



PHILIP MORRIS INTERNATIONAL



SUSTAINABILITY  
REPORT

2018

HIGHLIGHTS





## About PMI

Philip Morris International (PMI) is leading a transformation in the tobacco industry to create a smoke-free future and replace cigarettes with smoke-free products to the benefit of adults who would otherwise continue to smoke, society, the company and its shareholders.

Philip Morris International (PMI) is a leading international tobacco company engaged in the manufacture and sale of cigarettes, smoke-free products and associated electronic devices and accessories, and other nicotine-containing products in markets outside the U.S. PMI became a free-standing publicly traded company (NYSE: PM) in March 2008, following a spin-off from Altria Group, the parent company of Philip Morris USA. PMI is building a future on smoke-free products that, while not risk-free, are a much better choice than continuing to smoke. Through multidisciplinary capabilities in product development, state-of-the-art facilities, and scientific substantiation, PMI aims to ensure that its smoke-free products meet adult smoker preferences and rigorous regulatory requirements. Our smoke-free product portfolio, IQOS, consists of heated tobacco and nicotine-containing vapor products.

For more information, please visit:  
[www.pmi.com](http://www.pmi.com) and [www.pmiscience.com](http://www.pmiscience.com).

“PMI’s transformation brings opportunities for wider societal value for consumers, shareholders and society. Sustainability stands at its core and helps address some of the challenges resulting from this transition, while securing long-term success.

I am pleased with the role the Nominating and Corporate Governance Committee of the Board can play in this field.”

**Kalpana Morparia**

Member of the PMI Board of Directors, and Chair of the Nominating and Corporate Governance Committee



These Highlights present a condensed overview of our sustainability efforts in 2018 and should be read in conjunction with our Sustainability Report 2018 in full on [www.pmi.com/sustainability/sustainability-report](http://www.pmi.com/sustainability/sustainability-report)



# Letter from the Chief Executive Officer



**“To us, sustainability is about replacing cigarettes with better alternatives, addressing sustainability challenges across our value chain, and seizing opportunities to add value to society.”**

## Dear Reader,

Can a tobacco company be sustainable?

Cigarette smoking causes serious disease, and the best way to avoid the harm of smoking is never to start, or to quit. Governments around the world heavily regulate and tax cigarettes to discourage smoking—and rightly so. The reality today is that roughly one in five adults around the world smokes. The World Health Organization (WHO) projects that the total number of smokers remains relatively stable at about 1.1 billion people. In this context, can PMI truly add value, not only to shareholders, but also to society?

We know that quitting is the best option, but we want to provide less harmful alternatives to smoking for those who don't quit. Many years of research and various commercialization attempts eventually led to the launch of IQOS at the end of 2014. The early success of IQOS gave me the confidence to set out a new course for the company in 2016: to replace cigarettes with less harmful products as fast as possible. Our vision has been, step by step, turning into reality ever since.

Our sustainability ambition does not stop there, it extends to the way we operate, manage our social impact, and reduce our environmental footprint. To make sure we focus our efforts where we should, in line with societal expectations, we conducted a sustainability materiality analysis in 2018, which will serve as the basis to craft our 2025 sustainability strategy.

We are proud of the progress made in 2018. Thanks to the hard work and dedication of our employees and partners across the world, we have further embedded sustainability throughout functions and markets.

Our Agricultural Labor Practices program was strengthened to better address the recurring issues in our tobacco supply chain, worldwide representation of women in our management increased to 35.2 percent, and our environmental efforts were recognized in the Carbon Disclosure Project (CDP) Climate A List for the fifth year in a row.

Big challenges remain though. To make our vision truly global and inclusive, we need a more diverse product portfolio, innovative routes to market, and appropriate awareness of smoke-free products among adult smokers. At the same time, the benefits that smoke-free products bring to adult smokers should not come at the cost of an increase in youth use of nicotine products. We are carefully reviewing and where necessary improving the steps PMI takes across all of its business activities to ensure youth are not targeted or encouraged to use any of our products.

Let's come back to my initial question: Can a tobacco company be sustainable? Absolutely, by taking every step possible to completely replace cigarettes with better alternatives, addressing its sustainability challenges across its value chain, and seizing opportunities to add value to society. This is what PMI is committed to doing. I cordially invite you to comment, challenge and guide us as we transform our company toward a more sustainable smoke-free future.

**André Calantzopoulos**  
Chief Executive Officer

## 2018 AT A GLANCE<sup>1</sup>

**9.6m**

IQOS users, out of which 6.6m users who have stopped smoking and switched to IQOS

**86.9%**

Employees trained on PMI Guidebook for Success (our Code of Conduct)

**35.2%**

Of management roles held by women

**36%**

Reduction in scope 1+2 absolute CO<sub>2</sub>e emissions since 2010

**92%**

Of our total R&D expenditure related to smoke-free products

**1st**

Pilot human rights impact assessment conducted

**>70**

Of our affiliates around the world offering flexible working arrangements

**90%**

Tobacco purchased cured at no risk of deforestation of old growth forest

**3**

Markets where net revenues from smoke-free products exceed 50 percent of total net revenues

**93%**

Of tobacco purchased through direct contracts by PMI or our tobacco suppliers

**89%**

Prompt actions resolved relating to child labor incidences in our tobacco supply chain

**2**

Recycling hubs for our electronic devices in Europe and Asia

**\$29.6bn**

Net revenues; 13.8 percent from smoke-free products

**\$74.2bn**

Excise taxes on PMI products

**\$2.4bn**

Corporate income taxes

**\$7.9bn**

Net earnings attributable to PMI

<sup>1</sup> All data in this report are as of December 31, 2018, unless stated otherwise.

# Our approach to sustainability

Genuine sustainability for a tobacco company starts with addressing the negative health impacts of its products. This means, first and foremost, developing and commercializing less harmful alternatives to cigarettes while managing our social and environmental impacts across our operations and value chain.

PMI's mission to unsmoke the world is core to our strategy. We know it is the right thing to do. We are committed to setting ambitious goals, working hard to reach them and communicating transparently on our progress.

To ensure that our sustainability work aligns with societal expectations and focuses where we can have the greatest impact, we conducted a new sustainability materiality analysis in 2018 to set priorities across the four pillars of our strategy.

As part of this exercise, we also aligned our UN Sustainable Development Goals (SDGs) prioritization and identified the goals where we can have the greatest impacts. We are now in the process of crafting our 2025 sustainability strategy based on the results of last year's analysis.

We are prioritizing the tier 1 topics of our strategy, for which we will set ambitious objectives and will publicly report our progress annually, while we will continue to manage and measure progress on our tier 2 and tier 3 topics.

## PRIMARY SDGs



## SECONDARY SDGs



## Smoke-free future

### Transforming our business

- Product health impacts
- Access to smoke-free products

- Product addictiveness
- Responsible R&D

### Driving operational excellence

- Responsible commercialization

- Other human rights
- Economic performance
- Raw materials and other supplies
- Data privacy

- Fiscal practices
- Illicit tobacco trade
- Policy influence
- Bribery, corruption, and anti-competition

### Managing our social impact

- Child labor

- Fair working conditions
- Health, safety, and well-being
- Diversity and inclusion

- Community engagement
- Talent attraction and retention

### Reducing our environmental footprint

- Emissions and energy
- Biodiversity and deforestation
- Waste and littering

- Water

TIER 1

TIER 2

TIER 3



# Transforming our value chain

PMI's transformation is not just about changing the product, it is about completely adapting the value chain.



## R&D

Our research and development work is the catalyst for our transformation. The harm reduction potential of smoke-free products must be scientifically substantiated. The way we work emulates pharmaceutical industry standards. Our product portfolio needs to meet adult consumer expectations.

**\$383m** Total R&D expenditure

**92%** Of our total R&D expenditure related to smoke-free products

**4,600** Patents granted worldwide related to smoke-free products

**>400** Scientists, engineers and technicians



## SOURCING

The sourcing of raw materials and other supplies is increasingly diversified as we transform our company. As we expect a gradual decrease in our tobacco leaf requirements over time, we work with tobacco farmers to transition to other crops. We also engage with our new partners in electronics to implement our Responsible Sourcing Principles, which define the expectations for our suppliers, and their suppliers too.

**\$10bn** Annual spend on supply chain beyond tobacco

**>36,000** Suppliers

**>350,000** Tobacco farmers contracted by PMI and our suppliers in 27 countries

**400,000** Tons of food produced by contracted farmers through our crop diversification and suppliers' food programs in Malawi and Mozambique



## MANUFACTURING

The manufacture of smoke-free products requires different processes and equipment than for combustible products. As we convert our traditional cigarette factories to produce smoke-free products, we are equipping our employees with new skills. This transition also impacts our environmental footprint, such as water consumption, which we seek to reduce.

**7** Of the 44 PMI-owned manufacturing facilities producing smoke-free products

**0.13** Overall Lost Time Incident Rate per 200,000 hours worked (PMI and contracted employees)

**\$1.4bn** Capital expenditure

**5.36m<sup>3</sup>** Water withdrawn per million units of cigarettes sold



## COMMERCIALIZATION

A commercialization approach founded on consumer centricity—specialists engaging with adult smokers, flagship stores, customer care centers and digital platforms—is essential. Our marketing and advertising must be honest, accurate and transparent. Our products are not risk-free; we aim to prevent youth and non-smokers from accessing and using them.

**60%** Of total commercial expenditure dedicated to smoke-free products

**23,438** Training sessions on our Marketing Code completed by employees and relevant third parties

**5.9m** Retailers selling PMI products

**14.7%** Global market share, including cigarettes and heated tobacco units



## POST-CONSUMER WASTE

We recognize a responsibility to be stewards of the product, and we are committed to encouraging and enabling our consumers to reduce littering globally. As we expand our portfolio of smoke-free products, we plan to play our part in the circular economy, and that means designing products and using materials that can be recycled or reused.

**9.6m** IQOS users, out of which 6.6m who have stopped smoking and switched to IQOS

**44** Markets in which IQOS is available for sale

**2** Recycling hubs for our electronic devices in Europe and Asia

**93%** Decrease in plastics content of IQOS device packaging by replacing plastic trays with wood pulp trays

## PILLAR 1

# Transforming our business

We are building a future on smoke-free products that, while not risk-free, are a much better choice than continuing to smoke. Through multidisciplinary capabilities in product development, state-of-the-art facilities and scientific substantiation, we aim to ensure that our smoke-free products meet adult smoker preferences and rigorous regulatory requirements.

## Addressing product health impacts

We aim to minimize the negative impact of cigarette use on public health by replacing cigarettes with less harmful alternatives. Experts agree that the primary cause of smoking-related diseases is not nicotine, but the inhalation of harmful and potentially harmful constituents (HPHCs) formed as a result of burning tobacco. To leave combustion behind, we have developed a portfolio of smoke-free products under the IQOS brand name and are assessing their impact on the individual smoker and the overall effect on public health following a five-stage approach covering product initial development, assessment, perception and impacts over the long term. The totality of the evidence gathered from the clinical studies conducted to date on our main smoke-free product shows that, while not risk-free, switching to IQOS presents less risk than continuing to smoke. Our scientific results are also being supported by a growing body of independent research, including some government agency studies. Overall, these reports conclude that IQOS aerosol contains lower levels of harmful and potentially harmful compounds than cigarette smoke, and some of the reports go on to say that this reduction in toxicants is likely to lead to reduced risk of harm from IQOS compared with cigarettes.

In 2018, 92 percent of our total R&D expenditure related to smoke-free products. This expenditure includes the costs related to clinical studies, the development of new machinery, prototypes and product acceptability testing.



## Product addictiveness

Our smoke-free products are not risk-free; they contain nicotine and are addictive. They are designed to significantly reduce or eliminate the formation of harmful or potentially harmful constituents (HPHCs), while approaching as much as possible the taste, nicotine delivery and ritual characteristics of cigarettes in order to be viable alternatives for current adult smokers to switch to. Our responsibility is threefold: We need to do our utmost to ensure that our products are commercialized in a responsible way, monitor use after launch in the market and continue to share our science and post-market surveillance data to encourage a science-based debate on nicotine.



## Responsible R&D

We have recruited more than 400 scientists, engineers and technicians over the years. Our research aligns with international standards and practices that assure the quality and integrity of clinical and non-clinical laboratory processes. We restrict animal studies to situations where no alternatives are available, following the “3Rs” approach of: replace, reduce and refine.

We recognize that scientific assertions from tobacco companies may be met with skepticism. Sharing our science and listening to feedback are therefore fundamental parts of encouraging debate with scientific experts, regulators and the public on important questions about our innovative products. Since 2008, we have published over 340 papers on smoke-free products in peer-reviewed publications. In 2018, we presented our results at an additional 150 scientific conferences. Additionally, to secure trust with specialist stakeholders, we share detailed product data on a specialist platform called **Intervals** to facilitate dialogue and reproduction of the science. Scientific information is provided on our dedicated science website: [www.pmis-science.com](http://www.pmis-science.com).

## Providing access to smoke-free products

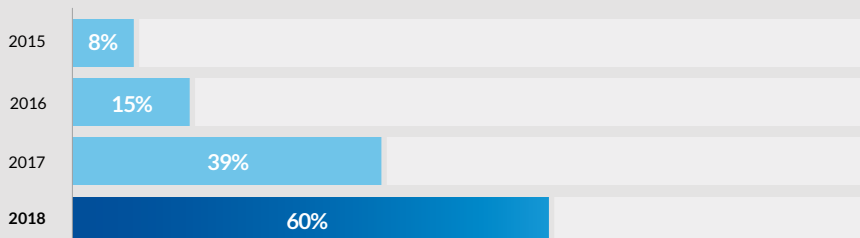
Developing scientifically substantiated smoke-free products that are an acceptable alternative to cigarettes is only the first step. The next big step is to make them available to all men and women smoking cigarettes or other combustible products. For more than five years, we have been ramping up production capacity for smoke-free products. In 2018, our factories in South Korea, Russia, Greece and Poland all started to produce heated tobacco units or other nicotine-containing products, bringing to seven the total of factories partially or fully converted to smoke-free products.

We are also shifting people and resources toward these products, while at the same time rethinking our approach as we move from the business-to-business model of cigarette sales toward a business-to-consumer commercial approach necessary for smoke-free products.

Our goal to replace cigarettes with smoke-free products extends to adult smokers of all income levels and to all countries worldwide. We are only at the beginning of commercializing a diversified portfolio of smoke-free products and realize that additional efforts are necessary to find products that are affordable and acceptable to consumers in different parts of the world.

### Commercial expenditure (smoke-free/total)

In 2018, more than half of our global commercial expenditure was dedicated to smoke-free products.

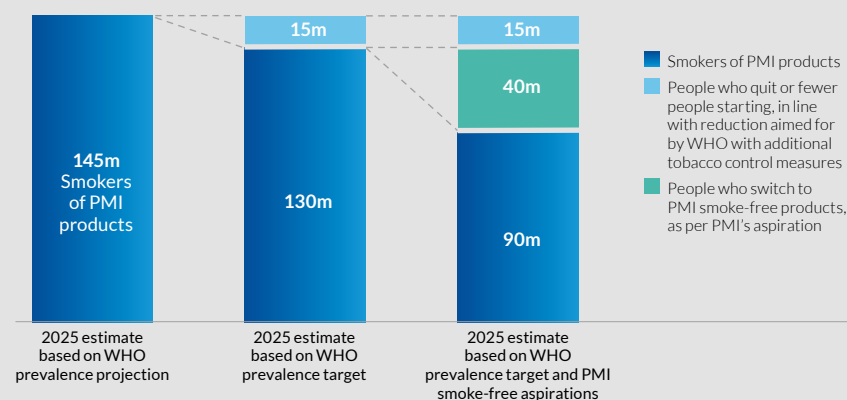


## Our aspiration

Our aspiration is that, by 2025, at least 40 million people who would otherwise have smoked cigarettes will have switched to our smoke-free products, reducing the number of PMI cigarette smokers by a total 55 million by 2025. In other words, our aspiration is to reduce smoking almost four times faster than the target set by the World Health Organization.

People often ask when we will stop selling cigarettes. Our objective is to reach this moment as soon as possible by replacing cigarettes with smoke-free products, but this clearly depends on a number of factors out of our control, in particular the action from regulatory and public health authorities. We support and advocate for risk-proportionate regulation, whereby cigarettes are subject to the most restrictive regulation and smoke-free products are subject to regulation that encourages smokers to switch completely. We also recommend that governments ensure that smokers who want to continue using tobacco or nicotine products have access to truthful and non-misleading information.

### Consumers of PMI products – projection 2025 (assuming constant PMI market share)





## PILLAR 2

# Driving operational excellence

We believe that acting with integrity and preventing unlawful and unethical behavior is essential to our long-term success. We strive to go beyond mere compliance to drive operational excellence through established programs in our operations and across our value chain.



## Responsible commercialization, and youth access and usage prevention

We have robust internal policies and procedures in place aimed at ensuring our products are marketed in a responsible way. Our marketing principles must be understood and properly implemented. In 2018, 23,438 training sessions on our **Marketing Code** were completed by employees and relevant third parties. Our Good Conversion Practices serve as the bedrock of our engagement with adult smokers to support them in switching to smoke-free products, while discouraging unintended use.

We know that great care must be taken when it comes to preventing youth access to and usage of our products. Youth should not use any nicotine-containing product. We have internal policies and procedures in place to ensure that all marketing and advertising are directed only toward adult smokers or users of nicotine-containing products. We also support regulatory measures that will make it less likely that youth start consuming tobacco and nicotine products.

### Our marketing core principles

The four core principles, which are applicable across the world without exception, are:

- 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; and
- We respect the law and our high standards.

These core principles drive our approach in all the countries where we sell our products and we welcome opportunities to discuss and improve this approach as part of our commitment to market our products responsibly.





## Delivering on our commitment to human rights

At PMI, we embed respect for human rights in our culture, so that human rights principles govern the way we work with employees, suppliers, consumers and the communities where we operate. We strive to uphold our responsibility to respect human rights in line with the United Nations Guiding Principles on Business and Human Rights (UNGPs), in the diverse and challenging environments where we operate and from which we supply. We focus our efforts on where we have the greatest potential human rights risks. We are continuously striving to improve our practices with respect to identifying risks to “rights holders,” and we are strengthening our due diligence processes helping to drive continuous improvement and raise standards across our value chain. Our **Human Rights Roadmap** directs the actions across functions that are targeted to be delivered by the end of 2020, ranging from capacity building and due diligence processes to grievance mechanisms and clear reporting.

In 2018, we reinforced our due diligence processes by conducting a pilot human rights impact assessment in Mexico. The exercise revealed strengths in safety, employee loyalty, diversity and inclusion, and parental leave, as well as a high awareness of the internal grievance process. It also led to an action plan to address potential concerns, for example related to working time for factory workers and certain vendor-employed drivers, or risks of wages below living wage level for some suppliers’ staff. In 2019, we will focus on implementing the findings of this assessment, and we will conduct a second human rights impact assessment. We aim to use local learnings to enhance our global understanding and management of human rights.



Pilot human rights impact assessment conducted in 2018



## Sourcing raw materials and other supplies responsibly

A central pillar to becoming a leader in sustainable business practices is engaging with our suppliers to achieve a responsible, sustainable supply chain. Our business has a significant global supply chain, and our approach to sustainable supply chain management includes a set of **Responsible Sourcing Principles (RSP)**, which define the expectations for our suppliers and their suppliers, too. Our supply chain due diligence system aligns with the UNGPs. We aim to continue working with our business partners to proactively identify, manage and reduce risks, and create shared value.

Manufacturers of electronic devices for heated tobacco products and e-cigarettes are fairly new to our supply chain. Formal assessments of these tier 1 suppliers found that most of them aligned with our RSP, although some had issues that needed to be resolved—primarily recruitment practices and the living conditions of migrant workers.

In parallel to our RSP process, specific sustainability risks of our tobacco supply chain are addressed through our **Good Agricultural Practices (GAP)**, structured around four key pillars—governance, crop, environment and people—with principles and measurable standards that we expect all those who grow and supply tobacco to PMI to meet.

### Our Supplier Due Diligence Framework

We have designed a supplier due diligence framework to evaluate our suppliers’ status in social, environmental and business integrity compliance and to address gaps within our RSP and other commitments.

#### Approach

- Risk-based
- Data-driven
- Systematic
- Scalable

#### Objectives

- Assess performance of suppliers against the Responsible Sourcing Principles
- Define corrective action plans to address gaps
- Monitor progress against plans
- Report



An initial screening of our suppliers according to geography and industry will identify those that should be closely monitored and assessed. Our objective is to support suppliers in a continuous improvement approach to align their practices with our requirements, improving the overall working and living conditions in our supply chain. To deliver our due diligence framework in practice, we are setting up an online supplier platform. Using a risk-based approach, we plan to invite 2,000 suppliers to join the platform by 2020.

## PILLAR 3

# Managing our social impact

Continuously improving PMI's social impact within our operations and beyond is essential to our long-term success. Fundamental to this way of doing business is promoting a safe, fair, inclusive and diverse work environment for our employees globally, as well as improving labor conditions on the farms we source tobacco from and in our broader supply chain.

## Promoting health, safety and well-being

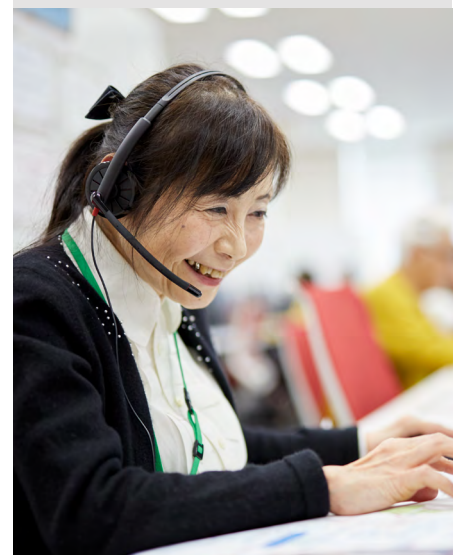
We are committed to providing a safe and secure work environment for all employees, service providers and visitors. We strive to ensure that the changes in ways of working and processes do not affect the health and safety of our workforce. We do so by implementing organizational and behavioral change programs, technology and country-level support.

Our health and well-being program BalancedYou aims to prevent illness and disease, encourage physical activity, promote healthy eating and support stress management and work-life balance. Local committees representing the employees' interests are set up in our affiliates to tailor the support and activities according to the specific needs of local employees. The BalancedYou platform also promotes our newly launched cessation and smoke-free advice program to all employees.

To encourage a healthy work-life balance, more than 70 of our affiliates around the world have adopted flexible working arrangements aimed at better supporting women and men to succeed, both personally and professionally. These include, for instance, the possibility to work remotely, compress the work week, work part time or take unpaid leave.



More than 70 of our affiliates around the world have adopted flexible working arrangement





## Eliminating child labor and improving labor conditions on tobacco farms

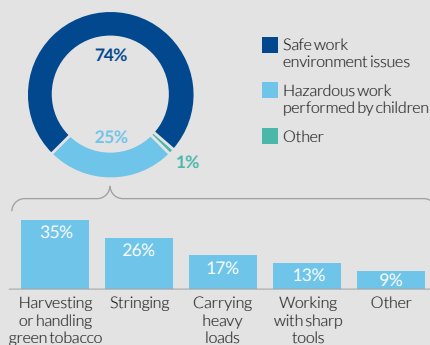
Since 2011, PMI has been implementing the **Agricultural Labor Practices (ALP)** program to eliminate child labor and to achieve safe and fair working conditions and a decent livelihood in all tobacco farms contracted by PMI and our suppliers. The program is founded on five key elements: the **ALP Code**, encompassing principles and measurable standards; training on the Code for PMI teams, suppliers, farmers and farm workers; internal monitoring by field technicians performing regular visits on the farms; **external assessments** to independently evaluate the program implementation; and collaboration with civil society organizations, governments and the private sector. In 2018, we deployed a "Step Change" approach in our ALP program to achieve significant improvements in areas with intensive and targeted needs, focusing on:

- Elimination of child labor: By 2025, we want to achieve a situation where no child labor occurs; if isolated incidents are identified, they will be addressed immediately.
- Payment of at least the legal minimum wage for farm workers: We want to ensure that all workers are receiving at least the minimum wage, regardless of local practices, by 2022.
- Availability and usage of personal protective equipment (PPE) for the application of crop protection agents and the prevention of green tobacco sickness: By 2020, we want to ensure that everybody working on the farm has access to the appropriate PPE.
- Adequate accommodation for farm workers: We are making necessary investments to help farmers fully address this issue by 2020.

Our monitoring data, gathered by 2,600 field technicians regularly visiting over 300,000 farms, show that most contracted farms supplying PMI do not use child labor: 98 percent of farms met the standards in this respect. Out of the 4,587 prompt actions (i.e., reported incidents requiring a corrective action) recorded by field technicians that were related to child labor cases, 89 percent were addressed.

In the geographies where incidents persist, we are enhancing the remediation initiatives available and adapting them to the local socio-economic environment, so that we can work with farmers to directly address the root causes of each incident.

### Overview of prompt actions recorded by field technicians in 2018



## Supporting fair working conditions

The transformation PMI is going through requires changing the way we are organized, how work is defined and allocated and how performance is measured. Our intention is to strengthen our inclusive culture and boost how everyone can contribute their personal best through attitudes, behaviors and employment practices that value, respect and accommodate differences, that promote listening and learning from others, and that create space for constructive disagreement. We are serious about our efforts to ensure that the lowest-paid people in our organization are able to maintain a fair standard of living and that none of our employees gets paid below the living wage rate. We assess pay rates globally, conducting surveys since 2016. PMI has a long history of diligence in recognizing employee rights and fostering solid and collaborative labor relations practices. In 2018, we had 81 Collective Labor Agreements in 35 countries, covering approximately 65 percent of our employees.

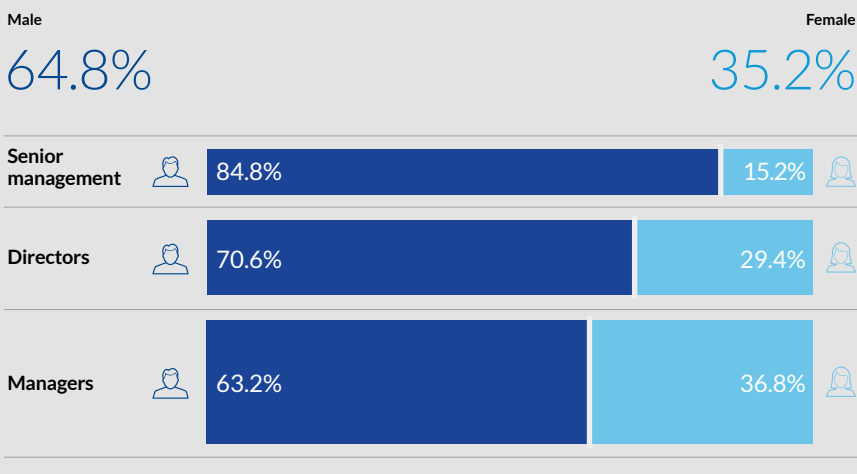


## Furthering diversity and inclusion

We aim to foster behaviors that embrace diversity. Businesses that are diverse and inclusive are more innovative, consumer-centric and profitable in a fast-paced, complex world. As we transform our business, we see diversity as a necessity and a strength. An inclusive culture founded on equal opportunity, fairness and respect for everyone builds a diverse workplace of talented people with the full range of skills, ideas, experiences and perspectives to deliver positive change for consumers and society. Improving gender balance at PMI is our first inclusion and diversity priority. We see equal pay for equal work between women and men as the baseline standard for equality. As an important building block on our path to furthering an inclusive, gender-balanced workplace, we became the first company to receive the independent global EQUAL-SALARY certification in 2019. Over the next years, we will continue to go beyond our global priority of improving our gender balance to progress inclusion of other diversity dimensions in different affiliates and geographies, whether that relates to the LGBTQ community, people with disabilities, different ethnicities or across generations.

At the end of 2018, 42.1 percent of PMI's global workforce were women, and a growing number of management roles across PMI are being filled by women, reaching 35.2 percent. This is progress toward our goal to have at least 40 percent women in management roles by 2022.

A priority for 2019 is to increase the representation of women in senior leadership, among whom only 15.2 percent were women in 2018





## PILLAR 4

# Reducing our environmental footprint

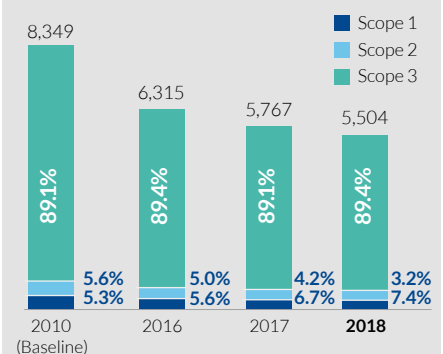
We are committed to constantly improving our business activities to achieve the highest standards of environmental sustainability. The vast majority of our environmental footprint arises beyond our own operations, especially in tobacco growing and curing, and with consumer waste (cigarette butt litter). Working collaboratively with tobacco growers, suppliers, retailers, civil society and governments is key to the success of our environmental programs and to achieving our targets.

## Reducing our energy usage and carbon emissions

We strive for continuous improvement in line with international agreements. We support the Paris Climate Agreement and believe urgent action by all stakeholders is necessary, as was highlighted again in the October 2018 report from the Intergovernmental Panel on Climate Change. Reducing our energy usage and carbon emissions is embedded in our strategy, our [Environmental Commitment](#), our [Guidebook for Success](#), our [Responsible Sourcing Principles](#) and our [Good Agricultural Practices](#) program. For the fifth consecutive year, **PMI achieved the top score (an “A” rating) from CDP**, the global disclosure system that enables organizations to measure and manage greenhouse gas emissions and other impacts. Our targets align with the capacity of the environment to tolerate impacts—known as science-based targets. In 2018, we continued and strengthened the implementation of carbon-reduction projects across our operations and our tobacco supply chain. With the growth of our smoke-free business, it will be increasingly challenging to reduce our global energy usage. We therefore need to globally accelerate our switch to renewables, as these have a much lower carbon footprint than fossil fuels. In our tobacco supply chain, we work with suppliers and farmers to reduce emissions and implement initiatives that focus on three strategic aspects: tree planting and setup of sustainably managed commercial wood lots, improving fuel efficiency of barns used to flue-cure tobacco and switching from high-carbon or unsustainable fuels such as coal to sustainable wood sources and biomass products.

Across our value chain, we achieved a total reduction of 34 percent in 2018, against our target to reduce our absolute CO<sub>2</sub>e emissions by 40 percent by 2030 (baseline: 2010). A key element in this reduction was the improvement made in flue-curing: GHG emissions intensity related to tobacco flue-curing was 47 percent lower in 2018 than in 2010.

### Global greenhouse gas emissions scope 1, 2 and 3 ('000 tons CO<sub>2</sub>e)





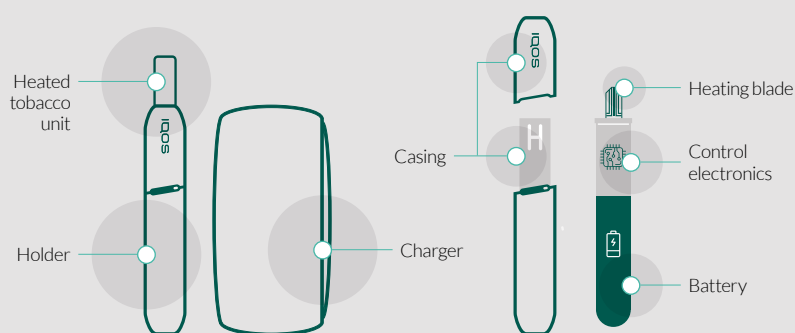
## Minimizing waste and littering

At PMI, we recognize the importance for the global environment of moving from a linear “take-make-waste” production model to a more circular model. We recognize a responsibility to be stewards of the product and are further developing our anti-littering campaign program. We analyze the causes of littering, the drivers of behavior change, equipment for proper disposal and awareness raising. We are committed to

encouraging and enabling smokers to reduce littering globally. As we expand our portfolio of smoke-free products, we are incorporating sustainability considerations into the design of these products, their packaging and accessories. Given the sensitive and often scarce resources required for electronic components, products need to be designed with easier recycling in mind.

Our ambition is that each device can be returned after use and recycled in every country where we market IQOS. As a first step toward a circular economy at PMI, we partnered with specialist companies to establish two recycling hubs, or reverse logistics centers, in Europe and Asia. By the end of the year, these centralized hubs served markets covering two-thirds of our total IQOS device sales volume.

### What is an IQOS 3 device made of?



## Managing water

Our water strategy accounts for the risks we face from water stress and pollution, their impacts—both in catchments relevant to operations and in supply chains—and drives action to ensure that water is managed sustainably as a shared resource. Our goal in our operations is to minimize the amount of water used per unit of cigarette or heated tobacco unit manufactured. While water consumption in our manufacturing facilities only represent around six percent of the total water consumed across our value chain, initial data showed that the manufacture of heated tobacco units required four to five times more water per unit than that of conventional cigarettes. As we increase the production capacity for

smoke-free products, so we evolve our water strategy, with clean technology investments delivering water recycling. In 2018, we assessed global water risks in our tobacco supply chain based on the World Resources Institute's Aqueduct tool, and incorporated water stress, flooding and drought considerations. We share and discuss with suppliers and their farmers the relevant findings of our assessment. Collective action includes watershed management, the development of drought-tolerant and flood-tolerant seed varieties, as well as access to water, sanitation and hygiene services for the farmers and their workers.

In 2017, we started to pilot the Standard of the Alliance for Water Stewardship (AWS), a leading organization dedicated to better water catchment management. AWS goes beyond requiring excellence in managing water-related issues within the site, it also requires deep understanding of the local watershed and extensive engagement on water-related topics with local communities and stakeholders. In 2018 our pilot factory became the first factory in Brazil to be AWS certified. We are now expanding its application across our operations globally: We started to implement the AWS Standard at a further five sites throughout 2018, and we plan to certify all our factories by 2025.

# 100%

All PMI manufacturing facilities will be certified to the AWS Standard by 2025



## Conserving biodiversity and combating deforestation

While our own manufacturing operations have no significant impacts on biodiversity or deforestation, some elements of our supply chain may have. Most of our suppliers of paper and packaging source from areas free of deforestation, but our aim is to further improve our supply chain traceability to provide clarity that all pulp is sourced deforestation-free.

In 2018, we developed a new zero-net deforestation ambition and a set of targets to protect forests in our supply chain. The main risks associated with tobacco farming arise from the firewood used as curing fuel and, to a lesser extent, from the land use change for tobacco growing and the use of timber for curing barn construction. As part of PMI's Good Agricultural Practices program, all tobacco suppliers are expected to prevent biodiversity loss.

We are committed to removing highly hazardous pesticides (HHPs) from our tobacco supply chain globally. Our aim is for crop protection agents (CPA) to be used responsibly and only as a last resort. We promote alternatives to HHPs, providing guidance to growers on the use of bio-pesticide and the safe disposal of empty CPA containers.

In 2018, 90 percent of the tobacco we purchased was cured at no risk of deforestation. Our plan is to reach 100 percent by 2020, through specific monitoring arrangements, clear goals and active engagement with our suppliers and farmers.

# 90%

Of the tobacco purchased was cured at no risk of deforestation



# Business transformation metrics

To track our progress in creating a smoke-free future, we have introduced a set of business transformation metrics.

In 2018, smoke-free products represented over 5.1% of our shipment volume and around 13.8% of our net revenues, but they already represented 60% of our global commercial expenditure and 92% of our global R&D expenditure. In three markets already, smoke-free products have become the biggest part of our business. In 2018, seven of our manufacturing facilities were producing IQOS heated tobacco units and other nicotine-containing products, up from three factories in 2017. Last, but most importantly, this table shows the number of people who are using IQOS and how many of them have stopped smoking completely. By the end of 2018, there were 6.6 million adult men and women who had stopped smoking and switched to IQOS.

Business transformation metrics <sup>1</sup>	2015	2016	2017	2018	Aspiration <sup>2</sup>
R&D expenditure (smoke-free/total)*	70%	72%	74%	92%	
Patents granted relating to smoke-free products (cumulative)	600	1,800	2,900	4,600	
Number of factories producing smoke-free products out of total number of factories	2 out of 48	2 out of 48	3 out of 46	7 out of 44	
Number of markets where IQOS is available	6	20	38	44	
Commercial expenditure (smoke-free/total)*	8%	15%	39%	60%	
Net revenues <sup>3</sup> (smoke-free/total)*	0.2%	2.7%	12.7%	13.8%	38–42% by 2025
Number of markets where net revenues from smoke-free products exceed 10% of total net revenues	0	1	5	19	
Number of markets where net revenues from smoke-free products exceed 50% of total net revenues	0	0	1	3	
Smoke-free product <sup>4</sup> shipment volume (billion units)*	0.8	7.7	36	42	90–100 by 2021 <sup>5</sup> >250 by 2025
Combustible product <sup>6</sup> shipment volume (billion units)*	881	845	791	767	<550 by 2025
Smoke-free product shipment ratio <sup>7</sup> (smoke-free/total)*	0.1%	0.9%	4.4%	5.1%	>30% by 2025
Total IQOS users (in millions)	0.2	2.1	6.9	9.6	
Estimated users that have stopped smoking and switched to IQOS (in millions) <sup>8</sup>	n/a	1.5	4.7	6.6	>40 by 2025

## Footnotes

1 The 2018 metrics marked with a star (\*) are subject to PwC's Assurance Report. See page 129 of [PMI Sustainability Report 2018](#).

2 Assuming constant PMI market share. We do not set aspirational targets for R&D and commercial expenditure but we expect both ratios to continue increasing to enable the stated outcome in terms of shipment volume.

3 Excluding excise taxes. For future periods, at today's pricing and excise tax assumptions.

4 Includes heated tobacco units and e-cigarettes.

5 The 90–100 billion units' shipment volume is a target and pertains exclusively to heated tobacco units.

6 Includes cigarettes and other combustible products.

7 The smoke-free product shipment ratio is compiled based on million of units.

8 Metric introduced in 2018.



# A word from our Chief Sustainability Officer



As a company, we have been working for many years to make our business more sustainable, focused on very specific challenges that we face in parts of our business. Over the last years, the number of sustainability initiatives have become more widespread across different functions. We now aim to take a truly holistic and proactive perspective on sustainability, across all aspects of our business.

We are convinced that our business transformation cannot succeed without sustainability, and sustainability would not be achieved without transformation.

One of our priorities for 2019 will be to develop a more comprehensive set of 2025 objectives for our most material sustainability topics. Also, building on several long-standing ambitious programs already in place, we would like to replicate such successes in other sustainability areas across the company. We will particularly focus in those areas that are new to us, such as the recycling of IQOS devices electronics.

**Huub Savelkouls**  
Chief Sustainability Officer

## About these Highlights

In these Sustainability Report 2018 Highlights, we share a condensed overview of our approach and performance in managing our most material sustainability topics across the four pillars of our strategy.

For a more in-depth overview of our progress to date, we invite you to read our Sustainability

Report 2018 in full on [www.pmi.com/sustainability/sustainability-report](http://www.pmi.com/sustainability/sustainability-report).

The information and data presented in these Highlights cover the 2018 calendar year and all our operations, unless otherwise indicated.

We welcome your feedback on this report by emailing us at [sustainability@pmi.com](mailto:sustainability@pmi.com).



## Forward-looking and cautionary statements

This report contains 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 products and exposure to environmental tobacco smoke; litigation related to tobacco use; 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 the quarter ended March 31, 2019. Aspirational targets do not constitute financial projections. 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.

## Recognitions in 2018



In this report, "PMI," "we," "us" and "our" refers to Philip Morris International Inc. and its subsidiaries.

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In this report and in related communications, the terms "materiality," "material" and similar terms, when used in the context of economic, environmental, and social topics, are defined in the referenced sustainability standards, and are not meant to correspond to the concept of materiality under the U.S. securities laws and/or disclosures required by the U.S. Securities and Exchange Commission.



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