



PHILIP MORRIS INTERNATIONAL

Environmental,
Social & Governance
Key Performance
Indicators Protocol

ESG KPI Protocol

JUNE 2022



Contents

| | |
|--------------------------------------------|----------|
| Overview | 3 |
| Our approach to reporting | 4 |
| Key Definitions | 6 |
| PMI Sustainability Index | 8 |
| Basis for Preparation and Reporting | |
| PMI's Sustainability Index | |
| Product Sustainability | 17 |
| Operational Sustainability | 29 |

This document at a glance

This document explains our overall approach to reporting, followed by a description of PMI's bespoke Sustainability Index, which was introduced in 2022. Thereafter, the link between the Index and our sustainability materiality assessment (read more [here](#)), ESG framework and 2025 Roadmap goals (read more [here](#)) is described. This document concludes with a detailed basis for preparation and reporting of PMI's Sustainability Index.

PMI's Sustainability Index is comprised of 19 key performance indicators (KPIs) which have been selected using specific criteria to ensure they can provide a relevant, quantifiable, consistent, and reliable measure of how PMI is progressing towards its 2025 roadmap goals. These KPIs are representative of the company's most material environmental, social, and governance (ESG) issues.

The basis for preparation and reporting section of this document includes key definitions, scope, calculation methodology, and related data management for each of these 19 KPIs.

The ESG KPI Protocol (Protocol) should be regarded as a framework and reference guide to help ensure consistency and completeness in our reporting and should be read in conjunction with PMI's annual integrated report. This Protocol is applicable for the 2021 reporting period and should be read in conjunction with [PMI Integrated Report 2021](#).

PMI will review this Protocol periodically to reflect relevant developments, such as changes in business priorities, revised methods of measuring or capturing data, stakeholder feedback, and developments related to mandatory and voluntary reporting frameworks and standards.

The aspirations, goals, and forward-looking plans contained in this document may be impacted by the February 2022 Russian invasion of Ukraine and its potential effects on our business over the mid- to long-term, which remain uncertain. As part of our broader plan to evaluate our published sustainability aspirations to ensure they remain ambitious, reasonable, and achievable in the context of a dynamic and evolving smoke-free industry, we will also assess and reflect the impact of the invasion.

Considering the volatility and rapidly changing environment, we continue to monitor the situation closely. We will communicate any related changes within the next year.

Aspirational targets and goals do not constitute financial projections, and achievement of future results is subject to risks, uncertainties, and inaccurate assumptions, as outlined in our forward-looking and cautionary statements on page 42 of this document.

Overview

Non-financial information is increasingly being used by external stakeholders to assess and compare a company's performance, including by the financial community to inform their analyses and investment decisions.

It is key to the integrity of PMI's reporting that the information and data that we publicly disclose accurately reflect our company's performance, following clear calculation methods.

However, unlike financial accounting standards, and despite evolving practices, currently there are few industry norms or globally recognized practices for measuring and evaluating non-financial performance. Consequently, standard-setters and regulators are working towards the creation of clearer guidelines and requirements for the disclosure and assurance of non-financial information.

In that regard, our intention in developing this Protocol is to establish a framework, which is specific to our company and clearly defines KPIs that can provide our organization with a method for making the connection between our company's purpose, strategic direction, financial performance, and environmental and social considerations. Through the publication of this Protocol, we aim to provide further transparency on the key metrics we use to measure how our company is progressing towards achieving its purpose and creating value for our shareholders as well as other stakeholders.

PMI financial information complies with financial accounting standards and follows rigorous data management processes. This provides internal and external stakeholders with consistent, comparable, and reliable data to enable their analysis and decisions. We are pursuing the same degree of rigor in internal risk, control, and measurement systems for non-financial metrics as we do for financial information. By striving for a similar level of robustness between financial and non-financial data management, a protocol guiding PMI's non-financial reporting presents multiple opportunities.

Firstly, for external stakeholders this Protocol helps us ensure the non-financial data we disclose are reliable, comparable, and meaningful, allowing shareholders and other stakeholders to assess and track progress in a consistent manner over time. Consequently, this Protocol offers the necessary basis to expand the scope of our external assurance, helping us to anticipate regulatory requirements and increasing shareholders' and other stakeholders' confidence in our reporting.

Internally, this Protocol provides clear guidelines on non-financial data management which sets the basis to support integrated decision-making within our company, accounting for both financial and non-financial information.

Finally, the Protocol has also permitted the introduction of a bespoke Sustainability Index (the Index), creating an explicit link between ESG performance and our company's long-term executive compensation scheme.



“As sustainability matures and gains importance inside and outside our company, the question of how to measure ESG performance is something many continue to grapple with. We have long expressed our support for more rigor in sustainability related reporting and disclosures—and not just for companies, but also for ESG ratings and related products. There is a need for greater transparency, more robust methodologies, and better clarity on definitions and assumptions. We certainly welcome recent developments leading to more consistency in standards under strong governance frameworks. Accordingly, 2021 was a year when we also focused on developing a clear and accepted process for establishing concrete definitions, documentation, and controls for sustainability with the aim of standardizing how we measure ESG performance.”

Jennifer Motles Chief Sustainability Officer



Our approach to reporting

Reporting process

PMI measures and reports ESG performance primarily through its annual Integrated Report, available on PMI.com, and on an ad-hoc basis in other external communications.

Consistent with our 2021 materiality assessment, our reporting includes data points related to all our material topics, including but not limited to the 19 KPIs described in further detail in this document. To prepare our annual Integrated Report, data is collected through a central repository and approved by data-owners through a system workflow prior to publication.

Scope

Data and information reported in our annual Integrated Report aim to cover all PMI subsidiaries globally unless explicitly stated otherwise.

Newly acquired subsidiaries, partially or fully owned by PMI, are included in our reporting as soon as the appropriate processes and systems are implemented to enable consistent data collation and group-level consolidation. Of note, entities acquired by PMI as part of our wellness and healthcare strategy during calendar year 2021 (Fertin Pharma A/S, Vectura Group plc., and OtiTopic Inc.) have not been considered in the scope of our 2021 Integrated Report nor in the KPIs included in this document, unless explicitly stated otherwise. Additionally, operations, or products related to joint ventures, partnerships, or license agreements, are excluded from the scope of all performance measures, unless otherwise indicated.

Following the deconsolidation of PMI's Canadian subsidiary, Rothmans, Benson & Hedges Inc. (RBH), effective March 22, 2019, PMI reports the volume of brands sold by RBH for which other PMI subsidiaries are the trademark owner. These include *HEETS*, *Next*, *Philip Morris*, and *Rooftop*.

Reporting period

The reporting period for our Integrated Report is aligned to our financial calendar and extends from 1 January to 31 December of any given year, unless otherwise stated in the selected KPIs' details and indicated with appropriate footnote in PMI's Integrated Report.

Restatement of non-financial data

We undertake continued, year-on-year improvements in our sustainability reporting processes and controls. Where it improves quality of data and facilitates performance comparison, accounts for changes in the company's footprint, or on the basis that a variance in prior years is identified, we may restate that data in PMI's annual Integrated Report with an appropriate footnote explaining the change.

Uncertainty and estimates

We make every effort to capture all relevant data globally, often working with our partners along our value chain to collect reliable primary data. However, it may not always be feasible or practical to do so, particularly for data connected with activities that are outside our direct or indirect control. This Protocol therefore contains descriptions where such occasions require us to make estimates and assumptions.

Data integrity and independent assurance

This Protocol, and the standards contained therein, ensure that all KPIs included in the Index are both measurable and verifiable.

To ensure that the data we report are measured consistently, from year to year, with a clearly defined scope and calculation methodology, the KPIs described in the Protocol are supported by detailed internal standards which have been reviewed by our Risk and Controls team. Each of these standards is assigned an owner, who is a subject-matter expert from the relevant business function and is responsible for ensuring the standards are reviewed and updated periodically to reflect any significant changes. The "Basis for Preparation" section of this Protocol summarizes these internal standards and is intended to provide external stakeholders with transparency as to our reporting methodology. This document shall be reviewed periodically to reflect any material updates to internal standards.

In several instances, our reported metrics are externally verified prior to publication. The basis for preparation section of this Protocol, as well as our annual integrated report, clearly indicate those metrics which are externally assured. The external assurance statements are published alongside our Integrated Report.

For the 2021 reporting year, a selection of our financial and non-financial [Business Transformation Metrics](#), indicators related to environmental health and safety (EHS) of our operations, and our greenhouse gas (GHG) emissions data were externally assured (see 2021 assurance reports on PMI.com). The primary reason we have started with these metrics is that they either pertain to our most material topics or we have significant historical data which has enabled us to develop robust reporting systems. Moreover, the business transformation metrics have been consistently reported externally in our Integrated Report and investor materials and used in our [Business Transformation-linked Financing Framework](#). In the coming years, we will work to expand the assurance of our reporting, prioritizing the KPIs described within this document, while keeping abreast of the regulatory developments.

Assurance of non-financial metrics

At PMI, we recognize the important role that external reviews of our data disclosures play in our reporting process. Such reviews, not only increase the credibility of our reporting but support us in continuous improvement of our internal data management processes.

We are committed to expanding the coverage of external assurance on our non-financial metrics. In 2021, we worked with KPMG to develop this Protocol, and the underlying internal standards on which it is based. We will build on this foundation in the coming years as we work towards expanding assurance coverage of our ESG metrics.

“KPMG finds transparent ESG reporting critical to show how companies understand and address their impacts. Ensuring robust definitions and data management practices for non-financial data is essential to managing these impacts and providing the appropriate level of transparency for external stakeholders to assess companies' actions.”

Marco Frikkee ESG reporting advisor of KPMG



Key Definitions

Adult – A person who is of legal age to purchase tobacco products or, where no such age is defined in applicable law, is at least 18 years' old.

Aerosol – Gaseous suspension of fine solid particles and/or liquid droplets.

Agricultural Labor Practices (ALP) code –

PMI's code which defines the labor practices, principles, and standards PMI expects from all tobacco farms with which PMI or PMI third-party leaf suppliers have contract to grow tobacco. Further details can be found [here](#).

Combusted or combustible tobacco product –

A manufactured consumable product that combusts tobacco and/or generates smoke inhaled directly by the user when it is used as intended. Combusted tobacco products include, for example, cigarettes, cigarillos, cigars, "roll your own", "make-your-own cigarettes", and pipe tobacco.

Combustible products – The term PMI uses to refer to cigarettes and OTP, combined.

Combustion – The process of burning a substance in oxygen, producing heat and often light.

Contracted employees – We define a contracted employee as an employee who is under the direct supervision of PMI employees but employed by a temporary employment agency.

Contracted farmers – Tobacco farmers supplying to PMI and contracted either directly by PMI (through the company's leaf operations) or through third-party leaf suppliers.

Contractor – We define a contractor as a person employed by or working on behalf of a third-party company contracted by PMI, who remains under the direct supervision of his or her employer rather than PMI and who is often involved in project-specific or outsourcing arrangements.

E-vapor product – Electrical product that generates an aerosol by heating a nicotine or non-nicotine containing liquid, such as electronic cigarettes (or "e-cigarettes").

Good Agricultural Practices (GAP) – A set of internally developed principles and measurable standards to be met by all those who grow and supply tobacco to PMI, organized under four pillars: Governance, Crop, Environment, and People. The Agricultural Labor Practices (ALP) code forms the people pillar of the GAP code. Further details can be found [here](#).

Heated tobacco units or HTUs – The term we use to refer to heated tobacco consumables, which for PMI include the company's *HEETS*, *HEETS Creations*, *HEETS Dimensions*, *HEETS Marlboro* and *HEETS FROM MARLBORO* (defined collectively as *HEETS*), *Marlboro Dimensions*, *Marlboro HeatSticks*, *Parliament HeatSticks* and *TEREA*, as well as the KT&G-licensed brands, *Fiit* and *Miix* (outside of South Korea).

Integrated Production System (IPS) – PMI sources tobacco directly through our leaf operations or through third-party leaf suppliers who contract farmers directly. IPS refers to a set of processes and ways of working between third-party leaf suppliers/PMI leaf operations and contracted farmers, from the start of crop planning until tobacco is processed and packed. Importantly, IPS requires third-party leaf suppliers to have a commercial contract with farmers; tier 2 farmers (not directly contracted) or tobacco purchased on the auction floor is outside the scope of IPS. IPS also provides technical support, provision of crop inputs and financial services to contracted farmers.

Markets – The taxonomy used in our reporting is aligned with PMI's financial reporting systems. For the purposes of reporting shipments and financial results, multiple small countries may be grouped into one market (e.g., market France includes countries France and Monaco, and market Switzerland includes countries Switzerland and Liechtenstein), or one country may be split into multiple markets (e.g., country Spain is reflected as markets: Spain Mainland, Canary Islands, and Ceuta & Melilla).

Other Tobacco Products (OTP) – Primarily roll-your-own and make-your-own cigarettes, pipe tobacco, cigars, and cigarillos, and does not include smoke-free products.

Performance share units (PSUs) – Long-term variable equity awards which are intended to motivate our executives to align incentives that enhance sustainable shareholder value and strengthen the Company over the long term. For further details see our [proxy statement](#).

PMI – Refers to Philip Morris International Inc. and its subsidiaries. Trademarks and service marks that are the registered property of, or licensed by, the subsidiaries of PMI, are italicized.

PMI leaf operations – Refer to our PMI affiliates with a vertically integrated tobacco leaf supply chain that contract tobacco farmers directly.

Responsible Sourcing Principles (RSPs) – A set of Sustainability principles which PMI expects all its suppliers to implement diligently. These principles are aligned with globally recognized standards, such as the UN Guiding Principles on Business and Human Rights, the Ten Principles of the UN Global Compact, and the relevant International Labor Organization (ILO) Conventions. Further details can be found [here](#).

Smoke – A visible suspension of solid particles, liquid droplets, and gases in air, emitted when a material burns.

Smoke-free product consumables – The term PMI uses to refer to heated tobacco units used with heat-not-burn products, cartridges containing e-liquids that are used for e-vapor products and other non-combusted nicotine containing products.

Smoke-free product devices – The term PMI uses to refer to its electronic smoke-free devices (heat-not-burn (HNB) and e-vapor), to be used with smoke-free product consumables.

Smoke-free products, reduced risk products (RRPs), or noncombusted alternatives (NCAs) –

The terms we use to refer to products that present, are likely to present, or have the potential to present less risk of harm to smokers who switch to these products versus continuing smoking. PMI has a range of smoke-free products in various stages of development, scientific assessment and commercialization. PMI's smoke-free products contain and/or generate far lower quantities of harmful and potentially harmful constituents than found in cigarette smoke.

For further terms and acronyms used in our reporting, please see pages 248 to 251 of [PMI's 2021 Integrated Report](#)

PMI Sustainability Index

Everything we do stems from our company's purpose which is seeking to create a net positive impact that benefits our company, shareholders, consumers, and society.

We can only achieve this by embedding sustainability in everything we do, thereby addressing the impacts of our products and business activities on society and the environment, and maximizing the opportunities to create value for our stakeholders.

To ensure we remain focused on those areas where we can have the greatest impact, our strategy and related goals are informed by a rigorous sustainability materiality assessment. Having established our 11 priority goals, which collectively form our 2025 Roadmap, we recognized that a critical lever to drive progress was to identify a set of clear KPIs. We have structured these KPIs (in total 19) into a bespoke Index ("the Index") that will allow us to measure progress towards our goals in a rigorous and quantitative manner, on an annual basis. The Index shall provide internal and external stakeholders with transparency on how we are addressing our impacts and ultimately delivering on our company's purpose in a responsible and strategic manner.

Sustainability materiality assessment

Our sustainability work only has meaning and impact if it focuses on addressing the issues that matter most.

During the second half of 2021, we worked with an external partner to conduct a new sustainability materiality assessment. The exercise allowed us to better understand and account for the impacts we have on society and the environment; the risks and opportunities that ESG issues represent to our business, as well as the view of our stakeholders related to those ESG issues and where they expect the Company to focus on (read our [2021 Sustainability Materiality Report](#)).

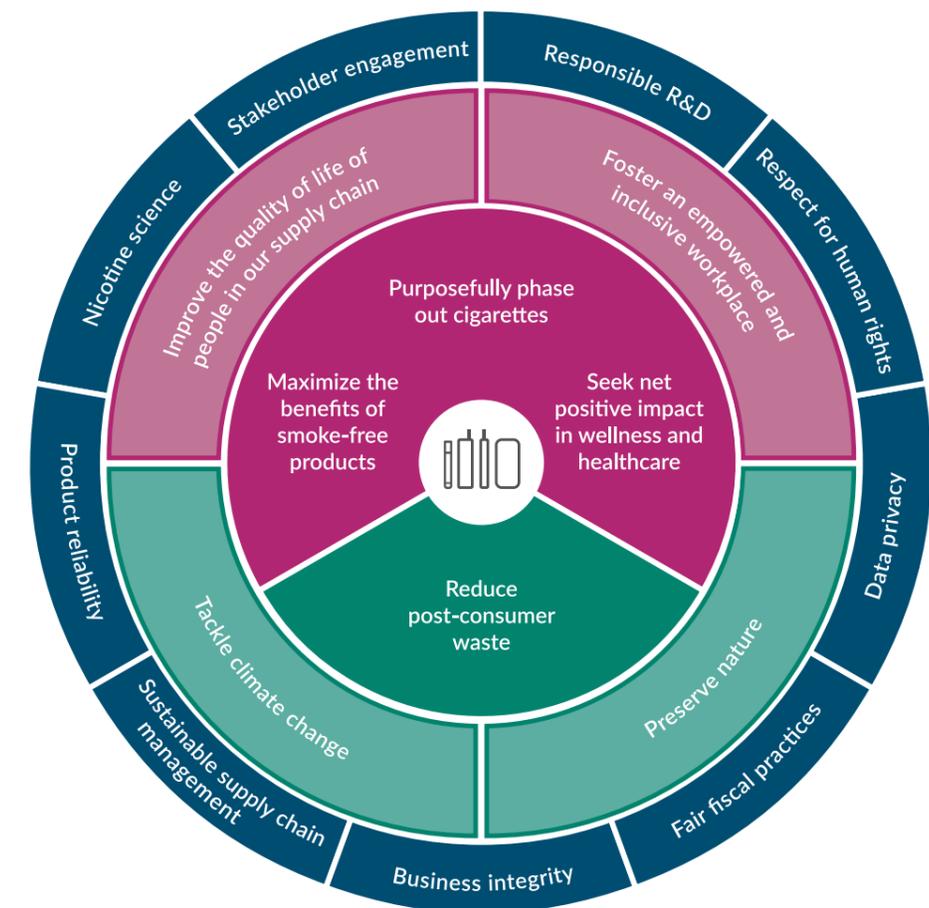
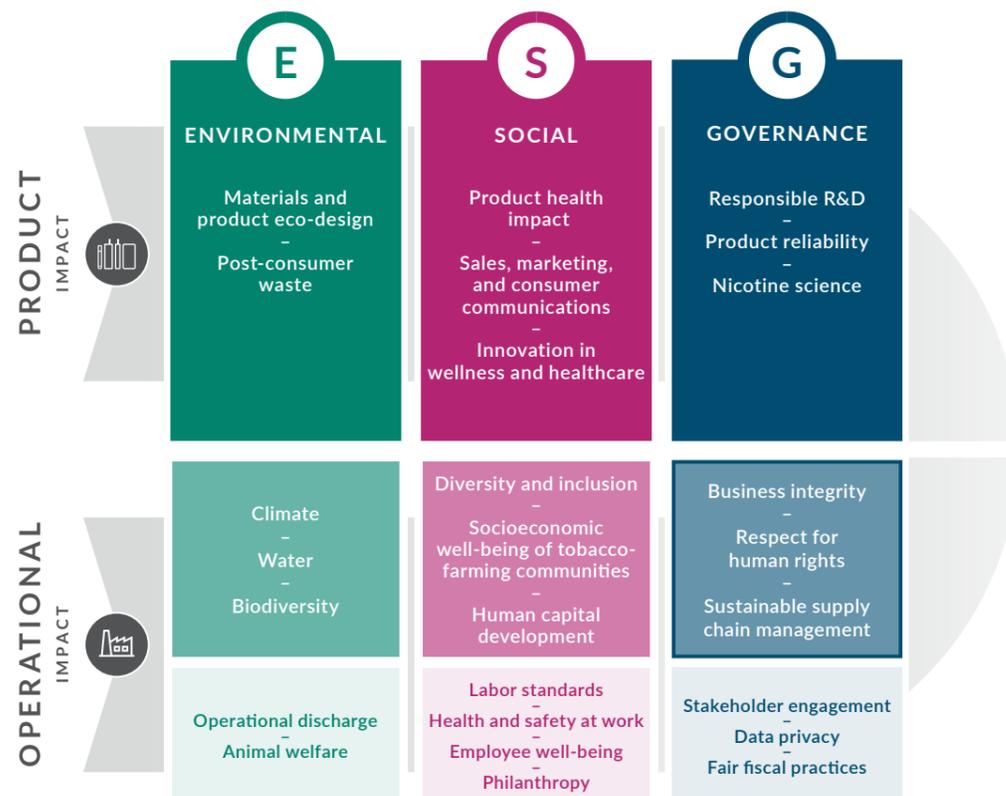
The results of this assessment allowed us to identify our priority ESG topics and clearly recognize that some of these relate to our products (or what we produce) and some relate to our business activities (or how we operate). Accordingly, we redesigned our ESG framework to appropriately showcase those ESG topics where we should prioritize our resources and focus on going forward.

Our sustainability strategy

For PMI, sustainability is more than just a means to minimize negative externalities and mitigate risks while maximizing operational efficiency and resource optimization. We see it as a fundamental opportunity for innovation, growth, and purpose-led, impact-driven, long-term value creation.

Our strategy crystallizes the notion of two distinct forms of social and environmental impacts—those generated by our products (what we produce) and those generated by our business operations (how we produce). At the core of our approach are four key strategies linked to the social and environmental impact of the products we sell: purposefully phase out cigarettes, maximize the benefits of smoke-free products, seek net positive impact in wellness and healthcare, and reduce post-consumer waste.

These are further supported by four key strategies to address the environmental and social impact of our business activities: foster an empowered and inclusive workplace, improve the quality of life of people in our supply chain, tackle climate change, and preserve nature. Underscoring our strategy are the fundamental principles and practices, from respect for human rights through to responsible R&D, which are critical to how we operate.



PMI's 2025 Roadmap

When we introduced our 2025 Roadmap in our first Integrated Report (2019), we did not yet have clarity on precisely how we would achieve these ambitions.

Our recent materiality assessment and revamped ESG framework, together with our new approach to sustainability and eight strategies, allowed us to reassess and redefine our 2025 Roadmap. Our revamped Roadmap is now composed of a set of 11 clear goals, linked to these eight strategies, outlining our key targets, and informing the trajectory of our company's long-term plan.

Our 2025 Roadmap

| | | Goals |
|-----------------------|-----------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| PRODUCT IMPACT | Purposefully phase out cigarettes | 1 Intentionally work toward phasing out cigarettes by ensuring that smoke-free products represent at least 30% of our shipment volumes and more than half of our net revenues by 2025 while continuing to reduce our combustible shipment volume |
| | Maximize the benefits of smoke-free products | 2 Develop and commercialize science-based smoke-free alternatives, making them available in 100 markets (of which at least half in low- and middle-income markets) and continuing to increase the total number of users |
| | Seek net positive impact in wellness and healthcare | 3 Deploy robust youth access prevention programs in indirect retail channels and ensure that sales of our products abide by our Marketing Codes |
| | Reduce post-consumer waste | 4 Leverage scientific and development capabilities to generate at least USD 1 billion in annual net revenues from products in wellness and healthcare |
| OPERATIONAL IMPACT | | 5 Reduce post-consumer waste and prevent littering by implementing comprehensive programs covering all our consumables |
| | | 6 Follow eco-design and circularity principles for all smoke-free electronic devices |
| | Foster an empowered and inclusive workplace | 7 Nurture a more diverse culture that promotes equity and inclusion by providing access to lifelong learning to all our employees and improving gender and local representation in management globally |
| | Improve the quality of life of people in our supply chain | 8 Eradicate systemic child labor in our tobacco supply chain |
| | | 9 Ensure all contracted tobacco farmers make a living income, and partner with our direct suppliers to promote a living wage for their workers |
| | Tackle climate change | 10 Achieve carbon neutrality in our operations and accelerate our decarbonization toward net zero across our value chain |
| | Preserve nature | 11 Promote biodiversity, address critical water challenges, ensure no conversion of natural ecosystems, and halt deforestation in both our tobacco and pulp and paper supply chains |

PMI Sustainability Index

To define success concretely and measure progress appropriately toward achieving our 2025 Roadmap, we developed a set of 19 clearly defined KPIs linked to the eight strategies and 11 goals of the Roadmap. Together, these KPIs constitute our Sustainability Index.

The Index is an instrument that enables our Company to report progress on an annual basis. In alignment with our strategy, it distinguishes the impacts of our products and the impacts of our business operations. Accordingly, the 19 KPIs are aggregated within the Index into two performance measures:

• Product Sustainability

Consolidates the 11 indicators linked to our four product impact-related strategies and six 2025 Roadmap goals.

• Operational Sustainability

Consolidates the eight indicators linked to our four operational impact-related strategies and five 2025 Roadmap goals.

Each year, we will assess our performance using a score for both performance measures, and the combined Index which shall range from 0–150 percent.

The following section describes in further detail how the 19 KPIs were selected and their respective weight within the Index determined. Thereafter, a description of the annual targets and pre-defined performance ranges which shall be used to calculate the performance measure and Index scores is provided.

Link to long-term executive compensation

The Index has been incorporated into our executive compensation, namely the 2022–2024 performance share units (PSUs) performance cycle.

Reflecting the weight of the Index, the Product Sustainability constitutes 20 percent, and the Operational Sustainability constitutes 10 percent, which together amount to 30 percent of the total PSU award. In line with the governance for our executive compensation, the targets and performance ranges for each of the 19 KPIs, notably for the period ending December 2024, were therefore approved by our Board of Directors in Q1 2022.

For the remaining 70 percent of the total PSU award, the Board retained the previously used metrics of

Total Shareholder Return (TSR), weighted 40 percent, and currency neutral adjusted compound annual diluted earnings per share (EPS) growth, weighted 30 percent. For more information on our 2022 [proxy statement](#).



PMI Sustainability Index

| Key performance indicators | | 2021 performance | 2025 aspirations | KPI weight | Contribution to total index score | | | |
|-----------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|------------|-----------------------------------|------|-----|-----|
| Purposefully phase out cigarettes | ① Smoke-free product shipment ratio (smoke-free/total) | 12.8% | >30% | 85% | | | | |
| | ② Smoke-free product adjusted net revenue ratio (smoke-free/total) | 29.1% | >50% | | | | | |
| Maximize the benefits of smoke-free products | ③ Number of markets where PMI smoke-free products are available for sale | 71 | 100 | | | | | |
| | ④ Proportion of markets where PMI smoke-free products are available for sale that are low- and middle-income markets | 43% | >50% | | | | | |
| | ⑤ Total number of users of PMI's smoke-free products (in millions) ¹ | 21.7 | | | | | | |
| | ⑥ Proportion of shipment volume covered by markets with youth access prevention programs in place in indirect retail channels | 91% | >90% | | | | | |
| Seek net positive impact in wellness and healthcare | ⑦ Annual net revenue from wellness and healthcare products (in billions USD) | 0.1 | ≥1 | | | | | |
| Reduce post-consumer waste | ⑧ Proportion of shipment volume covered by markets with anti-littering programs in place for combustible cigarettes* | n/a | ≥80% | | | 15% | | |
| | ⑨ Proportion of shipment volume covered by markets with end-of-life take-back programs in place for smoke-free consumables | 9 pilots | ≥80% | | | | | |
| | ⑩ Proportion of PMI smoke-free devices with eco-design certification | n/a | 100% | | | | | |
| | ⑪ Cumulative number of smoke-free electronic devices refreshed or repaired since 2021 (in thousands) | 62 | 1,000 | | | | | |
| Product Sustainability | | | | | | 100% | 67% | |
| Foster an empowered and inclusive workplace | ⑫ Proportion of women in senior roles | 31.1% | 35% | | | 50% | | |
| | ⑬ Proportion of PMI employees who have access to structured lifelong learning offers* | n/a | 70% | | | | | |
| Improve the quality of life of people in our supply chain | ⑭ Cumulative number of human rights impact assessments conducted since 2018, with findings addressed | 5 | 10 | | | | | |
| | ⑮ Prevalence of child labor among contracted farmers supplying tobacco to PMI | 1.8% | 0% | | | | | |
| | ⑯ Proportion of contracted farmers supplying tobacco to PMI who make a living income | 67% | 100% | | | | | |
| Tackle climate change | ⑰ Net carbon emissions in scope 1+2 (in thousands of metric tons) | 357 | 0 | | | | | 50% |
| | ⑱ Absolute carbon emissions reduction in scope 3 versus 2019 baseline (in line with science-based target) | 17% | 25% | | | | | |
| Preserve nature | ⑲ Proportion of tobacco purchased at no risk of deforestation of managed natural forest and no conversion of natural ecosystems | 37% | 100% | | | | | |
| Operational Sustainability | | | | 100% | 33% | | | |
| SUSTAINABILITY INDEX | | | | | 100% | | | |

¹ For further details on our aspirations related to total number of users of PMI's smoke-free products please see our 2021 Integrated Report
 * Indicator was introduced in 2021, we will begin reporting progress on this new indicator in 2022

Index considerations

KPI selection

When defining the KPIs that would be included in the Index, we used the following criteria:

- **Relevance:** The KPI is relevant, allowing a meaningful measurement of progress toward achieving our 2025 goals, which pertain to our most material sustainability topics.
- **Measurability:** The KPI is quantifiable, with clear data sources and sufficient scope to measure accurately our performance.
- **Comparability:** The KPI allows for comparable measure of performance over time, relying on consistent year-on-year methodology.
- **Verifiability:** The KPI is verifiable and supported by a detailed internal standard documenting the scope, calculation methods, and assumptions we make (aligned to our financial standards).

Where possible, we have aligned our metrics with external reporting standards and guidelines (e.g., GHG protocol). However, in several cases where external standards are not sufficiently detailed we have crafted our own metrics and developed the respective internal standards ensuring they are relevant to the Company and reflect PMI's unique value proposition. To ensure transparency a description of each KPI included in the Index, including key definitions, scope, calculation methodology, and data management, can be found in the subsequent section of this document (Basis for Preparation and Reporting of PMI's Sustainability Index).

Looking ahead

During 2022, we intend to develop a new 2025 aspiration related to the total number of users of PMI smoke-free products. Given the dynamic and evolving smoke-free industry, coupled with the potential impact of the Russian invasion of Ukraine and its potential effects on our business over the mid- to long-term, which remain uncertain, we are working to refine this ambition and intend to communicate it within the next year. To better reflect our priorities, as defined by our sustainability materiality analysis, we also intend to introduce two new KPIs to the index, incorporating the increasing relevance of water and biodiversity.

Index weighting

The Index is composed of 19 KPIs which are connected to our eight sustainability strategies. These strategies are aggregated into two performance measures:

1. Product Sustainability

Consolidates the four strategies linked to our product-related impacts (purposefully phase out cigarettes, maximize the benefits of smoke-free products, seek net positive impact in wellness and healthcare, and reduce post-consumer waste).

2. Operational Sustainability

Consolidates the four strategies linked to our business operations-related impacts (foster an empowered and inclusive workplace, improve the quality of life of people in our supply chain, tackle climate change and preserve nature).

Consistent with our sustainability materiality analysis results, addressing the impacts generated by our products stands at the core of our strategy. The Sustainability Index reflects this by attributing two-thirds of the total Index weight to Product Sustainability and one-third to Operational Sustainability.

Given the bespoke nature of the Index, external guidelines on how to weight each of the strategies within our two performance measures are not available. Therefore, to ensure credibility and consistency, we relied on a quantitative and qualitative interpretation of our 2021 sustainability materiality assessment results.



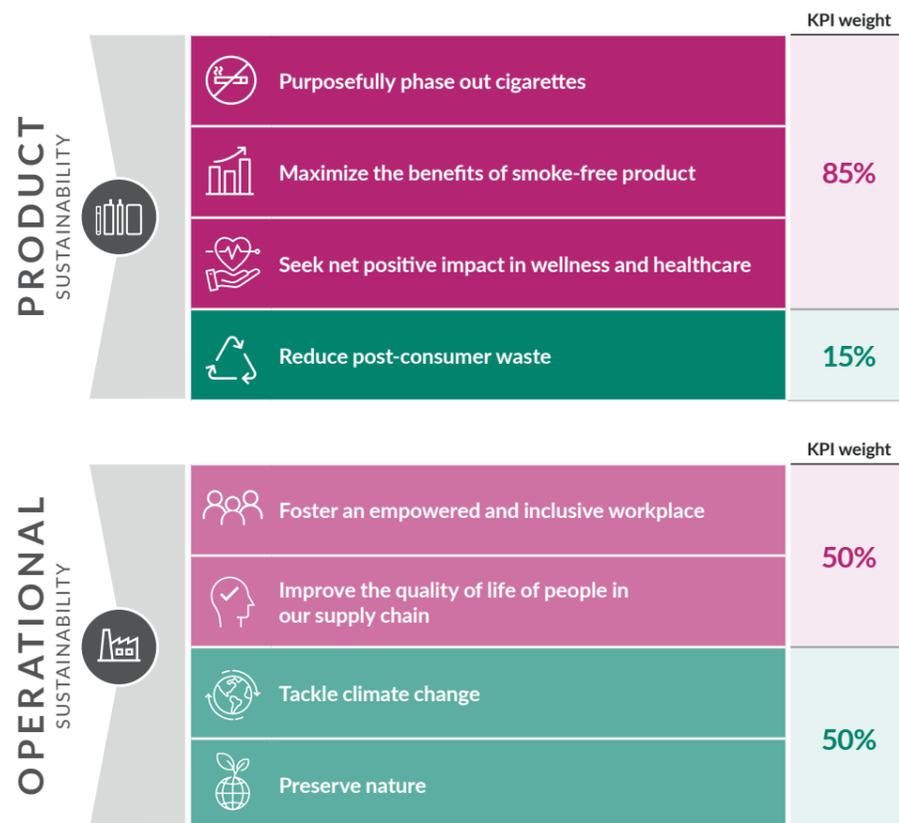
Accordingly, within the Product Sustainability performance measure, we overweight the three strategies that aim to address the social impact of the product (i.e., purposefully phase out cigarettes, maximize the benefits of smoke-free products, and seek net positive impact in wellness and healthcare). Collectively, these strategies represent 85 percent of the Product Sustainability performance measure. The remaining 15 percent is attributed to the strategy which addresses the environmental impact of our products (i.e., reduce post-consumer waste).

In contrast to the impacts generated by our products, the social and environmental impacts of our operations are more balanced. Therefore, within the Operational Sustainability performance measure, the two social-related strategies (i.e., foster an empowered and inclusive workplace (20 percent) and improve the quality of life of people in our supply chain (30 percent)) together represent half of the weight, and the two environmental-related strategies (i.e., tackle climate change (40 percent) and preserve nature (10 percent)) account for the other half.

The respective weight of each strategy is driven by the results of the materiality assessment; strategies to address topics that were identified as most material are attributed a higher weight than those topics identified as emerging. For example, aligned to its prominence in our sustainability materiality assessment, the strategy “tackle climate change” is overweighted compared to the “preserve nature strategy” which addresses the emerging topics of biodiversity and water.

Each strategy is connected to one or more individual KPI(s). For simplicity, the KPIs are equally weighted within their respective strategy. To ensure each KPI contributes meaningfully to the Index, we have set a minimum threshold weight to any individual KPI.

Weight of strategies within Product Sustainability and Operational Sustainability performance measures



Annual targets and performance ranges

In our Integrated Report, we disclose our 2025 aspirations. Internally, our 2025 Roadmap is supported by the annual targets and performance ranges for each KPI. Specifically, starting in 2022, for each KPI we have defined annual targets and four performance ranges quantifying the performance versus the annual target as either “missed”, “partially met”, “met”, or “exceeded” for the respective year.

Calculation of the Index score

On an annual basis we will publish the scores for the total Index as well as the Product Sustainability and Operational Sustainability performance measures in our company's integrated report, indicating the individual performance of the 19 KPIs. The scores for two performance measures will be used in the calculation of the 2022-2024 performance share units (PSU) performance cycle.

- Target missed (<50%)**
- Target partially met (50–89%)**
- Target met (90–110%)**
- Target exceeded (>110%)**

Step 1

To compute the total Index score, at the close of each year, the 19 KPIs are assessed against predetermined annual targets and performance ranges. In our Integrated report, we disclose our 2025 aspirations.

Step 2

Once all KPIs are scored, they are aggregated into two scores: one for Product Sustainability, and one for Operational Sustainability. These two scores, ranging from 0 to 3, are calculated as the weighted average of their respective constituent KPI scores. Finally, the numeric scores are normalized to range between 0 and 150 percent.

Step 3

The total Index score is calculated considering a two-thirds weight for Product Sustainability and one-third weight for Operational Sustainability.

Performance ranges

Given the significant variation in the nature of the KPIs included in the Index and in the maturity of the underlying strategy and programs, a strategic approach was taken to determine a wide or narrow performance range per KPI based on PMI's (i) ability to control, (ii) maturity on the topic, and (iii) forecasting accuracy.

At the close of each reporting year, for each KPI we will assess the Company's actual performance against the respective performance ranges. This assessment forms the basis of our calculation of the Index score, described in further detail in the following section.

Governance

On an annual basis, we calculate the total Index score. The annual targets and performance ranges have been provided by the relevant business functions and validated by the Company's Chief Financial Officer, VP & Controller, Chief Sustainability Officer, and VP Strategic Planning & Business Intelligence.

In addition to bringing further transparency to our stakeholders about the progress we are making toward achieving our goals, the Index helps us cascade sustainability priorities throughout all levels of the Company, serving as inputs into both business function and individual objectives. This enables us to integrate ESG considerations into strategy, creating deep organizational alignment.

Basis for preparation and reporting of PMI's Sustainability Index

This basis for preparation provides external stakeholders with a summarized version of PMI's internal standards for each of the KPIs included in PMI's Sustainability Index.

These internal standards have been developed to ensure alignment on how we define success, measure progress, and ensure accountability and governance. Accordingly, the content below includes relevant definitions, KPI description, scope, calculation



PRODUCT SUSTAINABILITY

Purposefully phase out cigarettes

- ① Smoke-free product shipment ratio (smoke-free/total)*
- ② Adjusted smoke-free net revenue ratio (smoke-free/total)*

Maximize the benefits of smoke-free products

- ③ Number of markets where PMI smoke-free products are available for sale*
- ④ Proportion of markets where PMI smoke-free products are available for sale that are low- and middle-income markets*
- ⑤ Total number of users of PMI smoke-free products*
- ⑥ Proportion of shipment volume covered by markets with youth access prevention programs in place in indirect retail channels.

Seek net positive impact in wellness and healthcare

- ⑦ Annual net revenue from wellness and healthcare products

Reduce post-consumer waste

- ⑧ Proportion of shipment volume covered by markets with anti-littering programs in place for combustible cigarettes

- ⑨ Proportion of shipment volume covered by markets with end of life take-back programs in place for smoke-free consumables

- ⑩ Proportion of PMI smoke-free devices with an eco-design certification

- ⑪ Cumulative number of electronic smoke-free devices refreshed or repaired since 2021

methodology, data estimates and assumptions, data collection process, data management and governance, and data assurance details. This document has been structured in alignment with the Sustainability Index; the 19 KPIs are organized by performance measure (i.e., Product Sustainability and Operational Sustainability) and linked to their corresponding strategies. More concretely, information below pertains to the indicators numbered from 1 to 19 below:



OPERATIONAL SUSTAINABILITY

Foster an empowered and inclusive workplace

- ⑫ Proportion of women in senior roles
- ⑬ Proportion of employees with access to structured lifelong learning offers

Improve the quality of life of people in our supply chain

- ⑭ Cumulative number of human rights impact assessments conducted since 2018, with findings addressed
- ⑮ Prevalence of child labor among contracted farms supplying tobacco to PMI
- ⑯ Proportion of contracted farmers supplying tobacco to PMI who make a living income

Tackle climate change

- ⑰ Net carbon emissions Scope 1+2*
- ⑱ Absolute carbon emissions reduction in scope 3 versus 2019 baseline (in line with science-based target)*

Preserve nature

- ⑲ Proportion of tobacco purchased at no risk of net deforestation of managed natural forest and no conversion of natural ecosystems

*Indicates metric has been externally assured in 2021. For further details please see the below basis for preparation and reporting for the respective KPIs.



PRODUCT SUSTAINABILITY

Purposefully phase out cigarettes



1 Smoke-free product shipment ratio (smoke-free/total)

KPI description

PMI is committed to developing better alternatives to cigarettes and accelerating smoking prevalence decline by providing broad access to science-based smoke-free products for adult smokers who wouldn't otherwise quit smoking, while purposefully working to phase out cigarettes. A key measure to track progress in that regard is the proportion of our total shipment volume represented by smoke-free consumables shipment volume.

Definitions

Smoke-free shipment volume Shipment volume of PMI smoke-free product consumables.

Combustible shipment volume Shipment volume of PMI combustible products.

Total shipment volume – Includes PMI's cigarettes, OTPs, and smoke-free product consumables. Is defined as the combined total of combustible products shipment volume and smoke-free product consumables shipment volume.

Scope

Included All shipment volumes of consumables (smoke-free and combustibles) that are recorded within the reporting period, to all PMI markets.

Excluded Shipment volumes of smoke-free devices and healthcare and wellness products.

Calculation methodology

smoke-free product shipment ratio (smoke-free/total) is calculated as:

$$= \left(\frac{\text{Smoke-free shipment volume (billion stick equivalent)}}{\text{Total shipment volume (billion stick equivalent)}} \right) \times 100\%$$

Estimates and assumptions PMI shipment volume is reported based on the cigarette-equivalent unit of each product. We convert OTPs and smoke-free product consumables into cigarettes equivalent by pre-defined conversion rates.

Data management

Shipment volumes data are recorded in PMI's financial systems on a monthly basis.

Data assurance The smoke-free product shipment ratio (smoke-free/total), as published on pages 35, 232 and 248 to 251 (Glossary) of PMI's 2021 Integrated Report, has been assured by PwC (limited assurance).

→ See the independent practitioner's limited assurance report on page 245 of [PMI's Integrated Report 2021](#)



PRODUCT SUSTAINABILITY CONTINUED



2 Adjusted smoke-free net revenue ratio (smoke-free/total)

KPI description

PMI is transforming its business, aiming to phase out cigarettes and shifting toward becoming a smoke-free product company while also expanding into a broader lifestyle, consumer wellness and healthcare company. The proportion of revenue we derive from smoke-free products, including our nascent wellness and healthcare business, is a key indicator of the Company's transformation.

Non-combustible products The term PMI uses to refer to products, excluding cigarettes and OTP. This may include heated tobacco units, heat-not-burn devices and related accessories, other nicotine-containing products, primarily e-vapor products, and products in wellness and healthcare.

Total adjusted net revenue Refers to the combined total of net revenues related to smoke-free products and net revenues related to combustible products.

Scope

Included Net revenues includes all those recognized within the reporting period by PMI, including adjustments, as disclosed in our Annual Report on Form 10-K and Year-End Earnings Release.

Excluded N/A.

Calculation methodology

Adjusted smoke-free net revenue ratio is calculated as:

$$= \left(\frac{\text{Adjusted net revenues related to smoke-free products (billion USD)}}{\text{Total adjusted net revenue (billion USD)}} \right) \times 100\%$$

Data management

For further details on our reporting of revenues, please refer to our 10K filings and Investor Relations materials.

→ See [Investor Relations website](#)

Data assurance The adjusted net revenue ratio (smoke-free/total) as published on pages 35, 232 and 248 to 251 (Glossary) of PMI's 2021 Integrated Report, has been assured by PwC (limited assurance).

→ See the independent practitioner's limited assurance report on page 245 of [PMI's Integrated Report 2021](#)

Definitions

Net revenues The term refers to PMI's operating revenues from the sale of our products, including shipping and handling charges billed to customers, net of sales and promotion incentives, and excise taxes.

Adjusted net revenue Management reviews net revenues on an adjusted basis, which may exclude the impact of currency, acquisitions, and other items. Currency-neutral and organic growth rates reflect the way management views underlying performance. PMI believes that such measures provide useful insight into underlying business trends and results. Management reviews these measures because they exclude changes in currency exchange rates and other factors that may distort underlying business trends, thereby improving the comparability of PMI's business performance between reporting periods. Furthermore, PMI uses several of these measures in its management compensation program to promote internal fairness and a disciplined assessment of performance against company targets. PMI discloses these measures to enable investors to view the business through the eyes of management.

Net revenues related to smoke-free products Represent operating revenues from the sale of non-combustible products, including shipping and handling charges billed to customers, net of sales and promotion incentives, and excise taxes.

Net revenues related to combustible products The operating revenues generated from the sale of these products, including shipping and handling charges billed to customers, net of sales and promotion incentives, and excise taxes.



Maximize the benefit of smoke-free products

3 Number of markets where PMI smoke-free products are available for sale

KPI description

The indicator refers to the number of markets where PMI smoke-free products are available for sale to adult consumers, wherein both the PMI smoke-free product consumables and PMI smoke-free product devices (for platforms which require both to operate and be used as intended) are commercialized.

Definitions

Available for sale When PMI products are available for general sale in the market, through direct retail, indirect retail, or e-commerce.

General sale Commercial initiative by which PMI provides PMI products to adult consumers in exchange for monetary value or other considerations, including activities such as sale-for-purchase, renting, leasing, lending, and loaning. Adult consumers must have access to PMI products without any purchase restrictions imposed by PMI that go beyond local regulations (e.g., club membership, registration, etc.)

In-market sales Sales to the retail channel, depending on the market and distribution model.

Scope

Included All markets that commercialize at least one variant of PMI smoke-free products and all distribution channels are considered.

Excluded Any market commercializing only combusted tobacco products and/or wellness and healthcare products.

Calculation methodology

The count of markets where smoke-free products are available for sale, based on the market status at the end of each calendar year (December 31). Markets are reported as per the taxonomy defined in PMI's financial reporting system and aligned to our Annual Report on Form 10-K..

Data management

In-market sales as reported in the PMI's volume reporting system. The list of markets where PMI smoke-free products are available for sale is first validated by each region, and then approved centrally.

Data assurance The number of markets where PMI smoke-free products are available for sale, as published on pages 35, 232 and 248 to 251 (Glossary) of PMI's 2021 Integrated Report, has been assured by PwC (limited assurance).

→ See the independent practitioner's limited assurance report on page 245 of [PMI's Integrated Report 2021](#)



PRODUCT SUSTAINABILITY CONTINUED

Purposely phase out cigarettes

Maximize the benefits of smoke-free products

Seek net positive impact in healthcare and wellness

Reduce post-consumer waste

Foster an empowered and inclusive workplace

Improve the quality of life of people in our supply chain

Tackle climate change

Preserve nature



4 Proportion of markets where PMI smoke-free products are available for sale that are low- and middle-income markets

KPI description

To track progress in broadening access to PMI smoke-free products in different geographies with varying levels of income, PMI reports on the proportion of low- and middle-income markets where PMI smoke-free products are available for sale, out of the total number of markets where PMI smoke-free products are commercialized.

→ [Read more about broadening access in PMI's Integrated Report](#)

Definitions

Low- and middle-income markets Markets comprised of countries classified by the World Bank as low- and middle-income economies based on Gross National Income per capita; or where no World Bank classification exists, those with Gross National Income per capita below the World Bank low- and middle- income country threshold.

Scope

Included All markets where PMI smoke-free products are available for sale (see KPI number 3), considering the exclusion below.

Excluded PMI Duty-Free market is excluded in the income level classification.

Calculation methodology

Proportion of markets selling PMI smoke-free products which are low- and middle- income markets is calculated as:

$$= \frac{\text{Number of low- and middle-income markets where PMI smoke-free products are available for sale}}{\text{Total number of markets where PMI smoke-free products are available for sale}}$$

Estimates and assumptions In case the Gross National Income per capita parameter is not available, PMI may determine alternative parameters as a substitute (e.g., GDP per capita).

The classification of each market between income levels is performed at the end of the calendar year (December 31).

Data management

As per above, reporting on the number of markets where PMI smoke-free products are available for sale. Country Income Level reports to be extracted from World Bank website.

Data assurance The proportion of markets where smoke-free products are available for sale that are low- and middle-income markets, as published on pages 35, 232 and 248 to 251 (Glossary) of PMI's 2021 Integrated Report, has been assured by PwC (limited assurance).

→ [See the independent practitioner's limited assurance report on page 245 of PMI's Integrated Report 2021](#)



5 Total number of users of PMI smoke-free products

KPI description

Our priority is to address the health impacts associated with smoking by offering smoke-free, science-based alternatives that have been proven to be a far better choice than cigarettes for those adults who would otherwise continue to smoke. Accordingly, the impact on society of the Company's transformation, namely shifting our product portfolio toward smoke-free products, can be measured by the number of users of our smoke-free products.

Definitions

Total smoke-free product users The estimated number of legal age (minimum 18 years) users of PMI heat-not-burn products, for which PMI HTUs represented at least a portion of their daily tobacco consumption over the past seven days.

Scope

Included HNB products, including licensed KT&G HNB products and HTUs.

Excluded E-vapor products or any other smoke-free products are currently not considered in our users calculation.

Calculation methodology

The user metrics reflect PMI estimates, which are based on consumer claims and sample-based statistical assessments with an average margin of error of +/-5% at a 95% Confidence Interval in key volume markets. The accuracy and reliability of IQOS user metrics may vary based on individual market maturity and availability of information.

Data management

The estimations of users are performed monthly at a market level and are approved by the finance management team of each market, and then additionally validated and approved by regional teams. The global estimations of total PMI HNB product users are the sum of the individual markets' estimations which are validated and consolidated centrally.

Data assurance The total number of users of PMI's smoke-free products (in millions), as published on pages 35, 232 and 248 to 251 (Glossary) of PMI's 2021 Integrated Report, has been assured by PwC (limited assurance).

→ [See the independent practitioner's limited assurance report on page 245 of PMI's Integrated Report 2021](#)

PRODUCT SUSTAINABILITY CONTINUED



6 Proportion of shipment volume covered by markets with youth access prevention programs in place in indirect retail channels

KPI description

It is critical that we guard against youth access to our products. PMI aims to deploy robust Youth Access Prevention (YAP) programs in all indirect retail channels where our products are sold. By targeting the full universe of indirect retail channels, the impact of these programs can reach a wider scope than those covered by the requirements of our Marketing Codes which apply where we engage retailers directly (read more about PMI Marketing Codes [here](#)). The activities required by our YAP programs in indirect retail are similar to those provided in our Marketing Codes. These programs support our affiliates to work with the indirect retail universe to guard against the sale of our products to underage purchasers.

To be considered as having a YAP program in place, a market must deploy the three mandatory pillars of the YAP program as outlined in the below table. The required number of indirect point of sale (POS) to be covered by each pillar, referred to as “reachable coverage”, varies for the different activities (e.g., some require a physical visit to the POS, while other activities can be deployed digitally).

Definitions

Digital trade engagement tool PMI's global platform used to engage with trade partners.

Field force automation systems Systems that support field force daily operations.

Point of sale (POS) Physical location where PMI products are sold to end consumers.

Point of sale materials (POSM) Include posters, leaflets, stickers, and other materials placed at the point of purchase and visible to adult consumers.

Registered POS Includes all POS captured in the digital trade engagement tool.

Selling universe Estimated number of indirect retail POS within a market in which PMI products are sold.

Total shipment volume – Includes cigarettes, OTPs, and smoke-free product consumables. It is defined as the combined total of combustible products shipment volume and smoke-free product consumables shipment volume.

Scope

Included All indirect retail channels, whether directly engaged by PMI (i.e., covered by PMI Marketing Codes) or otherwise. All markets in which PMI commercializes combustible or smoke-free products are included in scope, whether PMI developed products or third-party products that PMI sells through license agreement. Additionally, China, where we have a strategic cooperation agreement with China National Tobacco Corporation (CNTC), is included in scope.

Excluded Duty-Free market.

Calculation methodology

Proportion of shipment volume covered by markets with youth access prevention programs in place in indirect retail channels is calculated as:

$$= \left(\frac{\text{Full year shipment volume (bio stick equiv.) of combusted and smoke-free products for markets which have a YAP program "in place"}}{\text{Total PMI full-year shipment volume (billion stick equiv.)}} \right) \times 100\%$$

Estimates and assumptions For each of the three pillars, markets are required to quantify the number of reachable POS. The reachable POS defined by the markets represents a portion of the total selling universe, which, due to various geographic, distribution model, and logistic reasons, differs market by market.

On an annual basis markets are evaluated for compliance with the requirements of PMI's YAP program. If markets have met at least 90 percent of the reachable coverage for each pillar, the shipment volume for the full calendar year, January 1 through December 31, is considered as being covered by YAP programs.

Data management

Data on shipment volumes, by market, are extracted from PMI's financial reporting systems.

Pillar 1: PMI affiliates have local databases in which the physical or email addresses of the POS in their markets are maintained.

Pillar 2: PMI's Central Commercial function maintains a Global Digital Trade Engagement tool for all registered POS, by market.

Pillar 3: The lists of POS in scope of PMI or third-party sales force coverage are maintained in local sales force automation systems.

For each market, the YAP plans are approved, implemented, and evaluated on a rolling 12-month basis. Specifically, at the end of June each calendar year the YAP plans for each market are approved by the Company's regional teams, including any exception to the minimum requirements. In the first quarter of the following year, each market is evaluated by the regional teams' function to determine if the actual deployment of the YAP program in the preceding year met the minimum requirements. The central team consolidates the results of each region to determine the total PMI shipment volume to markets that have youth access programs in place.

Pillars of PMI's YAP program in indirect retail channels

| Pillar | Description | Reachable coverage |
|------------------------------------------|------------------------------------------------------------------------|--------------------------------------------------------------------------------|
| Trade communications | Letter from PMI affiliate to POS owner or operator | All third-party retailers for which PMI has either a physical or email address |
| Trade education | Online or physical training sessions to POS/retailers' staff | All POS covered by field force or registered in digital trade engagement tool |
| Point of sale materials placement | Materials such as stickers, banners, leaflets, etc., placed at the POS | All POS that are in scope of PMI or third-party sales force coverage |



PRODUCT SUSTAINABILITY CONTINUED

Seek net positive impact in wellness and healthcare



7 Annual net revenue from wellness and healthcare products

KPI description

PMI is transforming into a broader lifestyle, consumer wellness and healthcare company, extending its value proposition and innovative capability to commercialize products that go beyond tobacco and nicotine. Accordingly, with a strong foundation and significant expertise in life-sciences, in February 2021 we announced our ambition to expand into wellness and healthcare areas and deliver innovative products and solutions that aim to address unmet patient and consumer needs. **Our aspiration is to reach annual net revenues of at least USD 1 billion by 2025.**

Definitions

Net revenues from wellness and healthcare Refers to net revenues including but not limited to revenues generated from the sale of inhaled therapeutics, and oral and intra-oral delivery systems, including those supported by the 2021 acquisitions of Fertin Pharma A/S, OtiTopic, Inc. and Vectura Group plc. PMI may continue to introduce and grow new products that fall under this category.

Note: revenues from wellness and healthcare are reported as other net revenue in the operating results by segment for the year ending December 31, 2021.

→ For any further details regarding reporting results, you may refer to corresponding years' press releases and 10K.

Reduce post-consumer waste



8 Proportion of shipment volume covered by markets with anti-littering programs in place for combustible cigarettes

KPI description

To address the issue of cigarette butt littering, PMI has established global guidelines harmonizing the deployment of anti-littering (AL) programs in the markets where it operates. These programs are driven and implemented by our affiliates and focus on driving behavior change through awareness-raising initiatives. While we have set minimum criteria for a market to be considered as having a program in place, our guidelines also accommodate differences between markets, socio-economic and cultural reality, consumer norms, and regulatory environment.

For a market to be accounted for as having an AL program in place, it must deploy at a minimum one "Reach" activity and one "Impact" activity per year, defined as follows:

Reach

Communication activities with a high reach in terms of adult smokers (LAS) and POS. Accepted activities include on-pack messaging, limited pack editions, anti-littering communications which can be accessed by links printed on the pack, digital trade engagement campaigns, and placement of POS materials.

Impact

Campaigns and partnerships deployed nationally or covering areas clearly identified as having a greater accumulation of cigarette butts in the environment (hotspots). Examples of Impact activities involving events and partnerships raising awareness of the issue include the corporate online platform "Our world is not an ashtray", analyses to identify cigarette butt littering hotspots, and local or global partnerships or initiatives.

Isolated "Reach" or "Impact" activities with a limited scope do not count toward adherence to the program.

Definitions

Littering Inadequate behavior by consumers which consists of carelessly or inadvertently discarding waste into the environment and other outdoor places in the public domain instead of disposal in appropriate waste receptacles such as ashtrays or waste bins.

Scope

Included All markets in which PMI commercializes combustible cigarettes or smoke-free products are included in scope, whether PMI-developed products or third-party products that PMI sells through license agreement. Additionally, China, where we have a strategic cooperation agreement with CNTC, is included in scope.

Excluded Duty-Free market.

Calculation methodology

Proportion of PMI shipment volume covered by AL programs is calculated as:

$$= \left(\frac{\text{Full-year shipment volume (bio stick) of combustible cigarettes for markets which have an AL program 'in place'}}{\text{Total PMI full-year shipment volume of combustible cigarettes (bio stick)}} \right) \times 100\%$$

Estimates and assumptions Markets are evaluated for compliance with the requirements of PMI's AL guidelines, considering all activities deployed between January 1 and December 31 of the respective year. This evaluation is performed in January of the following calendar year. For simplicity, when calculating the proportion of shipment volumes covered by AL programs, the full-year shipment volumes are considered.

"Reach" and "Impact" activities need to be significant enough to drive behavior change among consumers in the country. We plan to define further the minimum scale as well as the criteria and process to evaluate if a market has achieved a meaningful "Reach" or "Impact" in 2022.

Data management

As of 2022, for each market, the AL plans shall be approved, implemented, and evaluated by the regional teams on a rolling 12-month basis. The regional results are consolidated centrally to report on the global shipment volume covered by markets with an AL program in place for the respective year.

During 2022, the new governance model will be designed and implemented, including accountabilities and the process to report market activities, and to assess market plans and actual deployment versus the program criteria.

Purposefully phase out cigarettes

Maximize the benefits of smoke-free products

Seek net positive impact in healthcare and wellness

Reduce post-consumer waste

Foster an empowered and inclusive workplace

Improve the quality of life of people in our supply chain

Tackle climate change

Preserve nature



PRODUCT SUSTAINABILITY CONTINUED

Purposely phase out cigarettes

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9 Proportion of shipment volume covered by markets with end-of-life take-back programs in place for smoke-free consumables

KPI description

As we grow our smoke-free business, we seek to address the post-consumer waste of our smoke-free product consumables by deploying take-back and recycling schemes. Currently, the capacity of third parties to recycle our consumables is limited because some materials, namely cellulose acetate tow, are not commonly recycled. Although our intention is to provide access to collection services once we have an end-of-life process and partner identified, in some cases, we may initiate a collection program prior to having established this back-end infrastructure. The purpose is to engage with our consumers to generate awareness, change consumer behaviors by encouraging proper disposal and discouraging littering, gain learnings to scale-up the program, and to explore the development of local recycling processes. In such cases, our intention is that the collected materials are incinerated with energy recovery until another solution, which is both environmentally beneficial and economically viable, is identified.

In 2021, we established minimum criteria that markets must meet to be considered as having a take-back program in place. These criteria are listed below and will evolve, reaching a broader scale, as the program matures.

2022–2023

- 100 percent of direct retail channels (including boutiques, shop-in-shops, and embassies)

2024–2025

100 percent of direct retail channels, plus one of the following:

- Deployment of the program with at least 80 percent of IQOS partners
- Mail-in services (nationwide)
- Other indirect retail partners (scale dependent on trade partner footprint for the respective market)

Definitions

End of life take-back programs Services offered to adult users of PMI smoke-free products, which enable them to return used or unwanted consumables to PMI or our partners for disposal. This may include recycling, composting, or energy recovery of all or parts of the returned consumable and may occur in the country in which the product is collected or be exported for treatment elsewhere.

IQOS partners Retailers with an IQOS dedicated space within their premises where experiences (e.g., immersive education, guided trial) and services will be delivered to LAS or legal age users (LAU) by the retailer staff. In this format both devices and consumables are generally commercialized. The partner is fully responsible for business and relative risk.

Scope

Included All markets in which we commercialize smoke-free product consumables.

Excluded China, US, and PMI Duty-Free market.

Calculation methodology

Proportion of PMI shipment volume covered by take-back programs is calculated as:

$$= \left(\frac{\text{Full-year smoke-free product consumables shipment volume (bio stick equiv.) for markets with a collection program in place}}{\text{Total PMI full-year shipment volume of smoke-free product consumables (billion stick equivalent)}} \right) \times 100\%$$

Estimates and assumptions For simplicity, when calculating the proportion of shipment volumes covered by consumables take-back program, the full-year shipment volumes are considered.

Data management

PMI markets are responsible for data collection regarding the coverage of direct and indirect POS, which is reported to the central team on a quarterly basis. Regional results are consolidated centrally for the annual global reporting of the proportion of shipment volume covered by markets with take-back programs in place for smoke-free consumables.

Prior to deployment of the program, markets present a program deployment plan to IQOS Sustainability Governance Board, who review and validate the plan to ensure compliance with the minimum criteria.



10 Proportion of PMI smoke-free devices with an eco-design certification

KPI description

To integrate sustainability considerations into our design process, we endeavor to follow eco-design principles. Accordingly, we are seeking an eco-design certification for all our smoke-free devices. PMI is currently in the process of defining a set of relevant external eco-design certification criteria.

Scope

Included The eco-design certification target seeks to achieve a leading certification that would apply globally to electronic smoke-free devices designed by PMI.

Excluded Device accessories, including caps, rings, door covers, cases, sleeves, wraps, power charges and cables, trays, and electronic smoke-free devices designed by third-party manufacturers and commercialized by PMI.

Data management

Our aspiration is to have eco-design certifications for all smoke-free devices which are launched as of the end of 2025. Given the long-term nature of this aspiration, we have developed internal metrics based on key milestones that will allow us to track our progress in the interim years leading up to 2025.

Definitions

Eco-design certification The ISO 14020 standard defines three types of product eco-design certifications:

- **Type 1 – Environmental labelling** Label/score awarded by a third-party accrediting body based on best-in-class performance among the product category. A product category is a standardized set of performance-oriented criteria for a defined scope of products, according to which product sustainability information is assessed, evaluated, and partly disclosed by an accredited body. The awarding body may be either a governmental organization or a private non-commercial entity.
- **Type 2 – Self-declared environmental claims** Self-declared or externally audited adherence (communicated through own-label or text) to internally developed standard.
- **Type 3 – Environmental product declaration** Standardized set of rules, requirements, and guidelines for a defined product category by an accredited body, based on which a life cycle assessment (LCA) can be conducted. The accredited body evaluates product performance against a set of indicators that allows comparability between products within the same category. This type of eco-design certification prescribes guidelines for similar products to disclose product information (without performance evaluation) mainly focusing on transparency rather than providing a ranking/score of product performance.



PRODUCT SUSTAINABILITY CONTINUED



11 Cumulative number of smoke-free electronic devices refreshed or repaired since 2021 (in thousands)

KPI description

In markets where we commercialize PMI smoke-free products, we aim to collect used devices and process them to improve their circularity, minimize e-waste, and maximize resource use. A key element of this strategy is our device second life program, which seeks to refresh and repair smoke-free devices for re-use.

The number of devices refreshed or repaired represents the number of devices that are processed in CIRCLE hubs and then shipped to markets for re-use. The re-use of devices includes the commercialization and re-marketing of the products to adult smokers or adult nicotine-product consumers, replacement under warranty, or other consumer program offerings (e.g., lending program). These devices can be either a full mobility kit (charger, holder, and related accessories) or single line up (either charger or holder).

Repaired devices Smoke-free devices resulting from the repair services that meet the agreed quality requirements to allow for their re-use as pre-owned devices.

Serviced devices All smoke-free devices that go through care and maintenance, cleaning, firmware upgrade. Service is provided to adult users on the spot at IQOS service points or at home. This service is not available at the hubs.

CIRCLE hubs Any of one or more supplier-operated sites under direction of PMI for the purposes of carrying out services related to our CIRCLE program. Services provided at the CIRCLE hubs generally include inspection, dismantling, disposal and recycling, and repair services, in addition to serving as a consolidation point for devices returned from various market affiliates.

Scope

Included Refreshed services or repaired services have been developed as of IQOS 3 DUO (launched in 2019) and subsequent generations of selected electronic smoke-free devices designed by PMI.

Excluded Serviced devices.

Calculation methodology

Cumulative number of devices refreshed or repaired and shipped by the respective hubs to PMI markets from January 2021 until December 31 of the reporting year.

Estimates and assumptions Devices might be refreshed or repaired multiple times over their lifetime. Each time a device is refreshed or repaired it is accounted for in the respective year in which the activity occurs.

Data management

Data on the number of devices repaired or refreshed in Hubs are provided by the third-party operator monthly to PMI.

Definitions

Refresh services Care and maintenance activities with respect to smoke-free devices, which may include unpacking, diagnostics, cleaning, battery charging, firmware update, cosmetic parts replacement, and repacking of devices allowing their re-use without functional repair.

Refreshed devices Smoke-free devices resulting from the refresh services that meet the agreed quality requirements to allow for their re-use as pre-owned devices.

Repair services Repair, care, and maintenance activities with respect to smoke-free devices, which may include unpacking, diagnostics, testing, cleaning, battery charging, and firmware update, cosmetic part or battery replacement, component harvesting, and repacking of devices allowing their re-use.

OPERATIONAL SUSTAINABILITY

Foster an empowered and inclusive workforce



12 Proportion of women in senior roles

KPI description

A key element to ensuring we nurture a more diverse culture that promotes both equity and inclusion is to improve gender balance in senior roles.

Note: We also disclose the proportion of management positions held by women in our annual Integrated Report, which is calculated using the same methodology described in this document but considers employee headcounts in salary grade 10 and above.

Definitions

Employee headcount All active as well as inactive employees (i.e., those on parental leave, sabbatical, medical sick leave, unpaid leave, long-term disability).

Women For the purpose of measuring progress on gender equality, PMI considers women to include those employees who were recognized at birth as female, as well as employees who self-identify as female.

Senior roles The term we generically use to refer to all positions in a defined salary grade 14 and above, regardless of their job title or function.

Management positions The term we generically use to refer to all positions in a defined salary grade 10 and above, regardless of their job title or function.

Salary grade (SG) Levels used to group jobs of similar value according to PMI's job evaluation methodology, which is based on Hay methodology. PMI uses 28 levels, starting from grade 1 and ascending to grade 28.

Scope

Included All employees captured in PMI's HR reporting tool and other local HR systems.

Excluded Non-employee population (temporary agency workers, freelancers, merchandisers, IQOS coaches, consultancy, and outsourced services), benefit recipients (retirees or withdrawn employees), fixed-term employees and employees on salary continuation.

Calculation methodology

Proportion of women in senior roles (SG 14+) is calculated as:

$$= \left(\frac{\text{Women headcount in salary grade 14+}}{\text{Overall employee HC number in salary grade 14+}} \right) \times 100\%$$

Estimates and assumptions The calculation considers the total number of employees and the salary grade at a specific point in time; for year-end reporting, this is December 31 of the respective year.

Data management

On a monthly basis, employee headcount data are transferred from PMI's HR reporting tool to PMI's data ocean without any manual intervention or manipulation. On a quarterly basis, the data are consolidated, aggregated with data provided by local HR system, and analyzed in an internal dashboard. The data are validated centrally, prior to external annual reporting in our integrated report.


OPERATIONAL SUSTAINABILITY CONTINUED
**13 Proportion of employees with access to structured lifelong learning offers****KPI description**

Maintaining and further developing human capital is critical to our employees and the success of PMI. Therefore, we seek to provide PMI employees with access to structured learning activities to meet personal and professional growth aspirations. Our lifelong learning offers include access to learning opportunities (e.g., courses, resources, sessions, and communities) provided by PMI that empower individuals to proactively develop skills relevant for current and future employability and performance.

We consider an employee to have access to structured lifelong learning offers if they have access to both of the following:

- At least one internal PMI-specific learning catalogue
- Two externally provided solutions catalogues

Driven by our aspiration to reach a significant number of employees, the structured lifelong learning program leverages digital solutions. However, as some employees do not have access to PMI systems, we have set an aspiration to achieve full coverage of the population with access to our learning systems. Additionally, when digital access expands, we would expect the absolute number of employees with access to lifelong learning offers to also increase (and with it, the KPI).

Lifelong learning While the term lifelong learning is widely used beyond PMI, the definition is not standardized. PMI defines lifelong learning as a form of self-initiated education that is focused on personal and professional development through informal or formal education. Lifelong learning opportunities at PMI go beyond the skills necessary to perform an employee's current job or to further understand PMI processes, systems, and strategies. Rather, the scope of learning opportunities covers capabilities essential to an employee's future employability and fulfilment.

Scope

Included All employees captured in PMI's HR reporting tool and other local HR systems.

Excluded Non-employee population (temporary agency workers, freelancers, merchandisers, IQOS coaches, consultancy, and outsourced services), benefit recipients (retirees or withdrawn employees), fixed-term employees, and employees on salary continuation.

Calculation methodology

Proportion of employees with access to structured lifelong learning offers is calculated as:

$$= \left(\frac{\text{Number of employees with the opportunity to access structured lifelong learning offers}}{\text{Total number of employee headcount}} \right) \times 100\%$$

Estimates and assumptions The calculation considers the employee status at December 31 of reporting year.

Data management

Data regarding the employees with access to lifelong learning offers (on PMI platforms and external learning platforms) are collected on a quarterly basis and consolidated centrally on an annual basis prior to reporting in the Integrated Report.

Definitions

Access Employees are considered to have "access" when they can request and be granted access to learning solutions (e.g., through external licenses or platform access).

Employee headcount Defined as all active as well as inactive employees (i.e., those on parental leave, sabbatical, medical sick leave, unpaid leave, and long-term disability).

Improve the quality of life of people in our supply chain**14 Cumulative number of human rights impact assessments conducted since 2018, with findings addressed****KPI description**

[PMI's Commitment to Human Rights](#) is the cornerstone of our human rights strategy and commits PMI to managing work in accordance with the United Nations Guiding Principles on Business and Human Rights (UNGPs). Human rights impact assessments (HRIAs) are an integral part of our due diligence framework, and allow us proactively to identify risks, and mitigate potential adverse impacts in our operations and value chain. HRIAs are carried out by independent expert organizations based on a formal process in accordance with the UNGPs.

Definitions

Highest-risk countries Represent the countries assessed as highest risk from a human rights standpoint. They are determined based on key parameters such as PMI's footprint (e.g., manufacturing operations, head office, or sourcing activities) and the country's human rights risk profile, as determined by internationally recognized indicators such as the Heidelberg Conflict Barometer, Freedom House Freedom of the World Index, U.S. Trafficking in Persons Report, and Transparency International.

Scope

Included When assessing which countries are of highest risk, we consider all countries where PMI operates or sources tobacco.

Excluded N/A.

Calculation methodology

The HRIAs are conducted in alignment with the UNGPs. After each HRIA, the external expert organization presents its findings and suggested ways to address issues identified. The report is shared with our local leadership team, who develops a time-bound action plan in collaboration with the relevant corporate functions. The action plan assigns responsibilities for implementation and progress measurement at the local level. While the implementation of these action plans often takes several years, for the purposes of reporting against this indicator, once an action plan has been approved by the local management (including key milestones and measurements of progress) we consider the "findings addressed". On an annual basis, we report the cumulative number of HRIAs conducted in the highest risk countries from January 2018, with findings addressed.

The list of highest-risk countries from a human rights standpoint is determined and periodically reviewed in collaboration with independent expert organizations. If an assessment is carried out in a country which in subsequent years is removed from the list of top 10 highest-risk countries, we continue to count this assessment toward our target, given it was conducted at a moment in time during which the country was identified within the top 10 highest risk.

Data management

The Managing Director of the market in scope is responsible for the implementation of the action plan and determining whether a country assessment can be considered as completed, with findings addressed. The central Operations Sustainability team supports and guides the markets during the implementation of the action plan, receiving bi-annual status updates from the local teams.



OPERATIONAL SUSTAINABILITY CONTINUED



15 Prevalence of child labor among contracted farms supplying tobacco to PMI

KPI description

PMI's goal is to eliminate child labor in our tobacco supply chain by 2025. Through the farm-by-farm monitoring of all farms with whom PMI contracts directly or indirectly (i.e., through third-party leaf suppliers), we collect data on incidences of child labor in our contracted farmer base, taking immediate action when they arise.

Definitions

Child labor Defined by the International Labour Organization, child labor is work that deprives children of their childhood, their potential, and their dignity, and that is harmful to physical and mental development. Under PMI's ALP Code, and in line with the ILO, the minimum age for admission to work is not less than the age at which compulsory schooling is completed and, in any case, is not less than 15 years old or the minimum age accepted by the country's laws, whichever age limit affords greater protection. No person under 18 should be involved in any type of hazardous work. In the case of family farms, a child may only help on the farm provided that the work is non-hazardous, and the child is at least 13 years old or above the minimum age for such work as defined by the country's laws, whichever affords greater protection.

Identified child labor cases include prompt actions (observations by field technicians) and non-conformities (self-declarations) on contracted tobacco farms supplying tobacco to PMI, reported through the internal farm-by-farm monitoring data recorded by field technicians or contracted service provider in markets where PMI sources tobacco from.

Prompt action situation that is recorded when, during a farm visit, the field technician or contracted service provider physically observes either a type 1 or type 2 situation:

- **Type 1** Situations where a person's physical or mental integrity is at risk, children, or a vulnerable group (e.g., pregnant women and/or nursing mothers) are working and in danger, or workers might not be free to leave their job on a tobacco farm.
- **Type 2** Situations where a person's well-being is at risk and the farmer will need additional time and support to remediate the issue (e.g., lack of accommodation, non-payment of minimum wage, or lack of written contracts).

Non-conformity Situation that is recorded when a field technician or contracted service provider does not physically observe a violation of the ALP Code, but, through engagement with the farmer, farmer's family, workers, etc., identifies a risk that a violation is likely to occur or has occurred. There are two types of non-conformities:

Self-declaration Declaration confirming the occurrence of an issue (equivalent to a prompt action), although not witnessed by field technicians or contracted service providers. (e.g., a farmer declares his 14-year-old child harvests tobacco).

Risk Observation or declaration that represents a risk which, if not addressed, could evolve into a prompt action.

Scope

Included All contracted tobacco farmers covered by PMI's Integrated Production System (IPS) and monitored by field technicians or contracted service providers for adherence to GAP and ALP.

Excluded "Risk" non-conformities are not included in scope of the calculation.

Calculation methodology

Prevalence of child labor among contracted farms supplying tobacco to PMI is calculated as:

$$= \left(\frac{100\% \text{ of reported prompt actions} + 50\% \text{ of reported self-declaration non-conformities}}{\text{Total number of monitored farmers}} \right) \times 100\%$$

Notes on the above calculation:

- If one farmer has multiple prompt actions or non-conformities raised during the reporting period (multiple incidences of same child, multiple children in same instance) this is counted only once.
- When an identified child labor case is raised and resolved (field technician has verified the corrective action developed in response to the prompt action or non-conformity has been properly implemented) within the reporting period, this identified case is included in the above calculation.
- For priority markets, an external validation of the prevalence of child labor is conducted. In 2021, the external validation results have been included in the overall KPI calculation with a weight of 50 percent.

Estimates and assumptions PMI integrated reporting is on a calendar-year basis from January to December, which is not aligned with the tobacco crop seasons. Therefore, when reporting the child labor incidence for a calendar year (n), for the Northern Hemisphere countries this relates to the crop year from February 1 of year (n) until January 31 year (n+1), and for the Southern Hemisphere countries this relates to the crop year from May 1 of year (n-1) until Sept 30 of year (n). This enables PMI to capture data from a full crop season in the annual reporting, on a rolling "crop season" basis which avoids duplication in reporting of prompt actions.

Data management

Prevalence of child labor within our contracted farmer base is monitored through the IPS due diligence framework. At the farm level, whether contracted by PMI leaf operations or third-party leaf suppliers, field technicians or contracted service providers conduct farm-by-farm monitoring which includes planned and unplanned visits to each farm during the crop season; the frequency of visits is based on country/farmer risk profile.

All data regarding prompt actions and the status of follow-up corrective measures are recorded by the third-party leaf suppliers or PMI leaf operations monitoring systems. On a quarterly basis, consolidated data on farm-by-farm level, provided by third-party leaf suppliers and PMI leaf operations, are reviewed and consolidated regionally. On an annual basis, prior to external publication, the data are aggregated and validated centrally, incorporating the results of external verification where available.

OPERATIONAL SUSTAINABILITY CONTINUED

Purposefully phase out cigarettes

Maximize the benefits of smoke-free products

Seek net positive impact in healthcare and wellness

Reduce post-consumer waste

Foster an empowered and inclusive workplace

Improve the quality of life of people in our supply chain

Tackle climate change

Preserve nature



16 Proportion of contracted farmers supplying tobacco to PMI who make a living income

KPI description
To foster socioeconomic well-being and address social inequality and labor-related issues in our tobacco supply chain, we seek to ensure that all the contracted farmers supplying tobacco to PMI make a living income by 2025. To measure progress towards this aim, data on contracted farmer income are collected by PMI leaf operations, third-party leaf suppliers, or third-party partners in all countries where PMI sources tobacco and assessed against the relevant living income benchmark.

Definitions
Living income The net annual income required for a household to afford a decent standard of living for all its members and applies to, for example, self-employed farmers. The living income value can be the result of an official benchmark, a reference value, or an internal desktop exercise.
Official benchmark The result of studies conducted in specific regions or areas to estimate the net annual income required for a household to afford a decent standard of living for all members of that household. The official benchmark is the one produced and published on the Global Living Wage Coalition's website by the Anker Research Network.
Reference value Represents typical or average living incomes for rural and urban areas within each country. They are not location-specific, and so are not representative of a specific region or city. On the contrary, quality-assured Anker methodology living income benchmarks are related to a specific location within a country.
Internal desktop exercise value The value that is calculated internally by following the Anker methodology, in absence of an official calculation (official benchmark or reference value).
Farmer income The income of a farmer, including both on-farm and off-farm income, net of production cost, as well as remittances, grants, or other subsidies.

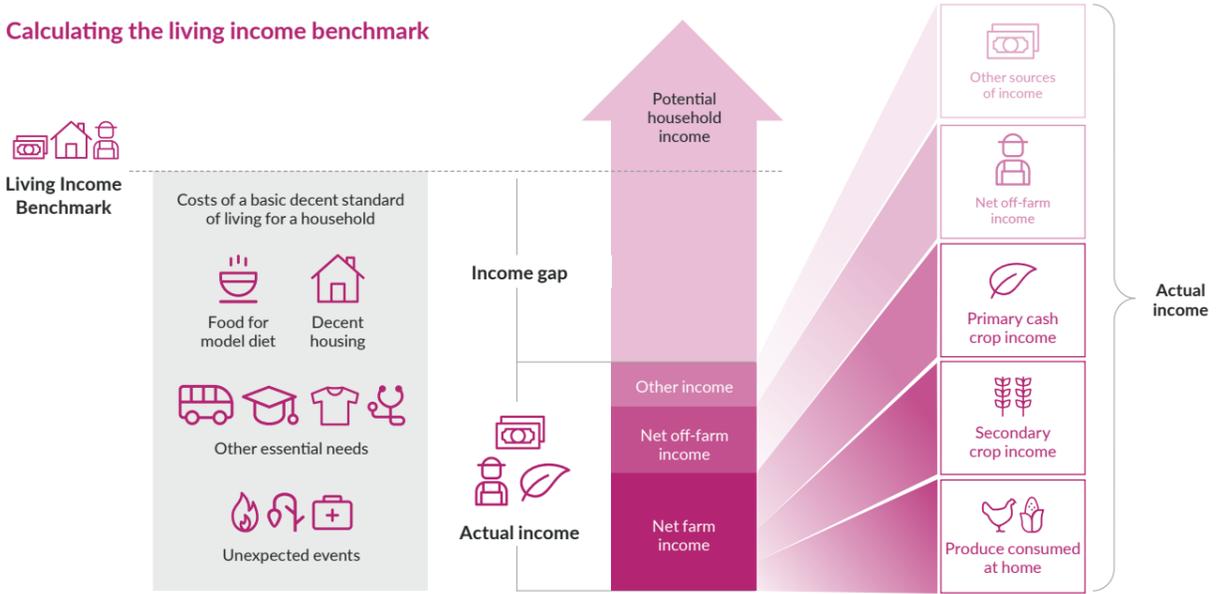
Scope
Included All contracted tobacco farmers covered by PMI's Integrated Production System (IPS) and monitored by field technicians or contracted service providers for adherence to GAP and ALP.
Excluded N/A.
Calculation methodology
Farmer Income PMI's third-party leaf suppliers and PMI leaf operations calculate farmer income (considering only legal sources of income) through either third-party farmer income studies or internal desktop analyses.
• Farmer income studies are performed by third parties, specialized in data collection and familiar with the local context, culture, and language. These studies are based on a representative sample size selected from the contracted farmer base to represent the pre-defined segments (typically based on contracted tobacco area). Data collection consists of quantitative data (such as surveys to understand the different income sources (e.g., complementary crops, off-farm income, or remittances) and qualitative data (such as individual farmer interviews and focus group discussions).
• Where farmer income studies are not available, PMI third-party leaf suppliers or PMI leaf operations perform internal desktop analyses. For internal desktop analysis tobacco profitability is calculated using data collected during field monitoring or estimated by PMI's third-party leaf suppliers or PMI leaf operations. Other non-tobacco income sources are estimated based on prior third-party farmer income studies or internal sample surveys.
In both cases, the farmer base is typically segmented based on tobacco growing area and the results are extrapolated from the representative sample to the full contracted farmer base, according to segment.
Living income value In case official benchmarks or reference values are not (yet) available, an internal desktop analysis is performed as a starting point applying the [Anker methodology](#) and using secondary data available from official websites (government, universities, or reputable organizations). The benchmark is updated regularly, notably for markets with high monthly or yearly inflation.

Consolidated KPI On an annual basis, inputs from each region are consolidated globally to calculate the number of farmers achieving a living income as a proportion of the total contracted farmer base within the respective period. The calculation is based on an analysis of the farmer base which is typically segmented at market-level according to tobacco farm size.
• If the average farmer income is greater than the living income benchmark, then all farmers within the segment are reported as achieving the living income benchmark.
• If the average farmer income is lower than the living income benchmark, then all farmers within the segment are reported as not achieving a living income benchmark.
This analysis is repeated for each segment and the final percentage of farmers achieving a living income is calculated.
Proportion of contracted farmers supplying tobacco to PMI who make a living income is calculated as:

$$= \left(\frac{\text{Number of contracted farmers achieving living income}}{\text{Total number of contracted farmers}} \right) \times 100\%$$

Data management
All data regarding farmer income are collected and managed by PMI third-party leaf suppliers or PMI leaf operations monitoring systems. On an annual basis, following the conclusion of the tobacco crop season and buying process in each sourcing market, the final data are provided to PMI. The reporting on living incomes is based on the 12-month period preceding the end of the crop season in the respective country.
Each PMI regional leaf team validates the farmer income data provided by PMI's third-party leaf suppliers and PMI leaf operations and then submits the regional results to the central team who aggregate and validate the global results for annual reporting.

Calculating the living income benchmark



Note: Visual adapted from the Living Income Community of Practice ([source](#)).


OPERATIONAL SUSTAINABILITY CONTINUED

Tackle climate change



17 Net carbon emissions scope 1+2 (metric tons)

KPI description

PMI has set ambitious targets to reduce its scope 1+2 emissions, including a science-based target to reduce absolute emissions in line with a 1.5°C scenario, and a goal to achieve carbon neutrality (scope 1+2) by 2025.

Definitions

Carbon neutrality Aligned to the working definition of the Science Based Target initiative (SBTi), individual actors are carbon neutral when CO₂e emissions attributable to an actor are fully compensated by CO₂e reductions or removals exclusively claimed by the actor, such that the actor's net contribution to global CO₂e emissions over a given time period (e.g., one year) is zero. Carbon neutrality is an intermediate step toward net zero, as it happens before the net-zero emissions state, and it can be reached using carbon credits (offsetting) or with mitigation activities within the value chain (insetting) (source: SBTi, UNFCCC Race to Zero, et al.)

Offsetting The act of compensating or canceling out all, or a portion of, the GHG emissions released to the atmosphere through investments in activities that reduce or remove an equivalent amount of GHG emissions and that are located outside the boundaries of the organization or a particular product system. Such investments are often in the form of purchasing a carbon credit. Offsetting is effectuated by purchasing and retiring an amount of carbon credits equivalent to the volume of GHG emissions that is being compensated (source: Voluntary Carbon Market Initiative, 2021).

Insetting The term "insetting" is used to refer to a company's efforts to prevent, reduce, or remove emissions within its own supply chain, but outside of its operational boundaries. The SBTi considers such insetting measures to be distinct from efforts to "compensate", instead proposing that insetting measures are directly accounted for in a company's efforts to abate all its supply chain emissions as it pursues its net-zero target. See glossary in [PMI's Low Carbon Transition Plan](#).

Scope 1 GHG emissions Direct GHG emissions that occur from sources that are owned or controlled by PMI, for example, emissions from combustion in owned or controlled boilers, vehicles, etc.; emissions from chemical production in owned or controlled process equipment.

Scope 2 GHG emissions Indirect GHG emissions from the generation of purchased or acquired electricity, steam, heat, or cooling consumed by PMI.

Location based Emissions from electricity consumption calculated based on the national grid of the country where the facility is located, without taking into consideration an actor's specific emissions.

Market based Emissions of the specific providers that PMI has purposefully chosen (i.e., factories that purchase green electricity).

Biogenic emissions The direct CO₂e emissions generated by the combustion of biofuels.

Scope

The baseline year chosen for reporting is 2019. The reporting period of GHG emissions is aligned with PMI's financial reporting, which is calendar year, i.e., January 1 until December 31.

Included Gases included are carbon dioxide, methane, and nitrous oxide. The geographic and physical boundaries set for scope 1+2 emissions reporting are:

- Manufacturing: All emissions from PMI-owned manufacturing sites (emissions from third-party manufacturing sites are included in scope 3 emissions)
- Fleet and transport: PMI private jet aircraft, employee working vehicles, employee benefit vehicles
- Warehousing: PMI-owned or PMI-operated warehouses
- Offices: PMI-owned or PMI-operated office spaces

In line with the GHG Protocol guidelines, biogenic emissions are reported separately from scope 1+2 GHG emissions; however, we include them in our scope 1+2 science-based targets.

Excluded The following items are excluded from our reporting as they have been assessed against materiality threshold defined as 5 percent of total scope 1+2 emissions:

- IQOS stores
- HFCs, PFCs, SF4, or NF3 gases
- Energy consumed by electric vehicles

All exclusions are assessed annually.

Calculation methodology

Methodology and conversion factors PMI's scope 1+2 emissions are calculated in accordance with the GHG Protocol's "A Corporate Accounting and Reporting Standard" (2004). Scope 2 emissions are calculated using the location-based and market-based reporting methods in adherence with the GHG Protocol's "Scope 2 Guidance" (2015).

To calculate scope 1+2 emissions, fuel consumption by type is transformed to energy units using standard conversion factors and calorific values.

Thereafter, to convert energy units to CO₂e emissions, CO₂e emission factors (kg CO₂e per GJ) per energy type and country are used. PMI sources emission factors from the U.K. government's GHG Conversion Factors for Company Reporting (2020) and the International Energy Agency's (IEA) Emissions Factors. In line with the GHG Protocol guidelines, PMI reports both market-based and location-based CO₂e emissions.

Our methodology takes a conservative approach and uses location-based emission factors unless 100 percent of the electricity purchased is certified green electricity, in which case we assume zero emissions. Where a PMI affiliate classifies their electricity as green, a green energy certificate must be submitted to the central sustainability team for validation and meet the GHG scope 2 emissions protocol requirements. Such certificates are verified externally by third parties as part of the annual data verification process.

Verification of offsetting and insetting credits PMI has put in place offsetting and insetting programs that comply with rigorous international standards. Selected projects are certified against the Verified Carbon Standard (VCS)¹ and additionally some carry the Climate Community and Biodiversity Standard (CCBS)².

The principles at the basis of the VCS define generated credits as real, triggering additional GHG emission reduction in comparison to business as usual, and projects are assessed using a technically sound GHG emission reduction quantification methodology specific to each project type. The VCS methodologies further ensure that projects delivering credits meet, among others, the criteria of permanence, avoided leakage, and double counting. It also requires that the emission reduction units are verified by an independent and accredited third party with credits that can be issued after the emission reduction has taken place and has been verified through an audit.

The CCBS, on top of VCS, evaluates land management projects from the early stages of development through implementation and fosters the integration of best-practice and multiple-benefit approaches into project design and implementation. The CCBS can be applied also to projects that reduce GHG emissions from deforestation and forest degradation or projects that remove carbon dioxide by sequestering carbon or other land management.

Data management

On a monthly basis, the amount of energy consumed in PMI's direct operations (scope 1+2), by type of energy source,³ are reported in PMI's central environmental management system. Input data include:

- Manufacturing sites: the amount of energy consumed by type of energy source based on invoiced amounts or consumption reports from suppliers.
- Fleet and private jet: the kilometers travelled, and respective fuel consumed by the vehicles in our fleet are recorded in PMI's central environmental management system.
- Warehouses and offices: data on the amount of energy consumed are collected on a quarterly basis based on purchased quantities derived from consumption reports or invoiced amounts.

Following the raw data input and validation of the consumption data into PMI's central environmental management system, the system automatically calculates the resulting CO₂e emissions for manufacturing sites, fleet, offices, and warehouses. All data are validated by PMI accountable subject-matter experts or third-party representatives. For external reporting purposes (e.g., PMI's Integrated Report and CDP submissions) the consolidation of CO₂e emissions is done by PMI's Central Operations Sustainability team.

Restatement of baseline In line with the maximum exclusion amount for scope 1+2 as defined by the SBTi, PMI applies a significance threshold of +/- 5 percent for restatement of baseline emissions. On such occasions, the baseline year is recalculated, to reflect changes in the company that would otherwise compromise the consistency and relevance of the reported GHG emissions information. All restatements of the baseline are validated by responsible PMI head of function and verified by the third-party verifier.

Data assurance The scope 1+2 GHG emissions are reviewed and verified annually by an external third party according to ISO 14064-3 and verification statement is published on PMI.com.

→ See the external verification statement from by SGS for scope 1+2 ([here](#))

¹ verra.org

² climate-standards.org

³ Energy sources include fossil fuels (diesel, fuel oil, natural gas, petrol's, and LPG, coal), biofuels (biodiesel, bioethanol), district steam, district heat, and electricity (renewable vs. non-renewable, split according to source (solar, wind, biofuel))


OPERATIONAL SUSTAINABILITY CONTINUED

18 Absolute carbon emissions reduction in scope 3 versus 2019 baseline (in line with science-based target)
KPI description

PMI has set an ambitious target to achieve a 50 percent reduction in upstream and downstream value chain GHG emissions (scope 3) by 2030. PMI works with carbon experts to develop a full "value chain" carbon footprint model, to help measure emission reductions. The value chain model calculates the carbon emissions for each relevant scope 3 category and combines these with the scope 1+2 results (described above). Efforts to reduce absolute scope 3 emissions in line with the 1.5° C pathway are critical to PMI's broader ambition to achieve net-zero GHG emissions across its full value chain (scope 1+2+3) by 2040.

Science-based targets SBTi is a partnership between CDP, the UN Global Compact, World Resources Institute (WRI), and the World Wide Fund for Nature (WWF). Science-based targets show companies how much and how quickly they need to reduce their GHG emissions to prevent the worst effects of climate change. The SBTi defines and promotes best practice in emissions reductions and net-zero targets in line with climate science; provides technical assistance and expert resources to companies that set science-based targets in line with the latest climate science; brings together a team of experts to provide companies with independent assessment and validation of targets.

Scope 3 GHG emissions Indirect emissions that are a consequence of the activities of PMI. All scope 3 categories have been assessed for inclusion within the model, applying a materiality threshold defined as 10 percent of total scope 3 emissions and in accordance with the "Corporate Value Chain (scope 3) Accounting and Reporting Standard".

Definitions

Net zero The Intergovernmental Panel on Climate Change (IPCC) defines net zero as the point when "anthropogenic emissions of greenhouse gases to the atmosphere are balanced by anthropogenic removals over a specified period". Individual actors such as companies or public entities are considered to have reached a state of net zero when: an actor reduces its emissions following science-based pathways, with any remaining GHG emissions attributable to that actor being fully neutralized by like-for-like removals (e.g., permanent removals for fossil carbon emissions) exclusively claimed by that actor, either within the value chain or through purchase of valid offset credits.

Calculation methodology, scope, and data management

PMI has a full value chain carbon footprint model in place, aligned with the GHG Protocol international guidelines. For details on this methodology, scope, and data collection process, please refer to PMI's value chain Carbon Footprint Executive Summary. The value chain model is calculated to align with the accepted international standard for GHG value chain modelling "Corporate Value" Chain (scope 3) Accounting and Reporting Standard published by the GHG Protocol.

Data assurance PMI's scope 3 GHG emissions are reviewed and verified annually by an external third party according to ISO 14064-3 (2006) and a verification statement is available on PMI.com.

➔ See the external verification statement from by SGS for scope 3 ([here](#))

Preserve nature
19 Proportion of tobacco purchased at no risk of net deforestation of managed natural forest and no conversion of natural ecosystems
KPI description

PMI issued a [Zero Deforestation Manifesto](#) in 2021, in which the company reinforced its commitments to measure the impact on forests linked to the PMI's supply chain. Having achieved zero gross deforestation of primary and protected forests in our tobacco supply chain in 2020, PMI has furthered its commitment by targeting zero net deforestation of managed natural forest and no conversion of natural ecosystems by 2025 for all its tobacco suppliers.

PMI takes a risk-based approach to monitoring deforestation in the tobacco supply chain. As the risk of deforestation related to the curing of Virginia flue-cured tobacco is considered material, a detailed monitoring process has been established to ascertain the sustainability and traceability of 100 percent of the wood fuel used to cure tobacco by contracted farmers. Additionally, on an ongoing basis the risk of deforestation of all tobacco-growing areas (TGAs) is monitored using externally available geophysical input data to assess the changes in forest coverage. This combination of detailed monitoring of potentially high-risk activities and ongoing monitoring of all tobacco growing areas forms the basis of PMI's risk-based approach to monitoring deforestation in our tobacco supply chain.

Definitions

Zero Deforestation Manifesto 2.0 (ZDM 2.0) Published in 2021, the ZDM 2.0 outlines PMI's commitments to zero gross and zero net deforestation—covering all our relevant tobacco Leaf-sourcing areas (tobacco-growing areas) and defines expectations against zero gross deforestation of primary and protected forests and zero net deforestation for natural managed forests in our supply chain.

Zero gross deforestation Aggregate deforestation for a given natural forest area (e.g., a forest reserve or natural park within the tobacco or pulp and paper supply chain); without deduction for reforestation or other compensation activities.

Zero net deforestation The difference in forest area between two points in time, taking into account both losses from deforestation and gains from forest regeneration and restoration. Net deforestation is measured with reference to a given geographic area (e.g., a district, state, nation, or globe) and a given timeframe.

Cut-off date As defined by the Accountability Framework Initiatives ([AFi, 2020](#)), the cut-off date is "the date after which deforestation or conversion renders a given area or production unit non-compliant with no-deforestation or no-conversion commitments". The set cut-off date for PMI applies to all current and future suppliers. Therefore, any new supplier will have to demonstrate their adherence to PMI's commitment of no deforestation as of 31 of December 2018, regardless of the year in which their engagement with PMI commenced.

Deforestation Loss of natural forest area as a result of: i) conversion to agriculture or other non-forest land use; ii) conversion to a tree plantation; or iii) severe and sustained degradation ([AFi, 2020](#)).

Tobacco-growing areas (TGA) Geographical space that includes farm area where tobacco cultivation takes place and the potential area of impact on nature that tobacco-related activities could generate.

Tree plantation A forest predominantly composed of trees established through planting and/or deliberate seeding that lacks key elements of a natural forest native to the area, such as species composition and structural diversity. Tree plantations generally have one or a few tree species and tend to include one or more of the following characteristics:

- planted on cleared land;
- intensive use of chemical inputs (fertilizers, pesticides);
- harvested regularly;
- trees are of even ages; and
- products from the plantation are managed and processed for commercial production



OPERATIONAL SUSTAINABILITY CONTINUED



19 Proportion of tobacco purchased at no risk of net deforestation of managed natural forest and no conversion of natural ecosystems continued

Natural ecosystem An ecosystem that substantially resembles—in terms of species composition, structure, and ecological function—one that is, or would be, found in a given area in the absence of major human impacts. This includes human-managed ecosystems where much of the natural species composition, structure, and ecological function are present (AFi, 2020). For the scope of this document, the relevant ecosystems are peatland, wetland, savannah, grassland, and semi-forest formations.

Natural forest Forests that possess many or most of the characteristics of a forest native to the given site, including species composition, structure, and ecological function.

Primary and protected forest Forests that have not been subject to major human impacts in recent history and possess many or most of the characteristics of a forest native to the given site, including species composition, structure, and ecological function. More specifically, PMI's definition of primary and protected forest are these located inside PMI TGA (see definition on page 39) that are mapped using publicly available sources.

Wood fuel All types of biofuels derived directly and indirectly from trees and shrubs grown on forest and non-forest lands, from silvicultural activities, harvesting, and logging, as well as industrial by-products, timber-based fuels such as firewood, pellets, woodchips, and briquettes.

Sustainable wood fuel Includes wood fuels derived from:

- Legal plantations that are sustainably managed, including on-farm planting
- A sustainably managed secondary forest or degraded forest with no measurable deforestation by spatial analysis tools
- Identified invasive exotic species that have not been planted and require removal according to a thorough ecological assessment

Sustainable wood fuel excludes wood fuels derived from:

- Unsustainable managed natural forests where deforestation is measurable by spatial analysis tools or onsite inspection visits
- Plantations resulting from conversion of natural forests after the set cut-off date
- Primary and protected forests

Scope

Included Any forest type and forest management that can be directly or indirectly (e.g., biomass for energy in tobacco curing) linked to PMI's tobacco supply chain. Natural ecosystems that may not be entirely forested, like peatland or savannah or unique ecosystems such as the Cerrado in Brazil or the Miombo forest in Mozambique, are also in scope. All tobacco-growing areas covered by PMI's Integrated Production System (IPS) and monitored by field technicians or contracted service providers for adherence to GAP and ALP.

Excluded Loss of forest area resulting from natural disturbances that are part of the natural life cycle of forests and characteristic of ecosystem formation and evolution are not considered in scope of our deforestation commitments. Artificial plantations.

Calculation methodology

Monitoring and verification framework To ensure adherence and measure progress towards PMI's zero deforestation commitments, PMI provides third-party leaf suppliers, PMI leaf operations, and contracted farmers with guidelines to deploy a monitoring and verification system, including measurement criteria. The monitoring and verification framework for deforestation in PMI's tobacco supply chain can be broken down into three main activities.

The first activity is defining and mapping forest types in TGAs. GPS coordinates of the TGAs, collected by third-party leaf suppliers and PMI leaf operations, are mapped against publicly available sources of forest cover to define the forest types contained within the TGAs. Forest types include primary and protected forests, managed natural forests, or natural ecosystems.

Second, the monitoring of deforestation risk is carried out. This is typically done at two levels:

1. Supply chain inputs: A monitoring framework for sustainable curing fuels is applied to all TGAs in which Virginia flue-cured tobacco is cultivated due to the associated material risk for gross and net deforestation. Accordingly, all suppliers of Virginia flue-cured tobacco must record and verify the sources of the wood fuel used to cure tobacco. A third-party auditor assesses conformity with the monitoring framework to ascertain sustainability and traceability of 100 percent of the fuel used to cure tobacco by contracted farmers.

2. Landscape analysis is applied to all TGAs, which combines the GPS data of the TGAs with forest cover maps from Global Forest Watch or equivalent platforms to assess the change in forest cover and conversion of natural ecosystems over a defined period. PMI conducts this analysis on an annual basis and the results provide an indication of the intrinsic risk towards gross and net deforestation and/or conversion of natural ecosystems.
3. The identified deforestation risk is to be verified. For each Virginia flue-cured market, the verification is conducted by the third-party auditor. The outcome is an opinion of compliance against the monitoring framework on tobacco curing fuel. Additionally, when the annual landscape analysis indicates an intrinsic risk of a deforestation event in the TGA, such an event needs to be further confirmed through ground-truthing (i.e., on site validation) or, when ground truthing is not applicable, through verification of the declaration of farmer/supplier or validation of supporting documents.

If zero net deforestation is detected by the monitoring framework indicating unsustainable volumes of firewood from managed natural forests, the number of hectares impacted will be compensated to reach the zero net balance at the end of 2025. Compensation activities must follow the guidelines from the mitigation hierarchy (avoid, minimize, restore, transform) and will have to be proven by a dedicated impact assessment to validate the intervention has contributed to generate or restore a natural ecosystem. Suppliers, TGAs, and markets will be recognized as having achieved zero gross deforestation or zero net deforestation and no conversion of natural ecosystems when the results of the external audit will show full compliance to the principles and indicators of the monitoring framework.

Calculation methodology Proportion of tobacco purchased at no risk of net deforestation of managed natural forest and no conversion of natural ecosystems = Tobacco at risk of deforestation purchased at no evident risk of net deforestation/Total tobacco purchased at risk of deforestation.

Estimates and assumptions Total tobacco purchased by PMI is based on a full calendar year (January through December) considering the January through September actual purchased volumes, combined with the forecasted volume for the period October through December.

Data management

Supply chain inputs are managed via third-party leaf supplier's data collection processes and reported in PMI's proprietary curing fuel data monitoring system twice a year. For the mapping of forest types contained within each TGA, PMI recommends third-party leaf suppliers' and PMI leaf operations use the Hansen global forest maps available at Global Forest Watch (GFW). This mapping is maintained in PMI's Environmental Insights tool on an annual basis following the update (in Q4) from GFW.

Following the verification process, on an annual basis, the results of the tobacco supply chain inputs and landscape risk analysis are consolidated centrally to report the global figure of the proportion of tobacco purchased at no risk of net deforestation of managed natural forest and no conversion of natural ecosystems in PMI's tobacco supply chain.

Data assurance In addition to verification of the supply chain inputs and any deforestation events as identified by the landscape analysis, prior to external reporting, the program auditor verifies PMI's assertion of compliance on the global consolidated tobacco purchased figure at no risk of net deforestation of managed natural forest and no conversion of natural ecosystems.



Forward-looking and cautionary statements

This document 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 in certain markets or countries; health concerns relating to the use of tobacco and other nicotine-containing products and exposure to environmental tobacco smoke; litigation related to tobacco use and intellectual property; intense competition; the effects of global and individual country economic, regulatory and political developments, natural disasters and conflicts; the continuing effects of the COVID-19 pandemic; the impact and consequences of Russia's invasion of Ukraine; 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, availability, and quality of tobacco and other agricultural products and raw materials, as well as components and materials for our electronic devices; 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, including women or diverse candidates. 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, 2022 and the Form 10-K for the year ended December 31, 2021. 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.

Notes

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