

A Nordic Smoke-Free Future

Nordic
Sustainability
Report 2019



PHILIP MORRIS
NORDICS

Part of
Philip Morris
International

Philip Morris AB
Karlavägen 108
104 51 Stockholm
Sverige
www.pmi.com/se



A Sustainable Tobacco Company

Philip Morris International is focused on our mission to stop selling cigarettes. It's a dramatic decision. After building one of the world's leading tobacco companies, we have decided to leave cigarettes in favor of products which are a better alternative for the health of those consumers who would otherwise continue smoking.

It's best if you never start smoking. If you do smoke, you should stop. And if you don't stop, you should consider switching from cigarettes to an alternative with less risk.

Information about alternatives can give 2.5 million Nordic smokers an opportunity to make a better choice, both for themselves and for their loved ones.

In 2015, the United Nations launched the Sustainable Development Goals, a global initiative established to solve environmental issues and improve the living situation for millions of people. Never before has there been greater incentive and push to develop sustainable products, services and businesses. The world has changed and so has its people.

Consumers, customers, employees, investors and our future talents demand a better world, for themselves and for each other – diversity in the workplace, an end to the gender pay gap, transparency in corporations, better and healthier products, and reduced carbon footprints.

This change has led to a paradigm shift across several industries. Substantial investments in technological innovations have long been made – investments combining financial sustainability with social responsibility – and the technology optimists among us believe that this carries the largest potential to help us reach the Sustainable Development Goals by 2030.

These are not just words for us. Last year, our innovative smoke-free products, that have the potential to reduce the risk of smoking-related diseases, represented 18.7% of our global net revenues. In the Nordics, we already offer better alternatives to Danish and Swedish Legal Age Smokers.

Our ambitions don't end here. We believe that producers ought to take more responsibility for developing better products for those who decide to continue smoking, and better solutions for the planet. However we can't do it alone; everybody needs to do their share. This is what we are committed to doing, and our Nordic Sustainability Report 2019 describes where we are today, and where we plan to go.

Anette Rosengren
Managing Director
Philip Morris Nordics

Contents

About this report	<u>4</u>
Delivering a smoke-free future	<u>5</u>
Smoking in the Nordic region: a snapshot	<u>6</u>
PMI in the Nordic region	<u>7</u>
Strategy and SDGs	<u>8</u>
Working towards the SDGs in the Nordic region	<u>9</u>
We're creating a smoke-free future	<u>10</u>
We're committed to safeguarding the environment and fighting climate change	<u>18</u>
A great place to work	<u>24</u>
We're committed to fighting illicit trade	<u>28</u>
Let's start the conversation	<u>30</u>

About this report

This is PMI's first sustainability report in the Nordic countries – Denmark, Finland, Iceland, Norway and Sweden. It covers our sustainability efforts in 2019 and maps out our direction for the years ahead. It is an extension of the PMI Integrated Report 2019, which is prepared in accordance with GRI Standards, and a supplement to the annual reports of the individual Nordic offices, which includes disclosure of sustainability efforts according to local regulations.

While it aligns with PMI's global strategy, this report focuses on the sustainable development goals on which we can have the greatest impact in the Nordic region: health, littering and responsible employment. It's focus is local rather than global, though many of our efforts also contribute to goals and targets on the global level.

As we consolidate our sustainability efforts, we have identified a number of key performance indicators (KPI) from our company's global work that are most relevant in guiding our work in the Nordic region. This report presents what we have achieved so far, and what we're working to achieve moving forward.



This Nordic Sustainability Report is aligned with our global sustainability strategy as described in our annual Integrated Report 2019, which contains information about our material topics, our approach to managing them, and how we are progressing. It also provides detailed updates on our commitments, achievements and challenges and case studies from our global operations.

pmi.com/integrated-report-2019



Delivering a smoke-free future

In 2016, PMI announced its new purpose: to deliver a smoke-free future by focusing its resources on developing, scientifically substantiating and responsibly commercializing smoke-free products that are less harmful than smoking, with the aim of completely replacing cigarettes as soon as possible.

The quest for better alternatives for adult smokers

Smoking causes serious disease, and the best way to avoid the harms of smoking is never to start. If you smoke, quit. For decades, tobacco control has focused on strict fiscal, marketing and other measures to deter initiation and to encourage cessation. These must be continued. Nevertheless, while smoking prevalence rates continue to slowly decline, the World Health Organization (WHO) projects that the estimated number of 1.1 billion people who smoke tobacco products today will remain largely unchanged by 2025, reflecting population growth.

The WHO aims to further reduce smoking prevalence by strengthening measures to prevent smoking initiation and encourage cessation. Its 2025 target in this respect, translated to PMI's consumer base, implies a 16 million reduction of the number of smokers. Our global smoke-free strategy supplements WHO efforts. If we succeed in our ambition there will be an additional 40 million smokers who will stop smoking completely and switch to smoke-free products. In this way we can contribute to Sustainable Development Goal 3, better health and well being for all, by reducing the negative health impacts of our products and, above all, detailing a roadmap to a smoke-free future.

Nicotine, while addictive and not risk-free, is not the primary cause of smoking-related disease. The primary cause is the harmful chemicals released or generated by the burning of tobacco and contained in the smoke. Eliminating combustion from nicotine-containing products is the way to significantly reduce their toxicity.

We have invested heavily to develop products without combustion that are less harmful alternatives to cigarettes and we are convinced that there would be a significant public health benefit if smokers, who would otherwise continue to smoke, switch to smoke-free products. We believe that with the right regulatory encouragement and support from civil society, it is possible to completely end cigarette sales in many countries within 10 to 15 years.

The above text is an extract from our Purpose of Statement. To read the full statement, please visit: <https://www.pmi.com/integrated-report-2019/pmi's-statement-of-purpose>

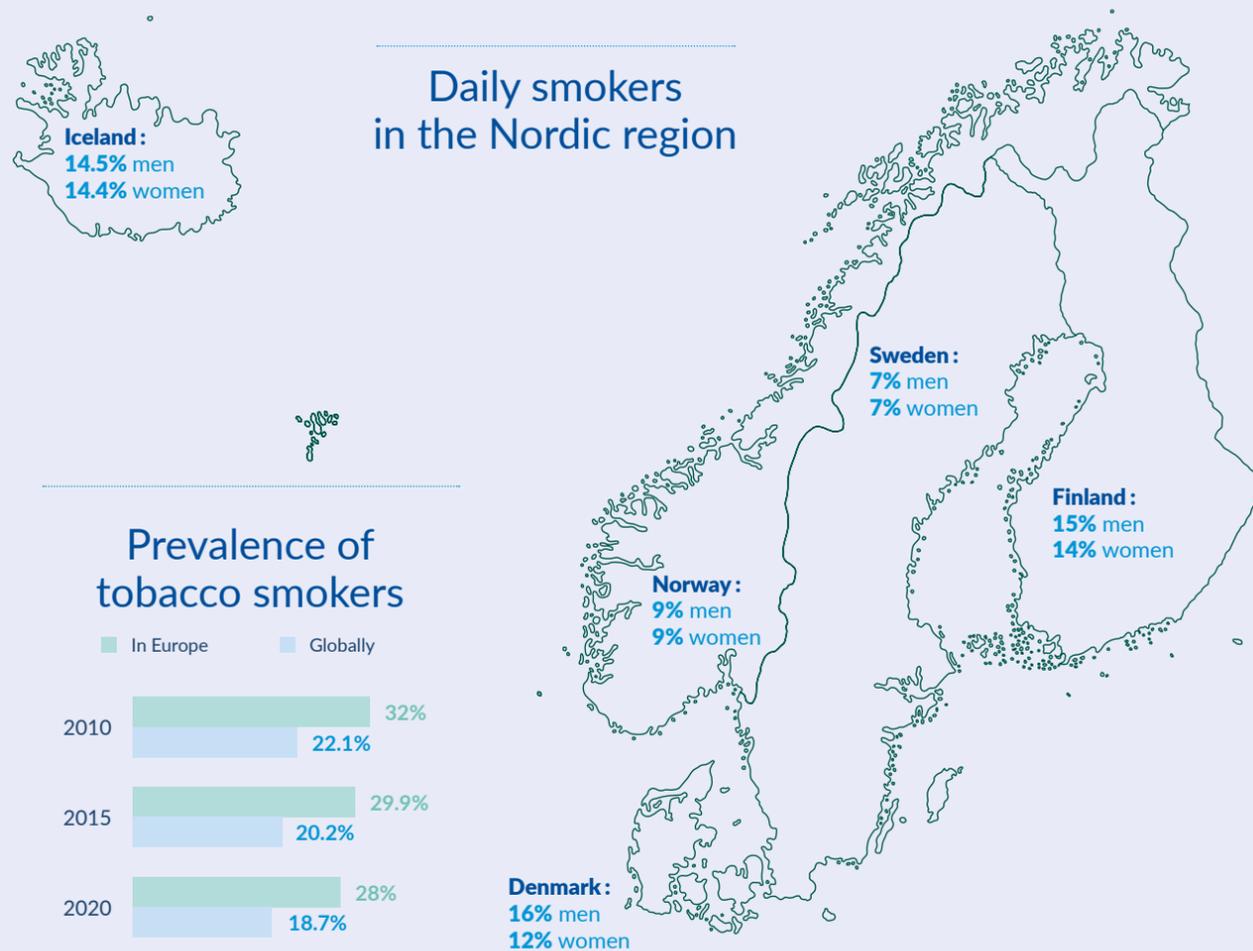
What is tobacco harm reduction?

The government's tobacco policy thus considers: "harm reduction for established smokers who are unable or unwilling to quit, and at the same time prevents the use of tobacco and nicotine dependence among children and youth¹".

¹ Source: regjeringen.no/no/dokumenter/meld.-st.-19-20182019/id2639770/

Smoking in the Nordic region: a snapshot

As societies around the world increasingly prioritize health and well-being, we're seeing a steady decline in cigarette smoking. However, although smoking in the Nordics is decreasing in absolute numbers, this is not the case in the rest of the world. While the proportion of people smoking is decreasing, according to the World Health Organization (WHO), as the population grows the absolute number of people smoking stays the same. Today, 1.1 billion people still smoke, including 2.5 million in the Nordic countries. We are heading in the right direction, but we still have a lot of work to do. The UN SDGs, which have become the universal frame of reference for sustainable development, include a target to reduce premature mortality from non-communicable diseases, including those caused by smoking.



Source: WHO global report on trends in prevalence of tobacco smoking 2000–2025, second edition. World Health Organization, 2018.

Sources: The Danish Health Authority, 2019; The Finnish Institute for Health and Welfare, 2018; Statistics Norway, 2019; Attitudes of Europeans towards tobacco and electronic cigarettes, Sweden, European Commission, 2018; Tobacco Atlas, Iceland, 2015.

PMI in the Nordic region

Philip Morris Denmark was established in 2001, but the history of Philip Morris International brands in Denmark dates back to the 1950s. PMI brands, such as *Marlboro*, were distributed through local partners until Philip Morris Denmark was founded. Based in Copenhagen, we employ 66 people to import and sell tobacco-based products. Main brands include *IQOS*, *HEETS*, *Marlboro*, *L&M*, *Chesterfield*, and *Skjold*. PMI Reduced Risk Products were introduced to Denmark in 2016.

Philip Morris Norway was established in 2005, but Marlboro has been sold in Norway since the 1950s. Today, we are one of the leading tobacco companies in Norway employing 13 people. Main brands include *Marlboro*, *Petterøes*, and *Blue Master*.

Philip Morris Finland was established in 2004, but the history of our brands in Finland goes back to 1962, when *Marlboro* first arrived in the market. Today, we are the market leader in Finland. Through a sales office in Helsinki, 15 employees import and sell PMI tobacco products.

Philip Morris Sweden was established in 1969 and is now one of the leading tobacco companies in the country, employing 128 people. Our main brands include *Marlboro*, *L&M*, and *Chesterfield*. In addition to cigarettes, Reduced Risk Products from PMI were introduced to Sweden in 2019.

You can buy Philip Morris products in **Iceland**, however we have no offices here.



Bagn, Norway

Nordic Sustainability Report 2019

Strategy and SDGs

Our business strategy aims to contribute to making the United Nations Sustainability Development Goals (SDG) a reality. Our SDG priority for the Nordics is global process and adapted to local context.

PMI's GLOBAL SDG PRIORITIZATION



1. We mapped our global sustainability work to the 17 SDGs and 169 targets;
2. We identified the SDGs where we believe we can have the greatest positive impact globally;
3. These SDGs were aligned to our global sustainability strategy;
4. The SDG wheel was developed based on the tiered structure of our global strategy.
5. We mapped this process against where we can make the largest contribution in the **Nordic countries**, based on the characteristics of our operations. Considering the health impact of our products, SDG 3 was identified as the goal we can contribute most to, both globally and in the Nordic mapping.

Taking decisive actions where we can have the greatest impact.

Priority SDGs – most relevant to the Nordic markets:

SDG 3

Cigarette smoking causes serious diseases. By replacing cigarettes with less harmful alternatives, we can significantly reduce the negative impact of our products on individuals and society. We only market and sell our products to adult smokers.

SDG 8

We ensure good working conditions for all our employees and expect our suppliers to do the same for the benefit of over one million workers throughout the global PMI value chain.

SDG 12

We improve the lifecycle impacts of our products – from reducing the environmental impacts of tobacco growing, to efficient low-carbon manufacturing, litter prevention and recycling and litter reducing programs.

SDG 16

We're committed to monitoring and limiting illicit trade. Our efforts contribute to reducing the loss of tax revenue and health related risks linked to counterfeit cigarettes, moving towards a smoke free world and fighting against organized crime.

Working towards the SDGs in the Nordic region

The Nordic region has earned a worldwide reputation for being leaders in numerous sustainability areas – from quality of life, to safety and gender equality. In terms of tracking progress towards the ambitious SDGs by the UN's 2030 deadline, all the Nordic countries are ranked among the top 16 UN countries.

While each country carries its own specific sustainability profile, the three common denominators in this region are: climate and environment, sustainable business environments, and developing and educating a diverse, equal and skilled workforce. The overall Nordic performance is strong, but there is still room for improvement. Given our targeted focus on harm reduction, we believe that we can be a part of the solution, in particular with regards to SDG 3, by bringing the Nordic region closer to achieving this goal.

Nordics ranking to reach 2030 targets

DENMARK	SWEDEN	FINLAND	NORWAY	ICELAND
ranked #1 of 156	ranked #2 of 156	ranked #3 of 156	ranked #10 of 156	ranked #16 of 156

Source: SDG Index 2019 www.sdgindex.org



Fjord, Norway

We're creating a smoke-free future



From PMI's R&D center in Neuchâtel, Switzerland

PMI is designing a Smoke-Free Future

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

Experts and many regulatory bodies, such as the U.S. FDA, agree that the primary cause of smoking-related diseases is not nicotine itself, but the inhalation of harmful and potentially harmful constituents (HPHCs) formed as a result of burning tobacco.* With this in mind, we are developing reduced risk alternatives that deliver nicotine without combustion – for adult smokers who would otherwise continue to smoke.

As we continue to transform our business, we believe that transparency is the only sustainable way forward. To demonstrate that switching to smoke-free products results in reduced exposure to toxicants, which can reduce the risk of disease compared with continued cigarette smoking, we are following a rigorous scientific assessment program aligned with the U.S. FDA's draft guidance on modified risk tobacco products.

We also welcome independent high-quality research on our smoke-free product lines and are committed to act on any reliable information that can improve our methods or challenge our findings. In addition to studies on aerosol chemistry and toxicology, the first independent clinical and post-market studies have started to emerge. In general, these studies confirm PMI's results, although some have contradictory interpretations.

The list of independent studies published around PMI's smoke-free products and/or our methods and results is available on PMIscience.com.

* <https://www.fda.gov/tobacco-products/health-information/nicotine-addictive-chemical-tobacco-products>

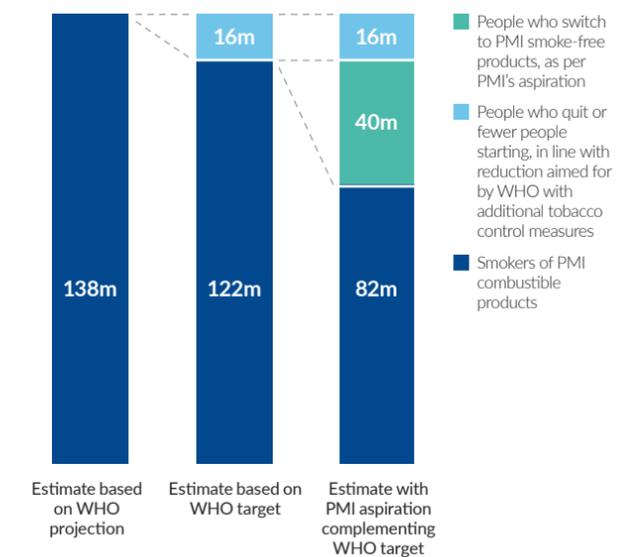
Addressing our impact on global health

As the leading international tobacco company, we can play a significant role in advancing SDG 3. We feel particularly compelled to take on this challenge, as smoking is one of the major causes of non-communicable diseases. To replace burning cigarettes with smoke-free alternatives carries a significant public health potential, as we can reduce our products' negative impact on individuals and society.

WHO's estimate of smokers (combustible products) in 2025, adjusted by WHO target (light blue), and by PMI aspiration to complete WHO target with smokers switching to smoke-free products (green).

Consumers of PMI products – projection 2025

(Based on WHO projections, assuming constant PMI market share)



Heat not burn – an innovative technology

How does it work?

The IQOS device is a battery-powered heat-not-burn product, which heats the tobacco to produce a nicotine-containing aerosol that is inhaled by the user without combustion of the tobacco.

IQOS works as a tobacco-heating system and is composed of three main components: a heated tobacco unit, a holder, and a charger.

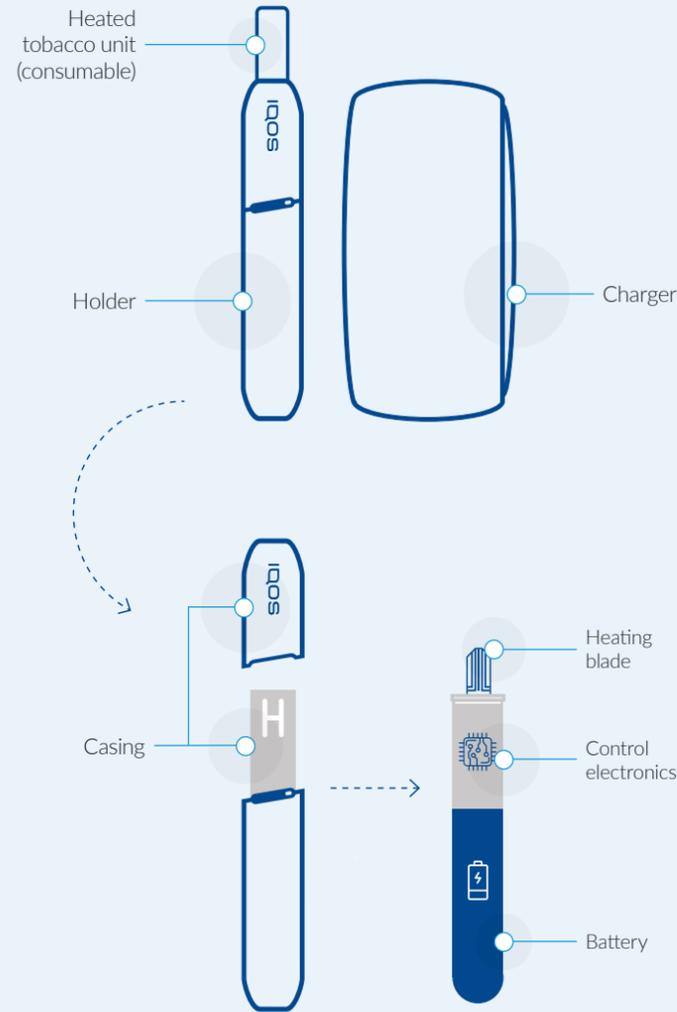
The electronically heated tobacco unit is a novel product containing specially processed tobacco and two filter sections. It contains a processed tobacco plug designed to be heated but not burned, made of ground tobacco leaves.

How can it reduce risk?

PMI studies shows that IQOS reduces the risk to harm, compared with smoking, by avoiding burning tobacco. Decades of epidemiological data have demonstrated that the development of smoking-related diseases is triggered by the chronic inhalation of the harmful and potentially harmful chemicals (HPHCs) found in cigarette smoke.

When a cigarette is lit the temperature in the tobacco reaches 600 to 900 degrees Celsius. A high temperature reaction by burning or combustion generate HPHCs. When IQOS is used, the device constantly monitors and controls the temperature of the tobacco so that it stays below 350 degrees Celsius.

As a result, the nicotine-containing vapor the consumer inhales contains significantly lower levels of HPHCs than cigarettes. Our studies show that during the operation of IQOS, no combustion occurs, and the aerosol generated has on average 90–95 per cent lower levels of HPHCs than found in reference cigarette smoke.



The different parts of an IQOS 3 device

“Nicotine, though not benign, is not directly responsible for the tobacco-caused cancer, lung disease, and heart disease that kill hundreds of thousands of Americans each year.”

Gottlieb et Zeller, The US FDA, NEJM 2017

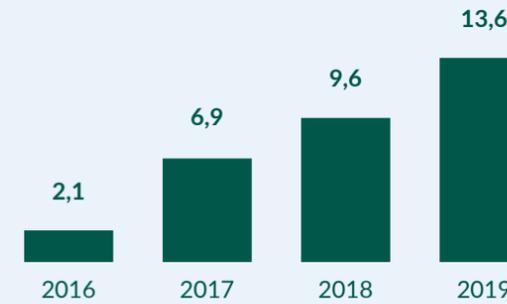
Clinical studies shows that emissions of HPHCs generated by aerosols from heated tobacco units are, on average,

90–95%

lower than levels in cigarette smoke.

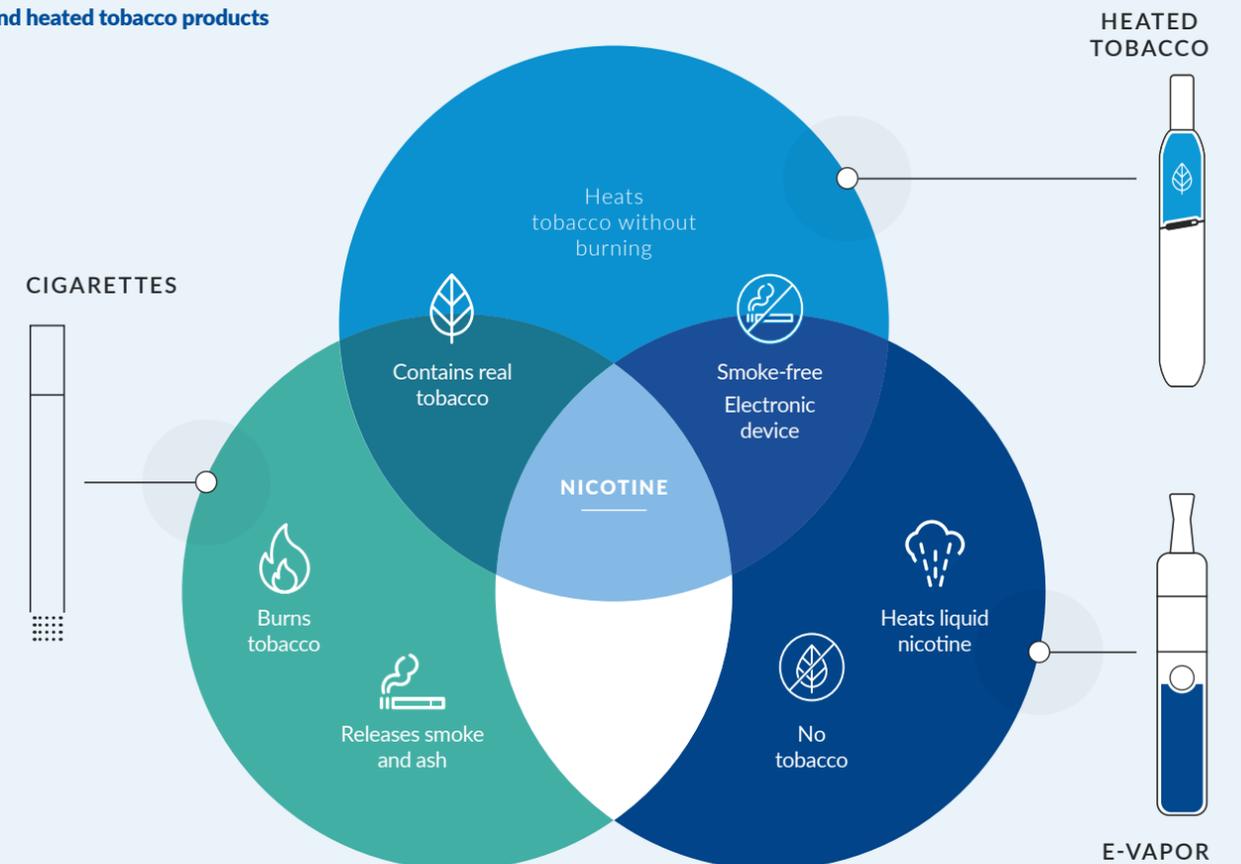
Source: <https://www.pmiscience.com/whats-new/summary-of-the-evidence-iqos-reduced-exposure>

Total users of PMI smoke-free products globally (in millions)



Source: PMI Integrated Report 2019

The difference between combustible cigarettes, e-vapor products (also known as e-cigarettes), and heated tobacco products



Food and Drug Administration (USA)

“In particular, through the FDA’s scientific evaluation of the company’s applications, peer-reviewed published literature and other sources, the agency found that the aerosol produced by the IQOS Tobacco Heating System contains fewer toxic chemicals than cigarette smoke, and many of the toxins identified are present at lower levels than in cigarette smoke. For example, the carbon monoxide exposure from IQOS aerosol is comparable to environmental exposure, and levels on average 89% to 95% and 66% to 91% lower than from combustible cigarettes, respectively.

Additionally, IQOS delivers nicotine in levels close to combustible cigarettes suggesting a likelihood that IQOS users may be able to completely transition away from combustible cigarettes and use IQOS exclusively. Available data, while limited, also indicate that few non-tobacco users would be likely to choose to start using IQOS, including youth.”

Source: Press release <https://www.fda.gov/news-events/press-announcements/fda-permits-sale-iqos-tobacco-heating-system-through-premarket-tobacco-product-application-pathway>



IQOS Store in Täby, Sweden

Offering smokers a better choice

We market and sell our products responsibly to adult consumers of tobacco and nicotine-containing products. Providing clear and meaningful information about our products, including the risks of consumption, is fundamental to encourage smokers, who would otherwise continue smoking, to switch from cigarettes to reduced risk products.

In addition to having smoke-free alternatives available, smokers need to know about these alternatives, and they need to know the facts about benefits and risks.

Protecting future generations

We only market our products to smokers over 18 years of age. In all countries, we provide our retail partners with guidance to help them understand the role they play in preventing underage smoking and other nicotine use. Guidance include educational materials on youth access prevention (YAP) for both combustible and smoke-free products. We reinforce the message with contract provisions, training, digital trade engagement platforms and offline initiatives.

A fundamental transformation, a substantial investment

Today, our efforts are focused on replacing cigarettes with smoke-free products as soon as possible. We develop and validate less harmful alternatives. PMI invested more than \$4.5 billion globally over the last decade; and in 2019, 98% of our R&D expenditure was related to smoke-free products. We then build production capacity and commercialize these new products. By 2019, 71% of our commercial expenditure was devoted to smoke-free products, even if they represent only 7.6% of our volumes.

In 2016 IQOS was launched in Denmark and smokers are discovering our alternatives. As our smoke-free products roll out in other countries in the region – including Sweden in 2019 – we expect this to continue.

The end of cigarettes in the Nordic region

Consumers in Norway and Sweden are already familiar with a local smoke-free alternative: “snus.” This means that in Sweden, in practice, customers are already used to the idea of a smoke-free product with reduced risk compared to cigarettes. Sweden has one of the lowest smoking rates in the world and consequently the lowest prevalence of smoke-related diseases. But snus is not for everyone and we offer a new range of alternatives, such as the IQOS platform.

With the cooperation of health authorities, NGOs, and business, we can make a smoke-free future a reality in the Nordics.

Principles of PMI's Marketing Code

- We only market and sell our products to adult smokers.
- We warn consumers about health effects of our products.
- Our marketing is honest, transparent and accurate.
- We respect the law and sometimes surpass regulations with our own high standards.

KPIs related to SDG 3

Smokers can only switch to reduced risk products if they know they exist and are available.

>90%

Youth access prevention (YAP) programs in place in markets representing over 90% of PMI's total shipment volume by 2020.

100%

Percentage of PMI's portfolio of electronic smoke-free devices equipped with age-verification technology by 2023.

3.4: By 2030, reduce by one third premature mortality from non-communicable diseases through prevention and treatment and promote mental health and well-being.



The main Global Key Performance Indicators we will track and report on moving forward

Local contribution to the global targets

- Estimated conversion rate of smokers to Reduced Risk Products (RRP)
- Number of RRP users
- Estimated users who have stopped smoking and switched to PMI smoke-free products in numbers
- Smoke-free product shipment ratio (smoke-free/total)
- Net revenues (smoke-free/total) in Nordics

Markets with access to smoke-free products

- Number of Markets
- % of markets in the Nordics with access to RRP

In 2019 our RRP's were introduced in Sweden and are now available in two of our Nordic countries.

Youth Access Prevention

- Percentage of retailers trained in Youth Access Prevention (YAP).

Retail sales staff receive continuous training on our digital training platform. The goal is for all staff to take the training on a yearly basis.

The main Nordic Key Performance Indicators we will track and report on moving forward

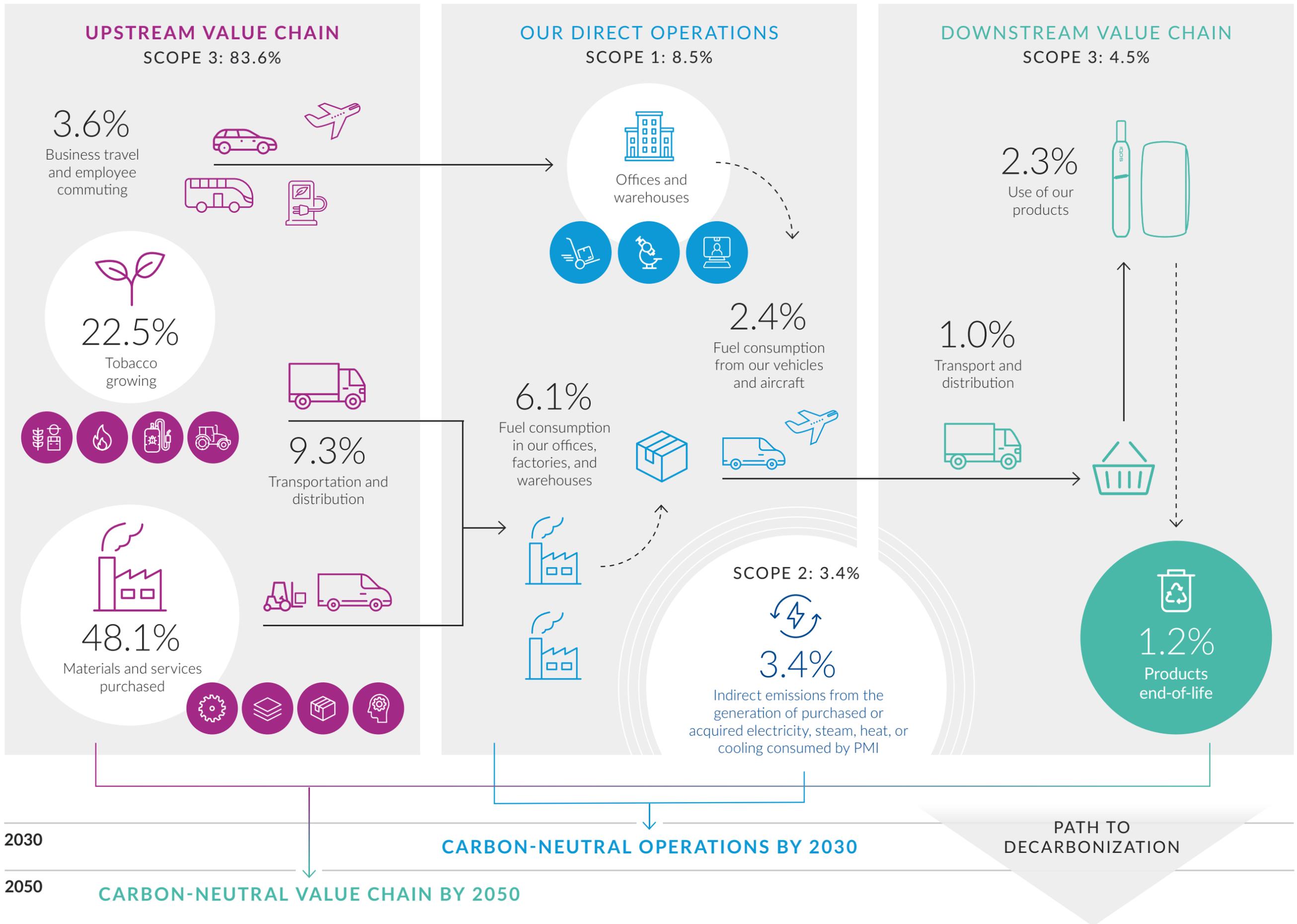
	2018	2019	Goal 2020
Number of interactions with Point of Sales in regard to YAP (per cent)			
Sweden (Total POS 7500)	–	50%	90%
Finland (Total POS 8000)	–	88%	90%
Denmark (Total POS 5200)	–	71%	90%
Norway (Total POS 7850)	–	64%	90%

* Minimum on interaction per Point of Sales (POS).

Interaction: CM letter &/or DTE Module &/or FSF visit) In several cases the interaction may have expanded to more than one per person within the POS

Carbon emissions along our value chain in 2019

Follow the arrows, from upstream services and resources to downstream customer and end of life recycling.



Presentation of information aligns with guidance of the Greenhouse Gas Protocol.

We're committed to safeguarding the environment and fighting climate change



Cottages in the Stockholm archipelago

As an international industry leader, our value chain spans the globe – from factories in Germany to farms in Mexico to laboratories in Singapore. Given the sheer size and reach of our company, our actions, policies and practices have the potential to significantly impact sustainable consumption, production patterns and the environment at large.

We also understand the potential impacts of climate change across all areas of our operations, particularly upstream in our supply chain. PMI, alongside many of our suppliers, is working within a context of stabilizing the rise in global temperatures to below the internationally agreed 1.5-degree Celsius scenario. As such we have committed to achieve carbon neutrality in our direct operations (scope 1+2 emissions) by 2030 and in our entire value chain (scope 1+2+3) by 2050.*

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

We care for the environment

The Nordic countries are frequently recognized as being good places to live. One of the driving factors perpetuating this reputation is the region's commitment to its natural environment. Norway, Finland, Iceland, Sweden and Denmark consistently score high on indexes of the world's most environmentally friendly countries.

Geographic location also contributes to ecological awareness in these countries. This region, for example, is home to some of the longest

EPI 2020**	
#1	Denmark
#7	Finland
#8	Sweden
#9	Norway
#17	Iceland

coastlines in the world. These ocean nations lead the world in fish and seafood exports, shipping and ocean research. Over successive generations, the Nordic people have cultivated a unique expertise and respect for their surrounding waters – as well as a deep commitment to their protection.

No butts about it

The fact that cigarette butts are one of the most littered items in public places will come as no surprise to anyone. We take this very seriously and are committed to making tangible and measurable improvements in preventing the littering of our products.

The fine paper and tobacco residues we use in our products degrade rapidly; cigarette filters, which are made of plastics (cellulose acetate, made from tree pulp) take longer to degrade. According to the UN's Environmental Programme's report *Valuing Plastic* (2014), filters take between 1 month and 15 years to biodegrade, depending on the receiving environment. Beyond environmental considerations, litter has a social impact, from cleanup costs to perceptions of untidiness and lack of safety in areas where litter is prevalent.

At the core of our strategy is our commitment to raise awareness among consumers through education and by encouraging them to dispose properly of their butts by making appropriate cigarette butt disposal equipment available. We also collaborate with other stakeholders to achieve sustainable changes in attitudes and behaviors. We are continuously expanding our anti-littering programs in the Nordics and across the world. Ultimately, the main environmental problem associated with cigarette butts is the fact that too many get littered in the natural environment when they should be disposed off together with conventional waste. To address this problem we are seeking to change behaviors and to make cigarette butt littering socially unacceptable.

* PMI Global Integrated Report 2019

** Environmental Performance Index: epi.yale.edu

Extended Producer Responsibility in the EU

The EU Single-Use Plastic (SUP) directive will require tobacco manufacturers and importers to participate in the extended producer responsibility (EPR) costs related to the collection of cigarette butts from public collection systems and the cleanup of butts littered on public grounds.

PMI supports EPR schemes that are economically and ecologically efficient and will be working with local authorities and civil society organizations to maximize impact.

Research into filters with improved degradability

For many years, PMI has been actively evaluating alternative cigarette filter materials with lower environmental impact than CA, which is itself a renewable and partially biodegradable material. To be acceptable, any new material must compare with CA-filters on four criteria: filtration, taste, biodegradation, and commercial viability.

While we will continue research to improve the environmental profile of our products, biodegradability does not solve the problem of littering which needs to be tackled at the source, i.e., empowering consumers to change behavior.

Fewer butts on the streets, fewer in the oceans

At PMI, we believe that we have a responsibility as stewards of our products and a role to play in advancing SDG target 12.5: Substantially reduce waste generation through prevention, reduction, recycling and reuse by 2030.

We are working to decrease the plastic content of our packaging and improve the recyclability of new products. The smoke-free nature of our new products eliminates the need for consumers to throw their filters on the ground to extinguish them. Our analysis of consumer behavior shows a willingness to put used smoke-free tobacco stick filters back in the case to be disposed of properly later.

We also address the problem of cigarette butt littering locally. Through a number of actions in the Nordic region, we're contributing to the prevention and significant reduction of marine pollution from cigarette butts by 2025.

Through our collaboration with local anti-littering NGOs, like the Keep Sweden Tidy initiative, we want to help encourage sustainable habits. In 2019 the program made 10,000 free pocket ashtrays available to smokers. Through educating consumers on the environmental effects of littering and by facilitating proper disposal, our aim is to make a marked difference in the frequency of cigarette butt littering. We also support local campaigns like World Clean Up Day in all the Nordic countries.

In 2019 we arranged a seminar with Keep Sweden Tidy at Sweden's major annual political conference in Almedalen. We highlighted ways to reduce butt littering as a consequence of the ban on smoking in public areas, when smokers moved from bars and restaurants to the streets outside.

50% reduction of plastic litter from our products by 2025 (versus 2021).

World Cleanup Day 2019 in Oslo, Norway



World Cleanup Day 2019 in Oslo, Norway

Used heated tobacco units are less likely to be littered.



Coming full circle

In 2018 and 2019, we expanded our environmental commitment with Project Circle (Centralized Inspection and Recycling). Under this global project, all users can return IQOS devices via retail stores or mail, before the devices are sent to an authorized third-party that will inspect, disassemble, and recycle the device in line with strict regulatory requirements. We have the capacity to collect and recycle used IQOS devices in all countries where the product is sold, including the Nordic region. We're confident that this program help us contribute to achieving SDG target 12.5 by 2030.

Minimizing our global footprint

In 2017, we set a Science Based Target in line with the Paris Agreement to reduce our greenhouse gas (GHG) emissions' footprint and improve our environmental performance in manufacturing, tobacco growing and curing, our wider supply chain and consumer waste. We address these targets through several broad initiatives that aim to:

- Reduce our absolute value chain (Scope 1, 2 and 3) GHG emissions;
- Improve our supply chain traceability to prevent biodiversity loss;
- Achieve zero net deforestation;
- Increase factory waste recycling and recovery.



For the fifth consecutive year, PMI achieved the top score from the CDP – the global carbon disclosure system that enables organizations to measure and manage greenhouse gas emissions and other impacts – and was included on the organization's A List for climate. While we are proud of the progress we've made on a global scale, we believe it is equally as important to support these targets on a local level. Since PMI does not operate factories nor source tobacco in the Nordic region, our sustainability efforts will focus on specific areas we can impact locally, such as making our car fleet greener and sourcing renewable energy for our offices.

We believe it is equally important to support these global targets on a local level.

Filters are made from wood

The old

Cigarette filters are made of cellulose acetate (a wood-based bioplastic that biodegrades completely over time). According to UNEP, the filters take between 1 month and 15 years to biodegrade depending on the receiving environment.*

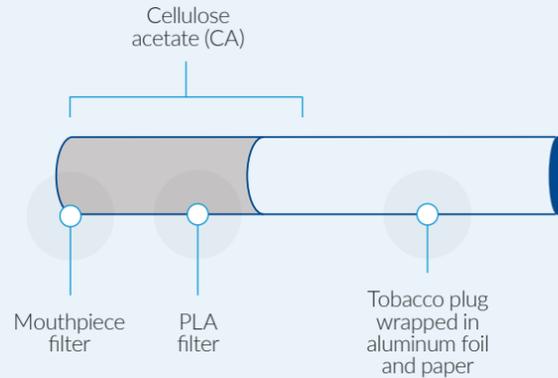
Microplastics occur when petro-chemical plastics degrade into small pieces without biodegrading and there is currently no evidence that cigarette butts accumulate as microplastics.** However, more research is needed.

No matter the biodegradability of our products, littered cigarette butts are still a significant source of pollution. Awareness has to be raised among consumers for proper disposal.

* UNEP, Valuing Plastic, 2014.
** EC DG Environment, Intentionally added microplastics in products, 2017

The new

COMPOSITION OF A HEATED TOBACCO UNIT



The heated tobacco units are not burning or contaminated by smoke so consumers find it more convenient to keep them for recycling and therefore are therefore less likely to litter.

“Anti-littering projects, to create awareness among consumers, are at the core of our strategy.”

Pia Prestmo
Issue Lead Sustainability Nordics



KPIs related to SDG 12

NET ZERO

Achievement of carbon neutrality of PMI's value chain (scope 1+2+3) by 2050.

NET ZERO

Achievement of carbon neutrality of PMI's direct operations (scope 1+2) by 2030.

The main Global Key Performance Indicators we will track and report on moving forward

Product eco-design and circularity

- 100% of PMI smoke-free product users have access to collection and recovery for devices and consumables by 2025
- 100% of PMI smoke-free devices have eco-design certification by 2025

IQOS End of Life Recycling

- Number of markets where Project Circle is implemented

Cigarette butt littering reduction

- Prevent littering of our products by promoting appropriate behavior among adult consumers
- Reduction of plastic litter from our products by half versus 2021 by 2025.

12: Ensure sustainable consumption and production patterns.

12.5: Substantially reduce waste generation through prevention, reduction, recycling and reuse.



The main Nordic Key Performance Indicators we will track and report on moving forward

	2018	2019	Goal 2020
Total number of volunteering hours in anti-littering engagement Nordics	0	365	600
Total level of Climate Compensation for all PM Nordic employee work related flight			100%
Nordic CO _{2e} (metric tons) offices and fleet (benefits and tool cars) + baseline 2019	N/A	409	409
Nordic CO _{2e} absolute reduction versus 2019 baseline (%)	N/A	N/A	0%
Nordic CO _{2e} emissions from vehicles (g CO _{2e} per km driven) + baseline 2019	N/A	156	156
Percentage of returned electronic devices that are recycled			
Sweden	N/A	100%	100%
Denmark	N/A	75%	75%

A great place to work

On our path towards a smoke-free future, it is crucial that we continually assess and improve our company's social impact. This begins with attracting and retaining top talents and dedicated employees and extends to the labor standards we demand at all stages of our supply chain.

In the Nordic countries we have a head start. The right to equal pay and collective labor agreement is regulated by law in the Nordic countries.

Our promise for the future

As an employer, we are acutely aware of the competitive global job market. Employees today are looking for more than a job – they're looking for a great place to work. We understand this and foster an inclusive work culture that welcomes new people, skills and ways of working. We are committed to establishing a leadership approach based on openness, collaboration, and constant learning.

Diversity and inclusion for a future-proof company

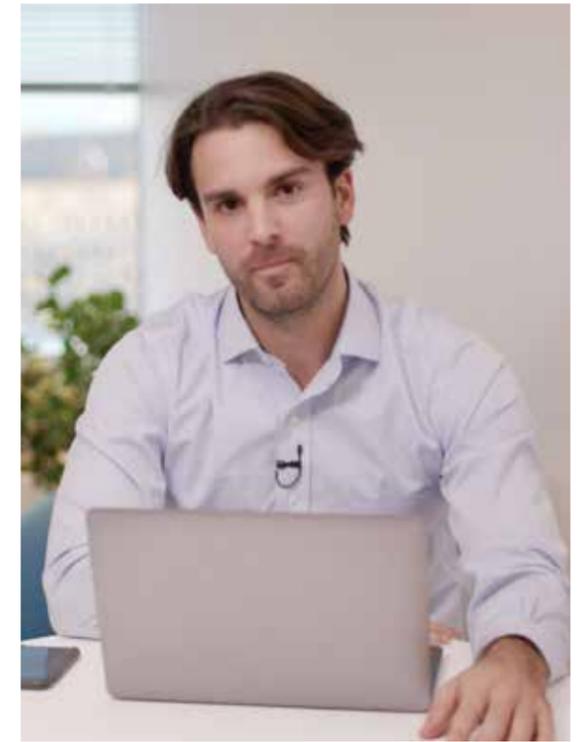
At PMI, we believe that diverse businesses are more innovative, consumer-centric and profitable. These are the workplaces that attract talented people with a full range of skills, ideas, experiences and perspectives to deliver positive change for consumers and society at large. Only with truly inclusive and diverse teams can we generate the best ideas and follow through to create the most innovative products. PMI is committed to a company culture founded on equal opportunity, fairness and respect.

A forward-thinking mindset is not only imperative to our long-term success, it is also part of our commitment to SDG 8 – to promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. This SDG resonates with our company values and the direction in which we are headed.

In the Nordic region, we have launched key initiatives that will bring us closer to achieving this goal. We launched a gender balanced hiring strategy focused on moving towards gender equality. Recognizing that increasing the proportion of women in leadership positions begins with offering them the skills and opportunity to advance, we internally track promotions among women.

We use software that analyze our recruitment ads based on words that will attract more diverse applicants, as well as unconscious bias training courses for managers. What's more, we focused on building a new hire onboarding framework to facilitate integration, we offer attractive parental leave policies and we regularly hold inclusive leadership workshops. We've already begun to see a big difference, with a nearly even gender balance in hiring in 2019.

From the way we recruit to the development opportunities that we offer our employees, our HR initiatives contributed to PMI being named Global Top Employer for the third consecutive year as well as Top Employer in Europe for seven years. In the years to come, we will strive to uphold our challenging and



Working at the PMI office in Stockholm, Sweden.

rewarding environment, where people can develop their skills across teams, business areas and geographies. We have people of 28 nationalities working at our Nordic offices and we're convinced that this makes our company stronger.

But it's not enough to have equal representation in the workplace, we need to ensure that our pay practices match our commitment to equality as well. To this end, we sought out EQUAL-SALARY certification by a third-party. Since 2015, PMI affiliates around the world have earned the certification after submitting to both a quantitative comparison of salary data and a qualitative audit of management commitment to equal pay principles, policies, practices and processes. In 2019, we became the first international company to become global EQUAL-SALARY certified. Not only does this process validate our efforts for equality, but it also helps to identify – and eliminate – potential gender-blind spots.

We are convinced that these efforts strengthen our attractiveness as an employer, drive employee engagement and support the creation of a more inclusive work environment that thrives on diversity and different perspectives.

Diverse businesses are more innovative, consumer-centric and profitable.



A field technician and tobacco farmers in San Vicente, Argentina

We're driving social change

Respect for human rights must be embedded in our corporate culture, allowing human rights principles to shape the way we work and guide interactions not only with employees, but also in relation to suppliers, business partners, consumers, and the communities in which we operate.

Human Rights and the PMI Supply Chain

We aim to address our adverse impacts and maximize our opportunities to drive positive change for people across our value chain. While this can be challenging given the scope and complexity of the issues and the breadth of our operations, we believe that respect for human rights are an absolute and universal requirement – and one that we are committed to upholding.

We continuously strive to improve our practices and demand the same from our contractors, we are strengthening our due diligence processes to drive continuous improvement and raise standards across our value chain. We will discontinue partnerships when needed in this process.

Since 2011, PMI has been implementing the Agricultural Labor Practices (ALP) program to eliminate

child labor and to achieve safe and fair working conditions and a decent livelihood for all farmers contracted to supply tobacco. The ALP Code, based on International Labour Organization (ILO) conventions, has seven principles and 33 measurable standards to be followed by more than 350,000 farmers from whom we source tobacco.

The seven principles of the Code are:

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

Field technicians affiliated with PMI or our suppliers monitor the alignment with these principles on the individual farms that are contracted to supply tobacco to PMI and we regularly commission external assessments.

For more information, visit pmi.com

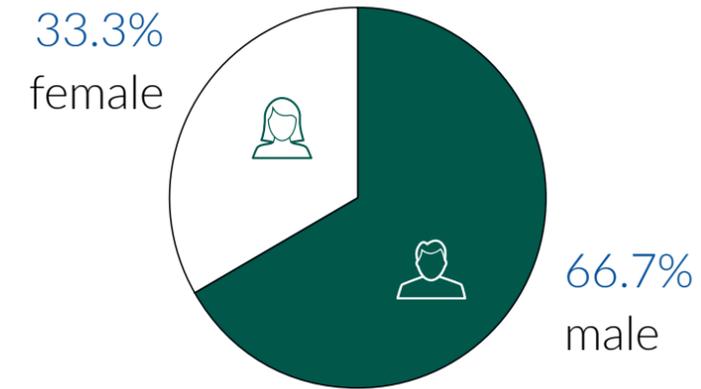
Our Human Rights Roadmap at a glance



PMI goals and progress in management parity

At least **40%** of women in management roles by 2022

Gender split at manager level in the Nordics



KPIs related to SDG 8

ZERO
Child labor in our tobacco supply chain by 2025

8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

The main Global Key Performance Indicators we will track and report on moving forward

Turnover rate by gender

- Female
- Male

Gender-Related Diversity

- Proportion of new hires at more junior levels that are women (%)
- Proportion of promotion at management positions that are women (%)

Female Senior Leaders: 27%

Number of nationalities at the Nordic offices: 28



The main Nordic Key Performance Indicators we will track and report on moving forward

	2018	2019	Goal 2020
Employee NPS (satisfaction) Index	N/A	17	22
Equal Salary Certified	N/A	N/A	Yes
Proportion of management position held by women	26%	33%	40%

1 in 10

cigarettes smoked worldwide is illegally traded.

Illicit trade and organized crime

“Illicit trade – in all its forms – stands in direct juxtaposition to SDG 16, by feeding violence and breeding corruption, undermining trust in institutions and the rule of law, and generating enormous illicit financial flows. Moreover, the links between illicit trade and organized crime are well established, from human trafficking networks and tobacco smuggling, to fuel theft by drug cartels and the involvement of the mafia and organized criminal groups in the trade of counterfeit products. Perhaps most frightening are links to terrorist financing that heighten threats to national and global security.”

From the report:

Mapping the impact of illicit trade on the sustainable development goals

Transnational Alliance to Combat Illicit Trade tracit.org

The (real) price of illicit cigarettes

Our commitment to sustainability extends to eradicating the illicit trade of cigarettes – which represents billions in lost tax revenue for local governments. But beyond the monetary price, lies a human one. Inappropriate regulation can open the door to human and labor rights abuses, lower environmental standards and health risks. Illicitly traded cigarettes are also often associated with organized crime and corruption.

Tracing trade

Since 2009, empty cigarette packs have been collected from city streets all over Europe once a year to map out the prevalence of illicit trade and counterfeit products. The Empty Pack Survey is funded by British American Tobacco, Imperial Tobacco, Japan Tobacco Int and PMI, and is independently conducted by MS Intelligence.

For example, according to the Norwegian authorities, at least 40% of cigarettes in Norway are not bought through domestic channels and rather come from duty free, the Swedish border, or are illicit or counterfeit products.¹

Securing our global supply chain

In our efforts to improve supply chain security, PMI supports the EU Tobacco Product Directive (TPD2). Articles 15 and 16 provide for EU-wide systems of traceability and security features. We have also fostered relationships with local governments and law enforcement agencies who have budgeted for and prioritized actions to recognize and reduce illicit products. We also work closely with customs officers to analyze seized cigarette samples.

KPIs related to SDG 16

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



The main Nordic Key Performance Indicators we will track and report on moving forward

	2018	2019	Goal 2020
Memoranda of Understanding with law enforcement agencies/governments (number of countries)	3 of 5	3 of 5	4 of 5
Number of laws enforcement officers/officials met to exchange information and collaboration. Year by year	16	18	20
Coverage for tracking and tracing – master case level (in %) (All markets)	100%	100%	100%
Tracking and tracing – percentage of packs sold with unique code applied (in %, Nordics)	N/A	100%**	100%
Country studies and analysis to improve awareness of illicit trade – number of Nordic countries *	4 of 5	4 of 5	4 of 5

* Started in May 2019

¹ Source: <https://www.regjeringen.no/no/statsbudsjett/2020/id2705757/>

We're committed to fighting illicit trade

Media clippings



Let's start the conversation

Setting bold sustainability goals for a leading global tobacco company is a humbling experience. Philip Morris International in the Nordics is a smaller part of a large organization, but I believe that people listen to what the Nordic countries have to say on all things sustainable. Norway's Prime Minister Erna Solberg was in 2019 asked to continue her work as co-chair of UN's Sustainable Development Goals Advocacy Group. What we set out to accomplish draws attention.

I am proud to be part of a company that aims to change its industry by replacing a harmful product with less harmful alternatives. I am excited about our initiatives with local NGOs, informing consumers about the scope and impact of cigarette butt littering and engaging in anti-littering campaigns throughout the Nordics. I am motivated and inspired by our commitment to closing the gender pay gap and championing diversity.

This is our first ever Nordic report outlining how we at PMI in Denmark, Finland, Iceland, Norway and Sweden, address the SDGs where we believe we can make the biggest impact. What's even more important is where we see ourselves heading in the future. How ambitious can and should we be? Are we addressing and reporting on what matters the most to our communities?

We can't do this alone. Nobody can. Accomplishing the UN SDGs by 2030 will require cooperation. Civil society, business and the public sector need to share good ideas and best practice, taking on the responsibility that lies on each and every one of us.

You are hereby invited to comment, challenge and guide us on becoming a more sustainable company on the path to a smoke-free future. Let us know what you think.

Use my address below, send me your thoughts and ideas, and let us start this conversation.

Pia Prestmo

Issue Lead Sustainability Nordics

pia.prestmo@pmi.com



TV4, Sweden, 31/5/2019
Could Sweden become the first smoke-free country in the world?



Aftonbladet, Sweden, 24/5/2019
The tobacco giants unexpected advice: Stop smoking



Nettavisen, Norge, 27/2/2019
Can "Big Tobacco" become sustainable?



Sykepleien, Norway, 10/3/2019
Betting that new tobacco technology will defeat cigarettes



A: sundhed, Denmark, 4/3/2019
Voluntary smokers should be offered less harmful alternatives



E24, Norway, 27/5/2019
Tobacco giant will stop selling cigarettes

A selection of PMI's presence in Nordic media during 2019.