

# Managing our social impact

Continuously improving PMI's social impact within our operations and beyond is essential to our long-term success. This starts with how we attract and retain people at PMI, the labor standards we expect from farmers and suppliers, and our shifting attitude towards consumer centricity. In this section, we provide an overview of what it is like to work at PMI: our company culture, our approach to inclusion and diversity, labor relations as a foundation for sustainable business, and ongoing efforts in the areas of employee safety, health and well-being. We also look to the future

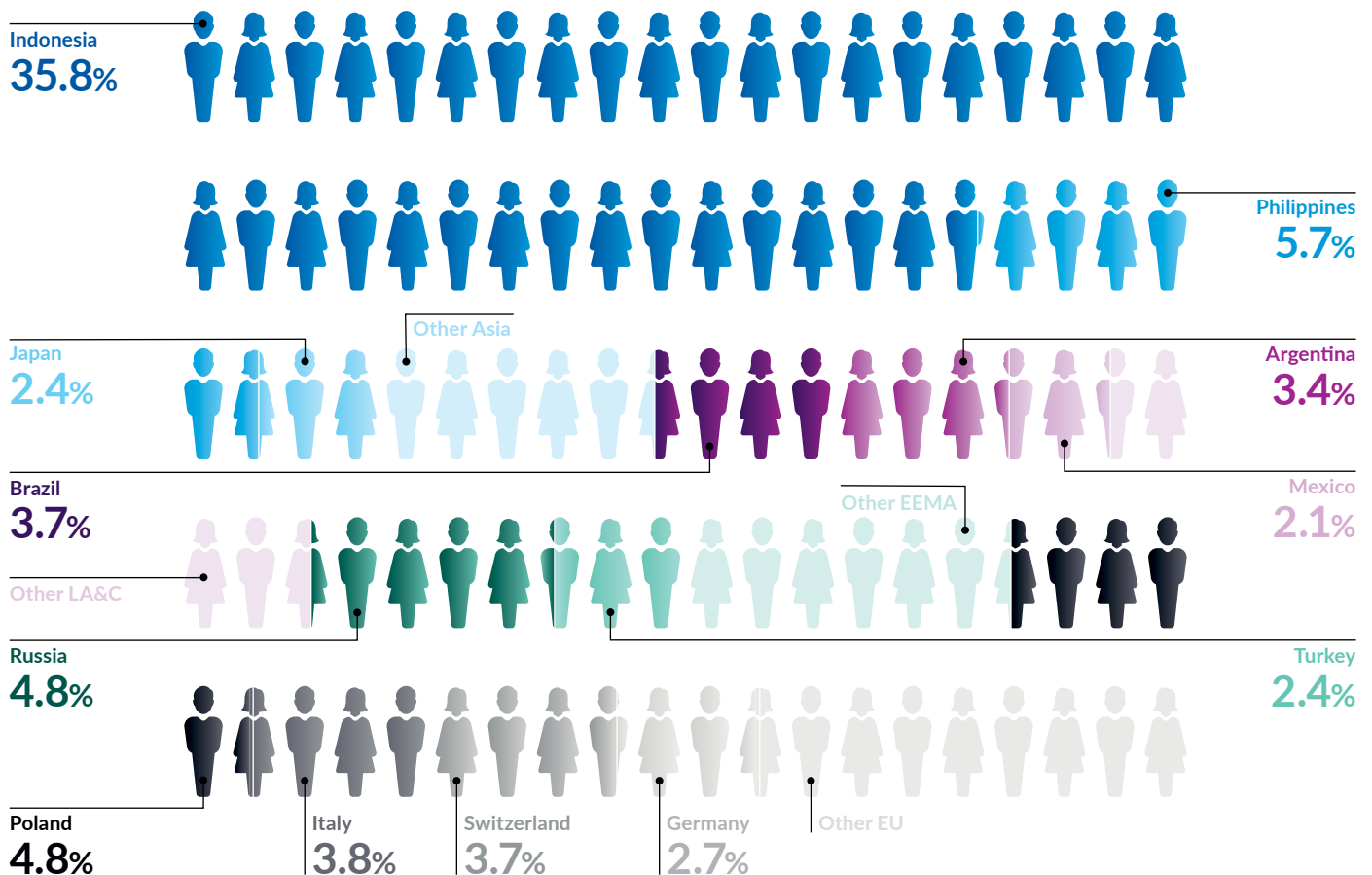
and the steps we are taking to equip our people to adapt and thrive as our company shifts towards smoke-free products. Social responsibility does not stop at our operations: We also discuss our Agricultural Labor Practices program.

## Working at PMI

We are a multigenerational, diverse community of 80,600 employees worldwide, speaking over 80 languages and working together in a culture of honesty, respect, and fairness.

The transformation of our business goes hand in hand with evolving our ways of working, our mindset and behaviors, as well as our culture. PMI's People & Culture (P&C) Leadership Team is accountable for driving the internal transformation that will enable the success of our smoke-free vision. Defining the behaviors required to drive this vision and attracting, supporting, and retaining people from every part of the globe are key P&C priorities.

## PMI employees around the world



## Transforming our company culture

Converting our Human Resources function to People & Culture reflects the importance of developing a new culture within PMI that is focused on enabling a smoke-free future through insight and innovation, and on putting our consumer at the core of everything we do.

The P&C function is organized to deliver a new and exciting people agenda in line with our aspirations to continue making PMI a great place to work. The function has been designed so that it will maintain and grow the capabilities that have made PMI so successful in the past, while developing our people and equipping them to successfully transform the company.

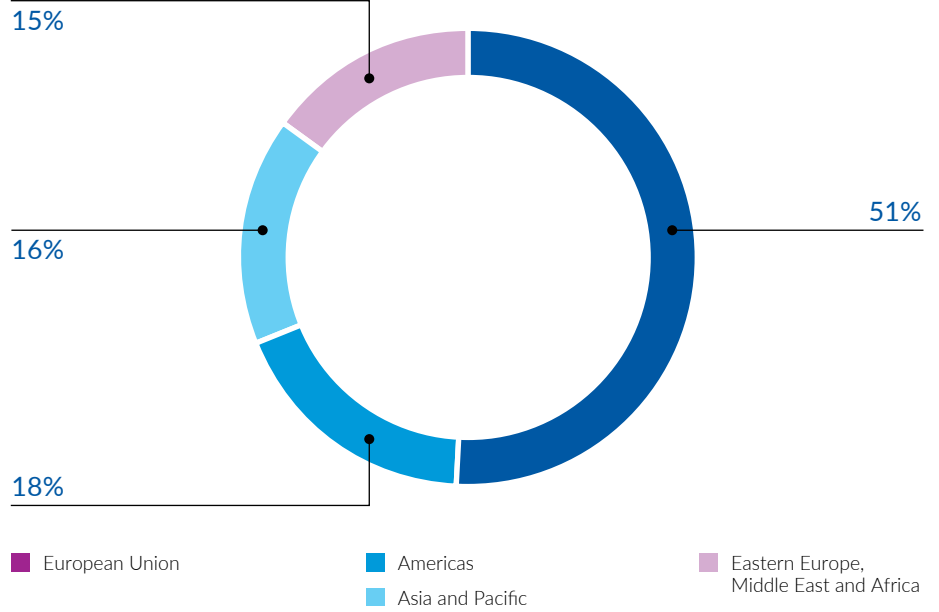
## Inclusion and diversity

We believe the best way to spark innovation, solve problems, and make better decisions is to harness the power of different skills, ideas, and perspectives from diverse groups of people who are supported by an inclusive culture. We are a truly global and diverse organization.

Diversity is about differences. At PMI, we think about differences broadly, including, without limitation – gender, gender identity, ethnicity, nationality, age, sexual orientation, religious background, ability, education, and technical skills. All of these differences contribute to diversity of thought because they impact how we see the world. Inclusion is about treating people fairly and equitably so that they can contribute their personal best in every way. It is about mindsets, behaviors, and employment practices that value, respect, and accommodate differences, promote listening, and learning from others, and create space for constructive disagreement.

An essential element of our inclusion and diversity agenda is a focus on leveraging the full potential of women in the workplace. By closing 2017, with 34.4% women in management positions, up 1.6 point versus 2016, we continue to progress towards our 2022 goal of reaching 40% female representation at the managerial level. To support this goal, we aim for a 50:50 gender ratio in our recruitment pipeline. In 2017, women accounted for 43% of new hires at managerial levels and 47% of new hires at more junior levels. Career support and advancement are also critical for achieving this goal. In 2017, 38% of promotions at managerial levels were of women.

## A diverse global leadership



Giving people autonomy over where and when they work and focusing on output instead of “being seen working” can increase productivity, provide environmental benefits from cutting business travel, and support employees in balancing business and personal priorities. Fifty-one markets now operate flexible work arrangements. While we have laid the foundation, we have more to do to fully leverage the benefits of flexible work.

We have launched parental support programs and initiatives designed to help employees achieve their ambitions to be both great parents and great professionals. These include the creation of a network group called “Parents@pmi” and workshops for pre- and post-maternity and for new fathers. We also continued to support the International Dual Career Network, a platform designed to support the careers of the partners and spouses of our internationally mobile employees.

To further enable our people to develop mindsets and capabilities to act and lead others inclusively, we continuously train People & Culture professionals and people managers on how to mitigate unconscious biases in recruitment, talent, and performance management. Over the past year, we completed 60 awareness-building workshops; in which:

- 1,552 employees participated; and
- 14,119 training hours were provided.

All PMI regions and affiliates have customized their Inclusion and Diversity (I&D) agenda and activities to focus on their own priorities. Here are some highlights:

### Africa

Launched the AFRICAN CUP to further develop talent from diverse backgrounds and build new capabilities across the region. This project leverages PMI's talents to help solve business issues and fast-track capability building in Africa through international assignments in that region.

#### Algeria

Conducted a conference for all employees to raise awareness of I&D, including unconscious bias and challenging cultural and gender stereotypes.

#### Senegal

Participated in the very first women development forum in sub-Saharan Africa, attended by more than 200 top-level business executives from multiple sectors.

#### South Africa

Worked with organizations like the Global Fund for Women and local communities on initiatives relating to the abuse of women and children.

### Americas

#### Argentina

Promoted flexible working arrangements with the #QuieroRemoteWork challenge. People were encouraged to work remotely and share their experiences via a knowledge-sharing platform including posts with pictures, comments, and "likes".

#### Canada

Continued to improve its disability agenda through ongoing training, implementing an accessibility plan, and removing barriers for people with disabilities.

#### Mexico

Implemented a program aligned with the Official Mexican Standards (NOM) 25 Local Bronze Certification, focusing on gender equality and non-discrimination, salary equity, prevention of workplace violence, work-life balance, and equal treatment and opportunities.

### Asia and Pacific

#### Australia

Created innovative ways to engage employees on I&D issues by providing platforms to share views and perspectives. Examples: "Don't Argue" debate on pros and cons of flexible working arrangements and BAR-B-GRAS BBQ to raise awareness and support for the plebiscite of the Marriage Equality Act.

#### Indonesia

Launched the Sampoerna Inclusive Leadership Award (SILA) to engage managers and their people to "walk the talk" and recognize those showing exemplary inclusive behaviors. Aims to propagate inclusive leaders to help foster a more inclusive environment.

#### Malaysia

Promoted work-life balance practices and participated in the Life at Work Awards to recognize companies creating increasingly diverse, inclusive, and family-friendly workplaces.

#### Philippines

PRIDE month was celebrated for the second year in a row as part of affiliate-wide communication and awareness building programs.

#### Singapore & Taiwan

Embarked on efforts to better understand the needs and expectations of different generations in the workforce. A Generational Efficacy Workshop took place to gain insights into diverse generational needs and to map out priorities and actionable next steps.

### Europe and Middle East

#### Italy

Implemented the Women in Development program for the Greenfield factory in Bologna. Offers opportunities for women without a technical background to pursue a career in a manufacturing environment.

#### Russia

Introduced flexible time and remote working arrangements to help foster an inclusive work environment as an enabler of transformation, and to support professional growth and work-life balance.

#### Switzerland

Participated at the Bern PRIDE parade in support of the Swiss LGBT+ community, launched unisex toilets in its premises, and conducted forums where senior PMI leaders spoke about LGBT+ inclusion.

#### Turkey

Collaborated with the Women Entrepreneurs Association of Turkey (KAGIDER) to help women achieve their career goals and aspirations through an external mentorship program.

#### United Arab Emirates

Increased its focus on gender diversity by targeting a balanced gender ratio in the talent acquisition pipeline, implementing contemporary onboarding programs, and promoting flexible working arrangements.

#### United Kingdom

The LGBT+ and allies group "PML Stripes" directed efforts to successfully celebrate "National Coming Out Day" and conducted a fundraising event for a local charity, the Terrence Higgins Trust, in commemoration of World AIDS Day.

## Labor relations

Building and strengthening respect and trust are at the core of our labor relations principles. Today, with the efforts we are currently deploying to transform the business towards a smoke-free future, this becomes even more important.

Our Workplace Integrity Policy, which all PMI employees are expected to know and follow, speaks to our commitment to fundamental principles and rights at work. We respect the right of our employees to form or join trade unions and employee representative organizations of their own choice, and they should be able to make an informed decision free from coercion, thereby guaranteeing freedom of association. We recognize our employees' right to bargain collectively through employee representatives. We respect the terms of collective agreements and, where collective bargaining arrangements are in place, we ensure that PMI bargains in good faith. We make all efforts to conduct fair and cooperative negotiations, to overcome potential difficulties that may arise and reach sustainable and business responsible agreements, which will serve the parties in the long term. Overall, we maintain a strong commitment to promote cooperation on matters of mutual concern and observe high standards of employment and labor relations.

Collective Labor Agreements (CLAs) with trade unions and employee representatives demonstrate our commitment to meaningful engagement. CLAs govern many of our employees' terms and conditions at work and may include working hours, occupational health and safety, holidays, wages, and procedures for dispute resolution. In 2017, we had 80 CLAs in 35 countries, covering approximately 67% of our employees. We strengthened the labor relations capability within our People & Culture function by rolling out an e-learning tool for employees who lead labor relations at the country level. For 2018, we plan a progressive roll-out to line managers in other business areas.

## Rewarding our employees

Our total reward programs enable us to attract the talent we need to successfully achieve our business strategy. We offer compelling programs in the areas of compensation and benefits, health and well-being, financial planning, and education.

We establish our programs considering all elements important to our existing and future employees. Our compensation programs are at, or above, market median in all countries where we do business. Along with the transformation of our business, we adapt our programs to be the most relevant to our diverse, multicultural and multigenerational workforce. We are committed to rewarding superior performance aligned with our short- and long-term transformation targets.

We are committed to pay men and women equally for equal work and seniority, wherever we operate around the world. We are proud to have been the first multinational company to achieve Equal-Salary certification in Switzerland and Japan, and we aim to receive a global Equal-Salary certification by 2019.

## Living wage

In 2016, we started a project with Business for Social Responsibility (BSR) to assess whether the lowest-paid people in our organization are able to maintain a fair standard of living. After defining the concept and methodology with BSR, we ran a living wage survey in countries where we had over 50 permanent employees in 2017. The results confirmed that, in the 58 countries<sup>34</sup> surveyed, no permanent employee was paid below the living wage rate.

In 2018, we will run a similar survey for temporary and seasonal employees. Our ambition is that none of our employees get paid below the living wage rate.

### Living wage

According to our concept, a living wage:

- Is earned within normal working hours;
- Provides the means for an individual/family to purchase the goods and services necessary to attain a basic standard of living and to accumulate a minimum level of savings; and
- Is aligned with the social and cultural expectations of the community and/or country of which individuals are part.

## Health and well-being

The health and well-being (H&WB) of our employees, both inside and outside the workplace, is a multifaceted topic touching on the physical, emotional, and behavioral aspects of living. It is understood differently from country to country and is influenced by personal preferences, local culture, behaviors, and demographics. With this in mind, we continue to roll out our program and minimum requirements on promoting H&WB initiatives through our *BalancedYou* program across affiliates worldwide. This covers four main areas:

- Illness and disease prevention;
- Encouraging physical activity;
- Promoting healthy eating; and
- Supporting stress management and work-life balance.

We encourage the establishment of local H&WB committees in our affiliates. In 2017, such committees existed in 36 of our markets. Composed of cross-functional team members and employee representatives, they foster the collaboration and dialogue necessary to tailor the activities according to the specific needs of local employees.

During the latter part of 2017, we initiated a global survey on health and well-being internally in collaboration with our Market Research team to collect feedback on what H&WB means across the globe. This allowed us to identify the top three areas of concern to our employees: stress, sleep, and work-life balance, and the activities of interest to employees inside and outside the workplace. This assisted us in forming the global strategy for health and well-being. We also launched a digital *BalancedYou* module to support our global approach toward H&WB. Aimed to define, inform, and support employee participation in health and well-being activities, it covers for example: articles written on contemporary topics, challenges to encourage cross-border participation and a sense of community, and coaching tips and support via live chat and personal support.

We plan to implement a smoking cessation program for employees, which is currently under development in order to enhance PMI's H&WB approach. Separately, we also envisage introducing smoke-free alternatives for employees who do not want to quit tobacco use, in local markets where such options are available.

PMI is undergoing a significant transformation which affects every part of our business and every employee. It is crucial that we put the necessary systems and processes in place to fully support people throughout this pivotal period and equip them for success. The year 2017 saw considerable efforts across the key pillars enabling our transformation: How we organize ourselves, how we lead and behave, and how we work.

### 1. The way we organize

To accelerate and enhance our ability to deliver on our vision, we have implemented a new Operating Model, which separates development from deployment to enable the company to better focus on both innovation and consumer centricity. To bring this Operating Model to life, building new capabilities (e.g., in science and in technology, to be equipped in today's digital era) and upskilling our employees will be the focus for 2018.

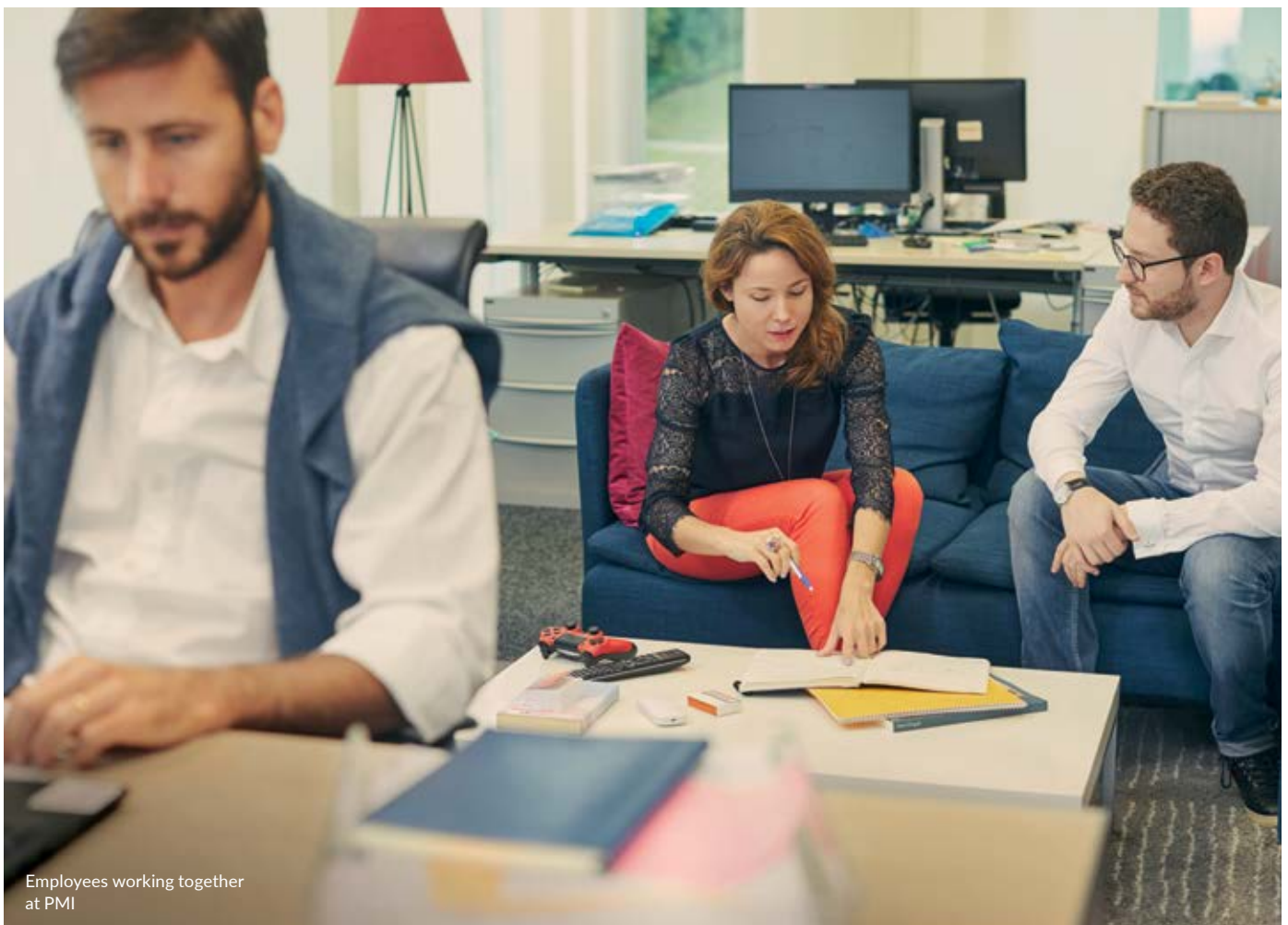
### 2. The way we lead and behave

Today's challenges differ from those we faced in the past. We need to change many of the ways we think and act, both as individuals and as a company. That is why we need a new approach to leadership within PMI and a new culture that helps ensure that our people have the mindset and behaviors necessary to drive the innovation, collaboration, and consumer – and stakeholder – centricity required to successfully operate our transformation. Through an innovative survey, we engaged over 10,000 employees to define the behaviors required to drive long-term success and ultimately create a smoke-free future.

### 3. The way we work

To ensure no employee is left behind in our transformation journey, we have implemented various programs to help them understand different business challenges and equip them with the necessary knowledge to lead the transformation towards PMI's smoke-free vision:

- We have developed an online training program designed to give people the foundational information they need on our new product portfolio that has been accessed by 27,000 users.
- We have developed the Transformation Academy – a 12-week training program for management teams worldwide, focusing on smoke-free products regulatory complexities, responsible marketing, and sustainability. In 2017, 250 leaders in 20 markets participated in this program.
- In our operations, we have introduced a manufacturing excellence program using new standardized routines, processes, and tools, which is deployed sequentially to develop the capabilities of our people. In 2017, 14 factories implemented this program and over 1,500 employees were trained.
- We have also introduced a different way of working based on consumer centricity, enabling employees to deliver faster while ensuring solutions meet the final consumer needs. This program covered over 3,000 employees in 2017.



Employees working together at PMI





A hand roller of kretek cigarettes in Indonesia

Our performance: Working at PMI	2015	2016	2017	Goal
Number of employees	80,200	79,500	<b>80,600</b>	
Women employees (%)	40.6	41.2	<b>41.6</b>	
Women in management positions (%)	31.0	32.8	<b>34.4</b>	40 by 2022
Number of women in Company Management (management board)	1 (out of 16)	1 (out of 17)	<b>2 (out of 20)</b>	
Number of women on Board of Directors	2 (out of 12)	2 (out of 13)	<b>2 (out of 13)</b>	
Employee turnover rate (%) <sup>1</sup>	13.8	11.2	<b>11.0</b>	
Employee voluntary turnover rate (%) <sup>1</sup>	4.3	4.3	<b>4.9</b>	
Employees covered by collective labor agreements (%)	67	68	<b>67<sup>2</sup></b>	

1 The aggregated data cover approximately 70% of our employees.

2 As of October 1, 2017, approximately 74% of our workforce in non OECD countries was covered by collective labor agreements.

## Looking ahead

- Our business vision to create a smoke-free future entails an organizational transformation, which calls for a new mindset and perspective. Consumer centricity, a multistakeholder approach, and continuous focus on inclusion and diversity are key enablers to achieve this.
- In the next few years, we will continue to work on our goal of increasing the representation of female employees

- in management positions to 40% by 2022, and we will pursue our goal to reach a global Equal-Salary certification by 2019 with the Equal-Salary Foundation, working in partnership with PricewaterhouseCoopers (PwC) for the 18-month audit and certification procedure.
- We believe that sound labor relations and a constructive dialogue with our employees and their representatives will help us to respond to the challenges and opportunities arising from our

company transformation. We will continue building and reinforcing our labor relations capabilities across the globe.

- We want to ensure that none of our employees receive a salary below the living wage rate.
- We are studying best practices and looking at ways to define and embed evidence-based employee health and well-being metrics into our broader corporate reporting framework.

## Safety in the workplace

PMI has 46 production facilities globally. We have developed and implemented a leading environmental and occupational health, safety, and security management system, which involves policies, standard practices, and procedures at all of our manufacturing centers. We have set minimum requirements based on PMI best practices and local regulations and have embedded these requirements into every level of our organization. Training and awareness programs support our ambitions, globally and at the affiliate level.

In 2017, we expanded the scope of our Mission Zero program beyond our manufacturing operations to reach our country sales and marketing organizations. We piloted safety cultural assessments in several markets that allowed us to build a systematic approach to improve safety performance. We launched new safety executive leadership workshops and tools, and undertook employee engagement activities across our affiliates.

We established PMI Markets Safety Awards for the first time, to recognize those markets that had already started applying the Mission Zero philosophy to their day-to-day work, and to encourage their further commitment to sustain PMI's safety culture and environmental commitments.

In 2017, our Lost Time Injury (LTI) rate, the most widely used benchmark to assess prevalence of serious work-related injuries, was the best in our industry and one of the lowest among our fast-moving consumer goods peer group.

In 2017, the LTI rate across the whole of PMI was 0.10 (injuries per 200,000 hours worked) and in our factories it stood at 0.05. Thirty-five of our factories achieved zero LTI for more than a year, and several sites have reached up to five years without LTIs.

We also conduct regular safety assessments at our offices, warehouses, and car fleet organizations. Additionally, we have engaged Bureau Veritas, an external certification body, to assess the management systems at our manufacturing centers around the world in accordance with internationally recognized standards for safety and environmental management.

In 2017, 42 (some 91%) of our factories were certified to OHSAS 18001, the international safety management standard. Newly acquired or built factories have begun the certification process. Because we have new onboarding factories we may not reach 100%, but that remains our goal. Due to a factory closure in the Dominican Republic and the geopolitical situation in Venezuela, where we could not have our site certified, our certification percentage decreased versus 2016.

Despite good results and low injury rates, we are committed to exploring more innovative and engaging ways to keep our performance world class. Managing change with safety in mind is essential as we convert existing factories or build new production sites for smoke-free products.

## Safety across our fleet

With a fleet of more than 25,000 vehicles in more than 100 countries and over 500 million kilometers driven in 2017, road safety is a key concern. Despite our low injury rate, unfortunately in 2017, two PMI employees lost their lives in road accidents. We continue to make our best effort and invest in a safe fleet, fleet safety programs, and employee awareness. We manage our vehicle fleet with an integrated approach based on nine elements: leadership, baseline assessment, risk assessment, hiring of drivers and placement, training, performance recognition, vehicle selection and maintenance, incident reporting and investigation, and management reviews and communication.

In 2017, we made progress across our Fleet Safety program:

- We implemented our Fleet Safety program in all markets where we operate and involved our sales force organization;
- We focused on innovative technology solutions (gamification and telematics) to facilitate safe driving and accident prevention;
- Our collision rate (collisions per million km driven), which covers higher severity road accidents, has declined to 1.01 per million km driven (from 1.22 in 2016);
- We launched a new global online driver risk assessment tool complemented by local practical fleet driving programs;
- We established a working group with the top 12 biggest markets (covering approximately 18,000 vehicles) to govern global fleet safety development; and
- We have gained better understanding of safety dynamics in our fleet based on employee feedback and reporting.

Our performance: Safety in the workplace	2015	2016	2017	Goal
Lost Time Injury (LTI) rate (per 200,000 hours worked)	0.11	0.12	<b>0.10</b>	<0.10
Fatalities (PMI employees and contracted employees)	0	1	<b>2</b>	0
Fleet crash rate – vehicles crashes per million km driven <sup>1</sup>	5.3	6.8	<b>6.2</b>	<4.0
Fleet collision rate – vehicles collision per million km driven	1.24	1.22	<b>1.01</b>	<1.50
Manufacturing facilities with OHSAS 18001 certification (% of PMI factories)	93	93	<b>91</b>	100

<sup>1</sup> Regarding fleet safety, as of our 2018 Sustainability Report we will no longer report on Fleet crash rate (which includes cosmetic damage) as we believe collision rate (collisions per million km driven), which covers higher severity road accidents, is a better indication of our safety performance.





An employee at PMI's first purpose-built factory for manufacturing HeatSticks, near Bologna, Italy



## Agricultural Labor Practices<sup>35</sup>

According to the International Labor Organization (ILO), the largest share of child labor occurs in the agricultural sector: Around 108 million children are impacted worldwide, involved in different forms of hazardous work.<sup>36</sup>

PMI's Agricultural Labor Practices (ALP) program aims to eliminate child labor and other labor abuses and to achieve safe and fair working conditions in all farms where our tobacco is sourced. Our over 350,000 contracted farmers, representing over 90% of the tobacco PMI buys, are required to comply with the ALP Code.<sup>37</sup>

### Our approach

The ALP Code sets out seven principles related to child labor, income and work hours, fair treatment, forced labor, safe work environment, freedom of association, and compliance with the law; and 32 standards to measure compliance with these principles. Training is provided to farmers, workers, agronomists, and field technicians on these topics.

Striving to ensure that our standards are met, field technicians working for PMI or our tobacco suppliers conduct regular farm visits to detect potential issues. The field technicians also provide additional support, such as distributing Personal Protective Equipment (PPE) to reduce labor-related risks, and more generally work with farmers on continuously improving living and working conditions on farms. We also collaborate with other stakeholders in the tobacco supply chain, including governments and NGOs, to tackle underlying systemic problems present in the agricultural sector.

In addition, external third-party assessments are conducted by Control Union (CU) certifications,<sup>38</sup> a certification agency specialized in sustainable supply chains across multiple industries. The results of these CU assessments, including the action plans to address identified issues, are disclosed publicly.<sup>39</sup> We also publish comprehensive progress reports of the ALP program.<sup>39</sup>

### Systematic monitoring

Systematic monitoring of farms implementing the ALP program begins with the collection of individual farm profile data. The farm profiles, updated each growing season, provide the field technicians with key information about the farm and the people working and living there (demographic information, size and nature of the farm, number and age of people present, categories of workers, housing arrangements, and school attendance).

The field technicians then visit the farms throughout the tobacco-growing season and evaluate how well labor practices align with the ALP Code principles. When they identify issues requiring immediate intervention, called "Prompt Actions", they immediately address them with the farmer and together develop an individual improvement plan against which progress is monitored. In those cases where a farmer consistently resists making the changes required, the contract is not renewed or may be terminated. In the 2016/2017 season, 36 contracts were terminated. In addition to Prompt Actions, less serious issues are also monitored and addressed.

The aggregation of data collected across over 350,000 farms is challenging. In 2015 and 2016, we made steady progress in standardizing our processes and systems by developing data templates and electronic records. This allowed us to create a global ALP monitoring dataset enabling analysis at market and regional levels. To gain a more complete and accurate overview of the risks and patterns of vulnerability of tobacco workers, we also compare the ALP monitoring data with information gained through CU third-party assessments.

### Evaluating the impact of the ALP program

To assess the effectiveness of the ALP program, we focus on four questions:

- Is child labor being eliminated on farms supplying tobacco to PMI?
- Is the working environment safe?
- Are workers being paid enough to meet their basic needs?
- Is all farm labor voluntary?

The year 2017 is the first year that we were able to assess performance of the program based on the four questions above, establishing a baseline for future analysis.

In 2017, approximately 13,000 Prompt Actions were recorded by field technicians.

Almost two-thirds related to unsafe work environment, mainly linked to inadequate Crop Protection Agents (CPA) storage practices and application of CPA without appropriate personal protective equipment.

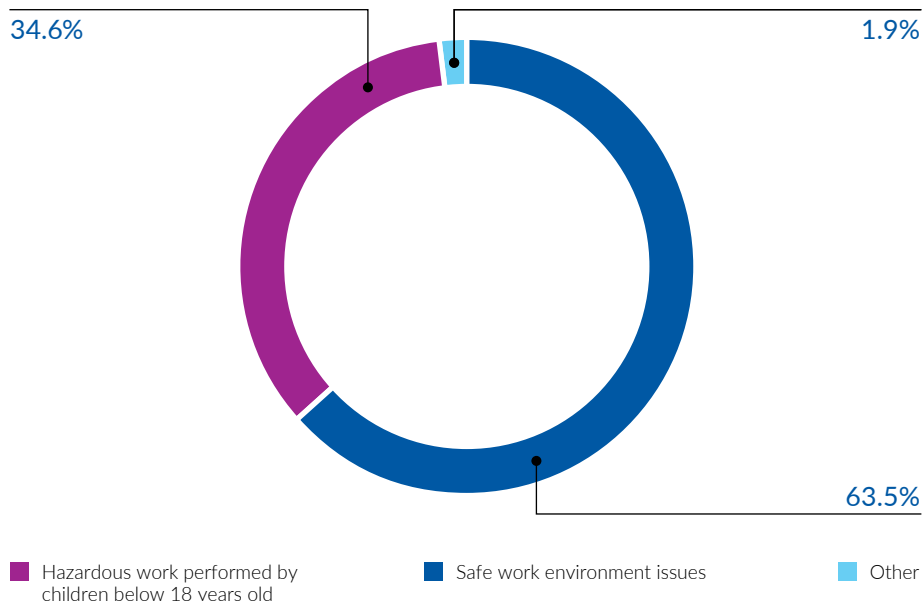
Approximately one-third of Prompt Actions related to hazardous tasks performed by children below 18 years old. The most common hazardous work performed relates to the contact with fresh tobacco leaves and the associated risk of exposure to nicotine, mainly during harvesting, and during the preparation of strings of tobacco leaves for curing.

The remaining 1.9% of Prompt Actions, representing 245 cases, were related to the following topics: income and work hours, fair treatment, or situations that could be related to forced labor.



A field technician in Malawi supports farmers in implementing good agricultural practices in tobacco growing

## ALP Prompt Actions in 2017



### Types of hazardous work performed by children below 18 years old

Harvesting or handling green tobacco	39%
Stringing	27%
Carrying heavy loads	10%
Working with sharp tools	7%
Handling or applying fertilizer	5%
Working in extreme temperatures	3%
Driving a tractor or operating machinery with moving parts	3%
Handling or applying CPA <sup>1</sup>	2%
Others	<4%

1 CPA: Crop Protection Agents  
2 GTS: Green Tobacco Sickness



### Types of safe work environment issues

CPA <sup>1</sup> stored in a way that could cause a health and accident risk	46%
Exposure to CPA <sup>1</sup> due to not wearing proper protective equipment	32%
Exposure to GTS <sup>2</sup> due to not wearing proper protective equipment	17%
Unsafe or insufficient worker accommodation	3%
Others	<2%

In addition to this quantitative analysis, we have been gathering qualitative information on the impact of the ALP program on people's lives through interviews with farmers and workers. In a pilot exercise, conducted in 2017 in a community in Malawi with our suppliers' farmers growing tobacco, a new participatory method for impact evaluation was tested involving the collection of "Most Significant Change" stories from farmers and workers on farms enrolled in the ALP program. In that exercise, coordinated by third-party facilitators (unaffiliated with PMI's suppliers), participants expressed the most significant changes that have occurred in their lives as a result of the farm's participation in the ALP program. Although the sample was not statistically representative, the stories revealed a striking range of meaningful and often inter-connected impacts. Farmers often emphasized the increased economic security they and their families have been able to realize as a result of direct contracting and support from the PMI supplier.<sup>40</sup>

Evaluating the overall impact of the ALP program is a complex exercise requiring multiple, complementary approaches. We will continue to explore new ways to evaluate the effectiveness of our program and make changes where necessary. We will continue to be fully transparent in disclosing the program's performance.

### Focus on migrant workers

Data gathered on farm profiles show there are many seasonal workers on the tobacco farms supplying PMI, especially during the peak harvesting time. Their presence on farms is associated with many risks to the standards of the ALP Code, as illustrated in our case study on Mexico. These include inadequate accommodation, low pay, pay via a crew or group leader, lack of redress for harm, accidents or unfair treatment, and difficulties in ensuring effective training on work safety. Furthermore, migrant workers' families frequently bring their children, creating a risk of child labor.

In the State of Nayarit (Mexico), burley and sun-cured tobacco farmers rely on indigenous Cora and Wixáritari (or Huichol) workers for the harvesting season. These workers migrate with their families from Mexico's highlands and settle in tobacco-growing areas, where they live in very poor conditions throughout the harvesting period. While PMI previously reported on progress in addressing child labor among this community, attempts to improve living conditions for these workers and their families have had very limited success.<sup>41</sup>

In the last quarter of 2017, PMI did an in-depth analysis of this complex and deep-rooted problem and developed a plan aiming to:

- Provide adequate accommodation to all migrant workers;
- Provide workers access to shade area for rest and lunch, and to sanitation in the field;
- Prevent workers from living in the tobacco fields as of the current harvesting season; and
- Prevent night work in the fields.

The plan was developed together with our local supplier Tabaco del Pacifico Norte (TPN – a subsidiary of Universal Corporation) in consultation with all relevant stakeholders (workers, indigenous leaders, supplier's field staff, third-party NGOs, local authorities, companies from other sectors) and our ALP program partner Verité.

Typically, the four to five months of earnings during the tobacco season are the main source of annual income for the Cora and Wixáritari families. Maximizing the number of working hours and income is thus the key reason why they often prefer living in the field during the harvest period, as other possible accommodation options are generally at some distance from the fields and would imply loss of time and money due to commuting.

In the 2016-2017 season, TPN provided basic emergency shelters to 100% of contracted farmers. However, these did not fully provide a safe and sanitary solution for workers and their families, and further investments in more permanent and improved infrastructure was not a feasible solution, as most of the farmers' land is rented and may change year-on-year. Moreover, even if adequate accommodation in the field could be provided, there would still be issues with long working hours and

children's presence in the field when they return from daycare centers, with continued risk of child labor.

PMI concluded that any intervention to fully address the living conditions of workers and their families would involve changes in the traditional organization of work in Nayarit's burley and sun-cured crop. With that in mind, as of December 2017, PMI introduced a series of measures to reorganize labor schedules and activities and to prohibit field work after sunset.

To enable this change and assure workers income and buy-in, PMI agreed with TPN to a 25% increase on the piece-rate paid to workers, and TPN developed a sensitization campaign in the workers' communities of origin with support from the National Committee of Indigenous Peoples (CDI).

Farmers with contractual agreements with TPN agreed they would be responsible for ensuring adequate accommodation for workers, the transportation logistics to and from the field, and the provision of sanitation and clean water for washing in the fields. TPN also agreed with farmers that, provided these conditions were met, they would provide a monetary incentive to cover the farmers' costs.



A migrant worker in Nayarit, Mexico, with her three children as they wait for the school bus





A migrant worker in tobacco fields in Nayarit, Mexico

PMI supports five childcare centers, which provide education, nutrition, and medical services for the children of the migrant families, and are run by a local NGO (Desarrollo Rural de Nayarit – Dernay). For the 2017-2018 season (finishing in May-June 2018), Dernay extended the opening time of the centers and increased the accommodation capacity to welcome the maximum possible number of children.

TPN is implementing the measures agreed with PMI, providing the logistical support to farmers, monitoring their progress, and coordinating efforts with all stakeholders, including indigenous representatives. Furthermore, PMI engaged a third-party NGO (Fundación Mexicana de Apoyo Infantil – FAI), which independently monitors housing and working conditions provided by the farmers and collecting workers feedback. FAI regularly updates TPN on the results of their monitoring, and TPN field staff follow up on individual issues identified.

FAI's early monitoring data and feedback from workers and farmers is very encouraging. While there are many challenges to overcome in the implementation of this plan (e.g., improvements in the housing conditions offered to workers, preventing children accompanying their parents to the field from engaging in child labor) we believe that we have created the right conditions to address the critical issue of the working and living conditions of Cora and Wixáritari families working in tobacco. We estimate that by the end of the season we will have reached over 6,000 people (workers and respective families) covering every single burley and sun-cured tobacco farm contracted by TPN in the State of Nayarit.

PMI assumed the overall implementation costs of this program and informed our supplier that we would not be willing to purchase tobacco sourced from farmers who do not participate in this season's effort or who do not comply with the full range of conditions established.

The PCSD Partnership, facilitated by the OECD's Unit on Policy Coherence, was added to the UN's global registry of voluntary commitments and multistakeholder partnerships in 2016. It brings together governments, civil society, and the private sector from all regions of the world committed and working to enhance policy coherence for sustainable development as a key means to implement the Agenda 2030 for

Sustainable Development. Members of the Partnership work together to foster synergies across economic, social, and environmental policy areas, identify trade-offs and reconcile domestic policy objectives with internationally agreed objectives, and address the spillovers of domestic policies.

Philip Morris International joined the PCSD Partnership in late 2017

and is committed to compile a comprehensive case study on sustainable agricultural transformation through a policy coherence lens and its sectoral implications in long-term economic development (2030-2063). The case study will identify the key barriers to this transition, document leading practices, and illustrate the most likely economic development scenarios in 2030 and 2063.

### Smoke-free products and their impact on tobacco growing

The production of smoke-free products requires less tobacco compared to cigarettes. When large numbers of consumers eventually switch to smoke-free products, we expect a gradual decrease in tobacco leaf requirements, which will free up land and capacity for other uses.

To proactively prepare for and enable this crop diversification in the most effective way, we are following a multistakeholder approach involving suppliers, NGOs, and other companies active in the agricultural sector. We are, for example, partnering with USAID Malawi Feed the Future Program to diversify smallholder farmers production away from tobacco and into other food crops such as soybean or groundnuts, and have joined the Global Agribusiness Alliance (GAA).<sup>43</sup>

We are also working with our tobacco suppliers and their farmers to introduce additional varieties of alternative crops to smallholder farmers. This allows them to not only grow food crops for their own consumption, but also crops that can serve as additional sources of income.

Malawi has been selected as one of the priority markets for our diversification efforts as tobacco accounts for more than half of the country's export. At this initial stage, more than 7,600 farmers are growing 1,000 hectares of groundnuts, 267 farmers are growing 200 hectares of soybeans and 4,600

farmers are growing around 2,000 hectares of pigeon peas and more than 100 hectares of chuma beans.

As part of this work, farm trials are conducted to identify high-yielding, disease-resistant, and drought-tolerant varieties of groundnuts and soya beans that should ensure top performance for the Malawian climatic conditions. Our tobacco suppliers are supporting the selected farmers for this trial by providing and distributing crop inputs, helping with insurance and storage, as well as providing advice by their agronomists and support in the marketing of their production.

A key component for the success of these initiatives is ensuring the availability of water when required, regardless of whether the alternative crops are grown during the dry or rainy season. We are working with Netafim, a company specialized in precision irrigation, to promote relevant solutions. Solar boreholes and storage tanks will be constructed and different irrigation systems will be tested. Finally, to reduce post-harvest losses, the more than 12,000 farmers involved in the food crop program are provided with Purdue Improved Crop Storage bags, which are specifically designed to reduce insect damage to crops in storage.



Food crops (maize and groundnuts) grown alongside tobacco on an IPS contracted farm in Malawi

## Focus on supporting farmers to grow alternative crops

For several years, we have been supporting smallholder farmers to grow food crops alongside tobacco. In Malawi and Mozambique these efforts encompass technical assistance and financing for fertilizer and seeds, mainly for maize. In 2017, 117,000 contracted smallholder farmers produced 290,000 tons of food, with 110,000 farmers receiving financial support.

We have seen significant improvements in food crop yields, up nearly fourfold in the case of maize. This is strengthening food security and often results in a surplus for sale at local markets.

Together with our tobacco leaf suppliers, we are exploring with international food crop buyers and NGOs the possibilities to create a route to market for surplus food crops produced by tobacco growers in these countries, leveraging on the infrastructure and logistics already in place for tobacco production.

Although the proportion of farmers growing food crops for their own consumption remained stable globally, at approximately 70%, the number of tobacco farmers growing and selling food crops as an additional source of income rose from 35% in 2015, 41% in 2016 to 46% in 2017.

## Looking ahead

Now that we have established a comprehensive and systematic way of evaluating the effectiveness of our ALP program, we will review and update the program as necessary in 2018, focusing on four critical areas:

- Children under 18 involved in hazardous work;
- Safe working conditions, including the availability of Personal Protective Equipment to prevent exposure to CPA and Green Tobacco Sickness (GTS);<sup>44</sup>
- Accommodation for workers; and
- Minimum wage for workers.

Our performance: Agricultural Labor Practices <sup>1</sup>	2015	2016	2017	Goal
Systematic monitoring of labor practices (% coverage) <sup>2</sup>	32.7	72.0	<b>77.0</b>	100
Cumulative number of tobacco supplier locations (countries) assessed by Control Union since 2013 (ALP topics)	13	15	<b>19</b>	24 countries by 2020
Number of contracted farms in scope of Control Union assessments by year (ALP topics) <sup>3</sup>	11,043	7,508	<b>6,433</b>	

1 Data cover approximately 90% of our sourced tobacco.

2 Data relate to crop season, which may span over more than one calendar year.

3 According to our methodology, these assessments cover different countries and tobacco suppliers every year. Depending on the geography and typical farm size in different countries, the number of farms covered by the assessments will vary. The variation in the number of farms assessed over the last three years does therefore not reflect a reduction in the scope of the assessments.