper, cellulose acetate tow, and our smoke-free electronic devices.

Another way the direct materials used in our products can negatively impact our carbon footprint is through association with commodity-driven deforestation (read more [here](#)).

As part of our science-based approach to climate action, we continue to engage with our critical suppliers to adopt science-based targets. PMI has already achieved its 2025 target of having 15 percent of suppliers by spend (covering purchased goods and services) to have science-based targets.

Supplier engagement is key in driving reductions of our Scope 3 emissions. We connect with our partners through dedicated webinars, and we have incorporated sustainability criteria in our ways of working with them.

During the year, we further increased our visibility on supply chain spend covered by suppliers that are either committed to science-based targets or have in place targets validated by SBTi. In 2023, this represented 35 percent of our total supply chain spend. We will continue engaging with suppliers and monitoring this figure, considering a fast-evolving external environment and expected changes in our supplier mix in line with our expanding product portfolio.

Proportion of suppliers by spend covering purchased goods and services with science-based GHG reduction targets*



*Note: Excluding Swedish Match.

In March 2024, PMI was included in CDP's Supplier Engagement Leaderboard for the seventh consecutive year, distinguishing us as a global leader for engaging with suppliers on climate change and recognizing the effort we have put toward bringing our suppliers along our decarbonization journey, a key component in achieving our scope 3 ambitions.

In 2023, an internal multistakeholder team continued developing the strategy for our nontobacco supply chain carbon footprint reduction, including an additional focus on transportation, warehousing, and indirect materials and services categories. As we progress, we are looking into how to collaborate with our tier 1 suppliers in our electronics supply chain. We expanded our engagement with suppliers to collect primary data, identified opportunities for reduction, and explored environmental partnerships initiatives.

The aim is to increase primary data to improve our carbon accounting accuracy, visibility around opportunities, and traceability of sustainability initiatives.

For example, in our direct material category, we achieved 83 percent coverage of primary data collection in 2023. We have initiated engagement with our logistics suppliers and strive to achieve similar results, moving from spend-based to primary data. To date, our logistics team mapped out the percentage of emissions from transportation categories aiming to replace 80 percent of this data with primary data from suppliers by 2025. Similar efforts were undertaken in other segments of our procurement functions.

Looking ahead

Scott Coutts
Senior Vice President, Operations



"We plan to focus 2024 on furthering Swedish Match's integration into our low-carbon transition plan, leveraging on PMI's well established carbon emission reduction strategies in line with our net-zero journey, as well as re-validating our SBTi commitments. Furthermore, reducing our scope 3 industrial emissions will continue to be a priority. Our efforts will continue to focus on reducing GHG emissions from those categories with the higher contributions to our footprint, looking into de-risking our glide path towards our 2030 ambitions. Beyond our reduction strategies, during 2024 we will work on revising our Environmental Commitment, to strengthen governance, as well as setting stricter criteria linked to our compensation strategy that can also improve our transparency. Noting rising regulatory requirements linked to tackling climate change and environmental transparency, we will work on setting up internal processes to respond more efficiently and respond to mandatory non-financial disclosures."

Pedro Braga
Vice President, Global Technical Operations



"Global Technical Operations (GTO), as a function that oversees a significant portion of our value chain from tobacco sourcing to manufacturing of our consumables, is a major contributor to our scope 1, 2, and 3 emissions reduction. In 2024 we will focus our efforts on advancing GTO's contribution to PMI's scope 1+2 related ambitions, with a strong focus on technological advancements to decarbonize PMI factories and reduce GHG emissions in PMI's offices, warehouses and fleet, as well as drive reductions across our tobacco sector to deliver on PMI's recently approved FLAG emission reduction targets. Through close collaboration with our tobacco suppliers, we aim to work on innovative, effective, and cost-efficient solutions to reduce emission from fertilizer, increasing efficiency in fuel usage, and maintaining the achievement in shifting to sustainable curing fuel."

Hafed Balhadj
Chief Procurement Officer



"We will maintain efforts in place to reduce our scope 3 emissions, with a focus on continuing to deploy our zero deforestation program, which significantly contributes to our broader initiatives to tackle climate change. In addition, we plan to expand the Sustainability Accelerator program we piloted with six selected suppliers in 2023 to the broader supply chain. We will include direct and indirect materials and services suppliers and support them in delivering decarbonization projects.

Additionally, we believe that standardizing methodologies and tools can accelerate decarbonization and we will continue encouraging our suppliers to disclose their emissions and associated reduction initiatives through common platforms such as CDP, EcoVadis, and RBA.

We are exploring the possibility of incorporating a carbon shadow price in supplier tendering process for direct materials, as we think it will allow us to make balanced choices that contribute to decarbonization of our scope 3 and support our business strategy."



OPERATIONAL IMPACT

Preserve nature

Natural capital is a wealth we all share and depend on. There is broad scientific consensus on the urgent need to protect ecosystems' biodiversity and halt and reverse nature loss, aligned with the Kunming-Montreal Agreement.

INWARD IMPACT

The business case

Our business activities rely on natural resources and 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, strong biodiversity, stable climate conditions, and access to water.

As a business with an agricultural supply chain, it is paramount that we contribute to protecting and preserving nature and 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, as well as those of communities living in the area.

Promoting the efficient use of natural resources and taking steps to protect, preserve, and improve them help manage risks and prepare us to respond to regulation that will norm our performance and disclosures related to ecosystem degradation and the cost of biodiversity loss.

Further, we understand the importance of working to halt the destruction of natural habitats, including avoiding and compensating for losses, in order to guard against potential financial and reputational risk.

OUTWARD IMPACT

The right thing to do

Our value chain involves a significant agricultural supply chain, that can have far-reaching effects on the environment, impacting various natural ecosystems.

Deploying practices to halt deforestation, protect biodiversity, and manage water sustainably can contribute to the preservation of fundamental ecosystem services we collectively depend on, including soil fertility, clean air and water, protection from natural disasters, and recreational and cultural inspiration, and the potential subsequent loss of economic value. Moreover, a healthy natural ecosystem plays a vital role in tackling climate change, with land and oceans absorbing and storing carbon from the atmosphere.

Efforts to reduce our footprint on nature and operate within the boundaries of our planet's ecological limits can also contribute to tackling environmental inequality, as the negative impacts of changes in climate, biodiversity, and ecosystem functions often disproportionately affect the world's most impoverished communities.

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	Halting deforestation	148
	Managing water responsibly	152
	Reducing waste	157

Management approach

We are committed to the responsible and sustainable management of natural resources. We understand that biodiversity protection, forestry management, water stewardship, and waste reduction are deeply intertwined. Moreover, healthy ecosystems play an important role in combating climate change. By capturing and storing carbon from the atmosphere, they can act as a buffer against climate change.

Our long-term ambition is to contribute toward a positive impact on nature by 2050. To deliver on this ambition, we seek to tackle pressures on nature holistically, building on interlinks between programs and activities.

We deploy initiatives tied to various aspects of natural capital, with a particular focus on the highest-risk segments of our value chain. We integrate biodiversity risk assessments into multi-disciplinary company-wide risk management processes to manage them in line with our climate change-related risks (read more about risk management [here](#)). We have targets and measurements in place to help us evaluate the effectiveness of our actions.

More specifically, aligning with Goal A of the [Kunming-Montreal Global Biodiversity Framework](#), we aim to support the integrity, connectivity, and resilience of ecosystems and we have set an ambition to achieve no net loss of ecosystems connected to PMI's value chain by 2033. In alignment with target 1 of the framework, we work in our supply chain to halt deforestation, focusing on achieving zero net deforestation of managed natural forests and no conversion of primary and protected forests and natural ecosystems in both our tobacco supply chain (by 2025) and our paper and pulp-based products supply chain (by 2030).

Our work to act as a steward for water is based on a bold ambition: by 2033, we aim to scale solutions toward a positive impact on stressed water resources and, by 2050, we aim to contribute toward a positive impact on water resources.

This long-term ambition is accompanied by intermediate aspirations. Notably, we aim to certify all our priority factories to the Alliance for Water Stewardship (AWS) standard.¹ We also aim to improve irrigation water use and restore water volumes in our tobacco supply chain with an aspiration to optimize water through dedicated interventions to aggregate at least 25 million cubic meters of water by 2033—thereby helping address shared water challenges in the watersheds where we operate.

¹ Priority factories consist of all PMI manufacturing sites except those located in low-medium water risk areas (all together representing less than 2.5% of PMI's manufacturing water footprint).

Additionally, our efforts focus on minimizing the amount of waste generated at every stage of the products' life cycles, applying the principles of the circular economy to the materials we use in our operations, and disposing of the remaining waste safely and effectively.

Importantly, in 2023, we advanced our data verification process to allow for the timely publication of relevant sustainability metrics, including those related to our actions to preserve nature. Consequently, some data points in this report are based on actual data from 2023 (typically from January to September, or for some to August) and estimates for remaining months. This data will be restated with full-year actual figures and made available on our website during 2024.

We routinely conduct global and local risk assessments to evaluate our impacts on biodiversity, forests, and water, and we prioritize and adjust our actions accordingly.

Protecting nature is a collective responsibility requiring both global ambitions and local interventions tailored to diverse contexts. We leverage the work of the Science Based Targets Network and collaborate with and participate in several platforms and organizations, such as the World Business Council for Sustainable Development (WBCSD), the Taskforce on Nature-related Financial Disclosures (TNFD), CSR Europe, The Biodiversity Consultancy, World Sustainability Organization (WSO), Value Impact, and the AWS.

In 2022, we published a dedicated report describing our ambition to contribute toward a net positive impact on nature, and announcing related new aspirations that will guide our work to protect biodiversity and steward water in the decades to come (read more [here](#)).

Management

Our efforts to protect natural capital are overseen by our Senior Vice President, Operations, a member of Company Management. Under his leadership, the Operations team is responsible for developing and implementing strategies to achieve our biodiversity, forests, water, and waste ambitions.



PMI's policies and standards

- [Environmental Commitment](#)
- [Responsible Sourcing Principles](#)
- [Good Agricultural Practices](#)
- [Zero Deforestation Manifesto](#)
- [Water Stewardship Policy](#)



Progress in 2023

Highlights

- CDP acknowledged our efforts to preserve nature again this year, awarding us an A rating for our work advancing water security and forest protection.
- We are well on track to achieve a deforestation-free supply chain. During the year, a third party audited our primary paper and pulp-based direct materials suppliers, confirming that all those in low- and medium-risk countries were fully compliant with our [Zero Deforestation Manifesto](#) (ZDM).
- We have signed up to become a TNFD Early Adopter. As such, we are committed to advancing the adoption of the TNFD recommendations and intend to publish our first TNFD-aligned report for financial year 2025.
- As one of the leading companies equipped to work on setting science-based targets on nature, we were invited by the WBCSD to participate in their Science Based Target for Nature preparer group.

Challenges

- Nature-based strategies leverage interlinks between intervention areas (e.g., water, forest, soil, biodiversity, and communities) but rarely investigate trade-offs. We need to strengthen our analysis capabilities to better understand and consider the potential negative externalities of our interventions (e.g., an afforestation project on water-stressed areas or large-scale projects impacting indigenous communities).
- The growth of smoke-free products as a proportion of our production mix comes with impacts on natural capital, notably due to the more energy- and water-intensive manufacturing process, which we continuously seek to improve.
- Unlike climate action, which has global impacts, biodiversity activities need to generate positive outcomes at the local level, which requires traceability of all relevant materials we source. Traceability for some materials is a challenge due to the low maturity of some sectors and the relatively small influence PMI may have in certain supply chains, especially the long and complex ones.

A glance at our path to integrate Swedish Match

Our nature-related information and data are not currently integrated with Swedish Match.

Our preliminary assessment showcases that our footprint with regard to biodiversity, forest, water, and waste is largely uniform. One exception pertains to the ownership and direct management by Swedish Match of forestry plantations in Brazil. Swedish Match operates a total of around 3,400 hectares of pine stand. The plantations in Brazil are part of a pine wood production located in the south of the Paraná state. As part of efforts to implement sustainable forestry management practices, Swedish Match replants more than it harvests every year.

Our plan is to integrate nature-related strategies, programs, and data within the course of the upcoming three years, starting first with our respective direct operations before expanding to the supply chain.

Protecting biodiversity

We understand the role companies can play in tackling biodiversity loss and seek to align our efforts with global initiatives. We participate in international forums such as Business for Nature and WBCSD's working groups on nature and forests, and we leverage the work of the Science Based Targets Network.

We also participate in the TNFD member forum recognizing the importance of corporate reporting on nature-related financial risks and opportunities to support the shift in mindset and behavior to address the global nature crisis. Our commitment to the TNFD continues with PMI joining the early adopter companies that intend to publish TNFD-aligned disclosures within the next two years. We are currently working, in alignment with global policy goals and targets such as the Global Biodiversity Framework Target 15, to disclose our risks and opportunities related to nature through the indicators that have been created by the collective work resulting in TNFD Recommended disclosures.

Our holistic biodiversity strategy

We understand that building a meaningful and global approach to biodiversity requires the conscious cross-pollination of various strategies and interventions. To respond appropriately to the biodiversity crisis we face, we must account for the synergies and interdependencies of environmental impacts along our value chain and put biodiversity protection at the nexus of our climate, forest, and water strategies.

In 2023, we continued developing our biodiversity strategy in line with the SBTN approach, focusing on the definition of metrics and the design of implementation strategies for the areas of our business for which action on preserving biodiversity is most material. We have further refined our impacts and dependencies estimation by improving data quality on agriculture and forestry and starting to include raw materials from the mining sector which are part of our smoke-free product devices.

Our biodiversity ambition

Inspired by and aligned with the Global Biodiversity Framework, our long-term aspirations guide our efforts to protect biodiversity in the years to come.

We aim to protect ecosystems across our value chain and achieve no net biodiversity loss by 2033. We continuously monitor progress through internal geospatial intelligence to classify land use in relation to ecosystem integrity and the activities related to PMI value chain. We use indicators tailored to the needs of our implementing business functions to measure the extent of ecosystem area that is preserved, restored, or transformed within the physical boundaries of our supply chains and operations. Further, to contribute toward a positive impact on nature by 2050, we will continue implementing initiatives and deploying new actions that aim to address the relevant pressures on nature we have identified.

To achieve these ambitions, we are—and will continue working on—avoiding and reducing negative impacts on biodiversity in the following areas:

- Sustainable management of tobacco working lands with a focus on regenerative practices
- Restoration of affected biodiversity in ecosystems connected to our value chain
- Transformative actions beyond our industry through the application of landscape approaches

Understanding our impacts and dependencies

Having a clear understanding of our impacts and dependencies on nature strengthens PMI's nature-related risk management approach in line with sustainability standards. It also equips us to prepare for mandatory and voluntary environmental sustainability disclosures, including TNFD.

Our 2023 impacts and interdependencies evaluation confirmed the findings of our 2022 biodiversity footprint assessments, and highlights that the vast majority of our impacts arise from our supply chain. Our tobacco supply chain accounts for approximately 61 percent, and our paper and pulp-based supply chain for almost 39 percent. Our direct operations, including manufacturing sites, account for the remaining part.

We are aware of the critical role that natural assets and ecosystem services play in our value chain and we work to improve our understanding of the role of nature for our business. In 2023, we conducted more granular nature dependencies assessments to estimate how much we leverage natural assets and the value of the ecosystem services that support our business.



To do this, we used tools such as ENCORE, a free online tool helping organizations explore their exposure to nature-related risks and exposure, to identify and locate where dependencies are located across our value chain.¹ Consolidating the results into a dashboard allowed us to estimate the dollar value of ecosystems services we use (e.g., fertility of the soil needed to grow tobacco). The results of our analysis show that the natural assets we are most dependent on are water, soil, and minerals, and that the ecosystem services that are most critical to us are water and climate regulation, as well as erosion control.

In 2023, we also performed a natural resource use and impact pilot with 22 suppliers of direct material belonging to the most relevant paper and pulp-based product categories. Starting from their corporate reporting, we collected valuable information at the supplier plant or product line levels regarding the consumption of natural resources including end of life practices (i.e., wood feedstock, energy sources, waste, and water). All participating suppliers received constructive feedback to have benchmark references about their performance on sustainability. Outcomes are supporting PMI in building knowledge of our natural resources footprint, fostering awareness of the topic among our key vendors, and paving the way for further supplier engagement programs.

Prioritizing and tracking progress through response indicators

Impacts on biodiversity can be monitored through a wide range of pressure-specific indicators, often very technical and built for a pool of science expert users. PMI developed a set of response indicators, largely derived from existing sectoral programs already in place, that can be easily measured and handled by relevant internal teams.

These indicators are quantitative (e.g., amount of ecosystem area conserved for its integrity, or volume of freshwater consumed in water stress watersheds) and are deployed to track progress made towards our no net loss aspirations via different initiatives. Structuring indicators by topic but focusing on a common goal creates potential synergies between various nature-related initiatives, allowing us to have a better measurement of nature-related risks, and leveraging results in an integrated approach. For instance, watershed projects to tackle shared water challenges can have a positive outcome on restoring native vegetation, in turn increasing the biological diversity of an ecosystem and reducing land use change pressure.

To develop pressure response indicators, we identified the following priority areas of action along our value chain:

- In our tobacco supply chain:** Our focus is on the tobacco cultivation process, including the curing stage for flue-cured tobacco when wood-based fuels are used. Risks relate to degradation of the natural environment linked to the loss of ecosystem areas, chemical pollution, and invasive species.
- In our nontobacco supply chain:** Our considerations concentrate on the deforestation risks linked to the sourcing of paper and pulp-based materials.
- In our direct operations:** Our attention is on the proximity our manufacturing sites may have to protected key biodiversity areas, and on the implementation of sound environmental practices at our manufacturing sites including waste management in relation to any kind of pollution of surrounding areas.
- Downstream in our value chain:** Our focus is on avoiding pollution of natural ecosystems. We should concentrate on minimizing post-consumer waste and preventing the littering caused by the use of our products.

Mitigation hierarchy for our biodiversity ambition

Our theory of change is centered on limiting and counterbalancing negative impacts on biodiversity resulting from PMI activities across the value chain to contribute to nature positive in the long term. Each action we take (or do not take) poses unique challenges and offers different stepwise solutions.

We embrace guidance from the SBTN on the mitigation hierarchy following the AR3T framework, which consists of a series of sequential steps designed to guide the actions of companies in line with best available environmental practices. AR3T builds on the mitigation hierarchy set out in the International Financial Corporation's (IFC) Performance Standard 6 and involves a sequence of five key actions:

- **Avoid** and **reduce** pressures and negative impacts on nature, which would otherwise continue to grow
- **Regenerate** basic ecological functions and services (e.g., by planting trees to stabilize bare soil) and **restore** the original state of nature that was present before impacts (i.e., the extent and integrity of ecosystems) where possible
- **Transform** underlying systems, at multiple levels, to address the drivers of nature loss beyond our value chain (e.g., through landscape planning)

This serves as a blueprint for action in engaging key stakeholders, including our business partners and other stakeholder groups, to promote landscape and jurisdictional approaches.

We are already taking action to address the different steps of the mitigation hierarchy, going beyond biodiversity to also generate positive outcomes on water and social aspects. Examples include:

Avoid: PMI's forest positive program aims to address all potential drivers of deforestation in our tobacco and paper and pulp-based materials supply chains to prevent and minimize natural forest loss and conversion while protecting natural capital in a multistakeholder approach leveraging on all the interactions PMI can generate at different levels of its supply chain (e.g., biomass producers, retailers, farmers).

Reduce: The application of our Good Agricultural Processes (GAP) in our tobacco supply chain helps to manage chemical pressures on natural habitats. Through our integrated pest management program, we minimize the application of crop protection agents and use them only whenever needed and localize them based on plant pathogen presence.

Restore and regenerate: If deforestation risk is detected through our periodic land use change risk assessment and externally validated, a systemic approach to compensating an equivalent area or biomass volume with reforestation activities is then requested. In our tobacco supply chain, restoration projects are active in Indonesia and Pakistan, and planned for Argentina, Malawi, Mozambique, and the Philippines.

Transform: Along with other water stewardship best practices, we actively engage at watershed level with relevant stakeholder groups to work closely on shared water challenges. In our direct operations, this has already resulted in AWS certification for 24 of PMI's manufacturing facilities.

Integrated pest management program in our tobacco supply chain

Our GAP and Integrated Pest Management (IPM) programs aim to protect both the environment and farmers' health and safety. In 2023, we continued to confirm that residues attributable to the use of highly hazardous pesticides were not detected in any of the tobacco we purchased.

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



With our programs, we seek to promote crop productivity and safeguard biodiversity on farms and in surrounding areas. Implementing cultivation practices can in turn free up land for other purposes, such as food crops, other income-generating activities and—potentially—biodiversity conservation habitats.

Preserving the integrity of tobacco seed varieties

Variety selection is the foundation for achieving desired tobacco leaf quality and subjective characteristics as well as for optimizing farmer yield. To promote varietal integrity, PMI has established a tobacco identity preservation program to systematically test the tobacco seed and certain green and processed leaf tobaccos to guard against the inadvertent introduction of genetically modified tobacco into its commercial tobacco products.

¹ ENCORE Partners (Global Canopy, UNEP FI, and UNEP-WCMC). ENCORE: Exploring Natural Capital Opportunities, Risks and Exposure. On-line, accessed in January 2024, Cambridge, UK: the ENCORE Partners. Available at: <https://encorenature.org>. DOI: <https://doi.org/10.34892/dz3x-y059>.



Halting deforestation

We are committed to achieving deforestation-free supply chains for our tobacco and paper and pulp-based materials.

These supply chains represent the vast majority of PMI's land use and provide the materials most often linked to the risk of deforestation and the conversion of natural ecosystems, as highlighted in our annual global forest risk assessments.

Our forestry management efforts are governed by our [Zero Deforestation Manifesto \(ZDM\)](#), designed to move us toward becoming forest positive. We monitor compliance with the ZDM by considering farm boundaries and natural forest cover changes in areas of interest we call tobacco-growing areas (TGAs). These areas include a surface buffer to mitigate potential indirect impacts on natural ecosystems beyond farm-level activities. We monitor TGAs by integrating geospatial analysis with wood-based material traceability data collected on the ground. As needed, we develop forest risk mitigation plans to ensure our tobacco sourcing does not contribute to deforestation.

In 2023, CDP acknowledged our efforts in this area, awarding us an A rating in Forests for the third consecutive year for our work advancing forest protection.

Protecting forests in our tobacco supply chain

We work with our tobacco suppliers and farmers to foster and implement our net zero deforestation requirements, including by establishing traceability to the point of harvest and documenting our sustainable forestry practices.

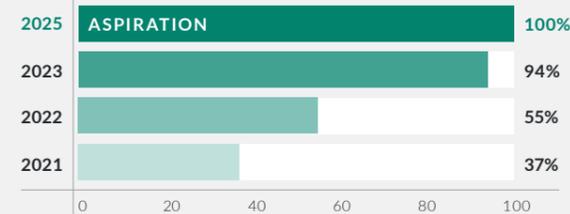
In 2023, the annual external audit carried out on our tobacco supply chain confirmed that, for the fourth consecutive year, 100 percent of our flue-cured tobacco was purchased at zero risk of gross deforestation. Further, the audit confirmed that 94 percent of our purchased tobacco did not pose a risk of deforestation of managed natural forest or conversion of natural ecosystems (2022: 55 percent). The natural ecosystems monitored from the wood-biomass sourcing areas for flue-cured tobacco include primary and protected areas. We use conservative impact buffers around wood sourcing areas, leading us to monitor a total of around 3.9 million hectares of protected areas and 955,000 hectares of primary forest globally.

Proportion of tobacco purchased at no risk of gross deforestation of primary and protected forests



Note: For definitions, please see [PMI's Zero Deforestation Manifesto](#).

Proportion of tobacco purchased at no risk of net deforestation of managed natural forests and no conversion of natural ecosystems



Note: For definitions, please see [PMI's Zero Deforestation Manifesto](#) and [PMI's Sustainability KPI Protocol 2023](#).

Progress made in 2023 was mainly driven by enhanced traceability and visibility into potential risks. It was supported by our geospatial analysis, continued efforts to promote the switch to sustainable fuels for the flue-cured tobacco we source, and continued support for the expansion of live barns for tobacco curing in Malawi and Mozambique. In parallel, our suppliers in these countries also promoted, where feasible, the switch to brick barns, which have a lower impact on forest resources compared with wooden structures.

Additionally, also contributing to our net zero and forest positive aspirations, we continued our reforestation and afforestation efforts in line with the mitigation hierarchy.

Perfect Forest™: PMI's nature-based solutions concept to preserve forest resources

The Perfect Forest™ concept will aim to sequester carbon while enhancing the forestry systems' potential to deliver sustainable forest products and societal benefits (read more [here](#)).

Assessing deforestation risks in our tobacco supply chain

We are using geospatial analysis covering all tobacco types and all suppliers from which we source across over 40 TGAs in 23 countries. Beyond monitoring tobacco cultivation areas, our spatial assessments allow us to account for the potential impact of indirect land use change by applying a buffer around each farming area.

Globally, we monitor deforestation risks on around 75 million hectares of land (a surface roughly equivalent to the size of France). We then focus our on-site activities and audits on those areas where potential deforestation risks are detected.

Our 2023 annual risk assessment showed a continued need to prioritize the use of sustainable firewood to cure Virginia tobacco and switch to sustainable material sources to build barns for the air-curing of Burley tobacco in Malawi and Mozambique. We continued to refine our geospatial mapping and characterization of forest districts from which the firewood used for curing originates, paying particular attention to land attributes and the characterization of polygons based on land use classes.

Electrifying barns in China

In China, our supply chain partners piloted electrical energy curing barn centers that perform tobacco curing with an innovative technology using heat pumps to generate the thermal power needed to cure tobacco. This is a new partnership model with the national grid. By selling low carbon electricity generated by solar panels installed at curing barn facilities, it brings economic and environmental benefits to local communities. Heat pumps are then used to absorb heat from the air and exchange it with a condenser to heat up the air inside the curing barn through a high-temperature air-cooling cycle. This, matched with air ventilation generates a constant flue to cure tobacco leaves inside the barn in a process controlled by a smart curing module operated remotely through a digital control device. The system, in its pilot phase, is proving to be more reliable than traditional curing process heat sources, also allowing for a better control of output quality of the leaves throughout the curing process.

Land use change

We estimate that approximately 259,000 hectares of land are used to grow the tobacco we source. Land use increased versus the previous year (2022: 233,000 hectares) due to volume mix and strategic purchases. The 2023 surface forest areas producing wood fuel for tobacco curing represent, by our best estimate, around 53,000 hectares. This is an increase of 37 percent compared with the previous year (2022: around 39,000 hectares) driven by the use of a different curing fuel mix in certain markets and increased overall volume purchases.

Risks associated with land use change resulting from tobacco farming are not considered significant because tobacco is a crop that does not report notable expansion figures in agriculture statistics, with low turnover of farmers that grow it. To assess risks related to the management of the TGAs from which we source, we conduct an annual ecosystem conversion assessment. In line with the European Space Agency land use classification system, we assess developments in a global dataset of 11 land use classes. This allows us to have a more detailed and effective interpretation of vegetation cover types to inform our nature resource management.

Using more productive non-GMO tobacco seed varieties and implementing practices in line with PMI's GAP principles and standards help maximize yield per hectare, improve farmer income, and thus reduce pressure to expand crops into surrounding natural ecosystems. In light of these trends and the expected medium-term global contraction of the amount of land needed to fulfill our tobacco crop requirements, our analysis shows no direct deforestation risk associated with our tobacco sourcing.

Promoting the switch to sustainable fuels to cure Virginia tobacco

The curing process for Virginia tobacco takes place in barns heated by a variety of fuel sources, including firewood and woody biomass (such as pellets or wood chips). To mitigate the risk of firewood collection contributing to deforestation, we focus on increasing the efficiency of curing barns (thereby minimizing fuel use) and deploying our Monitoring, Verification, and Reporting (MVR) Framework for Sustainable Curing Fuels. This framework requires the traceability of firewood to ensure it originates from sustainable sources. Moreover, we encourage the use of agriculture-derived fuels where they do not compete with food production or negatively affect food security.

Foster an empowered and inclusive workplace

Improve the quality of life of people in our supply chain

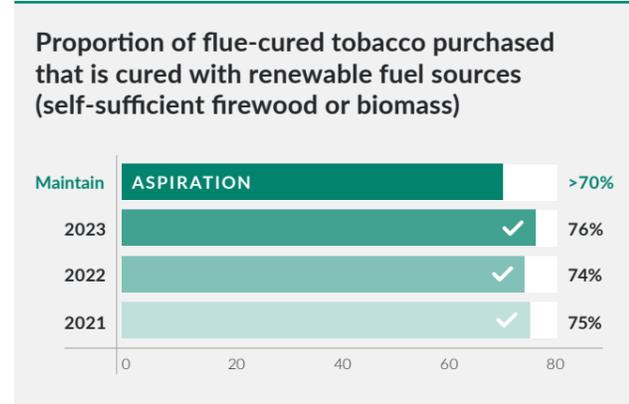
Tackle climate change

Preserve nature



Data gathered through our MVR are verified by a third party. In 2023, all our suppliers of flue-cured tobacco were audited via desktop or on-site assessments. During 2023, 29 suppliers were audited, with desktop audits conducted with 23 suppliers and virtual or physical on-site visits conducted with six suppliers in various flue-cured Virginia markets. This enabled us to have deeper insights into our suppliers' practices and to be able to implement continuous improvements in their current processes. As a result of the 2023 third-party audit, 27 out of 29 suppliers were compliant with the MVR requirements. The remaining two suppliers were new and already engaged in the process of aligning their practices with the MVR requirements.

In 2023, 76 percent of the flue-cured tobacco we purchased was cured using renewable and traceable fuels (2022: 74 percent). Of this, 36 percent was cured with biomass and 40 percent used self-sufficient sustainably sourced firewood (i.e., the amount of wood harvested per year ensures the resource will be available in future years). Globally, between 2019 and 2023, the average amount of wood used for curing tobacco decreased from 3.99 kilograms to 3.06 kilograms per kilogram of flue-cured tobacco (a reduction of 23 percent). This resulted from changes in sourced volumes (more volumes from lower-emission origins) and the increased efficiency of curing barns used by the farmers from whom we source.



Building the foundation for a new sustainable tobacco leaf curing certification

During the year, in addition to the regular audit process, we continued our collaboration with the World Sustainability Organization (WSO) to make our MVR Framework available to a larger farmer base. This pilot is intended to further test the sustainable tobacco curing fuel standard jointly created with Friends of the Earth (a WSO standard body)—read more [here](#).

Enhancing natural capital through reforestation and afforestation

As part of our efforts to halt deforestation and enhance natural habitats, we require that our suppliers and farmers be self-sufficient in sustainably supplying wood for curing and barn construction. By 2025, we aim for them to grow more trees than they cut as a balance in their woodlots. Tree growing requires careful management and is limited to lands where the carbon stock and existing biodiversity assets, including soil, can be enhanced.

We also proactively seek opportunities to respond and support after large ecological disturbances. Learn more about our reforestation work in Greece in response to wildfires [here](#).

Since 2019, we have restored 205 hectares of forest to compensate for the detected risk of potentially unsustainable sourcing of firewood used for curing tobacco leaf (2022: 199 hectares), thereby contributing to our net zero deforestation aspiration.

In the Philippines, we completed feasibility assessments and ensured local community support through several rounds of stakeholder consultation to contribute to the reforestation of critical natural forest supporting a rural mountain community. We plan to execute these and more projects on the road to forest positivity for our tobacco supply chain, which is set to be reached in 2025.

We are on track to bring to zero net deforestation all tobacco markets where risk has been detected by our external assurance process. Eleven out of 12 wood-based curing fuel markets are already compliant with the zero net deforestation criteria. Four of them are considered high risk. The remaining market that is not yet compliant was a new market in 2023 and tobacco suppliers there have already been engaged to become fully compliant moving forward.

Additionally, in line with the criteria of our forest positive program, we are developing interventions to increase the hectares of forest restoration and ecosystem improvements. This goes beyond our zero net deforestation commitments and is reported against our 2025 forest positive aspiration. Since 2019, in line with our forest positive ambition, we have supported the establishment of 198 additional hectares of forest within our tobacco supply chain.

Protecting forests in our paper and pulp-based supply chain

In our paper and pulp-based materials supply chain, we continued to strengthen our line of sight into potential deforestation risks, leveraging experience and tools, and replicating the assurance systems applied in our tobacco supply chain.

During 2023, we continued to gather feedstock origin locations from the suppliers of direct materials used in our products and packaging. Combining this information with satellite monitoring and applying relevant criteria of the National Risk Assessment framework of the Forest Stewardship Council (FSC) allowed us to better understand the level of risk our suppliers are facing. More specifically, it enabled us to categorize each of them as low, medium, or high risk.

In 2023, we re-verified all suppliers in the low-risk category that source supply feedstock material to PMI. Our thorough process included collecting relevant documentation through a dedicated web platform and reviewing publicly available data such as FSC chain of custody certificates. All our low-risk suppliers achieved full compliance against the verification framework of our ZDM. We expanded our efforts to medium-risk origin suppliers, with 17 out of 20 in total achieving compliance with our ZDM.

We continued evaluating high-risk feedstock origin suppliers to improve our understanding of current conditions and lead time to address corrective action plans. During 2023, we addressed non-conformities—mostly pertaining to the provision of GIS-related information for high-risk countries—with the 10 high-risk origin suppliers that had undergone on-site audits in 2022. They all successfully demonstrated they had implemented solutions necessary to ensure the appropriate level of traceability, achieving full compliance against our ZDM in 2023.

During the year, we also ran an extensive on-site audit of our paper and pulp-based product supply chain in China, which resulted in full compliance with our protocol. At a global level, 28 out of 31 high-risk suppliers audited up until the end of 2023 were compliant with our forest positive program requirements.

In 2023, we also extended these efforts to our suppliers of secondary paper and pulp-based products, focusing on low- and medium-risk origin. Simultaneously, we started to work on other categories that use paper and pulp as a base. We engaged first with critical suppliers of printed point of sales materials, which is part of our indirect materials and services supply chain. Critical suppliers signed a commitment letter that outlined our goals and aspirations to remove deforestation from our value chain.

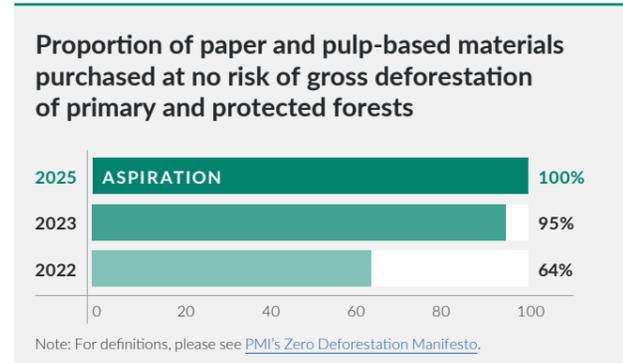
Through several capability building engagements we established a common understanding of the best way to tackle this complex segment of our supply chain, which will incentivize local stakeholders and small suppliers to progress on their zero deforestation journeys. Our strategy is to ensure compliance by working with suppliers who can deliver conformant materials in line with our commitment to avoid any deforestation caused by our supply chain.

We work closely with suppliers building their capability and collaborating through engagement sessions, providing options that would respond to our requirements. For example, materials supplied should be either certified or have chain of custody by the forest management standards approved by PMI (FSC, PEFC, SFI) and verified by a third party mandated to run assurance on our forest positive program.



In March 2023, we organized two webinars with recently introduced suppliers not yet onboarded in the zero deforestation journey to raise their awareness, secure their commitment to our forest ambitions, and obtain their agreement to undergo a compliance assessment during the year.

Our journey in 2023 started with 64 percent compliance and increased to 95 percent at the end of the year.



Aspiration 100%

Proportion of paper and pulp-based materials purchased at no risk of net deforestation of managed natural forest and no conversion of natural ecosystems by 2025

Our approach to assessing water-related risks

We routinely assess water-related risks to inform and prioritize our activities.

A Global Risk Assessment (GRA)—covering our tobacco supply chain, key procurement categories, and direct operations—is a desktop study completed using publicly available, global water risk data across drivers in physical quantity and quality. The GRA works as a high-level snapshot of water risk and the indicators include water stress, seasonal variability, flood occurrence, drought severity and the trend of groundwater resources. For this reason, the GRA works as a first step prioritization tool that informs us on which physical risks are apparent where, and how severe they might be.

A Local Water Risk Assessment (LWRA) follows the GRA and reinforces risk profiles with its inclusion of reported local data, stakeholder interviews, and a focus on key water basins that farmers draw water from and discharge it to. The local data are used to calibrate the data from the GRA, and the resulting scores are used to inform water use and project implementation to address shared water challenges in affected watersheds. The purpose of the LWRA is to support local suppliers' teams and farmers in understanding water risks in a specific growing area, combining locally available data and building on the experience of the suppliers. Moreover, it guides organizations, in partnership with their local partners and suppliers, to undertake mitigating actions to protect growing areas from water risks.

Managing water responsibly

Water is a renewable yet finite resource shared by all. Water stewardship means reducing water use through efficiency measures, promoting water recycling, protecting watersheds, preventing water pollution, enhancing recharge, and promoting sustainable water management in collaboration with relevant stakeholders.

Our approach to water stewardship aims to build the resilience of watersheds, covering our tobacco and other raw materials supply chains and our own operations. We believe that achieving a meaningful impact requires a deep understanding of water-related risks and informed actions to address them. Critically, we must engage with stakeholders to scale solutions and leverage a science-based approach supported by robust methodologies and implementation tools.

In 2023, CDP acknowledged our efforts in this area, awarding us an A rating for the fourth consecutive year for our work in water stewardship.

We continue advancing toward our long-term aspiration to contribute to a positive impact on water resources by 2050. PMI's interim water stewardship aspirations are centered on our tobacco supply chain and direct operations. We expect to expand these aspirations to also encompass our nontobacco materials supply chain (read more about the setup of our long-term ambition on water in a dedicated report available on [PMI.com](#)).

Understanding our water footprint and related risks

Our internal studies indicate that our nontobacco materials supply chain, tobacco agricultural supply chain, and manufacturing represent 33 percent, 66 percent, and 1 percent of our fresh withdrawal water footprint, respectively. As a result, we prioritize collecting primary data on water withdrawals related to irrigated tobacco farms in our TGAs. In 2023, these farms accounted for a collective withdrawal of approximately 109 million cubic meters. The figure for manufacturing (3.2 million cubic meters in 2023) confirms that sector's relatively small influence on our overall water use.

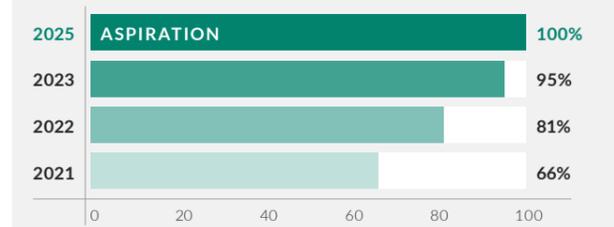
In our tobacco supply chain, we conduct an annual global water risk assessment using tools such as the World Resources Institute's Aqueduct Water Risk mapping. Our 2023 global assessment continued to reveal that most (80 percent) of our TGAs representing approximately 86 percent of our 2023 purchased tobacco volumes show a "medium to high," "high," or "extremely high" level of exposure to physical risk.

To better understand the water-related risks in our TGAs, we also conduct periodic local water risk assessments (LWRAs) on the ground, leveraging primary data sources and interviews with stakeholders to gauge both external and internal water-related risks.

In 2023, we completed LWRAs in Argentina, Greece, Indonesia, Italy, Malawi, Mexico, Mozambique, Switzerland, and Turkey. These assessments confirmed that water scarcity and competing demands for limited water supplies remains a pervasive challenge. Other challenges identified include a lack of water legislation implementation in Mozambique and increased drought risk in Argentina's Juramento basin.

We have conducted 49 LWRAs since 2018, covering 95 percent of our TGAs, including multiple watersheds within some of these areas.

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



In our direct operations, we regularly assess factory water withdrawals and consumption, exposure to water risks, and product type—specific attributes to improve interactions with watershed stakeholders. These assessments help us identify and prioritize actions where we can make a difference and create shared value. Our 2023 assessment showed that approximately 64 percent of water withdrawals in our factories originated from water-stressed areas. We used this and additional information to expand the action plan for our water stewardship strategy, which includes tailored actions at our manufacturing plants and looks at managing risk while generating contributions at watershed level beyond the boundaries of our factories.

In 2023, we extended the application of risk assessment tools to the sourcing of nontobacco materials to cover our electronics supply chain and our paper and pulp-based products supply chain with a water Global Risk Assessment (GRA). The results of the GRA will allow us to prioritize action on focus areas and strengthen engagement with priority suppliers to investigate solutions to address risk and shared water challenges.



Water stewardship in our tobacco supply chain

The quantity, quality, and timing of water availability all impact the growth of tobacco plants.

Water use

For about 67 percent of the farmland in our tobacco supply chain, the growing cycle is synced to the rainy season, enabling crops to be rain-fed during the open field stage. Where we use irrigation, we are mindful of the risk of baseline water stress when conducting local water risk assessments.

In addition, we collect data annually on irrigation water used to grow tobacco. According to the latest estimates, in 2023 we used approximately 245 cubic meters per ton of tobacco produced (rain-fed or irrigated)—approximately 7 percent less than in 2022 (2022: 263 cubic meters per ton of tobacco produced).

Volume changes in the sourcing strategy and climatic trends contribute to our improved performance. The application of better water management practices, including providing suppliers with specific technical guidance on how to monitor and report irrigation water volumes, also played a role.

Since we started measuring water use (collecting primary data from our suppliers and farmers through yearly surveys), our average water withdrawal (cubic meters of water withdrawn versus total packed tobacco) related to our purchased tobacco volume has gradually decreased.

Climate change is expected to affect rainfall patterns and has already had a visible impact at regional and local levels. This could be a primary factor in the year-on-year fluctuation in water use we record among our farmers. We continue to closely monitor water withdrawal figures in our TGAs and we compare them with water risk figures from our analysis to better inform our tobacco sourcing strategy and watershed response actions. This supports our efforts to mitigate risk and optimize resource use in line with the recommendations of TNFD to locate, evaluate, and assess the risk on nature to better prepare to mitigate it.

Water optimization

After consistently exceeding our internal yearly targets, we have increased our aspiration to optimize at least 25 million cubic meters of water (cumulative since 2019) in our TGAs by 2033 (up from our original aspiration of 10 million cubic meters). We aim to achieve this through dedicated projects that address shared water challenges in the watersheds where we operate, in line with our biodiversity and water stewardship ambitions.

In pursuing this aspiration, and to account for volumes of water optimized, we aim to mitigate water-related risks and help address shared water challenges at the catchment level.

The volume that can be accounted as optimized is the one that results from projects that make more water available for stakeholders that share the same challenges in a common watershed.

We implement a variety of projects to address shared water challenges, with a strong emphasis on community-based initiatives. For example, learn more about how we have supported farmer communities in Brazil since 2018 in fencing and protecting areas around water sources [here](#).

In 2023, we expanded the outreach of water positive programs by issuing the tobacco sector's first Brazilian Green Rural Product Note (known locally as "Green CPR"). Accordingly, our local affiliate, PM Brazil, provides additional payments to the contracted tobacco farmers who can demonstrate that they have adopted sustainable practices to preserve forests or strengthen ecosystem resilience against water cycle fluctuations. The payment is based on a third-party verification of the ecosystem benefits generated and is corresponded by PMI independently from the commercial contract with the tobacco producer. This approach increases the resilience of the farmers both in economic terms and for the integrity of ecosystem services (e.g., water flow regulation, forest conservation) provided within their farm.

We also continued the expansion of our irrigation pond project in India, which now includes check dams, a percolation tank, and desilting tanks. This increases water supply for farms and community members and recharges the groundwater table in the project areas.

Learn more about how we expanded the use of laser leveler technology in Pakistan [here](#) and how we contributed to support a micro-enterprise project for female farmers that provided elevated drip irrigation kits in Malawi [here](#).

Designing impactful water stewardship initiatives

Our process for selecting and validating water stewardship projects focuses primarily on identifying and evidencing shared water challenges (or water risks) to develop activities that mitigate their root cause. We then work with local partners to ensure we design the most impactful projects, and calculate the volumetric water benefits based on the VWBA (Volumetric Water Benefit Accounting) methodology.

We prioritize projects that have additional benefits beyond water stewardship to enhance social return on investment, such as reduced fertilizers and crop protection agents, increased vegetation and biodiversity, or improved farmer incomes or livelihoods.

PMI developed and continues to improve an internal Water Stewardship Accounting Tool based on the VWBA methodology (WRI 2019).

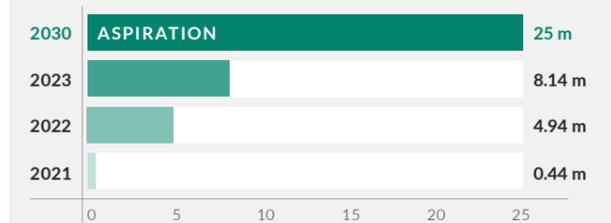
In essence, the tool is a fit-for-purpose means of applying a scientifically sound and standardized methodology to projects with tangible environmental and social impacts in a company's water stewardship journey. It is used to calculate the water benefits of watershed-focused projects implemented to protect water quality and quantity. It incorporates the results of the LWRA's conducted by PMI, providing a step-by-step guide for designing projects based on their impact on shared water challenges and defining the metrics needed for each type of project.

The tool enables the adoption of the concept of responsible water stewardship and provides a standard method for assessing challenges, collaborating with stakeholders across the watershed, and quantifying the benefits of water projects in a real, measurable, and verifiable way.

Results are validated externally by PMI's technical partner Blue Risk that runs a due diligence on how the methodology is being applied and on data quality based on the Water Volumetric Benefit Standard from the World Resource Institute.

To date, we have implemented water stewardship initiatives in eight countries: Argentina, Brazil, India, Italy, Malawi, Mozambique, Pakistan, and Turkey. Combined, these efforts have contributed to optimizing a total of 8.1 million cubic meters of water in our TGAs since 2019, putting us well on track to achieving our aspiration to optimize 25 million cubic meters of water by 2033. This is a significant increase compared with 2022 (2022: 4.9 million cubic meters), driven mainly by the widespread implementation of volumetric water benefit generation guidelines, the progressive capabilities built in cooperation with our suppliers, and the increased number of farmers involved in these activities.

Cubic meters of water optimized in our TGAs (cumulative, since 2019)



Note: Indicator is based on the World Resources Institute's volumetric benefit accounting methodology and is verified by an external third party.

With our 2033 aspiration on water we aim to continue optimizing irrigation and restore water volumes to address water risks at the watershed level by scaling solutions contributing to a positive impact on water resources. In alignment with our holistic approach to environmental sustainability, we aim for all of our water stewardship projects to have multiple benefits (i.e., biodiversity, carbon sequestration, waste management, and social impacts by improving community well-being).

Water quality

When misused, CPAs and fertilizers can pollute the local environment. While CPAs protect crops and fertilizers improve crop yield, these chemicals can infiltrate groundwater or run off into surface watercourses, impacting aquifers and aquatic ecosystems.

We maintain a global integrated pest management program to reduce the unnecessary use of pesticides, promote less hazardous alternatives, and manage both appropriately (read more [here](#)).

Further, to minimize their negative impact, we promote more efficient ways to apply fertilizers, such as through drip irrigation systems that distribute them in smaller quantities and directly to the plants' root systems.



Water stewardship in our operations

We have a long-standing approach to driving water stewardship in our direct operations, especially in our manufacturing sites.

We seek to promote water circularity in our factories, increasing water use efficiency and maximizing the beneficial use of water discharged.

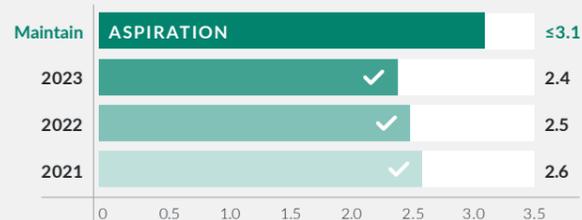
We have created a tool that helps us assess the value of water for PMI by incorporating externalities such as physical, regulatory, and reputational water risk. We are piloting it at our manufacturing sites to further support decisions related to water investments by establishing a virtual monetary value for water through an analysis of physical and transition risks. Understanding the value of water is essential to justifying investments in water solutions and effectively prioritizing them for sound positive impact.

Accelerating water efficiency efforts

The manufacture of our products resulted in a withdrawal of around 3.2 million cubic meters of water in 2023 (2022: 3.1 million cubic meters). Between 2018 and 2023, we reduced water consumption at our manufacturing sites by 19 percent in absolute terms, mainly through water efficiency initiatives that offset the unfavorable impact of the significant increase in the production volumes of heated tobacco units (HTUs).

The production of HTUs is around five times more water-intensive than the manufacturing of cigarettes. While the public health benefits of smoke-free products justify the trade-off, we are accelerating efforts to mitigate the increased water demand through enhanced efficiency. In 2023, we continued to reduce water intensity, achieving a reduction of 5 percent versus 2022 (49 percent reduction versus 2018) and a ratio of 2.4 cubic meters per million cigarettes equivalent (down from 2.5 in 2022).

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



Note: In 2021, we updated our methodology to account for the conversion factor of heated tobacco units to conventional cigarettes of 5:1 and have restated historical data accordingly.

CASE STUDY



PMI's holistic approach to water stewardship in Italy

With a significant footprint in Italy, from tobacco fields to factory production, we seek to work closely with stakeholders to promote sustainable water management in the country.

[Read the case study here](#)

We continuously work to improve our processes, focusing on applying a zero-loss mindset and investing in a variety of projects that aim to optimize our consumption and raise awareness among our employees.

Water circularity approach

At PMI, our comprehensive approach to water stewardship includes initiatives within and beyond our manufacturing sites to establish a circular model in the way we manage and interact with water as a resource. We are not new to thinking circular in the watershed where our manufacturing facilities are located as this aligns with the AWS certification of our priority manufacturing plants. The approach focuses on efficient water use at the manufacturing facility to then promote watershed activities such as water replenishment projects to address water consumption for priority watersheds where we operate.

Water and wastewater quality

At our factories, water is used in manufacturing (including in the preparation of flavors and liquid products and the production of HTUs) as well as for sanitation and hygiene.

To reduce our water withdrawals in the long term, we are recycling and reusing water at our manufacturing facilities. These reductions are achieved, alongside other initiatives, with technologies such as reverse osmosis and electrolytic process, which aim to foster the re-utilization of water in other sub-processes while ensuring the qualitative requirements for the different use purposes.

Reducing waste

We follow the waste hierarchy, whereby we aim first to reduce the waste we generate, promote its reuse and recycle whenever possible, incinerate it when it is the best option available, and, to the extent possible, avoid any disposal to landfill.

Managing the waste generated by our operations

We manage all waste from our production sites with the objective of reducing it and identifying and applying the most sustainable waste treatment options available. We pay special attention to our most valuable waste streams, such as tobacco, paper, card, and cellulose acetate tow, and to hazardous waste.

- Avoid and reduce:** We aim to reduce the amount of waste we generate by converting raw materials into products as efficiently as possible. In 2023, we generated a total of 127,493 tons of waste, of which 2 percent was hazardous (2022: 119,192, 1 percent). The increase in the total waste generation is mainly due to the increased volume of HTUs that have on average a higher industrial waste rate compared with cigarettes given the higher complexity of production.
- Reuse and recycle:** Beyond optimizing our processes to cut waste, we strive to responsibly manage the waste we generate. We first seek to reuse materials or make them available to others. For instance, we have programs in place to promote the reuse of cardboard boxes to handle tobacco in our factories. Another path is recycling, which currently represents most (85 percent) of our waste disposal. However, the growing proportion of smoke-free consumables in our production mix and the expansion of our portfolio to include new products are lowering our recycling rate. We seek to mitigate this trend by implementing appropriate technology to help us better reuse and recycle waste from these products.
- Recover:** When recycling is not possible, we seek to recover waste materials and use them to generate energy. In 2023, 13 percent of the waste generated was incinerated with energy recovery, and 0.8 percent was incinerated without energy recovery or disposed of in a landfill (2022: 12 percent, <1 percent).

At our Italian manufacturing site, for instance, wastewater undergoes a series of processes, including reverse osmosis, in an on-site treatment plant and is reused for utilities (e.g., for boilers and cooling towers). The current overall recycling efficiency rate is around 28 percent of total water demand of the plant. In 2023, we finalized the implementation of electro dialysis reversal equipment that aims at recycling the treated wastewater for process cleaning at an overall efficiency of more than 95 percent.

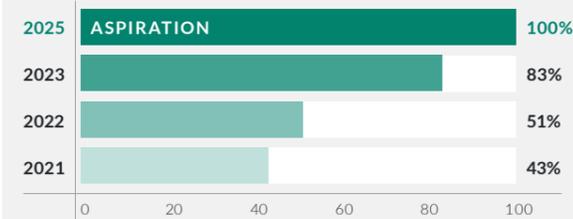
Monitoring wastewater quality is standard procedure at our manufacturing sites, where our certified environmental management systems help us remain in compliance with current and future statutory and regulatory requirements associated with water discharge.

Fostering best practices in water management

Certifying our manufacturing sites to the Alliance for Water Stewardship (AWS) standard is a critical component of our approach to water management. The AWS standard is a globally applicable framework that enables organizations to understand their water use and impacts and work collaboratively and transparently with external stakeholders in the same catchment area to achieve sustainable management within the wider water context.

Our goal is to certify all our priority factories to the AWS standard by 2025, and we are making good progress. Since 2018, we have certified a total of 24 of our factories.

Proportion of PMI factories certified to AWS standard



Note: 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. PMI sites that are in low- to medium water risk areas and below 2.5% of PMI manufacturing water footprint are excluded.



Aiming for virtually zero waste to landfill in our factories

We apply a “zero waste” philosophy, but we acknowledge that even the most efficient systems inevitably involve a small amount of waste diverted to landfill. This includes, for instance, waste-to-energy ash residue, waste legally mandated for landfill, and gray water sludge.

Our ongoing ambition is for our manufacturing operations globally to achieve virtually zero waste to landfill, which means achieving a landfill diversion rate of 99 percent or greater. We are proud that, globally in 2023, 99.9 percent of our manufacturing operations achieved virtually zero waste to landfill. Only 0.10 percent of our operational waste went to landfill (equivalent to 130 tons of waste) while complying with all relevant waste regulations and standards.

Percentage of waste diverted from landfill in manufacturing operations



Note: Virtually zero waste to landfill is achieved when the landfill diversion rate is equivalent to 99 percent or greater. Our calculation of zero waste to landfill does not include canteen and sanitary waste, which do not relate to our production processes. It also excludes the mandated waste, generally tobacco, that we are obliged to landfill to respect local regulations.

Fostering responsible waste practices in our supply chain

We seek to foster a positive impact on waste practices in our tobacco supply chain where our GAP require that suppliers have appropriate waste management plans in place.

We also expect our tobacco suppliers to dispose of empty agrochemical containers safely and appropriately. In some countries, we provide additional support to ensure the collection and proper disposal of containers that held pesticides or crop protection agents, including guidance on triple rinsing and punching best practices.



CASE STUDY

Applying impact valuation and Social Return On Investment (SROI) methodologies to PMI’s waste bank and plastic recycling project in Indonesia

The Indonesian waste bank and plastic recycling project is a PMI-funded, community-driven solution designed to address the effect of plastic waste while positively impacting local communities.

[Read the case study here](#)

Looking ahead

Scott Coutts
Senior Vice President, Operations



“We aim to complete the design of our biodiversity strategy in 2024, cascading the learnings and experience that we are building through our participation in the Science Based Targets Network preparer group. During the year, we plan to further strengthen our biodiversity footprint assessment. The objective will be to increase our visibility of impacts along our value chain. Importantly, as our company continues to transform, we will also account for changes related to the acquisition of Swedish Match, as well as the increasing shift into electronics supply chain—posing a new set of biodiversity challenges and opportunities. These efforts will help inform the design of impactful interventions moving forward and support our work towards establishing science-based targets for nature.

Building on our robust performance and transparency regarding how we manage natural capital—notably recognized by CDP, we welcome regulations such as the new European Union Deforestation Regulation (EUDR) that raise the bar on avoiding forest conversion and that further encourage companies to contribute to nature protection. We closely follow the development of such regulation and prepare for its application, particularly with suppliers and third-party partners in our supply chain. In this context, we will also seek to identify new meaningful opportunities to expand our Perfect Forest™ concept, a nature-based solution concept to preserve forest resources.”

Oleksiy Lomeyko
Director, Sustainability Academy



“We will continue to thoroughly address nature-related risks connected to our value chain in order to minimize adverse impacts and protect natural ecosystems. The TNFD disclosure recommendations and guidance to report and act on evolving nature-related dependencies, impacts, risks, and opportunities, will help PMI strengthen its work and approach to preserve nature—aiming to achieve its 2033 and 2050 aspirations. As an early adopter of the TNFD framework, and building on our recent TCFD disclosures, we plan for TNFD-aligned disclosures for the 2025 financial year. To prepare for this, we will update our public commitment on water while developing and publishing a new one focused on biodiversity. These will be the backbone of our revamped Environmental Commitment, which we plan to publish before the end of 2024.

We are committed to continue strengthening our efforts to preserve nature by protecting biodiversity, halting deforestation, managing water responsibly, and reducing waste. We will continue to integrate learnings and progress of our water stewardship program, our forest positive program and our tobacco-focused good agriculture program under one approach, in line with our ambition to achieve no net loss on ecosystems connected to our supply chain by 2033, and, by 2050, to contribute toward a net positive impact on nature and a positive impact on water resources.”

Fundamentals

Nicotine science	p162	Respect human rights	p171
Conduct R&D responsibly and transparently	p165	Manage our supply chain sustainably	p174
Sustain product reliability	p167	Safeguard privacy and protect data	p182
Uphold business ethics and integrity	p169	Apply fair fiscal practices	p183



Nicotine science

What is nicotine?

Nicotine occurs naturally in tobacco and, in some plants from the Solanaceae family, at much lower levels. It is possible to extract nicotine from tobacco for use in nicotine replacement therapy (NRT) products, the liquids used for e-cigarettes, and other nontobacco nicotine products. It is also possible to produce synthetic nicotine. While this process is relatively costly, an increasing number of products on the market (e-liquids and nicotine pouches) contain synthetic nicotine.

Nicotine binds to the nicotinic acetylcholine receptor to elicit a variety of physiological responses (e.g., a transient increased heart rate and blood pressure). These effects can be influenced by the route of administration (e.g., via lungs, mouth, or skin) that affects the rate and amount of nicotine uptake into the body.

Nicotine is addictive and not risk-free, but it is not the primary cause of smoking related diseases.

Learn more about nicotine on [PMLscience.com](https://www.pmlscience.com).

Nicotine is present in many products including combustible tobacco products (e.g., cigarettes and cigars) and smoke-free products that provide nicotine without combustion (e.g., snus, nicotine pouches, e-cigarettes, and heated tobacco products).

Since smoking has been the most prevalent form of nicotine uptake for millennia, nicotine, smoking and tobacco use can be difficult to separate in people's minds. However, the effects from exposure to nicotine-containing products, which can vary by delivery method and the substrate used, are distinct and separate from the effects of nicotine itself. External independent surveys reveal common misperceptions about the effects of nicotine among people who smoke and healthcare professionals.

National Data from the United States show that nicotine misperceptions are common among U.S. adults who smoke and, similarly, data from the Office for Health Improvement and Disparities in the UK have also demonstrated that a large portion of the population incorrectly believe that nicotine itself causes smoking-related cancers.¹ Nicotine misperceptions also exist among healthcare professionals, where many wrongly believe that nicotine itself causes smoking-related diseases.^{2,3}

Although cancer is a complex and multifactorial process and there is ongoing research into the relationship between nicotine and cancer development, what is known is that nicotine is not classified as a carcinogen by numerous public health bodies including the International Agency for Research on Cancer and the U.S. FDA.^{4,5}

Nicotine is addictive and not risk-free, but it is the chronic exposure to the products of combustion that are generated at high levels when a cigarette is lit which is the primary cause of smoking-related diseases such as cancer, respiratory illnesses, and cardiovascular diseases.

The unfortunate outcome of these misperceptions for adults who smoke is that they tend to perceive nicotine to be as harmful to health as cigarette smoking and therefore may be dissuaded from switching to nicotine-containing products that do not require combustion.⁶

Furthermore, the misperceptions in healthcare professionals around the health effects of nicotine may discourage them from improving their knowledge or being able to differentiate the health effects of smoking from nicotine itself.

Importance and risks of nicotine

The presence of nicotine in smoke-free products is an important factor among others, including ritual, sensory and taste, to successfully move adults away from cigarettes through the adoption of smoke-free products.⁷

Many people who smoke cigarettes indicate that they do so for the perceived benefits, which include enjoyment, stress management, and relaxation. Additionally, some studies report that nicotine can enhance cognitive processes like improving attention, memory, and fine motor function.

As an agonist of nicotinic acetylcholine receptors, nicotine elicits a variety of transient cardiovascular effects such as increased heart rate and blood pressure.

Sustained nicotine use can induce changes in the brain's reward and stress systems, leading to withdrawal symptoms, although the effects are transitory and reversible once people quit and successfully abstain from using tobacco and nicotine products.

It is well understood that nicotine is addictive and not risk-free. However, while it can be difficult for some, anyone can quit tobacco and nicotine altogether with sufficient motivation.

Some studies have found that nicotine may have adverse effects on fetal development such as low birth weight.

For all these reasons, some populations should avoid nicotine-containing products, such as minors, and women who are pregnant or breastfeeding, as well as people with pre-existing conditions including heart disease, high blood pressure, diabetes, or epilepsy.

Achieving the goal of phasing out cigarettes will require a debate informed by facts and science on the health effects of smoke-free products and nicotine itself. As of today, much of our understanding of the importance and risks of nicotine is confounded with smoking. Therefore, as more and more new products emerge that separate nicotine from some or all of the aspects of the smoking ritual, much more research is needed to fully understand these new products as well as the role of nicotine itself.

Nicotine and smoke-free products

It is important to remember that for smoke-free products to benefit public health, existing adult smokers have to be willing to switch to them. Nicotine is one of several product characteristics, along with taste, sensory experience, nicotine-delivery profile, and ritual characteristics, that adult smokers are looking for in alternative products.

Independent studies demonstrate the importance of making scientifically substantiated smoke-free products accessible to those adults who would otherwise continue to smoke (read more [here](#)).^{8,9} This means offering a range of noncombusted nicotine-containing products with substantially lower levels of harmful and potentially harmful constituents (HPHCs) than cigarettes, that are acceptable to adults who would otherwise continue to smoke, so they abandon cigarettes completely.

Public health institutions, individuals and organizations have also noted the important role nicotine can play in helping adult smokers transition away from cigarettes.

For example, the U.K.'s Royal College of Physicians stated that nicotine is not "in itself a highly hazardous drug," and, "It is inherently unlikely that nicotine inhalation itself contributes significantly to the mortality or morbidity caused by smoking. The main culprit is smoke and, if nicotine could be delivered effectively and acceptably to smokers without smoke, most if not all of the harm of smoking could probably be avoided."¹⁰

Learn more about nicotine on [PMLscience.com](https://www.pmlscience.com).

8 Aryal UR and Bhatta DN. [Perceived benefits and health risks of cigarette smoking among young adults: insights from a cross-sectional study](#). Tobacco Induced Diseases volume 13, Article number: 22 (2015) DOI 10.1186/s12971-015-0044-9.

9 Valentine G, Sofuoglu M. [Cognitive Effects of Nicotine: Recent Progress](#). *Curr Neuropharmacol*, 2018;16(4):403-414.

10 <https://www.rcplondon.ac.uk/file/3563/download>

1 "Four in 10 smokers incorrectly think nicotine causes cancer." Press Release, Public Health England, March 14, 2018.

2 Steinberg MB, Bover Manderski MT, Wackowski OA, Singh B, Strasser AA, Delnevo CD. [Nicotine Risk Misperception Among US Physicians](#). doi: 10.1007/s11606-020-06172-8. September 1, 2020.

3 Bover Manderski MT, Steinberg MB, Wackowski OA, Singh B, Young WJ, Delnevo CD. [Persistent Misperceptions about Nicotine among US Physicians: Results from a Randomized Survey Experiment](#) - PubMed (nih.gov). DOI: 10.3390/ijerph18147713, 2021.

4 <https://www.govinfo.gov/content/pkg/FR-2012-04-03/pdf/2012-7727.pdf>

5 <https://monographs.iarc.who.int/wp-content/uploads/2018/06/mono100E-6.pdf>

6 Snell LM, Colby SM, DeAtley T, Cassidy R, and Tidey JW. [Associations Between Nicotine Knowledge and Smoking Cessation Behaviors Among US Adults Who Smoke](#). doi: 10.1093/ntr/ntab246 2022.

7 (DOI: 10.1056/NEJMp1707409).



Therapeutic delivery of nicotine

The scientific community continues to explore ways in which nicotine and other alkaloids present in the tobacco plant can be isolated and potentially used as therapeutic compounds.¹ For instance, scientists are studying nicotine as a possible active ingredient in pharmaceutical applications for treating schizophrenia, depression, and other anxiety disorders.² Scientists are also examining the potential effects of nicotine on treating conditions such as Tourette's, Alzheimer's, Parkinson's, attention deficit hyperactivity disorder (ADHD), and other diseases.³ Cellular, animal, and human studies yielded some promising results, yet existing data are still not conclusive, and nicotine's addictiveness could be a limiting adverse effect for its development as a therapeutic compound for human use.⁴ In 2015, the U.S. National Institutes of Health funded a multi-center study designed to explore whether nicotine patches (used traditionally as NRT, to aid cessation) improve memory and functioning in patients with mild cognitive impairment, compared to placebo in 380 subjects exposed for two years.⁵

Future of nicotine

A better understanding of the health impacts of nicotine separate from the method of delivery is needed. We know a lot about nicotine, but much of it is confounded with the effects of tobacco smoke. People have a lot of questions about nicotine, including its long-term effects, separate from the effects of smoking and the addiction potential of different types of products.

Steps should be taken by academic and industrial institutions alike to fully understand the short and long-term impacts of nicotine use. We plan to contribute to this understanding by conducting and publishing dedicated research focusing on understanding the effects of nicotine. We will communicate more about this in our next report.

Conduct R&D responsibly and transparently

Scientific research and development powers PMI's delivery of a smoke-free future.

At PMI, research and development (R&D) catalyzes our business transformation. The rigor with which we conduct research—and the openness with which we share our methodologies and results—builds confidence in our science among the scientific community, regulators, and our consumers, protects our company from reputational risk, and, most importantly, allows us to commercialize our smoke-free products around the world.

Conducting R&D responsibly and openly is of utmost importance. Transparency, when coupled with scientific integrity and rigor, alleviates skepticism and mistrust, fostering a fertile environment for collaboration and partnership. Evidence and results from our robust scientific assessments advance the debate on public health and tobacco harm reduction to the benefit of adult smokers.

Our R&D work is focused on developing and scientifically substantiating smoke-free alternatives to cigarettes for adults who would otherwise continue to smoke. An essential part of our work is demonstrating that we have eliminated combustion when it comes to our smoke-free alternatives. Eliminating combustion significantly reduces levels of exposure to harmful and potentially harmful chemicals compared with smoking. And it is these chemicals that are the root cause of smoking-related diseases.

We continuously strengthen our quality assurance and internal governance processes to ensure a robust internal, cross-functional scientific peer-review process that leverages external experts and key opinion leaders. Furthermore, we prioritize targeted investments in a digital strategy that protects data integrity and scientific credibility, and leverages artificial intelligence to optimize resources and accelerate the delivery of robust, credible science substantiating new and innovative smoke-free alternatives to cigarettes and the health-harm reduction potential of these products.

We regularly interact with an extensive network of stakeholders, including research partners, contract research organizations, universities, and individual key opinion leaders as well as production site personnel, suppliers, consumers, and regulators.

We adhere to high scientific standards, and our R&D is aligned with the U.S. Food and Drug Administration's draft guidance on modified risk tobacco products (2012).

In conducting our studies, we also aim to align with available international standards, such as applicable ISO standards, Organisation for Economic Co-operation and Development (OECD) Principles of Good Laboratory Practice, and Good Epidemiological Practices. Importantly, all our clinical studies are conducted in accordance with the Declaration of Helsinki and the principles of Good Clinical Practice. These standards aim to ensure the quality and integrity of our science.

Management

We review and update our strategy and long-range planning on an annual basis. Projects created based on this planning are governed by designated committees at product innovation, development and assessment, Company Management, and Board levels. Among other responsibilities, the Board's Science and Technology Committee monitors the Company's internal scientific research, including efforts to establish and substantiate the health-harm reduction potential of our smoke-free products.

1 www.health.harvard.edu/newsletter_article/Nicotine_It_may_have_a_good_side.
 2 Smith RC, Warner-Cohen J, Matute M, et al. [Effects of nicotine nasal spray on cognitive function in schizophrenia](#). *Neuropsychopharmacology* 2006; 31:637-43.
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 3 Terry AV Jr, Jones K, Bertrand D. [Nicotinic acetylcholine receptors in neurological and psychiatric diseases](#). *Pharmacol Res*. 2023 May;191:106764. doi: 10.1016/j.phrs.2023.106764. Epub 2023 Apr 10. PMID: 37044234.
 4 Newhouse PA, Sunderland T, Tariot PN, Blumhardt CL, Weingartner H, Mellow A, Murphy DL. [Intravenous nicotine in Alzheimer's disease: a pilot study](#). *Psychopharmacology (Berl)*. 1988;95(2):171-5. doi: 10.1007/BF00174504.
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 5 <https://mindstudy.org/>.



Sharing our methods and results

Regardless of industry, scientific research from a corporation may be met with skepticism. The best way to address skepticism and build trust is through transparency. Hence, we share our science and listen carefully to feedback. This is critical to encouraging debate with experts and the broader public. We publish our findings in peer-reviewed journals, conference presentations, and on [PMIscience.com](https://www.pmi.com/science). We also produce a regular briefing through our [Scientific Update](#) publication which complements what we share throughout the year. Since 2008, we have published 531 papers on smoke-free products and related science in peer-reviewed publications.

In 2023, we continued our Open Science conference series, hosting webinars and in-person events and making the recordings available on [PMIscience.com](https://www.pmi.com/science). In addition, our scientists regularly present their results at external scientific conferences and virtual events in the fields of aerosol chemistry, toxicology, clinical and real-world evidence studies, as well as consumer research and product standards and oral and respiratory drug delivery.

By sharing our scientific data and papers, we allow the research community and broader public to gain an in-depth understanding of PMI's research methodologies and findings. We welcome objective studies by external parties seeking to contribute to a science-based debate on the critical societal question of tobacco harm reduction and nicotine science. Read about how we engage with our stakeholders, including the public health community, [here](#).

In 2018, we launched [INTERVALS](#), a mechanism through which to share tobacco harm reduction science. INTERVALS was designed for hosting and sharing raw data and descriptions of PMI preclinical studies to facilitate independent verification of our results by the scientific community. The choice of public data repositories accepting multiple data modalities has greatly increased over the years, allowing PMI to now share its own data on independent public repositories, which will be more effective in achieving our data transparency goals. Accordingly, we plan to decommission the INTERVALS platform in 2024.

Animal testing

Regulators continue to require animal studies to confirm in vivo what pharmacology and toxicology studies show in vitro. Toxicology standards accept the use of rodents in scientific research. Nevertheless, to the extent possible, we are working to replace animal testing with other approaches. We apply the "3R" guidelines: replacement, reduction, and refinement (see our [Standards for Animal Testing](#)).

In time, we hope to replace most, if not all, animal testing with alternative methods. Our in vivo facility is accredited by AAALAC International, which sets the gold standard for the humane use of animals in scientific research.

Sustain product reliability

Our ambition to accelerate the end of cigarette smoking rests on rigorous scientific assessment, highly reliable products, and strict regulatory compliance.

Cigarette smoking causes serious disease and is addictive.

For adult smokers who switch to products that do not combust tobacco, it is of paramount importance that these alternatives are scientifically substantiated to present less risk of harm than continued smoking, and that they are developed, tested, and manufactured according to applicable regulations and standards to ensure consistent product integrity and quality.

Developing and commercializing products that meet stringent scientific requirements and technical design criteria are critical to a smoke-free future. By maintaining and continuously improving the reliability of our products while complying with regulations, we reduce waste, protect our reputation, and build brand equity.

Robust quality management systems (QMS) are deployed to cover, control, and improve the entire product development and deployment life cycle. Governance and accountability for consistent product integrity, quality, and reliability sit at the highest senior management levels under the leadership of the Chief Product Officer at PMI, and are guided by our QMS, as well as by other internal and external standards. Work on product integrity and reliability is mainly carried out by teams in our product development, procurement, manufacturing operations, and quality organization departments. Their collective efforts ensure that we preserve quality, from raw material to the retail shelf.

Our approach to product reliability begins during product design inception and continues through manufacturing and final delivery to the end customer. We work with internal and external partners to ensure product quality and reliability. Working with our contracted and qualified suppliers, we secure high-quality raw materials and components, apply robust procurement processes, detailed auditing, and rigorous quality assurance procedures.

We conduct in-depth inspections at every stage of development and production. This rigorous testing regimen guarantees the reliability of our products. Our factories are designed to manufacture our products to the highest quality standards, following the ISO 9001 certification principles. This includes, for example, the careful selection of materials that come into contact with semifinished and finished products during manufacturing and the appropriate training of operators.

Our manufacturing quality management systems are subject to inspection by authorities and certified bodies. Globally, teams of product quality associates ensure that all incoming materials, semifinished components, and finished products across our global footprint meet our quality assurance and quality control standards.

Our quality professionals continuously revise and update our standards to ensure new technologies and innovations are reflected in our QMS processes. We supplement these measures with dedicated third-party quality management programs.

Our product standards apply to all of our products as well as the packaging, storage, and transport of finished goods to ensure that they reach the consumer in proper condition. Packaging has a crucial role to play in this regard and helps ensure the traceability and identification of our products so we can act promptly should issues arise. Packaging is imprinted with unique identifiers that allow us to trace the supply chain journey, from factory to market, enabling backward traceability. If a product quality issue should arise, we can leverage this traceability to investigate problems and undertake any necessary containment actions in an efficient and targeted manner.

We focus on design for sustainability and longevity of our products by embedding eco-design principles across the portfolio. Additionally, we are implementing end-of-life take-back programs and product refurbishment (read more [here](#)).

Smoke-free products

Our smoke-free products are subject to strict design controls. Our process ensures that each product is developed according to predefined and controlled criteria and demonstrates reduced toxicity compared with cigarette smoking. Any alterations to the product are made under a change management process that assesses the impact of the change on the product's quality, safety, performance, and regulatory compliance. In addition, as part of product development, we apply use-hazard analysis. We assess the risks associated with the product's intended use and any foreseeable misuse, and we implement appropriate mitigation measures.

Our products are manufactured using ingredients compliant with applicable regulatory requirements and with industry and PMI standards. The tobacco used in our heated tobacco products is tested for the presence of crop protection agent residues to ensure it does not exceed permissible levels per industry guidelines. Nicotine and nicotine salts used in e-liquids must satisfy U.S. or European pharmacopoeia specifications. Other ingredients (apart from flavoring extracts from tobacco) are either food grade or satisfy U.S. or European pharmacopoeia specifications.



We do not add ingredients classified as carcinogens, mutagens, or reproductive toxicants. Ingredients—and also non-substrate material such as the plastic and other components of cartridges that house the e-liquid and the paper and other components that house the tobacco mixture—are subject to rigorous toxicological risk assessment.

Disclosure of ingredients in our smoke-free products is available in EU member state public health websites, as required under the Tobacco Products Directive.

Heat-not-burn devices

The electronic devices for our heat-not-burn products are manufactured according to internal standards and ISO 9001 principles and are certified according to applicable regulations and standards. The suppliers of the devices' electronic parts and components, including batteries, must also operate under these quality standards. Each finished device is subject to rigorous controls before shipment. PMI has established a thorough monitoring process to enable early detection of consumer pain points. We use these insights to improve our products and components.

Heated tobacco units

Heated tobacco units (HTUs) are inserted into the device holder by the consumer. HTUs are composed of a tobacco plug (TEREA consumables also contain a metal susceptor), a hollow acetate tube, a polymer-film filter, a cellulose acetate mouthpiece filter, and filter papers. The uniquely processed tobacco plug is made of a cast leaf blend of high-quality tobacco leaves. Newly introduced LEVIA HTUs substitute tobacco for a nicotine-containing substrate.

The manufacturing of HTUs demands high levels of precision and consistency. We test them for stability, using standard protocols covering a variety of temperature and humidity ranges.

Swedish Match's quality standard

GOTHIA TEK® has been Swedish Match's quality standard for the Company's snus products since year 2000. The uncompromising requirements of this standard are based on decades of research and development, with product safety and consumer protection as the key targets. In cooperation with SIS (Swedish Standards Institute), Swedish Match has refined the standard over the years in terms of structure, scope, limitations, and formulations.

In 2023, PMI began transferring the small portion of oral products PMI produced separate from Swedish Match to the GOTHIA TEK® quality management system. This transfer will conclude in the first quarter of 2024, ensuring all oral products follow a consistent, high-quality standard.

The design and packaging aim to preserve product quality and safety in the various conditions to which the product may be subjected (read more on [PMIScience.com](#)).

We disclose the ingredients of our heated tobacco units on our [website](#).

E-vapor products

Our non-disposable e-vapor devices use a cartridge, or tank, with nicotine-containing e-liquid. We recognize a trade-off between misuse prevention and recyclability and choose to use closed-tank systems in the development and commercialization of our e-vapor products to prevent misuse. We also test our packaging to ensure compliance with local regulations, including the EU Tobacco Products Directive, and we engage external agencies that test the integrity and safety of our e-liquid packaging.

Combustible tobacco products

Our combustible tobacco products are also subject to stringent product development controls. We strictly adhere to product specifications and regulations for cigarettes and apply additional internal requirements to ensure the highest quality products. Our ingredients undergo toxicological assessment to ensure their use does not increase the inherent toxicity of cigarette smoke. We disclose the ingredients used in our cigarettes on [PMI.com](#). We keep abreast of changes in regulation and perform further assessments to ensure full compliance with applicable regulations. For more information on ingredients in our combustible tobacco products, please review EU member state public health websites which are required under the Tobacco Products Directive, to disclose the ingredients. Nontobacco materials used in our products—e.g., cigarette paper, filters, and packaging materials—also undergo toxicological assessment. In assessing packaging materials, we adhere to the main requirements for food contact materials.

Uphold business ethics and integrity

We conduct business ethically and with integrity. Our core ethical values—honesty, respect, and fairness—are at the heart of how we operate.

We clearly define the ethical and compliance expectations to which we hold ourselves and the third parties with whom we work, and we back up these expectations with governance and management systems to ensure we deliver on them.

Our Compliance program is led by our Vice President, Associate General Counsel & Chief Compliance Officer, who reports to PMI's Senior Vice President & General Counsel and, periodically, to the Audit Committee of the Board of Directors.

PMI's [Code of Conduct](#) sets clear standards and expectations and is closely aligned with our business transformation strategy and industry best practices. Its mandatory provisions apply to all PMI employees, officers, and directors. Key risk areas addressed in this document include, but are not limited to, anti-bribery and anti-corruption, anti-competitive practices, conflicts of interest, information protection security and data privacy, responsible marketing and sales, scientific integrity, supply chain responsibility, and workplace integrity, among others. Internal PMI policies provide more specific guidance on these and other topics.

The PMI Code of Conduct is reviewed and updated annually.

A glance at our path to integrate Swedish Match

In 2023, PMI began its Legal & Compliance integration efforts with Swedish Match to ensure that PMI's standards and requirements are also applied across Swedish Match entities. Highlights from these efforts in 2023 include the launch of the PMI Code of Conduct to Swedish Match employees globally, implementation of PMI's Whistleblower/Speaking Up Program (including the third-party-operated PMI Compliance Help Line), and the launch of key Compliance policies, including PMI's Marketing Codes and Data Privacy Policy, among others. Integration efforts are ongoing and will continue throughout 2024.

Employee communication and training

At PMI, we use training and communication to help employees understand the compliance-related standards and rules that are relevant to their roles and how to apply them in their daily work.

In 2023, we continued implementing our global Code of Conduct annual certification process. To date, 95 percent of eligible employees, including 100 percent of senior leaders, have completed the 2023 PMI Code of Conduct certification.¹

In addition to the PMI Code of Conduct certification, the Compliance team launched a series of six e-learning courses (available in 31 languages) in 2023. Approximately 40,000 employees received training in the following key compliance risk areas: anti-harassment/sexual harassment (which is an annual requirement), Code of Conduct (which is an annual requirement), competition, and know your customer/anti-diversion. A targeted subset of this population also received training on intellectual property and PMI's Marketing Codes.

Regional and local compliance officers supplemented these e-learning courses with in-person training sessions to address compliance risk topics specific to their respective region(s) and market(s). Overall, employees and third parties completed a total of over 500,000 Compliance training courses in 2023 (2022: over 350,000).

Also, in 2023, we continued to enhance and regularly update our Compliance intranet site, including publishing information on relevant compliance topics for our employees.

Evaluating our compliance culture

We evaluate our compliance culture periodically, including, for example, via a global online survey to understand employee experiences and attitudes related to ethical business conduct. For the past 15 years, PMI has conducted this type of global employee survey every two to three years.

In addition, from time to time, we work with external advisers and consultants to assess elements of our compliance program.

¹ For the purposes of the 2023 PMI Code of Conduct Annual Certification, "senior leaders" are defined as employees at a salary grade of 17 and above.



Speaking up

At PMI, individuals may ask questions, raise concerns, or report instances of observed or suspected misconduct by contacting any of the following:

- The individual's supervisor, department head, or affiliate or function leadership
- Compliance key contacts (e.g., Regional and Local Compliance Officers)
- PMI Global Compliance confidential email address
- PMI Compliance Help Line (online or by telephone), which is a third-party-operated reporting channel available 24 hours a day, seven days a week, in all languages spoken at PMI. Individuals may use the Compliance Help Line anonymously, subject to local laws and regulations

PMI has also implemented a Global Speaking Up Policy, the principles of which are reinforced by the PMI Code of Conduct and all PMI compliance policies.

There is a robust speaking-up culture at PMI, with most employees communicating directly with the Compliance department and voluntarily disclosing their identity when doing so. Specifically, in 2023, only 19 percent of the reports received by Compliance were submitted anonymously (2022: 16 percent).

The Compliance team regularly communicates to employees about PMI's speaking-up program. For example, the Compliance team publishes quarterly statistics about speaking-up reports, compliance violations, and disciplinary actions, and shares with employees anonymized real-life examples of misconduct and advisory guidance.

Compliance investigations

At PMI, we take all reports received through our speaking-up channels seriously and are committed to following up objectively and in a timely manner. We investigate all reports that raise compliance concerns, and we involve other functions or line management as warranted. We implement corrective measures to address investigation findings and calibrate disciplinary actions against past outcomes to keep the process fair. When investigating suspected compliance violations, trained personnel adhere to PMI Investigations Standards, which are designed to ensure an equitable and respectful process. We run a post-investigation quality assurance program to get feedback on how well we met these standards. We have also implemented a Retaliation Check program to detect, remedy, and prevent retaliation against people who speak up, as well as those involved in investigations.

We received 1,258 reports through Compliance Speak Up channels in 2023 (2022: 990). Around 53 percent of the matters that were closed in 2023 did not involve a compliance allegation and were resolved through Compliance advisory services or referred to line management or appropriate departments, such as our People & Culture teams, for further action.

In 2023, we investigated and closed 591 reports that involved at least one compliance-related allegation (2022: 429). At least one violation was substantiated in 55 percent of these cases (2022: 52 percent), with "workplace integrity" accounting for 32 percent of substantiated violations (2022: 33 percent); "theft and fraud" accounting for 18 percent of substantiated violations (2022: 28 percent); and substantiated violations related to speaking up (such as failure to speak up or obstructing an investigation) accounting for 18 percent (2022: 10 percent).

The appropriate parties implemented corrective measures and disciplinary sanctions following these investigations. Specifically, in 2023, termination of employment accounted for 31 percent of the disciplinary actions arising from these cases, while suspension accounted for 7 percent, written warnings for 25 percent, and verbal warnings or counseling for the remaining 37 percent.

Preventing bribery and corruption

Our standard is clear: We do not bribe anyone, anywhere, for any reason. We recognize that our refusal to participate in corrupt activities may make conducting business more difficult in some markets, but bribery is unacceptable at PMI.

In 2023, we published our [Global Anti-Corruption Policy](#) on our external-facing website, PMI.com. This policy, together with additional Anti-Corruption Standards, regulates our interactions with government officials and government entities, as well as with private individuals, both directly and through third parties. PMI's policy prohibits all forms of bribery and facilitation payments. Our Standards set specific rules and review-and-approval procedures for giving and receiving gifts, travel and hospitality, providing contributions, engaging business intermediaries, hiring government officials, and conducting due diligence in M&A transactions.

We publicly disclose on [PMI.com](#) the very limited political contributions we make, and we adhere to lobbying regulations.

Respect human rights

Human rights are inherent to the dignity of human life and a prerequisite for society to prosper. As a global company, we work to uphold human rights within our organization and across our value chain.

At PMI, promoting, protecting, and continuously working to embed human rights considerations into our company's strategy, policies, and business practices is not just the right thing to do; it also helps anticipate current and emerging legal requirements and minimizes our financial exposure and the risk of supply chain disruptions. It creates the basic environment and conditions in which our business can thrive and create value, by recognizing, respecting, and protecting our right holders, including our employees and workers across our value chain.

Our approach

Across our value chain, we aim to minimize our adverse impacts and maximize opportunities to drive positive change. Establishing a strong foundation of respect and integrating into our organization mechanisms that promote and protect human rights are essential components of our approach to business. While maintaining these high standards can be challenging given the breadth of our operations and the scope and complexity of the issues we encounter, we believe safeguarding human rights is an absolute and universal requirement—which we are committed to upholding.

We seek to place rights-holders—those individuals and communities whose rights could be impacted by our operations or business relationships—at the center of all we do. We work to continuously improve our due diligence with respect to identifying and addressing current or potential risks and impacts across our value chain and ensuring the responsible procurement of materials and services. To succeed in this endeavor, we expect our suppliers to commit to respecting human rights within their businesses and we seek to collaborate with them, either individually or through multistakeholder initiatives.

Our efforts to respect, promote, and protect human rights underlie many of the activities and programs described throughout this report. A dedicated cross-functional team at our central operations coordinates our approach, which is grounded in the United Nations Guiding Principles on Business and Human Rights (UNGPs) and centered on four pillars:

- **A sound policy framework:** Our work is governed by [PMI's Human Rights Commitment](#), which is complemented by other PMI policy instruments such as our [Code of Conduct](#), [Responsible Sourcing Principles](#), [Marketing Codes](#), and [Good Agricultural Practices](#). Awareness-raising and training help us embed those instruments and an ethos of respect for human rights within our corporate culture.
- **Rigorous due diligence:** We have robust programs and processes in place to identify our adverse impacts across our value chain; these include our enterprise-wide assessment, human rights saliency mappings, and human rights impact assessments (HRIAs), in addition to targeted due diligence programs focused on specific areas of potential risk such as our tobacco and electronics supply chains. We complement these programs with external assessments and verifications.
- **Remediation:** We implement measures to address adverse impacts and maximize opportunities to drive positive change for people across our value chain. We seek to collaborate with civil society organizations, governments, and the private sector to design and deploy impactful solutions. Wherever adverse impacts occur, we strive to ensure affected individuals have access to grievance mechanisms and effective remedies in line with the UNGPs.
- **Transparency:** A complex and international value chain carries the potential for human rights risks that we need to understand, manage, and continuously address. Reporting transparently on our progress and the challenges we face through our annual reporting and targeted communications is vital to our approach.

PMI's Human Rights Report

In 2023, we published our inaugural [Human Rights Report](#), detailing our strategy to respect, promote, and protect human rights and our progress to date in implementing our [Human Rights Commitment](#), first published in 2017. This report incorporates a preliminary analysis of disclosures on our work on human rights and considerations of the UN Guiding Principles Reporting Framework (UNGPRF), which enables companies to report meaningfully on their human rights performance.



Reinforcing our Human Rights Commitment

We uphold our [Human Rights Commitment](#), which articulates our pledge to respect human rights in all our operations and business relationships.

To ensure knowledge and implementation of our Human Rights Commitment, we have included it in our company-wide Business and Human Rights e-learning which is available in multiple languages including Bahasa, English, German, Japanese, Polish, Portuguese, Russian, and Spanish. These represent the most widely spoken languages by our workforce.

In 2023, we held an internal event dedicated to raising awareness on human rights topics across our organization. The event offered an overview of our human rights strategy, and shared two market case studies stemming from our human rights impact assessments: one focusing on ethical recruitment in our electronics supply chain in Malaysia and the other one addressing overtime issues in primary and secondary distribution in Mexico. Beyond education, the aim of the event was to encourage an open conversation on the role employees can play in such an important area.

Advancing human rights through multistakeholder partnership

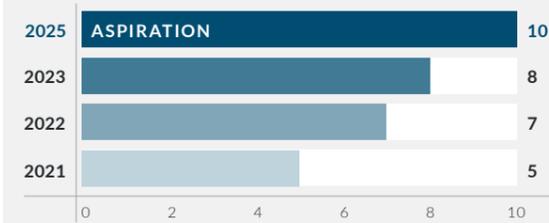
In line with PMI's Human Rights Commitment and Responsible Sourcing Principles, the Security & Market Safety team was invited to collaborate with the International Code of Conduct Association (ICoCA). This non-profit organization governs human rights standards in the private sector security industry.

Our engagement focused on ensuring all PMI Security & Market Safety personnel are trained on the human rights components applicable to security, specifically prevent misuse of force and ensure appropriate working conditions for all third-party security personnel deployed at PMI sites; and codifying these requirements as contractual obligations for key suppliers delivering security services.

Assessing human rights impacts across our markets

To strengthen our due diligence framework, proactively identify risks, and mitigate potential adverse impacts along our operations and value chain, we have set an ambition to conduct human rights impact assessments (HRIAs) by 2025 in the 10 highest-risk countries in which we operate. Our HRIAs are carried out by independent expert organizations and follow a formal process aligned with the UNGPs. They result in tailored action plans, which we implement, monitor, and report on.

Cumulative number of human rights impact assessments conducted since 2018, with findings addressed



Note: Our assessments prioritize countries which are assessed as 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. For further details please see [PMI's Sustainability KPI Protocol 2023](#).

In 2023, we conducted an HRIA in Pakistan, one of PMI's highest-risk markets. This marks our eighth assessment since 2018 ([read more here](#)).

An innovative feature of this HRIA was the incorporation of a gender lens into the assessment. Conducting a gender-sensitive HRIA recognizes that human rights risks can affect groups of people in unique and intersecting ways and considers the impact of particular risks facing people of different genders. For example, people who identify as female or as part of a gender minority often experience discrimination in the workplace and are also more likely to work in less secure positions. With a gender inclusive approach, the assessment considers human rights risk management from a gender perspective. Moreover, it enables the development of recommendations to address particular risks, and provides support to ensure women's rights can be consistently respected in the company's operations and supply chain.

In addition, in late 2023, we initiated a follow-up assessment from the HRIA conducted in 2020 in Mozambique. This assessment, to be completed in 2024, will include extensive engagement with our local supplier to assess initiatives and systems in place to manage risks, as well as field visits to validate progress since the previous assessment through participatory techniques with farmers. A particular focus will be given to priority risk areas such as child labor, treatment of women, migrant workers, climate change, the impact of the pandemic, and grievance mechanisms.

Regarding past HRIAs, action plans have been fully implemented in [Mexico](#), [the Philippines](#), and [Russia](#). We also continued monitoring the implementation of actions recommended by previous HRIAs in [Mozambique](#), [Turkey](#), [Brazil](#), and [Malaysia](#).

Human rights impact self-assessments

In addition to conducting HRIAs in PMI's highest-risk countries, we introduced a self-assessment tool in 2021, which we piloted in 2022. The tool is intended to help low- and medium-risk markets identify salient human rights risks within their organizations, and develop action plans to address them.

Leveraging the learnings from these pilots, we further developed our self-assessment model in 2023, accounting for the inputs of our network of sustainability experts across our markets and our human rights consultant Article One. Streamlining the toolkit was welcomed by those who use it, and the revised version is less complex to use while also including practical supports to aid successfully conducting UNGP aligned self-assessments in low- to medium-risk markets.

Our revamped self-assessment is based on pre-populated templates that guide users through a step-by-step process, spanning from project planning right through to integration of results (including, for example, guidance on prioritizing potential salient risks to human rights, illustrative examples to assess risks, and supports for internal engagement). Upon completion of the self-assessment, markets in scope will work with the country management team to integrate learnings and develop an action plan, when needed. During the year, we organized dedicated training sessions with over 60 sustainability coordinators across our markets to foster understanding and usability of the toolkit, and to build capabilities.

The toolkit was tested in Germany in late 2023, and, while the work is still ongoing, initial feedback was very positive on the usability and the guidance provided.

Continuous reinforcement of our human rights framework

We conducted a gap analysis in 2023 with the support of our human rights consultant, Article One. With this project, we assessed PMI's human rights related policies, procedures, and due diligence process against an agreed selection of upcoming and emerging regulatory standards. This in-depth gap assessment has enabled us to evaluate how PMI's current framework aligns with the higher requirements in such instruments and to surface potential gaps and opportunities for further improvements. In 2024, we will reflect on this extensive work, which will guide the refinement of our global strategy on human rights and processes to progressively align with applicable due diligence and related reporting standards.

Strengthening human rights due diligence in our supply chain

We continue strengthening all our due diligence programs (through our ALP program in our agricultural supply chain, and through RBA in our electronics supply chain) to ensure that we identify potential and actual human rights impacts and build and deploy corrective action plans to address them ([read more in the Managing our supply chain sustainably](#) section of this report).

Grievance mechanisms

Providing access to remedy to potentially impacted stakeholders relies on the provision of an effective grievance mechanism both for our operations and across our supply chain. This is a core element of our human rights due diligence approach, aligned with the UNGPs. At PMI, we maintain clear policies, run regular training, and work to ensure that robust processes are in place to encourage individuals to speak up if they become aware of any suspected potential or actual violations of law, our Code of Conduct, or any of our policies.

As an example, in 2023, we trained over 10,000 employees on PMI's new Responsible Sourcing Principles, reinforcing the importance of speaking up in our organization.

For more information on the grievance mechanisms we offer at PMI to encourage individuals to ask questions, raise concerns, or report instances of observed or suspected misconduct, see the [Uphold business ethics and integrity](#) section of this report.



Manage our supply chain sustainably

Our supply chain accounts for a significant portion of potential social and environmental risks and opportunities. We are committed to collaborating with our value chain partners in identifying and managing these risks and opportunities responsibly.

Our approach

Our operations rely on securing high-quality, cost-effective, and fit-for-use materials and services from suppliers, who are expected to adhere to PMI's sustainability-related requirements that form a basis for collaboration with PMI set out in our [Responsible Sourcing Principles \(RSP\)](#). To achieve tangible environmental and social improvements, we identify and address current and potential risks while seizing opportunities to create a positive impact in the communities in which we and our suppliers operate.

As part of our procurement practices we identify and screen suppliers for business relevance and potential sustainability-related risks before engaging with them. Our screening methodology includes country-specific, sector-specific, and commodity-specific risks to determine a list of significant suppliers through a sustainability lens. In 2023, we had over 1,000 significant suppliers.

We then evaluate spend segmentation and the nature of components suppliers provide us with as well as supply flexibility to determine a list of critical suppliers. In 2023, we had 202 critical suppliers.

In addition to classifying suppliers as significant or critical, our approach to sustainable supply chain management is built on the following core principles:

- We leverage the reach and understanding we have of our supply base to proactively engage our suppliers to implement impactful programs that can help us make progress in our sustainability strategies, such as tackling climate change, preserving nature, and improving the quality of life of people in our supply chain.
- We perform supplier due diligence, assess their sustainability performance, and support them in driving continuous improvement toward compliance requirements.
- We invest in enhancing supplier capabilities by engaging with them directly through dedicated training run by sustainability experts (read more about our Sustainability Accelerator [here](#)).
- We embed sustainability criteria in our strategic sourcing decisions and supplier selection process.

Our supply chain sustainability due diligence is guided by our RSP, which align with the UN Guiding Principles on Business and Human Rights (UNGPs), the 10 principles of the UN Global Compact, and the International Labour Organization (ILO) Conventions. It also helps us build preparedness for anticipated and pending legislation such as the European Corporate Sustainability Due Diligence Directive Proposal.

The RSP details our expectations and sets process and performance requirements for our suppliers. We expect all our suppliers to adhere to the mandatory section of our RSP requirements and close identified gaps to continuously improve their sustainability performance.

Management

The sustainable sourcing of goods and services involves broad cross-functional collaboration within PMI. This is executed by our Procurement and Global Leaf and Product Development teams with the strategic support of Operations Sustainability. It is overseen by our Senior Vice President, Operations.

To monitor RSP adherence, we apply tailored due diligence mechanisms within specific segments of our supply chain. In our tobacco supply chain, our work is governed by our [Good Agricultural Practices \(GAP\)](#) and [Agricultural Labor Practices \(ALP\) Code](#), which are operationalized at the farm level by field technicians working year-round with the farmers contracted by PMI and our suppliers. In our electronics supply chain, we leverage the work of the Responsible Business Alliance (RBA). For direct and indirect materials and services suppliers we collaborate through our preferred partner, EcoVadis.

Adherence to our RSP—and to GAP for our tobacco supply chain—is being built into our contractual agreements with suppliers. We use a suite of tools, including third-party assessments, on-site audits, and field visits to monitor performance.

Fostering collaboration with our network of suppliers

We engage and partner with our suppliers—companies with diverse strategies, priorities, and cultures—to jointly progress on our sustainability journey. To achieve our sustainability-related aspirations, we work on common projects to drive improvements in our operations and beyond. We do so in various ways, including virtual events, webcasts, training sessions, and surveys.

PMI's Sustainability Accelerator

In 2023, PMI initiated the Sustainability Accelerator program to leverage our learnings and accelerate the sustainability journey of our suppliers. Fostering an integrated approach, the program covers sustainability-related matters from a performance and reporting standpoint. Five companies of different industry sectors, geographies, and sizes were enrolled in the initial pilot.

The primary focus of this program is to accelerate the delivery of sustainability programs agreed to between PMI and suppliers. The learnings and insights can be used to improve the program and optimize it for our diverse value chain.

The pilot was focused on climate change and sustainability fundamentals (covering, for example, strategy development and deployment systems). A team of experts collaborated with each supplier team individually to build capability and share PMI's progress, learnings, and methodologies to help accelerate our supplier's progress.

A glance at our path to integrate Swedish Match

We are working to integrate our respective supply chains, mindful of their complexity. Such integration is a significant endeavor, requiring us to harmonize the procedures, systems, and performance indicators we have in place. As we do so, we also expect to find synergies and harness the expertise and best practices of each company. We provide further details on our efforts in the [Improve the quality of life of people in our supply chain](#), [Tackle climate change](#), and [Preserve nature](#) sections of this report.



Overview of our supply chain in 2023

With over 26,000 tier 1 suppliers globally, our supply chain spend amounted to approximately USD 14.0 billion in 2023. Our global supply chain is organized into two main streams: direct spend (focused on materials used to manufacture our finished products), and indirect spend (focused on goods and services necessary to operate our business).

Currently, our global supply chain supports our two main finished product categories: smoke-free products that are increasing in resource allocation in line with our growth strategy, and combustible cigarettes.

The majority of our supply chain spend for smoke-free products derives from our direct spend on electronics. During 2023, as we purchased more tobacco than in past years to replenish inventory, the overall proportion of supply chain spend attributable to electronics dropped relative to our overall spend on tobacco. As a result, smoke-free product supply chain spend decreased slightly to 41 percent (2022: 43 percent).

The supply chain categories exposed to the highest sustainability risks identified to date pertain to our direct spend and include:

- Tobacco production, with the main risks associated with working conditions, child labor, climate change, access to water, and the socioeconomic well-being of farming communities.
- Paper and pulp-based materials, with the main risks linked to deforestation, biodiversity loss, and climate change.
- Electronics manufacturing, with the main risks relating to potential social issues on ethical recruitment, working conditions of migrant workers, and working time.

Responsible Sourcing Principles

In 2023, we released the updated version of our Responsible Sourcing Principles (RSP) and related implementation guidance documents.

In the updated version, we broadened its scope to incorporate more relevant topics including environmental stewardship, forest, and biodiversity; enhanced sections on responsible sourcing of minerals; and added some sector-specific clauses on illicit trade, product scientific integrity, and scientific engagement that will drive improvements in the sustainability performance of our suppliers.

These additions allowed us to ensure further alignment with PMI's Code of Conduct and account for current and emerging regulatory requirements. The updated document is composed of two parts: the first part contains mandatory requirements that all our suppliers must agree to implement; the second part provides guidance and implementation tips to suppliers that want to go beyond minimum requirements.

To deploy our updated RSP we developed a robust roll-out plan focused on raising awareness and building capabilities with relevant internal and external stakeholders.

All PMI employees have the ability to complete dedicated RSP fundamentals training, which is mandatory for relevant functions of the Company that have regular interaction with suppliers. Additional advanced RSP training was developed and launched at the end of 2023 for PMI employees to deep dive on key principles, case studies, roles and responsibilities, and the six steps due diligence framework.

Rollout and implementation of updated RSP in our supply chain

To ensure all PMI suppliers comply with our RSP we developed a strategic framework which used a two-step approach, addressing significant suppliers through direct engagement and seeking their commitment to implement mandatory requirements of the RSP.

We communicated with all suppliers and provided them the opportunity to contact PMI directly for further support, when required. We ran two remote training sessions on RSP inviting over 3,000 suppliers. While the sessions were recorded over 600 suppliers attended these live sessions.

The RSP will be translated into over 30 languages to facilitate supplier understanding and its deployment. All contractual commitments will include an RSP adherence requirement by 2025.

Sustainability performance in our supply chain

Proactively managing the sustainability performance of our suppliers is paramount to our ability to identify, prevent, and mitigate sustainability-related risks. By doing so, we ensure PMI's preparedness for existing and anticipated regulations. By endorsing robust governance, we seek to secure our success in achieving our environmental aspirations and improving the livelihoods of people in our supply chain.

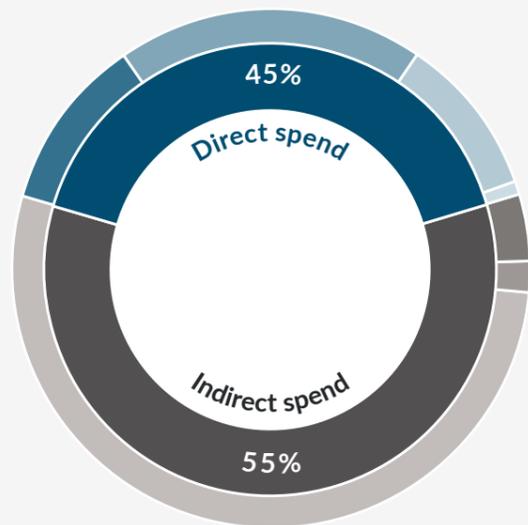
Our supply chains are long and complex. Our procurement team therefore engages with significant suppliers to drive impact (read more about how we determine significance [here](#)).

We use preferred platforms such as EcoVadis and RBA to perform desk-based assessments and on-site audits to drive performance improvements. On a regular basis we run supplier performance reviews in which we coach suppliers and provide guidance on the closure of previously identified gaps.

It is suppliers' responsibility to put in place a corrective action plan (CAP) and drive improvements in their supply chain. These CAPs are reviewed by PMI's procurement function and sustainability experts, who also offer ongoing guidance. We assessed our two largest leaf suppliers in 2023 as pilots, with the intention of expanding to additional suppliers as we and the suppliers learn what the requirements for the assessments are.

We aspire that 100 percent of spend with critical suppliers from whom PMI sources be done so sustainably by 2025. In 2023, we made continued progress, reaching 91 percent (2022: 93 percent).

Breakdown of our 2023 supply chain spend



DIRECT SPEND	45%
Tobacco leaf	12%
Direct materials used to produce and package our products (e.g., cellulose acetate tow, paperboard, and nontobacco agricultural products, etc.)	22%
Electronic devices and accessories for smoke-free products	10%
Advanced procurement	1%
INDIRECT SPEND	55%
Technical procurement to source the manufacturing equipment used in our factories	6%
R&D expenditure enabling us to conduct advanced research	2%
Indirect materials and services necessary to run our business, such as IT, office equipment, and consulting services	47%

Inaugural Electronics Suppliers Sustainability Day

We are committed to supplier engagement and capability building.

Read more about our first Electronics Suppliers Sustainability Day held in Hong Kong in 2023 [here](#).



Direct materials supply chain

We leverage our partnership with EcoVadis—the leading global service provider of online sustainability supplier assessments—to monitor and assess the sustainability performance of our suppliers of direct materials.¹ The EcoVadis assessment consists of a desktop assessment questionnaire that is largely aligned with PMI’s RSP.

During 2023, 120 suppliers representing 95 percent of our total direct material spend were assessed. Of these, 91 percent were determined to be sourced sustainably by PMI, based on the score provided by the assessment platform, and only 9 percent were below the minimum threshold required. Suppliers with a low score are mandated to drive improvement through dedicated CAPs.

CAPs are segmented by theme, indicator, and priority. Depending on priority, suppliers of direct materials are requested to close identified gaps in an agreed timeframe, and to conduct a reassessment to ensure compliance. In 2023, we actively supported supplier CAP reviews with underperforming suppliers. Overall, 13 suppliers (representing approximately 10 percent of our critical DIM suppliers) that re-assessed in 2023 as part of current and previous CAP review cycles improved their scorecards. The average score increase was 10 points versus the previous assessment in EcoVadis.

Electronics supply chain

As our Company transforms, we are increasingly focused on the sustainability of our expanding electronics manufacturing supply base. This supply chain is complex and dynamic, and carries inherent risks and challenges, including the potential presence of conflict minerals.

PMI is a member of RBA, the world’s largest industry coalition for sustainable supply chains that is widely used by the electronics industry. In 2023, we increased our participation as members in the alliance by expanding use of its various capability building programs with suppliers.

We continued to participate in RBA’s Validated Assessment Program (VAP)—the standard for on-site compliance verification and effective, shareable audits. Under the program, independent external auditors review our electronics suppliers’ sustainability performance against the RBA Code of Conduct, aligned with PMI’s RSP. To gather additional audit data, we leveraged customer managed audits (CMAs), a comparable audit standard recognized by RBA.

In 2023, 91 percent of our spend with critical electronics suppliers were covered by VAP or CMA audits. The average RBA score of our suppliers was 170 (out of a maximum of 200), compared with an RBA average of 173 in 2022. Audit reports revealed several common issues across suppliers in the areas of working time, emergency preparedness, and wages and benefits.

To drive improvement in these areas, we leveraged two key RBA programs: the Responsible Factory Initiative (RFI) and the Responsible Labor Initiative (RLI). The RFI focuses on building capability of suppliers’ factories to help them prepare for RBA audits. The RLI provides a set of tools to address potential forced labor issues associated with migrant workers (read more in the [Improve the quality of life of people in our supply chain](#) section of this report).

Conflict minerals

We are committed to operating with integrity and to responsibly source 3TG (tin, tantalum, tungsten, and gold), which are potentially used in our products.

Our 2023 conflict minerals submission to the U.S. Securities and Exchange Commission (SEC) covering the year ended December 31, 2022 showed that approximately 72 percent of the smelters or refiners (SORs) in our conflict mineral supply chain were confirmed to be Responsible Minerals Initiative Audit Program (RMAP)-Compliant or RMAP-Active. With respect to the remaining 28 percent, we conducted due diligence measures to verify whether they sourced 3TGs from the Covered Countries (as defined by the U.S. SEC) during 2022.

We conducted a gap assessment and benchmark of our conflict minerals due diligence practices to identify leading practices and enhance our conflict minerals due diligence approach. The benchmark was performed in collaboration with human rights consultants Article One and PMI’s Procurement function.

Based on the benchmark study and industry insights collected, PMI launched a pilot with two electronics suppliers to increase the frequency of data collection and better anticipate potential risks. We will assess the pilot’s learnings and share them in our next report.

Another mineral, cobalt, is also linked to unethical mining practices. This critical raw material is used in the batteries that power our smoke-free devices. While the quantities required for our products are minor relative to the global market size, we are deploying a due diligence program based on the RMI approach along with tools to identify and address potential human rights risks in our supply chains.

In 2023, all our battery suppliers responded to a PMI request. Subsequent due diligence indicated that, as of December 31, 2023, each of the 18 smelters from which PMI battery suppliers source cobalt were either on RMI’s conformant list (17 smelters) or under initial screening (one smelter). We continue to engage with our suppliers to improve visibility into this complex supply chain and enhance our due diligence framework.

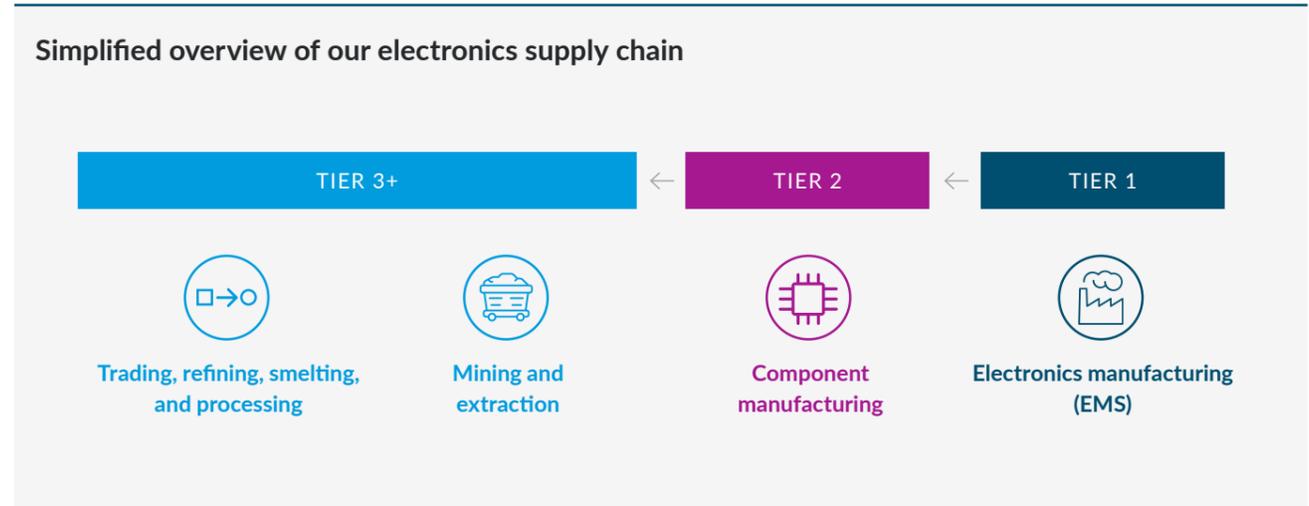
Tobacco supply chain

We define sustainable tobacco production as the efficient and competitive production of quality tobacco in conditions that limit as much as possible the impact on the natural environment and improve the socioeconomic circumstances of the people and communities involved.

Our [Good Agricultural Practices \(GAP\)](#) define the principles and measurable standards to be met by all those who grow and supply tobacco to PMI. These standards focus on four areas: governance, crop, environment, and people. The latter is governed by a dedicated [Agricultural Labor Practices \(ALP\) Code](#).

GAP principles are mandatory for all suppliers of tobacco to PMI and are reflected in supply contracts.

To ensure a consistent level of due diligence across our tobacco supply chain, we began onboarding our two major leaf suppliers to EcoVadis. Additional suppliers will be onboarded to EcoVadis in 2024.

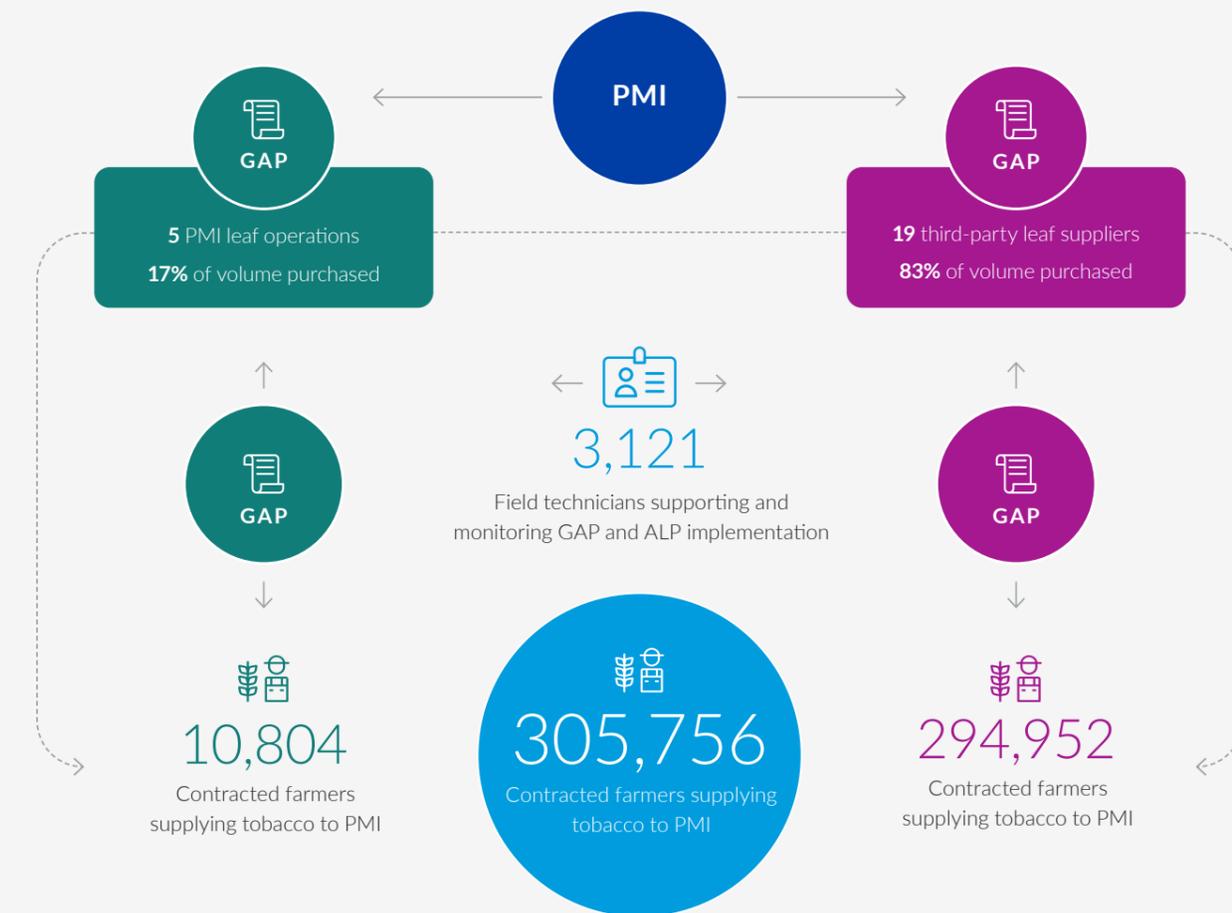


¹ Excluding farmers and electronics suppliers, for which we use tailored due diligence tools, as described in this section.

Overview of tobacco sourcing under PMI's integrated production system (IPS)

As a consequence of our smoke-free transition, the share of our purchased volume of tobacco directed to the manufacture of combustible cigarettes is steadily declining while the proportion dedicated to the production of consumables for heated tobacco products is increasing. Over time, we are seeing a gradual decrease in total volumes sourced, as smoke-free products use at most half the amount of tobacco required for combustible cigarettes.

Despite these dynamics, the volume of tobacco purchased in 2023 increased from approximately 281,000 tons in 2022 to approximately 308,000 tons to replenish inventory stock. During 2023, we sourced tobacco grown across 23 countries, with most of our volume coming from Argentina, Brazil, China, India, and Indonesia.



Note: In 2022 we evolved our strategy to introduce the implementation of our STSC framework (read more [here](#)).

Maintaining full traceability and monitoring in our tobacco supply chain

To a large extent, responsible sourcing stems from strong relationships on the ground. PMI's IPS connects leaf suppliers and farmers beyond the customary boundaries of a commercial relationship and enables direct technical support, agronomic advice, financial loans, and various other services. Our IPS covered 94 percent of our tobacco purchases in 2023. The excluded amounts originated from Argentina, Indonesia, India, and Thailand.

The IPS is vital to providing traceability and visibility in our supply base; it enables the deployment of our GAP and ALP monitoring and remediation system down to the farm level. At the center of this system are field technicians, employed by PMI or our third-party suppliers. These technicians visit each farm at least five times during the crop season on average and monitor how well sustainability requirements are applied and commercial processes are working. They also provide agronomic assistance, deliver training to farmers, identify and address labor issues, and ensure the implementation of improvement plans are implemented.

In 2023, field technicians enabled us to monitor compliance with GAP by all farmers supplying tobacco to PMI under the IPS.

Third parties, such as specialized NGOs, can also monitor GAP implementation. This is an approach we have taken in Brazil since 2020 in collaboration with Produzindo Certo, a specialist company helping farmers operate more efficiently and sustainably. During 2023, almost all (over 99 percent) contracted farmers agreed to be part of this voluntary program.

Indirect materials and services supply chain

2023 was a stepping stone for PMI in embedding sustainability in our indirect materials and services (IM&S) sourcing activities and supplier management activities.

IM&S suppliers were segmented to determine significant suppliers that are in scope for deployment of sustainability programs. Over 700 suppliers were included in scope in 2023.

IM&S spend is complex and involves a large number of small suppliers that serve the specific needs of different markets. It requires a large effort to engage suppliers and ensure they perform due diligence on their supply chains. To support our suppliers on this journey we organized an event during 2023, during which we shared our sustainability aspirations and proposed a plan to collaborate to drive impact and progress toward our net zero ambition together.

In addition, training sessions were conducted for markets and suppliers to explain the relevance and importance of onboarding on EcoVadis. Over 56 percent of IM&S suppliers disclosed their sustainability efforts through EcoVadis and over 78 percent reached PMI's minimum performance requirements.

Low performing suppliers were supported through capability building sessions with procurement and sustainability experts.

In 2023, we continued to participate in multi-stakeholder working groups organized by the Indirect Spend Alliance, sharing best practices and learning from peer companies.



Safeguard privacy and protect data

In today's data-driven world, data protection and cybersecurity are essential.

At PMI, we use an array of expert-supported, state-of-the-art security solutions to help prevent, detect, and respond to events.

Together with our Code of Conduct, internal policies and guidelines govern our activities and ensure our everyday work is conducted in a manner consistent with our values. In particular, PMI's global policy on data privacy sets a standard for privacy governance and accountability.

PMI's Global Privacy Program (GPP) sets data privacy standards across markets and functions. It governs the collection, processing, and sharing of personal data by PMI affiliates. Our privacy team publishes privacy awareness materials and guidance for employees and contractors and regularly reports to PMI's Corporate Risk Governance Committee on the business' adherence to the GPP.

We use information systems to help manage business processes and collect and interpret data. We also use these systems to communicate internally and externally with employees, suppliers, consumers, and customers. Specialist third-party service providers manage some of our information systems, and we work with internal specialists to protect systems and data from unauthorized access.

Employees and contractors play a fundamental role in protecting data. By being aware of potential threats and reacting to them appropriately, our community can help keep PMI secure. In 2023, we continued to train our workforce in data protection principles and information security. We complement our training with regular awareness campaigns and simulated phishing campaigns addressed to our entire workforce to help everyone practice recognizing and reporting phishing attempts and to identify weaknesses in advance of any real attempts the business might face.

We also maintain a hub of resources on information security awareness, accessible to all employees and contractors. In addition to detailing good security practices to protect user accounts and data from cyber risk, these resources help our team remain vigilant to the indirect risks that can arise from activities such as online shopping or connecting to wireless networks.

We invest in administrative, technical, and physical safeguards, including continuity planning to increase the resilience of our core processes and maintain information security protections in line with industry standards. We evaluate the adequacy of these preventative actions annually. In addition, PMI has an integrated program to manage cyber risks, protect PMI's data, and safeguard the privacy of consumers and customers, including conducting third-party cyber risk assessments.

Management

The Chief Information Security Officer (CISO) is responsible for information security governance and reports to the Chief Digital & Information Officer, a member of Company Management. The Assistant General Counsel responsible for data privacy governance reports to the VP Regulatory Law and then into the General Counsel, a member of Company Management. Our Audit and Risk Committee is responsible for the review of, among other topics, the risk management of cybersecurity and data privacy risks, as well as data governance.

Apply fair fiscal practices

To achieve the common goal of a safe, functional and prosperous society, governments worldwide must have the financial resources to fund public goods, services, and infrastructure.

Corporate income tax and other taxes can generate necessary revenues and prevent passing the bill for funding today's society to future generations. Excise tax can also ensure that societal costs are reflected in a product's price, thereby encouraging consumers and producers of these products to shift to less harmful options.

PMI is a good corporate citizen everywhere we operate. Paying taxes commensurate with our economic activities is not only our duty but the responsible thing to do and a key component of our social contract in every country in which we do business.

In addition to the taxes reported by PMI legal entities, third-party importers and distributors in many countries are responsible for paying import duties and excise taxes on our products. Though such payments may not appear in PMI's financial statements, they represent a portion of the product taxes paid by our consumers worldwide and so are included in the table below.

2023 Taxes

	Total (USD billion)
Corporate income tax	2.3
Total excise taxes on all products	73.9
<ul style="list-style-type: none"> Excise taxes on PMI products reported by PMI affiliates 	49.4
<ul style="list-style-type: none"> Excise taxes reported by our importers and distributors 	24.5
VAT and sales tax	9.3

Our tax strategy

Legal obligations and societal expectations require that our transactions are based on sound tax strategies and that we act in good faith in all interactions with tax authorities and other stakeholders. In this regard, PMI has developed the PMI Global Tax Documents, including all global and affiliate tax policies, standards, and guidelines.

PMI's tax strategy is to maintain a comprehensive, effective, and practical risk management program, shared best practices, a structured and documented control framework, proper planning, and coordinated decision-making. These measures ensure that tax positions taken are appropriate and tax compliance and reporting mechanisms are robust.

Moreover, PMI considers it important to have in place tax principles and practices that allow us to pay our taxes in a sustainable manner by balancing the interests of our various stakeholders, including our consumers, our investors, and the countries where we do business.

PMI's consolidated reporting of income taxes follows U.S. Generally Accepted Accounting Principles (GAAP) and Securities and Exchange Commission (SEC) rules and regulations.

Management

PMI's tax strategy and its implementation are the responsibility of the PMI Tax Department, a centralized, fit-for-purpose global organization led by Vice President Tax who reports to PMI's Chief Financial Officer. PMI Global Tax Documents are standardized and applied consistently.



Principles of tax governance

PMI has implemented governance arrangements that set clear accountabilities for the management of tax compliance and tax planning.

The PMI Global Tax Documents are designed to ensure clarity regarding:

- **Roles and responsibilities:** PMI Global Tax Documents clearly define roles and responsibilities with respect to tax matters.
- **Involvement of the PMI Tax Department:** PMI colleagues consult with the PMI Tax Department on all important transactions, whether recurring or new, as well as on business structures and operations involving other PMI affiliates or unrelated parties. The PMI Tax Department determines positions, exposures, and actions regarding material, non-routine tax or customs matters. Where there is sufficient uncertainty over the appropriate tax treatment of a particular transaction or a potentially significant impact, PMI obtains external advice.
- **Tax reporting and procedures:** PMI has designed its Global Tax Documents to have effective and predictable tax compliance and control measures in place. All tax filing obligations (internal and external) must be accurately completed on a timely basis in accordance with applicable laws and regulations. In particular, the PMI Tax Compliance Program establishes an overarching framework for the management of global tax compliance and risk across the company. This program includes guidance on defining roles and responsibilities, personnel training and development, involvement of tax advisers, master data management, contract management, interacting with tax authorities, and preparing for audits. It also provides guidelines for specific tax areas, including indirect taxes and customs topics, corporate income tax, withholding taxes, and transfer pricing.
- **Documentation and tax records:** The PMI Tax Department is part of the team responsible for the appropriate creation, retention, and/or oversight of all relevant local tax records in each affiliate.
- **Support and review of business activities:** The PMI Tax Department reviews business structures and transactions to identify potential tax risks. For new business activities, the PMI Tax Department is involved in every step of the process, from the setup of business models and agreements to discussions with tax authorities.

Business and economic substance

As of December 31, 2023, PMI products are sold in more than 175 markets worldwide. The company has over 160 affiliates that operate in more than 90 countries and 50 manufacturing facilities. Our business structures have commercial substance and purpose.

PMI supports the work of the Organization for Economic Co-operation and Development (OECD) and Group of Twenty (G20) to prevent tax-base erosion and profit shifting. Our policies and practices ensure that PMI pays taxes commensurate with our economic activities and substance in each country in which we operate.

PMI complies with local country transfer pricing legislation and the OECD's transfer pricing guidelines, including the Base Erosion and Profit Shifting (BEPS) project, which entails the preparation of a Country-by-Country Report (CbCR). This report includes quantitative and qualitative data and contributes to a better understanding of our economic and tax responsibilities in each country where we operate.

We do not engage in aggressive tax planning, abuse tax havens, or have in place any contrived tax structures. We also do not operate "letterbox" companies.

Tax risk management strategy

PMI conducts all intercompany transactions on an arm's-length basis in accordance with current OECD principles.

In line with the recommended best practices issued by the OECD within BEPS, PMI seeks to increase its tax certainty by entering into Advance Pricing Agreements (APAs). An APA is an agreement entered into between a taxpayer and the tax authorities of one (unilateral APA) or more (bilateral or multilateral APA) jurisdictions. It confirms the selection and application of the transfer pricing method used to set up the prices in intercompany transactions.

PMI currently has a portfolio of at least 20 active APAs, both unilateral and bilateral. These APAs are a key part of our strategy to obtain tax certainty.

Apart from APAs, PMI uses other mechanisms to manage its tax positions. When relevant and feasible, we have upfront conversations with tax authorities in the countries where we operate. In certain instances, we obtain tax rulings to provide a higher level of certainty for both PMI and the tax authorities. Such rulings are not the only means of securing transparency and certainty, as we also have joined monitoring programs with tax authorities in several countries, with the aim of establishing PMI as a low-risk taxpayer in the relevant jurisdiction. These programs promote ongoing and transparent relations between taxpayers and tax authorities.

Where available, PMI adheres to and promotes participation in cooperative compliance programs in countries in which PMI operates. For example, PMI participates in the "Adempimento Collaborativo" program in Italy and the "Program Wspoldzialania" in Poland. Such programs establish a relationship of trust between the tax authorities and taxpayer and increase certainty on relevant tax issues.

Relationships with tax authorities

As is the case with other multinational companies, PMI's tax returns are regularly audited by tax authorities. PMI responds to tax audit requests in a timely manner while ensuring full transparency regarding our business operations. Our working relationships with governments and fiscal authorities are conducted in a professional and collaborative manner.



Reporting and performance

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Performance in ESG ratings, rankings, and indices

“Investors and other financial stakeholders place increasing value on reliable, robust, and timely measures of sustainability performance. Through our annual Integrated Report, and the ever-strengthening processes and initiatives that underpin it, we aim to provide a holistic and extensive view of our performance across the most material sustainability issues for our business.”

Emmanuel Babeau, Chief Financial Officer

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.

		2023 score (and year-on-year trend)	
S&P Global Corporate Sustainability Assessment	PMI was included for the first time in the Dow Jones Sustainability World Index, and for the fourth consecutive year in the Dow Jones Sustainability North America Composite Index (score as of November 24, 2023, Indices effective as of December 18, 2023).	85/100	Member of Dow Jones Sustainability Indices Powered by the S&P Global CSA
ISS ESG	PMI achieved industry leadership, improving to a rating of "C+" and gaining "Prime" status for the first time, only one in the sector (score as of November 21, 2023).	C+	Corporate ESG Performance ISS ESG Prime
CDP Climate, Forest, Water Security	PMI was awarded a Triple A score for the fourth consecutive year in recognition of its efforts to combat climate change, protect forests, and promote water security.	AAA	CDP A LIST 2023 CLIMATE FORESTS WATER
CDP Supplier Engagement	PMI earned a place on CDP's Supplier Engagement Leaderboard for the seventh consecutive year.	Leaderboard	CDP Supplier Engagement Leaderboard
Bloomberg Gender-Equality Index	PMI was included for the third consecutive year in the Bloomberg Gender-Equality Index (GEI) for its transparency in gender reporting and advancing women's equity (announcement on January 31, 2023).	Index member	Bloomberg Gender-Equality Index
Sustainalytics	PMI maintained its "Medium ESG Risk" classification scoring 27.7 (score as of December 28, 2023).	Medium risk	
MSCI	PMI maintained a rating of BBB in the MSCI ESG Rating assessment (score as of October 13, 2023).	BBB	
Tobacco Transformation Index	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	
State Street R-Factor	Achieved Leader (Universe level) and Outperformer (Industry level) rating (score as of February 1, 2024).	Outperformer	

Performance metrics

Maximize the benefits of smoke-free products

	2015 baseline	2021	2022	2023	Aspirations		
Broadening access to smoke-free products	Total number of users of PMI smoke-free products (in millions) ^{1*}	0.2	21.7	24.9	28.6		
	Estimated number of users who have switched to PMI smoke-free products and stopped smoking (in millions) ^{1*}	0.1	15.3	17.8	20.8		
	Number of markets where smoke-free products are available for sale ^{2*}	7	71	73	84	100 by 2025	
	Proportion of markets where smoke-free products are available for sale that are low- and middle-income markets ^{3*}	17%	42%	42%	47%	>50% by 2025	
	Cumulative investment behind smoke-free products (since 2008, in billions USD) ⁴	2.4	9.2	10.7	12.5		
	Number of factories producing smoke-free products out of total number of factories ^{5*}	3 out of 48	9 out of 38	14 out of 49	16 out of 50		
	Commercial (marketing) expenditure ratio (smoke-free/total) [*]	8%	73%	74%	74%		
	Supply chain direct spend expenditure (smoke-free/total) ⁶	n/a	35%	43%	41%		
	Developing science-based better alternatives to cigarette smoking	Adjusted R&D expenditure (in millions USD) ⁷	423	566	642	709	
		Adjusted R&D expenditure ratio (smoke-free/total) ^{7*}	70%	99%	99%	99%	
Adjusted R&D as % of net revenue ⁷		1.6%	1.8%	2.0%	2.0%		
Number of R&D positions (FTEs) ⁸		n/a	984	1,516	1,586		
Patents granted in IP5 jurisdictions relating to smoke-free products (cumulative, since 2015) ⁹		n/a	1,770	2,500	3,720		
Number of studies completed by PMI on smoke-free products (cumulative, since 2015)							
<ul style="list-style-type: none"> • Toxicological assessment • Clinical assessment 		n/a	203	251	287		
Perception and behavior (premarket and post-market)	n/a	44 (25 + 19)	58 (38 + 20)	69 (48+21)			
Marketing and selling our products responsibly	Total number of people (PMI employees and third parties) who participated in at least one Marketing Codes-related training session ¹⁰	n/a	70,011	75,834	67,014		
	<ul style="list-style-type: none"> • Number of PMI employees • Number of third parties 	n/a	22,774	24,030	27,465		
	Number of violations of the Marketing Codes resulting in substantiated cases of misconduct	12	13	14	28		
	Percentage of PMI's total shipment volume covered by youth access prevention programs in indirect retail channels ¹¹	n/a	91%	91%	98%	maintain >90%	

The 2023 metrics marked with an asterisk (*) are subject to PwC's Limited Assurance Report. **Notes:** Unless otherwise stated, all applicable business transformation metrics include Swedish Match related data as of November 11, 2022 (acquisition date), as well as Vectura Fertin Pharma. In 2023, we evaluated and republished a new set of aspirations for 2030 to ensure they remain ambitious, reasonable, and achievable in the context of a dynamic and evolving smoke-free industry, and impacts of our recent acquisitions.

- Figures pertain to total IQOS users. See [Glossary](#).
- For definition of available for sale, see [Glossary](#).
- Excluding PMI Duty Free. World Bank report issued in 2023 is used on a comparative basis for income level classification. For definition of low- and middle-income markets, see [Glossary](#).
- Investments reflect research, product and commercial development, production capacity, scientific substantiation, and studies on adult smoker understanding. Figures do not include Swedish Match and Vectura Fertin Pharma.
- Data reflect the number of factories operated and owned by PMI at the end of the respective year. As of 2023 "Smoke-free products factories" is defined as manufacturing facilities producing heated tobacco units and oral nicotine products. Additionally, in 2023, PMI evolved its approach to report the number of factories based on location instead of based on plant. If a facility is one location, but has several physical areas (plants) the facility is counted as one. To provide comparability, 2022 data has been restated on the same basis.

- Direct spend focuses on materials used in the manufacture of our products; it includes tobacco leaf, direct materials, and electronic devices and accessories. Data excludes Swedish Match and Vectura Fertin Pharma.
- Adjusted R&D expenditure excludes asset acquisition cost related to OtiTopic, Inc. in 2021. Total reported R&D expenditure in 2021 including these items amounted to USD 617 million.
- R&D positions include scientists, engineers, technicians, and support staff. Comparable data for years prior to 2018 are not available as the scope of R&D positions changed following Company organizational changes.
- IP5 jurisdictions are Europe (patents granted by the European Patent Office), China, South Korea, Japan, and the U.S.
- Indicator introduced in 2021, replacing the indicator "number of compliance training sessions conducted on PMI's Marketing Code," following the release of new Marketing Codes. Data excludes Swedish Match and Vectura Fertin Pharma.
- Total shipment volume includes cigarettes, other tobacco products (OTPs), and smoke-free product consumables. See PMI's Sustainability KPI Protocol 2023 for further details. Data excludes Swedish Match and Vectura Fertin Pharma.

Aspirations tracker

Achieved Not achieved

Indicators included in [PMI Sustainability Index](#)



Purposefully phase out cigarettes

	2015 baseline	2021	2022	2023	2030 Aspirations
Smoke-free product shipment ratio (smoke-free/total) ^{1*}	0.6%	13.3%	15.3%	18.6%	(SI)
Smoke-free product shipment volume—heated tobacco units (billion units) ^{1*}	0	95	109	125	
Shipment volume—nicotine pouch (million cans) [*]	0	1	42	421	
Combustible tobacco product shipment volume (billion units) ^{1*}	877	645	642	633	
Change in combustible tobacco product shipment volume (billion units) vs. 2015 baseline ^{1*}	n/a	(26.4)%	(26.8)%	(27.9)%	
Adjusted net revenues ratio (smoke-free/total) ^{2*}	0.7%	29.5%	32.1%	36.4%	>2/3 by 2030 (SI)
Number of markets where adjusted net revenues from smoke-free products exceed 50% of adjusted total net revenues [*]	0	10	17	25	~60 by 2030
Number of markets where adjusted net revenues from smoke-free products exceed 75% of adjusted total net revenues [*]	0	0	0	3	~40 by 2030

The 2023 metrics marked with an asterisk (*) are subject to PwC's Limited Assurance Report. **Notes:** Unless otherwise stated, all applicable business transformation metrics include Swedish Match related data as of November 11, 2022 (acquisition date), as well as Vectura Fertin Pharma. In 2023, we evaluated and republished a new set of aspirations for 2030 to ensure they remain ambitious, reasonable, and achievable in the context of a dynamic and evolving smoke-free industry, and impacts of our recent acquisitions.

- 1 These indicators are calculated based on millions of units. For definition of smoke-free products, heated tobacco units, and combustible tobacco products, see [Glossary](#). Smoke-free product 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. Data does not include wellness and healthcare products.
- 2 For definition of net revenues related to smoke-free products, see [Glossary](#). Data exclude the impact related to termination of distribution arrangement in the Middle East in 2023 and the impact related to the Saudi Arabia customs assessments in 2021.

Seek net positive impact in wellness and healthcare

	2021	2022	2023
Annual net revenue from wellness and healthcare products (in billion USD) ^{1*}	0.1	0.3	0.3 (SI)

The 2023 metrics marked with an asterisk (*) are subject to PwC's Limited Assurance Report.

- 1 For definition of net revenues related to wellness and healthcare, see [Glossary](#). 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.

Reduce post-consumer waste

	2021	2022	2023	Aspirations
Cigarette butt littering				
Proportion of shipment volumes covered by markets with anti-littering program in place ¹	n/a	68%	76%	≥80% by 2025 (SI)
Smoke-free consumables				
Proportion of shipment volume covered by markets with end-of-life take-back programs in place for smoke-free consumables ²	n/a	8.5%	17.6%	≥80% by 2025 (SI)
Proportion of HTU shipment volume covered by markets with take-back programs in place ²	n/a	8.5%	17.2%	
Proportion of e-vapor shipment volume covered by markets with take-back programs in place ²	n/a	50.7%	87.1%	
Smoke-free devices				
Proportion of smoke-free electronic devices introduced on the market as of the end of 2025 that have eco-design certification ³	n/a	n/a	n/a	100% by end of 2025 (SI)
Cumulative number of smoke-free electronic devices refreshed or repaired since 2021 (in thousands) ⁴	62	157	320	≥1 million by 2025 (SI)
Volume of shredded materials coming from dismantled devices in the CIRCLE hubs (in tons)	178	112	315	
Effective recycling rate of smoke-free devices ⁵	53%	53%	73%	70% by 2023
Proportion of smoke-free electronic device sales volume covered by the CIRCLE program ⁶	63%	61%	82%	90% by 2025
Recycling rate of smoke-free electronic devices at the CIRCLE hubs (weighted average) ⁷	86%	86%	89%	maintain 80%
Packaging				
Proportion of packaging formats that are designed for recyclability ⁸	98%	98%	98%	100% by 2025
Proportion of packaging materials coming from renewable sources	90%	90%	91%	95% by 2025
Total weight or volume of materials that are used to package PMI's primary products in tons (percent renewable/percent non-renewable)	427,597 (89.7%/10.3%)	452,211 (90.1%/9.9%)	416,930 (90.9%/9.1%)	
Average packaging weight reduction for combustible tobacco products versus 2018 baseline	9%	11%	13%	15% by 2025
Average packaging weight reduction for heat-not-burn products versus 2018 baseline	8%	10%	13%	15% by 2025

- 1 For further details on the criteria used to determine if a market has an anti-littering program in place, please see [PMI's Sustainability KPI Protocol 2023](#).
- 2 Total shipment volume includes cigarettes, other tobacco products (OTPs), and smoke-free product consumables, see [PMI's Sustainability KPI Protocol 2023](#) for further details. Data excludes Swedish Match and Vectura Fertin Pharma.
- 3 For further details please see [PMI's Sustainability KPI Protocol 2023](#). In 2023, 100% of product project briefs in scope had eco-design certification requirements included.
- 4 For the definition of refreshed or repaired devices, please refer to [PMI's Sustainability KPI Protocol 2023](#).
- 5 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 recycled within the scope of the CIRCLE program (weighted average) excluding energy recovery. Excludes disposable products and non-PMI designed devices.
- 6 Excludes disposable products and non-PMI-designed devices. We recalibrated our 2025 aspiration to 90% during 2023 to account for regulatory and market developments. Collected devices are considered covered by the CIRCLE program if they are either processed at our centralized CIRCLE hubs or by validated local recycling partners.
- 7 Recycling rate: percentage of the weight of each device that is recycled, weighted-average depending on device type and processing facility. Reporting in 2023 includes CIRCLE hubs (Hungary and Japan) and validated local recycling vendors that started recycling activities, namely South Korea and Egypt.
- 8 Prior years' data have been restated for alignment with the principles of design for recyclability by format, as well as expanding coverage of the portfolio.

Aspirations tracker

✓ Achieved ✗ Not achieved

(SI) Indicators included in [PMI Sustainability Index](#)



Foster an empowered and inclusive workplace

	2021	2022	2023	Aspirations
Fair working conditions				
Number of PMI employees ¹	68,547	71,070	73,704	
Number of PMI full-time equivalent (FTE) positions	67,291	70,966	72,826	
Proportion of employees covered by Collective Labor Agreements	61.1%	60.7%	63.0%	
Total number of countries with Collective Labor Agreements	34	35	35	
Percent of employees earning at least a living wage	100%	100%	✓ 100%	maintain 100%
Talent attraction, retention, and employability				
Employee overall turnover rate	12.0%	9.3%	10.3%	
Women employee overall turnover rate	9.4%	8.2%	8.9%	
Employee voluntary turnover rate	4.7%	4.6%	4.4%	
Proportion of open positions filled in with internal candidates	18%	24%	23%	
Number of new hired employees	8,381	12,457	12,130	
Spend for learning per FTE (in USD) total	506	498	519	
Average hours of training per FTE:				
• Men †	n/a	23	18	
• Women †	n/a	18	23	
Proportion of PMI employees who have access to structured lifelong learning offers ²	n/a	80%	77%	>70% by 2025 (SI)
Proportion of employees covered by performance review ³	92%	90%	86%	
Employee Net Promoter Score ⁴	35	56	✓ 51	maintain ≥30
Protect the health and safety of our employees				
Lost time incident (LTI) rate per 200,000 hours worked—PMI employees, contracted employees, and contractors ⁵ ⬇️	0.05	0.07	0.08	
LTI rate per 200,000 hours worked—PMI employees and contracted employees⬇️	0.06	0.06	0.05	
LTI rate per 200,000 hours worked—contractors⬇️	0.05	0.09	0.17	
Total recordable incidents rate (TRIR) per 200,000 hours worked—PMI employees, contracted employees, and contractors⬇️	0.09	0.12	✓ 0.11	maintain <0.3
TRIR per 200,000 hours worked—PMI employees and contracted employees⬇️	0.10	0.10	0.08	
TRIR per 200,000 hours worked—contractors [†]	0.11	0.14	0.20	
Number of fatalities—PMI employees, contracted employees, and contractors⬇️	1	3	0	
Number of fatalities—members of the public⬇️	2	9	3	
Occupational illness frequency rate (OIFR) per 200,000 hours worked—PMI and contracted employees⬇️	0.001	0.000	0.000	
Employee self-assessment psychological well-being measure ⁶	61%	74%	72%	70% by 2025
Collision rate within PMI's fleet of vehicles per year (collisions per million km driven)⬇️	0.44	0.44	✓ 0.40	maintain <0.65
Proportion of PMI fleet equipped with telematics ⁷	47%	65%	85%	
Proportion of manufacturing facilities with ISO 45001 certification ⁸	100%	98%	100%	

	2021	2022	2023	Aspirations
Fostering diversity and inclusion				
Gender diversity:				
Proportion of female employees	42.2%	42.1%	42.9%	
Proportion of non-management positions held by women	42.7%	42.7%	43.5%	
Proportion of management positions held by women ⁹	39.7%	40.7%	✓ 41.8%	maintain ≥40%
Proportion of female employees at different managerial levels ^{9,10} :				
• Managers	41.4%	42.6%	43.6%	
• Directors	32.0%	31.1%	32.6%	
• Senior leaders	25.3%	26.7%	27.9%	
Proportion of women in senior roles ⁹	31.1%	30.5%	✓ 32.0%	32% by 2023 35% by 2025 (SI)
Proportion of new hires who are women	41.3%	36.9%	46.5%	
Proportion of women on PMI's Company Management ¹¹	16.7%	16.0%	18.5%	
Proportion of women on PMI's Board of Directors ¹²	23.1%	25.0%	30.8%	
Mean gender pay gap ¹³	33.5%	30.0%	29.1%	
Proportion of women in STEM-related positions ^{9,14}	37.0%	36.6%	38.3%	
Proportion of women in management positions in revenue-generating functions ^{9,15}	35.7%	37.6%	39.0%	
Percentage of women attrition	36.9%	37.1%	37.0%	
Percentage of women total promotions	35.9%	35.9%	38.0%	
Age, nationality, ethnic diversity				
Proportion of employees at different age groups:				
• Below 30	18.7%	15.3%	16.4%	
• Between 30 and 50	69.7%	71.7%	71.1%	
• Above 50	11.6%	13.0%	12.6%	
Number of nationalities among PMI's employees	133	133	139	
Proportion of Asian talent in senior roles globally ^{9,16}	16.3%	17.1%	17.2%	≥20% by 2025
Proportion of markets with at least 60% local talent in the executive management teams ^{9,17}	n/a	58%	60%	≥60% in ≥80% of our markets by 2025

Note: Selected 2023 occupational health and safety (OHS) metrics are subject to external verification by SGS see the External Verification Statement [here](#). As of 2023, PMI has advanced its data verification process to allow for timely publication of relevant sustainability metrics, including those related to OHS KPIs. With this advancement, metrics marked with (†) are based on actual data from 2023 (usually from January to September—some to August) and estimates for remaining months. This data will be restated with full-year actual figures and made available on our website during 2024. Our diversity and inclusion data covers around 80% of PMI's total workforce.

- † Previous years' values for metrics with marked (†) were reviewed.
- 1 Incorporating Vectura Fertin Pharma, as well as the 2022 acquisition of Swedish Match, PMI employed approximately 82,700 people worldwide at year-end 2023.
- 2 For further details on how we measure progress on this KPI, please see [PMI's Sustainability KPI Protocol 2023](#).
- 3 The calculation data based on a total of 56,527 employees maintained in PMI's central HR system for a key date of November 1, 2023.
- 4 We measure the engagement of our workforce using the employee Net Promoter Score (eNPS), following a methodology similar to that which we use to measure consumer engagement. The score can range from -100 to +100. 2023 and 2022 findings exclude Russia (2021 data excluding Russia is 34).
- 5 For definition of contracted employee and contractor, see [Glossary](#).
- 6 The indicator represents the percentage of employees who responded "good" or "very good" to the question "How would you rate your current psychological or emotional well-being at present?" in our regular employee listening survey.
- 7 Scope covers PMI's working-tool cars (representing 75% of PMI's total fleet).
- 8 Scope covers manufacturing facilities producing more than three billion cigarette equivalents annually. 2023 excludes Russia, due to sanctions applied to the country.

- 9 For further details on how we measure progress on this KPI, please see [PMI's Sustainability KPI Protocol 2023](#).
- 10 For definitions of management positions, managers, directors, senior roles, and senior leaders see [Glossary](#).
- 11 Data as of March 11, 2024 (27 Company Management members, of whom five were women). See [PMI Annual Report 2023](#) for further details.
- 12 Data as of March 11, 2024 (13 members of PMI's Board of Directors, of whom four were women). See [PMI 2024 Proxy Statement](#) for further details.
- 13 The mean gender pay gap is calculated as the percentage difference between the sum of annual base salary, bonus, and stock awards.
- 14 This figure is an estimate based on the total headcount within functions where the primary skills required for employees in their daily responsibilities related to science, technology, engineering, or mathematics (STEM). Historical data have been re-stated to remove fixed-term employees and those on salary continuation, aligned to other diversity and inclusion metrics.
- 15 Employees holding management roles in revenue-generating functions (i.e., functions responsible for core business objectives or profit and loss).
- 16 For the purposes of measuring progress against this indicator, PMI uses the nationality data of employees recorded in our HR systems. The determination of Asian nationalities is based on the regional groupings as listed by the United Nations and we consider the following regions: Central and Southern Asia, Eastern and South-Eastern Asia.
- 17 Considers Managing Directors and their direct reports within PMI markets and clusters who have local nationality registered in PMI HR systems. Excludes countries where employee nationality is not collected in PMI HR systems.

Aspirations tracker

✓ Achieved ✗ Not achieved

(SI) Indicators included in [PMI Sustainability Index](#)



Foster an empowered and inclusive workplace continued

PMI's workforce at year-end 2023

	2023
Number of employees by employment contract (permanent and temporary), by gender	
Women employed on a permanent contract	30,159
Women employed on a temporary contract	1,460
Men employed on a permanent contract	39,784
Men employed on a temporary contract	2,301
Number of employees by employment contract (permanent and temporary), by region	
Employees on a permanent contract in Europe region	22,975
Employees on a temporary contract in Europe region	2,252
Employees on a permanent contract in SSEA, CIS and MEA region	35,910
Employees on a temporary contract in SSEA, CIS and MEA region	714
Employees on a permanent contract in East Asia & Australia region, including PMI Duty Free	3,744
Employees on a temporary contract in East Asia & Australia region, including PMI Duty Free	219
Employees on a permanent contract in Americas (including the U.S.)	7,314
Employees on a temporary contract in Americas (including the U.S.)	576
Number of employees by employment type (full-time and part-time), by gender	
Women employed on a full-time contract	31,025
Women employed on a part-time contract	594
Men employed on a full-time contract	41,804
Men employed on a part-time contract	281



Improve the quality of life of people in our supply chain

	2022	2023	Aspirations
Agricultural Labor Practices (ALP)	Proportion of purchased tobacco volume for which labor practices and adherence to our Agricultural Labor Practices Code are systematically monitored	95%	✓ 91% maintain >90%
	Total number of prompt actions recorded by field technicians:	6,101	7,301
	• Proportion due to safe working environment	90%	88%
	• Proportion due to hazardous work performed by children	3%	3%
	• Proportion due to income and working hours	7%	7%
	• Proportion due to other	0%	2%
Total number of ALP prompt actions resolved	5,107	6,867	
Alleviating poverty	Proportion of contracted farmers supplying tobacco to PMI who make a living income ¹	73%	96% 100% by 2025 (SI)
	Proportion of contracted farmers supplying tobacco to PMI paying their workers at least the minimum legal wage or agricultural benchmark	99.9%	✓ 99.8% maintain 100%
	Number of ALP prompt actions recorded by field technicians relating to non-payment of minimum wage to farmworkers	436	523
Eliminating child labor	Prevalence of child labor among contracted farms supplying tobacco to PMI ²	0.1%	0.1% Zero by 2025 (SI)
	Number of ALP prompt actions recorded by field technicians relating to child labor:	175	217
	• Hazardous tasks ³	155	207
	• Under 13 working ⁴	6	7
• Under 15 hired	14	3	
Proportion of ALP prompt actions recorded by field technicians relating to child labor that were resolved	95%	97%	
Enhancing the quality of lives of tobacco-farming communities	Proportion of contracted farmers supplying tobacco to PMI who have access to water ⁵	75%	80% 100% by 2025
	Proportion of tobacco farmworkers provided with safe and adequate accommodation ⁶	100%	✓ 100% maintain 100%
	Proportion of contracted tobacco farmers and farmworkers supplying tobacco to PMI who have access to personal protective equipment for the application of crop protection agents and prevention of green tobacco sickness ⁷	n/a	100% ✓ maintain 100%

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 the [Improve the quality of life of people in our supply chain](#) section). Although it is still a requirement to monitor performance against our ALP Code for all contracted farms, we decided to shift more reporting sustainability progress on all farmers contracted by PMI's suppliers or PMI leaf operations to farmers whose tobacco volumes are purchased by PMI and used in our products. Our 2023 farm-level ALP monitoring data cover 21 out of the 23 countries from which we sourced in 2023 as Tanzania and Uganda were not included in this data set.

¹ Excludes China and Switzerland due to restrictions on farmer income data as well as benchmark development in China. In 2023, we applied new methodology which requires updated family size definitions for our farm profile data, and a resulting detailed and robust set of family size data for each farmer's family. Considering this preparatory work, we were only able to implement this secondary layer of modeling for Indonesia in 2023. As of 2024, household dependency modeling will be applied for all markets/farmer segments below living income. See [PMI's Sustainability KPI Protocol 2023](#) for further details on methodology.

² For further details on how we calculate the prevalence of child labor in PMI's tobacco supply chain please see [PMI's Sustainability KPI Protocol 2023](#).

³ Includes children of any age found to be involved in hazardous work.

⁴ Includes light work only.

⁵ Estimated based on surveys that indicate whether the farmer has an improved drinking water source within 1 km or 30 minutes round trip. Excludes China.

⁶ Scope is limited to farmers who provide accommodation to workers (approximately 4 percent of the total farmer base in 2023).

⁷ Less than 0.01% of farmer with unresolved PA related to Personal protective equipment access.

Aspirations tracker

✓ Achieved ✗ Not achieved



Tackle climate change

	2019	2021	2022	2023	Aspirations	
Energy consumption in PMI direct operations	Total energy consumption in PMI factories, offices and fleet (gigajoules) ¹	9,987,169	8,281,834	8,368,407	8,733,393	
	Proportion of total energy consumed that is from renewable sources	27%	33%	36%	37%	
	Energy intensity (gigajoules per net revenues million USD) ¹	n/a	n/a	n/a	248	
	Fuel consumption from nonrenewable sources (gigajoules)	5,970,547	4,712,161	4,682,466	4,910,506	
	Fuel consumption from renewable sources (gigajoules)	292,238	292,427	267,162	272,403	
	Total electricity consumed (MWh) ²	1,006,246	915,502	944,365	971,647	
	Total electricity consumed that is from renewable sources (MWh) ^{2,9}	623,940	674,903	727,283	789,480	
Total GHG emissions Scope 1+2	Absolute CO ₂ e scope 1 (metric tons) ³	406,660	319,372	310,028	316,652	
	Absolute CO ₂ e scope 2 (metric tons) ^{2,3}	180,347	87,768	62,327	56,582	
	Absolute CO ₂ e scope 1+2 (metric tons) ³	587,008	407,140	372,354	373,234	50% by 2030 (SBT)
	• Absolute reduction versus 2019 baseline	n/a	31%	37%	36%	
	Carbon offsetting certificates (metric tons) ^{4,9}	1,242	16,128	42,848	71,256	
	Net CO ₂ e scope 1+2 (metric tons) ^{3,5}	585,766	391,011	329,506	301,978	Carbon neutrality by 2025 (SI)
CO ₂ e scope 1+2 intensity (tons per net revenues million USD) ¹	n/a	n/a	n/a	10.6		
Scope 1+2 Manufacturing	Absolute CO ₂ e scope 1+2 (metric tons) from manufacturing ³	394,447	267,783	242,392	238,358	
	Proportion of electricity used and purchased that is from renewable sources ⁹	72%	81%	87%	92%	100% by 2025
	Proportion of carbon-neutral factories ⁹	3%	13%	35%	43%	100% by 2025
Scope 1+2 PMI Fleet	Absolute CO ₂ e scope 1 from fleet (metric tons) ⁹	111,400	78,018	79,543	80,699	
	• Absolute reduction versus 2019 baseline ⁹	n/a	30%	29%	28%	
	CO ₂ e emissions from fleet (g CO ₂ e per km driven) ⁹	222	200	191	177	
	Proportion of hybrid or electrical vehicles in our fleet ⁹	–%	10%	19%	27%	

	2019	2021	2022	2023	Aspirations	
Scope 3 Total	Absolute CO ₂ e scope 3 ('000 metric tons) ⁶	4,830	3,953	4,446	4,328	
	• Absolute reduction versus 2019 baseline ⁷	n/a	18%	8%	10%	(SI)
	Absolute CO ₂ e scope 3 FLAG ('000 metric tons) ⁶	1,540	1,079	1,136	1,170	
	• Absolute FLAG reduction versus 2019 baseline ⁸	n/a	30%	26%	24%	18% by 2025 (SBT), 33.3% by 2030 (SBT), 72% by 2040 (SBT) (SI)
	Absolute CO ₂ e scope 3 industrial ('000 metric tons) ⁶	3,291	2,874	3,310	3,157	
	• Absolute industrial reduction versus 2019 baseline ⁸	n/a	13%	(1)%	4%	27.5% by 2030 (SBT)
	CO ₂ e scope 3 biogenic emissions ('000 metric tons) ⁹	2,585	2,379	2,317	2,333	
Proportion of suppliers by spend covering purchased goods and services with science-based GHG reduction targets ⁹	n/a	n/a	35%	35%	15% by 2025	
Scope 3 Tobacco supply chain	Absolute CO ₂ e scope 3 ('000 metric tons) from tobacco supply chain ⁹	1,264	804	886	860	
	• Absolute reduction versus 2019 baseline ⁹	n/a	36%	30%	32%	35% by 2025, 50% by 2030
	CO ₂ e intensity reduction in tobacco curing versus 2019 baseline ^{8,9}	n/a	64%	57%	51%	75% by 2025
	Proportion of Virginia tobacco purchased cured with coal ⁹	16%	3%	6%	0%	Maintain zero
Total PMI value chain	Absolute CO ₂ e scope 1+2+3 ('000 metric tons) ⁶	5,417	4,360	4,818	4,701	Net zero by 2040
	• Absolute reduction versus 2019 baseline ⁶	n/a	20%	11%	13%	90% by 2040
	CO ₂ e scope 1+2+3 intensity (tons per net revenues million USD) ¹	n/a	n/a	n/a	133	
	CDP Climate Change rating ⁹	A	A	A	A	

Note: Our inventory of GHG emissions (scope 1, 2, and 3) in 2023 is subject to external verification by SGS (see the External Verification Statement for scope 1+2 [here](#), for scope 3 [here](#), and for a list of the individual metrics assured [here](#)). In 2023, we successfully integrated the greenhouse gas (GHG) inventory of Swedish Match, acquired in 2022, in PMI's value chain carbon accounting. Metrics' values include Swedish Match, unless otherwise specified, prior years' data have been recalculated to reflect the Swedish Match incorporation. As of 2023, PMI has advanced its data verification process to allow for timely publication of relevant sustainability metrics, including those related to our GHG inventory. With this advancement, metrics marked with (i) are based on actual data from 2023 (usually from January to September—some to August) and estimates for remaining months. This data will be restated with full-year actual figures and made available on our website during 2024. For more information on PMI's approach to GHG calculations and materiality thresholds, please refer to PMI's [Sustainability KPI Protocol 2023](#) and carbon footprint methodology [here](#).

- Intensity is measured per million Net revenues in USD (data are based on latest estimates used to run carbon footprint exercise). KPI values are provided as of 2023 to ensure comparability as prior years Net revenues figure does not fully include Swedish Match.
- Excludes electricity consumption from fleet.
- Emissions from PMI-operated IQOS stores are partially excluded from scope 1+2 emissions, as de minimis. As of 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.
- Our 2023 figure includes carbon credit certificates retired in the name of our factories in Argentina, Brazil, Czech Republic, Greece, Indonesia, Jordan, Lithuania, Pakistan, Portugal, Romania, Senegal, Serbia, and Switzerland—in total 18 production centers—as well as our Operations Center in Switzerland and our markets in Australia, Costa Rica, Denmark, Finland, Greece, Mexico, New Zealand, Norway, Portugal, Sweden and Turkey.
- The Net CO₂e scope 1+2 emissions excluding Swedish Match were equal to 265,518 metric tons in 2023 and 297,236 in 2022.
- For further details on scope 3 calculation please refer to the [PMI Value Chain Methodology](#). In 2023, we further improved our carbon footprint model and data accuracy; improvements relate to, for example, update of our representative products and improvements/updates on emission factors in several scope 3 categories. This led to previous years being restated accordingly.
- The absolute CO₂e scope 3 reduction vs. 2019 excluding Swedish Match was equal to 11% in 2023, 8% in 2022 and 19% in 2021.
- Intensity is measured in CO₂e per million shipped cigarette equivalent.
- Excludes Swedish Match.

Aspirations tracker

✓ Achieved ✗ Not achieved



Preserve nature

	Scope	2021	2022	2023	Aspirations
Forest	Proportion of tobacco purchased at no risk of gross deforestation of primary and protected forests ¹	100%	100%	✓ 100%	maintain 100%
	Proportion of tobacco purchased at no risk of net deforestation of managed natural forest and no conversion of natural ecosystems ¹	37%	55%	94%	100% by 2025 (S)
	Total hectares of forest grown:	355	389	403	
	• Due to restoration of at risk forest	165	199	205	
	• Contribution to forest positive	190	190	198	
	Proportion of flue-cured tobacco purchased that is cured with renewable fuel sources (self-sufficient firewood and biomass adoption)	75%	74%	✓ 76%	maintain >70%
Approximate total number of curing barns upgraded since 2014 (cumulative)	93,700	102,806	116,703		
CDP Forest rating	PMI value chain	A	A	A	
Proportion of paper, board, and pulp-based product purchased at no risk of gross deforestation of primary and protected forests ¹		n/a	64%	95%	100% by 2025
Water	Cubic meters of water optimized in our tobacco-growing areas (cumulative since 2019)(million m ³) ²	0.44	4.94	8.14	≥25 million cubic meters by 2033
	Proportion of tobacco growing areas which are covered by Local Water Risk Assessments (cumulative, since 2018)	66%	81%	95%	100% by 2025
	Quantity of blue water used per ton of tobacco produced ³	339	263	245	
	Total amount of water used ('000 m ³)	133,674	107,720	108,714	
	Total amount of water consumed (withdrawn minus discharged) ('000 m ³)	1,481	1,547	1,534	
	Total amount of water withdrawn ('000 m ³)	3,120	3,089	3,194	
	Total amount of freshwater withdrawn ('000 m ³) ⁴	2,088	2,137	2,196	
	Water ratio (water withdrawn in m ³ per million units of cigarettes sold) ⁵	PMI factories	2.6	2.5	✓ 2.4
Proportion of PMI factories certified to AWS standard ⁶		43%	51%	83%	100% by 2025
CDP Water rating	PMI value chain	A	A	A	
Biodiversity	Proportion of tobacco purchased without detection of residues attributable to the use of highly hazardous pesticides (HHPs), as defined by FAO and WHO guidelines in 2016	100%	100%	✓ 100%	maintain 100%
	Proportion of tobacco purchased without detection of residues attributable to the use of WHO TOX1 group of crop protection agents	100%	100%	✓ 100%	maintain 100%

	Scope	2021	2022	2023	Aspirations
Waste	Percentage of waste diverted from landfill in manufacturing operations ⁷	99.7%	99.9%	✓ 99.9%	maintain >99%
	Total amount of waste generated (in metric tons)	114,043	119,192	127,493	
	• Recycled	87.3%	86.9%	✓ 84.9%	maintain 85%
	• Incinerated with energy recovery	11.4%	12.0%	13.3%	
	• Incinerated without energy recovery	0.3%	0.3%	0.8%	
	• Disposed to landfill ⁸	1.1%	0.8%	1.0%	
	Amount of hazardous waste generated (in metric tons)	1,057	1,698	2,228	
	• Incinerated with energy recovery	57.3%	67.4%	49.9%	
	• Recycled	20.9%	16.7%	19.1%	
	• Incinerated without energy recovery	13.5%	13.4%	29.5%	
• Disposed to landfill	8.2%	2.5%	1.5%		
Environmental management	Proportion of manufacturing facilities certified to ISO 14001 ⁹	100%	100%	✓ 100%	maintain 100%
	Number of environmental fines (and approximate amount in USD) ¹⁰	PMI factories	2 (48,000)	0	0

Note: Select 2023 metrics related to PMI's Monitoring, Verification and Reporting Framework for Leaf Curing Fuel and the Zero Deforestation Manifesto are subject to a third-party limited assurance (read more [here](#)).

- For definitions, please see PMI's Zero Deforestation Manifesto and PMI's Sustainability KPI Protocol 2023.
- Indicator is based on the World Resources Institute's volumetric benefit accounting methodology and is verified by an external third party.
- Blue water refers to water used for irrigation, excluding rainfall.
- Refers to amount of freshwater withdrawn from municipal sources.
- Water intensity is measured in cubic meters per million cigarettes produced equivalent. In 2021, we updated our methodology to account for the conversion factor of heated tobacco units to conventional cigarettes of 5:1 and have restated historical data accordingly.
- 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. PMI sites that are in low- to medium water risk areas and below 2.5% of PMI manufacturing water footprint are excluded.
- We aspire to have virtually zero waste to landfill in manufacturing operations. This is achieved when the landfill diversion rate is equivalent to 99 percent or greater. Our calculation of zero waste to landfill does not include canteen and sanitary waste, which do not relate to our production processes. It also excludes the mandated waste, generally tobacco, that we are obliged to landfill to respect local regulations.
- Disposal to landfill includes sanitary waste, canteen waste, and waste mandated by authorities to be disposed of in landfill. The number is 0.97%.
- Scope: Manufacturing facilities producing more than three billion cigarette equivalents annually. 2023 excludes Russia, due to sanctions applied to the country.
- Fines above USD 10,000 (or equivalent in converted currency).

Aspirations tracker

✓ Achieved ✗ Not achieved



Fundamentals

Business integrity

	2021	2022	2023
Proportion of current employees who participated in training sessions pertaining to PMI's Code of Conduct	71.3%	81.0%	86.4%
Total number of compliance training sessions completed by employees and third parties:	261,890	352,796	517,937
• Employees ¹	150,270	268,411	443,402
• Third parties	111,620	66,385	74,535
Total number of reports received through Ethics & Compliance Speak Up channels	929	990	1,258
Total number of closed reports:	891	923	1,245
• Number of closed reports involving at least one compliance allegation (unsubstantiated cases/substantiated cases)	508 (272/236)	429 (206/223)	591 (267/324)
• Number of closed reports not involving compliance allegations	383	494	654
Disciplinary actions, by type:			
• Suspension	5%	3%	7%
• Contract termination	26%	48%	31%
• Written warning	32%	20%	25%
• Verbal warning or counseling	37%	29%	37%

¹ The number of trainings for year 2022 updated.

Respect for human rights

	2021	2022	2023	Aspirations
Cumulative number of human rights impact assessments conducted since 2018, with findings addressed ¹	5	7	8	10 highest-risk countries by 2025 ^(S)

¹ Our assessments prioritize countries which are assessed as 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. For further details please see [PMI's Sustainability KPI Protocol 2023](#).

Managing our supply chain sustainably

	2021	2022	2023	Aspirations
Total	Total number of suppliers ¹	>29,000	>30,000	26,000
	Total supply chain spend (in billions USD) ²	11.1	12.6	14.0
	Number of critical suppliers ³	162	174	202
	Critical suppliers, expressed as a proportion of total supply chain spend	37%	37%	40%
	Percentage of spend with critical suppliers from whom PMI sources sustainably ⁴	83%	93%	91%
Nontobacco supply chain	Total procurement spend ⁵	9.8	11.3	12.4
	Direct materials			
	Number of critical suppliers assessed with EcoVadis	87	116	120
	Percentage of critical direct spend assessed with EcoVadis	90%	97%	95%
	Number of critical suppliers identified as having significant actual or potential negative social impacts ⁶	15	16	10
	Number of critical suppliers identified as having significant actual or potential negative environmental impacts ⁶	16	21	12
	Number of critical suppliers with an agreed corrective action plan in place (EcoVadis)	n/a	13	13
	Number of suppliers supported in corrective action plan implementation	n/a	13	13
	Proportion of suppliers assessed with substantial actual or potential negative impacts supported in corrective action plan implementation	n/a	100%	38%
	Average total EcoVadis score for critical suppliers of direct materials ⁶	56.5	58.1	60.6
	• Average Environmental score	60.5	62.2	65.1
	• Average Ethics score	54.2	54.2	55.8
	• Average Social score	55.8	58.0	60.5
	• Average Sustainable Procurement score	50.8	51.6	54.5
	Electronics			
	Number of critical suppliers (parent companies) assessed with Responsible Business Alliance (RBA)	23	28	30
	Number of critical supplier sites assessed with RBA	47	44	48
	Number of site level RBA audits completed ⁷	31	42	47
	• Tier 1 suppliers	4	10	9
	• Tier 2 and tier N suppliers	27	32	38
• Average RBA score achieved by suppliers during site level audits	160	173	170	
• Percentage of electronics supply chain spend covered by these audits	69%	67%	91%	
Number of suppliers with an agreed corrective action plan in place (RBA)	1	2	30	
Number of RBA non-conformances:				
• Priority	n/a	3	3	
• Other	n/a	173	227	
Closure rate of corrective actions for non-conformances:				
• Other	n/a	67%	50%	

¹ Suppliers refer to tier 1 suppliers, for definitions see [Glossary](#).

² Total supply chain spend includes procurement spend and tobacco leaf sourcing spend.

³ Suppliers' criticality is evaluated considering spend segmentation and nature of component, as well as supply flexibility (single-source/not easily substitutable) as relevant. 2023 figure includes tier 1 suppliers of direct materials and electronics, tier 2 directly managed electronics suppliers, and tobacco leaf suppliers.

⁴ Sustainable sourcing is determined based on a minimum threshold score of 45 out of 100 in EcoVadis (direct materials) or 125 out of 200 in RBA with no open priority issues (electronics). All tobacco purchased by contracted farmers, thereby covered by PMI's integrated production system, is considered sustainable.

⁵ Procurement spend excludes tobacco leaf sourcing.

⁶ EcoVadis score ranges from 0 to 100, with a minimum threshold score of 45 demonstrating satisfactory sustainability performance.

⁷ This figure includes 47 out of 48 of our electronics critical suppliers' sites.

Aspirations tracker

✓ Achieved ✗ Not achieved



Managing our supply chain sustainably continued

	2021	2022	2023	Aspirations	
Tobacco supply chain	Number of tobacco farmers contracted by PMI and PMI tobacco suppliers ⁸	253,813	n/a	n/a	
	Number of tobacco farmers from whom PMI purchased tobacco ⁹	n/a	223,299	305,756	
	Proportion of tobacco purchased through direct contracts by PMI and PMI tobacco suppliers	98%	99%	✓ 94%	maintain >90%
	Number of third-party tobacco suppliers with whom PMI has a direct contractual relationship ¹⁰	16	15	19	
	Number of PMI leaf operations that contract tobacco farmers directly	5	5	5	
	Number of countries where PMI sources tobacco from	21	20	23	
	Number of field technicians providing support to contracted farmers and monitoring the implementation of PMI's Agricultural Labor Practices (ALP)	n/a	3,128	3,121	
Capacity building	Proportion of PMI employees trained on Responsible Sourcing Principles (RSP)	n/a	n/a	93%	
	Proportion of PMI employees buyers/procurement professionals trained on specific sustainability topics	n/a	n/a	90%	
	Number of suppliers in capacity building program	n/a	n/a	5	
	Proportion of critical suppliers in capacity building program	n/a	n/a	1%	

⁸ Following the introduction in 2022 of PMI's sustainable supply chain model, data on tobacco farmers contracted by PMI tobacco suppliers is not available.

⁹ Tobacco farmers whose tobacco are included in PMI packed products.

¹⁰ Data refer to parent companies.

Independent practitioner's limited assurance report

on selected Key Performance Indicators 2023 in the Business Transformation Metrics and Sustainability Index Reporting 2023 to the Board of Directors of Philip Morris International Inc.

Lausanne

We have been engaged by Management to perform assurance procedures to provide limited assurance on selected Key Performance Indicators 2023 (the metrics marked with an asterisk (*)) in the Business Transformation Metrics and Sustainability Index Reporting 2023 of Philip Morris International Inc. and subsidiaries ('PMI') for the period ended 31 December 2023.

The selected Key Performance Indicators ("KPI") forming part of the Business Transformation Metrics and of the Sustainability Index of PMI for the financial year ended December 31, 2023 are included in the Integrated Report 2023 and comprises the following in our scope:

- The Business Transformation Metrics as disclosed on pages 25 and 189 to 190 of PMI's Integrated Report for the year ended December 31, 2023, respectively:
 - Adjusted R&D expenditure ratio (smoke-free/total);
 - Number of factories producing smoke-free products out of total number of factories;
 - Number of markets where smoke-free products are available for sale;
 - Proportion of markets where smoke-free products are available for sale that are low- and middle-income markets;
 - Commercial (marketing) expenditure ratio (smoke-free/total);
 - Smoke-free product shipment volume – Heated Tobacco Units (billion units);
 - Combustible tobacco product shipment volume (billion units);

- Change in combustible tobacco product shipment volume (billion units) vs 2015 baseline;
 - Shipment volume – Nicotine Pouch (Mio cans);
 - Total number of users of PMI smoke-free products (in millions);
 - Estimated number of users who have switched to PMI smoke-free products and stopped smoking (in millions);
 - Adjusted net revenues ratio (smoke-free/total);
 - Number of markets where adjusted net revenues from smoke-free products exceed 50% of adjusted total net revenues.
 - Number of markets where adjusted net revenues from smoke-free products exceed 75% of adjusted total net revenues.
- The Selected Sustainability Index KPIs as disclosed on page 190 of PMI's Integrated Report for the year ended December 31, 2023, respectively:
 - Annual net revenue from wellness and healthcare products (in billion USD);
 - Smoke-free product shipment ratio (smoke-free/total).
 - The application of the PMI Business Transformation Financing Framework for the preparation of the specified Key Performance Indicators in Business Transformation Metrics Report and Sustainability Index published on pages 25, 189 to 190 and 208 to 211 (Glossary), respectively.

We do not comment on, nor conclude on any prospective information nor did we perform any assurance procedures on the information other than those stated above for the reporting period 2023.

The Business Transformation Metrics and Sustainability Index Reporting 2023 were prepared by Management of PMI in line with the Business Transformation-Linked Financing Framework (or "Business Transformation Financing Framework" in short) and made available under <https://www.pmi.com/investor-relations/overview/business-transformation-linked-financing-framework>¹. Further, PMI defines the calculation of the specified KPIs in the footnotes on pages 25 and 189 to 190 as well as in the Glossary (208 to 211) in the Business Transformation Metrics and Sustainability Index Reporting 2023 (together the "suitable Criteria").

Aspirations tracker

✓ Achieved ✗ Not achieved



Inherent limitations

The accuracy and completeness of the Business Transformation Metrics and Sustainability Index Reporting 2023 KPIs are subject to inherent limitations given their nature and methods for determining, calculating and estimating such data. In addition, some KPIs are derived from different frameworks to form the Business Transformation Metrics, thus the quantification of some self defined KPIs is subject to inherent uncertainty because of incomplete scientific definition or knowledge used to determine factors related to such KPIs and the values needed to combine. Our assurance report will therefore have to be read in connection with the Business Transformation-Linked Financing Framework prepared by PMI, its definitions and procedures in the document "Business Transformation Financing Framework" and the footnotes on pages 25, 189 to 190 and glossary (208 to 211) in the Business Transformation Metrics and Sustainability Index Reporting 2023.

Management's responsibility

The Management of Philip Morris International Inc. is responsible for preparing the Business Transformation Metrics and the Sustainability Index Reporting 2023 in accordance with the suitable Criteria. This responsibility includes the design, implementation and maintenance of the internal control system related to the preparation of the Business Transformation Metrics and the Sustainability Index Reporting 2023 that are free from material misstatement, whether due to fraud or error. Furthermore, the Management is responsible for the selection and application of the chosen Criteria.

Independence and quality management

We are independent of the Philip Morris International Inc. in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

PricewaterhouseCoopers SA applies International Standard on Quality Management 1, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Practitioner's responsibility

Our responsibility is to perform an assurance limited engagement and to express a conclusion on the selected Key Performance Indicators 2023 in the Business Transformation Metrics and Sustainability Index Reporting 2023. We conducted our engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised) 'Assurance engagements other than audits or reviews of historical financial information'. That standard requires that we plan and perform our procedures to obtain limited assurance whether anything has come to our attention that causes us to believe that the Key Performance Indicators 2023 (the metrics marked with an asterisk (*)) in the Business Transformation Metrics and Sustainability Index Reporting 2023 were not, in all material aspects, prepared in accordance with the suitable Criteria as per 31 December 2023.

Based on risk and materiality considerations, we performed our procedures to obtain sufficient and appropriate assurance evidence. The procedures selected depend on the assurance practitioner's judgement. A limited assurance engagement under ISAE 3000 (Revised) is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks. Consequently, the nature, timing and extent of procedures for gathering sufficient appropriate evidence are deliberately limited relative to a reasonable assurance engagement and therefore less assurance is obtained with a limited assurance engagement than for a reasonable assurance engagement.

We performed the following procedures, among others:

- Inquiries and detailed walkthroughs with relevant stakeholders for the selected Key Performance Indicators 2023 in the 2023 Integrated Report;
- Interviewing PMI representatives responsible for the internal reporting and data collection;
- Test samples from PMI operations concerning the completeness, accuracy, consistency and classification;
- Inspecting relevant documentation on a sample basis, including PMI policies, management reporting structures and documentation;
- Reviewing and assessing the management reporting processes for Business Transformation Metrics and Sustainability Index data and consolidation and their related controls.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Conclusion

Based on the work we performed, nothing has come to our attention that causes us to believe that the selected Key Performance Indicators 2023 on the pages 25 and 189 to 190, respectively, (the metrics marked with an asterisk (*)) in the Business Transformation Metrics and Sustainability Index Reporting 2023 of Philip Morris International Inc. and subsidiaries for the period from January 1, 2023 to December 31, 2023 are not, in all material respects, prepared in accordance with the Business Transformation Financing Framework and the footnotes on pages 25, 189 to 190 as well as in the Glossary (208 to 211).

Intended users and purpose of the report

This report is prepared for, and only for, the Board of Directors of Philip Morris International Inc., and solely for the purpose of reporting to them on the selected Key Performance Indicators 2023 in Business Transformation Metrics and Sustainability Index Reporting 2023 and no other purpose. We do not, in giving our conclusion, accept or assume responsibility (legal or otherwise) or accept liability for, or in connection with, any other purpose for which our report including the conclusion may be used, or to any other person to whom our report is shown or into whose hands it may come, and no other persons shall be entitled to rely on our conclusion.

We permit the disclosure of our report, in full only and in combination with the suitable Criteria, to enable the Management to demonstrate that have discharged their governance responsibilities by commissioning an independent assurance report over the selected Key Performance Indicators 2023 in Business Transformation Metrics 2023 and in Sustainability Index 2023, without assuming or accepting any responsibility or liability to any third parties on our part. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Management of Philip Morris International Inc. for our work or this report.

PricewaterhouseCoopers SA

Mary C. Clark **Reto E. Huber**

Lausanne, Switzerland
25 March 2024

1) The maintenance and integrity of Philip Morris International Inc.'s website and its content are the responsibility of the Management; the work carried out by the assurance provider does not involve consideration of the maintenance and integrity of the Philip Morris International Inc.'s website, accordingly, the assurance providers accept no responsibility for any changes that may have occurred to the reported selected Business Transformation Metrics and Sustainability Index KPIs in the Integrated Report 2023 or Business Transformation-Linked Financing Framework since they were initially presented on the website.



Reconciliation of Non-GAAP Measures

PHILIP MORRIS INTERNATIONAL INC. and Subsidiaries

Schedule 1

Net Revenues by Product Category

(\$ in millions) / (Unaudited)	Years ended December 31,			
	2015	2021	2022	2023
Combustible Tobacco	26,595	22,067 ¹	21,572	22,334 ²
Smoke-free incl. Wellness and Healthcare	199	9,338	10,190	12,840
Total PMI	26,794	31,405¹	31,762	35,174²

¹ Includes a reduction in net revenues of \$246 million related to the Saudi Arabia customs assessment.

Excluding this impact total PMI adjusted net revenues are \$31,651 million and for combustible tobacco \$22,313 million.

² Includes a reduction in net revenues of \$80 million related to the termination of distribution arrangement in the Middle East.

Excluding this impact total PMI adjusted net revenues are \$35,254 million and for combustible tobacco \$22,414 million.

Schedule 2

Reconciliation of Net Revenues by Product Category to Adjusted Net Revenues by Product Category

(\$ in millions) / (Unaudited)	Year ended December 31, 2023		
	Net Revenues	Special Items	Adjusted Net Revenues
Combustible Tobacco			
Europe	8,037	-	8,037
SSEA, CIS & MEA	9,321	(80) ¹	9,401
EA, AU & PMI DF	2,676	-	2,676
Americas	1,869	-	1,869
Swedish Match	431	-	431
Total Combustible Tobacco	22,334	(80)	22,414
Smoke-free excl. Wellness and Healthcare			
Europe	5,561	-	5,561
SSEA, CIS & MEA	1,308	-	1,308
EA, AU & PMI DF	3,525	-	3,525
Americas	75	-	75
Swedish Match	2,065	-	2,065
Total Smoke-free excl. Wellness and Healthcare	12,534	-	12,534
Wellness and Healthcare			
Total Wellness and Healthcare	306	-	306
Smoke-free incl. Wellness and Healthcare			
Total Smoke-free incl. Wellness and Healthcare	12,840	-	12,840
PMI			
Europe	13,598	-	13,598
SSEA, CIS & MEA	10,629	(80) ¹	10,709
EA, AU & PMI DF	6,201	-	6,201
Americas	1,944	-	1,944
Swedish Match	2,496	-	2,496
Wellness and Healthcare	306	-	306
Total PMI	35,174	(80)	35,254

¹ Related to the termination of distribution arrangement in the Middle East.

Note: Sum of product categories or regions might not foot to Total PMI due to roundings.

Schedule 3

Research & Development Expenditure by Product Category

(\$ in millions) / (Unaudited)	Years ended December 31,			
	2015	2021	2022	2023
Combustible Tobacco	129	7	7	4
Smoke-free incl. Wellness and Healthcare	294	609 ¹	634	705
Total PMI	423	617¹	642	709

¹ Includes asset acquisition cost of \$51 million related to OtiTopic Inc. in August 2021. Excluding this impact total PMI adjusted R&D expenditures are \$566 million and for smoke-free incl. W&H \$558 million.

Note: Sum of product categories might not foot to Total PMI due to roundings.



Glossary of terms and acronyms

3TGs – Tin, tantalum, tungsten, and gold

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

ALP – Agricultural Labor Practices

ASI – Aluminum Stewardship Initiative

Available for sale – When PMI products are available for general sale in the market, through direct retail, indirect retail, or e-commerce in either one or more key cities or nationwide.

AWS – Alliance for Water Stewardship

B2B – Business to business

B2C – Business to consumer

CA – Cellulose acetate

CAGR – Compound annual growth rate

Caregiver – A person who has responsibility for the care of a new-born child or newly adopted child including the child's biological parent, the child's adoptive parent, a person having legal parental responsibility for the child such as the child's guardian, a stepparent, or a child's parent through surrogacy

- **Primary caregiver** – The caregiver who has the primary responsibility for the care of the new-born or newly adopted child following the child's arrival

- **Secondary caregiver** – A caregiver who is not the primary caregiver

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

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

Company Management – The term we use to refer to the senior management of the company, as presented on our www.PMI.com site (also referred to as “our leadership team” or “senior management team”)

Contracted employee – We define a contracted employee as an employee who is under the direct supervision of PMI employees but employed by a temporary employment agency

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 – We define a contractor as 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

COPD – Chronic obstructive pulmonary disease

CPA – Crop protective agent

Downstream supply chain – Those stages in the supply chain in which materials (mostly in the form of finished products) flow away from the organization to the customers/consumers

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 flavors.

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”)

EHS – Environmental, Health, and Safety

Employee resource groups, or ERGs – Employee-led groups that focus on particular dimensions of diversity and are intended to provide a platform for building a sense of belonging and sparking conversations

Employee Net Promoter Score or eNPS: A universal benchmark used across industries to calculate employee engagement calculated by disregarding neutral responses and then calculating the difference between positive and negative responses

EPR – Extended Producer Responsibility

ERM – Enterprise Risk Management

FAO – Food and Agriculture Organization of the United Nations

FCTC – WHO Framework Convention on Tobacco Control

FDA – U.S. Food and Drug Administration

FSC – Forest Stewardship Council

GAP – Good Agricultural Practices

Gender pay gap – Calculated as the percentage difference between the sum of annual base salary, bonus, and stock awards

GHG – Greenhouse gas

GPP – Global Privacy Program

Heated tobacco units, or HTUs – The term we use to refer to heated tobacco consumables, which include the Company's *BLENDS*, *DELIA*, *HEETS*, *HEETS Creations*, *HEETS Dimensions* (defined collectively as *HEETS*), *Marlboro HeatSticks*, *SENTIA*, *TEREA*, *TEREA CRAFTED*, and *TEREA Dimensions*, as well as the KT&G-licensed brands, *Fiit* and *Miix* (outside of South Korea). HTUs also include zero tobacco heat-not-burn consumables (*LEVIA*).

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

Human rights salient risks – Those human rights that stand out because they are at risk of the most severe negative impact through a company's activities or business relationships (source: UN Guiding Principles)

Illicit trade – Domestic non-tax paid products

ILO – International Labour Organization

In-market sales, or IMS – Sales to the retail channel, depending on the market and distribution model

Insetting – The act of generating a carbon credit within 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)

IP5 – The five largest intellectual property offices in the world

IPM – Integrated Pest Management

IPS – Integrated Production System

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

LCA – Life-cycle analysis

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

LTIR – Lost Time Incident Rate

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

- **Junior roles** – Employees in salary grade 9 or below

- **Managers** – Employees in salary grade 10 to 13

- **Management positions** – Employees in salary grade 10 and above

- **Senior roles** – Employees in salary grade 14 and above

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

Market share for HTUs – The in-market sales volume for HTUs as a percentage of the total estimated industry sales volume for cigarettes and HTUs. For Japan, total estimated industry sales volume also includes cigarillos

MRTP – Modified Risk Tobacco Product

MVR – Monitoring, Verification, and Reporting Framework for Sustainable Leaf Curing Fuels

NCGC – Nominating and Corporate Governance Committee of PMI's Board of Directors

Net debt – Defined as total debt, less cash and cash equivalents

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

Net revenues related to smoke-free products – 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 revenues 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 organizations

No Net Loss – The point at which business-related impacts on biodiversity are balanced by measures from the mitigation hierarchy, to leave no degradation on natural ecosystems at end balance



NRTs – Nicotine replacement therapies

OECD – Organisation for Economic Co-operation 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)

OHS – Occupational health and safety

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

PCI – Portfolio of Climate Investments

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

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

The operations of Swedish Match, which reflects our fourth quarter 2022 acquisition of the company, and our Wellness and Healthcare segment remained unchanged. The Wellness and Healthcare ("W&H") segment includes the operating results of our Wellness and Healthcare business, Vectura Fertin Pharma.

Following the combination and the progress in 2023 toward the integration of the Swedish Match business into the existing PMI regional segment structure, we changed our segment reporting by including Swedish Match results in the four existing geographical segments on February 27, 2024. For more information, please access the corresponding 8-K as filed with the SEC on February 27, 2024 [here](#).

PMI heat-not-burn products – Include licensed KT&G heat-not-burn products

PMTA – Premarket Tobacco Application

QMS – Quality management system

R&D – Research and development

RBA – Responsible Business Alliance

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 RRP in various stages of development, scientific assessment and commercialization. PMI's RRP are smoke-free products that contain and/or generate far lower quantities of harmful and potentially harmful constituents than found in cigarette smoke

Refreshed devices – Smoke-free devices resulting from the care and maintenance refresh services (which may include unpacking, diagnostics, cleaning, firmware update, cosmetic parts replacement, battery charging, and repacking of devices) that meet the agreed quality requirements to allow for their reuse as pre-owned devices

Repaired devices – Smoke-free devices resulting from the care and maintenance repair services (which may include unpacking, diagnostics, testing, cleaning, battery charging, firmware update, cosmetic part or battery replacement, component harvesting, and repacking of devices) that meet the agreed quality requirements to allow for their reuse as pre-owned devices

RMI – Responsible Minerals Initiative

RSP – Responsible Sourcing Principles

SBT – Science-based target

SBTi – Science Based Targets initiative

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 our products that are not combustible tobacco products, such as heat-not-burn, e-vapor, and oral nicotine. In addition, smoke-free products 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

TCFD – Task Force on Climate-related Financial Disclosures

TGA – Tobacco-growing area

Tier 1 suppliers – Suppliers that directly supply goods, materials or services to PMI

Tier 2 suppliers – Suppliers that provide their products and services to the tier 1 suppliers

TNFD – Taskforce on Nature-related Financial Disclosures

Tons – "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:

- For 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
- For 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.

TRIR – Total Recordable Incident Rate

UNGPs – United Nations Guiding Principles on Business and Human Rights

Upstream supply chain – Those operations in which the materials flow into the organization (i.e., it mainly refers to procurement activities and inbound logistics)

VAP – Validated Assessment Program of the Responsible Business Alliance (RBA) is a leading standard for on-site compliance verification and effective, shareable audits

Voluntary standards and frameworks

- Global Reporting Initiative (GRI)
- International Integrated Reporting Council (IIRC)
- Sustainability Accounting Standards Board (SASB)
- Task Force on Climate-related Financial Disclosures (TCFD)
- UN Global Compact (UNGC)
- UN Sustainable Development Goals (SDGs)

WASH – Water access, sanitation, and hygiene

WBCSD – World Business Council for Sustainable Development

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

ZDM – Zero Deforestation Manifesto



Key definitions related to our work to improve tobacco farmer livelihoods

A **living income** and **living wage** are both about achieving a decent standard of living. A living income is the net annual income required for a household to afford a decent standard of living for all its members and applies to, for example, self-employed farmers. A living wage is applied in the context of hired workers (e.g., in factories or on farms) (source: The Global Living Wage Coalition).

A **minimum legal wage**, as defined in PMI's ALP Code, is a wage for all workers (including temporary, piece-rate, seasonal, and migrant) that meets, at a minimum, the national legal standard or formalized agricultural benchmark standard. An agricultural benchmark may be formalized where a minimum legal wage is not available or applicable to a specific context.

Child labor, as defined by the ILO, is work that deprives children of their childhood, their potential, and their dignity, and that is harmful to physical and mental development. Under PMI's ALP Code, the minimum age for admission to work is not less than the age at which compulsory schooling is completed and, in any case, is not less than 15 years or the minimum age accepted by the country's laws, whichever age limit affords greater protection. No person below age 18 should be involved in any type of hazardous work. In the case of family farms, a child may only help on the farm provided that the work is non-hazardous, and the child is at least 13 years old or above the minimum age for such work as defined by the country's laws, whichever affords greater protection.

Hazardous work means work that, by its nature or by virtue of when or where it is carried out, is likely to harm the health, safety, or morals of children or others. The following can, for example, be hazardous, particularly without the proper personal protective equipment (PPE): applying crop protection agents (CPA); stalk cutting; stringing; carrying heavy loads; working with sharp tools; working in extreme temperatures; and working after dark.

Green tobacco sickness, or GTS, is a type of nicotine poisoning caused by the absorption of nicotine from the surface of wet, fresh, green tobacco leaves through the skin. The characteristic symptoms of GTS include nausea, vomiting, weakness, dizziness, stomach cramps, difficulty breathing, excessive sweating, headache, and fluctuations in blood pressure and heart rate. They can last from 12 to 48 hours.¹

Personal protective equipment, or PPE, in tobacco farming refers to any clothes, materials, or devices that provide protection from exposure to CPA and GTS during specific activities throughout the crop cycle.²

Living income benchmark studies are studies conducted in specific regions or areas to estimate the net annual income required for a household to afford a decent standard of living for all members of that household.

Living Income Reference Values represent a living income for typical families in rural (or urban) areas of low income and middle-income countries.³ Reference Values provide a credible estimate of living wage or income at a country level, for rural and urban areas. They offer an insightful reference beyond the currently available indicators for many countries, which are mostly limited to poverty lines and minimum wages.

Farmer income studies are conducted, through third-party service providers, to assess all legal income sources of contracted farmers within PMI's tobacco supply chain, including tobacco, complementary crops, and off-farm income.

Sustainable Tobacco Supply Chain framework or STSC – PMI's new approach focused on the full life cycle of tobacco production and targets actions toward the tobacco we purchase and use in our products.

- 1 Schep LJ, Slaughter RJ, Beasley DM (September–October 2009). "Nicotinic plant poisoning." *Clinical Toxicology*.
- 2 Adapted from the FAO/WHO (2014) International Code of Conduct on Pesticide Management.
- 3 Reference values are built on data and knowledge gained from 40 complete Anker methodology benchmark studies. Since they are based on a statistical analysis, they have a margin of error for typical rural (or urban) areas of a country, which is generally around +/- 10% using a 95% confidence interval. Sources: Living Income Reference Values | living income (living-income.com) and Anker Living Wage and Living Income Reference Values | Global Living Wage Coalition.

About this report

We are pleased to share our 2023 Integrated Report, published on March 28, 2024. This report follows our 2022 Integrated Report (published in April 2023) and constitutes our ninth consecutive annual disclosure incorporating environmental, social, and governance (ESG) content. This report describes our Company's progress in delivering on its purpose.

The report content is informed by a formal sustainability materiality assessment conducted in 2021 which follows the principles of double materiality by incorporating an assessment of our Company's impacts on society and the planet alongside an evaluation of the potential impact of various ESG factors on our enterprise value. It also captures the perspectives of diverse stakeholder groups (read more [here](#)). We have structured our ESG topics around two pillars: product impact and operational impact. Those topics pertaining to the social impacts of our products are considered most material. These and other material ESG topics form the basis of our strategy, which is organized into eight environmental and social priorities and nine related governance factors. This report provides information on context, relevance, management approach, targets, performance, and outlook for our strategic priorities. It is complemented by case studies, market stories, and additional materials available on [PMI.com](#).

Unless otherwise indicated, the data and information contained herein cover our operations worldwide for the full calendar year 2023 or reflect the status as of December 31, 2023, in line with our financial reporting calendar. Unless explicitly stated, the data, information, and aspirations in this report do not incorporate PMI's Vectura Fertin Pharma subsidiary (consolidating the 2021 acquisitions of wellness and healthcare companies Fertin Pharma A/S, Vectura Group plc., and OtiTopic, Inc.), nor the late 2022 acquisition of Swedish Match AB. Where not specified, data come from PMI financials, nonfinancials, or estimates.

PricewaterhouseCoopers SA (PwC) has provided limited independent assurance on select Business Transformation Metrics, available on [page 25](#). For more details, see the independent practitioner's limited assurance report on [page 203](#). SGS has provided external verification of our environmental, health, and safety data (including our 2023 greenhouse gas emissions data). The verification statements are available on [PMI.com](#).

This report was completed with oversight from PMI's Board of Directors and reviewed by its Executive Chairman and all members of our Sustainability Committee—composed of Company Management members, including our Chief Executive Officer, Chief Financial Officer, and Senior Vice President & General Counsel. Additional information about our sustainability work, including previous reports and policies, is available on [PMI.com](#).

We welcome your feedback and suggestions. Please contact us at sustainability@pmi.com.

Aligning our disclosures with reporting standards and frameworks

This report has been prepared with reference to the Global Reporting Initiative (GRI) Universal Standards (2021) and relevant topic-specific standards. Our 2023 GRI Index is available on [PMI.com](#). When compiling our annual integrated report, we consider the principles and standards of the UN Global Compact (UNGC) and map them against GRI indicators in our GRI Index.

We take into account guidance from the International Sustainability Standards Board (ISSB) of the IFRS Foundation, including using its SASB Standards, Integrated Thinking Principles, and Integrated Reporting Framework. Our SASB Index is available on [PMI.com](#). It maps content within this report and other available disclosures aligned with the Tobacco Standard, as well as with aspects of the Agricultural Products, Hardware, and Medical Equipment and Supplies standards.

We considered the UN Sustainable Development Goals (SDGs) in preparing this report. They are mapped to our [2025 Roadmap](#) and in PMI's [Sustainability Materiality Assessment 2021 Report](#), to showcase how our company goals seek to align with those SDGs we believe we can contribute toward. Our 2022 report aligned with the Task Force on Climate-related Financial Disclosures (TCFD) is available on [PMI.com](#).



Forward-looking and cautionary statements

This report and related materials contain projections of future results and goals and other forward-looking statements, including statements regarding expected financial or operational performance; capital allocation plans; investment strategies; regulatory outcomes; market expectations; and business plans and strategies. Achievement of future results is subject to risks, uncertainties and inaccurate assumptions. In the event that risks or uncertainties, materialize, or underlying assumptions prove inaccurate, actual results could vary materially from those contained in such forward-looking statements. Pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, PMI is identifying important factors that, individually or in the aggregate, could cause actual results and outcomes to differ materially from those contained in any forward-looking statements made by PMI.

PMI's business risks include: excise tax increases and discriminatory tax structures; increasing marketing and regulatory restrictions that could reduce our competitiveness, eliminate our ability to communicate with adult consumers, or ban certain of our products in certain markets or countries; health concerns relating to the use of tobacco and other nicotine-containing products and exposure to environmental tobacco smoke; litigation related to tobacco use and intellectual property; intense competition; the effects of global and individual country economic, regulatory and political developments, natural disasters and conflicts; the impact and consequences of Russia's invasion of Ukraine; changes in adult smoker behavior; the impact of COVID-19 on PMI's business; lost revenues as a result of counterfeiting, contraband and cross-border purchases; governmental investigations; unfavorable currency exchange rates and currency devaluations, and limitations on the ability to repatriate funds; adverse changes in applicable corporate tax laws; adverse changes in the cost, availability, and quality of tobacco and other agricultural products and raw materials, as well as components and materials for our electronic devices; and the integrity of its information systems and effectiveness of its data privacy policies.

PMI's future profitability may also be adversely affected should it be unsuccessful in its attempts to produce and commercialize reduced-risk products or if regulation or taxation do not differentiate between such products and cigarettes; if it is unable to successfully introduce new products, promote brand equity, enter new markets or improve its margins through increased prices and productivity gains; if it is unable to expand its brand portfolio internally or through acquisitions and the development of strategic business relationships; if it is unable to attract and retain the best global talent, including women or diverse candidates; or if it is unable to successfully integrate and realize the expected benefits from recent transactions and acquisitions. Future results are also subject to the lower predictability of our reduced-risk product category's performance.

PMI is further subject to other risks detailed from time to time in its publicly filed documents, including PMI's Annual Report on Form 10-K for the fourth quarter and year ended December 31, 2023. PMI cautions that the foregoing list of important factors is not a complete discussion of all potential risks and uncertainties. PMI does not undertake to update any forward-looking statement that it may make from time to time, except in the normal course of its public disclosure obligations.

Notes

In this report, "PMI," "we," "us," and "our" refer to Philip Morris International Inc. and its subsidiaries.

In this report and in related communications, the term "materiality," "material," and similar terms are defined in the referenced sustainability standards and certain regulatory requirements, as may be applicable to us, and are not meant to correspond to the concept of materiality under the U.S. securities laws and/or disclosures required by the U.S. Securities and Exchange Commission.

This report contains references and links to websites operated by third parties. These references are provided as a convenience to you and as an additional avenue of access to the information contained in those sources; they should not be viewed as an endorsement by us of the content of these references and linked sites or opinions of their authors.

Unless otherwise stated, all references to IQOS are to our IQOS heat-not-burn devices and consumables.

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

This report reflects PMI's current views and estimates based on the data and information available at the time of publication. Changes in circumstances or new information may have occurred since the report's publication, which could impact the accuracy of certain details. This report includes metrics that are subject to measurement uncertainties due to inherent limitations in the nature and methods for data collection and measurement. The precision of different collection and measurement techniques may also vary. This report includes data or information obtained from external sources or third parties.

Aspirations, targets, and goals do not constitute financial projections, and achievement of future results is subject to risks, uncertainties, and inaccurate assumptions, as outlined in our forward-looking and cautionary statements on page 214 of this report.

This integrated report should be read in conjunction with [PMI's Sustainability KPI Protocol 2023](#).

