Sustainability at PMI

Our approach to sustainability

To us, sustainability is about creating long-term value while minimizing the negative externalities associated with our products, operations, and value chain.

Our sustainability strategy is a key element of PMI's overall business strategy and is structured around four pillars which enable our vision of a smoke-free future:

— Transforming our business;

— Driving operational excellence;

— Managing our social impact; and

— Reducing our environmental footprint.

Each pillar encompasses key topics addressed in this report. They cover specific programs, management approaches, activities, processes, goals and Key Performance Indicators (KPIs), which are managed throughout the company by the relevant functions and business operations.

Smoke-free future

Transforming our business

Research & Development
Product innovation
Sustainable growth
Value chain transformation

Driving operational excellence

Ethics and compliance
Supply chain management
Responsible marketing
Sustainability management
Human rights
Illicit trade prevention
Stakeholder engagement
Corporate tax

Managing our social impact

Health, safety and well-being
Labor relations
Inclusion and diversity
Talent management and development
Agricultural Labor Practices (ALP)

Reducing our environmental footprint

Climate change
Biodiversity
Water
Waste management

Sustainability governance and management

PMI's Board of Directors believes that environmental, social, and governance (ESG) factors relevant to the company's business are critical to PMI's long-term success.

The Board's sustainability oversight was more formally established at the beginning of 2018 when its Nominating and Corporate Governance Committee was given the mandate to oversee the sustainability strategy and performance, and to advise the Board on sustainability matters. Part of the Board's oversight is a focus on management's efforts to enhance shareholder value responsibly and sustainably.

Our Senior Management Team (Management Board) is regularly reviewing sustainability matters – strategy, key programs, and budget – through a cross-functional representation, coordinated by the Sustainability Team.

From an operational perspective, the Sustainability Team manages and coordinates our sustainability work across PMI functions and regions seeking to ensure it is embedded at all levels of the organization. Finally, we are creating three cross-functional working groups to manage environmental, social and reporting matters that are overseen by committees composed of senior function heads.

Led by the Vice President, Social & Economic Affairs, who reports to the President, External Affairs & General Counsel, a member of PMI's Senior Management Team, the Sustainability Team has evolved over the past years to ensure our company is equipped with the relevant know-how and expertise in view of the changing nature of our business.

Defining our focus

In 2016, we worked with Business for Social Responsibility (BSR) to identify the areas that are most significant to both our business sustainability and to our stakeholders and prioritized them. That analysis also highlighted areas of opportunity and risk, emerging themes, and gaps for management action. The analysis consisted of a structured review and engagement process, carried out by BSR and involving PMI's functional leaders and subject matter experts as well as external stakeholders. It considered both our current business and changes driven by our vision of a smoke-free future.

The analysis helped us to focus on where we need to prioritize and allocate resources to mitigate negative impacts and create opportunities for wider societal value, with product harm reduction the fundamental premise of our strategy.

We plan to update this analysis in 2018 and share the results in our 2018 Sustainability Report.

The results of the 2016 analysis were sorted into four categories as follows:

Fundamental to our business strategy

Three areas are fundamental to the sustainability of PMI's business strategy:

— Product Innovation for Substantial Harm Reduction: Continued recognition of the health impacts of our products and the prioritization and investment in reducing or eliminating those impacts through innovation and development of products that can substantially reduce individual risk and population harm when compared to cigarettes;

— Public Health Policy and Research: Our role and proactive approach in supporting public health and harm reduction policies and research; and

— Respect for Human Rights: Understanding, due diligence, and actions to respect human rights throughout our global operations and value chain.

Credibility and responsibility

The analysis also identified aspects that are critical to building the credibility and engagement with our stakeholders required for our business transformation, particularly the need to substantiate our commitments, demonstrate transparency and consistency in our approach, and maintain the highest standards in our policies, practices and actions. This also includes ensuring that we continue to market our products in a responsible way – and only to adult consumers – and being even more transparent in how we advocate on policy issues related to our products, including taxation and regulation.

— Corporate Governance and Ethics: Promotion of the highest standards of compliance and integrity across our global operations and value chain. Clear alignment of our public policy advocacy with our core strategy and commitment to stakeholders;

— Responsible Marketing and Youth Smoking Prevention: Strive to ensure that we continue to market our products responsibly and only to adult consumers; and

— Transparency and Reporting: Disclosure of our significant sustainability performance risks and opportunities in a clear, comparable and accessible manner.

Turning strategic risks into opportunities

We identified additional areas from a risk management perspective, including good agricultural and labor practices in tobacco farming and the need for climate change mitigation and related action throughout the value chain. We also need to anticipate and manage the supply chain risks related to our non-tobacco materials, especially as our product portfolio now increasingly includes electronic devices. Our ambition is to turn these strategic risks into opportunities to add value.

— Responsible Sourcing of Non-Tobacco Materials: Actions to identify and trace non-tobacco materials to origin, and source them in a responsible and sustainable manner (including electronics);

— Agricultural Labor Practices: Actions to eliminate all forms of labor abuses and to achieve safe and fair working conditions on tobacco farms;

— Good Agricultural Practices: Actions to ensure tobacco farmers have access to the information, systems and tools needed to be successful business owners who minimize the environmental impacts of their activities and provide good working conditions on their farms;

— Climate Change Mitigation and Adaptation: Efforts to reduce greenhouse gas emissions and prepare for the effects of climate change in our operations and supply chain, including water stewardship actions; and

— Post-Consumer Waste: Actions to minimize impacts through product design, waste management programs and recycling where possible. Increasing our efforts to prevent littering through consumer education.

Underpinning our approach

Governance, product, environmental and employee-related aspects were identified as being important for our continuous improvement efforts. Many are described in this report and include:
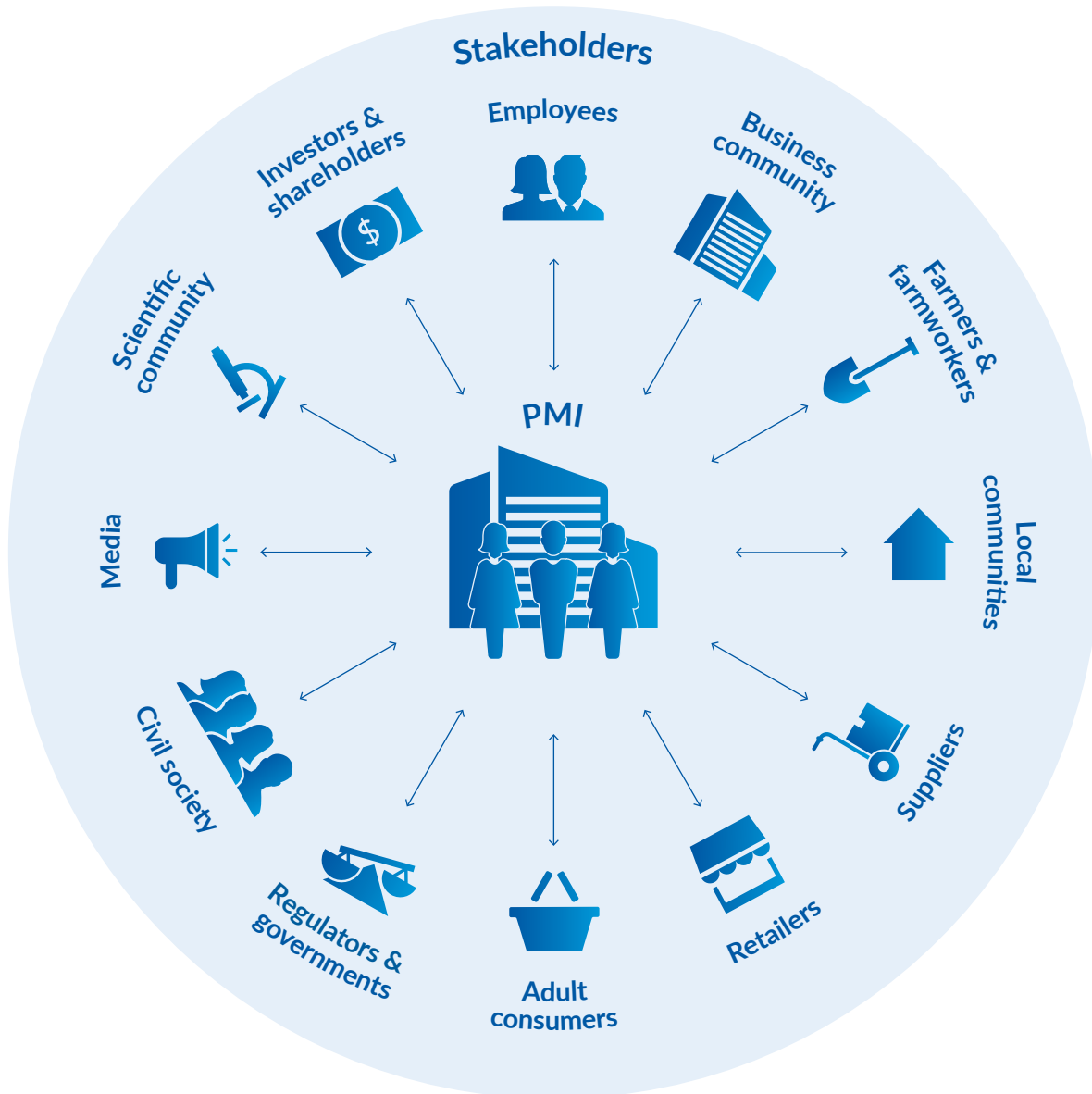
— Employee engagement and well-being, labor relations, workplace health and safety, inclusion and diversity, and talent recruitment and management;

— Fighting illicit trade in tobacco products;

— Good laboratory and clinical practices in our R&D efforts; and

— Good environmental management of our operations.

Stakeholder engagement

As we progress towards a smoke-free future, the trust of our stakeholders is key to our success. We engage with stakeholders on an ongoing basis in a number of ways. In doing so, we will be guided by AccountAbility's Stakeholder Engagement Standard: AA1000. Due to the highly regulated nature of our business, we have also implemented Engagement Principles found on page 68 of this report.

The graph below highlights our main stakeholders per category.

Stakeholders

Investors & shareholders

Employees

Business community

Scientific community

Farmers & farmworkers

PMI

Media

Local communities

Civil society

Suppliers

Regulators & governments

Adult consumers

Retailers

Our work and the UN Sustainable Development Goals (SDGs)

We are committed to the SDGs and have adopted a three-pronged approach to help make them a reality. We have prioritized our work where we can have the greatest impact. As stakeholder expectations around the SDGs evolve, we will further refine our work and reporting on how we contribute to the goals through our business vision and across our operations and value chain.

Taking decisive action where we have the greatest impact

3 GOOD HEALTH AND WELL-BEING

SDG 3: Smoking cigarettes causes serious disease. By replacing cigarettes with less harmful alternatives we can significantly reduce the negative impact of our products on individuals and society.

This report's section on "Transforming our business" describes in detail how our business vision aligns with this SDG.

Taking ownership where we can provide a substantial contribution

2 ZERO HUNGER

8 DECENT WORK AND ECONOMIC GROWTH

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

SDG 2: Through good agricultural practices and crop diversification we can help to improve the productivity and food security of smallholder farmers.

SDG 8: We ensure good working conditions for all our employees and can play a role in promoting good working conditions for thousands of workers throughout our supply chain.

SDG 12: We improve the life-cycle impacts of our products. From the environmental impacts of tobacco growing, to efficient, low-carbon, manufacturing, and litter prevention and recycling programs.

SDG 16: Our efforts to combat illicit trade in tobacco products challenge the perception that illegal tobacco trade is a victimless crime without links to funding terrorism and other serious offences.

Aligning our practices with the overall goals, even where our business has less impact

1 NO POVERTY

4 QUALITY EDUCATION

5 GENDER EQUALITY

6 CLEAN WATER AND SANITATION

7 AFFORDABLE AND CLEAN ENERGY

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

10 REDUCED INEQUALITIES

11 SUSTAINABLE CITIES AND COMMUNITIES

13 CLIMATE ACTION

14 LIFE BELOW WATER

15 LIFE ON LAND

17 PARTNERSHIPS FOR THE GOALS

We certainly care about all other SDGs. Nevertheless, our business has very little impact on certain SDGs, and therefore we can only make a relatively modest contribution to these global objectives at this stage.

The table on the next page provides an overview of how our activities and programs relate to the 17 Sustainable Development Goals and the 10 principles of the UN Global Compact.

SDGs and UNGC cross-reference index

	Page reference	1 NO POVERTY	2 ZERO HUNGER	3 GOOD HEALTH AND WELL-BEING	4 QUALITY EDUCATION	5 GENDER EQUALITY
Transforming our business						
Replacing cigarettes with smoke-free products	See pages 12 to 25			●		
Driving business excellence						
Ethics and compliance	See pages 26 to 27					
Responsible marketing	See page 28			●		
Interacting with governments	See page 29					
Our approach to corporate tax	See page 29					
Data protection	See page 29					
Human rights	See page 31	●	●	●		●
Tackling illicit tobacco trade and related crimes	See pages 32 to 35					
Responsible Sourcing Principles (RSP)	See pages 36 to 37	●		●		●
Good Agricultural Practices (GAP)	See pages 38 to 39	●	●	●		
Managing our social impact						
Working at PMI	See page 40					●
Inclusion and diversity	See pages 41 to 42					●
Labor relations & living wage	See page 43	●				●
Safety, health and well-being	See page 43			●		
Reducing our environmental footprint						
Climate change	See pages 54 to 57					
Water	See page 58					
Conserving biodiversity and combatting deforestation	See pages 59 to 60		●			
Waste management	See pages 60 to 61					

6 Clean Water and Sanitation	7 Affordable and Clean Energy	8 Decent Work and Economic Growth	9 Industry, Innovation and Infrastructure	10 Reduced Inequalities	11 Sustainable Cities and Communities	12 Responsible Consumption and Production	13 Climate Action	14 Life Below Water	15 Life on Land	16 Peace, Justice and Strong Institutions	17 Partnerships for the Goals	UNGC Principles
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