

ESG Highlights

From PMI's 2020 Integrated Report

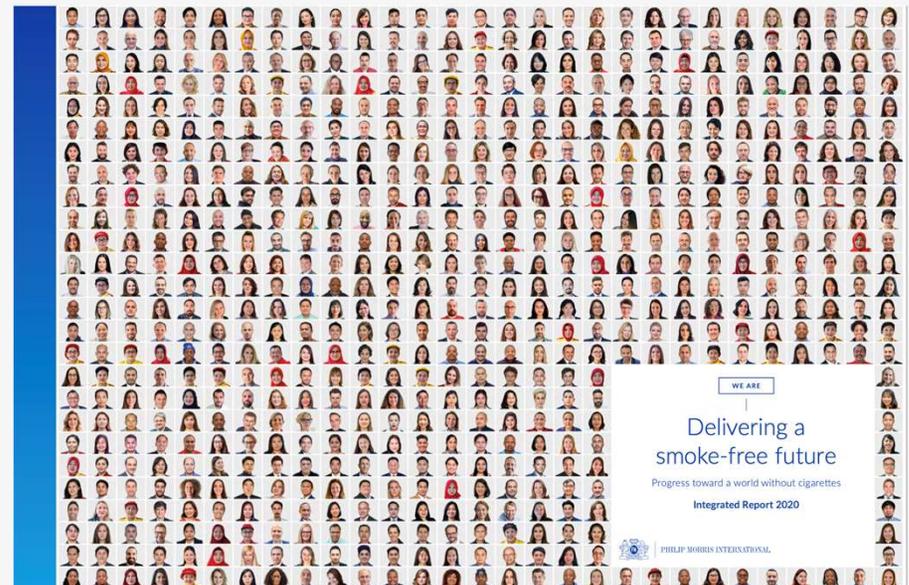


PHILIP MORRIS INTERNATIONAL

ESG highlights

This ESG Highlights presentation is based on PMI's Integrated Report 2020 and annual report on Form 10-K for the year ended December 31, 2020, as well as press releases and additional resources available at www.pmi.com.

Unless otherwise indicated, information and data contained in this presentation cover calendar year 2020 or reflect status at December 31, 2020.



 See [PMI's Integrated Report 2020](#)



Forward looking & cautionary statements

- This presentation and related discussion contain projections of future results and other forward-looking statements. Achievement of future results is subject to risks, uncertainties and inaccurate assumptions. In the event that risks or uncertainties materialize, or underlying assumptions prove inaccurate, actual results could vary materially from those contained in such forward-looking statements. Pursuant to the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995, PMI is identifying important factors that, individually or in the aggregate, could cause actual results and outcomes to differ materially from those contained in any forward-looking statements made by PMI.
- PMI's business risks include: excise tax increases and discriminatory tax structures; increasing marketing and regulatory restrictions that could reduce our competitiveness, eliminate our ability to communicate with adult consumers, or ban certain of our products; health concerns relating to the use of tobacco and other nicotine-containing products and exposure to environmental tobacco smoke; litigation related to tobacco use and intellectual property; intense competition; the effects of global and individual country economic, regulatory and political developments, natural disasters and conflicts; changes in adult smoker behavior; lost revenues as a result of counterfeiting, contraband and cross-border purchases; governmental investigations; unfavorable currency exchange rates and currency devaluations, and limitations on the ability to repatriate funds; adverse changes in applicable corporate tax laws; adverse changes in the cost, 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. Future results are also subject to the lower predictability of our reduced-risk product category's performance.



Forward looking & cautionary statements continued

- The COVID-19 pandemic has created significant societal and economic disruption, and resulted in closures of stores, factories and offices, and restrictions on manufacturing, distribution and travel, all of which will adversely impact our business, results of operations, cash flows and financial position during the continuation of the pandemic. Our business continuity plans and other safeguards may not be effective to mitigate the impact of the pandemic. Currently, significant risks include our diminished ability to convert adult smokers to our RRP, significant volume declines in our duty-free business and certain other key markets, disruptions or delays in our manufacturing and supply chain, increased currency volatility, and delays in certain cost saving, transformation and restructuring initiatives. Our business could also be adversely impacted if key personnel or a significant number of employees or business partners become unavailable due to the COVID-19 outbreak. The significant adverse impact of COVID-19 on the economic or political conditions in markets in which we operate could result in changes to the preferences of our adult consumers and lower demand for our products, particularly for our mid-price or premium-price brands. Continuation of the pandemic could disrupt our access to the credit markets or increase our borrowing costs. Governments may temporarily be unable to focus on the development of science-based regulatory frameworks for the development and commercialization of RRP or on the enforcement or implementation of regulations that are significant to our business. In addition, messaging about the potential negative impacts of the use of our products on COVID-19 risks may lead to increasingly restrictive regulatory measures on the sale and use of our products, negatively impact demand for our products, the willingness of adult consumers to switch to our RRP and our efforts to advocate for the development of science-based regulatory frameworks for the development and commercialization of RRP.
- The impact of these risks also depends on factors beyond our knowledge or control, including the duration and severity of the pandemic, its recurrence in our key markets, actions taken to contain its spread and to mitigate its public health effects, and the ultimate economic consequences thereof.
- PMI 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, 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.



PMI's Statement of Purpose

Delivering a Smoke-Free Future

Leading an industry transformation

- Issued by PMI's board and published on 2020 Proxy Statement, reaffirms PMI's commitment to deliver a smoke-free future
- Lays out PMI's unique business model and value proposition to relentlessly focus resources to completely replace cigarettes with better alternatives, showcasing how PMI is different from other tobacco companies
- Explicitly addresses impacts, while recognizing stakeholders that are essential to PMI's transformation, providing additional granularity on how and when a smoke-free future can be achieved



PMI's Statement of Purpose continued

Delivering a Smoke-Free Future

Leading an industry transformation

“

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

“

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

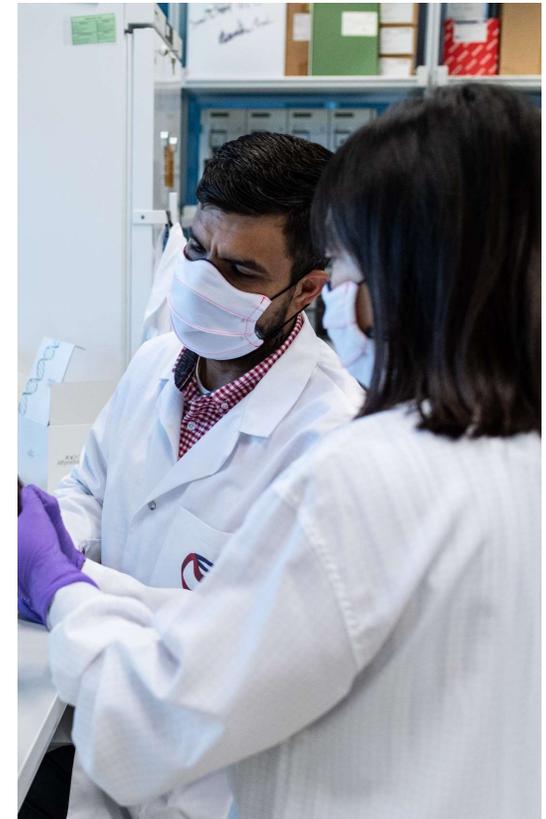
“

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

“

PMI's key stakeholder constituencies, which are fundamental to both the achieving of its purpose and to the pace of its progress, will be affected in different ways by PMI's transformation.

[i Read PMI's Statement of Purpose](#)



PMI's response to COVID-19



Commitment to our Employees

- Limited travel and gatherings, work from home where required, personal protective equipment, virus testing
- Launched internal communication platforms to ensure employees have access to clear, factual, and relevant information and ways to connect, even from a distance



Engagement with Local Communities

- Affiliates participated in emergency efforts to increase local medical response capacity, provide personal protective equipment, offer emergency support to vulnerable groups, and more



Business Partners & Suppliers

- Consistent supply of products with no significant out-of-stocks in major markets
- Measures to prevent virus infection and spread in tobacco supply chain
- Affiliates provided support to retail partners



Consumers

- Guidance to ensure devices are cleaned thoroughly and quarantined before reuse
- Field force and commercial teams supported adult consumers' requests remotely
- Online payment and touchless delivery



Repurposing our Value Chain

- Repurposed scientific capabilities and fostered multi-stakeholder partnerships
- Helped analyze COVID-19 tests, produced and delivered hand sanitizer and hygiene kits, and helped develop a high-performance, reusable face mask

CASE STUDY

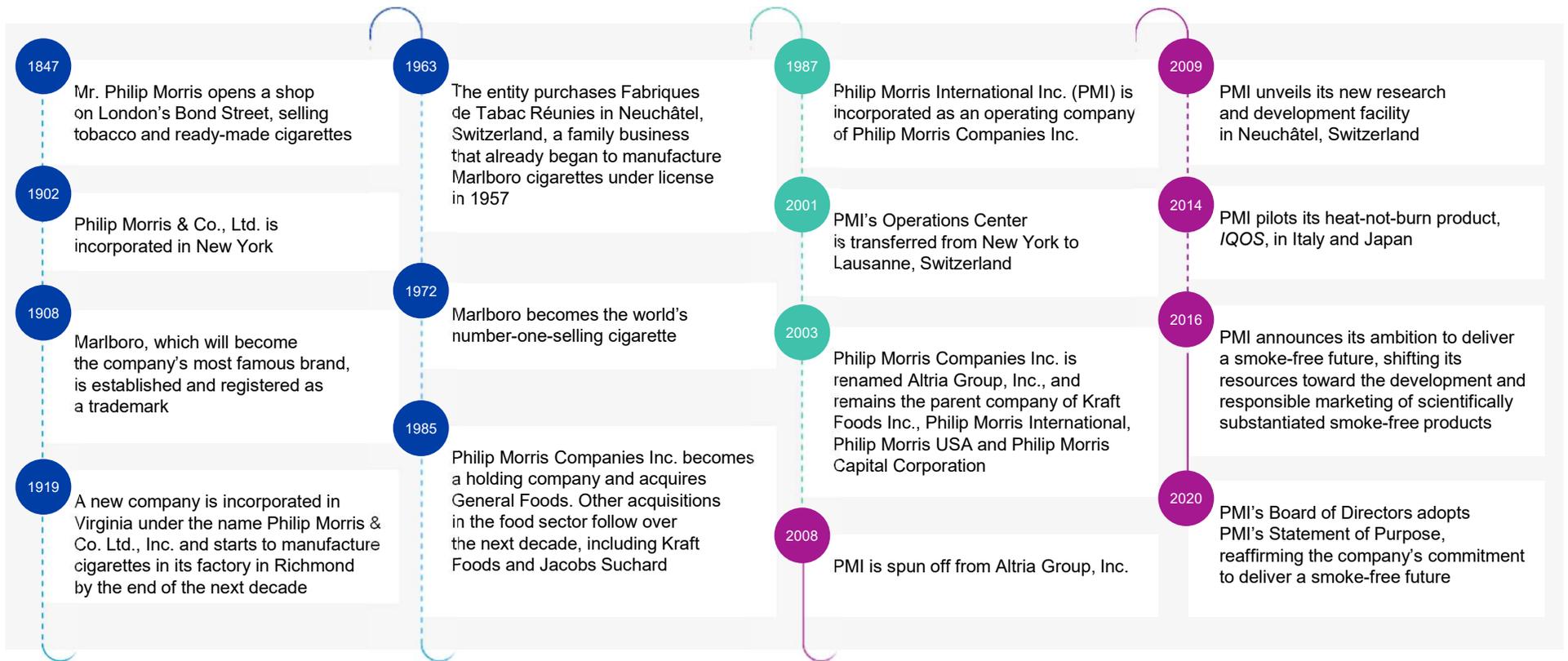
Leveraging and repurposing our R&D capabilities

PMI joined a consortium of partners and helped build a high-performance, affordable, reusable face mask to help address a global pandemic in less than a year.

[Read the case study](#)



About PMI



Our business environment

Key trends shaping our industry



Consumers

The net effect of population growth and declining smoking prevalence is a forecast of just under 1.1B smokers by 2025—essentially no change versus 2010.



Market dynamics

In 2020, the total value of the international tobacco and nicotine market, excluding China and the U.S., reached an estimated USD 450B.¹ We estimate that the international market for heated tobacco and e-vapor products reached a value of USD 27B.



Regulation & taxation

Public health strategies to reduce tobacco-related morbidity and mortality have focused primarily on preventing smoking initiation by youth and encouraging smokers to quit. Novel, scientifically substantiated smoke-free products now provide regulators the opportunity to supplement and strengthen the existing approach with harm reduction.



Competition

Our competition centers their value proposition on expanding their portfolios and offering more choice to their consumers. This drastically contrasts with PMI's, which aims to phase out cigarettes completely, not only offering choice but promoting full switching to better alternatives.



Illicit trade

It is estimated illicit trade accounts for as much as 10-12% of global cigarette consumption and governments worldwide are losing USD 40B in tax revenues each year as a result.²



Read how we are responding in [PMI's Integrated Report 2020](#)



1. Includes the retail value of cigarettes and other tobacco products (including cigars, cigarillos, pipe tobacco and fine-cut tobacco), heated tobacco units and e-vapor products (including devices), snus, and nicotine pouches.

2. Source: Euromonitor (<https://www.euromonitor.com/illicit-trade-in-tobacco-products/report>)

Creating value

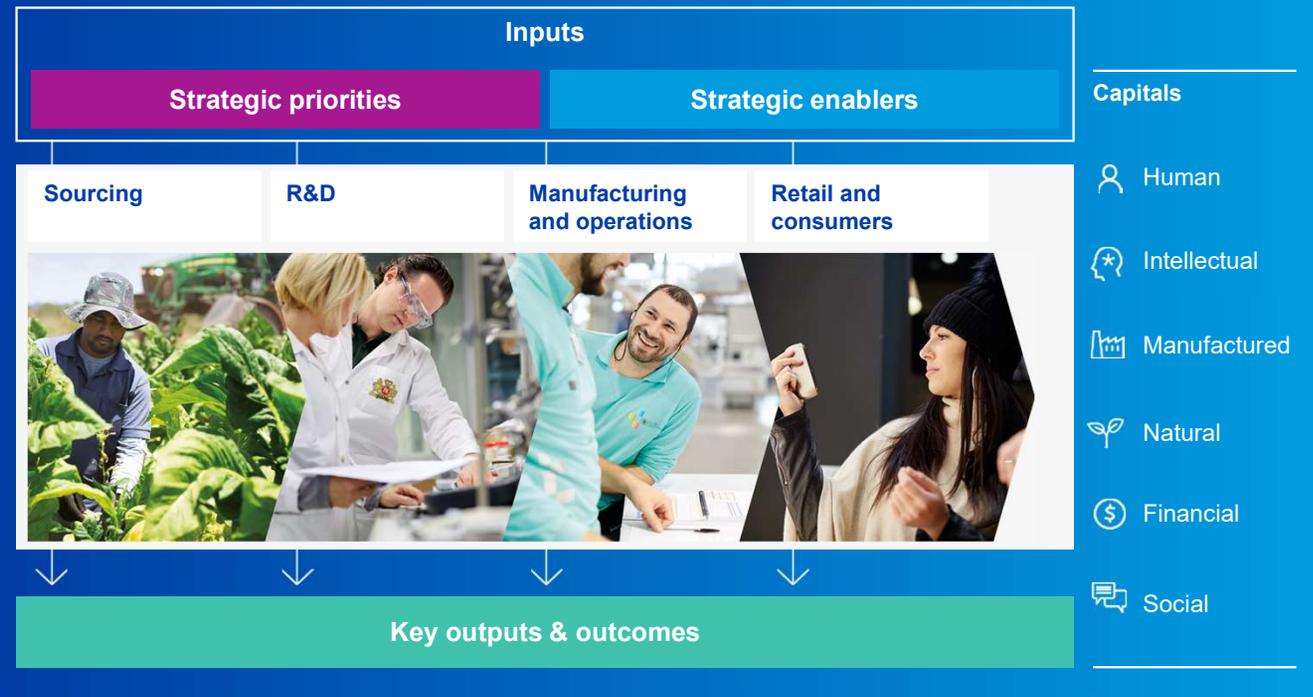
Our mission

Accelerate the end of smoking

What we do

Replace cigarettes with less harmful tobacco and nicotine products for the benefit of adults who would otherwise continue to smoke

We allocate our resources across our value chain to deliver long-term value for both our company and our stakeholders



Our global footprint 2020



Manufactured



>175

Markets where our cigarettes are sold

64

Markets where our heat-not-burn product IQOS is available for sale

39

PMI-owned manufacturing facilities, of which 8 are partially or fully dedicated to the production of smoke-free products

Human



70,849

Employees worldwide, of whom 41.7% are women

285,900

Number of tobacco farmers contracted by PMI and PMI tobacco suppliers, located in 23 countries

Financial



76%

Of PMI's commercial expenditure (marketing) dedicated to smoke-free products

23.8%

In net revenues from smoke-free products¹

Intellectual



USD 495m

R&D expenditure, of which 99% was dedicated to smoke-free products

1,300

Patents granted in IP5 jurisdictions relating to smoke-free products (cumulative)²

Social



>28,000

Total number of suppliers³

>94%

Of PMI's total shipment volume⁴ represented by markets with youth access prevention programs in place



ESG Highlights

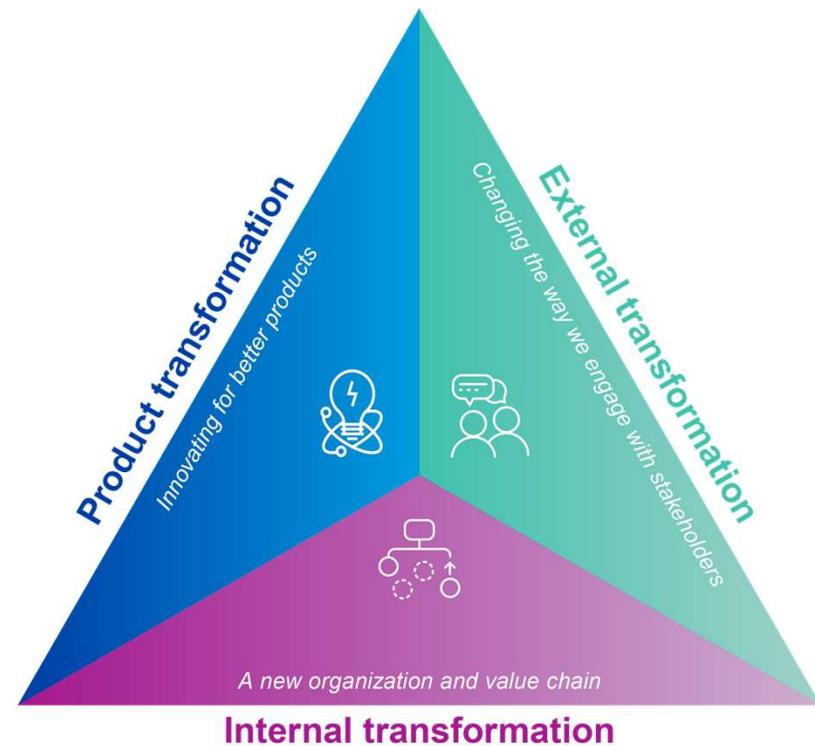
1. Net of excise taxes.
2. IP5 jurisdictions are Europe (patents granted by the European Patent Office), China, South Korea, Japan, and the U.S.
3. Suppliers refer to tier 1 suppliers, parent companies.
4. Including cigarettes, heated tobacco units, other tobacco products, and e-cigarettes.

Transforming our business

To date, we are the only company within the traditional international tobacco industry to have committed to going smoke-free by encouraging full switch of adult smokers to better alternatives than continued smoking. And we have already built a leading position in the smoke-free category globally.

Delivering on our purpose requires ambitious goals and targeted decision-making. Transforming from a cigarette company into a world-leading smoke-free business is about more than replacing one product with another. It requires a holistic review and overhaul of our entire business model and value proposition, including extensive changes within our operations and value chain and in the ways we interact with society.

PMI's business transformation



Product transformation



Innovating for better products

Our priority is to address the health impacts associated with smoking by offering science-based options that have been scientifically proven to be a far better choice than continued smoking. To address a variety of adult consumer preferences, we have developed a portfolio approach that includes both heat-not-burn products and nicotine-containing vapor products. In 2021, we plan to enter the nicotine pouch category.

It is not enough simply to offer more choice of combustible and smoke-free products to consumers. Instead, we believe the responsible approach is to simultaneously:

- **Guide and encourage consumers to switch** from combustible products to smoke-free alternatives
- **Work with policymakers** to ensure these products ultimately replace cigarettes

Heated tobacco products

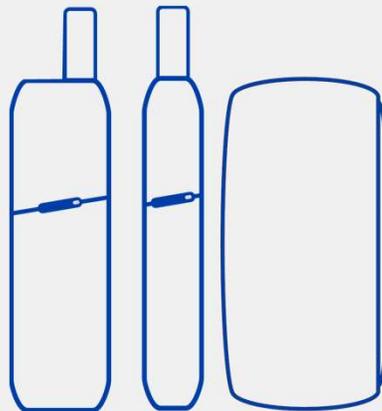
Nicotine-containing products

Platform 1
Electrically heated tobacco system

Platform 2
Heated tobacco product

Platform 3
Electronic-free nicotine product

Platform 4
E-vapor product



Product transformation continued



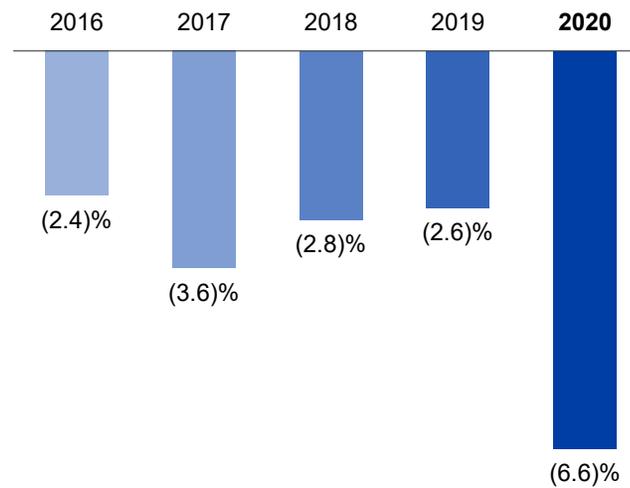
Innovating for better products continued

Combustible market declines reflect growth of smoke free products.

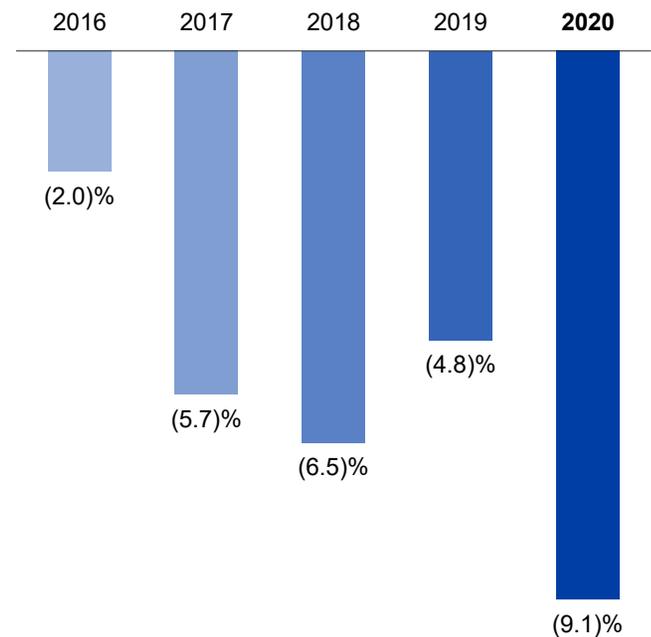
We advocate for a comprehensive and risk-proportionate regulatory framework that recognizes that not all these products are the same.

Regulation and taxation should subject the most harmful products to the most restrictive measures and should encourage those adults who would otherwise continue to smoke to switch to less harmful alternatives.

Cigarette Industry^(a) % Change



Cigarette Industry^(a) % Change in markets where IQOS was present^(b)



(a) Excluding China and the U.S.
 (b) Markets where IQOS was present in Q1 2018
 Source: PMI Financials or estimates



Product transformation continued



Innovating for better products continued

We will continue to leverage our life sciences capabilities with the goal of having a net positive impact on the world. We will accomplish this by further expanding our value proposition to products that go beyond nicotine. The way to do that is fourfold:

Growth opportunities that go beyond nicotine



Leveraging our scientific and engineering knowledge around inhalation and aerosol delivery



Making use of our scientific assessment capabilities to support product testing



Repurposing our technology on devices to serve therapeutic purposes, able to deliver other substances, beyond nicotine



Repurposing the tobacco plant to serve other community needs that go beyond nicotine extraction



External transformation



Changing the way we engage with stakeholders

Stakeholder engagement and collaboration are a crucial part of innovation, as they help inform product development. We also recognize that we cannot design new solutions effectively unless we first understand the issues we seek to address and stakeholder concerns.

Multistakeholder engagement is the way to achieve systemic change; it will allow us to effectively transform and to lead an industry transition away from cigarettes.



 Read why and how we engage with each stakeholder and key issues discussed in [PMI's Integrated Report 2020](#)

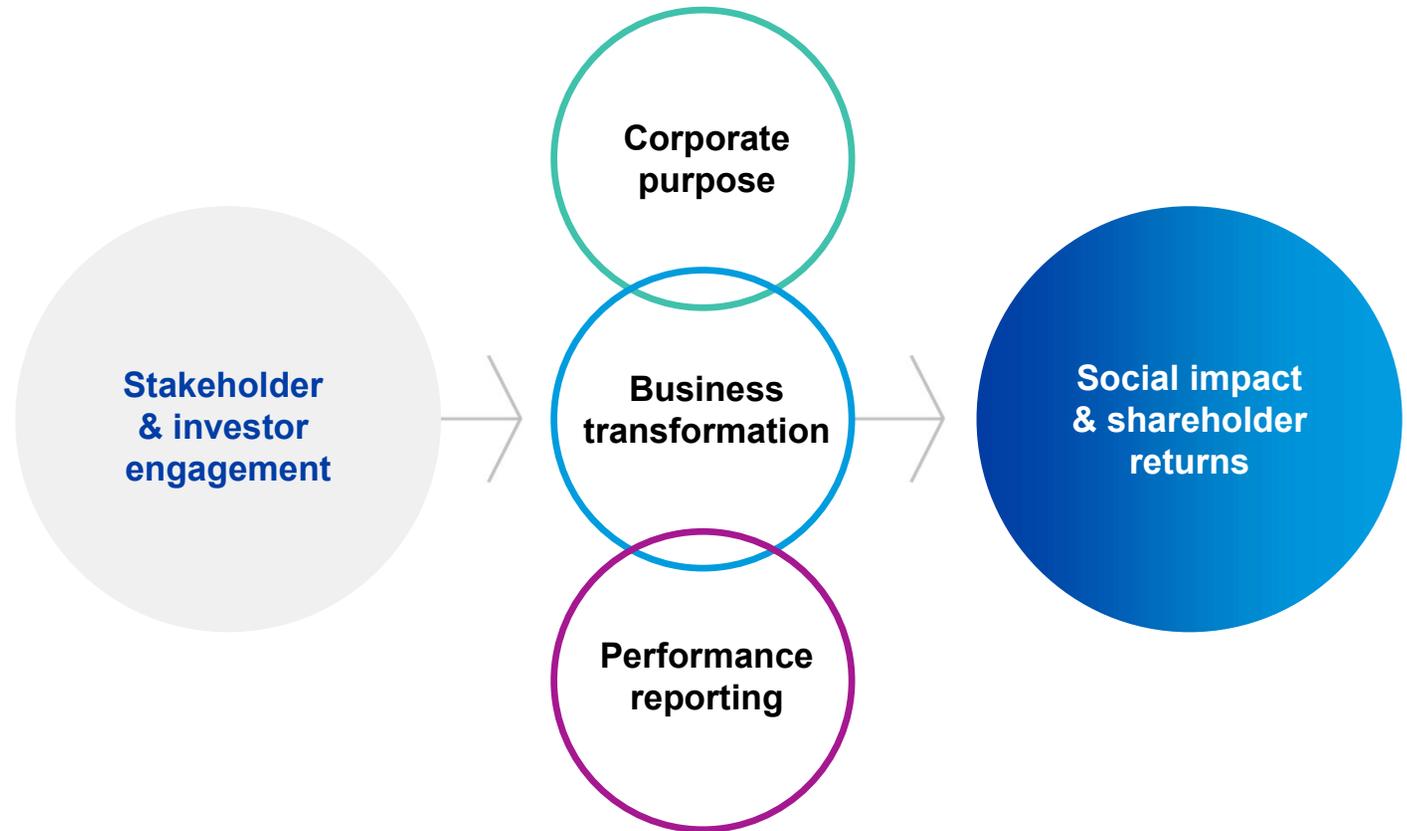


External transformation continued



Changing the way we engage with stakeholders continued

Engaging with the finance community is key to promoting a comprehensive understanding of PMI's unique value proposition, strategy, and performance. Furthermore, investment decisions increasingly integrate environmental, social, and governance criteria, and we are confident in the business opportunity our transformation brings.



[i](#) Read more in the Investor Relations section at [pmi.com](https://www.pmi.com)

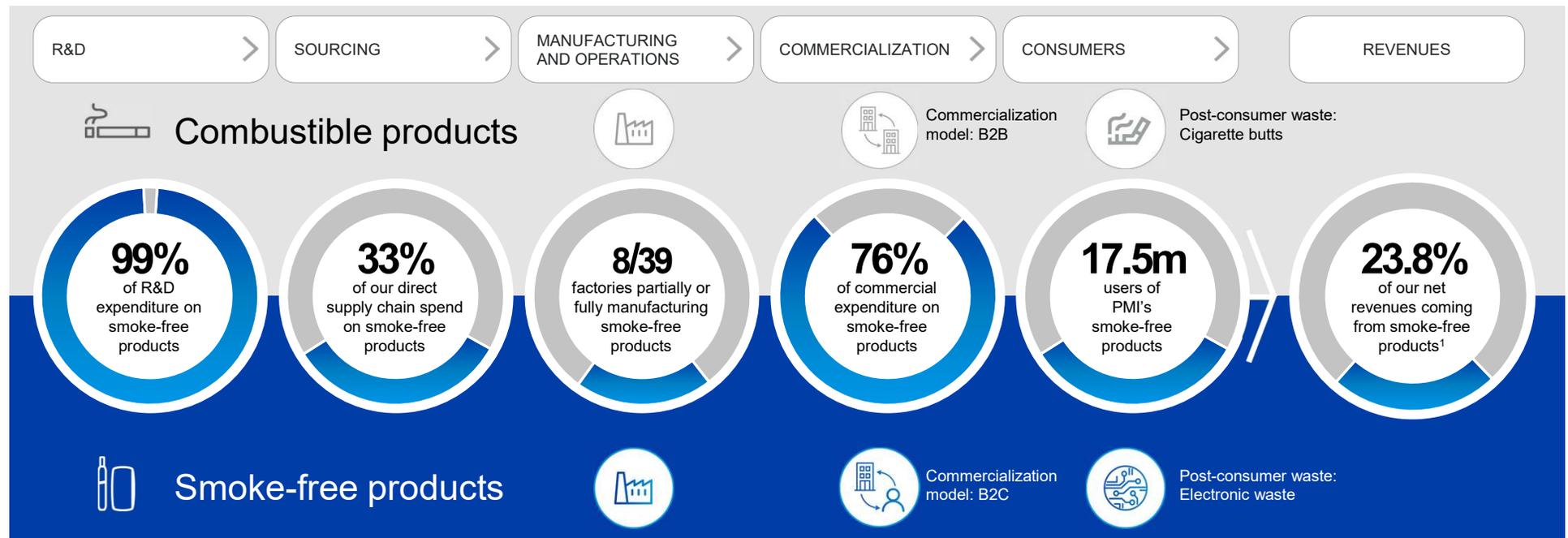


Internal transformation



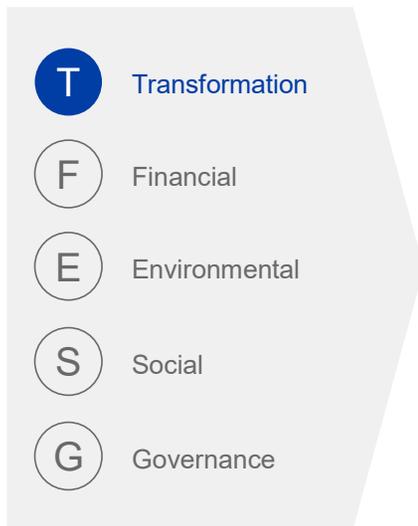
A new organization & value chain

To deliver on our purpose, we are transforming our company and our value chain. The complexity of our strategy comes from simultaneously managing the impacts of two value chains: the one we are moving away from (our cigarette portfolio) and the one we are moving toward (our smoke-free portfolio).



Transparent reporting on progress

PMI's Business Transformation Metrics



Transformation

A new way of reporting pace and scale of our transition

- We introduced a set of bespoke key performance indicators we call **Business Transformation Metrics**, in 2016.
- They allow our shareholders and stakeholders to assess our purpose, actions taken to achieve it, resource allocation, as well as outcomes and forward-looking goals.
- Transparent, measurable, verifiable, updated based on stakeholder feedback.



Transparent reporting on progress continued

PMI's Business Transformation Metrics continued

- T Transformation
- F Financial
- E Environmental
- S Social
- G Governance

Business Transformation Metrics

New metrics

	2016	2017	2018	2019	2020	
R&D	R&D expenditure (in millions USD)*	429	453	383	465	495
	R&D expenditure (smoke-free/total) ¹ *	72%	74%	92%	98%	99%
	Number of R&D positions (FTEs) ²	n/a	n/a	764	942	934
	Patents granted in IP5 jurisdictions relating to smoke-free products (cumulative) ³	170	300	480	740	1,300
	Number of studies completed by PMI on smoke-free products (cumulative, since 2015)					
	– Toxicological assessment	36	57	82	109	146
– Clinical assessment	11	12	19	19	22	
– Perception and behavior (premarket and post-market) ⁴	7 (7+0)	8 (7+1)	12 (9+3)	13 (9+4)	30 (15+15)	
Sourcing	Supply chain direct spend expenditure (smoke-free/total) ⁵	n/a	n/a	n/a	35%	33%
	Cumulative investments behind smoke-free products (since 2008, in billions USD) ⁶	3.2	4.6	6.2	7.2	8.1
Operations	Number of factories producing smoke-free products out of total number of factories ⁷ *	3 out of 48	4 out of 46	8 out of 44	8 out of 38	8 out of 39

* The 2020 metrics marked with an asterisk (*) are subject to PwC's Assurance Report (see page 146 of Integrated Report 2020).

1. Smoke-free products include heated tobacco units, devices, and e-cigarettes. Total products include smoke-free products, cigarettes, and other combustible products.
2. R&D positions include scientists, engineers, technicians, and support staff. Comparable data for years prior to 2018 are not available, as the scope of R&D positions changed following company organizational changes.
3. IP5 jurisdictions are Europe (patents granted by the European Patent Office), China, South Korea, Japan, and the U.S.
4. Data related to perception and behavior studies were restated to include both premarket and post-market studies.
5. Direct spend focuses on materials used in the manufacture of our products; it includes tobacco leaf, direct materials, and electronic devices and accessories.
6. Investments reflect research, product and commercial development, production capacity, scientific substantiation, and studies on adult smoker understanding. Figure does not include commercial deployment costs.
7. Production temporarily stopped at one of our factories in Germany in December 2019 and resumed early 2020.



Transparent reporting on progress continued

PMI's Business Transformation Metrics continued

- T** Transformation
- F** Financial
- E** Environmental
- S** Social
- G** Governance

Business Transformation Metrics Continued



Metrics linked to 2025 aspirations

	2016	2017	2018	2019	2020	
Commercialization	Year-on-year change in number of SKUs—combustible products ⁸	-1.7%	-6.5%	-6.1%	-5.5%	-4.1%
	Year-on-year change in number of SKUs—smoke-free products	78.2%	9.9%	37.1%	24.9%	38.2%
	SKUs (smoke-free/total)	4.7%	5.5%	7.8%	10.1%	13.9%
	Number of markets where IQOS is available for sale*	20	38	44	52	64
	Proportion of markets where IQOS is available for sale that are outside the OECD ⁹ *	32%	41%	44%	45%	52%
	Number of IQOS stores ¹⁰	26	63	81	199	259
	Number of retailers that sell PMI smoke-free product consumables (in thousands)	90	292	488	679	749
	Commercial expenditure (marketing) (smoke-free/total)*	15%	39%	60%	71%	76%
	Smoke-free product shipment volume (billion units)*	8	36	42	60	76
	Combustible product shipment volume (billion units)*	845	791	767	732	654
Consumers	Smoke-free product shipment ratio (smoke-free/total) ¹¹ *	0.9%	4.4%	5.1%	7.6%	10.4%
	Total IQOS users (in millions) ¹² *	2.1	6.9	9.6	13.5	17.5
	Estimated users who have switched to IQOS and stopped smoking (in millions) ¹² *	1.5	4.7	6.6	9.6	12.7
Revenues	Estimated users outside the OECD countries who have switched to IQOS and stopped smoking (in millions) ⁹ *	0.0	0.2	1.1	2.9	4.3
	Net revenues (smoke-free/total) ¹³ *	2.7%	12.7%	13.8%	18.7%	23.8%
	Number of markets where net revenues from smoke-free products exceed 10% of total net revenues ¹⁴ *	1	5	19	31	38
	Number of markets where net revenues from smoke-free products exceed 50% of total net revenues ¹⁴ *	0	1	3	4	6

* The 2020 metrics marked with an asterisk (*) are subject to PwC's Assurance Report (see page 146 of Integrated Report 2020).

⁸ "SKUs" stands for stock-keeping units. References to number of SKUs are based on the latest available data from a number of internal sources, and exclude People's Republic of China and the U.S.

⁹ Excluding PMI Duty Free. Data are based on 2020 OECD country list.

¹⁰ Includes flagship stores, and small, large, and temporary boutiques.

¹¹ The smoke-free product shipment ratio is compiled based on millions of units.

¹² Excluding PMI Duty Free; see glossary.

¹³ Net of excise taxes.

¹⁴ Excluding PMI Duty Free and the U.S.

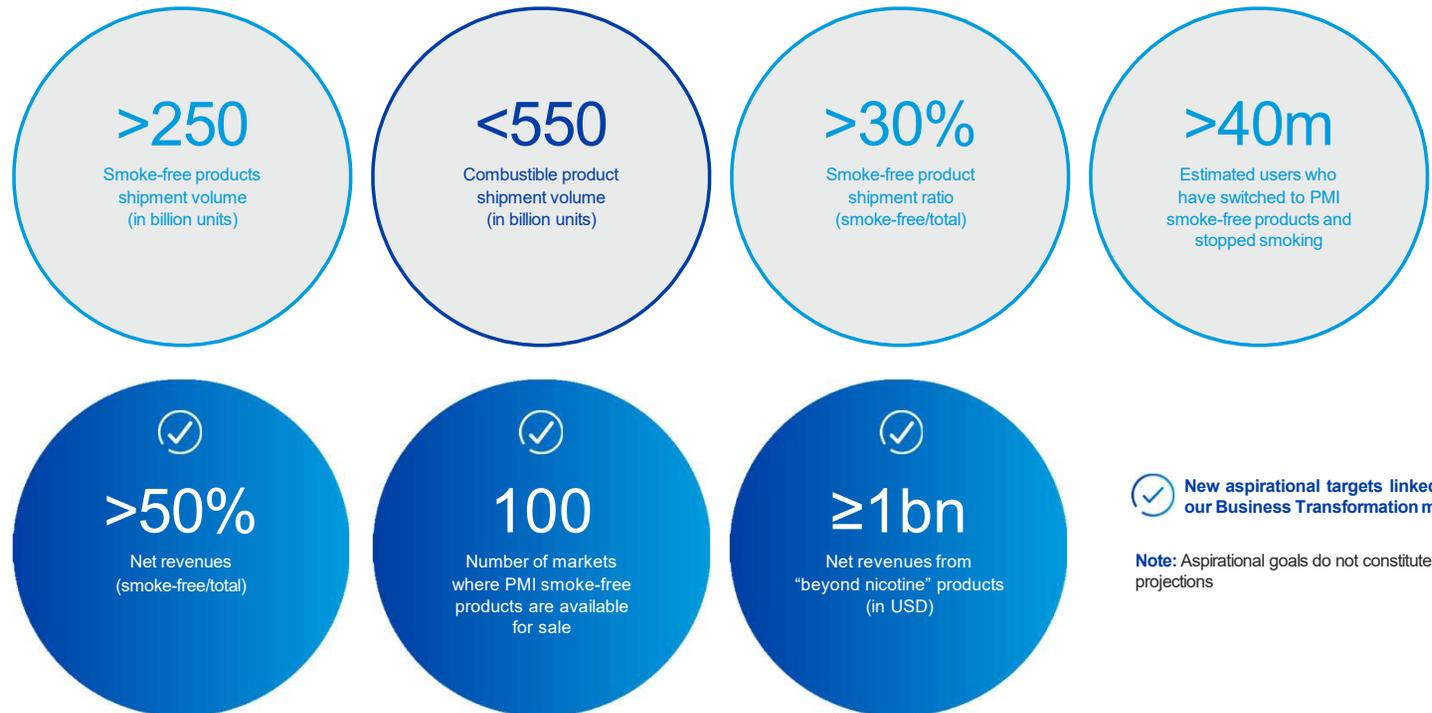


Transparent reporting on progress continued

PMI's Business Transformation Metrics continued

Aspirational goals linked to our Business Transformation Metrics give us a clear roadmap and offer our stakeholders visibility into the pace and scale of our achievements.

2025 Aspirational Goals



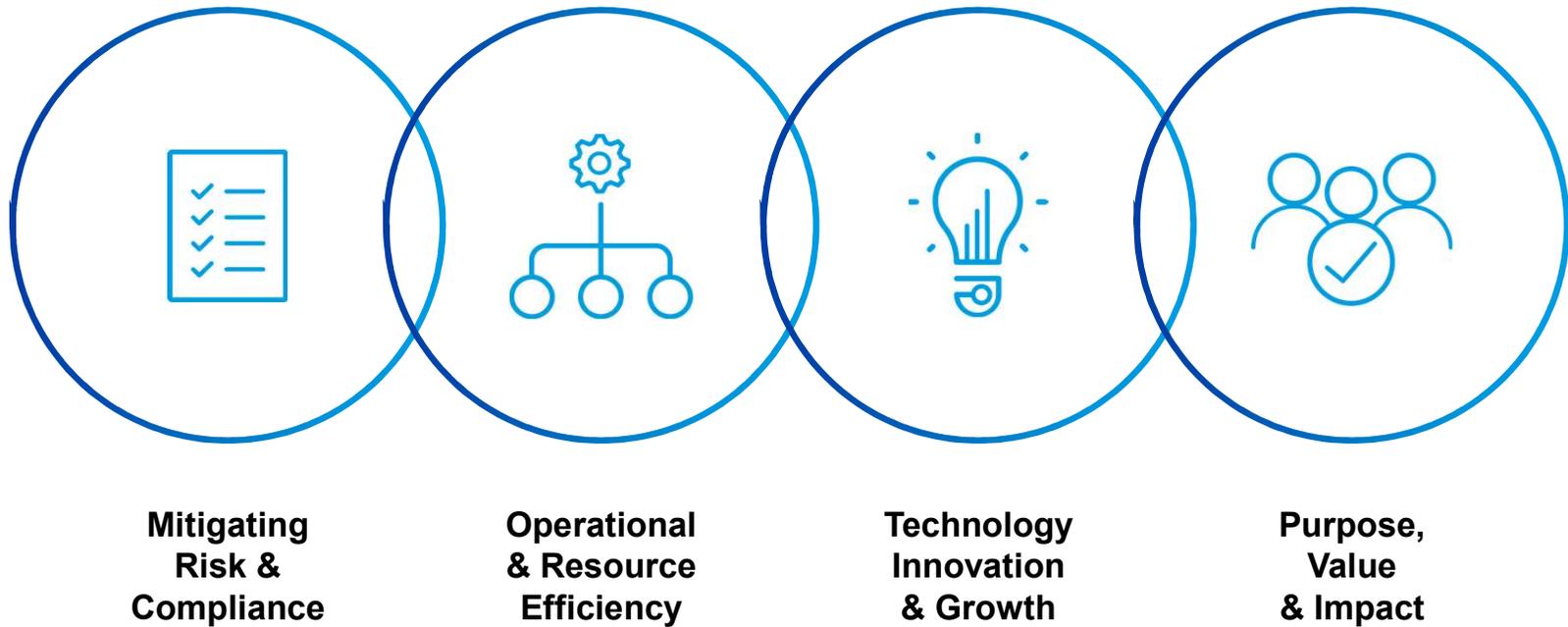
✓ New aspirational targets linked to our Business Transformation metrics

Note: Aspirational goals do not constitute financial projections



Sustainability at PMI

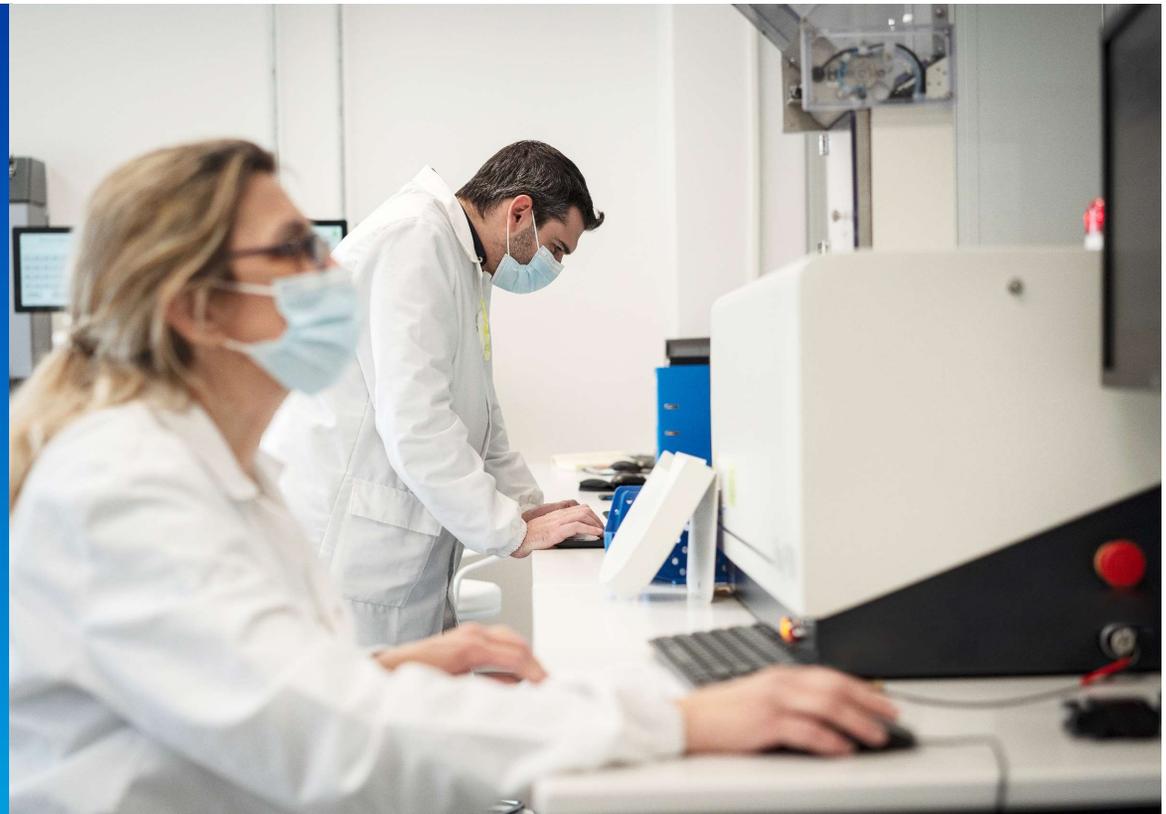
For PMI, sustainability is an opportunity for innovation, growth, and long-term value creation, and a means to minimize the negative externalities while maximizing operational efficiency and resource allocation. Sustainability stands at the core of PMI's transformation and helps address some of the challenges resulting from this transition, while spurring innovation and securing success over the long term



Sustainability at PMI: Product at the Core of our Strategy

Our priority is to address the health impacts of our products, and for PMI this is done through a fourfold approach:

- Developing better and **less harmful alternatives** to cigarettes
- **Broadening access** for adult smokers to smoke-free products that are scientifically substantiated and promoting full switching
- Purposefully working to **phase out cigarettes**
- Developing products that go **beyond nicotine**



Sustainability at PMI: Defining our strategy

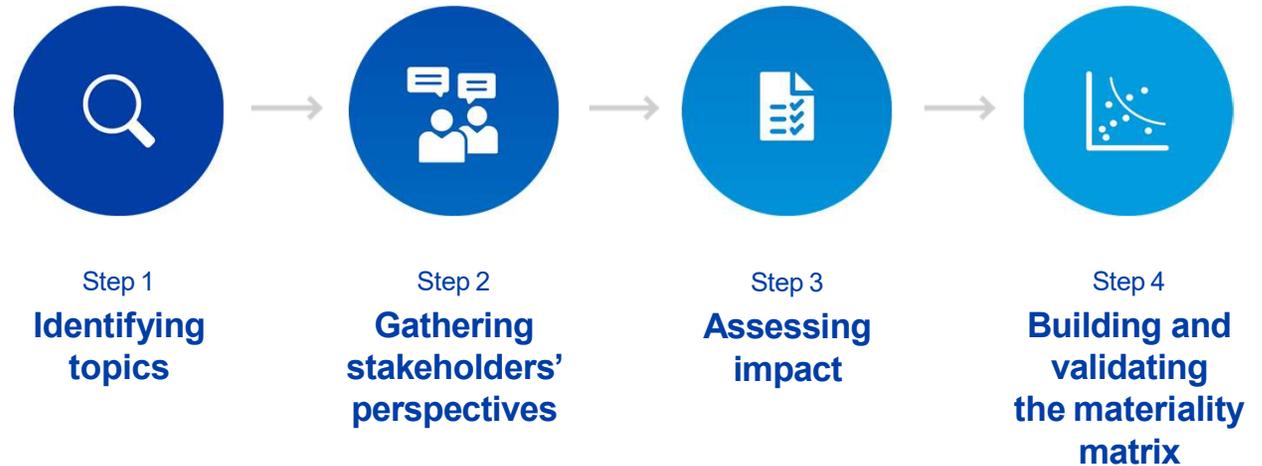
Sustainability strategy is corporate strategy. ESG issues are business issues.

A rigorous and formalized materiality assessment ensures that our strategy, work, and reporting cover the correct topics in the right way. To ensure that our strategy remains current and fulfills our stakeholders' expectations, we will conduct a new comprehensive sustainability materiality assessment in 2021.

[Read PMI's Sustainability Materiality Report](#)



Our 2019 sustainability materiality assessment process



Defining our strategy: Megatrends

As a company operating on a global scale in a fast-paced world, our long-term success requires that we continuously monitor and adapt to significant social, environmental, economic, political, and technological changes. The megatrends discussed in our 2020 integrated report existed prior to the current pandemic and will continue to develop in its aftermath. COVID-19 has both exacerbated and accelerated their impact, making them all the more relevant.



Technological
progress



Changing consumer
expectations



Climate
change



Purpose of
business



Income
inequality

 Read how they intersect with COVID-19 and how we are responding in [PMI's Integrated Report 2020](#)



Defining our strategy continued



Identifying topics

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



Review of:

- PMI's reports and documentations
- Peer analysis
- Investor requirements
- Media reports
- Sustainability standards and frameworks
- Sustainability megatrends



See the full list of topics and descriptions in [PMI's Sustainability Materiality Report](#)

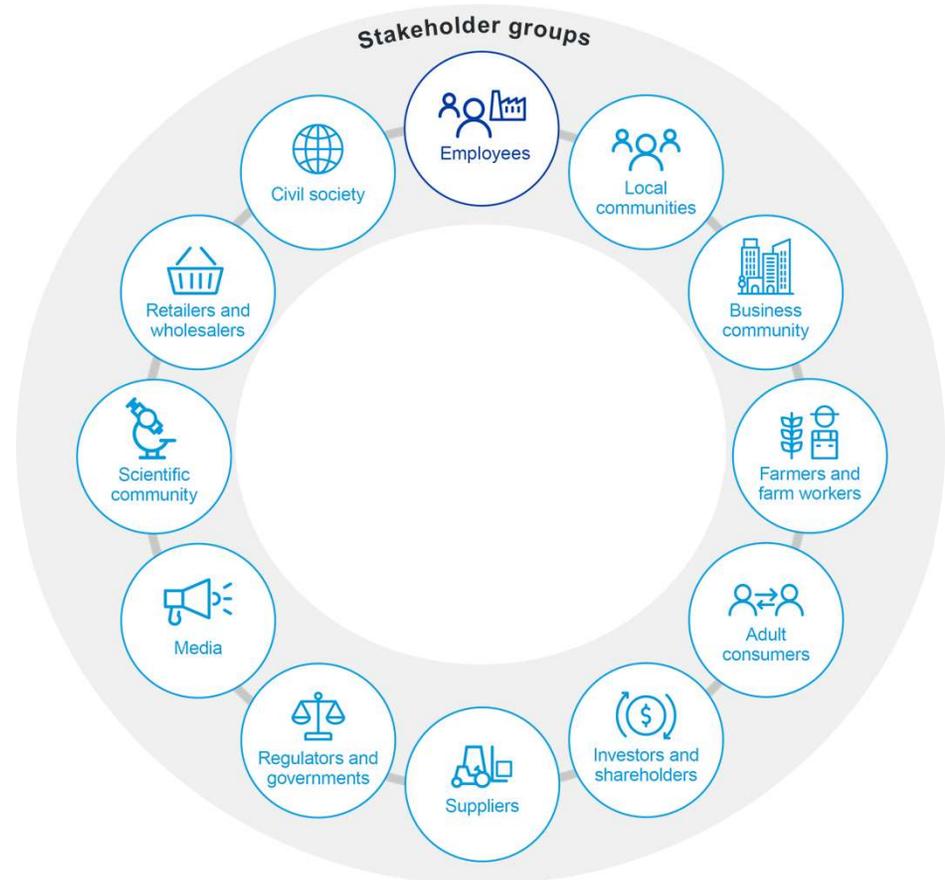


Defining our strategy continued

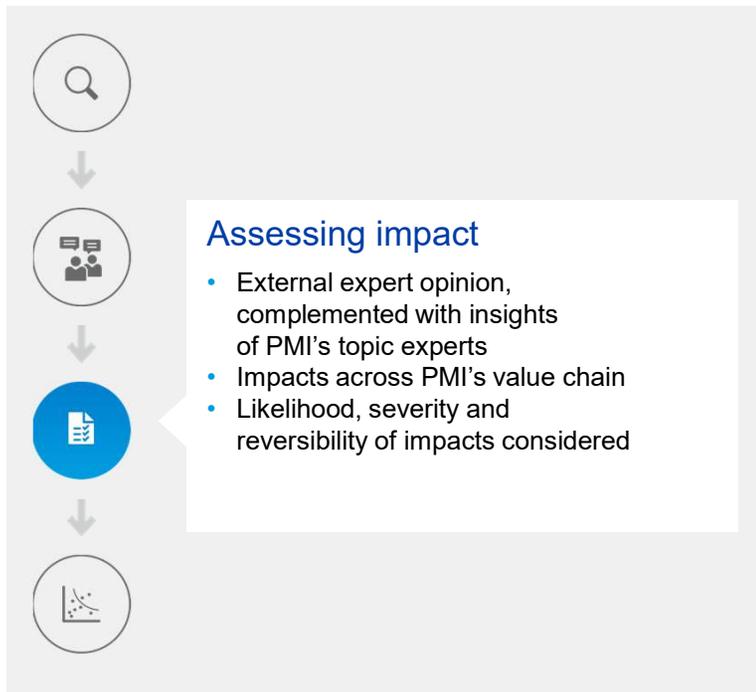


Gathering stakeholders' perspectives

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



Defining our strategy continued



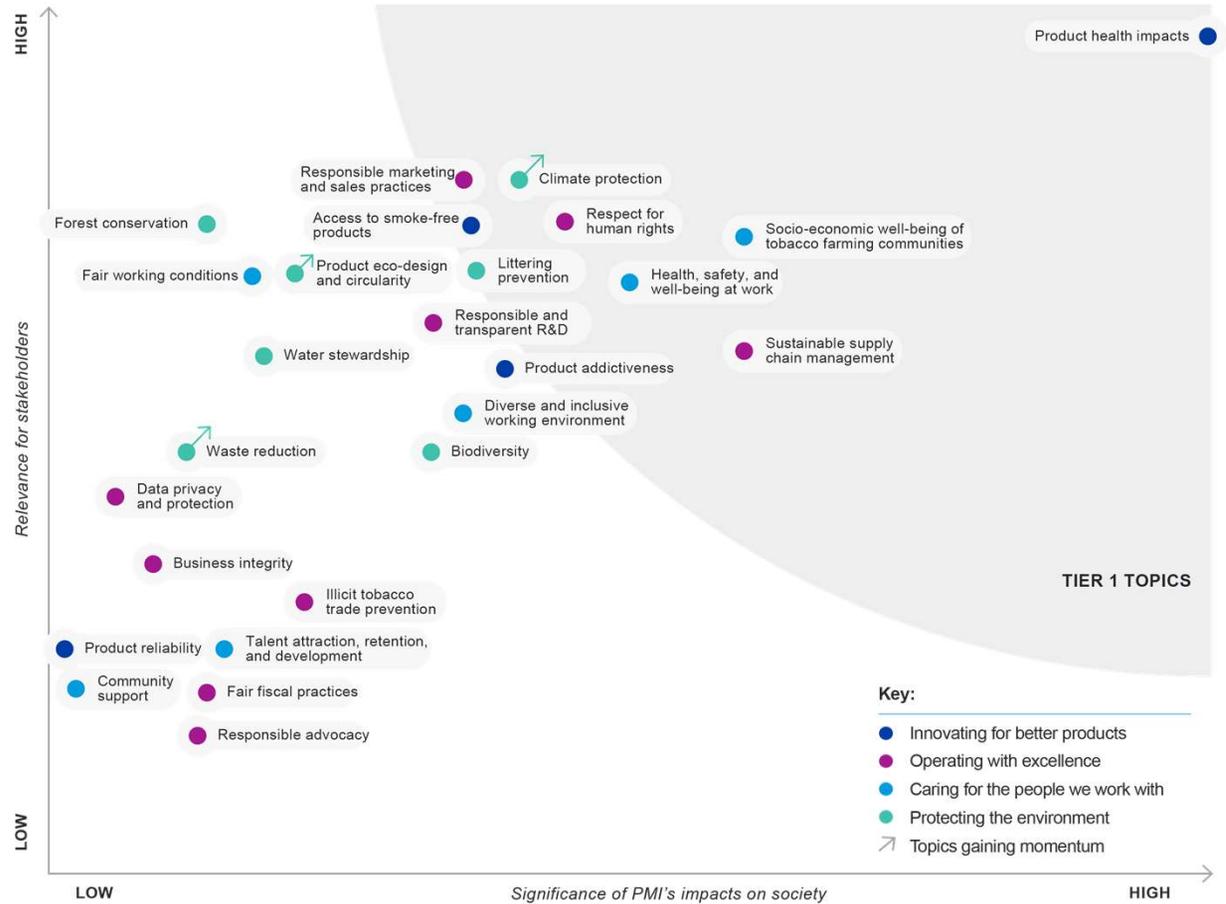
Impact in our value chain		Upstream	PMI operations	Downstream
Pillar 1	Access to smoke-free products			●
	Product addictiveness			●
	Product health impacts			●
	Product reliability			●
Pillar 2	Business integrity	●	●	●
	Data privacy and protection	●	●	●
	Fair fiscal practices	●	●	●
	Illicit tobacco trade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



Defining our strategy continued

Validating materiality matrix

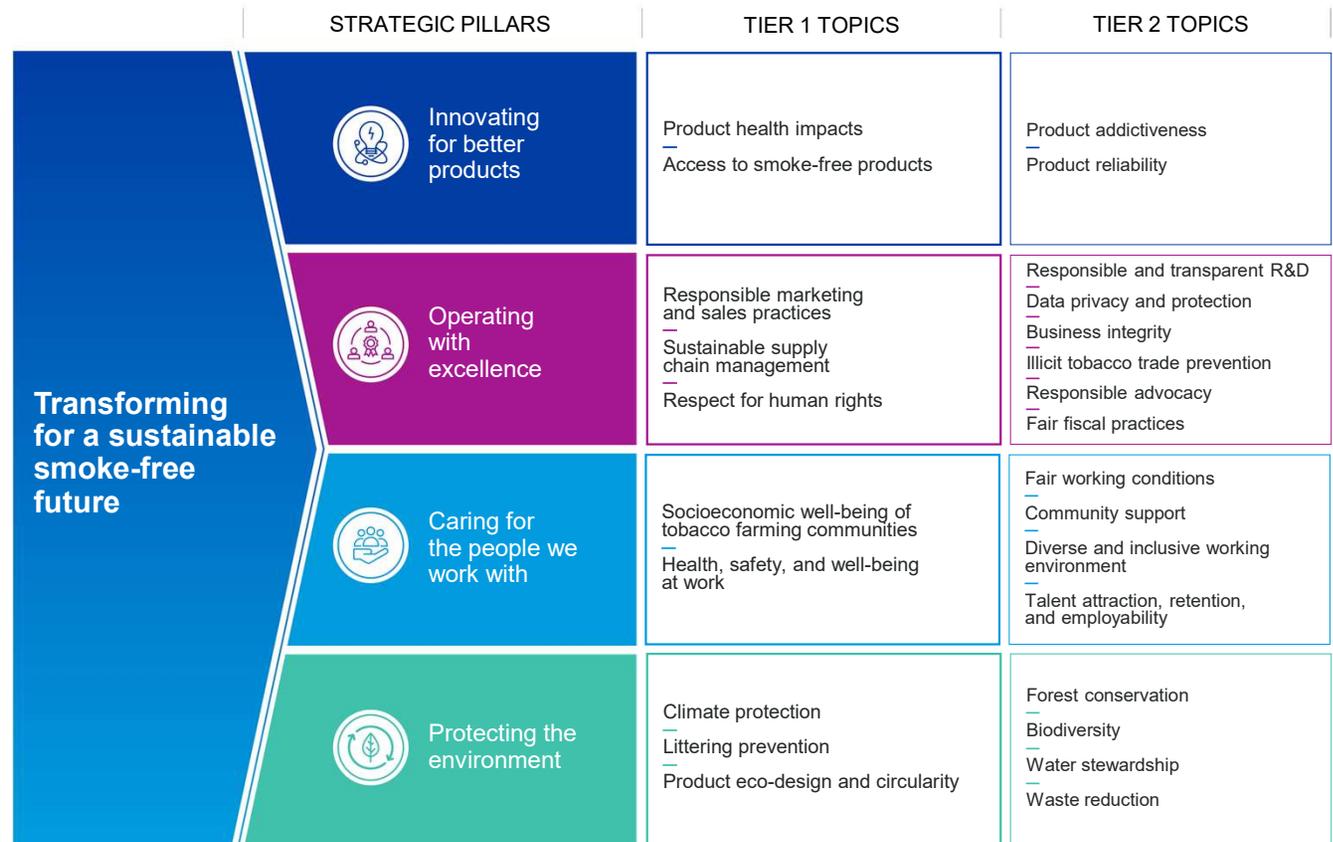
- Mapping of the topics with the four pillars of PMI's sustainability strategy
- Categorization in two tiers
- Reviewed by PMI's senior leaders
- Aligned with Global Reporting Initiative (GRI) requirements



Sustainability at PMI: Strategic Framework

- Our material topics are structured around four pillars of action and grouped into two categories: tier 1 and tier 2 topics.
- Tier 1 topics are those on which PMI believes it can have the greatest impact.
- All tier 1 topics have forward-looking targets.

 Read [PMI's Sustainability Materiality Report](#). We will conduct a new, comprehensive sustainability materiality assessment in 2021.



Sustainability at PMI: Impact valuation

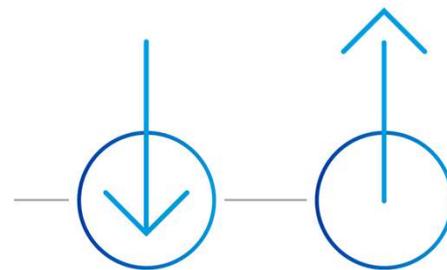
Impact valuation is a method by which companies identify, understand, improve, and demonstrate the benefits and costs of their activities on society and the environment, translated into monetary terms.

This helps integrate environmental, social, and human aspects into decision-making and disclosures.

To support the creation of a global impact measurement and valuation standard for monetizing and disclosing impacts of corporate activity, PMI joined other companies in 2019 to cofound the Value Balancing Alliance, a nonprofit organization.

Impact valuation

Traditional reporting



Input

What resources have been used for business activities?

Output

What activities have been done?

Impact measurement & valuation



Outcome

What changed as a result of the business activities?

Impact

How does the outcome affect society?

Value of Impacts

How do people value the change in well-being due to the impact?



Sustainability at PMI: Sustainable Development Goals

We describe how our efforts and ambitions align with the targets of the United Nations Sustainable Development Goals for each of our material sustainability topics.

Though none is unimportant, we impact and are impacted by different goals to differing degrees.

To show alignment of our work and ambitions with the SDGs and corresponding targets, we published the first edition of our [SDG Index](#).

TIER 1 TOPICS	PRIMARY SDG'S	SECONDARY SDG'S
Product health impacts		
Access to smoke-free products		
Responsible marketing and sales practices		
Sustainable supply chain management		
Respect for human rights		
Socioeconomic well-being of tobacco-farming communities		
Health, safety and well-being at work		
Climate protection		
Littering prevention		
Product eco-design and circularity		

17 PARTNERSHIPS FOR THE GOALS



Sustainability at PMI: Our 2025 Roadmap

Product health impact and access to smoke-free products

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

>40m

Number of adult smokers globally who switch to PMI smoke-free products and stop smoking

>20m

Number of adult smokers in non-OECD countries who switch to PMI smoke-free products and stop smoking

100

Markets where PMI smoke-free products are available for sale

Responsible marketing and sales practices

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

>90%

Youth access prevention (YAP) programs in place in markets representing over 90 percent of PMI's total shipment volume by 2020

100%

Percentage of PMI smoke-free electronic devices introduced on the market as of 2023 equipped with age-verification technology

Sustainable supply chain management

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

100%

Percentage of critical suppliers from whom PMI sources sustainably

Respect for human rights

Safeguard the human rights of people impacted by our activities.

10

Highest risk countries covered by external human rights impact assessments

Socio-economic well-being of tobacco-farming communities

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

100% Zero

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

Child labor in PMI's tobacco supply chain

Health, safety, and well-being at work

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

<0.3

Total recordable incidents rate for employees and contractors

Climate protection

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

Net Zero Net Zero

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

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

Littering prevention

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

-50%

Reduction of plastic litter from our products (versus 2021)

Product eco-design and circularity

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

100%

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

100%

Percentage of PMI smoke-free electronic devices introduced on the market as of the end of 2025 that have eco-design certification



Our 2025 roadmap: Progress

Product health impact and access to smoke-free products

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



>40m

Number of adult smokers globally who switch to PMI smoke-free products and stop smoking



>20m

Number of adult smokers in non-OECD countries who switch to PMI smoke-free products and stop smoking



By the end of 2020, we estimate that, out of 17.5m total IQOS users, 12.7m had switched to IQOS and stopped smoking. Of them, 4.3m live in non-OECD countries.

100

Markets where PMI smoke-free products are available for sale



In 2020, we launched IQOS in 12 additional markets. This brought to 64 the total number of markets in which the product was commercialized at December 31, 2020. Among these markets, 33 were in non-OECD countries.



Our 2025 roadmap: Progress continued

Responsible marketing and sales practices

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

>90% Youth access prevention programs in place in markets representing over 90% of PMI's total shipment volume by 2020



By the end of 2020, markets representing over 94% of PMI's total shipment volume had developed and started implementing YAP plans—where allowed, considering COVID-19 restrictions imposed by local governments.

100% Percentage of PMI smoke-free electronic devices introduced on the market as of 2023 equipped with age-verification technology



In August 2020, we launched our e-vapor product IQOS VEEV in New Zealand—our first electronic device equipped with age-verification technology.



Sustainable supply chain management

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

100% Percentage of critical suppliers from whom PMI sources sustainably



In 2020, compliance with our Responsible Sourcing Principles has been assessed for 95% of PMI's critical non-tobacco supplier spend. In our tobacco supply, we purchased 99% of our tobacco through direct contracts between the farmers and PMI or our tobacco suppliers, and field technicians were able to monitor the implementation of our Good Agricultural Practices program on contracted farms. Overall, we estimate that 67% of our critical suppliers spend was sourced sustainably in 2020.



Respect for human rights

Safeguard the human rights of people impacted by our activities

10 Highest risk countries covered by external human rights impact assessments



We conducted two human rights impact assessments in 2020, thereby reaching a total of four assessments completed in high-risk countries to date. We closely monitor the subsequent implementation of agreed action plans in those countries.



Our 2025 roadmap: Progress continued

Socioeconomic well-being of tobacco-farming communities

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

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



In 2020, we started conducting living income studies with third-party experts, which will complement our internal analysis and help to guide our efforts toward reaching our goal. We also continued implementing various initiatives aimed at improving income levels in priority markets. In 2020, 48% of the contracted farmers supplying tobacco to PMI were earning at least a living income

Zero Zero child labor in PMI's tobacco supply chain



We maintained a relentless focus on preventing incidents of child labor in our tobacco supply chain, despite impacts on our initiatives due to COVID-19 and related restrictions. We introduced a new methodology to measure prevalence of all types of child labor incidents among our contracted farms, giving us increased visibility as we aim to eradicate cases that are repetitive and systemic, and tackle promptly isolated cases in our supply chain. In 2020, we continued working to eliminate the remaining 3.5% prevalence of child labor among our contracted farms.



Health, safety, and well-being at work

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

<0.3 Total recordable incidents rate for employees and contractors



In 2020, across our factories, offices, and fleet, our total recordable incidents rate (TRIR) was 0.12 per 200,000 hours worked, covering our employees, contracted employees, and contractors. We are proud of the progress made to date but remain cautious, as exceptional circumstances in 2020 driven by COVID-19 have positively impacted our performance



Our 2025 roadmap: Progress continued

Climate protection

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

Net Zero

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



We achieved significant absolute CO₂e emission reductions in 2020: Emissions across our value chain (scope 1+2+3) contracted by 18%, and those in our direct operations (scope 1+2) by 26%. These were partially driven by COVID-19 related impacts, but mainly due to accelerated efforts toward our carbon neutrality goals. Our progress in 2020, supported by our new science-based targets and revisited approach to carbon pricing, makes us confident we can achieve our carbon neutrality target in our operations (scope 1+2) before 2030.

Net Zero

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



Littering prevention

Prevent littering of our products by promoting appropriate behavior among adult smokers

-50%

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



Since the core of our plastic reduction rests on cleanup activities and awareness-raising campaigns aimed at changing behavior, COVID-19 lockdowns and disruptions adopted worldwide to contain the pandemic have prevented us from making progress. During 2020, we focused on establishing partnerships and on developing a methodology to measure our global plastic litter footprint over time, and we plan to establish our baseline in 2021.

Product eco-design and circularity

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

100%

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



When IQOS users return broken or end-of-service devices, our reverse-logistics program CIRCLE helps to cycle materials back into the economy. In 2020, we continued the rollout of our CIRCLE program, achieving 48% market volume coverage (up from 39% in 2019), by adding two new markets to the program. For consumables, we progressed in the development of take-back schemes but a number of complexities in the setup of such innovative program delayed the launch of our pilots.

100%

Percentage of PMI smoke-free electronic devices introduced on the market as of the end of 2025 that have eco-design certification



In 2020, we focused on establishing a robust roadmap and launched a program to identify relevant certification schemes for our smoke-free product devices, in partnership with third-party experts and informed by comprehensive benchmarking.



Governance

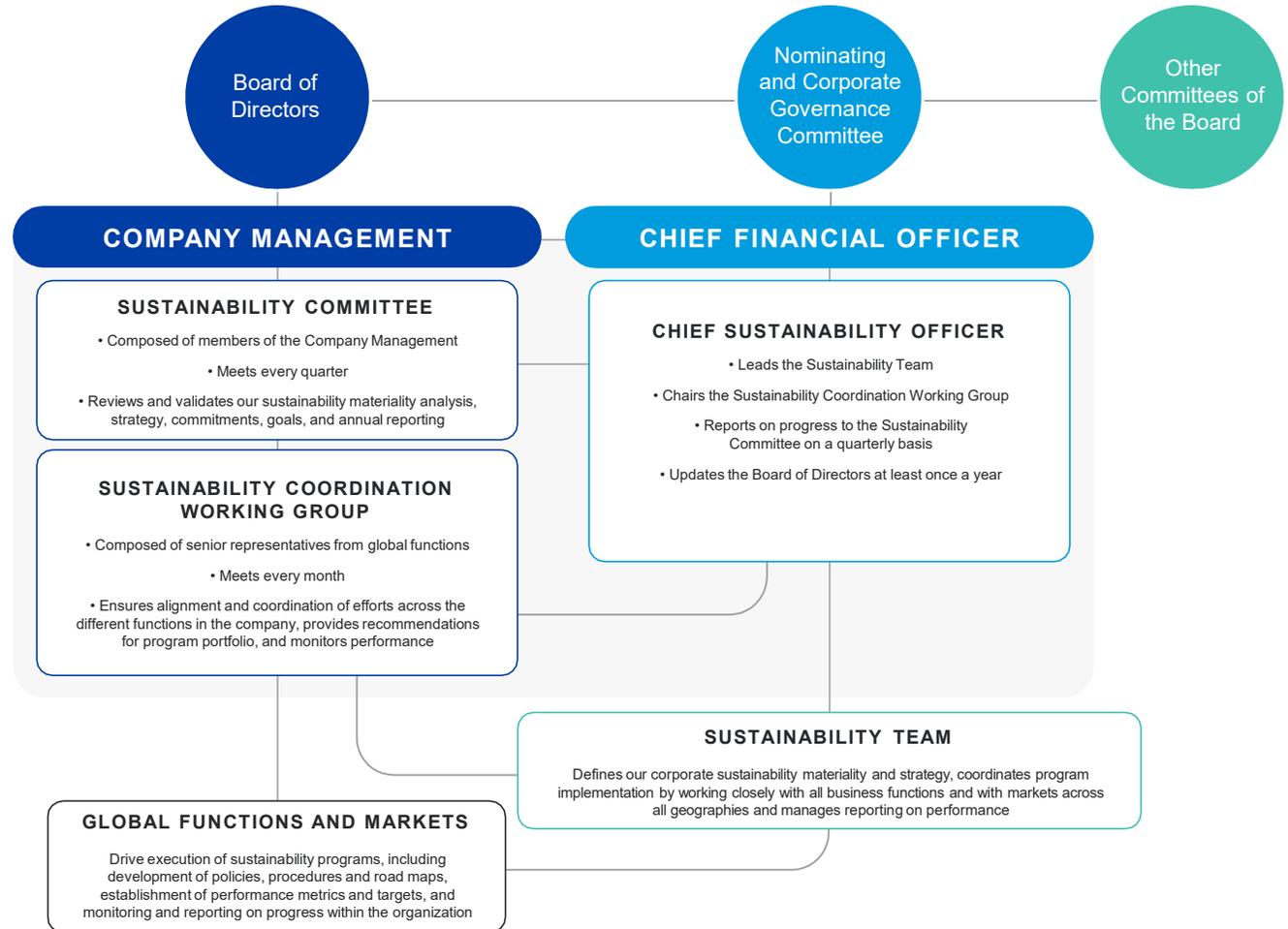
Integrating sustainability into our company relies on a formal structure with clear accountabilities at different levels of the organization.

With Sustainability reporting to the Chief Financial Officer in the Finance function, PMI's organizational structure has taken another necessary step toward delivering on its purpose.

Executive compensation linked to ESG performance regarding:

1. Carbon footprint reduction
2. Environmental leadership
3. Electronics circularity
4. Diversity, equity & inclusion

These complement the strong product transformation incentives already in place.



Overview of PMI's integrated performance

T Transformation

F Financial

E Environmental

S Social

G Governance

Some of our financial disclosures include...

Financials (in millions USD, except per share data)¹

	2018	2019	2020
Revenues including excise taxes	79,823	77,921	76,047
Excise taxes on products ²	50,198	48,116	47,353
Net revenues ³	29,625	29,805	28,694
Operating income	11,377	10,531	11,668
Net earnings attributable to PMI	7,911	7,185	8,056
Earnings per share (EPS)	5.08	4.61	5.16
Operating cash flow ⁴	9,478	10,090	9,812
Total assets	39,801	42,875	44,815
Total liabilities	50,540	52,474	55,446
Capital expenditures	1,436	852	602
R&D expenditure	383	465	495

1. The information is a summary and is qualified in its entirety by reference to the full texts of PMI's Annual Reports for the years ended 2018 through 2020, available on PMI.com.
2. This indicator refers to the amount paid by PMI entities, and excludes excise tax paid in several markets where third-party operators collected taxes on PMI products. The total amount of excise tax paid by consumers on PMI products amounted to USD 72.4B in 2020.
3. The decline in 2020 full-year net revenues was partly driven by unfavorable currency and the impact of the deconsolidation of PMI's Canadian subsidiary, Rothmans, Benson & Hedges, Inc. (RBH), effective March 22, 2019.
4. Net cash provided by operating activities.



Overview of PMI's integrated performance continued

T Transformation

F Financial

E Environmental

S Social

G Governance

Some of our environmental disclosures include...

Environmental

	2018	2019	2020
CO ₂ e scope 1+2 (metric tons) ¹	583,947	555,882	412,999
CO ₂ e scope 1+2+3 ('000 metric tons) ²	5,298	4,865	4,003
CO ₂ e scope 1+2+3 intensity reduction versus 2019 baseline ³	N/A	N/A	11%
Effective recycling rate of IQOS devices ⁴	30%	29%	40%
Proportion of IQOS device sales volume covered by CIRCLE take-back program ⁵	66%	39%	48%
Recycling rate of IQOS devices at CIRCLE hubs (weighted average) ⁶	45%	74%	84%
Number of affiliates with anti-littering strategy ⁷	N/A	31	47
Proportion of tobacco purchased cured at no risk of deforestation of primary and protected forests ⁸	90%	97%	100%
Proportion of flue-cured tobacco purchased cured with renewable sources (self-sufficient firewood and biomass adoption)	46%	51%	67%
	(33%+13%)	(36%+15%)	(45% + 22%)
Water ratio (water withdrawn in m ³ per million cigarettes equivalent) ⁹	5.14	4.74	4.20
CDP ratings: climate change/forests/water security	A/B/B	A/A-/A	A/A/A

Our inventory of GHG emissions (scope 1, 2, and 3) in 2020 is subject to external verification by SGS (see [here](#) and [here](#)).

1. Emissions from PMI operated IQOS stores are excluded from scope 1 and 2 emissions, as de minimis.
2. In 2020, we reviewed our carbon footprint model, taking into account more primary data from suppliers and updating our methodology, leading to more accurate figures for our scope 3 emissions. We have restated our 2019 data according to the new model. Other figures that include scope 3 emissions have also been restated.
3. Intensity is measured in CO₂e per million shipped cigarette equivalent.
4. The effective recycling rate is calculated based on the proportion of IQOS device sales volume covered by the CIRCLE program multiplied by the recycling rate of IQOS devices at the CIRCLE hubs (weighted average).
5. Recycling rate: Percentage of the weight of each device that is recycled, weighted-average depending on device type and processing facility (figures provided for PMI-developed products processed through CIRCLE hubs, varied by device type, zero landfill, remainder to energy recovery or material loss).
6. We established our two recycling CIRCLE hubs in 2018. We expanded the number of markets covered by CIRCLE in 2019 and 2020, the decrease in coverage of sales volume is explained by IQOS growth in markets not yet covered by the program.
7. This indicator was introduced in 2019.
8. To align to most-widely accepted definitions and metrics on measuring forest protection impacts, we decided to adopt the definition of "high conservation value" forests coming from the Accountability Framework Initiative. Please see our Zero Deforestation Manifesto for definitions.
9. Water intensity is measured in m3 per million cigarettes produced equivalent.



Overview of PMI's integrated performance continued

T Transformation

F Financial

E Environmental

S Social

G Governance

Some of our social disclosures include...

Social

	2018	2019	2020
Number of PMI employees	77,435	73,542	70,849
Employee overall turnover rate	11.51%	14.10%	9.80%
Employee voluntary turnover rate	4.12%	4.53%	3.13%
Proportion of management positions held by women ¹	35.1%	36.1%	37.2%
Proportion of women on PMI's Company Management ²	9%	8%	16%
Proportion of women on PMI's Board of Directors	25%	25%	15%³
Prevalence of child labor among farms contracted by PMI directly or by PMI's tobacco suppliers ⁴	N/A	N/A	3.5%
Number of ALP prompt actions recorded by field technicians relating to child labor ⁵	4,587	2,712	2,352
Lost time incident (LTI) rate per 200,000 hours worked—PMI employees, contracted employees, and contractors ⁶	N/A	0.14	0.08
Integrated total recordable incidents rate (iTRIR) per 200,000 hours worked—PMI employees, contracted employees, and contractors ⁷	N/A	0.22	0.12

1. Our gender diversity data cover around 95% of PMI's total workforce.

2. See glossary.

3. Based on PMI's Board of Directors composition as of May 5, 2021.

4. This indicator was introduced in 2020, based on a new methodology giving us improved visibility on child labor across our sourcing markets. The 2020 data include all prompt actions raised and non-conformities reported for all contracted farms monitored for child labor. It also extends beyond hazardous tasks performed by children to cover all types of child labor (i.e., including light work performed by children below 13 and children below 15 hired). Furthermore, in the identified priority markets, the methodology combines internal monitoring data with external data (including from third party assessments) to calculate prevalence of child labor. As of 2021, we intend to use and report on this indicator, and stop reporting the proportion of farms monitored found with incidents of child labor.

5. 2020 onward, we report on all types of child labor (hazardous work performed by children, light work performed by children below 13, and children below 15 hired).

6. See glossary for definitions of contracted employees and contractors. The scope of our reporting on contractors in 2020 excludes our site in South Korea (representing less than 1% of the total contractor population), where local legislation does not permit this monitoring.

7. Integrated total recordable incident rate (iTRIR) covers PMI employees, contracted employees, and contractors.



Overview of PMI's integrated performance continued

T Transformation

F Financial

E Environmental

S Social

G Governance

Some of our governance related disclosures include...

Governance

	2018	2019	2020
Total number of compliance training sessions conducted on PMI's Marketing Code (employees/third parties)	23,438	14,400 (49%/51%)	28,569 (64%/36%)
Number of violations of the Marketing Code or Good Conversion Practices resulting in substantiated cases of misconduct	8	42	29
Cumulative number of human rights impact assessments conducted	1	2	4
Critical suppliers, as a proportion of total procurement spend	N/A	35%	35%
Critical suppliers' procurement spend assessed in PMI's supplier due diligence platform (STEP)	N/A	84%	95%
Proportion of tobacco purchased through direct contracts by PMI and PMI tobacco suppliers	93%	96%	99%
Percentage of critical supplier spend from whom PMI sources sustainably ¹	N/A	N/A	67%
Markets with youth access prevention programs in place (out of PMI's total shipment volume) ²	N/A	N/A	94%
Number of tobacco farmers contracted by PMI and PMI tobacco suppliers	>350,000	335,000	285,900
Number of contracts terminated due to Agricultural Labor Practices program violations ³	50	641	1,794

1. Indicator introduced in 2020. Suppliers' criticality is evaluated considering spend segmentation and nature of component, as well as supply flexibility (single-source/not easily substitutable) as relevant. 2020 figure includes tier 1 suppliers of direct materials and electronics, and tobacco leaf suppliers.
2. Total shipment volume includes cigarettes, heated tobacco units, other tobacco products, and e-cigarettes.
3. The increase can be attributed to the introduction (in 2019) of standardized guidelines related to our due diligence, consequence management, and rewards (read more about our Agricultural Labor Practices program [here](#)).





PILLAR 1 TOPICS



- TIER 1**
- Product health impacts
 - Access to smoke-free products

- TIER 2**
- Product addictiveness
 - Product reliability



WE ARE

Innovating for better products

Cigarette smoking causes serious disease and the best way to avoid the harm of smoking is never to start or, if one does start, to quit. However, we also recognize that millions of adult smokers will not stop smoking unless presented with a better alternative. We believe that product innovation has the potential to benefit smokers and consequently have a positive impact on public health.

Product health impacts

Public health authorities, the scientific community, and many regulatory bodies, such as the U.S. Food and Drug Administration (FDA), agree that the primary cause of smoking-related disease is not nicotine but the inhalation of harmful and potentially harmful constituents, the vast majority of which are emitted as a result of burning (combusting) tobacco.¹ We have therefore developed, and continue to refine, a portfolio of products that deliver nicotine without combustion—smoke-free products. While not risk-free, these products are a far better choice than continuing to smoke.

Performance highlights

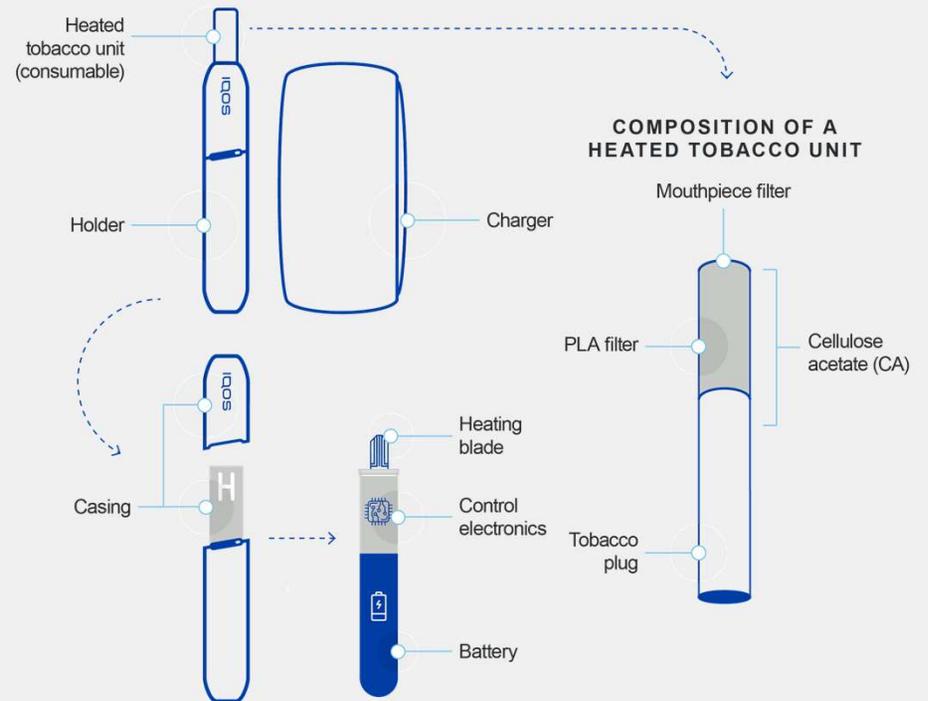


934
R&D positions, including
scientists, engineers,
technicians, and support
staff (FTEs)

1,300
Patents granted to
date in IP5 jurisdictions
relating to smoke-free
products

→ [Click to see our performance metrics](#)

The different parts of an IQOS 3 device



Product health impacts continued

IQOS status of scientific substantiation

Product health benefits



Access to smoke-free products



Innovating for better products



Data gathered so far

- Average 95% reduction in harmful chemicals measured in laboratory studies
- Analyses of aerosol identify few to no new risks compared with cigarette smoking
- Clinical studies find favorable changes in risk markers among smokers who switch

- 72% of smokers who switch to IQOS stop smoking cigarettes
- Very low levels of use of IQOS among youth and nonsmokers

- 12.7m smokers have stopped smoking and switched to IQOS
- IQOS significantly accelerates decline in cigarette smoking

Data being gathered

- A substantial reduction in morbidity or mortality among individual tobacco users is likely to be established in future studies

- Ecological studies are being undertaken to establish public health impact of IQOS on smoking-related diseases (COPD and IHD) at population level

Minimizing tobacco-related harm at the population level depends not only on the degree of risk reduction of the smoke-free products, but also on their adoption by adults who would otherwise continue to smoke. It is important that these people switch completely in large numbers, whilst product initiation by nonsmokers – including youth and ex-smokers – must be minimized.

Ecological Studies

These studies are used to measure prevalence and incidence of disease, by observing data at the population or group level, rather than individual level. The first results show a decline in observed hospitalization rates for chronic obstructive pulmonary disease (COPD) exacerbations coinciding with the national rollout of IQOS in Japan.

[Read more at pm-science.com](https://www.pm-science.com)



Growing scientific & regulatory consensus

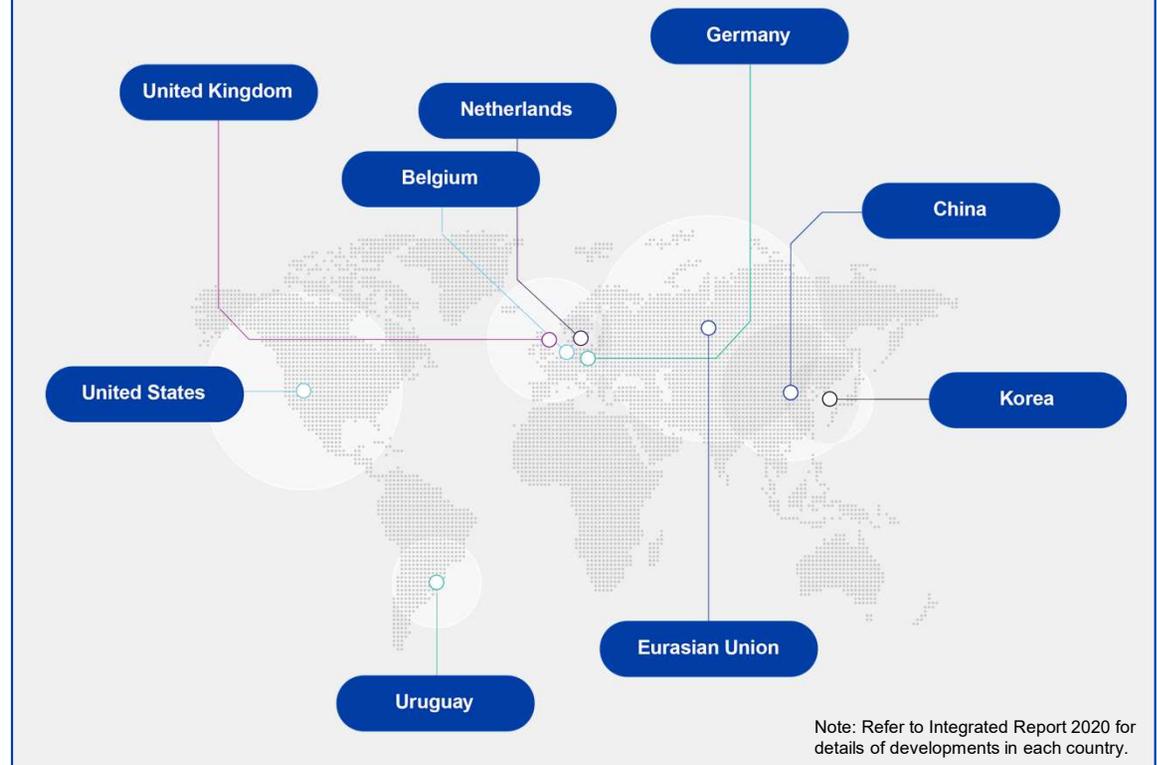
Our scientific results are supported by a growing body of independent research. Several government agencies have already reviewed the available evidence or conducted research of their own.

- July 2020 U.S. FDA authorized *IQOS* to be marketed as a modified risk tobacco product with 'reduced exposure' information, the only electronic nicotine product to have received such authorization to date
- December 2020 U.S. FDA authorized the *IQOS 3* device for sale in the U.S.

“

The U.S. FDA found modified risk tobacco products are appropriate to promote the public health and are expected to benefit the health of the population as a whole taking into account both users of tobacco products and persons who do not currently use tobacco products.¹

Growing scientific and regulatory consensus around the world



Note: Refer to Integrated Report 2020 for details of developments in each country.



Access to smoke-free products

Our aims

>40m

Number of adult smokers globally who switch to PMI smoke-free products and stop smoking by 2025

>20m

Number of adult smokers in non-OECD countries who switch to PMI smoke-free products and stop smoking by 2025

100

Number of markets globally where PMI smoke-free products are available for sale by 2025

Performance highlights



12.7m estimated adult smokers worldwide who have stopped smoking and switched to PMI's smoke-free products¹



4.3m estimated users outside the OECD countries who have switched to IQOS and stopped smoking (in millions)²



64 markets where PMI smoke-free products are available for purchase, of which **52% are outside the OECD**³



Net revenues (smoke-free/total) = 23.8%⁴ with an aim of increasing to **50% by 2025**



[Click](#) to see our performance metrics

¹ Excluding PMI Duty Free; see glossary.

² Based on OECD list at the end of 2020.

³ Excluding PMI Duty Free.

⁴ Excluding excise taxes.

CASE STUDY

Can innovative products like IQOS accelerate the decline of smoking?

The case study aims to provide a high-level synthesis of some of the data that can be used to assess initial population level impacts of the introduction of IQOS. We use market share data measured at the retail level to determine acceptance and sales volumes at the national level to estimate any effects that the uptake of IQOS has had on the evolution of sales volume of other tobacco products.

This case study responds to calls from researchers and public health policy experts for better understanding of the population level impact of the increasing availability and uptake of IQOS, our heat-not-burn product.

[Read the case study](#)



Access to smoke-free products continued

To provide adult smokers meaningful access to smoke-free products, we need to raise awareness of their benefits and make them sufficiently acceptable, available, and affordable so that smokers switch to them.

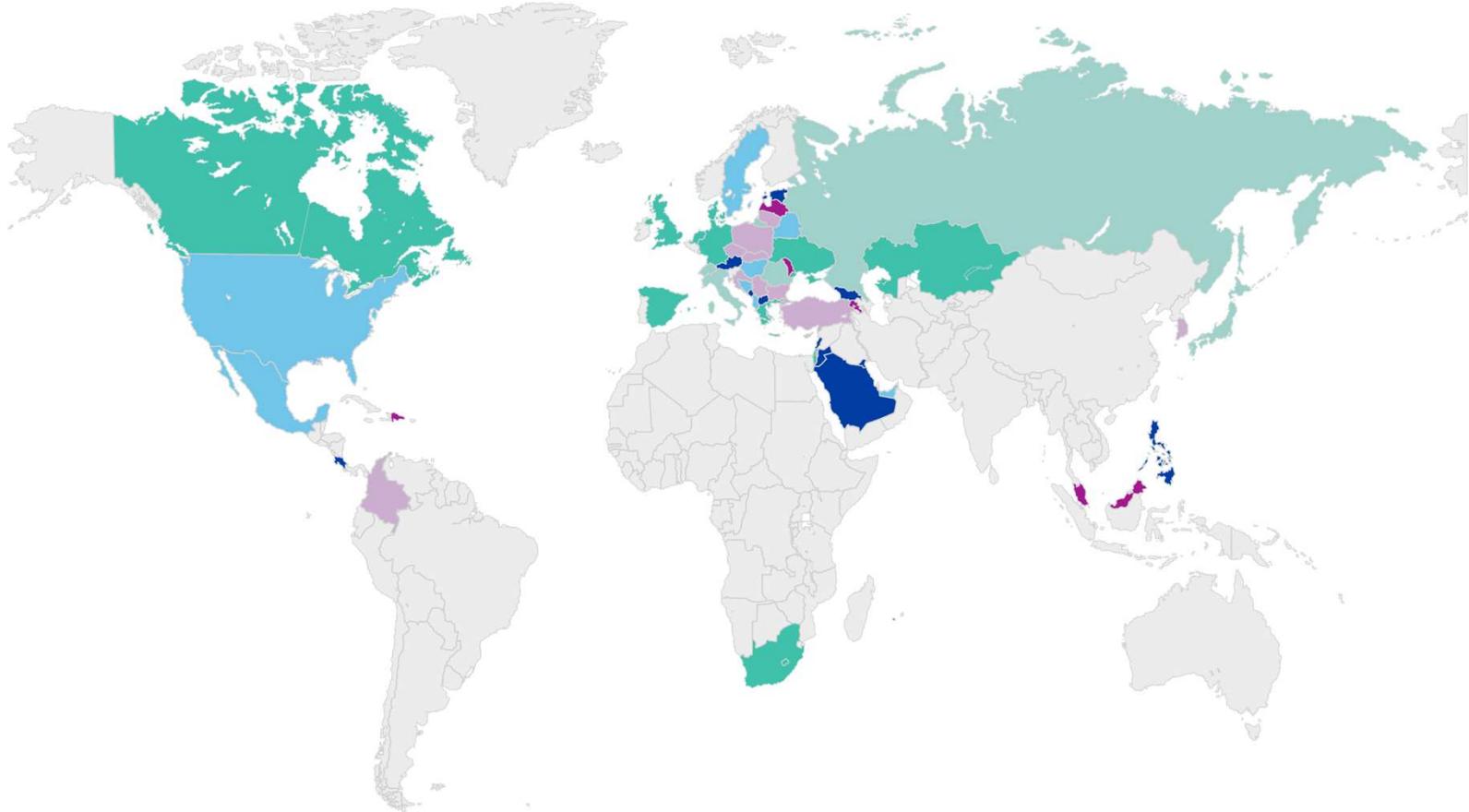
- Smokers are **aware** of the benefits of smoke-free products
- The products are **accepted** by smokers as a viable alternative to cigarettes
- The products are conveniently **available** for sale to smokers
- Smoke-free products are **affordable** to smokers



IQOS Geographic Expansion

Market launch

- 2015
- 2016
- 2017
- 2018
- 2019
- 2020



64

Markets worldwide
of which

33

Non-OECD



Product addictiveness

Product addictiveness has been identified as a Tier 2 material sustainability topic both by our stakeholders and through our own assessments and will gain importance in the coming years.

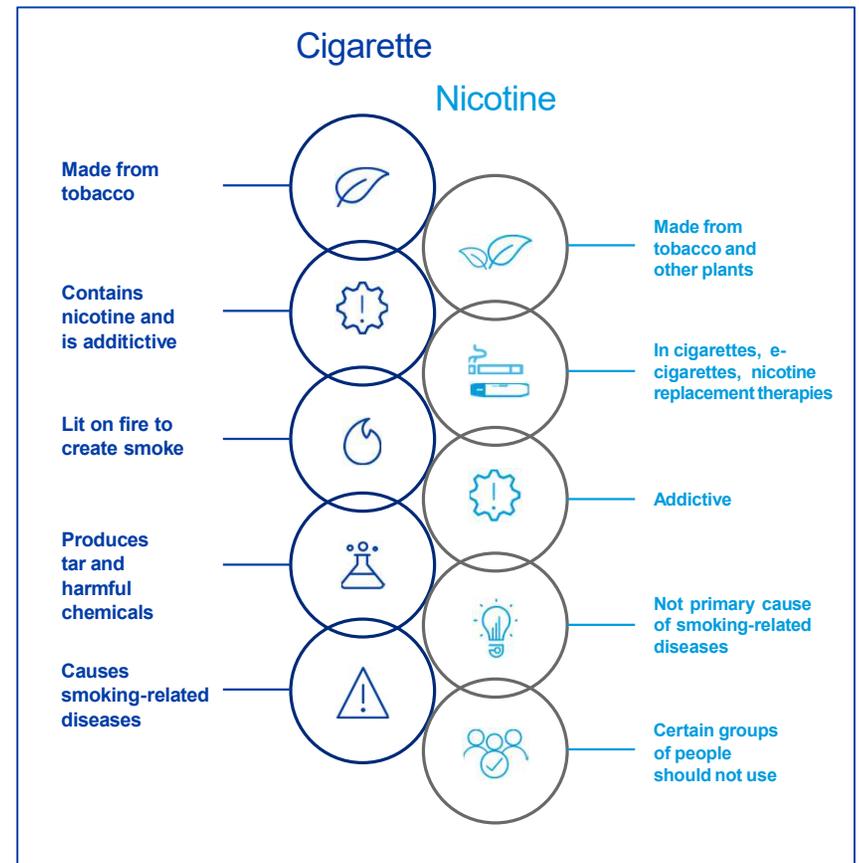


Nicotine is not, however, in itself a highly hazardous drug (...) it is inherently unlikely that nicotine inhalation itself contributes significantly to the mortality or morbidity caused by smoking. The main culprit is smoke and, if nicotine could be delivered effectively and acceptably to smokers without smoke, most if not all of the harm of smoking could probably be avoided.¹

Royal College of Physicians

To promote education and a societal debate on the risks about what nicotine is and what it is not, PMI will:

- 1 Analyze risks and potential benefits of nicotine use, when not in combination with tobacco, and share findings.
- 2 Commercialize our products responsibly, helping to guard against use by unintended audiences.
- 3 Conduct post-market studies to understand how our products are used and by whom.



Innovating for better products: Overview

Tier 1

Product health impacts

[Read more online](#)

Access to smoke-free products

[Read more online](#)

Tier 2

Product addictiveness

Better understanding nicotine and its role in addiction, separate from the risks to health associated with the use of our products, in particular those producing smoke.

[Read more online](#)

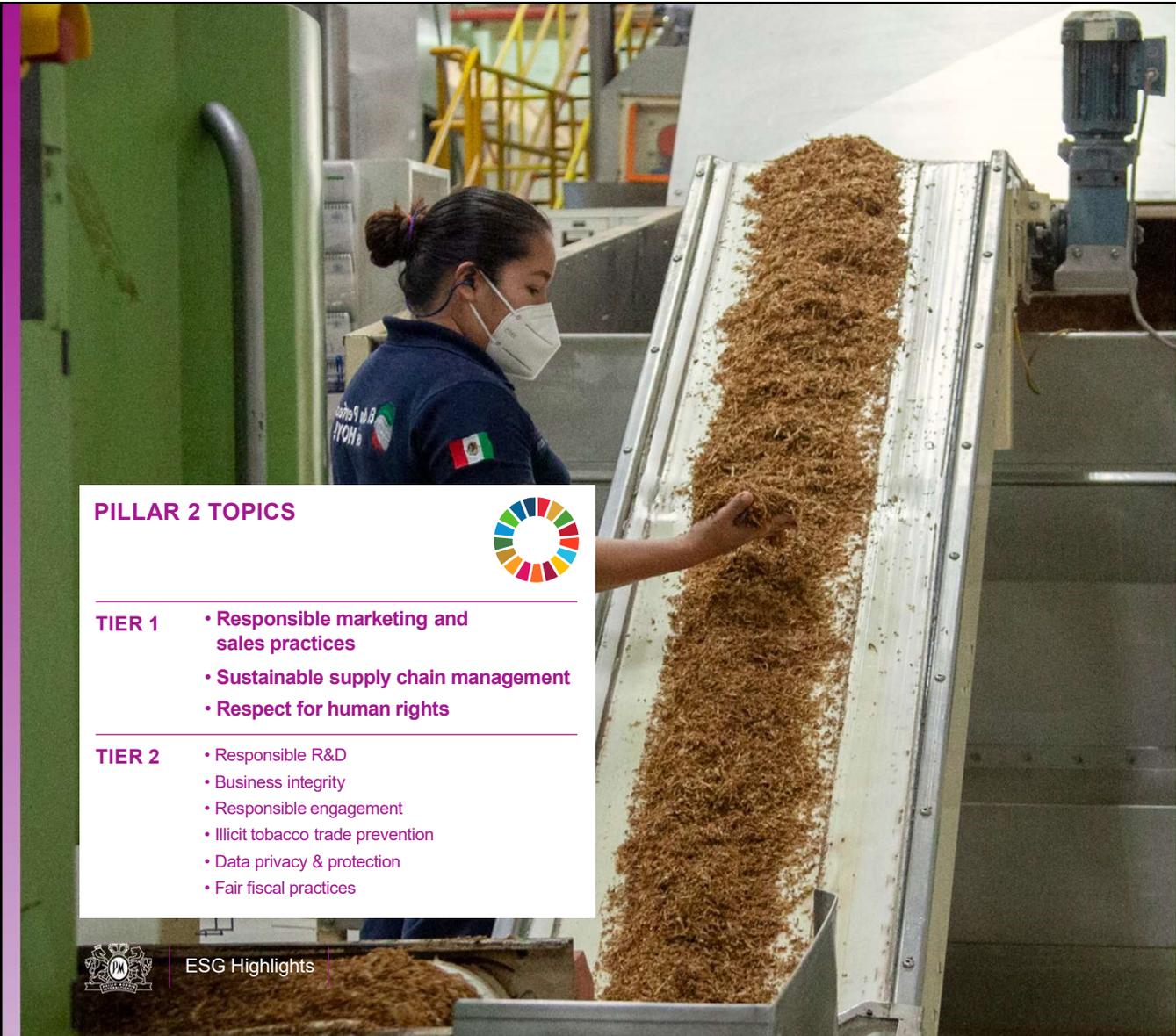


Product reliability

Securing the quality and integrity of our products, their components, and ingredients, in line with appropriate design and manufacturing standards.

[Read more online](#)





PILLAR 2 TOPICS



TIER 1

- **Responsible marketing and sales practices**
- **Sustainable supply chain management**
- **Respect for human rights**

TIER 2

- Responsible R&D
- Business integrity
- Responsible engagement
- Illicit tobacco trade prevention
- Data privacy & protection
- Fair fiscal practices



WE ARE

Operating with excellence

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

Our supply chain accounts for a significant portion of our social and environmental footprint. As we embed sustainability in our supply chain management, we continue to work closely with our suppliers to create sustainable value. In all this, our guiding principle remains to protect and promote the human rights of those impacted by our operations.

Responsible marketing & sales practices

Our aims

>90%

Youth access prevention programs in place in markets representing more than 90% of PMI's total shipment volume by 2020

100%

Percentage of PMI smoke-free electronic devices introduced on the market as of 2023 equipped with age-verification technology

Performance highlights



■ Third parties 36%
■ Employees 64%

>94%

Of our total shipment volume represented by markets with youth access prevention programs in place in 2020

→ [Click to see our performance metrics](#)

→ [Overview of marketing principles for combustible products](#)

→ [Good conversion practices for smoke-free products](#)

→ [Responsible Marketing Practices at PMI](#)

Four principles guide all our commercialization activities across the world:

- PMI products are only for adults who smoke or use other nicotine-containing consumer products.
- We warn consumers about the health effects of our products.
- We communicate about our products to enable adult consumers to make choices.
- We market truthfully and transparently. We design, develop, and commercialize our products in ways that are consistent with our smoke-free mission.

Commercializing our products responsibly

Consumer communication & labeling

We warn consumers about the health effects of all our products. As of 2015, we do not use social media to market our combusted tobacco products. Our priority is to create awareness among adults who smoke (and will not quit) about better alternatives to continued cigarette smoking.

Employee & third-party training

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

Monitoring & Remediation

We have a robust and tested infrastructure aimed at ensuring compliance with our policies and processes. We monitor incidents of noncompliance with laws and PMI's Marketing Codes.

Commitment to youth access prevention

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



Responsible marketing & sales practices continued

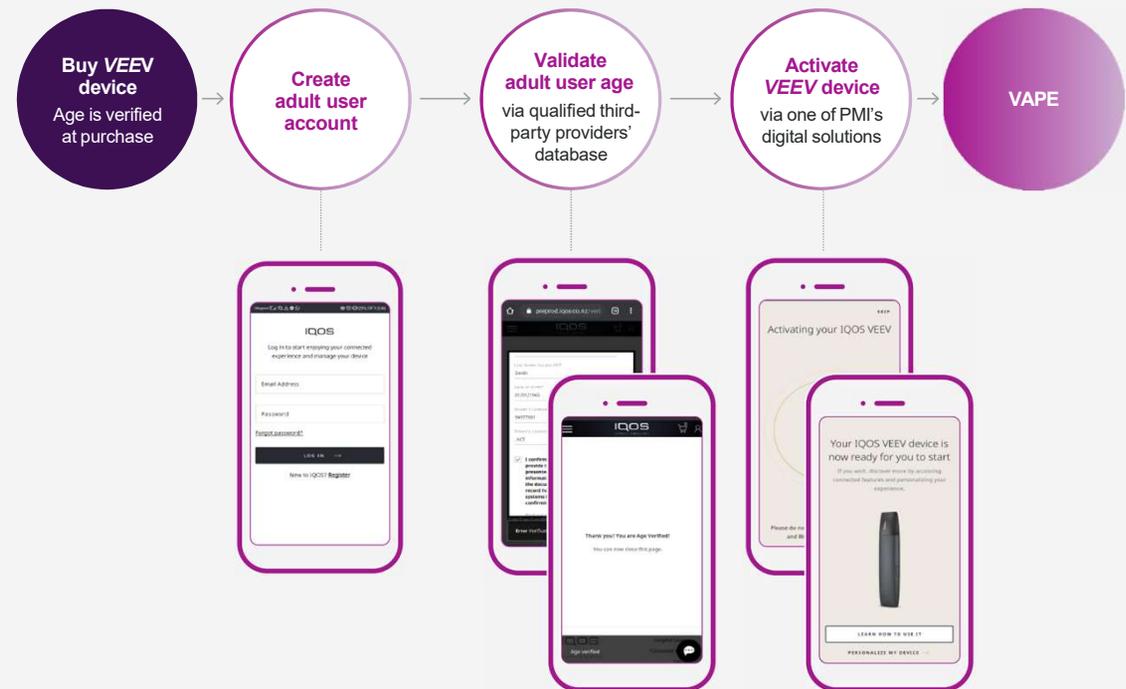
- To maximize the potential of smoke-free products while simultaneously minimizing unintended consequences, we are aiming for digital age-verification processes that are both effective in preventing youth access and seamless for legal-age consumers, to facilitate their switching away from cigarettes.
- While PMI alone cannot prevent youth from smoking or using nicotine-containing products, there is a lot we can do, and are doing, to minimize the extent to which our marketing and products reach youth and other unintended users.
- Age-verification technology corresponds to the ability to corroborate that the purchaser is of the minimum legal age authorized to consume nicotine-containing products.

What is a youth access prevention (YAP) program?

[Read more](#)



Piloting age-verification technology in New Zealand: How does it work?



Note: This is one process for age-verification technology; a range of options may be considered in the future.



Sustainable supply chain management

Our aims

100%

Percentage of critical suppliers from whom PMI sources sustainably by 2025

Performance highlights



95%

Of our non-tobacco critical suppliers spend assessed in PMI's supplier due diligence platform

99%

Of tobacco purchased through direct contracts by PMI and PMI tobacco suppliers



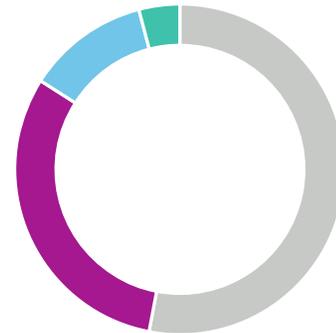
[Click to see our performance metrics](#)

Overview of our supply chain in 2020

With over 28,000 tier 1 suppliers across more than 175 markets, our supply chain spend amounted to approximately USD 10.1B in 2020.

Supply chain spend in 2020

Indirect materials and services (including R&D)	53%
Direct materials and smoke-free product devices	31%
Tobacco leaf	12%
Manufacturing equipment	4%



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

- Our Responsible Sourcing Principles set process and performance standards for the suppliers of all materials and services.
- Sustainability work in our tobacco supply chain is managed at farm level through our Good Agricultural Practices and our Agricultural Labor Practices programs.



[PMI's Responsible Sourcing Principles](#)



[PMI's Good Agricultural Practices](#)



Sustainable supply chain management continued

The proportion of resources allocated to smoke-free products versus combustible cigarettes continues to grow across our supply chain.

In our tobacco supply chain, the share of our purchased volume directed to the manufacture of combustible cigarettes continues to decline while the proportion dedicated to the production of consumables for heated tobacco products increases.

Overall, we experience a gradual decrease in volumes sourced, as heated tobacco products use around half the amount of tobacco required by combustible cigarettes at most.

	Cigarettes	Smoke-free products
Direct spend, focused on materials used in the manufacture of our products	Tobacco leaf sourced from around 285,900 farmers contracted by PMI (where we have operations) or by our suppliers across 23 countries	
	Direct materials used to produce and package heated tobacco units, cigarettes, and other tobacco products, such as cellulose acetate tow for cigarette filters, paperboard for packaging, and non-tobacco agricultural products such as menthol and guar gum	
		Electronic devices and accessories for heated tobacco and vapor products
Indirect spend, focused on goods and services necessary to operate our business	Advanced procurement, a category created in 2020 to identify and establish capabilities and supply sources to support PMI's innovation pipeline and promote supplier-enabled innovation	
	Technical procurement, sourcing the manufacturing equipment used in our factories for the production of heated tobacco units and combustible cigarettes	
		R&D expenditure, which enables us to conduct advanced research—for instance, by acquiring clinical trials services or laboratory equipment
	Indirect materials and services not directly linked to our products, such as IT, office equipment, and consulting services	



Sustainable supply chain management continued

The eight themes of the Sustainable Tobacco Program 2.0



LIVELIHOODS

- Basic needs
- Living income



CROP

- CPA residues
- Highly hazardous pesticides (HHPs)
- Integrated pest management (IPM)
 - Integrity
 - Traceability



HUMAN AND LABOR RIGHTS

- Child labor
- Fair treatment
- Modern slavery
 - Freedom of association
- Income, working hours and benefits
 - Safe working environment
 - Other impacts



SOIL HEALTH

- Productivity
- Degradation



GOVERNANCE

- General information



CLIMATE CHANGE

- Targets
- Adaptation
- Resilience



WATER STEWARDSHIP

- Quantity
- Water, sanitation, and hygiene (WASH)
 - Quality



NATURAL HABITAT

- Biodiversity
- Forestation



Respect for human rights

Our aims

10

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

Performance highlights

Cumulative number of human rights impact assessment conducted



[Click to see our performance metrics](#)

In 2020, we updated our global human rights risk assessment (saliency mapping) to account for the rapid pace of our business transformation and our evolving supply chain, as well as for external trends such as the COVID-19 pandemic and heightened concerns around diversity, equity, inclusion, equality, and racial justice.

[Our Commitment to Human Rights](#)

Human rights saliency mapping: Putting rights-holders at the center



Consumer

Reduction of products' health risk

[Read more here](#)

Responsible marketing and commercialization

[Read more here](#)



Employees and contractors

Workplace health and safety

[Read more here](#)

Working hours and wages

[Read more here](#)

Diversity, equality, and inclusion

[Read more here](#)



Suppliers and supply chain workers

Child labor

[Read more here](#)

Forced labor and modern slavery

[Read more here and here](#)

Freedom of association and collective bargaining

[Read more here](#)



Communities

Environmental stewardship

[Read more here](#)

Conflict minerals

[Read more here](#)

Access to grievance mechanisms

CASE STUDY

Read how we conducted a human rights impact assessment in Russia, remotely, during the COVID-19 pandemic.

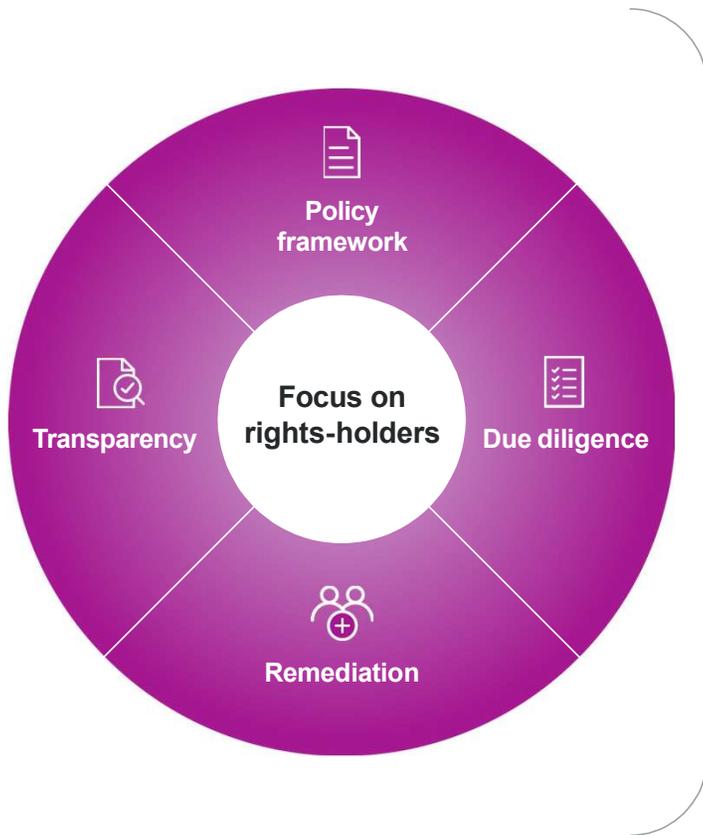
[Read the case study](#)

Mozambique is an important tobacco sourcing market for our company, and a country that faces systemic social issues. Read how we collaborated with a peer company and our common suppliers to conduct a human rights impact assessment, focusing on impacts within the tobacco supply chain.

[Read the case study](#)



Respect for human rights continued



Policy framework

PMI's **Human Rights Commitment** is the cornerstone of our human rights strategy aligned with the **United Nations Guiding Principles on Business & Human Rights**

- Key policy instruments, such as our **Guidebook for Success, Responsible Sourcing Principles, Good Agricultural Practices** and other internal policies and practices, guide our approach to implementing the Human Rights Commitment
- Extensive training and awareness raising



Transparency

Transparency in sharing progress and challenges

- Integrated report
- Targeted communications
- Publication of third-party assessments



Due diligence

Robust programs and processes to identify our adverse impacts across our value chain through:

- Risk assessment
 - Company-wide integrated risk assessment
 - Human rights saliency mappings
 - Human rights impact assessments
- Targeted due diligence programs across our activities
- External assessments and verifications



Remediation

Actions addressing our adverse impacts and maximizing our opportunities to drive positive change for people across our value chain through:

- Implementation of action plans and targeted programs to address issues identified
- Collaboration with civil society organizations, governments, and the private sector on initiatives for stronger and more impactful solutions



Operating with excellence: Overview

Tier 1

Responsible marketing and sales practices

[Read more online](#)

Sustainable supply chain management

[Read more online](#)

Respect for human rights

[Read more online](#)

Tier 2

Responsible and transparent R&D

Ensuring the credibility, integrity, and robustness of our scientific research through alignment with international standards, as well as transparency in our methods and results.



[Read more online](#)

Business integrity

Complying with the law, our Guidebook for Success, and other company commitments. They define the rules we follow and describe the values that form the foundation of good ethical judgment.



[Read more online](#)

Responsible engagement

Conducting engagement in a way that respects the law, observes professional standards and ethical principles, and is consistent with the company's vision and internal policies. Acting in a fair, honest, and respectful manner when advocating our position with external stakeholders.

[Read more online](#)

Illicit tobacco trade prevention

Applying strict supply chain control measures and cooperating with law enforcement agencies and other partners in the public and private sectors to prevent and reduce the illicit trade of PMI products.



[Read more online](#)

Data privacy & protection

We have developed and maintain programs designed to protect our company's and stakeholders' data privacy from attacks and improper use.

[Read more online](#)

Fair fiscal practices

Paying taxes commensurate with our activities in each country is not only our duty but the responsible thing to do and a key part of our social contract in every country where we operate.

[Read more online](#)





PILLAR 3 TOPICS



- TIER 1**
- Socioeconomic well-being of tobacco-farming communities
 - Health, safety, & well-being at work

- TIER 2**
- Fair working conditions
 - Community support
 - Diverse & inclusive working environment
 - Talent attraction, retention, and employability

WE ARE

Caring for the people we work with

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

Promoting a safe and healthy working environment is vital. In our factories, offices, laboratories, retail outlets, and for our sales teams in the field, we aim for a safe and secure work environment populated by a healthy and motivated workforce.

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



Socioeconomic well-being of tobacco-farming communities

Our aims

100%

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

Zero

Child labor in our tobacco supply chain by 2025

Performance highlights

48%

Of contracted farmers who make a living income

3.5%

Prevalence of child labor among farms contracted by PMI directly or by PMI's tobacco suppliers

100%

Of farmers and farmworkers having access to personal protective equipment for crop protective agent application and Green Tobacco Sickness prevention

100%

Of tobacco farmworkers provided with safe and adequate accommodation (when applicable)



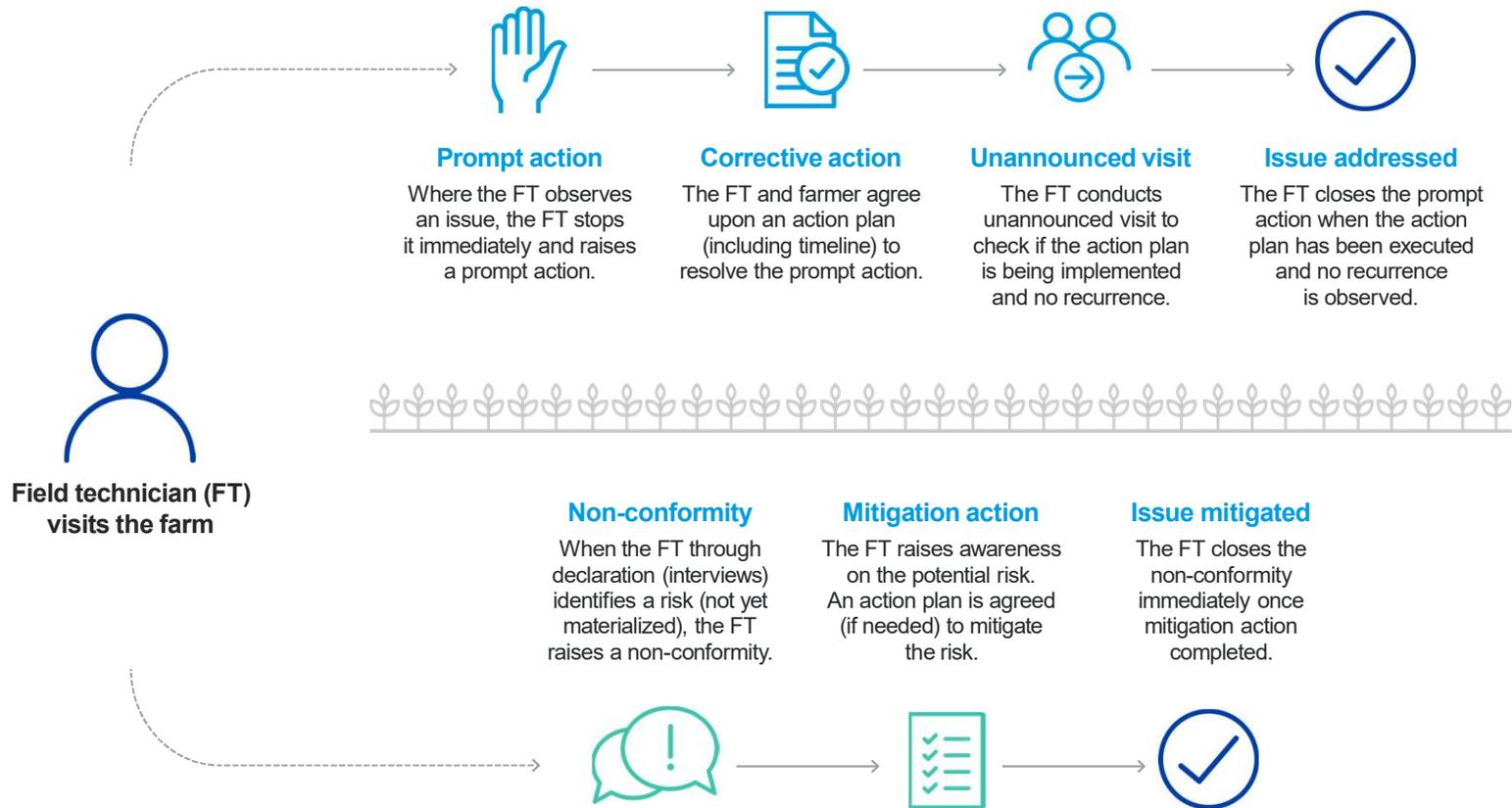
[Click to see our performance metrics](#)



[PMI's Agricultural Labor Practices Code](#)



Socioeconomic well-being of tobacco-farming communities continued



Socioeconomic well-being of tobacco-farming communities continued

PMI is committed to improving the livelihoods of the contracted farmers supplying tobacco to the company and, consequently, the communities in which they live. We see this as a fundamental way to address social inequality, as well as other issues in our supply chain.

We implemented various initiatives aimed at improving income levels. Based on our internal analysis, we focused primarily on Argentina, Malawi, and Mozambique. While activities are tailored to local realities, our overall strategy is twofold:

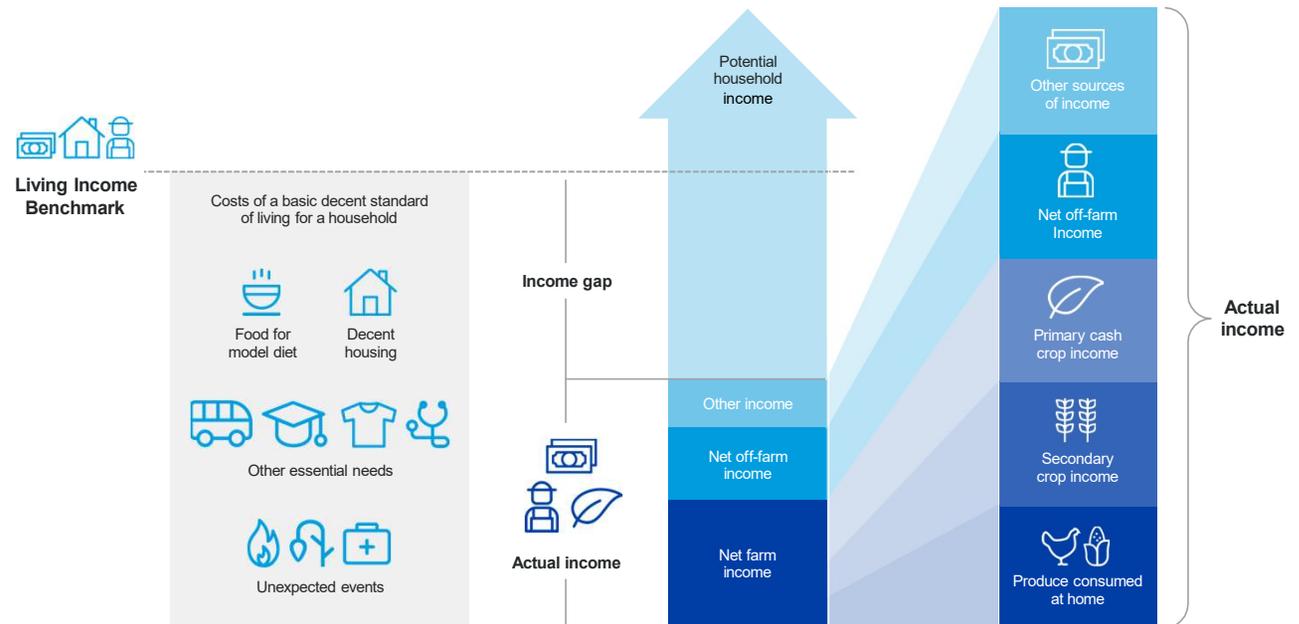
- 1 To improve productivity and competitiveness of the tobacco crop
- 2 To support households to diversify their sources of income.

CASE STUDY

Read how we achieved an agreement defining a minimum wage for tobacco farmworkers in the region of Misiones, Argentina, and conducted a study assessing what the appropriate living income should be for farmers.

[Read the case study](#)

Calculating the living income benchmark



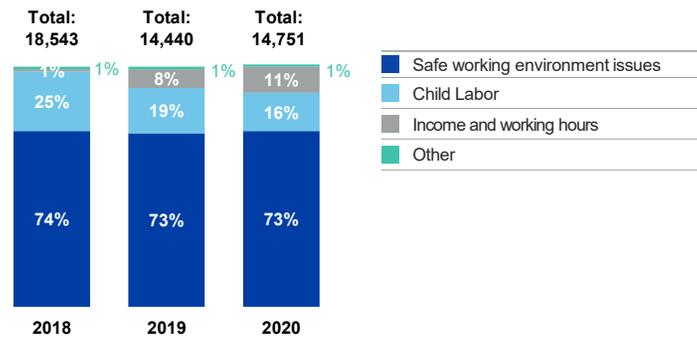
Note: Visual adapted from the [Living Income Community of Practice](#)



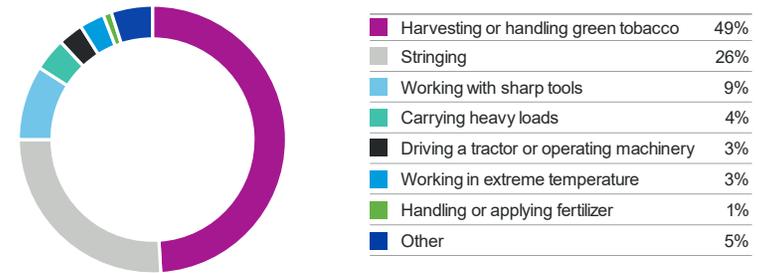
Socioeconomic well-being of tobacco-farming communities continued

In 2020, we maintained focus on preventing incidents of child labor. Our goal is to eliminate child labor by 2025 and eradicate cases that are repetitive and systemic in our tobacco supply chain. We also acknowledge that isolated cases (even when systemic occurrences are fully addressed) might continue occurring. We will, in all cases, remain alert and tackle them promptly when identified.

Total prompt actions recorded by field technicians (2018–2020)



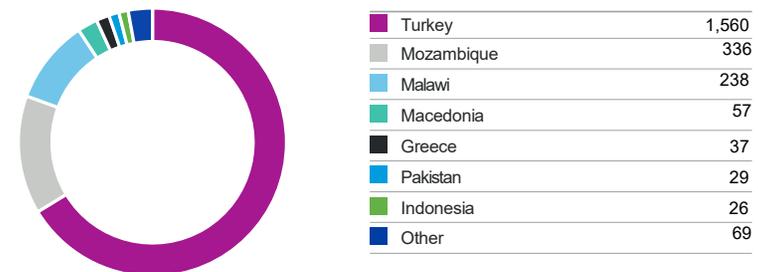
Types of prompt actions recorded in 2020 relating to hazardous work performed by children



Types of prompt actions recorded in 2020 relating to safe working environment issues



Total number of child labor prompt actions recorded, by geography



Health, safety & well-being at work

Our aim

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

Performance highlights

0.12

Total recordable incident rate (iTRIR) per 200,000 hours worked for PMI employees, contracted employees, and contractors

100%

Of our manufacturing facilities certified OHSAS 18001 and ISO 14001



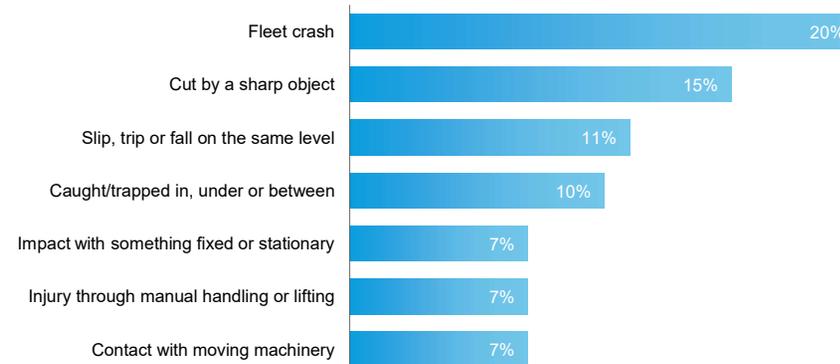
[Click to see our performance metrics](#)

We aim for a workplace that promotes the health, safety, and well-being of our workforce, which means promoting a working environment that protects the physical and mental well-being of all involved.

Employee mental health & well-being

The pace of change in the working world, coupled with PMI's business transformation, can create stress and anxiety. The pandemic and its consequent impact on work arrangements heightened anxiety further and reinforced the need to equip employees to better cope with stress and uncertainty.

Top 7 direct causes of injury in 2020



Diverse & inclusive working environment

Diverse & inclusive working environment has been identified as a Tier 2 material sustainability topic both by our stakeholders and through our own assessments and will gain importance in the coming years.

Our aim

>40% Management positions held by women by 2022

32% Senior roles held by women by 2023

Performance highlights

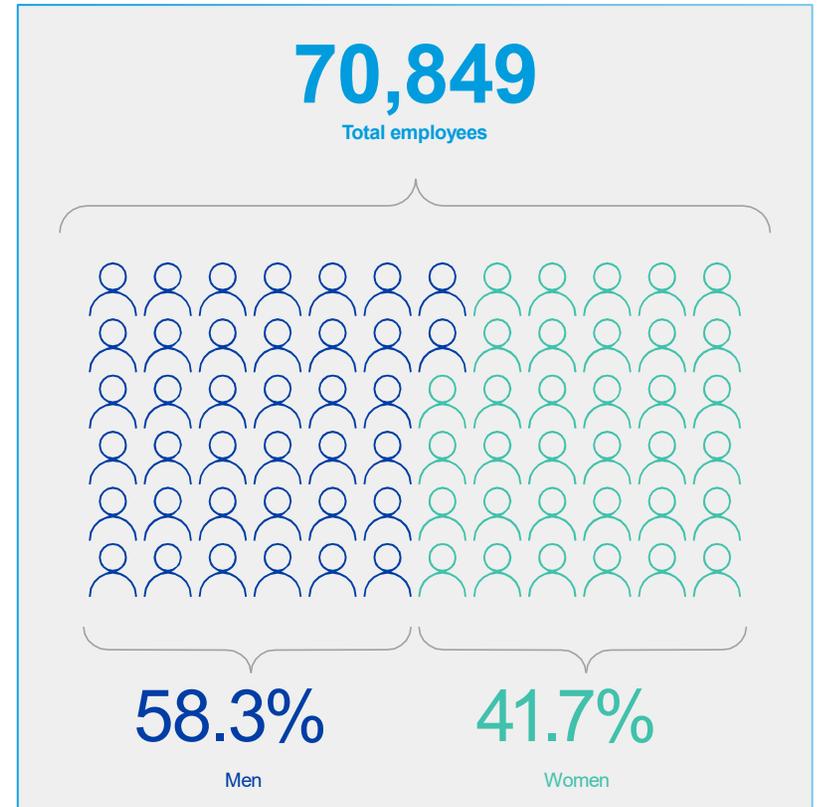
	2019	2020
Women in the company's top pay quartile globally	32.9%	33.9%
Women in the company's upper-middle pay quartile globally	33.5%	34.4%
Women in the company's lower-middle pay quartile globally	20.4%	20.9%
Women in the lowest pay quartile globally	79.4%	77.2%

33.0%
Company's 2020 global mean (average) raw gender pay gap*

34.6%
2019

*The mean gender pay gap calculation is the sum of annual base salary, bonus, and stock options.

[Click](#) to see our performance metrics



Caring for the people we work with: Overview

Tier 1

Socio-economic well-being of tobacco-farming communities

[Read more online](#)

Health, safety, and well-being at work

[Read more online](#)

Tier 2

Fair working conditions

Conducting effective labor relations through ongoing engagement and social dialogue, promoting freedom of association and the right to collective bargaining.

70,849 **62%**

Number of PMI employees

Employees covered by Collective Labor Agreements

[Read more online](#)



Community support

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

USD 47.8m **15,272**

Value cash contributions

Volunteer hours by PMI employees

[Read more online](#)



Talent attraction, retention, and employability

Providing a workplace that is attractive to prospective employees and in which current employees can grow personally and professionally, and develop careers that satisfy and engage them; and responsibly addressing the future of work.

9.8%

Employee turnover

+33

Employee net promoter score¹

[Read more online](#)



Diverse and inclusive working environment

PMI's goal is to uphold an inclusive environment in which all employees feel respected, supported, and engaged - and thus able to perform at their best. We are committed to improving the workplace by fostering an inclusive culture and enhancing our diversity.

41.7%

Proportion female employees

37.2%

Of management positions held by women

[Read more online](#)



ESG Highlights

1. We measure the engagement of our workforce using the employee Net Promoter Score (eNPS), following a methodology similar to that we use to measure consumer engagement. The score can range from -100 to +100.



PILLAR 4 TOPICS



- TIER 1**
 - Climate protection
 - Littering prevention
 - Product eco-design & circularity
- TIER 2**
 - Forest conservation
 - Biodiversity
 - Water stewardship
 - Waste reduction

WE ARE

Protecting the environment

Effective environmental management across our operations and value chain goes beyond compliance with applicable laws and regulations. We are committed to continually improving our business activities to achieve the highest standards of sustainability, in line with our Environmental Commitment.

While improving the environmental performance of our manufacturing operations is vital, most of our ecological impacts arise elsewhere in our value chain—in particular, in tobacco growing and curing, and consumer waste. Working collaboratively with tobacco growers, suppliers, retailers, NGOs, and governments is critical to achieving our environmental targets.



Climate protection

Our aims

Net zero

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

Net zero

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

Performance highlights

-18%

CO₂e emissions across our value chain versus 2019 (scope 1+2+3)

100%

Of the flue-cured tobacco we purchased in 2020 was cured at no risk of deforestation of old-growth forests

78%

Of electricity purchased and produced in PMI factories that is from renewable sources

67%

Of flue-cured tobacco purchased cured with renewable fuel sources

-26%

CO₂e emissions in our direct operations versus 2019 (scope 1+2)

-14%

Emissions from our non-tobacco direct materials supply chain in 2020 versus 2019

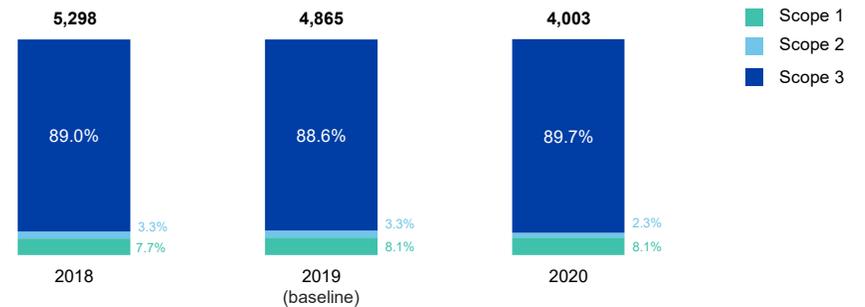


[Click to see our performance metrics](#)

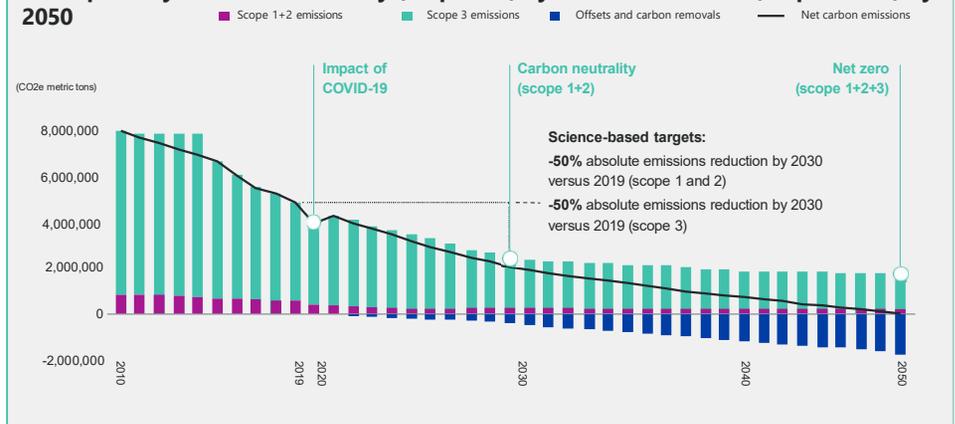


ESG Highlights

Global greenhouse gas emissions scope 1, 2, and 3 ('000 tons CO₂e)



PMI's pathway to carbon neutrality (scope 1+2) by 2030 and net zero (scope 1+2+3) by 2050

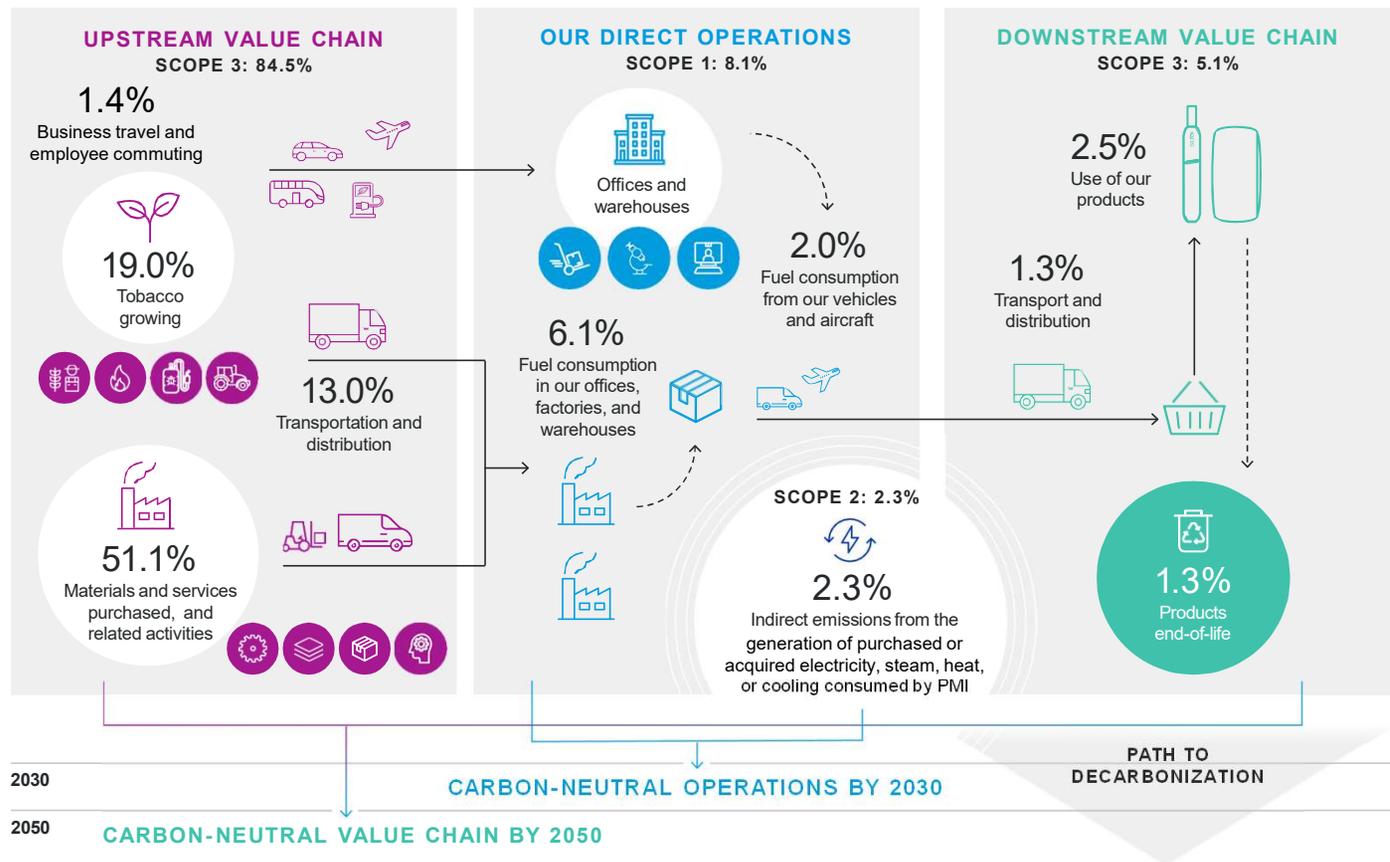


This chart aims to be indicative, underlying data are based on simulation and actual assumptions until 2030 (based on our science-based targets), and on simplified assumptions as of 2030

Climate protection continued

To deliver on our climate ambition, we rely on robust carbon footprint accounting, sound analysis of climate change-related risks and opportunities, ambitious targets, clear management and governance structures, and key enablers such as our internal carbon pricing.

Carbon emissions along our value chain in 2020



Littering prevention

Our aim

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

Performance highlights

47

Affiliates with an anti-littering strategy



[Click to see our performance metrics](#)

Our approach

Reduce litter on the ground

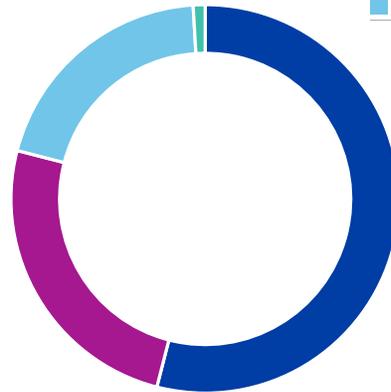
Encourage behavioral change

Design for circularity

Plastic footprint of PMI products

As a global manufacturer, we source plastic materials and plastic-containing items for products such as our consumables, packaging, and devices. In 2020, the amount of plastic we purchased was around 127,000 tons.

The largest share (79%) of that amount came from the bioplastics used in the filters of conventional cigarettes and IQOS heated tobacco units.



Cigarette filters	54%	Heated tobacco unit filters	25%
Packaging	20%	Electronic devices	1%

We measure:

- **Plastic footprint:** amount of plastic in the products we commercialize in a year
- **Plastic litter footprint:** how much of our plastic footprint ends up as litter
- **Density of plastic litter** resulting from our products found on the ground



Product eco-design & circularity

Our aims

100%

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

100%

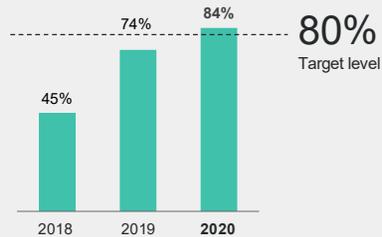
Percentage of PMI's smoke-free electronic devices introduced on the market as of end 2025 that have eco-design certification

Performance highlights

191 tons

Of end-of-life devices and materials processed at the CIRCLE hubs in 2020

Recycling rate of IQOS devices at the CIRCLE hubs



[Click to see our performance metrics](#)



Five fundamental eco-design principles guide our progress



1. Effective use of sustainable (such as renewable, recyclable or recycled) materials



2. Minimization of carbon footprint related to energy consumption and transport



3. Product lifetime optimization



4. Circularity: Reuse, repair, recycling, recovery, and zero waste



5. Social responsibility in the production, use, and end-of-life phases

Life-cycle assessment – comparison of some PMI products (kgCO₂e/year)



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



Forest conservation

Our aims

Tobacco supply chain:

Zero

Gross deforestation of primary and protected forest associated with the tobacco supply chain by 2020

Zero

Net deforestation of managed natural forests in the tobacco supply chain by 2025

Net+

Impact on forests associated with the tobacco supply chain by 2025

Paper & pulp-based products:

Zero

Gross deforestation of primary and protected forests associated with PMI's paper, board, and pulp-based products supply chain by 2025

Zero

Net deforestation of managed natural forest in PMI's paper, board, and pulp-based products supply chains and no conversion of natural ecosystems by 2030



[Our Zero Deforestation Manifesto](#)



[Click to see our performance metrics](#)

Performance highlights

100%

Flue-cured tobacco purchased without risk of deforestation of old-growth forest

67%

Purchased flue-cured tobacco cured with renewable sources

Forest conservation has been identified as a Tier 2 material sustainability topic both by our stakeholders and through our own assessments and will gain importance in the coming years.

From the air we breathe to the wood we use for home construction, we depend on forests for our very survival. When managed appropriately, the natural capital of forests provides a sustainable source of raw materials for use in our products and operations.

CASE STUDY

Read how we apply a landscape approach in Malawi, accounting for the relationships between different environmental drivers—such as climate, water, forest, and biodiversity—to develop and implement programs with positive impacts not only for the planet but also for the local communities.

[Read the case study](#)



Biodiversity

Biodiversity has been identified as a Tier 2 material sustainability topic both by our stakeholders and through our own assessments and will gain importance in the coming years.

For PMI, protecting and promoting biodiversity means reducing the negative impacts of our operations and sourcing activities on habitats and ecosystems and looking for ways to contribute to the diversity of plant and animal life. Our efforts in this regard include careful land management, protecting soil quality, and preventing environmental pollution.

In alignment with the Convention on Biological Diversity and other international organizations, **we plan to have a full set of targets and actionable milestones in place by the end of 2021.**



Water stewardship

Our aims

- 100%** Factories certified to the Alliance for Water Stewardship standard by 2025
- 10m m³** Amount of water optimized in our tobacco-growing areas¹ by 2030
- 100%** Tobacco-growing areas covered by a local water risk assessment by 2025

Performance highlights

100%

Manufacturing facilities certified to the ISO 14001 standard

29%

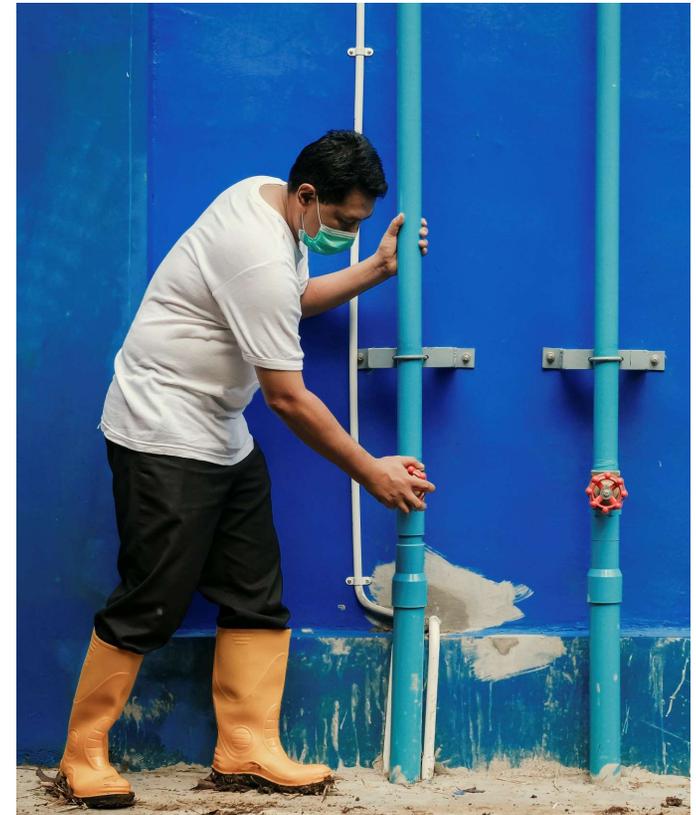
11/39 factories certified to the Alliance for Water Stewardship standard, up from 1 in 2018

Water stewardship has been identified as a Tier 2 material sustainability topic both by our stakeholders and through our own assessments and will gain importance in the coming years.

Water stewardship at PMI is about reducing water use, promoting water recycling, protecting watersheds, preventing water pollution, enhancing recharge², and promoting sustainable water management in collaboration with stakeholders. It also extends to preserving water quality and promoting safe access to water, sanitation, and hygiene services.

[→ Our Water Stewardship Policy](#)

1. Through projects pertaining to use efficiency, water recharge, and the protection of natural areas, including (but not limited to) wetlands and rivers.
2. Recharge is the hydrologic process through which water moves downward from the land surface to groundwater and the aquifer.



Caring for the people we work with: Overview

Tier 1

Climate protection

[Read more online](#)

Littering prevention

[Read more online](#)

Product eco-design & circularity

[Read more online](#)

Tier 2

Forest conservation

100%

Proportion of tobacco purchased cured at no risk of deforestation of primary and protected forests¹

67%

Proportion of flue-cured tobacco purchased cured with renewable sources



[Read more online](#)

Water stewardship

Reducing water use, promoting water recycling, protecting watersheds, preventing water pollution, enhancing recharge, and promoting sustainable water management in collaboration with stakeholders

29%

11/39 factories certified by the AWS Standard since 2018

23

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



[Read more online](#)

Biodiversity

Reducing negative impacts of our operations and sourcing activities on habitats and ecosystems and looking for contributions we can make to biodiversity. Land use management, soil quality protection, pollution prevention.



[Read more online](#)

Waste reduction

Minimizing the waste generated by our manufacturing facilities and offices, promoting materials reuse and recycling, and striving for responsible disposal.



[Read more online](#)



ESG Highlights

¹ To align to most-widely accepted definitions and metrics on measuring forest protection impacts, we decided to adopt the definition of "high conservation value" forests coming from the Accountability Framework Initiative. Please see our Zero Deforestation Manifesto for definitions.

Integrating financial & nonfinancial performance

We continue to work to:

- Encourage standardization and mainstreaming of ESG disclosure
- Incentivize investor engagement
- Sponsor, support, and drive business practice toward stakeholder capitalism
- Implement ESG into business management and decision-making processes



“

At PMI, we are committed to continuously improving the way we track and report on our company's performance, taking a holistic approach that not only covers our inputs and activities but also focuses on where we can have the greatest impact: our products.

Emmanuel Babeau, Chief Financial Officer



Performance in ESG ratings

Rating agencies	PMI's performance in 2020	Score
Bloomberg Gender-Equality Index	Named to the Bloomberg Gender-Equality Index	Included in the index
CDP Climate, Forest, Water Security	Awarded "Triple A" score for our efforts to combat climate change, protect forests, and water security. This marks the seventh consecutive year that PMI has ranked on CDP's A List for Climate Change and the second consecutive year that the company earned a position on the Water Security A List.	Triple A
CDP Supplier Engagement	Placed on Supplier Engagement Leaderboard for the fourth consecutive year	Leader
ISS-oekom	"C" score, achieving industry leadership (2019 score; assessment is updated every two years)	C
MSCI	Maintained BBB score	BBB
SAM Corporate Sustainability Assessment	Included in the Dow Jones Sustainability Index (DJSI) North America; ranked third in the industry; leading the industry for the third year in a row in DJSI's innovation management category	74
S&P ESG Evaluation	Scored 60/100, based on ESG Profile Score (57/100) and Preparedness Opinion ("Adequate"). PMI's ESG Profile Score is assessed based on entity-specific scores and sector/region scores	60
Sustainalytics	Ranked third within the tobacco subindustry ESG Risk Rating, with medium exposure score and strong management score	24.4
State Street R-factor Score	Outperformer within the tobacco industry; industry average score of 47	56
Tobacco Transformation Index	Ranked 2 out of 15 tobacco companies assessed; leading the industry for "Strategy and Management" category	2.36



CLIMATE FORESTS WATER



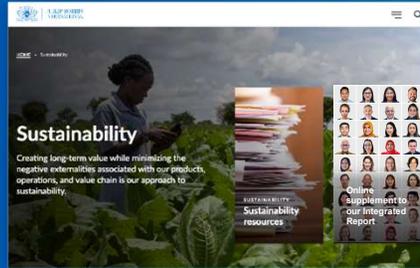
Member of
Dow Jones Sustainability Indices
 Powered by the S&P Global CSA

Reports & resources

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



→ [See PMI Integrated Report 2020 \(PDF version\)](#)



→ [See PMI Integrated Report 2020 \(web version\)](#)



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Glossary & acronyms

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

ALP – Agricultural Labor Practices

AWS – Alliance for Water Stewardship

BOS – Behavioral Observation Systems

CDP – Carbon Disclosure Project

CHTP – Carbon-Heated Tobacco Product

CLAs – Collective Labor Agreements

Combusted 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”, 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

Company management – The term we use to refer to the senior management of the company, as presented on our PMI.com site (also referred to as “our leadership team”)

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

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

CPA – Crop protective agent

Downstream supply chain – Downstream operations are those stages in the supply chain in which materials (mostly in the form of finished products) flow away from the organization to the customers/consumers.

Directors – The term we use to refer to employees in salary grade 14 to 16

EHTS – Electrically Heated Tobacco System

E-liquids – Refers to a liquid solution that is used in/with e-cigarettes. E-liquids contain different levels of nicotine in a propylene glycol and/or vegetable glycerin-based solution with various flavors

EPR – Extended Producer Responsibility

Estimated users who have switched to IQOS and stopped smoking – For markets where IQOS is the only heat-not-burn product, this is defined as the daily individual consumption of PMI HTUs representing the totality of their daily tobacco consumption in the past seven days. For markets where IQOS is one among other heat-not-burn products, this is the daily individual consumption of HTUs representing the totality of their daily tobacco consumption in the past seven days, of which at least 70% are PMI HTUs. PMI HTUs include licensed KT&G HTUs

EVA – Economic value added

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

FAO – Food and Agriculture Organization of the United Nations

FCTC – Framework Convention on Tobacco Control

FDA – U.S. Food and Drug Administration

FTs – Field technicians monitoring the implementation of PMI's Good Agricultural Practices and Agricultural Labor Practices programs

GAP – Good Agricultural Practices

GDPR – General Data Protection Regulation

Gender pay gap – The gender pay gap is the difference in average gross hourly earnings between women and men

GHG – Greenhouse gas

GPP – Global Privacy Program

GTS – Green tobacco sickness

HCV – High conservation value

Heated tobacco product or HTP – A manufactured tobacco product that delivers a nicotine-containing vapor (aerosol), without combustion of the tobacco mixture

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

HHPs – Highly hazardous pesticides

HPHCs – The harmful or potentially harmful constituents which have been identified as likely causes of tobacco-related diseases

Human rights impact assessment (HRIA) – Assessments to identify human rights risks and adverse impacts

Illicit trade – Refers to domestic

non-tax paid products

In-setting – The act of generating a carbon credit within the corporate's sphere of influence and retiring the unit on behalf of 1 ton of carbon that has been emitted by the corporate (source: International Carbon Reduction and Offset Alliance)

IPM – Integrated Pest Management

IPS – Integrated Production System

KPIs – Key performance indicators

LMICs – Low- and middle-income countries

LTI – Lost Time Injury

Management positions – The term we generically use to refer to all positions in a defined salary grade (10) and above

Managers – The term we use to refer to employees in salary grade 10 to 13

MRTP – Modified Risk Tobacco Product, the term used by the U.S. FDA to refer to RRP's

MRTPA – Modified Risk Tobacco Product Application under section 911 of the Federal Food, Drug, and Cosmetic Act

NGOs – Non-governmental organizations

Non-Combusted Alternatives (or NCA) – A manufactured consumable product (whether made from tobacco or not) that provides a nicotine-containing aerosol without combusting tobacco and that does not generate smoke inhaled directly by the user when it is used as intended. NCAs include any NCA device necessary for the consumption of the tobacco or nicotine-containing substance. In this report, referred to as “smoke-free products” or “reduced-risk products” indistinctively



Glossary & acronyms continued

OECD – Organisation for Economic Co-operation and Development

Offsetting – The act of purchasing a carbon credit generated outside the corporate's sphere of influence and retiring the unit on behalf of 1 ton of carbon that has been emitted by the corporate (source: International Carbon Reduction and Offset Alliance)

OTP – Defined as "other tobacco products," primarily roll-your-own and make-your-own cigarettes, pipe tobacco, cigars, and cigarillos, and does not include reduced-risk products

P&C – People and Culture

PMI Regions – Effective January 1, 2018, PMI began managing its business in six reporting segments as follows: the European Union Region (EU); the Eastern Europe Region (EE); the Middle East & Africa Region (ME&A), which includes PMI Duty Free; the South & Southeast Asia Region (S&SA); the East Asia & Australia Region (EA&A); and the Latin America & Canada Region (LA&C)

PPE – Personal protective equipment

Reduced-risk products (RRPs) or smoke-free products – Products that present, are likely to present, or have the potential to present less risk of harm to smokers who switch to these products versus continued smoking. PMI has a range of RRPs in various stages of development, scientific assessment, and commercialization. PMI's RRPs are smoke-free products that produce an aerosol that contains far lower quantities of harmful and potentially harmful constituents than found in cigarette smoke

R&D – Research and development

RSP – Responsible Sourcing Principles

SDGs – Sustainable Development Goals

Senior leaders – The term we use to refer to employees in senior leadership roles; it includes all employees in salary grade 17 and above

Senior roles – The term we generically use to refer to all positions in a defined salary grade (14) and above

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

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

STP – Sustainable Tobacco Program

SUP – Single-use plastics

THS – Tobacco Heating System

Tier 1 suppliers – Tier 1 suppliers are suppliers that directly supply goods, materials or services to PMI

Tier 2 suppliers – Tier 2 suppliers are suppliers that provide their products and services to the Tier 1 suppliers

Tons – "Tons" equates to "metric tons" throughout this report

Total IQOS users – The estimated number of legal age (minimum 18 years) IQOS users that used PMI HTUs for at least 5% of their daily tobacco consumption over the past seven days. PMI HTUs include licensed KT&G HTUs

Total shipment volume – The combined total of cigarette shipment volume and HTU shipment volume

TPSAC – Tobacco Products Scientific Advisory Committee

TRIR – Total recordable incident rate

UNGPs – United Nations Guiding Principles on Business and Human Rights

Upstream supply chain – Upstream operations are those in which the materials flow into the organization (i.e., it mainly refers to procurement activities and inbound logistics).

WASH – Water access, sanitation, and hygiene

WHO – World Health Organization

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Glossary & acronyms continued

A living income and living wage are both about achieving a decent standard of living. A living income is 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. A living wage is applied in the context of hired workers (e.g., in factories or on farms). (Source: The Global Living Wage Coalition)

A minimum legal wage, as defined in PMI's ALP Code, is a wage for all workers (including temporary, piece-rate, seasonal, and migrant) that meets, at a minimum, the national legal standard or formalized agricultural benchmark standard. An agricultural benchmark may be formalized where a minimum legal wage is not available or applicable to a specific context.

Child labor, as defined by the ILO, 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, 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 or the minimum age accepted by the country's laws, whichever age limit affords greater protection. ...

... No person below age 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.

Hazardous work means work that, by its nature or by virtue of when or where it is carried out, is likely to harm the health, safety, or morals of children or others. The following can, for example, be hazardous, particularly without the proper PPE: applying crop protection agents (CPA); stalk cutting; stringing; carrying heavy loads; working with sharp tools; working in extreme temperatures; and working after dark.

Green tobacco sickness (GTS) is a type of nicotine poisoning caused by the absorption of nicotine from the surface of wet, fresh, green tobacco leaves through the skin. The characteristic symptoms of GTS include nausea, vomiting, weakness, dizziness, stomach cramps, difficulty breathing, excessive sweating, headache, and fluctuations in blood pressure and heart rate. They can last from 12 to 48 hours.¹

Personal protective equipment (PPE) in tobacco farming refers to any clothes, materials, or devices that provide protection from exposure to CPA and GTS during specific activities throughout the crop cycle.²

Living income benchmark studies are 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. PMI has partnered with Social Accountability International, which in conjunction with the Anker Research Network will be conducting these studies in PMI sourcing markets.

Anker Living Income Reference Values³ represent a living income for typical families in rural (or urban) areas of low-income and middle-income countries. Reference Values provide a credible estimate of living wage or income at a country level, for rural and urban areas. They offer an insightful reference beyond the currently available indicators for many countries, which are mostly limited to poverty lines and minimum wages.

Farmer income studies are conducted, through third party service providers, to assess all income sources of contracted farmers within PMI's tobacco supply chain, including tobacco, complementary crops and off-farm income.

Throughout this presentation, the below key indicates progress against our 2025 Roadmap

-  Not started
-  Progress, but with challenges
-  Progress on track
-  Progress, further than anticipated
-  Completed

¹ Schep LJ, Slaughter RJ, Beasley DM (September-October 2009). "Nicotinic plant poisoning." *Clinical Toxicology*.

² Adapted from the FAO/WHO (2014) International Code of Conduct on Pesticide Management.

³ Reference values are built on data and knowledge gained from 40 complete Anker methodology benchmark studies. Since they are based on a statistical analysis, they have a margin of error for typical rural (or urban) areas of a country, which is generally around +/- 10% using a 95% confidence interval. Sources: Living Income Reference Values | livingincome (living-income.com) and Anker Living Wage and Living Income Reference Values | Global Living Wage Coalition.

