# PHILIP MORRIS INTERNATIONAL

ESG Highlights

Based on PMI's Integrated Report 2019

ESG Highlights

- This ESG Highlights presentation is a summary based on PMI's Integrated Report 2019 published on June 30, 2020, and annual report on Form 10-K for the year ended December 31, 2019, as well as press releases and additional resources available at https://www.pmi.com
- Unless otherwise indicated, information and data contained in this presentation cover calendar year 2019 or reflect status at December 31, 2019.
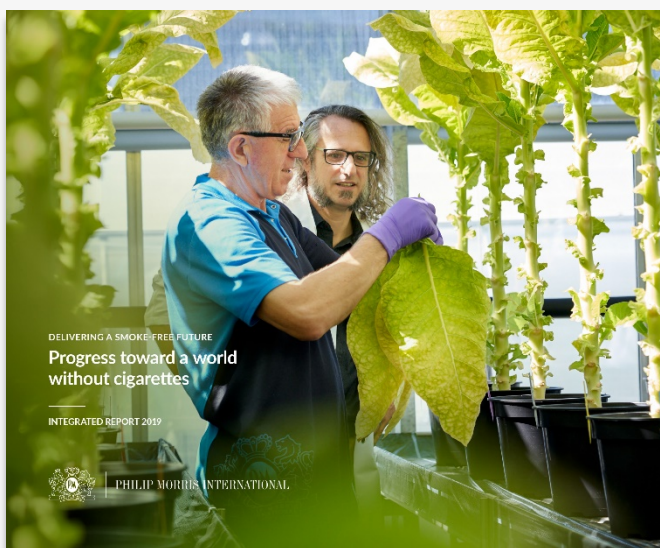
→ See PMI's Integrated Report 2019

Forward looking and cautionary statements

- This presentation and related discussion contain projections of future results and other forward-looking statements. 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; 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; changes in adult smoker behavior; 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 and quality of tobacco and other agricultural products and raw materials; 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; or if it is unable to attract and retain the best global talent. 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 the Form 10-Q for quarter ended September 30, 2020. 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

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Forward looking and cautionary statements continued

- The COVID-19 pandemic has created significant societal and economic disruption, and resulted in closures of stores, factories and offices, and restrictions on manufacturing, distribution and travel, all of which will adversely impact our business, results of operations, cash flows and financial position during the continuation of the pandemic

- Our business continuity plans and other safeguards in place may not be effective to mitigate the impact of the pandemic. Currently, significant risks include our diminished ability to convert adult smokers to our RRPs, significant volume declines in our duty-free business and certain other key markets, disruptions or delays in our manufacturing and supply chain, increased currency volatility, and delays in certain cost saving, transformation and restructuring initiatives. Our business could also be adversely impacted if key personnel or a significant number of employees or business partners become unavailable due to the COVID-19 outbreak. The significant adverse impact of COVID-19 on the economic or political conditions in markets in which we operate could result in changes to the preferences of our adult consumers and lower demand for our products, particularly for our mid-price or premium-price brands. Continuation of the pandemic could disrupt our access to the credit markets or increase our borrowing costs. Governments may temporarily be unable to focus on the development of science-based regulatory frameworks for the development and commercialization of RRPs or on the enforcement or implementation of regulations that are significant to our business. In addition, messaging about the potential negative impacts of the use of our products on COVID-19 risks may lead to increasingly restrictive regulatory measures on the sale and use of our products, negatively impact demand for our products, the willingness of adult consumers to switch to our RRPs and our efforts to advocate for the development of science-based regulatory frameworks for the development and commercialization of RRPs

- The impact of these risks also depends on factors beyond our knowledge or control, including the duration and severity of the outbreak, its recurrence in our key markets, actions taken to contain its spread and to mitigate its public health effects, and the ultimate economic consequences thereof

PMI's response to COVID-19

Commitment to our Employees

- Set of guiding principles outlining our strong commitment to our employees' job security, safety, and peace of mind, as well as granting special recognition awards.

- Introduction of "smart work," a new forward-looking hybrid model of work giving employees greater flexibility over when and where work is done.

Engagement with Local Communities

- More than USD 31 million donated across over 60 countries, supporting hospitals, crisis centers, trade partners, and at-risk populations.*

- Volunteer work by PMI employees to support local efforts to combat the virus and help those most affected by it.
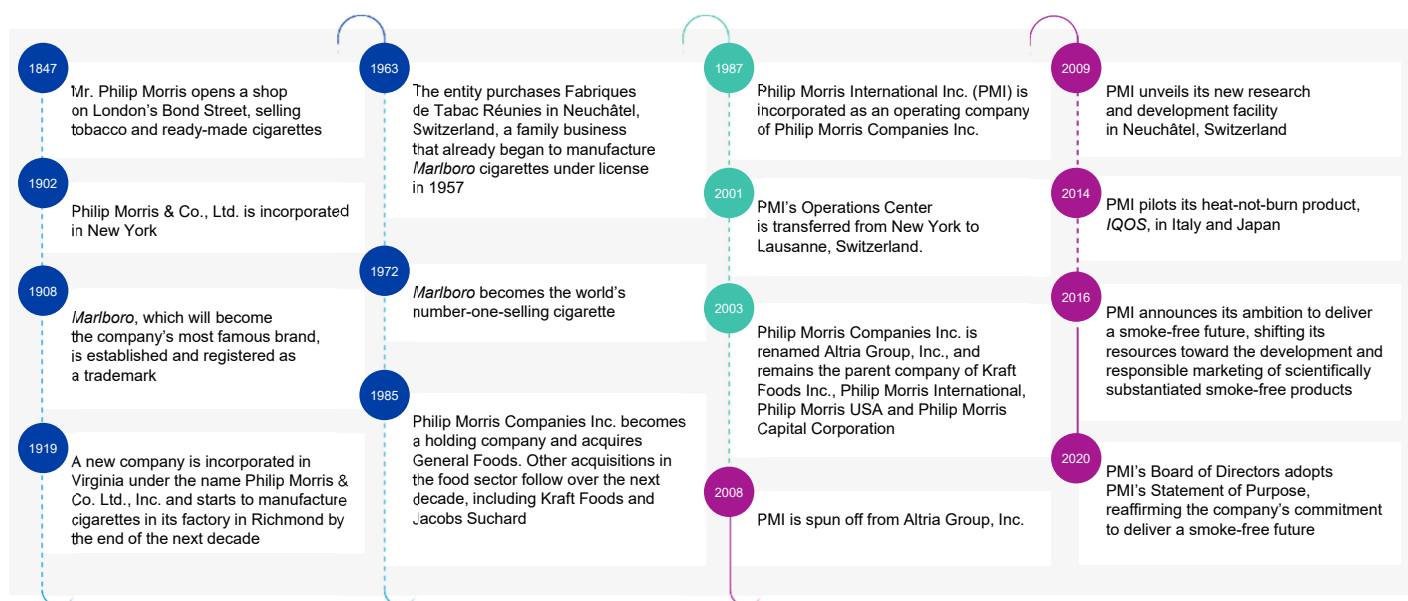
Repurposing our value chain

- Temporarily repurposed parts of our factories to produce large quantities of hydroalcoholic gels to help mitigate the spread of coronavirus.

- Various measures introduced in our tobacco supply chain (e.g., virtual checks, awareness raising, community support), based on local needs, to help prevent virus infection and spread in our supply chain.

- PMI scientists at our R&D center in Switzerland helped local hospitals to analyze inactivated nasopharyngeal swab samples from suspected COVID-19 patients.

- Medicago, a biopharmaceutical company partially owned by PMI, is utilizing a plant-based technology to research and develop a potential vaccine for COVID-19.

About PMI

1847 — Mr. Philip Morris opens a shop on London's Bond Street, selling tobacco and ready-made cigarettes

1902 — Philip Morris & Co., Ltd. is incorporated in New York

1908 — Marlboro, which will become the company's most famous brand, is established and registered as a trademark

1919 — A new company is incorporated in Virginia under the name Philip Morris & Co. Ltd., Inc. and starts to manufacture cigarettes in its factory in Richmond by the end of the next decade

1963 — The entity purchases Fabriques de Tabac Réunies in Neuchâtel, Switzerland, a family business that already began to manufacture Marlboro cigarettes under license in 1957

1972 — Marlboro becomes the world's number-one-selling cigarette

1985 — Philip Morris Companies Inc. becomes a holding company and acquires General Foods. Other acquisitions in the food sector follow over the next decade, including Kraft Foods and Jacobs Suchard

1987 — Philip Morris International Inc. (PMI) is incorporated as an operating company of Philip Morris Companies Inc.

2001 — PMI's Operations Center is transferred from New York to Lausanne, Switzerland.

2003 — Philip Morris Companies Inc. is renamed Altria Group, Inc., and remains the parent company of Kraft Foods Inc., Philip Morris International, Philip Morris USA and Philip Morris Capital Corporation

2008 — PMI is spun off from Altria Group, Inc.

2009 — PMI unveils its new research and development facility in Neuchâtel, Switzerland

2014 — PMI pilots its heat-not-burn product, IQOS, in Italy and Japan

2016 — PMI announces its ambition to deliver a smoke-free future, shifting its resources toward the development and responsible marketing of scientifically substantiated smoke-free products

2020 — PMI's Board of Directors adopts PMI's Statement of Purpose, reaffirming the company's commitment to deliver a smoke-free future

Creating value

Our mission

Accelerate the end of smoking

What we do

Replace cigarettes with less harmful tobacco and nicotine products for the benefit of adults who would otherwise continue to smoke
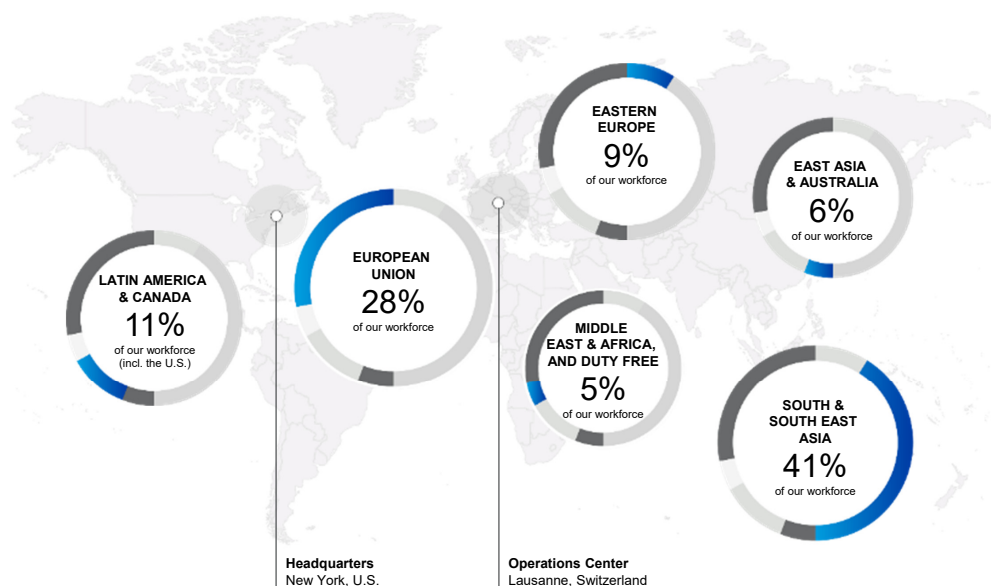
We allocate our resources across our value chain to deliver long-term value for both our company and our stakeholders

Inputs			
Sourcing	R&D	Manufacturing and operations	Retail and consumers

Outputs

Capitals

- Human
- Intellectual
- Manufactured
- Natural
- Financial
- Social

Our global footprint 2019

EASTERN EUROPE
9%
of our workforce

EAST ASIA & AUSTRALIA
6%
of our workforce

EUROPEAN UNION
28%
of our workforce

LATIN AMERICA & CANADA
11%
of our workforce (incl. the U.S.)

MIDDLE EAST & AFRICA, AND DUTY FREE
5%
of our workforce

SOUTH & SOUTH EAST ASIA
41%
of our workforce

Headquarters
New York, U.S.

Operations Center
Lausanne, Switzerland

Human
73,542
Employees
9.7m
IQOS users who have stopped smoking and switched to *IQOS*
335,000
Tobacco farmers contracted by PMI and our suppliers

Financial
71%
Of our commercial expenditure relating to smoke-free products
$29.8bn
In net revenues – 18,7% from smoke-free products

Manufactured
38
Owned manufacturing facilities – 8 producing smoke-free products
52
Markets in which *IQOS* is available for sale

Intellectual
942
R&D positions (FTEs)*
5,800
Patents granted worldwide related to smoke-free products

Natural
39%
Reduction in scope 1 and 2 CO_2e emissions since 2010
>827,000
Cigarette butts collected by PMI employees during World Cleanup Day

Social
>33,200
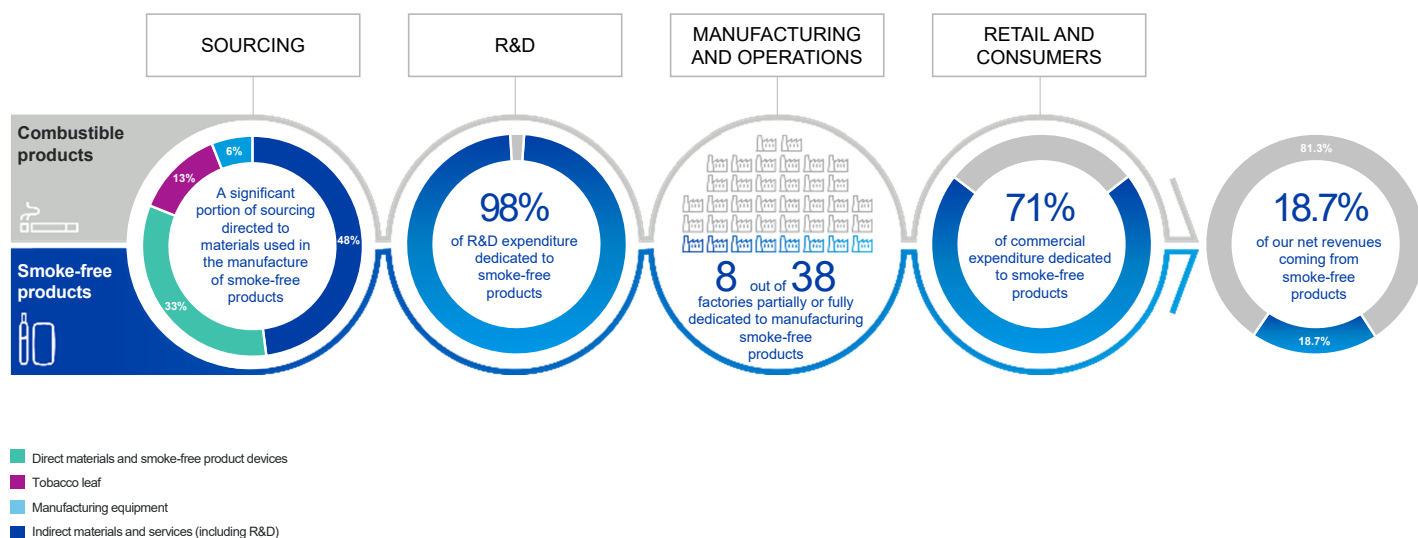Suppliers worldwide
5.9m
Wholesalers and retailers

* R&D positions include scientists, engineers, technicians, and support staff.

Value chain transformation

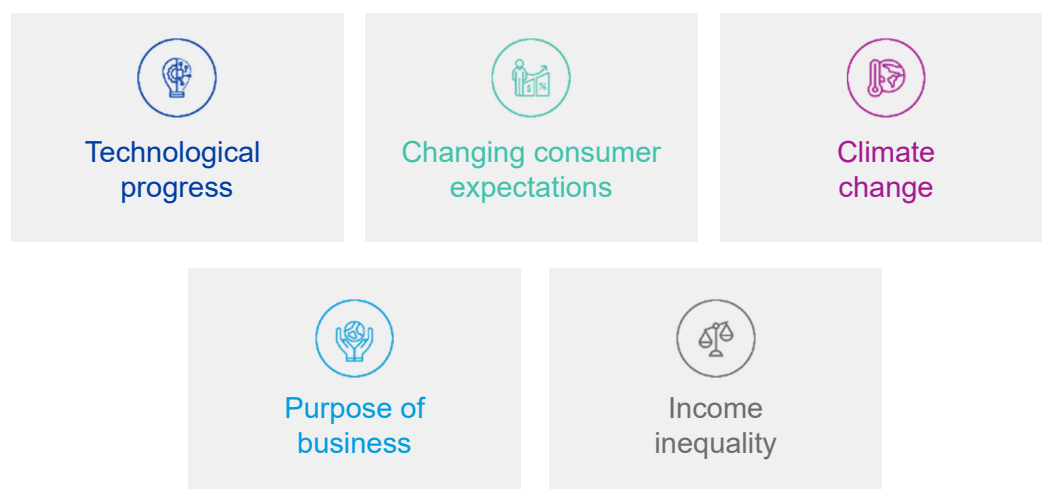|	SOURCING	R&D	MANUFACTURING AND OPERATIONS	RETAIL AND CONSUMERS	

Combustible products

Smoke-free products

SOURCING

6%
13%
48%
33%

A significant portion of sourcing directed to materials used in the manufacture of smoke-free products

R&D

98%
of R&D expenditure dedicated to smoke-free products

MANUFACTURING AND OPERATIONS

8 out of 38
factories partially or fully dedicated to manufacturing smoke-free products

RETAIL AND CONSUMERS

71%
of commercial expenditure dedicated to smoke-free products

81.3%

18.7%
of our net revenues coming from smoke-free products

18.7%

- ■ Direct materials and smoke-free product devices
- ■ Tobacco leaf
- ■ Manufacturing equipment
- ■ Indirect materials and services (including R&D)

Megatrends

Technological progress

Changing consumer expectations

Climate change

Purpose of business

Income inequality

→ Read how we are responding in PMI's Integrated Report 2019

Overview of PMI's integrated performance

T Transformation	
F Financial	
E Environmental	
S Social	
G Governance	

Transformation

A new way of reporting pace and scale of our transformation

- We introduced a set of bespoke key performance indicators we call **Business Transformation Metrics**, in 2016. These metrics allow our shareholders and stakeholders assess our purpose, actions taken to achieve it, resource allocation, as well as outcomes and forward-looking goals. They add transparency to our transition and allow to make our transformation both measurable and verifiable. We periodically review and expand the list of metrics based on stakeholder feedback.

Overview of PMI's integrated performance continued

T Transformation	
F Financial	
E Environmental	
S Social	
G Governance	

Business Transformation Metrics[1]

	2016	2017	2018	2019
Number of factories producing smoke-free products out of total number of factories[2]	3 out of 48	4 out of 46	8 out of 44	**8 out of 38**
Total SKU[3] count – cigarettes	4,421	4,201	3,968	**3,799**
Total SKU count – heated tobacco units	62	145	253	**414**
Number of markets where PMI smoke-free products are available for purchase	20	38	44	**52**
Proportion of markets where PMI smoke-free products are available, which are outside the OECD[4]	32%	43%	47%	**47%**
Number of *IQOS* stores	26	63	81	**199**
Number of retailers that sell PMI smoke-free product consumables (in thousands)	90	292	488	**679**
Commercial expenditure (smoke-free/total)	15%	39%	60%	**71%**
Net revenues (smoke-free/total)[5]	2.7%	12.7%	13.8%	**18.7%**
Number of markets where net revenues from smoke-free products exceed 10% of total net revenues	1	5	19	**31**
Number of markets where net revenues from smoke-free products exceed 50% of total net revenues	0	1	3	**4**
Smoke-free product shipment volume (billion units)	7.7	36	42	**60**
Combustible product shipment volume (billion units)	845	791	767	**732**
Smoke-free product shipment ratio (smoke-free/total)[6]	0.9%	4.4%	5.1%	**7.6%**
Total users of PMI smoke-free products (in millions)[7]	2.1	6.9	9.6	**13.6**
Estimated users who have stopped smoking and switched to PMI smoke-free products – non-OECD (in millions)[7]	0.0	0.2	1.1	**3.0**
Estimated users who have stopped smoking and switched to PMI smoke-free products – worldwide (in millions)[7]	1.5	4.7	6.6	**9.7**

1. Smoke-free products: include heated tobacco units and e-cigarettes. Total products: include smoke-free products, cigarettes, and other combustible products.
2. Previous years' data were restated to account for our second manufacturing facility in Italy, Bologna, that started producing heated tobacco units in 2016.
3. "SKU" stands for stock keeping unit.
4. Excluding PMI Duty Free.
5. Excluding excise taxes. For future periods, at today's pricing and excise tax assumptions.
6. The smoke-free product shipment ratio is compiled based on millions of units.
7. See glossary.

Overview of PMI's integrated performance continued

Business Transformation Metrics[1] continued

	2016	2017	2018	2019
R&D expenditure (smoke-free/total)[1]	72%	74%	92%	98%
Total R&D expenditure (in millions USD)	429	453	383	465
Number of R&D positions (FTEs)[2]	n/a	n/a	764	942
Patents granted relating to smoke-free products (cumulative)	1,800	2,900	4,600	5,800
Patents granted in IP5 jurisdictions relating to smoke-free products (cumulative)[3]	170	300	480	740
Number of studies completed by PMI on smoke-free products (cumulative, since 2015)				
• Toxicological assessment	36	57	82	109
• Clinical assessment (short-term, focused on biomarkers)	11	12	19	19
• Perception and behavior	7	7	9	9

1. Smoke-free products include heated tobacco units, devices, and e-cigarettes. Total products include smoke-free products, cigarettes, and other combustible products.
2. 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.
3. Includes published international (PCT) patent applications. IP5 jurisdictions include Europe (patent applications published and patents granted by the European Patent Office), China, South Korea, Japan, and the U.S.

Overview of PMI's integrated performance continued

Some of our financial disclosures include…

Financial (in million USD)[1]

	2016	2017	2018	2019
Revenues including excise taxes	74,953	78,098	79,823	77,921
Excise taxes on products[2]	48,268	49,350	50,198	48,116
Net revenues	26,685	28,748	29,625	29,805
Operating income	10,903	11,581	11,377	10,531
Net earnings attributable to PMI	6,967	6,035	7,911	7,185
Total assets	36,851	42,968	39,801	42,875
Total liabilities	47,751	53,198	50,540	52,474
Capital expenditures	1,172	1,548	1,436	852
R&D expenditure	429	453	383	465

1. The information is a summary and is qualified in its entirety by reference to the full texts of PMI's Annual Reports for the years ended 2015 through 2019, available on PMI.com.
2. This indicator refers to the amount paid by PMI entities, and excludes excise tax paid in several markets where third-party operators collected taxes on PMI products. The total amount of excise tax paid by consumers on PMI products amounted to USD 72.1 billion in 2019.

Overview of PMI's integrated performance continued

T Transformation

F Financial

E Environmental

S Social

G Governance

Some of our environmental disclosures include…

Environmental

	2010 baseline	2017	2018	2019
CO_2e scope 1+2 ('000 metric tons)	914	630	584	**556**
CO_2e scope 1+2+3 ('000 metric tons)[1]	8,062	5,536	5,298	**4,682**
CO_2e scope 1+2+3 intensity reduction versus 2010 baseline	n/a	22%	25%	**32%**
Proportion of *IQOS* device sales volume covered by CIRCLE take-back program[2]	n/a	n/a	66%	**39%**
Recycling rate of *IQOS* devices at CIRCLE hubs (weighted average)[3]	n/a	n/a	45%	**74%**
Number of PMI affiliates with anti-littering strategy[4]	n/a	n/a	n/a	**31**

1. In 2019, we reviewed our carbon footprint model. We have restated our 2017 and 2018 data according to the new model.
2. We launched CIRCLE in 2018, and the number of markets covered was expanded in 2019. The decrease in coverage of sales volume in 2019 versus 2018 is explained by *IQOS* growth in markets not yet covered by the program.
3. Depending on device type and processing facility.
4. We introduced this indicator in 2019.

Overview of PMI's integrated performance continued

T Transformation

F Financial

E Environmental

S Social

G Governance

Some of our social disclosures include…

Social

	2017	2018	2019
Number of PMI employees	80,591	77,435	**73,542**
Number of PMI full-time equivalent positions	n/a	77,039	**71,795**
Overall employee turnover[1]	9.37%	11.51%	**14.10%**
Voluntary employee turnover	3.96%	4.12%	**4.53%**
Proportion of management positions held by women[2]	34.4%	35.1%	**36.1%**
Proportion of women on PMI's Company Management	10%	9%	**8%**
Proportion of women on PMI's Board of Directors	15%	25%	**25%**
Proportion of tobacco purchased for which labor practices have been systematically monitored[3]	77%	88%	**92%**
Proportion of farms monitored found with child labor incidents[4]	1.2%	1.3%	**0.8%**
Number of prompt actions recorded by field technicians related to child labor incidents (proportion resolved)	4,417 (67%)	4,587 (89%)	**2,712 (88%)**
Total recordable incidents rate (TRIR) per 200,000 hours worked – PMI and contracted employees	0.22	0.22	**0.20**
Lost time incident (LTI) rate per 200,000 hours worked – PMI and contracted employees	0.10	0.13	**0.12**

1. Our transformation journey as we mobilized to deliver our vision of a smoke-free future resulted in higher turnover in 2019. This, combined with our business strategy to close our skills gap, a number of planned restructures, and closure of some factories, contributed to the increase observed.
2. Management positions include all employees above a defined grade; it encompasses managers, directors, and senior management. We have expanded the scope of our gender diversity data to cover approximately 95 percent of PMI's total workforce and restated previous years' data accordingly.
3. The farm-level data related to our tobacco supply chain reported in this report cover 22 countries from which we source.
4. Our monitoring and reporting of child labor refer to situations of hazardous work performed by children below 18 years old.

Overview of PMI's integrated performance continued

Some of our governance related disclosures include…

Governance

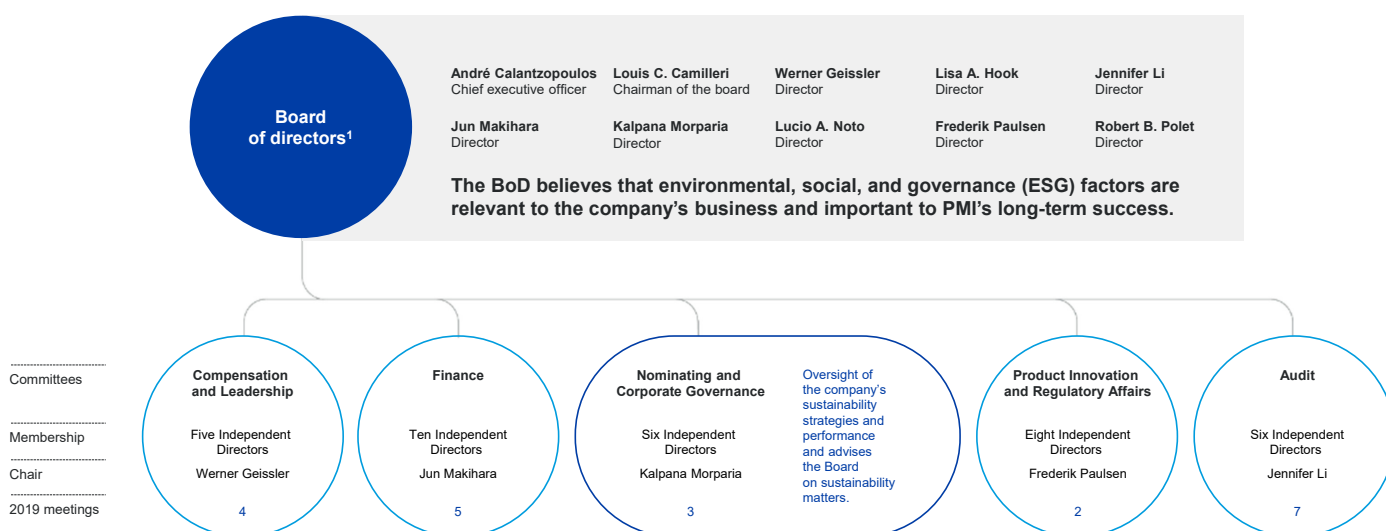|	2017	2018	2019
Number of training sessions completed by PMI employees and third parties on PMI's Marketing Code	37,903	23,438	**14,500**
Number of violations of PMI's Marketing Code and Good Conversion Practices that resulted in substantiated cases of misconduct[1]	2	8	**42**
Cumulative number of external human rights impact assessments completed in high-risk countries	0	1	**2**
Critical suppliers, as a proportion of total procurement spend[2]	n/a	n/a	**35%**
Critical suppliers' procurement spend assessed in PMI's supplier due diligence platform (STEP)[3]	n/a	n/a	**84%**
Proportion of tobacco purchased through direct contracts by PMI and PMI's third-party suppliers (by volume)	90%	93%	**96%**

1. The increase can be attributed to a new global training toolkit that has reinforced overall awareness, leading to higher speaking-up rates; also, there has been a constant increase in the number of *IQOS* coaches and consequently higher risk of incidences to occur
2. Suppliers' criticality is evaluated taking into account spend segmentation and nature of component, as well as supply flexibility as relevant. 2019 figure includes tier 1 suppliers of direct materials and electronics managed by PMI central procurement team. Procurement spend excludes tobacco leaf sourcing.
3. We started to formally onboard critical suppliers into our supplier due diligence platform (STEP) in July 2019.

Governance

Board of directors[1]

André Calantzopoulos	Louis C. Camilleri	Werner Geissler	Lisa A. Hook	Jennifer Li
Chief executive officer	Chairman of the board	Director	Director	Director
Jun Makihara	Kalpana Morparia	Lucio A. Noto	Frederik Paulsen	Robert B. Polet
Director	Director	Director	Director	Director

The BoD believes that environmental, social, and governance (ESG) factors are relevant to the company's business and important to PMI's long-term success.

	Compensation and Leadership	Finance	Nominating and Corporate Governance	Product Innovation and Regulatory Affairs	Audit
Committees					
Membership	Five Independent Directors	Ten Independent Directors	Six Independent Directors	Eight Independent Directors	Six Independent Directors
Chair	Werner Geissler	Jun Makihara	Kalpana Morparia	Frederik Paulsen	Jennifer Li
2019 meetings	4	5	3	2	7

Oversight of the company's sustainability strategies and performance and advises the Board on sustainability matters.

1. The Board of Directors and its committees as of March 21, 2020.

PMI's statement of purpose

Delivering a Smoke-Free Future

Leading an industry transformation

- Issued by PMI's board and published in PMI's 2020 Proxy Statement, reaffirms PMI's commitment to deliver a smoke-free future

- Lays out PMI's unique business model and value proposition to relentlessly focus resources to completely replace cigarettes with better alternatives, showcasing how PMI is different from other tobacco companies

- Explicitly addresses impacts, while recognizing stakeholders that are essential to PMI's transformation, providing additional granularity on how and when a smoke-free future can be achieved

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PMI's statement of purpose continued

Delivering a Smoke-Free Future

Leading an industry transformation

"

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

"

The Company is actively accelerating the decline of cigarette smoking beyond what can be achieved by traditional tobacco control measures alone

"

The Company understands the need to continue to build legitimacy and trust by being honest, respectful, fair and transparent, and by aligning actions with words across all areas of its business

"

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.

→ Read PMI's Statement of Purpose

Defining our sustainability strategy

A rigorous and formalized materiality assessment ensures that our strategy, work, and reporting cover the correct topics in the right way.

Read PMI's Sustainability Materiality Report

Our 2019 assessment

Step 1
Identifying topics

Step 2
Gathering stakeholders' perspectives

Step 3
Assessing impact

Step 4
Building and validating the materiality matrix

Defining our sustainability strategy continued

Identifying topics

List of 26 topics identified, covering environmental, social and governance aspects and considering impacts across our value chain.

Review of:
- PMI's reports and documentations
- Peer analysis
- Investors requirements
- Media reports
- Sustainability standards and frameworks
- Sustainability megatrends
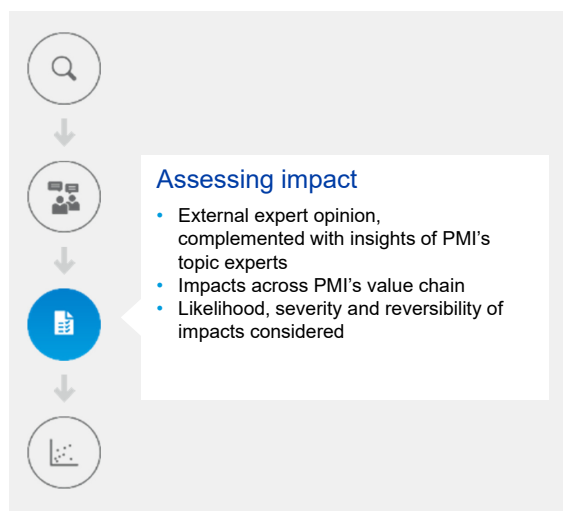
See the full list of topics and descriptions

Gathering stakeholders' perspectives

Online survey to gather stakeholders' perspectives on sustainability issues PMI should focus on, and those they consider as top priority or gaining momentum.

823 responses
• 60 countries
• All regions

Assessing impact
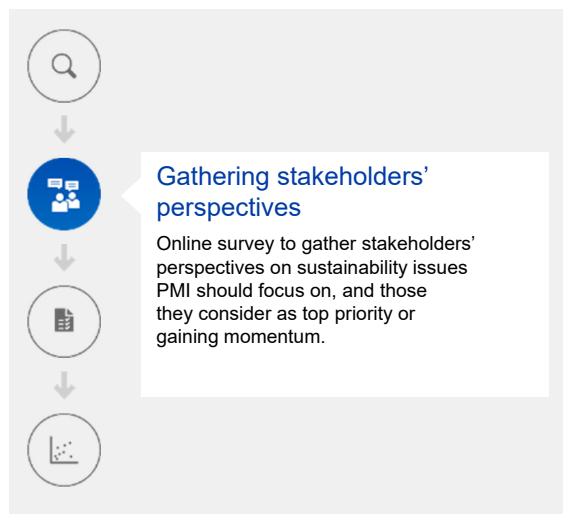
• External expert opinion, complemented with insights of PMI's topic experts
• Impacts across PMI's value chain
• Likelihood, severity and reversibility of impacts considered

Impact in our value chain	Upstream	PMI operations	Downstream
Pillar 1			
Access to smoke-free products			●
Product addictiveness			●
Product health impacts			●
Product reliability			·
Pillar 2			
Business integrity	·	●	·
Data privacy and protection	·	●	●
Fair fiscal practices	·	●	●
Illicit tobacco trade prevention	·	·	●
Respect for human rights	●	·	●
Responsible advocacy	·	●	●
Responsible and transparent R&D	●	●	
Responsible marketing and sales practices			●
Sustainable supply chain management	●		
Pillar 3			
Community support		·	·
Diverse and inclusive working environment	●	●	
Fair working conditions	●	●	
Health, safety, and well-being at work	●	●	
Socioeconomic well-being of tobacco farming communities	●		
Talent attraction, retention and development	·	●	
Pillar 4			
Biodiversity	●	·	·
Climate protection	●	●	·
Forest conservation	●	·	·
Littering prevention			●
Product eco-design and circularity			●
Waste reduction	●	·	
Water stewardship	●	·	

Defining our sustainability strategy continued

Validating materiality matrix
- Mapping of the topics with the four pillars of PMI's sustainability strategy
- Categorization in two tiers
- Reviewed by PMI's senior leaders
- Aligned with Global Reporting Initiative (GRI) requirements

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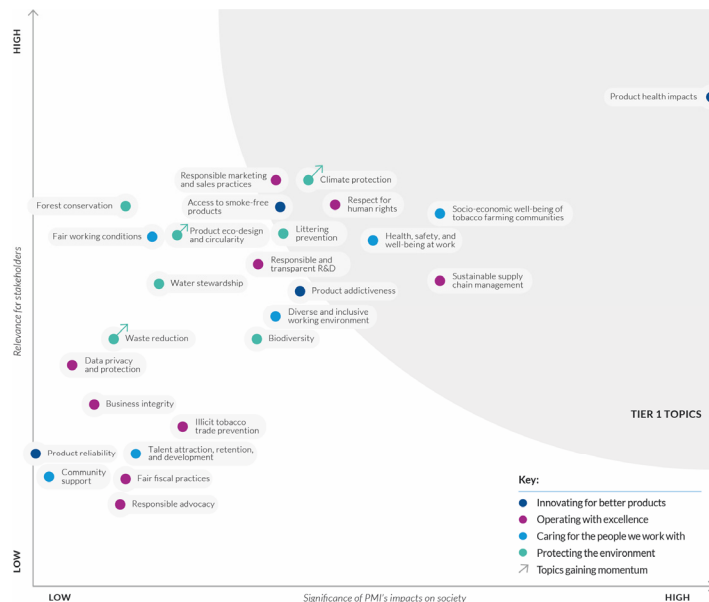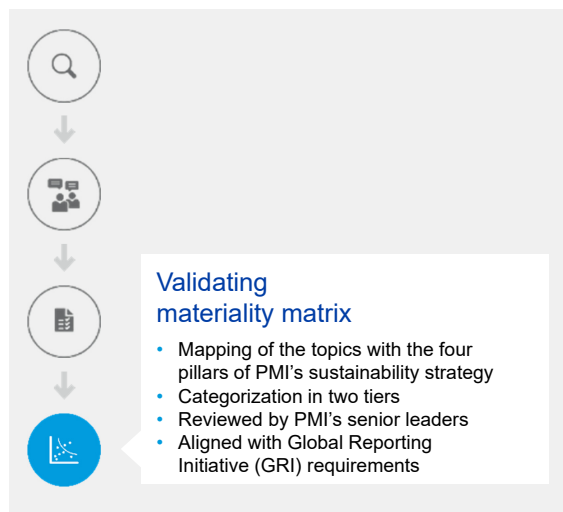
Sustainability at PMI

Our sustainability material topics are structured around four pillars of action and grouped into two categories: tier 1 topics and tier 2 topics. The tier 1 topics are those on which PMI believes it can have the greatest impact.
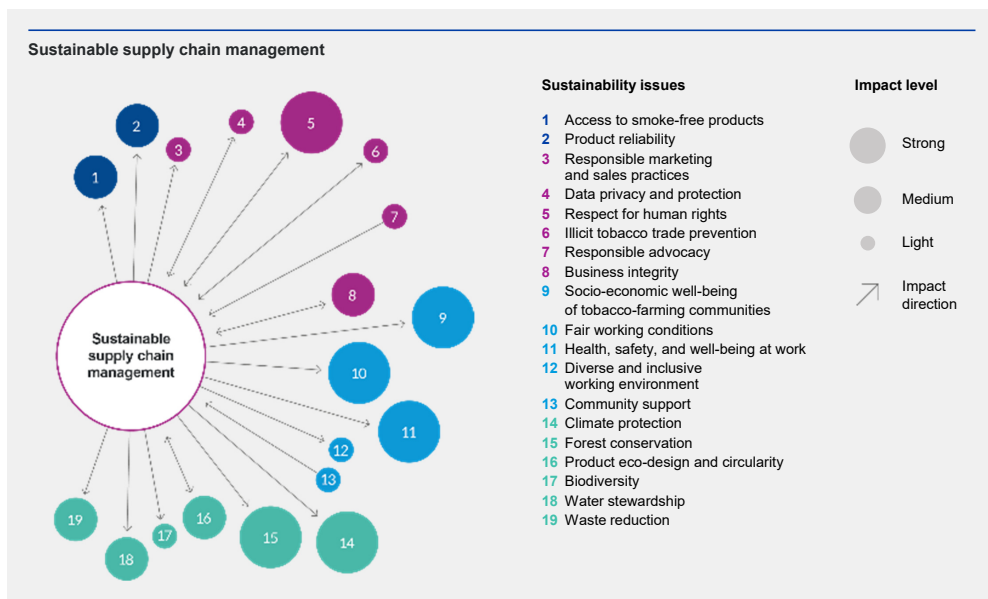
Contributing to the Sustainable Development Goals

Primary SDGs to which PMI can contribute

Secondary SDGs to which PMI can contribute
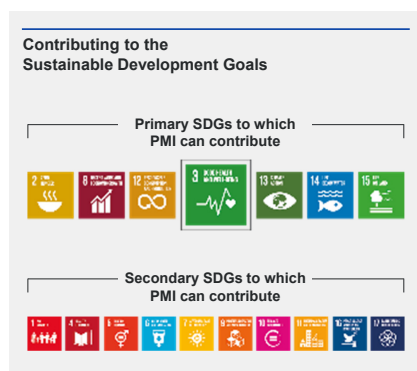
STRATEGIC PILLARS	TIER 1 TOPICS	TIER 2 TOPICS
Transforming for a sustainable smoke-free future — Innovating for better products	Product health impacts / Access to smoke-free products	Product addictiveness / Product reliability
Operating with excellence	Responsible marketing and sales practices / Sustainable supply chain management / Respect for human rights	Responsible and transparent R&D / Data privacy and protection / Business integrity / Illicit tobacco trade prevention / Responsible advocacy / Fair fiscal practices
Caring for the people we work with	Socioeconomic well-being of tobacco farming communities / Health, safety, and well-being at work	Fair working conditions / Community support / Diverse and inclusive working environment / Talent attraction, retention, and employability
Protecting the environment	Climate protection / Littering prevention / Product eco-design and circularity	Forest conservation / Biodiversity / Water stewardship / Waste reduction

Connectivity

The connection between topics must be considered. Indeed, sustainability material topics do not exist independently; they are linked to one another.

For example, the topic of sustainable supply chain management can be a catalyst for progress on various other topics, such as climate protection or fair working conditions.

Sustainable supply chain management

Sustainability issues	
1	Access to smoke-free products
2	Product reliability
3	Responsible marketing and sales practices
4	Data privacy and protection
5	Respect for human rights
6	Illicit tobacco trade prevention
7	Responsible advocacy
8	Business integrity
9	Socio-economic well-being of tobacco-farming communities
10	Fair working conditions
11	Health, safety, and well-being at work
12	Diverse and inclusive working environment
13	Community support
14	Climate protection
15	Forest conservation
16	Product eco-design and circularity
17	Biodiversity
18	Water stewardship
19	Waste reduction

Impact level

- Strong
- Medium
- Light
- Impact direction

Roadmap: Our 2025 aspirational targets

Product health impacts and access to smoke-free products

Broaden access for adult smokers to smoke-free products that are scientifically substantiated as less harmful alternatives to cigarettes.

>40m
Number of adult smokers globally who switch to PMI smoke-free products

>250bn
PMI's smoke-free product shipment volume

>20m
Number of adult smokers in non-OECD countries who switch to PMI smoke-free products

<550bn
PMI's combustible product shipment volume

Roadmap: Our 2025 aspirational targets continued

Responsible marketing and sales practices

Commercialize our products responsibly, preventing youth from accessing and using them.

>90%
Youth access prevention programs in place in markets representing over 90 percent 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

Sustainable supply chain management

Further embed sustainability in our procurement practices, leveraging on opportunities to create long-lasting social and environmental impact.

100%
Percentage of critical suppliers from whom PMI sources sustainably

Respect for human rights

Safeguard the human rights of people impacted by our activities across our value chain.

10
Highest risk countries covered by external human rights impact assessments and findings addressed

---

Roadmap: Our 2025 aspirational targets continued

Socio-economic well-being of tobacco-farming communities

Eliminate child labor and provide safe and fair working conditions on tobacco farms, and promote a living income for farmers.

100%
Percentage of contracted farmers supplying tobacco to PMI who make a living income

Zero
Child labor in PMI's tobacco supply chain

Health, safety, and well-being at work

Promote a safe and healthy working environment which protects the physical and mental well-being of all while at work.

<0.3
Total recordable incidents rate for employees and contractors

Roadmap: Our 2025 aspirational targets continued

Climate protection

Mitigate climate change by decarbonizing our operations and value chain, while increasing our resilience.

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

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

Littering prevention

Prevent littering of our products by promoting appropriate behavior among adult consumers.

-50%
Reduction of plastic litter from our products (versus 2021)

Product eco-design and circularity

Integrate circularity when developing our products, improving efficiency and recyclability, and strengthening our collection program.

100%
Percentage of PMI smoke-free product users who have access to collection and recovery for devices and consumables

100%
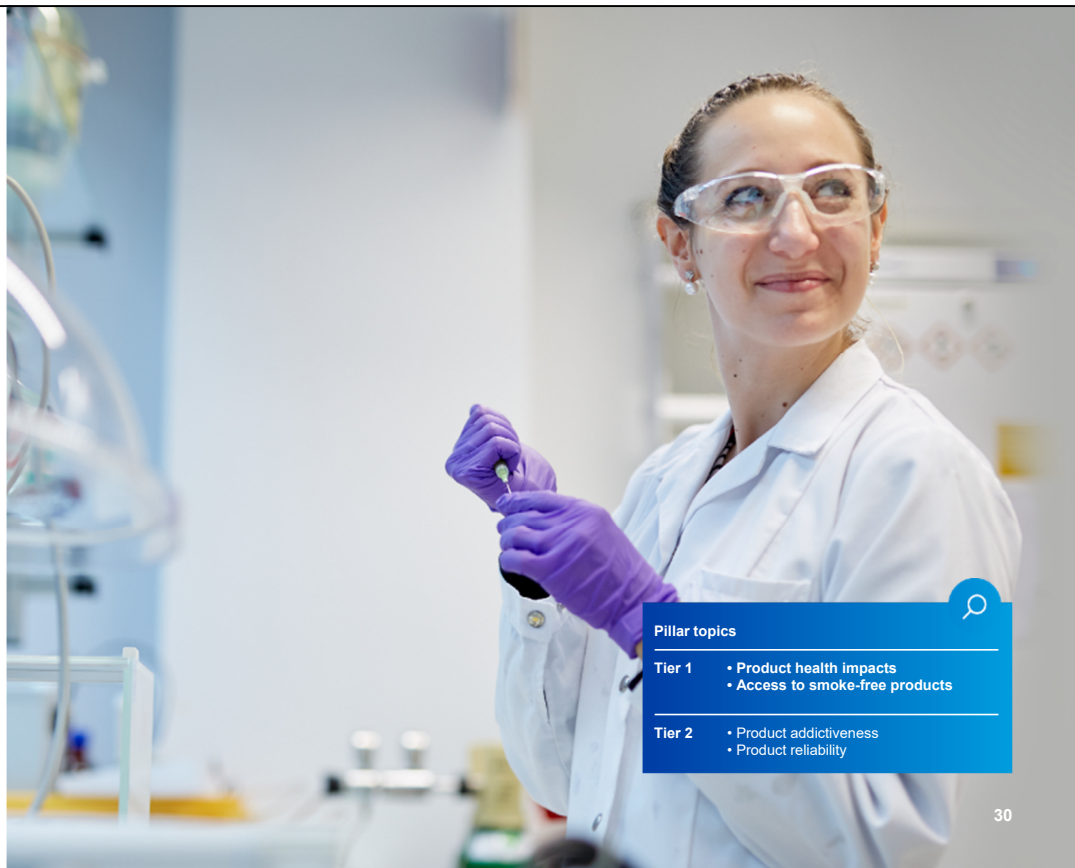Percentage of PMI smoke-free devices that have eco-design certification

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Innovating for better products

"

The best way to avoid the harms of smoking is never to start or, for those who do smoke, to quit. However, according to WHO forecasts, there will still be more than 1 billion smokers by the year 2025.
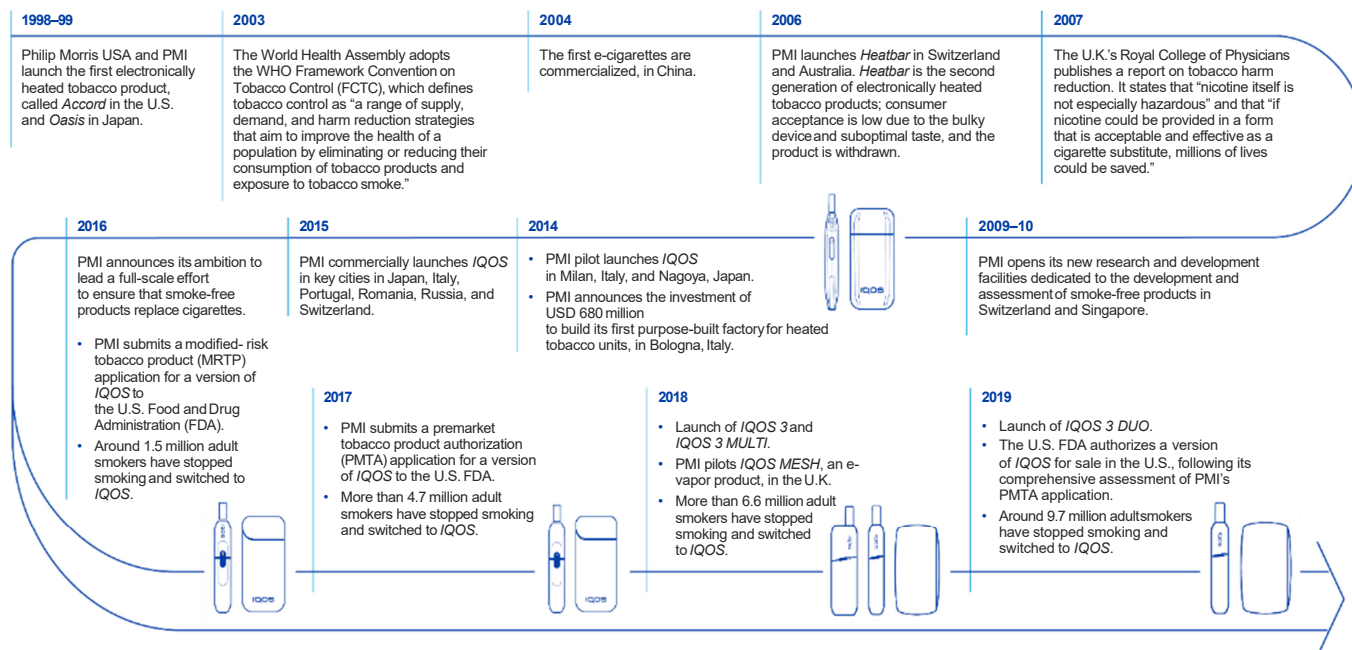
Pillar topics

Tier 1	• Product health impacts
	• Access to smoke-free products
Tier 2	• Product addictiveness
	• Product reliability

Smoke-free products timeline

1998–99	2003	2004	2006	2007
Philip Morris USA and PMI launch the first electronically heated tobacco product, called *Accord* in the U.S. and *Oasis* in Japan.	The World Health Assembly adopts the WHO Framework Convention on Tobacco Control (FCTC), which defines tobacco control as "a range of supply, demand, and harm reduction strategies that aim to improve the health of a population by eliminating or reducing their consumption of tobacco products and exposure to tobacco smoke."	The first e-cigarettes are commercialized, in China.	PMI launches *Heatbar* in Switzerland and Australia. *Heatbar* is the second generation of electronically heated tobacco products; consumer acceptance is low due to the bulky device and suboptimal taste, and the product is withdrawn.	The U.K.'s Royal College of Physicians publishes a report on tobacco harm reduction. It states that "nicotine itself is not especially hazardous" and that "if nicotine could be provided in a form that is acceptable and effective as a cigarette substitute, millions of lives could be saved."

2016	2015	2014		2009–10
PMI announces its ambition to lead a full-scale effort to ensure that smoke-free products replace cigarettes. • PMI submits a modified-risk tobacco product (MRTP) application for a version of *IQOS* to the U.S. Food and Drug Administration (FDA). • Around 1.5 million adult smokers have stopped smoking and switched to *IQOS*.	PMI commercially launches *IQOS* in key cities in Japan, Italy, Portugal, Romania, Russia, and Switzerland.	• PMI pilot launches *IQOS* in Milan, Italy, and Nagoya, Japan. • PMI announces the investment of USD 680 million to build its first purpose-built factory for heated tobacco units, in Bologna, Italy.		PMI opens its new research and development facilities dedicated to the development and assessment of smoke-free products in Switzerland and Singapore.

	2017	2018	2019
	• PMI submits a premarket tobacco product authorization (PMTA) application for a version of *IQOS* to the U.S. FDA. • More than 4.7 million adult smokers have stopped smoking and switched to *IQOS*.	• Launch of *IQOS 3* and *IQOS 3 MULTI*. • PMI pilots *IQOS MESH*, an e-vapor product, in the U.K. • More than 6.6 million adult smokers have stopped smoking and switched to *IQOS*.	• Launch of *IQOS 3 DUO*. • The U.S. FDA authorizes a version of *IQOS* for sale in the U.S., following its comprehensive assessment of PMI's PMTA application. • Around 9.7 million adult smokers have stopped smoking and switched to *IQOS*.

Product health impacts

Experts and many regulatory bodies, such as the U.S. FDA, agree that the primary cause of smoking-related diseases is not nicotine, but the inhalation of harmful and potentially harmful constituents formed as a result of burning tobacco.[1] We are therefore developing a portfolio of products that deliver nicotine without combustion – smoke-free products.

2019 Progress

- **98% of total R&D** expenditure focused on smoke-free products[2]
- **$465 USD millions** in R&D expenditure in millions USD
- **5,800 Patents** granted relating to smoke free products (cumulative)
- → Click to see our performance metrics

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

1. Source: https://www.fda.gov/tobacco-products/ healthinformation/nicotine-addictive-chemical-tobaccoproducts
2. Smoke-free products include heated tobacco units, devices, and e-cigarettes. Total products include smoke-free products, cigarettes, and other combustible products.

Product health impacts continued

Historic Milestone: U.S. FDA Authorizes Marketing of *IQOS* as a Modified Risk Tobacco Product

- **First electronic nicotine product authorized as a Modified Risk Tobacco Product (MRTP) with reduced exposure message**

- Demonstrates that *IQOS* is a fundamentally different tobacco product, and a better choice for adults who would otherwise continue smoking

- Decision validates PMI's science-based approach, the U.S. approach to harm reduction for adult smokers, and the tobacco and nicotine risk continuum

- FDA found that the exposure modification order for *IQOS* would be appropriate to promote the public health and is expected to benefit the health of the population as a whole

- FDA's comprehensive post-market controls and monitoring provide an important example for implementing science-based regulations that promote public health while minimizing undesirable outcomes

Note: The FDA's marketing order does not mean that the agency "approved" our IQOS heat-not-burn product. The authorization is subject to strict marketing, reporting and other requirements and is not a guarantee that the product will remain authorized, particularly if there is a significant uptake in youth initiation. The FDA will monitor the marketing of the product

Source: FDA Press Release April 30, 2019 (https://www.fda.gov/news-events/press-announcements/fda-authorizes-marketing-iqos-tobacco-heating-system-reduced-exposure-information)

Our scientific results are supported by a growing body of independent research

- >60 third-party peer-reviewed publications and systematic reviews published on heated tobacco products for the period January 2019 to February 2020 alone

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

→ See PMIscience.com

Access to smoke-free products

Our aims

>40m	Number of adult smokers globally who switch to PMI smoke-free products by 2025
>20m	Number of adult smokers in non-OECD countries who switch to PMI smoke-free products by 2025
>250bn	PMI's smoke-free product shipment volume by 2025
>550bn	PMI's combustible product shipment volume by 2025

2019 Progress

- **52 markets** where PMI smoke-free products are available for purchase

- **47% of markets** where PMI smoke-free products are available, outside of OECD countries[1]

- **9.7 million estimated adult smokers** worldwide who have stopped smoking and switched to PMI's smoke-free products[2]

▶ Click to see our performance metrics

Access =

Awareness × Acceptability × Availability × Affordability

1. Excluding PMI Duty Free.
2. See glossary.

Access to smoke-free products continued

The public health benefit of smoke-free products depends not only on their potential to reduce the risk of smoking-related disease, but also on their actual use as alternatives to cigarettes by adult smokers.
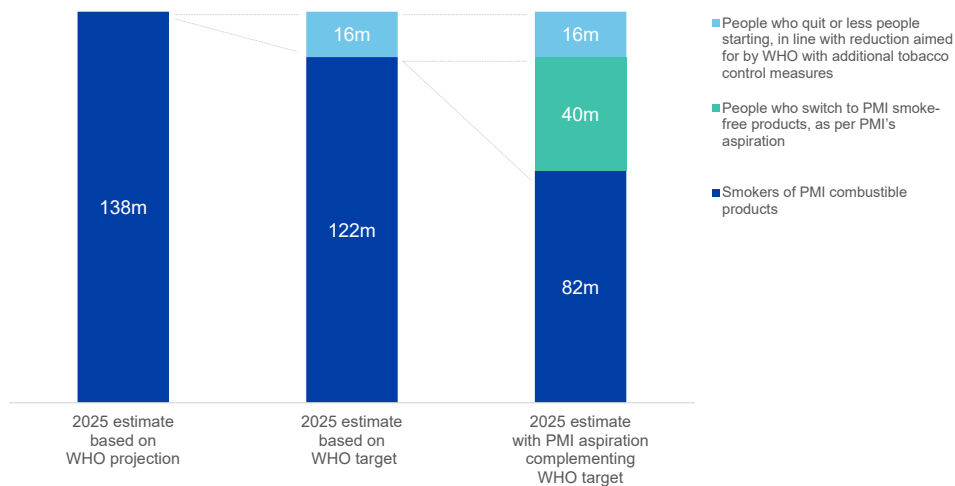
For consumers to use them, these alternatives must be accessible. With access we refer to four aspects: **improving consumer awareness, acceptability, availability,** and **affordability** of our smoke-free products.

> "
> Our aspiration is to reduce smoking more than three times faster than the target set by WHO.

Consumers of PMI products – projection 2025
(Illustration based on WHO projections, assuming constant PMI market share)

		16m
16m		40m
138m	122m	82m
2025 estimate based on WHO projection	2025 estimate based on WHO target	2025 estimate with PMI aspiration complementing WHO target

- ■ People who quit or less people starting, in line with reduction aimed for by WHO with additional tobacco control measures
- ■ People who switch to PMI smoke-free products, as per PMI's aspiration
- ■ Smokers of PMI combustible products

Innovating for better products: Overview

Tier 1

Product health impacts

[Read more online]

Access to smoke-free products

[Read more online]

Tier 2

Product addictiveness

To PMI, this topic is about better understanding product addictiveness related to the presence of nicotine, separate from the risks to health associated with the use of our products, in particular those producing smoke.

[Read more online]

Product reliability

To PMI, product reliability means securing the quality and integrity of our products, their components and ingredients, in line with appropriate design and manufacturing standards.

[Read more online]
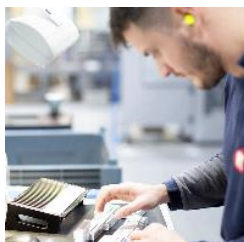
Operating with excellence

We strive for excellence in all we do. This includes making sure that our products are commercialized responsibly, in line with societal expectations. The programs and rules we have established help us to meet the high standards we have set ourselves for our marketing and sales activities.

Our supply chain accounts for a significant part of our social and environmental footprint. We are embedding sustainability in our supply chain management, working closely with our suppliers to create sustainable value. In all this, our guiding principle is the safeguarding of human rights of those impacted by our operations.

Pillar topics

Tier 1	• **Responsible marketing and sales practices** • **Sustainable supply chain management** • **Respect for human rights**
Tier 2	• Responsible R&D • Business integrity • Responsible advocacy • Illicit tobacco trade prevention • Privacy and cybersecurity • Fair fiscal practices

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Responsible marketing and sales practices

Our aims

>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

2019 Progress

90% of markets representing PMI's total shipment volume have developed youth access prevention (YAP) plans

14,500 compliance training sessions conducted on our Marketing Code were completed by PMI employees and relevant third parties

● Click to see our performance metrics

→ Overview of marketing principles for combustible products

→ Good conversion practices (GCP) for smoke-free products

→ Responsible Marketing Practices at PMI

All our commercialization activities across the world are guided by four core principles:

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

Commercializing our products responsibly

Consumer communication and labeling

- We warn consumers about the health effects of all our products. We aim to create awareness among men and women who smoke about smoke-free products as better alternatives to cigarettes, while minimizing use by unintended audience like youth and nonsmokers.

Employee third-party training

- Our responsible commercialization efforts rely on the dedication of our employees and the third parties with whom we work.

Monitoring and Remediation

- We have a robust and tested infrastructure aimed at ensuring compliance with our policies and processes. We monitor incidents of noncompliance with regulations and/or PMI's Marketing Code and the GCP.

Commitment to youth access prevention

- While PMI alone cannot prevent youth from smoking or using nicotine-containing products, there is a lot we can do, and are doing, to minimize the extent to which our marketing and products reach youth and other unintended users.

Sustainable supply chain management

Our aims

100% Percentage of critical suppliers from whom PMI sources sustainably by 2025

2019 Progress

2,875 field technicians providing support to contracted farmers and monitoring the implementation of PMI's GAP and ALP

96% proportion of tobacco purchased through direct contracts by PMI and PMI tobacco suppliers
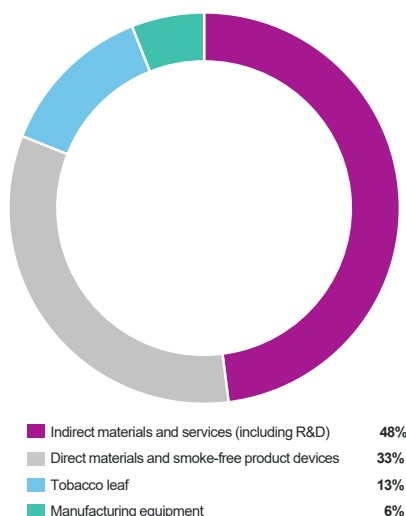
84% of critical suppliers' procurement spend assessed in PMI's supplier due diligence platform (STEP)[1]

In 2019, for the third consecutive year, PMI earned a place on **CDP's Supplier Engagement Leaderboard** for our actions and strategies to reduce emissions and lower climate-related risks in our supply chain

Click to see our performance metrics

Overview of our supply chain spend in 2019

■ Indirect materials and services (including R&D)	48%
■ Direct materials and smoke-free product devices	33%
■ Tobacco leaf	13%
■ Manufacturing equipment	6%

We expect our suppliers to commit to continuous improvement toward best practices and ongoing compliance. We are fully committed to working with and supporting our suppliers on this journey.

- Our Responsible Sourcing Principles (RSP) set process and performance standards for the suppliers of all materials and services.

- Sustainability work in our tobacco supply chain is managed at farm level through our Good Agricultural Practices (GAP) and our Agricultural Labor Practices (ALP) programs.

→ PMI's Responsible Sourcing Principles

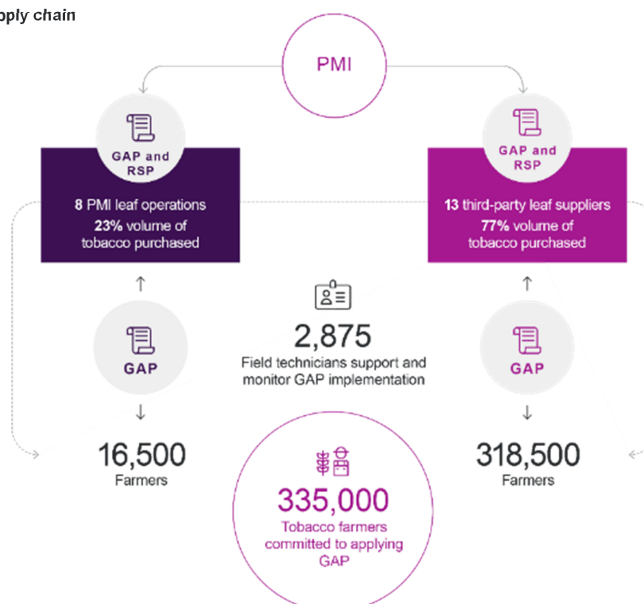→ PMI's Good Agricultural Practices

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Sustainable supply chain management continued

In our agricultural supply chains, sourcing is managed in accordance with GAP, a demanding set of standards focused on governance, crop, environment, and labor practices. Our Integrated Production System connects leaf suppliers and farmers in a commercial relationship enabling direct technical support, agronomic advice, financial loans and various other services. At the center of the system are field technicians: Men and women who support the implementation of GAP and facilitate progress on the ground.

PMI's tobacco supply chain

PMI

GAP and RSP — 8 PMI leaf operations — 23% volume of tobacco purchased

GAP and RSP — 13 third-party leaf suppliers — 77% volume of tobacco purchased

2,875 Field technicians support and monitor GAP implementation

GAP — 16,500 Farmers

GAP — 318,500 Farmers

335,000 Tobacco farmers committed to applying GAP
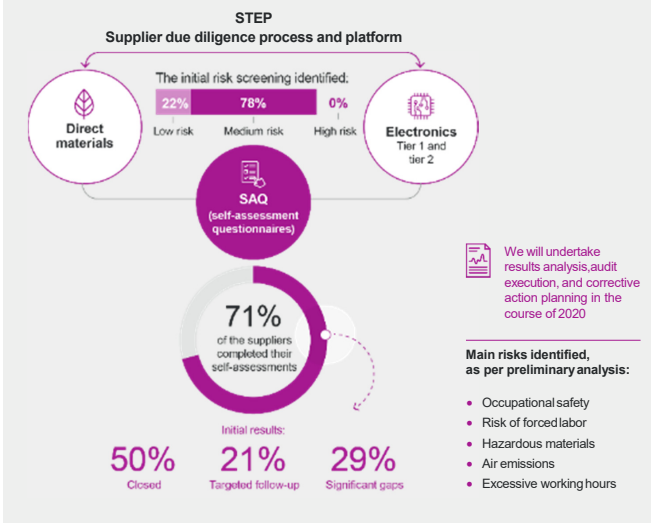
Sustainable supply chain management continued

STEP (Supplier due diligence process and platform) is the supplier due diligence and performance program to achieve supplier compliance with our RSP. Through STEP, our suppliers' potential ESG risks are determined based on the type of material or service supplied, as well as the country in which the material is produced, or the service is delivered.

The process of our supplier due diligence platform (STEP)
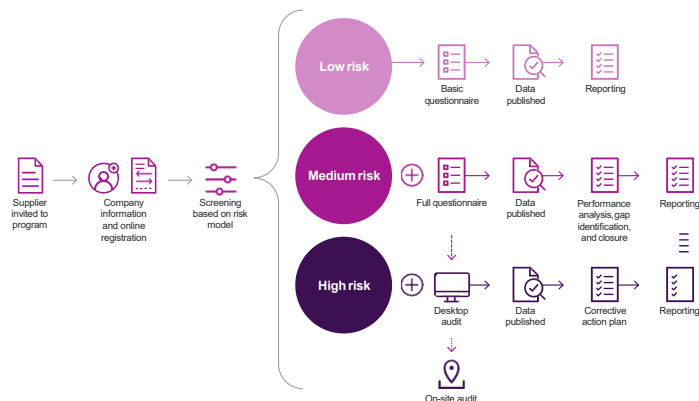
In 2019, we focused STEP deployment on critical suppliers and started to formally onboard suppliers of direct materials and electronics.

STEP
Supplier due diligence process and platform

The initial risk screening identified:

| 22% | 78% | 0% |
| Low risk | Medium risk | High risk |

Direct materials

Electronics Tier 1 and tier 2

SAQ (self-assessment questionnaires)

71% of the suppliers completed their self-assessments

Initial results:

50% Closed **21%** Targeted follow-up **29%** Significant gaps

We will undertake results analysis, audit execution, and corrective action planning in the course of 2020

Main risks identified, as per preliminary analysis:

- Occupational safety
- Risk of forced labor
- Hazardous materials
- Air emissions
- Excessive working hours

Respect for human rights

Our aims

10 Highest risk countries covered by external human rights impact assessments and findings addressed by 2025

2019 Progress

2 human rights impact assessments conducted since 2018

Our Human Rights Commitment and our Roadmap are the cornerstones of our human rights strategy

> Click to see our performance metrics

→ Our Commitment to Human Rights

The process of a human rights impact assessment

1 Preparation — Review of policies, procedures, and controls — Interviews with key stakeholders within PMI

2 Methodology and research — Definition of method and scope of the assessment

3 Assessment — On-site visits and interviews with rights holders, including internal and external stakeholders

4 Integration — Based on the findings, development of recommendations and a corresponding action plan — Monitoring of the follow-up actions

5 Reporting — Reporting on progress against the action plan and learnings from the assessment

Operating with excellence: Overview

Tier 1

Responsible marketing and sales practices

Read more online

Sustainable supply chain management

Read more online

Respect for human rights

Read more online

Tier 2

Responsible R&D

365

Scientific publications by PMI since 2008

Read more online

Illicit tobacco trade prevention

100%

Tracking and tracing – proportion of packs sold with unique code applied

Read more online

Business integrity

86.6%

Proportions of employees trained on PMI's Guidebook for Success

Read more online

Data privacy and cybersecurity

Read more online

Responsible advocacy

Read more online

Fair fiscal practices

Read more online

Caring for the people we work with

Continuously improving PMI's social impact within our operations and beyond is essential to our long-term success.

Promoting a safe and healthy working environment is key for our company. In our factories, offices, laboratories, retail outlets, and sales teams, we aim for a safe and secure workplace populated by a healthy and motivated workforce.

Our efforts extend to the labor standards we expect from our suppliers and farmers. In our tobacco supply chain, our aim is to provide a decent livelihood to all contracted farmers and prevent child labor and other labor abuses.

Pillar topics

Tier 1	• Socio-economic well-being of tobacco-farming communities • Health, safety, and well-being at work
Tier 2	• Fair working conditions • Community support • Diverse and inclusive working environment • Talent attraction, retention, and employability

Socio-economic well-being of tobacco-farming communities

Our aims

100% Percentage of contracted farmers supplying tobacco to PMI who make a living income by 2025

Zero Child labor in our tobacco supply chain by 2025

2019 Progress

92% of tobacco purchased by PMI for which labor practices have been systematically monitored

0.8% of farms monitored found with child labor incidents[1]

88% of ALP prompt actions recorded by field technicians relating to child labor that were resolved

99% of farmers and farmworkers having access to personal protective equipment[2]

Supporting farmers in diversifying their crops is an important focus area for PMI

We are committed to a set of targets to improve the socio-economic well-being of tobacco-farming communities

80% of tobacco farmworkers provided with safe and adequate accommodation[3]

Click to see our performance metrics

1. Our monitoring and reporting of child labor refer to situations of hazardous work performed by children below 18 years old.
2. We introduced this category of prompt actions in 2019.
3. We introduced this category of prompt actions in 2019. Scope is limited to farmers providing accommodation to workers (approximately 6% of the total farmer base).

Socio-economic well-being of tobacco-farming communities continued

Field technicians visit the farms throughout the tobacco-growing season and evaluate how well labor practices align with the principles of the ALP Code. "Prompt actions" are raised by field technicians to flag and trigger a response to any serious ALP violation.
A remediation plan is then discussed with the farmer, followed up on, and monitored. If the matter is not resolved within the agreed timeline, it is further escalated and may lead to sanctions.
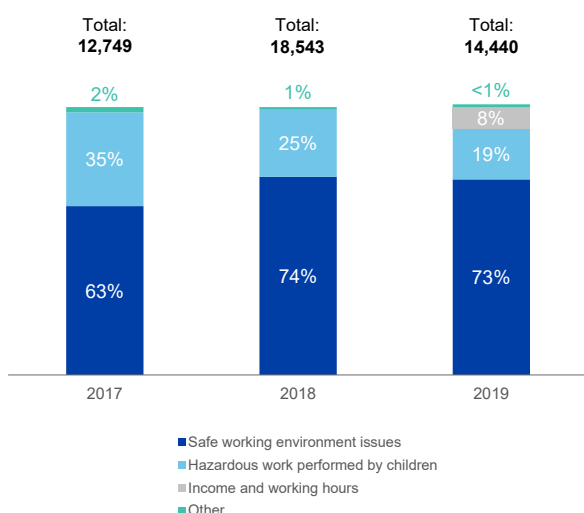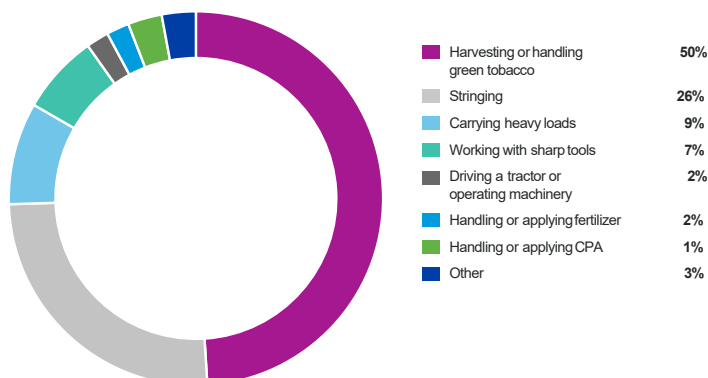
Child labor monitoring and remediation system

Raising a prompt action (PA)
FT finds child labor case, stops it immediately, and reports PA to ALP coordinator

Reporting Coordinator sends weekly reports to NGO partner with case information

First visit to the farm NGO visits farm to assess risk factors and the root cause(s) and proposes potential remediation activities

7 days

Report to supplier
Root cause(s) and potential remediation activities

Evaluation and approval
Supplier evaluates and establishes comprehensive action plan

Second visit to the farm
The final action plan is shared and agreed with the farmer

Third visit to the farm
NGO follows up on the action plan and reports progress to supplier

PA status
FT closes the PA when the action plan is established and no recurrence is observed

Socio-economic well-being of tobacco-farming communities continued

Total prompt actions recorded by field technicians (2017-2019)

Total: **12,749**
Total: **18,543**
Total: **14,440**

	2017	2018	2019
Other	2%	1%	<1%
Income and working hours	35%	25%	8%
Hazardous work performed by children			19%
Safe working environment issues	63%	74%	73%

- Safe working environment issues
- Hazardous work performed by children
- Income and working hours
- Other

Types of prompt actions recorded in 2019 relating to hazardous work performed by children

Harvesting or handling green tobacco	50%
Stringing	26%
Carrying heavy loads	9%
Working with sharp tools	7%
Driving a tractor or operating machinery	2%
Handling or applying fertilizer	2%
Handling or applying CPA	1%
Other	3%

Health, safety and well-being at work

Our aim

<0.3 Total recordable incident rate for employees and contractors by 2025

2019 Progress

- **0.20 total recordable incidents rate** (TRIR) – PMI and contracted employees

- **0.87 collision rate per million** kilometers driven versus 0.91 in 2018

- **98% of manufacturing facilities** with OHSAS 18001 and ISO 14001 certification[1]

Click to see our performance metrics

Promoting a safe and healthy working environment is key for PMI. A highly dedicated and productive workforce is an enabler of our business transformation.

Safety in manufacturing

- In our manufacturing operations, we focus on instilling a culture of behavioral and observation-based safety

Focus on fleet safety

- PMI's fleet safety management system covers driver training, vehicle safety, and driver behavior

Employee well-being

- The pace of change in the working world creates stress and anxiety, and we consider it our duty to equip our employees to better cope with stress and uncertainty

1. Scope: manufacturing facilities producing more than 3 billion cigarette equivalents annually.

Health, safety and well-being at work continued

A snapshot of our efforts to promote employee well-being, and diversity and inclusion worldwide*

90
In 2019, we became the first company to receive the global EQUAL SALARY certification certifying that we pay men and women equally for equal work everywhere PMI operates in the world, covering more than 90 countries.

55
55 health, safety, and well-being committees are set up at country-level, composed of workforce representatives.

77
Maternity or primary caregiver leave or benefits going beyond local legislation requirements are offered to employees in 77 of our markets.

22
Women network groups are set up in 22 countries.

85
Flexible working arrangements are available to PMI employees in 85 countries.

71
71 countries offer paternity or secondary caregiver leave or benefits going beyond local legislation.

41
Childcare facilities or contributions are provided in 41 of our markets.

32
32 markets employ people with disability and 65 markets have buildings accessible for disabled persons.

27
We have initiatives or networks to support the LGBTQ+ community in 27 countries.

* Data was collected from over 90 countries where PMI has employees and is estimated to cover over 95% of office-based employees.

Caring for the people we work with: Overview

Tier 1

Socio-economic well-being of tobacco-farming communities

Read more online

Health, safety, and well-being at work

Read more online

Tier 2

Fair working conditions

Our company's global reach and footprint enable us to safeguard fairness in employment conditions and encourage many other companies within our value chain to do the same.

73,542
Number of PMI employees

63%
Employees covered by Collective Labor Agreements

Read more online

Diverse and inclusive working environment

We believe diverse and inclusive workforces make businesses and society stronger, boosting innovation, creativity, responsiveness to change, performance, and employee motivation and engagement.

41.7%
Proportion female employees

36.1%
Of management positions held by women

Read more online

Talent attraction, retention, and employability

We are providing employees with opportunities to learn, grow, and contribute to great results while at the same time adapting to employees' changing expectations of their employers.

14.1%
Employee turnover

+16%
Employee net promoter score

Read more online

Community support

As a community stakeholder, businesses can play a vital role in empowering people and organizations. Partnering with local groups to address social and economic challenges contributes to the success of the business.

$17m
Value cash contributions

16,700
Volunteer hours by PMI employees

Read more online

Protecting the environment

Effective environmental management across our operations and value chain goes beyond compliance with applicable laws and regulations. We are committed to constantly improve our business activities to achieve the highest standards of environmental sustainability, in line with our Environmental Commitment. While improving the environmental performance of our manufacturing operations is key, the majority of our environmental impacts arise elsewhere in our value chain, especially in tobacco growing and curing, and with consumer waste. Working collaboratively with tobacco growers, suppliers, retailers, NGOs, and governments is key to the success of our environmental programs and to achieving our targets.

ESG Highlights
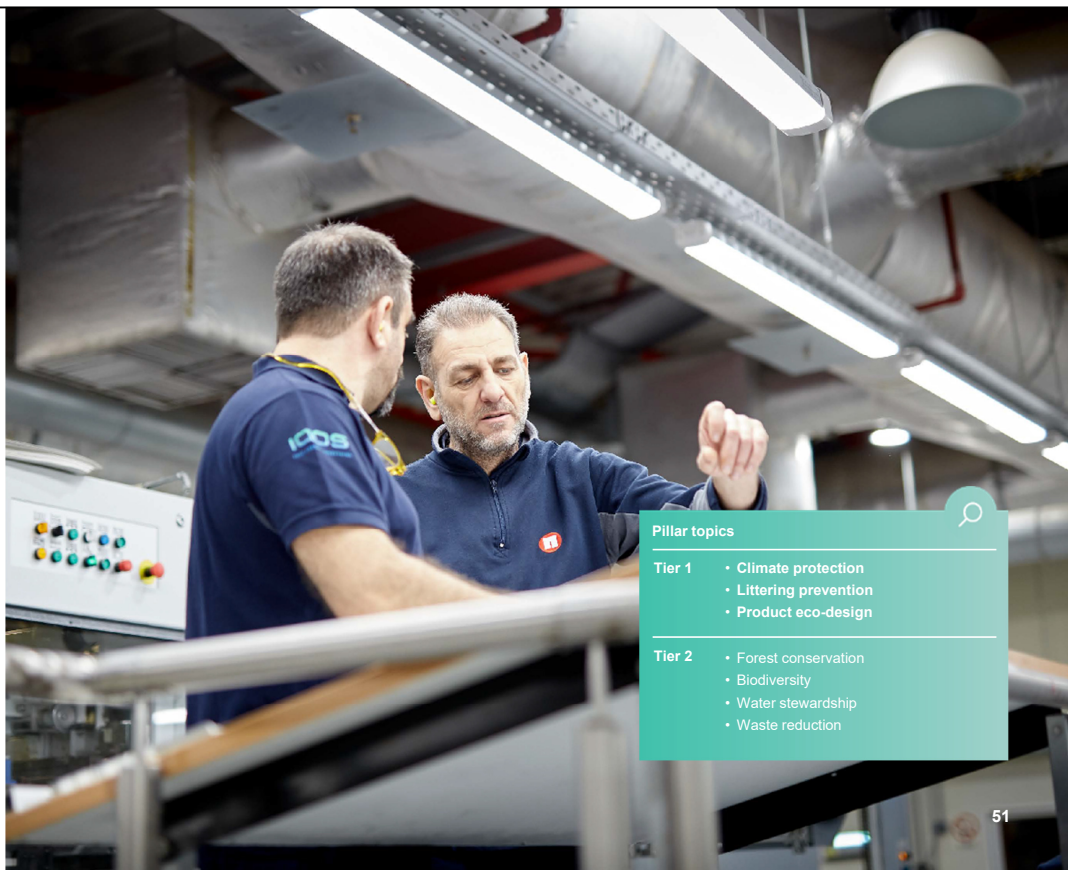
Pillar topics

Tier 1
• **Climate protection**
• **Littering prevention**
• **Product eco-design**

Tier 2
• Forest conservation
• Biodiversity
• Water stewardship
• Waste reduction

Climate protection

Our aim

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

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

Our carbon footprint model accounts for emissions generated across our value chain, and guides our climate change mitigation and adaptation strategies.

Carbon emissions along our value chain in 2019

UPSTREAM VALUE CHAIN
SCOPE 3: 83.6%

3.6% Business travel and employee commuting

22.5% Tobacco growing

9.3% Transportation and distribution

48.1% Materials and services purchased

OUR DIRECT OPERATIONS
SCOPE 1: 8.5%

Offices and warehouses

2.4% Fuel consumption from our vehicles and aircraft

6.1% Fuel consumption in our offices, factories, and warehouses

3.4% Indirect emissions from the generation of purchased or acquired electricity, steam, heat, or cooling consumed by PMI

DOWNSTREAM VALUE CHAIN
SCOPE 3: 4.5%

2.3% Use of our products

1.0% Transport and distribution

1.2% Products end-of-life

2030 — CARBON- NEUTRAL OPERATIONS BY 2030

2050 — CARBON- NEUTRAL VALUE CHAIN BY 2050

PATH TO DECARBONIZATION

ESG Highlights

Note: Presentation of information aligns with guidance of the Greenhouse GasProtocol.

Climate protection continued

2019 Progress

In our operations

1st carbon-neutral factory in Klaipeda, Lithuania

72% of electricity used in our factories from certified renewable sources
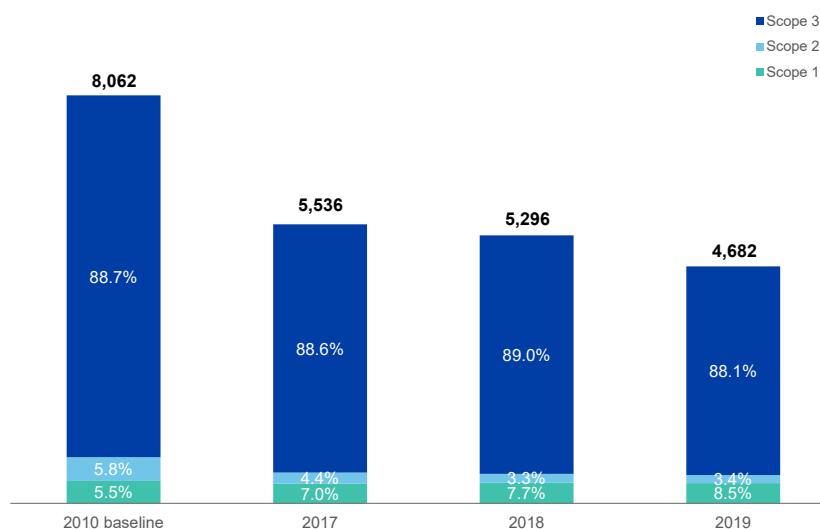
In our value chain

42% absolute reduction of CO_2e scope 1+2+3 versus 2010 baseline[1]

61% CO_2e intensity reduction in tobacco curing versus 2010 baseline

>80,000 curing barns upgraded since 2014

> Click to see our performance metrics

Global greenhouse gas emissions scope 1, 2, and 3 ('000 tons CO_2e)

- Scope 3
- Scope 2
- Scope 1

Year	Total	Scope 3	Scope 2	Scope 1
2010 baseline	8,062	88.7%	5.8%	5.5%
2017	5,536	88.6%	4.4%	7.0%
2018	5,296	89.0%	3.3%	7.7%
2019	4,682	88.1%	3.4%	8.5%

Littering prevention

Our aim

-50% Reduction of plastic litter from our products by 2025 (versus 2021)

2019 Progress

31 PMI affiliate in 51 cities participated in PMI supported clean-ups on World Cleanup Day, the world's largest litter cleanup event

3,900 PMI employees and other volunteers participated in World Cleanup Day

83 tons of waste and more than **827,000 cigarette butts** picked up by PMI teams (representing almost 170 kilograms)

> Click to see our performance metrics

Plastic footprint of PMI products

Cigarette filters	72.7%
Packaging	13.5%
Heated tobacco unit filters	13.1%
Electronic devices	0.6%

We have an anti-littering policy in place and are acting across PMI to deliver on it

> See our Anti-Littering Policy
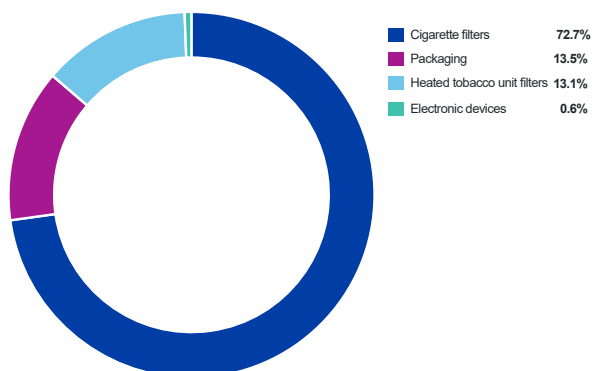
Our approach

Awareness raising	Disposal solutions	Social norms & enforcement

Product eco-design and circularity

Our aim

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

100% Percentage of PMI's smoke-free devices that have eco-design certification by 2025

2019 Progress

74% rate of recycling of *IQOS* devices at the CIRCLE hubs (weighted average)[1]

93.5% of packaging material that is recyclable
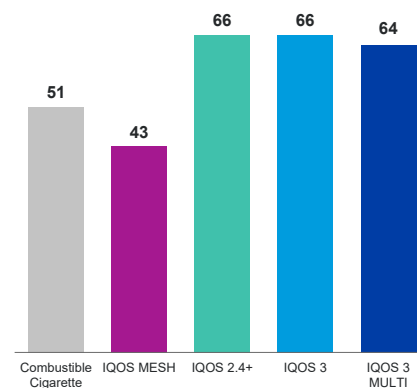
87.7% of packaging material that is renewable

> Click to see our performance metrics

1. We established our two recycling CIRCLE hubs in 2018. Recycling rate: Depending on device type and processing facility (figures provided for product processed through CIRCLE hubs, varied by device type, zero landfill, remainder to energy recovery or material loss).

Foundation principles of eco-design and circularity guiding our work

- Production of components & products
- Distribution
- Material selection and sourcing
- Use
- End-of-life

Choices from designers in collaboration with other functions

Life-cycle assessment – comparison of some PMI products (kgCO$_2$e/2 years)

Combustible Cigarette	IQOS MESH	IQOS 2.4+	IQOS 3	IQOS 3 MULTI
51	43	66	66	64

Note: This graphic is an internal assessment based on data compiled from three different LCAs, and assumes 20 heated tobacco units or combustible cigarettes per day. Scope includes materials, manufacturing, use, and end-of-life, but excludes logistics.

Protecting the environment: Overview

Tier 1

Climate protection

> Read more online

Littering prevention

> Read more online

Product eco-design

> Read more online

Tier 2

Forest protection

A significant portion of our environmental management effort is devoted to protecting forests. We seek to prevent deforestation linked to our operations and sourcing activities.

97% Tobacco purchased at no risk of deforestation of old-growth forests

51% Of tobacco leaf purchased was cured using renewable and traceable fuels

> Read more online

Biodiversity

For PMI, biodiversity is about reducing the negative impacts of our operations and sourcing activities on habitats and ecosystems and looking for contributions we can make to biodiversity.

>345k Live barns planted since 2014

100% Of tobacco purchased without detection of residues attributable to the use of WHO Toxicity Class crop protection agents

> Read more online

Water stewardship

Water stewardship at PMI is about reducing water use, promoting water recycling, protecting watersheds, and promoting sustainable water management in collaboration with stakeholders.

6 Factories certified by the AWS Standard since 2018

15 Local water risk assessments conducted in our tobacco supply chain since 2018

> Read more online

Waste reduction

To PMI, waste reduction means minimizing the waste generated by our manufacturing facilities and offices, promoting materials reuse and recycling, and striving for responsible disposal.

50% Of our factories with <1% waste to landfill

9% Reduction of amount of waste generated since 2010

> Read more online

Performance in ESG ratings in 2019

Rating agencies	PMI's performance in 2019	Score	
CDP Climate	Recognized as a Climate A List company for sixth year in a row	A	
CDP Forest	Achieved A- ranking for Forest Disclosure	A-	
CDP Supplier Engagement	Placed on Supplier Engagement Leaderboard for third year in a row	Leader	
CDP Water Security	Achieved Water Security A List	A	
ISS-oekom	Earned a "C" score, achieving industry leadership	C	
MSCI	Improved performance versus previous year	BBB	
SAM Corporate Sustainability Assessment	Earned third place among our industry in second year of active participation	3rd rank	
Sustainalytics	Ranked 34th out of 180 companies; awarded "Leader" status for environmental performance	34th rank	
State Street R-factor Score	Outperformer within the tobacco industry; industry average score 44	52	

Reports and resources

To learn more about PMI's approach to sustainability and ESG performance:

→ See PMI Sustainability Integrated Report

→ See PMI ESG Highlights 2019
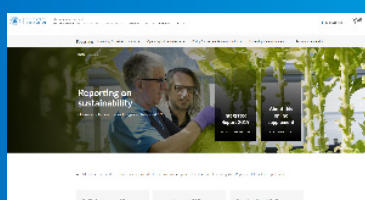
→ See the online supplement to PMI's Integrated Report 2019

GRI Content Index 2019

Index table

SASB Content Index 2019

Index table

→ See PMI Sustainability Materiality Report 2019

More resources

→ Sustainability Resources

→ Subscribe to PMI's quarterly Sustainability newsletter

Glossary and acronyms

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Aerosol – Gaseous suspension of fine solid particles and/or liquid droplets
ALP – Agricultural Labor Practices
AWS – Alliance for Water Stewardship
CDP – Carbon Disclosure Project
CHTP – Carbon-Heated Tobacco Product
CLAs – Collective Labor Agreements
Combustible products – The term PMI uses to refer to cigarettes and OTP, combined
Combustion – The process of burning a substance in oxygen, producing heat and often light
CPA – Crop protective agent
EHTS – Electrically Heated Tobacco System
E-liquids – Refers to 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
EPR – Extended Producer Responsibility
Estimated users who have stopped smoking and switched to *IQOS* – For markets where *IQOS* is the only heat-not-burn product, this is defined as the daily individual consumption of PMI HTUs representing the totality of their daily tobacco consumption in the past seven days. For markets where *IQOS* is one among other heat-not-burn products, this is the daily individual consumption of HTUs representing the totality of their daily tobacco consumption in the past seven days, of which at least 70% are PMI HTUs
EVA – Economic value added
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")
FAO – Food and Agriculture Organization of the United Nations
FCTC – Framework Convention on Tobacco Control
FDA – U.S. Food and Drug Administration

FTs – Field technicians monitoring the implementation of PMI's Good Agricultural Practices and Agricultural Labor Practices programs
GAP – Good Agricultural Practices
GDPR – General Data Protection Regulation
GHG – Greenhouse gas
GPP – Global Privacy Program
GTS – Green tobacco sickness
HCV – High conservation value
Heated tobacco product or HTP – A manufactured tobacco product that delivers a nicotine-containing vapor (aerosol), without combustion of the tobacco mixture
Heated tobacco units or HTUs – The term PMI uses to refer to heated tobacco consumables, which for PMI include the company's *HEETS, HEETS Creations, HEETS Marlboro* and *HEETS FROM MARLBORO*, defined collectively as *HEETS*, as well as *Marlboro HeatSticks* and *Parliament HeatSticks*
HHPs – Highly hazardous pesticides
HPHCs – The harmful or potentially harmful constituents which have been identified as likely causes of tobacco-related diseases
Illicit trade – Refers to domestic non-tax paid products
IPM – Integrated Pest Management
IPS – Integrated Production System
KPIs – Key performance indicators
LMICs – Low and middle income countries
LTI – Lost Time Injury
MRTP – Modified Risk Tobacco Product, the term used by the U.S. FDA to refer to RRPs
MRTPA – Modified Risk Tobacco Product Application under section 911 of the Federal Food, Drug, and Cosmetic Act
NGOs – Non-governmental organizations
OECD – Organisation for Economic Co-operation and Development
OTP – Defined as "other tobacco products," primarily roll-your-own and make-your-own cigarettes, pipe tobacco, cigars and cigarillos, and does not include reduced-risk products
P&C – People and Culture

PMI Regions – Effective January 1, 2018, PMI began managing its business in six reporting segments as follows: the European Union Region (EU); the Eastern Europe Region (EE); the Middle East & Africa Region (ME&A), which includes PMI Duty Free; the South & Southeast Asia Region (S&SA); the East Asia & Australia Region (EA&A); and the Latin America & Canada Region (LA&C)
PPE – Personal protective equipment
Reduced-risk products (RRPs) or smoke-free products – 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 continued smoking. PMI has a range of RRPs in various stages of development, scientific assessment and commercialization. PMI's RRPs are smoke-free products that produce an aerosol that contains far lower quantities of harmful and potentially harmful constituents than found in cigarette smoke
R&D – Research and development
RSP – Responsible Sourcing Principles
SDGs – Sustainable Development Goals
Smoke – A visible suspension of solid particles, liquid droplets, and gases in air, emitted when a material burns
Smoke-free product consumables – The term PMI uses to refer to heated tobacco units used with the *IQOS* heat-not-burn product, and cartridges containing e-liquids that are used for e-vapor products
STP – Sustainable Tobacco Program
SUP – Single-use plastics
THS – Tobacco Heating System
Tons – "Tons" equates to "metric tons" throughout this report
Total users – The estimated number of legal age (minimum 18 years) users that used PMI HTUs for at least 5% of their daily tobacco consumption over the past seven days
Total shipment volume – The combined total of cigarette shipment volume and HTU shipment volume
TPSAC – Tobacco Products Scientific Advisory Committee
UNGPs – United Nations Guiding Principles on Business and Human Rights
WASH – Water access, sanitation, and hygiene
WHO – World Health Organization