



PHILIP MORRIS  
INTERNATIONAL

# RESPONSIBLE MARKETING PRACTICES AT PMI

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**DECEMBER 2019**

AN ASSESSMENT OF OUR RESPONSIBLE  
COMMERCIALIZATION STANDARDS, OUR ADHERENCE  
TO THESE STANDARDS, AND AREAS FOR IMPROVEMENT

Dear Reader,

While youth smoking rates have gone down in many countries around the world, youth continue to smoke. And with the advent of new nicotine-containing products, people are rightly concerned that youth are also using these new products.

Let me be clear. Youth should not use any nicotine-containing product; nicotine-containing products are addictive and not risk free. As the CEO of Philip Morris International, I do not want youth to use any of our products.

Manufacturers of tobacco and nicotine-containing products have a key role to play in guarding against youth use of their products. We take this responsibility seriously. This is why we have worked consistently over the years to develop and embed in our organization global responsible marketing standards. And as we move forward in our mission to develop smoke-free products that are better alternatives for men and women who smoke, we continue to strengthen and

develop our responsible marketing standards to meet these new challenges.

Nonetheless, we recognize we can always do more. To that end, I am pleased to present the results of our comprehensive assessment of the steps we take across our commercial activities to restrict our product marketing and sales activities to adults. We undertook this assessment at the request of one of our shareholders, Trinity Health, who asked us to report on our adherence to our responsible marketing standards.

I believe the results of our assessment demonstrate our strong adherence to our standards and our commitment to doing our part in preventing youth use of tobacco and nicotine-containing products.

I cordially invite you to comment on this report and to continue to challenge and guide us on this important matter.



**André Calantzopoulos**  
Chief Executive Officer

# INTRODUCTION

In November 2018, Philip Morris International Inc. (PMI)<sup>1</sup> received a proposed shareholder resolution from Trinity Health and several co-proponents.

The resolution raised questions about how we market our cigarette brands.

Trinity Health is a Catholic health system that provides health care in communities throughout the U.S. and engages in shareholder advocacy on issues that are central to its mission, including reducing the negative impact of smoking and tobacco usage. The proposal from Trinity Health referenced allegations that the Campaign for Tobacco Free Kids (CTFK) set out in a petition that it and other organizations filed with the U.S. Federal Trade Commission regarding alleged cigarette marketing practices on social media.<sup>2</sup> Trinity Health requested PMI's Board of Directors "to review worldwide corporate adherence to Philip Morris' own policies aimed at discouraging smoking among young people, and report the results of that review

to shareholders by November 2019."

Members of PMI's management team reached out to representatives of Trinity Health to discuss their proposal. We agreed to undertake an assessment of our marketing practices and to prepare a report, overseen by PMI's Board of Directors, which would be made publicly available by the end of 2019. We also updated Trinity Health on the progress of our work in August 2019.

Although Trinity Health's shareholder resolution was focused on the marketing of our cigarette brands, we expanded the assessment to include the marketing of our smoke-free products because of the significance of these products to our business.

Our ambition is to replace cigarettes with smoke-free products, and we are developing

and commercializing a range of smoke-free products that, while not risk free, are a much better choice than continued smoking. Our smoke-free product portfolio includes heated tobacco products and nicotine-containing vapor products (e.g., e-cigarettes), and our innovative products are already available in over 50 countries. We are drastically shifting our resources in marketing and sales away from cigarettes ("combustible products" in this report) toward our smoke-free products. For instance, in 2018, 92% of our investment in research and development and 60% of our global commercial expenditures were dedicated to smoke-free products.

Unlike combustible products, which are known the world-round, smoke-free products are a new product category, still relatively unknown. Our priority is to create awareness among men

and women who smoke that better alternatives exist. Our marketing activities for smoke-free products are intended to do just that. As we progress in our efforts to commercialize these new products, we will continuously collect feedback to ensure that we are continuing to reach the intended audience and minimizing exposure of unintended audiences, most importantly youth.<sup>3</sup>

The review requested by Trinity Health has been an important step in our efforts to continuously improve. We have now completed the assessment and take this opportunity to make the results publicly available. We expect, and welcome, the public's feedback on our assessment and this report.

<sup>1</sup> PMI as used in this report refers to Philip Morris International Inc. and one or more of its affiliates, as appropriate in the context.

<sup>2</sup> Campaign for Tobacco Free Kids et al. v. Philip Morris International, Inc., Request for Investigative and Enforcement Action to Stop Deceptive Advertising Online, Aug. 24, 2018, [https://www.tobaccofreekids.org/assets/content/press\\_office/2018/2018\\_08\\_ftc\\_petition.pdf](https://www.tobaccofreekids.org/assets/content/press_office/2018/2018_08_ftc_petition.pdf).

<sup>3</sup> Throughout this report, the terms "youth" and "minors" refer to those who are below the legal age for smoking and/or vaping in their countries, or if there is no minimum age law in a country, below the age of 18.

# METHODOLOGY AND PROCESS

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Starting in early 2019, a cross-functional team undertook a comprehensive and critical review of the steps we take across our commercial activities to restrict our product marketing and sales activities to adults. The project team's work was supervised by the Deputy General Counsel and the Chief Ethics & Compliance (E&C) Officer, who report to the President, External Affairs and General Counsel, a member of our Senior Management Team. In December 2019, the Nominating and Corporate Governance Committee of PMI's Board of Directors reviewed, commented on, and approved this report.

Our assessment started with the review of PMI's existing principles, policies, guidelines, and practices related to the development, marketing and sales of both combustible and smoke-free products. The project team also reviewed global training figures, reported and substantiated cases of non-compliance with PMI's Marketing Code and Good Conversion Practices, potential concerns raised on social media and other channels ([www.pmi.com](http://www.pmi.com)), and corporate audit results.

We interviewed subject-matter experts from across the company, both in our central

functions and in our market affiliates, to gather information on our marketing practices and to get their feedback on how we could strengthen existing policies and practices. We also surveyed market affiliates on current youth access prevention activities at retail. The Corporate Audit department also performed field visits in several market affiliates to check compliance with provisions of our Marketing Code.

In addition to assessing our own policies and practices, we looked at publicly available policies and practices in other companies, including those in regulated sectors (e.g.,

e-cigarettes, alcohol, gambling) and those that have come under scrutiny for their marketing activities (e.g., confectionary and sugar-containing beverages).

Following this review, the project team identified measures that PMI might introduce to strengthen our existing policies and practices. The findings were presented and discussed with members of the Senior Management Team.

The results of our review and the improvements we are putting in place as a result of this exercise are presented in the following sections.

# SUMMARY OF RESULTS

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## I. EXISTING PRINCIPLES, POLICIES & PRACTICES

PMI's marketing practices must adhere to four core principles, without exception and regardless of the country or the type of product, as set forth in our Guidebook for Success<sup>4</sup>, which is PMI's global code of conduct:

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

We also apply, as a minimum, guidelines to all our commercial activities to reduce the likelihood that they will be particularly appealing to minors; for example:

- (i) we do not use images or promotional materials that have particular appeal to minors, including youth-oriented celebrities or cartoons, or brands, toys or other merchandise which are primarily for, or used by, minors;
- (ii) we do not use models who are or who appear to be under the age of 25;
- (iii) we do not use branding on promotional items that is visible to others when the promotional items are used; and
- (iv) we do not pay for product placement.

We have policies that set out the standards and requirements to conduct market research for combustible products and for our smoke-free products. The policies restrict such research to legal age adults who smoke or use other nicotine-containing products. All employees and third parties who handle market research activities must receive training on the policies, and relevant third-party suppliers must be contractually bound to comply with the policies.

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<sup>4</sup> Our Guidebook for Success is available on our website, <https://www.pmi.com/who-we-are/standards/compliance-and-integrity>.

## A. MARKETING & SALES OF COMBUSTIBLE PRODUCTS

Marketing and sales activities for our combustible products are also governed by PMI's Marketing Code. The Marketing Code sets global standards that we follow along with applicable national laws. These standards reinforce our aim to restrict product marketing to adult smokers. A summary of the comprehensive standards in our Marketing Code is available on our website.<sup>5</sup>

The head of each PMI market affiliate is accountable for the affiliate's compliance with the Marketing Code. For example, all activities subject to the Marketing Code must be reviewed by the affiliate law and corporate affairs departments and approved by the affiliate head and the affiliate head of marketing and/or sales. These reviews and decisions must be documented.

All PMI employees who are responsible for marketing and sales of combustible products, and any third parties who are substantively involved in such activities on behalf of PMI, must receive training on the Marketing Code.

We have also implemented additional guidance related to other aspects of the marketing of our combustible products. Because Trinity Health's proposal referred to the CTFK petition,

which was focused primarily on social media, we describe below additional guidance we follow relating to our digital activities.

### Social Media

Since July 2015, PMI does not use social media to market its combustible tobacco products. This applies to all advertising, direct communications, campaigns or activities, whether they are branded or unbranded. The same rule applies to contracted parties such as event organizers, third-party agencies or brand ambassadors.

### Advertising on the Internet

In countries where advertising on the internet is not prohibited, PMI may place advertising for its cigarette brands on websites that are accessible to the general public, so long as:

- the advertising is accessible only in that particular country;
- the website has a user base that is reasonably estimated to be at least 75% adults<sup>6</sup>;
- the advertising is not placed on, or adjacent to, content or features that are directed to minors;
- the advertising consists only of banners that, for example, announce promotions or provide a link to a company consumer website; and

- the advertising is not interactive.

### Company Consumer Database and Combustible Product Content Website

We include only age-verified adult smokers in our company consumer databases, and access to our consumer websites is limited to age-verified adult smokers. One or more of the following age verification processes must take place before an adult smoker is included in a database or allowed to access a consumer website for our combustible products:

- A face and age technology that is tested and proven to be reliable confirms that the consumer is at least of legal age (minimum 18 years of age in all cases). If the face and age technology is not sufficiently reliable as a standalone protection, it must be used together with another technology that allows age verification of the adult smokers when they upload identity documentation;
- When there is direct in-person contact with the consumer, a face-to-face age check is conducted by (i) looking at the individual's official photo ID and (ii) documenting this check in writing; or

- A reliable third party, such as a bank, credit institution, mobile phone operator, or public body responsible for population data, verifies the accuracy of the age provided by the adult smoker in writing or electronically.

In addition, the landing page for any company-sponsored consumer website for our combustible products must be unbranded; must clearly state that the site is only for adult smokers; and must require adult smokers to register before accessing the content on the site. The homepage must also contain a link to important information about the health effects of tobacco consumption.

<sup>5</sup> [https://www.pmi.com/resources/docs/default-source/sustainability-reports-and-policies/overview-of-marketing-principles.pdf?sfvrsn=5dc091b5\\_2](https://www.pmi.com/resources/docs/default-source/sustainability-reports-and-policies/overview-of-marketing-principles.pdf?sfvrsn=5dc091b5_2).

<sup>6</sup> The 75% adult audience requirement is in line with standards applied by other manufacturers and providers of age-restricted goods and services, as well as regulators like the UK Committee of Advertising Practice.

## B. MARKETING & SALES OF SMOKE-FREE PRODUCTS

In addition to the four core principles discussed previously, in May 2017, we articulated a set of rules – Our Good Conversion Practices (GCPs) – to govern marketing and sale of our smoke-free products. In August 2019, we updated these rules. Consistent with our aim to provide better alternatives to smokers, our goal is to convert adults who would continue to smoke or use other nicotine-containing products to our smoke-free products. This is the central focus of our GCPs.

### PMI'S GOOD CONVERSION PRACTICES

PMI offers a variety of quality, scientifically substantiated smoke-free products that are much better choices than continued smoking. Our vision is that our smoke-free products will one day replace cigarettes.

- 1** Cigarette smoking causes serious diseases and is addictive. Without question, the best decision any smoker can make is to quit tobacco and nicotine use altogether.
- 2** PMI's smoke-free products are for adults who would otherwise continue to smoke or use other nicotine products.
- 3** We do not offer PMI's smoke-free products to people who have never used tobacco or nicotine products or who have quit using tobacco and nicotine products. Our smoke-free products are not an alternative to quitting and are not designed as cessation aids.
- 4** PMI's smoke-free products are not risk free and contain nicotine, which is addictive. Switching to a smoke-free product is, however, a much better choice than smoking.
- 5** We support our adult smoke-free product users in their journey to full conversion through education and guidance.
- 6** For consumers to experience the benefits of smoke-free products, they must switch completely and abandon smoking permanently.
- 7** Minors should not use tobacco or nicotine in any form.
- 8** Pregnant women, diabetics and people with heart problems should not use any tobacco or nicotine product.

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Each market affiliate that sells smoke-free products must implement the GCPs using centrally developed guidelines, toolkits, training, and other resources. The guidelines cover four key areas:

- (1) Recruitment: The GCPs must be discussed with prospective employees and third parties who will interact with consumers of our smoke-free products. We will hire employees or engage third parties only if they agree to follow the GCPs.
- (2) Training: All employees and third parties who interact with consumers of our smoke-free products must complete in-person training on the GCPs. That training includes: (a) discussion of the core GCP principles and their importance to PMI's overall vision; (b) role plays of consumer interactions that require application of the GCPs; (c) guidance on how to get help and each participant's responsibility to speak up about potential violations of the GCPs; and (d) tests to facilitate discussion and learning by participants.

Market affiliates are required to maintain training records. Training is reinforced through in-field observation and coaching by supervisors, as well as online annual refresher trainings.

- (3) Display: The GCPs must be displayed for staff and consumers at stores and other direct retail locations for our smoke-free products that we own or control.
- (4) Agreements: Each market affiliate must update relevant agreements with third parties to reflect the GCPs and to ensure contractual compliance with them.

All marketing and sales initiatives and corresponding materials for smoke-free products are reviewed to check consistency with the GCPs and implementation guidance.



In addition to the GCPs, we have developed global guidelines for digital commercial activities related to the marketing of smoke-free products. The guidelines incorporate best practices from various countries and industries and provide guidance on both the content of our digital marketing and the tools we use to reduce the likelihood of youth being exposed or, most importantly, attracted. We describe those guidelines below.

### Social Media Brand Activation Accounts<sup>7</sup>

- We open an account on a social media platform only if it has its own native age-gating technology and if we have reliable audience measurement data in the country that show the audience is at least 75% adult. If the data are derived from self-declared age data (whether from the social media platform owner or a third party), we obtain further data to validate the accuracy of the self-declaration.
- We take additional steps to assess the likely audience of a social media account, which may include engaging a reputable third-party

audience measurement firm to survey the audience of the account, random surveys of individuals using questions designed to elicit whether someone is an adult, or asking individuals to confirm their age when they contact PMI directly.

- In addition, we monitor and remove from all PMI-controlled social media accounts user-generated content that does not comply with our content guidelines or that is identified to have been posted by a minor.

### Advertisements on Third-Party Websites and Other Media

- We place digital commercial content only on media for which reliable audience measurement data show that the audience is at least 75% adult. For targeted digital commercial content, we take additional steps to reduce the likelihood of minors being exposed to the content by using available targeting criteria to bias the likely audience towards adults and intentionally excluding minors.

- We maintain a list of online channels and types of content that could be of particular appeal to minors in and next to which we will not publish our product content

### Smoke-Free Product Websites

- We require individuals to self-declare they are legal age (minimum 18 years of age) before they are allowed access to a PMI-controlled product website.
- If an individual visits a PMI-controlled product website, and self-declares to be a minor, the individual is prevented from entering the website.
- Where technically possible, we are implementing technology on our product websites that can recognize a device previously used by someone who self-declared as being a minor. This enables us to block access to our website from that device for a period of time.
- PMI includes statements on its product websites explaining that its products are only for adults who smoke or use other nicotine-containing products.

- Of course, for purchases on our smoke-free product websites, we have implemented a variety of age verification measures in different markets. The measures implemented vary market to market including third-party database checks, ID upload checks, and age verification on delivery, and are designed to always comply with the requirements of local law.

### Company Consumer Database

At a minimum, we require individuals to self-declare their age and confirm they are adults who smoke or use other nicotine-containing products before they are registered into a PMI consumer database. Before we give access to our smoke-free products to any of these consumers, for example through a guided trial, they are age verified.

<sup>7</sup> "Social Media Brand Activation Accounts" are accounts focused on marketing our smoke-free products to adult nicotine users, and are distinct from customer care accounts, which provide customer support to existing adult users of our smoke-free products.

## II. ADHERENCE TO EXISTING PRINCIPLES & POLICIES

PMI has a robust and tested infrastructure for ensuring compliance with its existing policies and processes. Three functions—Ethics & Compliance, Internal Controls, and Corporate Audit—support and monitor compliance with the Guidebook for Success (i.e., our Code of Conduct) and our Principles & Practices (P&Ps), through trainings, communications, controls, investigations, and audits.

Overall, our assessment found strong adherence to our responsible marketing practices. Our main findings are summarized below.

- Throughout PMI, people not only understand but are passionate about the fundamental principle that we should not target our marketing and sales activities to youth. Employees apply this standard routinely and reliably when developing and deploying marketing and sales activities, regardless of the product, activity, or country. This shared commitment is instilled in part through extensive training on PMI's Marketing Code and the GCPs and was reflected in the interviews we conducted with employees throughout the organization.
- Marketing materials and activities are reviewed by relevant functions to ensure

that the content of those materials is not particularly appealing to youth. For global campaigns, marketing materials and initiatives are reviewed both at the global level and at the affiliate level, including by members of the Law Department.

- Third-party suppliers that provide relevant services are contractually bound to comply with the Marketing Code and the GCPs.
- Relevant employees and third parties receive training on a rolling basis on the Guidebook for Success, the Marketing Code, and the GCPs.<sup>8</sup>
  - Just in 2018, 86.9% of all PMI employees participated in training sessions pertaining to our Guidebook for Success. The sessions build awareness about risks, support good ethical judgment, and prepare people to speak up if something is wrong or can be improved. During the first three quarters of 2019, 74.5% of employees participated in training sessions pertaining to our Guidebook for Success.
  - More specifically, in 2018, we provided approximately 26,700<sup>9</sup> training sessions on our Marketing Code through different

channels to employees and relevant third parties, including suppliers, retailers, and hostesses. During the first three quarters of 2019, we provided approximately 7,700 training sessions on our Marketing Code.

- Extensive training on GCPs is being delivered to employees and relevant third parties in the countries where we sell smoke-free products. In 2018, we trained approximately 27,100 people and during the first three quarters of 2019, we have trained approximately 30,300 people on GCPs.
- Employees have the obligation to report potential misconduct. In relation to Marketing Code and GCPs violations, seven cases of misconduct were substantiated in 2018, and 12 so far in 2019. Three of the cases involved supplying a device used with our smoke-free products to a minor as a result of failure to verify age, and one involved sending promotional communications to a minor as a result of failure to verify age. The employee who failed to verify the consumer's age in each instance was terminated. The remaining cases did not involve allegations related to promoting or selling our products to youth.

- The Corporate Audit Department, which reports directly to the PMI Board's Audit Committee, also monitors compliance with our Guidebook for Success, the Marketing Code and GCPs. The Corporate Audit results for 2018 showed that only a few affiliates had issues related to Marketing Code compliance, and the few cases identified were related to procedural issues.
- During 2019, Corporate Audit conducted a review of controls over various trade and sales activities at our Indonesian affiliate. The audit included the review of a new digital platform (i.e., a mobile application) that allows retailers to share promotional content related to PMI cigarette brands with registered consumers. The audit found that, while no local laws were violated, the age control measures for the mobile application did not comply with PMI's Marketing Code. As part of the registration process, consumers were asked to provide their name, date of birth, and identity card number and to self-declare that they were adult smokers, but the consumers' ages were not subsequently verified as required by the Marketing Code. Based on

<sup>8</sup> Employees are notified if they are required to complete training and will receive additional notices and warnings if the training is not completed by the specified deadline.

<sup>9</sup> 2018 training numbers include trainings that were conducted during the year but reported after the publication of our 2018 Sustainability Report.

these findings, an action plan was put into place and several steps were immediately taken to address the deficiencies, including removing all data related to any underage smokers from the consumer database and contracting with a third-party provider to verify the accuracy of the age provided by all adult smokers before they can be registered to use the mobile application.

- During 2019, Corporate Audit conducted additional field visits in each of PMI's six business regions with a focus on checking compliance with Marketing Code provisions related to our responsible marketing standards. Corporate Audit selected one country in each business region (China, Greece, Mexico, Indonesia, Russia and Turkey). Members of the Corporate Audit team visited five discrete points of sale in each of these countries to assess compliance with the Marketing Code provisions. No issues related to youth access were identified in any of the locations visited.
- PMI's business activities are also subject to intense external scrutiny from government agencies, NGOs, media and other stakeholders. PMI takes seriously and investigates thoroughly any specific allegation regarding youth targeting, usage or access, where the company may have been implicated. The results of two such investigations are summarized below.

- On August 24, 2018, several public health organizations, including CTFK, filed a petition with the U.S. Federal Trade Commission urging it to take action against four tobacco manufacturers, including PMI, for alleged promotion of cigarettes brands using social media. As discussed above, the use of social media to market our combustible tobacco products is prohibited by our Marketing Code and implementation guidelines. Therefore, we immediately undertook an internal investigation of the allegations in the CTFK petition. Our investigation confirmed that in none of the countries identified had any law or regulation been violated. However, we identified instances where there were insufficient controls to ensure third parties complied with our guidelines. Based on our findings, we took several steps: (1) we revised our existing policies, guidelines and internal processes to clarify that any use of social media for combustible tobacco products is prohibited; (2) we communicated these changes to marketing and sales employees, as well as the agencies and third parties with which we work; and (3) we strengthened our controls to effectively monitor compliance with our principles and practices.

- On May 10, 2019, we received an inquiry from Reuters regarding certain social media posts that it believed did not follow our digital influencer guidelines. Prior to this, we engaged with digital influencers in certain countries to promote our smoke-free products. We implemented several guidelines that applied to all of our activities with digital influencers, including that digital influencers must be over 25 years of age and adult smokers or users of smoke-free products. We also posted these guidelines on pmi.com. In response to Reuters' inquiry, we immediately suspended our digital influencer program while we investigated the allegations. Our investigation was not limited to the social media posts that Reuters identified but extended to all countries where we were engaging with digital influencers. Our investigation revealed that while no laws were broken, we fell short of our internal guidelines for digital influencer activities in certain instances. In one of the social media posts shared by Reuters we concluded that the paid digital influencer was above the legal age for smoking but that she was under the age of 25, as required by our internal guidelines. Our global review found additional instances in Russia and two others in Europe where digital influencers were of legal age but were under 25. Though there was no intent to violate our guidelines, there were insufficient controls in place to ensure

compliance. Following our investigation, two individuals received written warnings. On October 16, 2019, senior management issued new guidance making clear that we will no longer engage with anyone for the purpose of generating social media posts about our products.

The assessment we conducted in response to Trinity Health's proposal is, of course, not without limitations. We did not conduct checks in every country or interview all employees who are involved in the marketing and sales of our products. Nonetheless, the findings and data in their entirety provide a solid basis for concluding that there is strong adherence to our responsible marketing policies and practices. While there have been a few cases of non-adherence, relative to the size of PMI's operations, the number of such instances is very low, and we found no pattern that would suggest any systemic problems. The systems we have in place to detect non-compliance are working; we have taken all allegations of non-compliance seriously; and we have acted promptly to address issues that have been identified.

### III. STRENGTHENING OUR EXISTING POLICIES AND PRACTICES

As part of our effort to continuously improve, we also considered whether there were opportunities to strengthen our existing responsible marketing policies and practices. Below we discuss several of the improvements we are making, including strengthening our programs with trade partners on youth access prevention, adopting additional measures to monitor compliance with our responsible marketing standards, and developing a new Marketing Code.

#### A. YOUTH ACCESS PREVENTION PROGRAMS WITH THE TRADE

PMI neither owns nor has any means of control over the vast majority of the retail points of sale around the world where people buy our products. However, we recognize that when we have the opportunity, for instance with our direct trade partners, we have a responsibility to set robust standards and to work with them to guard against sales to underage purchasers.

We conducted a survey of PMI affiliates across the world to collect up-to-date information on youth access prevention programs with our trade partners. We also wanted to identify best practices that could be replicated in other countries.

Some affiliates confirmed that they had ongoing programs or activities with trade partners related to youth access prevention, but the scope of those programs varied greatly by country. Based on our findings, we concluded that there was an opportunity to

bring consistency through global guidance on how to implement and strengthen such programs. We have since developed a set of tools for affiliates to use to work more closely with their trade partners to guard against sales to underage purchasers. The tools consist of the following:

- **Model contract clauses.** Beginning in October 2019, all affiliates were required to ensure that new contracts and amendments to existing contracts signed with retailers contain specific provisions related to youth access prevention. The model contract clauses require retailers to ensure strict compliance with minimum age laws or, in countries where such laws do not exist, to refuse sales of nicotine-containing products to anyone under the age of 18. Retailers are also required to display and maintain any legally mandated signage about the prohibition to sell nicotine-containing products to minors.

- **Educational Modules for Trade Partners.**

We developed educational modules on youth access prevention for our digital trade engagement (DTE) platform, which we use to communicate with our retail trade partners in various countries. The educational modules consist of banners, informational slides, animations and other interactive content designed to educate trade partners on the topic of youth access prevention for both combustible and smoke-free products. The modules also include knowledge checks to assess trade partners' understanding of the information. Trade partners who currently use the DTE platform will be required to complete the educational modules beginning in January 2020, and the information in the modules will be reinforced with all DTE users on a semi-annual basis. Our DTE platform is currently used by affiliates in 68 countries with approximately 529,700 registered points of sale.

- **Point-of-Sale (POS) Materials.** We developed stickers for display at the entrance of retail locations indicating that they do not sell nicotine-containing products to minors. Additional POS materials are being developed and should be available for affiliates in early 2020. Sales representatives must document that the locations they visit contain signage related to the prohibition of sales of nicotine-containing products to minors.

- **Written Communications to Trade Partners.**

The head of each market affiliate must send a letter, based on a model template, to all active trade accounts by January 2020 that reinforces PMI's commitment to not sell its products to minors and PMI's expectation that all retailers who sell PMI products will take steps to ensure our products are not sold to minors.

- **In-Person Conversations with Key Trade Partners.** Each market affiliate sales team must have and document regular conversations with all significant trade partners regarding PMI's commitment to guarding against underage sales of its products. All members of each affiliate's sales field force will be trained to conduct these conversations by the end of 2019.

All affiliates must submit the deployment plans for their youth access prevention programs by the end of the year and will report on the implementation of their plans in April 2020.

We are reinforcing the key principles of the youth access prevention program through internal communications to relevant employees regarding PMI's commitment to do its part to prevent the marketing or sale of our products to youth.

## B. MONITORING

As discussed above, PMI has a robust and tested infrastructure for monitoring compliance with its existing policies and processes. Nonetheless, we looked for opportunities to strengthen our monitoring, and are taking the following steps, some of which we referred to above:

- Concerns around marketing and sales to youth will be included annually in our Integrated Risk Assessment as a global risk. Corporate Audit will include the issue in its risk-based audit program each year.
- We will continue to use digital tools, including social media listening and audience data analytics, to monitor our digital marketing activities to ensure that we are reaching intended audiences and to detect any inappropriate marketing activities controlled or initiated by PMI affiliates. PMI runs a mystery shopping program in a sample of our smoke-free product retail stores. PMI contracts with an independent third party that uses secret shoppers to measure the quality of services offered in these stores as well as compliance with our GCPs. We are evaluating whether this program can be scaled up and provide robust feedback on the consistency of age controls at our smoke-free product retail stores.

- We will introduce additional monitoring and controls for age-verification at delivery for our online sales of smoke-free products.

## C. NEW MARKETING CODE FOR ALL PRODUCTS

Until now, our Marketing Code applied only to combustible products. After we began selling smoke-free products, we developed our Good Conversion Practices (GCPs), discussed previously, as the foundational guidance for all our marketing and sales activities for these new products. Over time, as we gained experience, we developed more detailed implementation guidelines. With several years of experience and learnings, we are now in the process of drafting a comprehensive Marketing Code governing the marketing and sales of all our products, including smoke-free products.

The new Marketing Code will continue to be based on the same values and principles that already underlie all of our marketing and sales activities, including our responsible marketing standards. The new Code is expected to be finalized during the first quarter of 2020, after which it will be rolled out to the entire organization. We anticipate providing a further update in our next sustainability report.

# CONCLUSION

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Overall our assessment showed strong adherence to our responsible marketing standards. We are encouraged by the results and believe they reflect our consistent focus on the responsible marketing of our products and our employees' commitment to these fundamental principles.

We acknowledge that there were a few instances when we fell short. Our assessment shows that when we learn about allegations of non-adherence to our responsible marketing standards, we take them seriously, we investigate their veracity, and where they are substantiated, we take appropriate follow-up actions. In short, our monitoring and compliance systems are working as intended.

But we cannot become complacent. Rather, we must continue to look for opportunities to strengthen our standards and processes. This assessment prompted us to do so, and our report describes some of the additional measures we are putting in place.

We will continue to improve and evolve the practices, processes and controls, including the use of technology, described in this report as we gain experience and learn more. And we will report publicly again on our progress in two years.

We also welcome the public's feedback on this report and on the responsible commercialization of our products.

Finally, we sincerely thank Trinity Health for prompting this assessment and for their candid discussions with us on this topic.



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We welcome your feedback. If you have comments or suggestions, please contact [ResponsibleCommercialization@pmi.com](mailto:ResponsibleCommercialization@pmi.com)

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