PHILIP MORRIS INTERNATIONAL

Climate Transition Plan

November 2025

About this report

We are pleased to present PMI's Climate Transition Plan (CTP) 2025, a pivotal milestone in our ongoing journey toward a low-carbon future. Building on the foundation established by our 2021 Low-Carbon Transition Plan, this new CTP reflects both our continued commitment and the evolving landscape of climate-related expectations. Prepared following the guidance of the Transition Plan Taskforce (TPT) Disclosure Framework, this plan is designed to provide a clear, transparent, and forward-looking account of our climate strategy and ambitions in relation to the evolving external environment, as well as the further development of PMI's business transformation.

Reflecting our commitment to regularly assess and adapt our actions in light of emerging risks and opportunities, this CTP responds to the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and references the relevant requirements of IFRS S2 Climate-related Disclosures.

In doing so, it serves as an update to the TCFD report we issued in 2022, detailing the results of a comprehensive Climate Change Risks and Opportunities (CCRO) assessment we conducted in 2024.

This CTP outlines the actions and milestones that define our transition pathway, the governance and oversight structures guiding our efforts, and the metrics by which we measure and report progress. Actual reporting on annual performance against these metrics will be disclosed in our annual Integrated Report issued early each year.

Unless explicitly stated, the data, information, and aspirations in this report do not incorporate PMI's wellness and healthcare business, Aspeya. Regarding the Swedish Match acquisition, completed late 2022, unless otherwise indicated, this report includes information pertaining to its sustainability outlook.

This report was developed with the assistance of Artificial Intelligence and reviewed and finalized by PMI employees.

About PMI

Philip Morris International is a leading international consumer goods company, actively delivering a smoke-free future and evolving its portfolio for the long term to include products outside of the tobacco and nicotine sector. The company's current product portfolio primarily consists of cigarettes and smoke-free products, including heat not-burn, nicotine pouch and e-vapor products. Our smoke-free products are available for sale in 100 markets, and as of June 30, 2025 PMI estimates they were used by over 41 million legal-age consumers around the world, many of whom have moved away from cigarettes or significantly reduced their consumption. The smoke free business accounted for 41% of PMI's first-nine months 2025 total net revenues. Since 2008, PMI has invested over $14 billion to develop, scientifically substantiate and commercialize innovative smoke-free products for adults who would otherwise continue to smoke, with the goal of completely ending the sale of cigarettes. This includes the building of world-class scientific assessment capabilities, notably in the areas of pre-clinical systems toxicology, clinical and behavioral research, as well as post-market studies. Following a robust science-based review, the U.S. Food and Drug Administration has authorized the marketing of Swedish Match's *General* snus and *ZYN* nicotine pouches and versions of PMI's *IQOS* devices and consumables - the first-ever such authorizations in their respective categories. Versions of *IQOS* devices and consumables and General snus also obtained the first-ever Modified Risk Tobacco Product authorizations from the FDA. With a strong foundation and significant expertise in life sciences, PMI has a long-term ambition to expand into wellness and healthcare areas and aims to enhance life through the delivery of seamless health experiences. References to "PMI", "we", "our" and "us" mean Philip Morris International Inc., and its subsidiaries.

For more information, please visit www.pmi.com and www.pmiscience.com.

Contents

Complementary materials

- PMI's annual Integrated Report
- Related materials, including reporting indices mapping contents against internationally recognized standards and frameworks, annual Sustainability Highlights deck, and annual Sustainability KPI Protocol providing details on calculation methods, definitions, and key sustainability performance data are available for download on PMI.com
- External verification statements for our EHS data and carbon neutrality certifications for manufacturing facilities
- Country-level case studies and market stories highlighting our work in priority sustainability areas
- PMI's annual CDP Corporate Questionnaire
- Sustainability Materiality Report (2025)
- Annual Proxy Statement
- Annual report on Form 10-K

Message from our Chief Executive Officer

This Climate Transition Plan reinforces our commitment to sustainability as a fundamental business driver at PMI—one that is integrated, performance-based, and economically grounded.

In recent years, our climate journey has been defined by significant achievements that reflect our steadfast dedication to responsible growth. Our net revenues have increased by more than a quarter between 2019 and 2024—strongly driven by our smoke-free business. Yet, within the same timeframe, we have consistently reduced greenhouse gas emissions, not only within our direct operations—where our control is greater—but also throughout our broader value chain, which accounts for the vast majority of our overall impact.

By focusing on material climate risks and opportunities, implementing cost-effective interventions, and maintaining robust disclosure practices, we are strengthening PMI's ability to deliver sustained, long-term value. Reducing greenhouse gas emissions while adapting to the effects of climate change are important components of our long-term value creation strategy and serve as key levers for operational efficiency, risk mitigation, and stakeholder trust.

Through a deliberate transition toward renewable energy sources, the adoption of energy-efficient processes and new technologies, and an ongoing commitment to supply chain engagement, support, and transparency, we have meaningfully decreased our carbon footprint and bolstered the resilience of our organization and value chain. We have placed particular emphasis on our agricultural supply chain, where most of our inherent risks lie, working closely with suppliers and farmers whose tobacco we use in our products. By fostering these partnerships, we have promoted continuous improvement at every stage of production, helping to strengthen resilience and drive measurable progress toward our climate objectives.

Today we introduce PMI's second Climate Transition Plan (CTP), a refined strategic roadmap that better aligns our climate-related ambitions with the maturity of our business transformation and the operational realities of our global footprint. It is also more attuned to the evolving policy and regulatory landscape, as well as to our stakeholders' expectations, including those of our investors.

This evolved approach is informed by a thorough understanding of which elements within our value chain we can directly influence versus those where our impact depends on external collaboration and systemic change. This updated plan presents targets that are grounded in robust data and operational experience. These targets are deliberately integrated into our core business strategy to drive the most meaningful and scalable climate impact through a disciplined and precise approach.

We are focusing our resources and efforts on the most material sources of emissions and critical value chain dependencies, ensuring our plan is both accountable and pragmatic. By concentrating on areas where we can achieve the greatest impact, our CTP is now better designed to support business performance, driving operational strength, agility, and competitiveness across multiple fronts. Our efforts reflect not only our commitment but also our ability to adapt to changing circumstances and capitalize on emerging opportunities.

Our climate strategy and decarbonization ambitions are grounded in a thorough understanding of the risks and opportunities we face. Our decarbonization plan is anchored in the rigor of a comprehensive Climate Change Risks and Opportunities (CCRO) assessment—and both are integrated into this single cohesive CTP.

Developing and implementing robust mitigation and adaptation strategies enables us to prevent or reduce the impact and likelihood of climate-related risks while simultaneously strengthening our organization, building a resilient business, and continuing to lead the way in environmental stewardship by maximizing opportunities arising from climate transition pathways.

These comprehensive efforts unlock tangible value through strategic positioning in emerging markets, cost optimization in energy procurement, and potential access to new revenue streams in the evolving low-carbon economy. Furthermore, by integrating both physical and transition climate-related risks and opportunities into our Enterprise Risk Management (ERM) framework, we enhance our ability to proactively identify, assess, and respond to climate challenges while strategically capitalizing on transition opportunities across our operations.

As climate regulation and stakeholder scrutiny continue to evolve, we exercise pragmatic leadership and remain focused on results. A business that operates sustainably is one that actively considers how the world is changing, prepares for emerging challenges, anticipates future opportunities, and builds resilience into its operations. This is the approach we follow, which ensures not only our success in the short term, but more importantly, our ability to thrive and create lasting value over the long term.

Our commitment to sustainability is not just about being at the forefront of environmental stewardship—it is about building a business model that is robust and positioned for enduring success in an evolving global landscape. In a rapidly changing economy, this strategic approach positions us well not just to adapt, but to thrive.

Jacek Olczak
Chief Executive Officer

Message from our Chief Sustainability Officer

Amid evolving environmental challenges and diverse stakeholder expectations, our approach to climate change demonstrates a steadfast dedication to driving progress that is meaningful for our business success and respectful of both environmental and social boundaries.

Our vision for lasting positive change has made sustainability integral to our business transformation over the past decade. As we accelerate our shift from cigarettes to smoke-free products, we are simultaneously addressing our environmental footprint, enhancing our social impact, and strengthening our accountability frameworks. This integrated approach to harm reduction across all dimensions of our business is now deeply embedded in our strategy.

However, we recognize that merely reducing harm is not enough. We are working toward moving beyond mitigation to regeneration and positive impact. By applying the same innovative mindset that transformed our product portfolio, we are now creating solutions that actively restore ecosystems, empower communities, and drive industry-wide progress on climate action.

Our CTP represents this evolution: from doing less harm to becoming a catalyst for positive change. It reflects our belief that businesses should not only minimize their negative impacts but also maximize their potential to create solutions that heal and strengthen the world we share. This commitment to positive transformation guides our decisions today and shapes our vision for a more sustainable tomorrow.

At a time when voluntary action is giving way to regulated performance and mandatory disclosure, our new CTP stands as an intentional response—combining our decarbonization strategy and CCRO reporting into one integrated document. Prepared following the guidance of the Transition Plan Taskforce (TPT) Disclosure Framework and integrating our response to the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), this CTP provides an update to both our Low-Carbon Transition Plan issued in 2021 and our TCFD Report issued in 2023. It also features an index referencing the applicable requirements of IFRS S2 Climate-related Disclosures.

This updated CTP also comes at a pivotal moment for our broader sustainability agenda. Since its launch in 2021, our sustainability strategy and 2025 Roadmap have provided us with structure, ambition, and cross-functional alignment on key priorities, including climate-related efforts. As the world continues to change, so must our approach.

We are actively evolving our strategic vision, looking to 2030 and beyond, guided by a double materiality perspective and keeping climate change as a key component of our agenda. While this CTP is mostly focused on climate, it already reflects our long-term vision and embodies the strategic approach we are taking to address our most significant sustainability topics. Full details of our new strategy will be shared in our next annual Integrated Report.

This CTP presents a more sophisticated, integrated understanding of climate-related risks and opportunities—not only as a core sustainability priority but as a relevant business consideration, with implications for supply chain resilience, cost efficiency, product innovation, and long-term success. Our comprehensive new strategy addresses the root causes of climate-related risks, mitigates potential impacts on our business and stakeholders, and adapts our operations to build resilience and future-proof our business.

Recognizing the interconnectedness of sustainability challenges, we are integrating nature-related considerations into our transition planning. By protecting biodiversity, water resources, and land health alongside our climate efforts, we acknowledge that effective climate action depends on preserving natural ecosystems. We are equally committed to ensuring our decarbonization efforts are socially inclusive, minimizing negative impacts on communities—especially farmers and workers in our value chain—through proactive engagement and dedicated support mechanisms.

Our journey is supported by improved nonfinancial data management. In recent years, we have expanded supplier primary data collection, allowing for more accurate and granular scope 3 emissions accounting. At the same time, investments in digital solutions and automation have streamlined data processing and improved the consistency and traceability of our climate disclosures.

Reliable and verifiable data forms the foundation of effective climate action. By ensuring our data is objective and comparable, we can make informed decisions that drive meaningful progress. This improved data quality not only enhances our reporting, it also helps us assess the real impact of our interventions, identify emissions hotspots with precision, and model decarbonization strategies that deliver both environmental and business value with greater confidence.

Looking ahead, we remain committed to a climate strategy that is technically sound, socially and environmentally conscious, and coherent with our business objectives. We recognize, however, one core reality: a significant portion of our emissions lies beyond our direct control. Our CTP therefore represents more than a roadmap for emissions reduction—it is a blueprint for creating deep, sustained collaboration with various stakeholders, as our greatest impact comes from catalyzing systemic change across our value chain.

By pioneering solutions that address climate challenges while unlocking new market opportunities, we are demonstrating that environmental leadership and business excellence are not competing priorities, but mutually reinforcing strengths. The innovations we develop, the partnerships we forge, and the standards we champion will also shape a more resilient and prosperous business.

This is our commitment: to lead boldly at the intersection of purpose and profit, striving to create the most value for shareholders, society, and our shared environment.

Jenny

Jennifer Motles
Chief Sustainability Officer

Foundations

Climate as a strategic business priority

Our approach is based on robust assessments to identify our climate-related impacts, risks, and opportunities.

Additional resources

We disclose an overview of our process to identify material sustainability-related matters, and details regarding the results of our most recent SMA, in PMI's Sustainability Materiality Report 2025.

We disclose PMI's material[1] risk factors in our 10-K and 10-Q submissions to the U.S. Securities and Exchange Commission. Our latest submissions are available on PMI.com.

1. "Material" in this instance is meant to correspond to the concept of materiality under the U.S. securities laws and/or disclosures required by the U.S. Securities and Exchange Commission.

Sustainability materiality assessment

Our sustainability materiality assessment (SMA) plays a fundamental role in informing our strategy by guiding the identification and prioritization of those sustainability matters that are most relevant to our company. Guided by double materiality principles, our SMA enables us to identify impacts we generate on society and the environment, as well as risks and opportunities for our company.

Our most recent SMA was completed in 2024, in accordance with the requirements and guidelines of the EU Corporate Sustainability Reporting Directive (CSRD). The results were revisited and their relevance confirmed in 2025.

While the exercise assessed the material relevance of various sustainability topics, with respect to climate, we identified actual material impacts (positive and negative) as well as a material opportunity through our SMA, which are summarized below:

- **Negative impacts:** Greenhouse gas (GHG) emissions directly and indirectly associated with our business arise from several sources, including deforestation linked to the cultivation of tobacco and other agricultural-based materials and the use of wood fiber and cellulose-based materials, the transport of materials and products to our manufacturing sites, warehouses and retail locations, fertilizer production and application, manufacturing processes, and procurement of indirect materials and services.
- **Positive impacts:** Our ongoing efforts to improve energy efficiency and increase renewable energy use in our own operations, as well as our active promotion of renewable energy use for tobacco flue-curing in our upstream value chain, are resulting in measurable GHG emission reductions. Implementing climate adaptation measures in our agricultural supply chain—such as reforestation or water optimization—also leads to enhanced resilience to climate-related hazards at a local level.
- **Opportunity:** Advances in biotechnology could enable the development of new tobacco varieties that could help secure stable crop yields despite changing climatic conditions.

Recognizing the deep interconnection between climate and nature, we also identified one material impact and three material risks specific to nature that are intrinsically linked to climate change. These include:

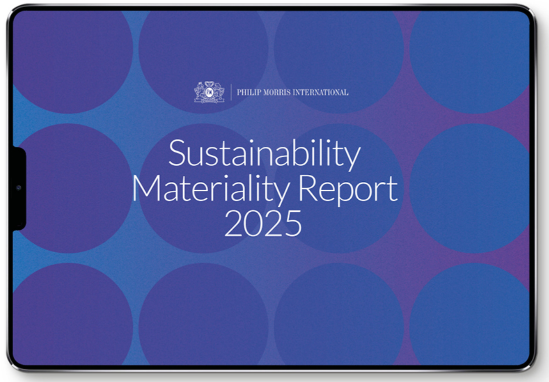
- **Negative impact:** The contribution to climate change through GHG emissions arising from our supply chain activities (the portion of our value chain with the most significant carbon footprint) can lead to pressure on wildlife, habitat destruction, and fragmentation, resulting in loss of biodiversity in local ecosystems functions.
- **Risks:** Increased frequency and intensity of extreme weather events exacerbated by climate change may reduce water availability at our manufacturing sites located in high water-stress areas and in our tobacco supply chain, potentially leading to increased sourcing and operational costs and supply disruptions. These events could also result in shortages of direct agricultural materials caused by the collapse of ecosystem services such as natural forests and balanced water cycles.

Most of our material climate- and nature-specific impacts, risks, and opportunities (IROs) originate from our upstream value chain activities, particularly in our agricultural supply chain. The majority of climate-related impacts have already begun to occur in the short term (within the next five years) and are expected to continue through the medium term (5–10 years) and into the long term (beyond 10 years). Material IROs related to climate adaptation are likely to become more relevant in the medium term. While some nature-specific material IROs may be observed in the short to medium term, their greatest effects are anticipated over the long term as climate change intensifies.

Our SMA considers the impacts of PMI's sustainability agenda, including the climate transition plan, on our key stakeholder groups. For both climate- and nature-specific risks, we determined the main groups of affected stakeholders to be Nature, Civil society, Supply chain, and Employees. You can learn more about our stakeholder engagement activities with each group on PMI.com and about our approach to including stakeholder perspectives in our SMA in PMI's Sustainability Materiality Report 2025.

Sustainability Framework

Insights from our SMA have provided a solid foundation for the development of our new Sustainability Framework. This Framework serves as a strategic compass, steering the ongoing establishment of our sustainability goals for 2030 and beyond. Within this approach, climate has been identified as one of six central priorities, ensuring that our efforts remain focused on addressing the most pressing climate-related IROs. You can learn more in our Sustainability Materiality Report 2025.



Climate Change Risks and Opportunities (CCRO) assessment

The SMA process of evaluating the impact and likelihood of risks and opportunities was aligned with PMI's Enterprise Risk Rating Methodology, ensuring that they were evaluated in a manner consistent with how other types of risk and opportunity are assessed, and fostering a culture of proactive risk management that is aligned with PMI's sustainability objectives. Longer-term risks are, however, inherently less predictable and require more detailed analysis.

To comprehensively identify and consider long-term sustainability risks and opportunities, PMI performs additional specialized risk assessments on particular topics, including CCRO assessments in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

A detailed explanation of our assessment process is included in the CCRO assessment methodology appendix. This work is completed with reference to the IFRS Foundation's S2 Climate-related Disclosures standard (refer to the ISSB S2 Index in our appendix for a mapping of key disclosure requirements).

We also conduct Nature Risks and Opportunities (NRO) assessments in line with the recommendations of the Taskforce on Nature-related Financial Disclosures (TNFD), and Water Risk Assessments (WRA) based on an internal approach that leverages World Resources Institute's (WRI) publicly available Aqueduct tool.

Our 2025 CCRO assessment identified inherent physical and transition risks throughout our value chain based on scenario analysis models.

Key inherent risks are summarized on the following page. A more detailed overview of outputs is included in the Climate-related risks and opportunities appendix. Where we have identified nature-related risks that are aligned with or impacted by climate-related risks, we have summarized them in the "Link to nature-related risks" column. In line with our commitment to be an early adopter of the TNFD framework, we anticipate sharing outcomes from our NRO assessment and updated WRA in 2026.

We explain how we integrate material climate- and nature-related risks and opportunities into our broader Enterprise Risk Management program in the Climate-related risk management section of this report. Notably, the CCRO assessment results are translated into ERM insights to inform and feed into our SMA process and outcomes, accounting for the differing methodologies and distinct yet complementary objectives of each process.

Overview of physical risks

Classification	Type of risk	Overview	Link to nature-related risks
Chronic	Drought	Increased frequency and intensity of extreme droughts in manufacturing sites, tobacco-growing areas, third-party operators (TPO) and third-party manufacturers (TPM) sites, and supply regions for pulp and paper products and for electronics.	In water-stressed areas, degraded ecosystems may no longer be able to buffer the combined pressures of increased water withdrawal and climate change related impacts—such as prolonged droughts—thereby reducing their capacity to regulate water flow and recharge groundwater, and increasing the risk of business interruptions and supply chain disruptions.
	Sea level rise	Sea level rise in port locations in PMI's logistics network.	Sea level rise, driven by climate change, leads to saltwater intrusion and the loss of coastal ecosystems that buffer and support communities and business, including infrastructure supporting global logistics systems.
Acute	Floods	Increased frequency and intensity of extreme floods in manufacturing sites, tobacco-growing areas, TPO and TPM sites, pulp and paper and electronics supply regions, and ports in PMI's logistics network.	While climate change increases the frequency and intensity of extreme rainfalls that drive flood events, the inability of degraded ecosystems to buffer these events turns it into a nature-related risk. This makes floods a compound risk, affecting infrastructure, operations, supply chains, and local communities.
	Heatwaves	Increased frequency and intensity of extreme heatwaves in tobacco-growing areas, manufacturing site locations, supply regions, and TPO manufacturing sites.	The loss of natural ecosystems that regulate local climates—such as forests and wetlands—reduces nature resilience, amplifying exposure to extreme temperatures and threatening human health and productivity.

Overview of transition risks

Classification	Type of risk	Overview	Link to nature-related risks
Market risk	Energy prices	Increased energy prices could lead to increased manufacturing costs and tobacco procurement costs.	Nature-related risks—such as declining water availability and biodiversity loss—can disrupt renewable energy generation (e.g., hydropower, bioenergy), increasing the exposure to renewable energy price volatility and undermining decarbonization efforts.
		Increased energy prices in fertilizer production could lead to increased procurement costs (assuming that overheads are passed to PMI).	
		Increased energy prices for PMI owned and third-party logistics could lead to increased logistics costs (assuming that all costs are passed through to PMI).	
Policy and legal risk	CBAM	EU's Carbon Border Adjustment Mechanism (CBAM) applicable to PMI via imported fertilizer into the EU could lead to increased procurement costs.	Increased cost of raw materials due to stringent regulations and due diligence requirements on traded commodities.
	Carbon pricing	Increased carbon taxation on manufacturing sites could lead to increased levy on manufacturing emissions.	Nature-related risks—such as land degradation and water scarcity—can reduce biomass availability, driving up the cost of bioenergy and biofuels used in manufacturing processes like heat generation. This cost pressure may lead to increased reliance on fossil fuels, undermining decarbonization efforts and exposing manufacturing operations to higher carbon levies associated with rising emissions.
		Increased carbon taxation on pulp and paper suppliers could lead to higher costs of suppliers' emissions and consequently increased procurement costs for PMI (assuming that all costs are passed through to PMI).	Stricter mandatory standards on bio-commodities production can lead to higher carbon price and taxation on suppliers emissions. Nature-positive strategies (e.g., regenerative agriculture, reforestation) can reduce both emissions and nature-related risks.
		Increased carbon taxation for PMI owned and third-party logistics emissions could lead to increased logistics costs (assuming that all costs are passed through to PMI).	Nature-related risks such as land degradation and water scarcity can reduce biomass availability, driving up biofuel costs. This cost pressure may undermine logistics decarbonization efforts due to increased reliance on fossil fuels, resulting in higher carbon levies associated with rising emissions.

Our strategic climate ambition

Our ambition is to build business resilience by developing a deep understanding and granular visibility of our climate-related risks and opportunities, enabling us to craft a more strategic and targeted approach to both climate change mitigation and adaptation.

We are committed to reducing GHG emissions following a science-based and fact-driven roadmap, which takes into account the goals of the Paris Climate Agreement, while continuously assessing and refining our strategies and actions to ensure our operations and broader value chain strengthen their resilience in the face of climate-related challenges. Through this dual approach, we strive to future-proof our business and support our broader smoke-free transition and business growth objectives.

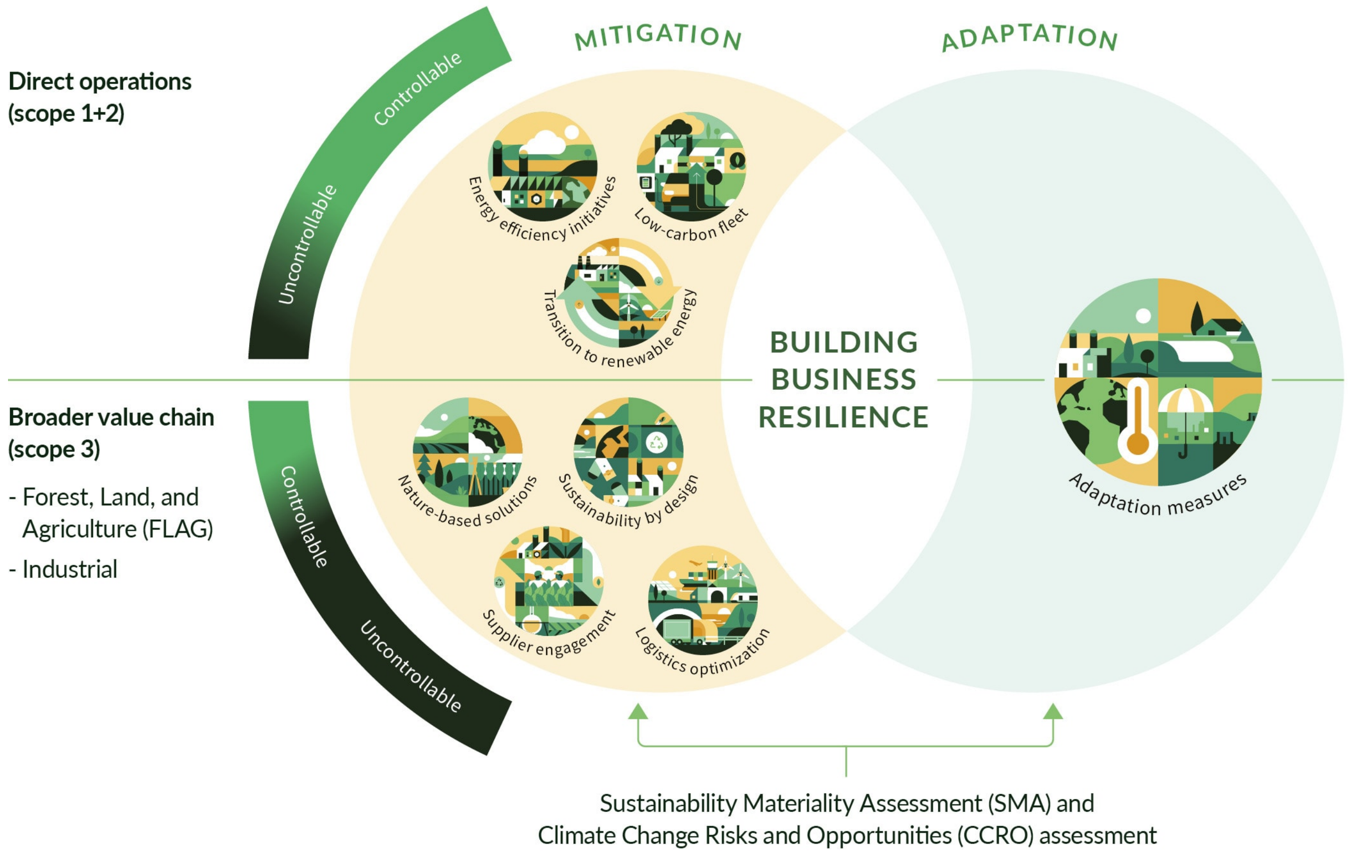
Our updated climate strategy considers five key factors and adjustments that will allow us to focus on those areas where we can drive action most effectively, while ensuring alignment with evolving environment-related policy, regulation, and stakeholder expectations.

- **Strategic resource allocation distinguishing controllable and uncontrollable areas:** Prioritize resources toward value chain elements where we have direct control and significant emission reduction potential (controllable), while developing targeted influence strategies for high-impact areas beyond our direct control but critical to our decarbonization goals (uncontrollable).
- **Accelerated decarbonization of critical value chain areas:** Continue to tackle all areas of our value chain for decarbonization, but direct more efforts toward the critical elements to achieve our near-term science-based targets (SBTs) for scope 1+2+3 emissions (see decarbonization levers).
- **Comprehensive physical risk adaptation:** Implement comprehensive adaptation measures to mitigate physical climate risks and improve operational resilience in identified direct operations and supply chain hotspots, based on findings from our most recent CCRO assessment.
- **Leveraging innovation to address systemic challenges:** Strengthen our approach by focusing on external factors and dependencies critical to our carbon reduction trajectory—including accelerating the energy transition and advancing climate technology adoption. We will support these systemic changes through innovative financing mechanisms and targeted partnerships in our upstream value chain, seeking impactful solutions through strategic project collaborations with key value chain partners.
- **Enhanced stakeholder engagement and market transformation:** Prioritize external engagement with key stakeholders in our supply chain and participate in initiatives focused on decarbonization strategies. By building critical mass through collaborative action, we can achieve greater impact than standalone efforts, with particular emphasis on markets where transition levers will have the most substantial effect on our overall GHG emission profile.

Moving forward, PMI will continue expanding the scope of its strategy from mainly focusing on mitigation, to include initiatives focused on adaptation and resilience. This strategic evolution will require tactical adjustments in the way we assess risks and opportunities, prioritize interventions, and assess technologies and innovation.

As part of this more holistic approach to climate action, our strategy will enable synergies with our efforts in preserving nature and improving the quality of life for people in our supply chain. Specific areas where we see potential for co-benefits across our strategies are those related to the implementation of nature-based solutions, regenerative agriculture, and community resilience projects.

Our climate strategy



Our 2030 and 2040 outlook

We see value chain decarbonization as a long-haul strategy, with interim milestones connected to concrete and defined steps.

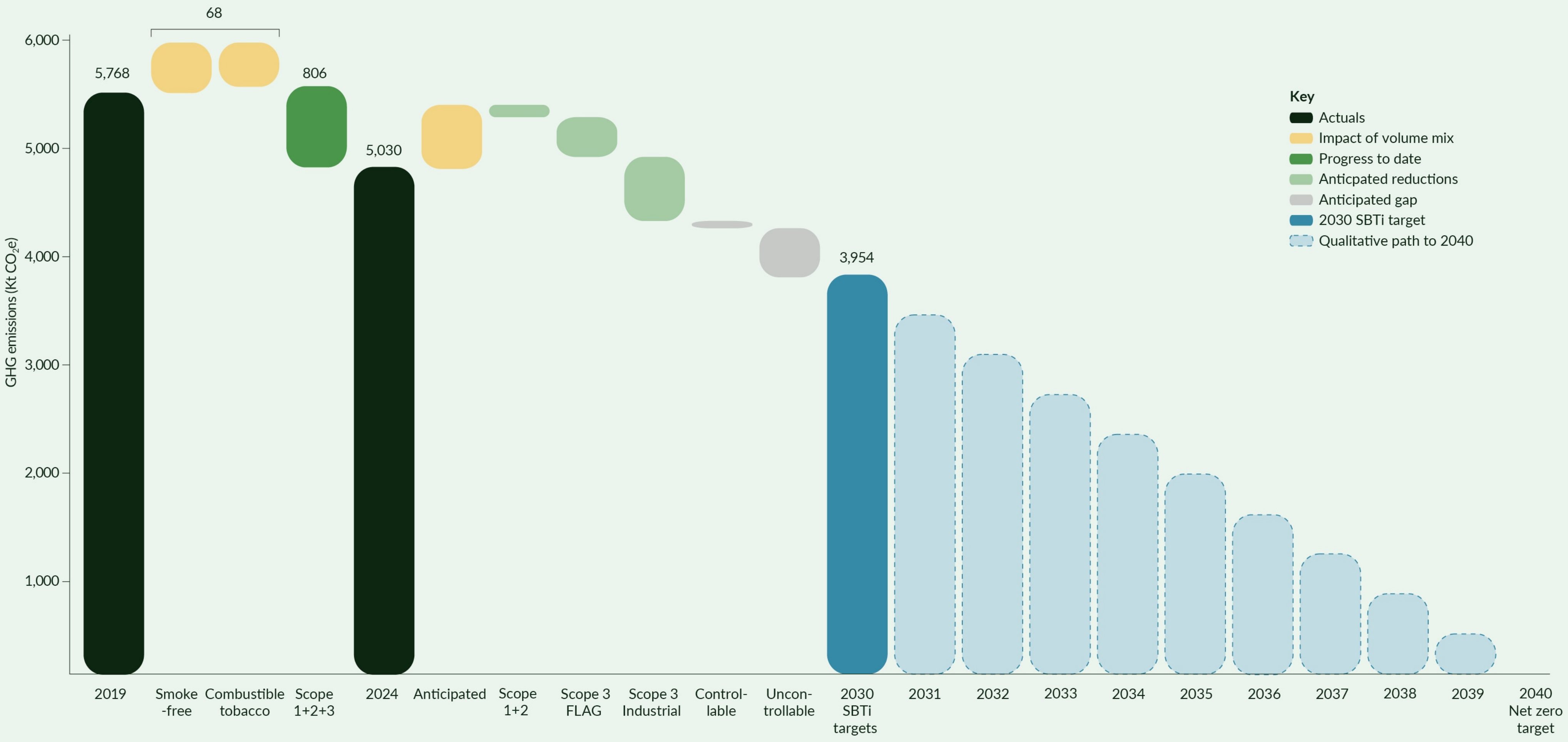
Our long-term business planning follows a rolling three-year cycle, and our near-term climate strategy builds on it, using forward-looking assumptions to bridge a quantitative path to 2030, broken down by expected contributions by different decarbonization levers.

Decarbonization levers represent the specific actions, interventions, and mechanisms that we can deploy to reduce GHG emissions and achieve our climate targets. These levers encompass both direct operational changes and strategic initiatives across our value chain. They serve as the practical building blocks of our CTP, providing concrete pathways to transform our business operations in line with our net-zero commitment and enabling us to systematically address our carbon footprint through targeted, measurable interventions.

We have defined key decarbonization levers for each segment of our value chain. Details on our approach to each lever, including how we manage external elements, are discussed in the Implementation chapter of this report.

Between 2030 and 2040, we provide a qualitative glidepath that reflects our commitment to continue implementing our strategy in line with SBTi requirements. In 2030 we will be setting new near-term targets to define and commit to the next phase of our net zero journey.

Emissions reduction plan



Direct operations (scope 1+2) decarbonization levers

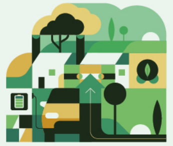
We are reducing greenhouse gas emissions in our direct operations—mainly originating from our manufacturing sites—by improving energy efficiency, shifting to renewable energy, and investing in a low-carbon fleet. These areas face more transition risks than direct physical risks but represent the area of our value chain where we have greater control over resilience planning.

Energy efficiency initiatives

We first promote and implement operational improvements in our factories to reduce energy consumption and waste, using programs, technologies, and employee engagement to drive a zero-loss mindset.

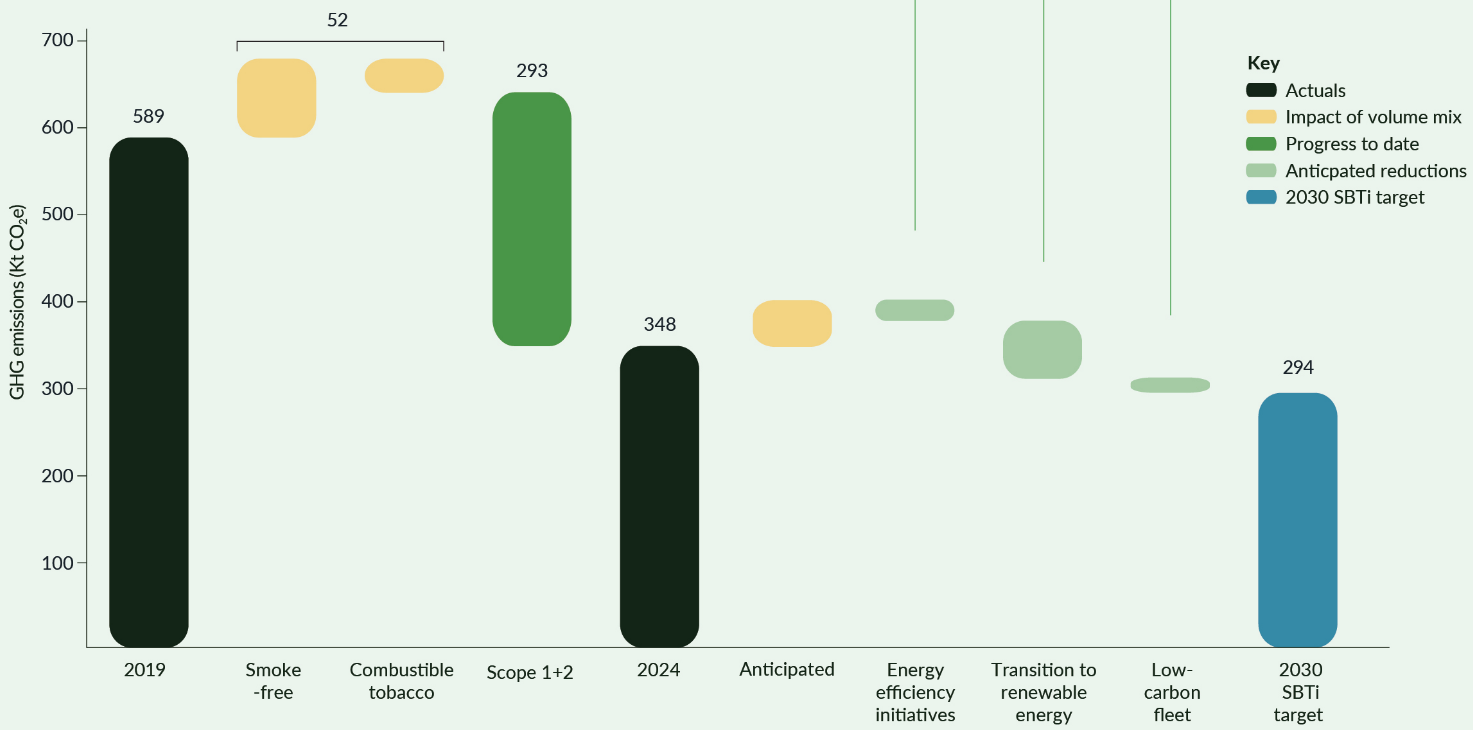
Transition to renewable energy

Our second key approach centers on a transition to renewables and electrification of heating, with solutions tailored to the local conditions and infrastructure of our different manufacturing sites.



Low-carbon fleet

We invest in low-emission vehicles, promote eco-friendly driving with targeted training and telematics, and prioritize fleet electrification—all supported by a centralized fleet management approach.



Broader value chain (scope 3) decarbonization levers

Given our reliance on agriculture for many of the most relevant materials used in our products, we focus on reducing land-related emissions in our tobacco supply chain and other agricultural materials. We also collaborate closely with suppliers to embed sustainable practices, work to integrate environmental considerations into our product design, and strive to optimize our logistics.

Nature-based solutions

This lever addresses Forest, Land, and Agriculture (FLAG) emissions. In line with our commitment to achieving deforestation-free supply chains for our tobacco and paper- and pulp-based materials, which represent the vast majority of the land use in our value chain, we see our initiatives as critical to avoiding carbon emissions from land conversion or degradation.

Supplier engagement

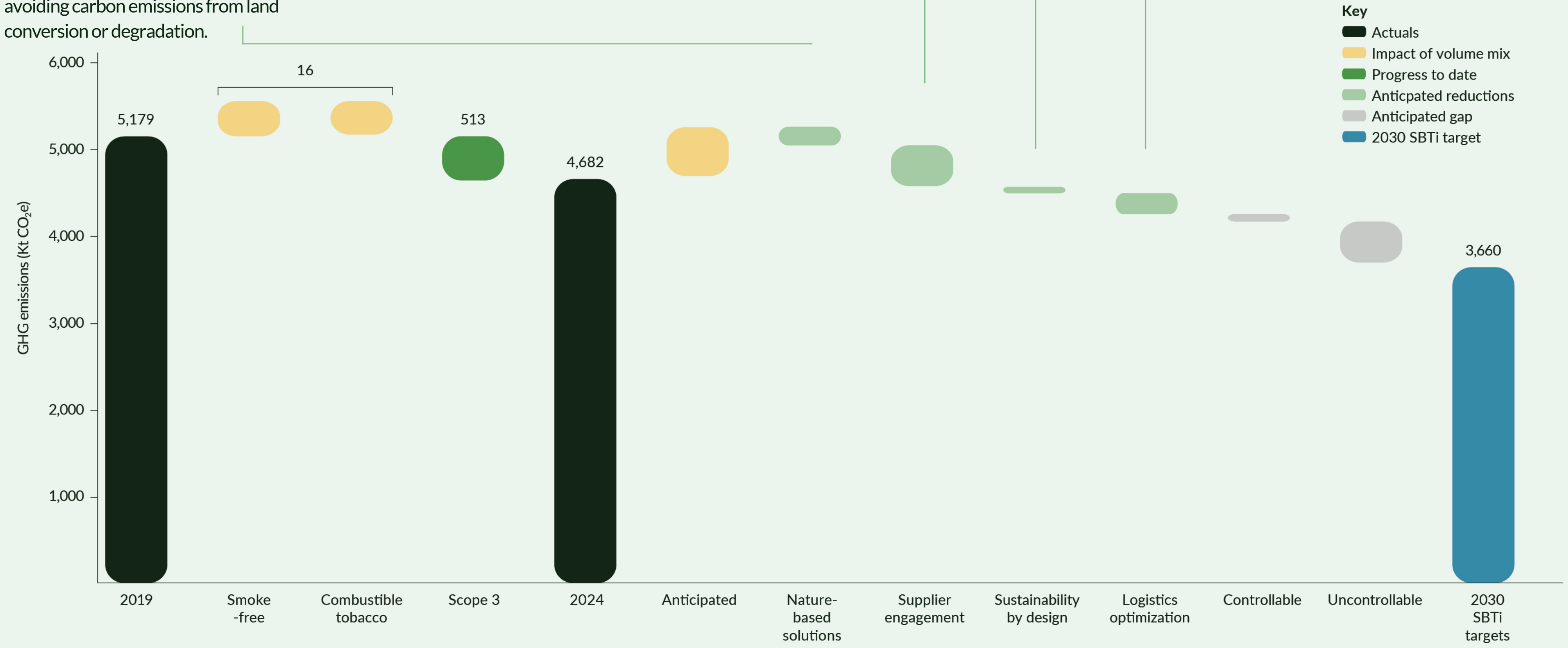
Striving to address a combination of FLAG and industrial emissions, we focus on decarbonizing our supply chain through strategic procurement practices and targeted supplier collaboration.

Sustainability by design

We seek to continuously improve product design by following eco-design standards and embedding circularity principles, which translate into direct or indirect carbon emissions avoidance.

Logistics optimization

To deliver materials to PMI and products to our customers, we focus on minimizing our logistics emissions footprint, which includes shipping and transportation by air, sea, and land, as well as warehousing and distribution.



Metrics and targets

Precise measurement is the foundation of meaningful progress. Our CTP is anchored in robust metrics and forward-looking targets that serve as a compass to guide our strategic decisions while enabling transparent assessment of our progress.

Defining and annually disclosing against key performance indicators (KPIs) allows us to track progress over time and set a basis for quantifiable and verifiable targets. With respect to climate, we disclose annual metrics on energy consumption and scope 1+2+3 emissions in our annual Integrated Report.

Quantifiable and verifiable targets transform abstract ambitions into actionable business imperatives, allowing us to identify emission hotspots, prioritize high-impact interventions, and unlock innovation opportunities across our value chain.

By establishing clear, science-based targets that stretch our capabilities without sacrificing business viability, we create the necessary tension between aspiration and accountability that drives transformative change.

This metrics-driven approach ensures our sustainability ambitions translate into measurable value for all stakeholders—from investors seeking climate resilience to customers demanding environmental responsibility.

Carbon neutrality

As we approach the culmination of our 2025 strategy, a number of aspirations attached to it are set to expire, including our aspiration to achieve carbon neutrality for scope 1+2 emissions by the end of 2025. This aspiration has guided our decisions and catalyzed meaningful progress across our direct operations. While a comprehensive summary of all our achievements will be provided in our next annual Integrated Report, we are proud to report that we remain on track to achieving carbon neutrality by year-end 2025. We will maintain this target without extension.

Once achieved, we will continue focusing on the energy transition to decarbonize our direct operations in line with our SBTs, while redirecting primary focus and resources toward decarbonizing scope 3 emissions—as detailed in this CTP.

Target setting

Throughout 2025, we have dedicated efforts to developing a vision to 2030 and beyond. Targets and aspirations linked to this vision emerge from a structured process that synthesizes results from our sustainability materiality assessments, emerging global trends, regulatory requirements, and stakeholder expectations, enabling us to identify both risks and opportunities that impact long-term value creation.

This work is underpinned by a systematic target-setting process that carefully balances ambition with achievability by considering available resources, industry best practices, and the company's sphere of influence, ensuring that our objectives are both challenging and attainable in line with the radical yet pragmatic view we have on climate action.

PMI has both near- and long-term targets for scope 1+2+3 emissions validated by the Science Based Target initiative (SBTi). As part of our most recent strategy revision, we have decided to re-validate our science-based targets using the same 2019 baseline as follows:

2030 near-term climate targets

By 2030, we target to achieve a:

- 50% reduction in absolute scope 1+2 GHG emissions
- 33.3% reduction in absolute scope 3 FLAG GHG emissions
- 27.5% reduction in absolute scope 3 industrial GHG emissions

In this context, we are retiring a previously set target to achieve a 50 percent absolute reduction of CO_2e scope 3 in our tobacco supply chain by 2030, as our efforts and continuous progress are fully captured by our science-based FLAG target.

2040 long-term climate targets

By 2040, we target to achieve a:

- 72% reduction in absolute scope 3 FLAG GHG emissions
- 90% reduction in absolute scope 1+2+3 Industrial GHG emissions
- Net zero GHG emissions in our value chain (scope 1+2+3)

Additional climate-related targets

These targets are complemented by a range of existing targets related to our decarbonization levers as well as by new targets that are currently being finalized as part of our 2030+ strategy focused on climate adaptation and resilience in our direct operations and broader value chain, with a continued emphasis on our tobacco supply chain. These targets and strategy will be outlined in PMI's next annual Integrated Annual Report, set to be published in early 2026.

Net zero

We remain hopeful and committed to achieving net zero GHG emissions by 2040. This ambitious target reflects our determination to lead in climate action while acknowledging the complexity of the challenge ahead. As a long-term aspiration set 15 years into the future, we approach it with both optimism and informed realism about what will be required to succeed.

Our strategy is built on a foundation of concrete progress. Our near-term targets through 2030 are quantitatively informed and designed to put us on a trajectory toward our 2040 goal. These milestones will provide clear evidence of our progress and, by 2030, will inform a comprehensive reassessment of our 2040 aspiration to ensure it remains both ambitious and achievable based on demonstrated progress and market developments.

While scope 3 emissions represent over 90 percent of our total carbon footprint and are largely influenced by external factors, we see significant opportunities to drive change, notably through strategic partnerships and supplier engagement efforts. Our aim is to maximize our impact across all areas within our sphere of influence while actively working to expand that sphere through collaboration and innovation.

Navigating challenges with strategic foresight

We have identified several external factors that will influence our pathway to 2040 and we are proactively developing strategies to address them. Technology readiness gaps and supplier capability constraints present challenges, but we are addressing these through strategic partnerships, early technology adoption, and our supplier engagement activities, which include a dedicated program that enhances supplier capabilities and supports them in identification of potential solutions (read more here).

Critical supplier dependencies and infrastructure limitations around renewable energy availability create potential bottlenecks and increased costs. We are mitigating these risks through supply chain diversification, long-term renewable energy contracts, and participation in industry coalitions that drive demand for sustainable transport and material solutions while accelerating the development of alternative technologies.

Our net zero commitment is grounded in a realistic assessment of both challenges and opportunities, maintaining flexibility in our implementation pathway while holding firm to our 2040 ambition. We acknowledge the significant external dependencies involved, but believe that sustained effort, strategic partnerships, and continued innovation can overcome these obstacles.

Read more about this in the External factors shaping our strategy section of this report.

Additional resources

We disclose our full range of climate- and nature-related targets alongside associated baseline figures, goals, and an annual quantified update on our progress in PMI's annual Integrated Report available on PMI.com.

We align our approach with the GHG Protocol guidelines and disclose technical details about our approach to carbon accounting in our Carbon Footprint Methodology and GHG verification statements. We also obtain external verification of our environmental, health, and safety data (including our annual GHG emissions data). These documents are available on the sustainability resources page on PMI.com.

Some of our climate targets are linked to our long-term variable executive compensation via our Sustainability Index. We disclose technical details about targets in our Sustainability Index in our annual Sustainability KPI Protocol Report available online.

Locked-in emissions

In shaping our climate strategy, we account for locked-in emissions—future greenhouse gas emissions that are essentially predetermined due to existing infrastructure, long-term contracts, and past capital investment decisions. These emissions represent commitments already embedded in our operations through factors such as the remaining useful life of current facilities, established supply chain relationships, and product portfolios that cannot be immediately transformed without significant economic disruption.

Taking these constraints into account ensures our climate strategy remains ambitious but achievable, by identifying the specific areas where early intervention or accelerated transition investments may be necessary.

We recognize that some emissions will persist at our near-term and net zero target years due to their nature and externalities beyond our control. Nevertheless, our strategy goes beyond controllable factors by seeking to influence the uncontrollable, engaging with multiple stakeholders on environmental policy, exploring alternative financial accounting principles, and collaborating with leading organizations to drive systemic change.

The following classification reflects today's value chain projected into a future scenario without innovative decarbonization actions.

Direct operations

Unless fully transitioned to renewable energy, our long-lived manufacturing facilities lock in emissions, particularly from steam generation and thermal needs. Our CTP includes the ambition of designing any potential new manufacturing facility fit to low-carbon needs from the outset while continuing our efforts to retrofit existing infrastructure to reach our decarbonization targets. This approach minimizes future locked-in emissions by building decarbonization capabilities into our industrial footprint from day one, while allowing flexibility for future technological upgrades and operational improvements as low-carbon solutions continue to evolve.

Supply chain and logistics

The cultivation and processing of tobacco are both carbon-intensive activities. Further, its global distribution relies heavily on fossil fuels—all contributing to scope 3 emissions. By means of a variety of programs in our scope 3 emissions perimeter, we optimize supply chains and invest in renewable energy through our forward-looking supply chain partners. Our shift to smoke-free products reduces tobacco leaf content per unit, helping lower climate impact upstream of product manufacturing. However, significant reduction in the materials required per unit of smoke-free products is unlikely and would only marginally affect end-of-life emissions.

Product-related materials

The majority of our locked-in emissions are tied to our products, with different impacts depending on the product category. Locked-in emissions stem from product materials sourced through global supply chains. We aim to decarbonize upstream by removing fossil fuels from supplier tiers and switching to improved materials, such as lower-carbon options.

Emissions vary across consumables, smoke-free electronic devices, and packaging. Some materials are harder to abate, resulting in smoke-free consumables and devices being more carbon intensive than cigarettes. As a consequence, they lock in a higher volume of carbon.

Consumables

Our smoke-free consumables offer limited emissions reduction potential due to their material composition, specifically related to cellulose acetate (CA) present in cigarette filters, as well as in some of our smoke-free product consumables. While replacing CA with alternative sustainable materials remains a key sustainability objective, the emissions impact of such a transition is uncertain. Without currently viable alternative materials for filters, we cannot determine with certainty whether future replacements would increase or decrease emissions relative to CA. Future formats based on innovative design and collaborative efforts across industries are also needed to address emissions from paper-based materials and other components of our consumables.

Biogenic emissions from tobacco product use and disposal are unavoidable. Ensuring proper product disposal and transitioning to smoke-free, non-combustible alternatives, which contain less tobacco per unit, can reduce these emissions.

Packaging

Among our product categories, the largest packaging impact per unit lies with oral nicotine products, our most recently acquired product line and a product category that we anticipate will continue to grow as we progress on our transformation from cigarettes to smoke-free products.

The packaging we use for nicotine pouches across geographies and brands is a rigid single-use polypropylene can, which poses different sustainability challenges compared with the mostly wood fiber-based packaging formats associated with the other types of our products. We are leveraging existing processes to best evaluate packaging alternatives for nicotine pouches.

Smoke-free electronic devices

We are progressively increasing the content of recycled materials in line with the intention to lower embedded emissions in our devices, but emissions persist mostly due to the elements present in electronic components. We also strive to extend the life cycle of our smoke-free electronic devices, through design and by engaging with our consumers to preserve devices through proper care, while offering the possibility to refresh and repair.

Energy efficiency improvements at the supply chain level are still limited and challenging to control for the deeper tiers of suppliers, and added features that enhance user experience tend to increase energy use as a tradeoff. Regional electricity carbon footprints also affect emissions from device charging.

Climate change-related business implications

We have examined how climate change and our decarbonization strategy may materially impact our direct operations, supply chain, financial planning, and organizational capabilities.

This analysis goes beyond environmental outcomes to assess the implications for our business model, resource allocation, and operational processes. Each area presents distinct challenges and opportunities that require tailored approaches while contributing to our overall decarbonization objectives.

Direct operations

Climate change poses direct risks to our manufacturing facilities and operations through physical hazards such as extreme weather events and water scarcity, while also creating opportunities for operational efficiency and cost savings driven by the adoption of renewable energy. We have examined how these climate-related risks and opportunities could impact our production capacity, operational costs, facility resilience, and energy costs to enable us to future-proof our current manufacturing footprint.

- **Production capacity:** Based on the key parameters of our manufacturing network, our model simulates critical events that could cause production displacement. We incorporate these insights into business continuity planning and plan to leverage them as we consider the expansion of our production capacities.
- **Operational costs:** We project potential losses in the event that production needs to be transferred to other facilities in our manufacturing network while maintaining fixed running costs at the impacted facilities. We incorporate this into our CCRO assessment and disclose findings in the Climate-related risks and opportunities appendix.
- **Facility resilience:** We carry out site-specific vulnerability assessments to shape our business continuity plans. These assessments also highlight opportunities to decrease our exposure to energy-related transition risks. We discuss these activities in the Implementation section of this report.
- **Energy costs:** Renewable energy generation subsidies and access to trading schemes are factored into our cost-benefit analyses to improve return on investment. The expansion of schemes such as the EU Emission Trading Scheme (EU ETS) to include EU accession countries where PMI has facilities has influenced our investments in energy-saving initiatives, our Drive 4 Zero program, and our portfolio of zero-carbon technologies. We discuss these initiatives in the Implementation section of this report and cover financial planning in more detail in the Financial planning section of this report.

Supply chain

Our main focus is on our agricultural supply chain because it is the segment of our broader value chain that is most vulnerable to climate-related risks and impacts.

PMI's supply chain and its purchases of tobacco leaf and other materials coming from agriculture are influenced by the cost of production for farmers. If the overall cost of producing raw tobacco and other materials is impacted by a climate change event, it could lead to an indirect increase in procurement costs as the price would respond to upward pressure on the cost of goods sold.

To address this, we focus on inventory management, contingency planning, and long-term sourcing resilience. We discuss these activities in the Implementation section of this report and cover financial planning in more detail in the Financial planning section of this report.

Organizational capabilities

Climate change requires enhanced organizational capabilities to manage inherent risks, capitalize on opportunities, and navigate stakeholder expectations in a rapidly evolving regulatory and market environment. We have assessed how climate impacts require changes to our governance structures, workforce capabilities, and external partnerships.

- Increasing interaction with risk functions (see the Climate-related risk management section).
- Shifting responsibilities for driving aspects of our CTP (see the Operational oversight section).
- Working with external stakeholders (see the Stakeholder engagement section).

Additional resources

We provide an update on our progress in PMI's annual Integrated Report and offer concrete examples in a range of case studies and market stories, available on PMI.com.

More details regarding our approach to addressing these business implications can be found in the Implementation section of this report.

External factors shaping our strategy

PMI operates within a dynamic, interconnected environment shaped by global trends that influence our strategies, initiatives, and interactions. By monitoring these developments, we distinguish between external factors beyond our control and strategic levers within our sphere of influence.

Additional resources

We provide an overview of megatrends and their relevance to our sustainability agenda on PMI.com.

Understanding this complex operating environment is essential for developing an effective decarbonization strategy. The global trends that shape our business context create both enabling factors that can accelerate our climate transition and constraining factors that may limit our progress.

In 2025, as we shaped our climate strategy with a long-term outlook, we analyzed internal and external factors with key internal stakeholders, including climate subject matter experts, to anticipate challenges and opportunities for the 2030 and 2040 horizons.

By systematically identifying and analyzing these external influences—from technological innovations and policy developments to market dynamics and stakeholder expectations—we can better anticipate opportunities to leverage favorable conditions while proactively addressing potential barriers. This approach allows us to design more resilient decarbonization pathways that account for the realities of our interconnected operating environment and strategically position our climate initiatives for maximum impact.

Our analysis has identified key external factors that could significantly influence our ability to achieve our decarbonization objectives. These factors fall into two distinct categories: enabling factors, which can accelerate our climate transition through supportive conditions and collaborative opportunities, and constraining factors, which may create barriers or slow our progress. Understanding both sets of factors allows us to develop strategies that capitalize on favorable trends while building resilience against potential obstacles, ensuring our CTP remains agile, adaptable, and effective across different scenarios.

Enabling factors that can accelerate decarbonization

Multistakeholder partnerships

Active participation by businesses such as ours in key global and regional forums can drive collective momentum, fostering collaboration and knowledge sharing that accelerate decarbonization efforts across the private sector.

Governmental interventions

Swift action by governments—such as expediting policy adoption, facilitating energy transitions, investing in efficient infrastructure, and introducing regulations that promote a low-carbon economy—can create the external conditions necessary to pursue low-carbon goals effectively.

Availability of new carbon-capture technologies

The broader availability and affordability of low-carbon technologies can increase the pace of adoption of cost-effective solutions for us and others across our value chain to reduce emissions.

Investments in carbon-related R&D

Financing from both public and private sectors can support climate action at the national level, through nationally determined contribution (NDC) plans or as resilience incentives, enabling substantial investments in low-carbon technologies that can benefit local industries.

Financial and market enablers

Market-based instruments, such as green bonds and carbon tokens, as well as subsidies and incentives that favor lower-carbon alternatives, can promote investments in climate solutions.

Constraining factors that may impede decarbonization

Regulatory uncertainty

Frequent changes to climate-related standards and regulations may divert organizational focus away from long-term, established initiatives, creating uncertainty and slowing momentum.

Lack of or low-quality data

Limitations in supply chain emissions related data—such as incomplete emission factors, lack of robust life-cycle assessments (LCAs), or inconsistent data quality—can hinder our efforts to establish robust strategies and programs to further reduce our scope 3 GHG emissions.

Volatile energy costs

Constant fluctuations in energy prices can disrupt the execution and progress of power purchase agreements (PPAs), undermining our transition to renewable energy sources. Local financial constraints, including inflation or broader economic downturns, may restrict our capacity to support investment in advanced green technologies.

Politicization of climate change

Geopolitical tensions are causing a disorderly transition scenario, with increasing fragmentation in global climate strategies. This stalls the energy transition and, alongside continued subsidies for fossil fuels, undermines effective investment in low-carbon technologies.

Locked-in emissions

Locked-in emissions from hard-to-abate sectors, such as fertilizer production for tobacco leaf cultivation, create structural barriers that can prevent continuous improvement toward our decarbonization goals.

Message from our Senior Vice President, Operations

With the launch of our 2025 CTP, we are pleased to share how we aim to further sharpen our efforts to tackle climate change on the road to reaching net zero by 2040.

Within PMI Operations, we hold direct responsibility for the majority of our climate-related IROs, and we play a pivotal role in bringing our CTP to life. Our reach spans the entire value chain, giving us a powerful platform to drive meaningful action and safeguard our business by advancing decarbonization.

While we expect to achieve carbon neutrality in our direct operations (scope 1+2) by the end of 2025, we will continue to emphasize the energy transition through efficiency, renewable energy adoption, and the shift to a low-carbon fleet as we move toward 2030. These pillars continue to guide our efforts to reduce our direct operational footprint as we advance along our climate journey and navigate the evolving challenges ahead.

Looking toward 2030 and beyond, our primary focus now shifts to the complex challenge of decarbonizing scope 3 emissions, which account for the majority of our total carbon footprint. Much of these emissions arise from activities and sources outside of our direct control—embedded within our suppliers, logistics partners, tobacco-growing areas, and third-party manufacturers and operators—making their reduction particularly demanding. Addressing this challenge compels us to foster deep collaboration across our entire value chain, forging partnerships that can influence and inspire progress well beyond our direct reach.

Our science-based targets, including those for FLAG and Industrial emissions, guide our concrete actions. To deliver meaningful scope 3 reductions, we plan to deepen engagement with suppliers, including by expanding the power of our Sustainability Accelerator—an initiative that helps our suppliers improve sustainability in their operations. We also plan to increase our investments in nature-based solutions that can support both carbon capture and the preservation of natural ecosystems.

Last but not least, we remain committed to integrating sustainability principles into every stage of product design, seeking both incremental and transformational improvements that can reduce carbon intensity. Likewise, we will continue to drive logistics optimization to minimize transportation-related emissions.

This CTP clearly lays out our pathways for decarbonizing our operations and broader value chain, drawing on the latest science and technology as well as our evolving business needs. This updated plan also strengthens critical elements of climate adaptation, underpinned by robust efforts to integrate technological levers, stakeholder engagement, and data-driven decision-making for strong and sustainable business results.

Our focus is on building resilience while managing climate-related risks through both mitigation and adaptation measures. This integrated approach allows us to mitigate our environmental impact, adapt our operations to climate realities, and unlock new sources of value across our supply chain. This is not just about reducing our own emissions—it is about leveraging our position to catalyze broader decarbonization.

Strengthening our governance, the publication of this report coincides with the introduction of our new Environmental Policy. This policy provides concrete guidance on environmental decision-making in both our direct operations and throughout our value chain, helping to standardize our approach, prevent compliance gaps, and demonstrate to regulators, investors, and other stakeholders our commitment to meeting ambitious environmental standards. This will allow us to navigate the complex and rapidly evolving regulatory landscape while protecting long-term shareholder value and maintaining our license to operate. Importantly, the policy serves as the framework for other key PMI policies governing aspects of climate, nature, and our impact on stakeholders.

As we press forward with our climate ambition, our decarbonization levers are closely interwoven with our journey toward smoke-free business growth. We recognize, however, that the expansion of smoke-free products introduces environmental challenges—ranging from increased complexity in product design and supply chains to unique end-of-life considerations. Our CTP strives to address these impacts, prompting us to remain vigilant and adaptive, and to apply innovative approaches to ensure that, as our business evolves, our actions remain effective in mitigating potential risks.

The transition requires us to think beyond traditional practices. We are building new capabilities in carbon management, investing in nature-based solutions, and reimagining how we work with communities to create shared value.

As we advance this ambitious agenda, I want to recognize the exceptional dedication of every member of our Operations team who has made sustainability an integral part of their daily work. Each of them understands that embedding climate considerations into decision-making is about future-proofing our business and ensuring PMI's continued leadership in a rapidly evolving world.

Our commitment is clear: to use our operational leadership to drive the progress needed for a low-carbon future, proving that ambitious climate action and strong business performance can go hand in hand. Integrating sustainability into operations across our global footprint positions us not just as a company that adapts to change, but as one that shapes it. Together, we are proving that operational excellence and climate leadership are not competing priorities—they are the foundation of our long-term success.

Scott Coutts
Senior Vice President, Operations

Implementation

Direct operations (scope 1+2)

Our direct operations represent the part of our value chain over which we have the greatest control.

As part of our climate strategy, we enhance resilience by focusing on efficient energy use in our factories, a gradual switch to renewable and self-generated energy sources, and reducing carbon emissions in our fleet.

Most of our scope 1+2 GHG emissions originate from our manufacturing sites, which we are actively working to decarbonize by boosting energy efficiency and transitioning to renewable energy sources.

Our global Drive 4 Zero (D40) program is the cornerstone of our operational excellence efforts, designed to systematically reduce losses and improve efficiency across all sites. It focuses on resource optimization, energy efficiency, and employee engagement. While D40 contributes to our sustainability goals, its primary aim is to embed a culture of continuous improvement and operational discipline, balancing environmental performance with economic and business needs.

While D40 drives down overall energy consumption, Zero Carbon Technology (ZCT) initiatives are the engine behind our transition from fossil fuels to renewable energy by promoting the adoption of advanced technologies and renewable energy sources. ZCT enables the complete switch of on-site utility technologies to renewable-based systems, accelerating decarbonization and significantly reducing emissions at our manufacturing sites.

Together, D40 and ZCT have already delivered measurable reductions aligned with our scope 1+2 glidepath. We will continue leveraging on both to meet our 2030 near-term climate targets.

This work is complemented by our focus on developing and maintaining a low-carbon vehicle fleet, with a set of measures that include technology adoption and driving behavior to have a combined effect on emissions.

Energy efficiency initiatives

We focus first on continuing to promote efficient energy use in our factories and advance these efforts by implementing programs and frameworks designed to foster a zero-loss mindset and empower our employees to identify and apply operational efficiencies that optimize resources. These efforts are reinforced by continuous improvement in data collection, enabling a feedback loop that enhances energy management practices and supports the scalable deployment of successful initiatives.

In addition to energy savings, most of our D40 initiatives provide other environmental benefits such as reductions in water use and waste generation. Notably, examples of solutions implemented in recent years include advanced energy monitoring systems, automated control systems, heat recovery units, heat pumps, and the use of artificial intelligence for heating, ventilation, and air conditioning (HVAC) optimization.

Over the next five years, we will continue to invest in a comprehensive strategy to eliminate energy waste and increase resource efficiency across manufacturing operations by managing energy holistically—from how it is sourced to how it is consumed; we aim to ensure both efficiency and sustainability at every stage of the process.

We also seek to reduce energy use by implementing technological solutions. While each solution is tailored to the specific energy profile of the site, our efforts are based on a general framework that promotes process improvements and smart energy-saving solutions.

Additional resources

We disclose concrete examples and an annual quantified update on our progress in PMI's annual Integrated Report available on PMI.com, along with a range of case studies and market stories that detail specific programs and initiatives.

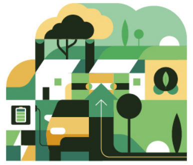
Transition to renewable energy

The second pillar of our strategy is to continue to increase the share of renewable energy sourced in our direct operations.

PMI sources renewable electricity through a mix of direct contracts with grid suppliers and unbundled Energy Attribute Certificates (EACs). We are exploring ways to strengthen this approach, including through time-based synchronization of renewable generation with our energy consumption and by securing long-term access to clean electricity through Power Purchase Agreements (PPAs), further reducing our reliance on conventional sources.

In parallel, our current focus is on increasing the share of electricity that is self-generated at our sites through technologies, with a particular focus on installing solar panels to progressively increase our resilience to transition risks that could cause different types of exposure to our sites depending on the geography.

Thermal energy generation is another area of focus. We invest in shifting our fuel consumption toward more sustainable technologies with lower GHG emissions such as biomass or electric boilers. For some of our sites, we work closely with utilities to ensure a growing portion of our consumption comes from renewable energy and we were successful in setting agreements for exchanging solar generated electricity in our factory in Portugal to leverage surplus production during the day.



Low-carbon fleet

We plan to continue lowering emissions in our fleet, focusing on investing in sustainable powertrains and driver training to optimize energy consumption and improve operational efficiency.

We select more environmentally friendly powertrains in our fleet renewal decisions and plan on retiring our most polluting cars (subject to the availability of appropriate infrastructure, legislation, and technological innovation). We drive the adoption of low emission vehicles through a global policy that guides fleet purchases and provides clear indications on expectations for all our affiliates.

We leverage eco-training and telematics where legally permitted to promote better driving and employee engagement in our carbon reduction efforts.

Mitigation measures

These three levers, and their corresponding activities, help us mitigate transition risks. Other strategic mitigation measures include reducing exposure to EU carbon emissions trading schemes by lowering our factories' installed stationary combustion capacity to maintain emissions below inclusion thresholds. We also implement targeted mitigation actions such as electrification via heat pumps and e-boilers, with the added benefit of avoiding local carbon taxes, which are applicable in some of the markets where we operate.

Overview of uncontrollable factors

While our scope 1+2 emissions are largely within our direct operational control, several external factors beyond our influence can significantly accelerate or hinder our decarbonization progress. Understanding and monitoring these uncontrollable variables is essential for realistic planning and adaptive strategy implementation.

External dependencies include the availability of renewable electricity for local purchasing, the pace at which national grids are decarbonizing, and market access to advanced technologies and equipment (such as heat pumps and fleet charging infrastructure). Additionally, increased power demand and the pace of electricity distribution infrastructure development could make access to low-carbon energy more challenging in the future.

Adaptation measures

Alongside mitigation efforts, we implement a comprehensive range of adaptation measures, guided by insights from our CCRO assessment.

To address drought risks, our factories are implementing water efficiency programs, including establishing water reserves and installing rainwater harvesting systems. In response to flood threats, we will continue to work toward enhanced site resilience by installing drainage infrastructure, elevating critical equipment above expected flood levels, and deploying flood protection barriers.

Alliance for Water Stewardship (AWS) certification demonstrates our ability to manage climate-related water risks, such as droughts and floods, by applying a globally recognized framework. It promotes efficient water use within manufacturing sites and encourages broader watershed stewardship, including water replenishment projects in priority areas. The AWS approach also fosters transparent collaboration with local stakeholders sharing the same water catchment, supporting sustainable water management beyond our direct operations.

To mitigate the effects of heatwaves, our factories are equipped with robust building insulation and effectively managed air conditioning and ventilation systems, safeguarding both operational continuity and employee well-being.

To guide our future efforts and proactively manage physical climate risks, we plan to integrate site-level adaptation plans into business continuity strategies and to define action plans for the most vulnerable hotspots identified by our CCRO assessment. These plans aim to safeguard business continuity, strengthen operational resilience, and reduce future cost exposure.

Broader value chain (scope 3)

Our supply chain is the area most exposed to physical climate impacts. Although indirect, there is a potential for external shocks to be transferred to PMI (e.g., increase in production costs, material shortage, or delay in delivery).

We seek to strengthen supply chain resilience by supporting and driving the improvement of working practices and introducing nature-based solutions to strengthen the provision of ecosystem services to protect working agricultural and forestry lands.

Additional resources

We disclose concrete examples and an annual quantified update on our progress in PMI's annual Integrated Report available on PMI.com and with a range of case studies and market stories.

Nature-based solutions

Focus areas to date include reforestation and afforestation efforts, renewable, traceable, and sustainable fuel sources for flue-curing tobacco, and enhancing curing barn efficiency. Emerging focus areas include an enhanced emphasis on carbon-based removals and regenerative agriculture practices. For paper- and pulp-based materials, we continue to work with our suppliers to reduce their FLAG emissions. Moving forward, we plan to engage our direct material suppliers on carbon removal opportunities as part of the sustainable management of working forests and plantations.

Forest Positive program

For over 10 years, PMI's Forest Positive program has emphasized forest conservation, restoration, and sustainable land use to reduce GHG emissions. As part of this program, we have worked to prevent deforestation in tobacco and pulp and paper supply chains using geospatial analysis and proprietary technology to assess forest risks and carbon sequestration opportunities through land restoration and preservation.

Stakeholder engagement with local communities is the basis for actively promoting sustainable forestry, supported by robust, internally built standard operating procedures, and a measurement, reporting, and verification (MRV) framework that aligns with best practices from AFi (Accountability Framework initiative) and IUCN's ROAM (Restoration Opportunities Assessment Methodology).

For sourcing fiber-based materials, our procurement process assures adherence to chain of custody protocols through Forest Stewardship Council (FSC) certification.

Sustainable tobacco curing

We primarily source Burley, Oriental, and Virginia tobacco. While Burley and Oriental are air- or sun-cured, Virginia—about half our volume—is flue-cured using external heat. The heat comes primarily from biomass, but a small share still comes from fossil fuels, making it a key decarbonization focus. As most farmers own their curing barns, we work with them and our leaf suppliers to improve thermal efficiency through better combustion, ventilation, heating control, and insulation.

Switching fuels to lower carbon options is a primary focus. We choose biomass where sustainable sources are available. Electrification is gaining momentum in China where electric heat pumps have been introduced as an innovative technology. Training is also provided on equipment maintenance and sustainable fuel use with recurrent updates on technology and best practice. We plan to maintain this approach to tobacco curing while focusing on further improvements and remaining receptive to further technological innovations.

Future plans

Building on years of Good Agricultural Practices (GAP), we're gradually promoting the shift toward regenerative agriculture with a focus on carbon sequestration, aligned with our FLAG commitment. GAP already promotes optimized nutrient use, soil pH management, and erosion control through mulching, cover crops, and reduced tillage. We're expanding soil quality assessments to include Soil Organic Carbon (SOC) to guide regenerative practices. Future efforts will emphasize agroforestry, crop diversification, and conserving natural carbon sinks around farms.

We anticipate carbon removals and nature-based solutions within our value chain will become increasingly important over time. Key initiatives to date have included forest restoration projects, nature-based solutions including our Perfect Forest™ concept, which promotes planned increases in forest biomass, mimicking natural ecosystems, and delivering long-term environmental and societal benefits while still maintaining a revenue stream for forest owners.

In our projects, we seek to foster carbon sequestration, biodiversity protection, and sustainable livelihoods as core outcomes in alignment with global forest conservation goals. Carbon removal practices are integrated within our GAP and will be further developed with a focus on crop rotation, reduced tillage, and precision nutrient management, all of which lead to more productive, climate resilient farms.

Logistics optimization

We apply a carbon emission reduction lens to logistics optimization through several global initiatives aimed at improving efficiency across our value chain. Part of our approach includes exploring the use of carbon pricing in scope 3 (read more in the Carbon pricing section).

We prioritize low-emission transport models such as rail and sea over road and air freight where feasible. The source of the fuel used in transport is a priority topic for each logistics sector and we are advancing discussions over having dedicated low-carbon fuels from our suppliers.

We are piloting the use of electric and hybrid vehicles for last-mile delivery and empty-mile optimization, partnering with non-governmental organizations such as the World Business Council for Sustainable Development (WBCSD) and the Smart Freight Centre (SFC). We work with logistics service providers (LSPs) to support their adoption of science-based targets and decarbonization plans aligned with our climate goals (read more in the Supplier engagement section). We plan to increase the inclusion of contractual commitments on annual intensity reduction goals with LSPs.

We engage with suppliers across our logistics categories such as overland carriers that supplied their GHG emissions data for the transportation of PMI goods. We plan to strengthen and focus on this approach to progressively transition from spend-based to supplier-specific calculations, making our carbon accounting methodology more robust and enabling us to shift to primary data, allowing us to better understand the carbon accounting impact of specific interventions. We will continue to work on automatically collecting data from LSPs and validating them on a quarterly basis for all modes of transport. Achieving this helps to reduce internal PMI resource requirements while simultaneously improving data granularity.

Supplier engagement

Our supplier engagement program ensures that sustainability is integrated across multiple dimensions of our collaboration with suppliers, from direct materials to tobacco leaf suppliers and selected indirect materials and services. It is complemented by targeted engagement, including through our Sustainability Accelerator program (learn more about it in a dedicated feature box on the next page).

Additional resources

We disclose additional information on supplier engagement, including details on onboarding and due diligence, monitoring risks and adherence, addressing risks and identified issues, tracking progress and reporting back, and building supplier capabilities, in a dedicated case study.

We follow a structured process that starts with onboarding and followed by a due diligence and data collection exercise, progress monitoring, risk mitigation, and remediation of identified issues. This is supported in parallel by supplier capability building.

In our purchasing process, integrating sustainability considerations into supplier selection gives us opportunities to opt for lower-carbon footprint suppliers while better understanding tradeoffs between cost and carbon. This approach enables us to make informed decisions when premium pricing for sustainable materials is strategically justified to meet our climate objectives.

Our supplier engagement lever operates on multiple levels. These include increasing supplier maturity through regular collaboration forums and capability building sessions, as well as monitoring suppliers' performance and working together on gap solutions.

We start with influencing suppliers with the highest emissions to adopt low-carbon practices and create market demand for sustainable solutions for their own supply chains—generating a multiplier effect that extends far beyond what we can accomplish independently.

When collaborating with our supply chain partners, we apply a continual improvement approach to enhance primary data coverage for forecasting accuracy and we encourage suppliers to set SBTi targets and disclose through CDP. PMI was named to the CDP Supplier Engagement Leaderboard for the eighth consecutive year in 2025.

The program is grounded in our Responsible Sourcing Principles (RSP) and complemented by a set of policies, procedures, and relevant initiatives with thorough due diligence mechanisms.

Monitoring supplier performance

To ensure our engagements deliver expected results, we have integrated sustainability into the quarterly supplier review process with a cross-functional committee. Each procurement category has its own sustainability subject matter expert who is responsible for onboarding suppliers, monitoring progress, and escalating issues when required.

To monitor supplier performance on sustainability related topics, we collaborate with credible third parties to perform desk-based assessments and on-site audits. Depending on the type of risk and in line with our supplier segmentation, we request suppliers to perform desk-based assessments or on-site audits through active participation in EcoVadis or the Responsible Business Alliance (RBA).

Determining where to focus our efforts

When suppliers are identified as having low sustainability scores, being major emissions contributors, or representing high spend, we prioritize them for additional targeted engagement. This includes capability-building webinars, quarterly face-to-face reviews, and site visits.

For suppliers who need support in meeting our expectations or who want to accelerate their progress, we engage in targeted programs over and above support on corrective action plans (CAPs) and regular engagement activities mentioned above, for example through the Sustainability Accelerator.

Engagement focus areas

Our approach is further supported by the deployment of dedicated sustainability programs, tailored to address specific environmental and social challenges, including a focus on biodiversity, water conservation, and the reduction of post-consumer waste, among others.

Agricultural practices

Sustainable farming plays a critical role in reducing GHG emissions across our tobacco supply chain, with fertilizer use identified as a key contributor. To address this, we are prioritizing the optimization of nutrient management to enhance carbon sequestration but also to contribute to improved farm productivity and resilience.

Looking ahead, we are actively working with suppliers and farmers to further promote low-emission agricultural practices, aiming to increase accessibility to climate-smart inputs. While nitrogen-based fertilizers remain essential to agricultural production, we monitor fertilizer use per tobacco-growing area to enable closer collaboration on co-designed locally adapted, climate-smart solutions with farmers and suppliers.

In this context, we support gradual and practical improvements through supplier engagement, while also working with selected fertilizer manufacturers to advocate for decarbonization efforts within the manufacturing phase. We are engaging with WBCSD's Emissions Reduction Accelerator (ERA) with a focus on the fertilizers sector deep dive.

Cellulose acetate (CA)

Cellulose-based acetate suppliers represent a significant share of our scope 3 emissions. We have developed a multi-pronged strategy to reduce these emissions arising from the manufacturing process of CA through various initiatives. Together with suppliers, we discuss different options that support their decarbonization journey, sharing our knowledge and incentivizing them to decarbonize by applying a carbon shadow price.

In the future, we plan to increase collaboration in tackling the root causes in hard-to-abate areas of our supply chain, including CA. We work with CA suppliers to improve data quality, which has allowed us to better understand their impact and role in our overall carbon footprint and plan more targeted interventions that can drive consistent progress.

Forecasting our suppliers' impact

In early 2025, we developed the Supplier Confidence Model, a strategic enabler designed to support our scope 3 decarbonization efforts and long-range planning.

Recognizing that the 2030 horizon exceeds most suppliers' planning cycles, the model addresses the challenge of forecasting supplier progress toward 2030 climate targets—even when concrete initiatives are not yet defined. It provides a structured, fact-based approach to estimate the likelihood of supplier-driven CO_2e reductions with a weighted confidence score, supporting decision-making across sustainability, procurement, and finance.

Our Operations Sustainability and Sustainability Procurement teams use underlying data from the Model to inform PMI's sourcing and supplier engagement strategy.

Sustainability Accelerator

With the objective to accelerate the implementation of sustainability initiatives within our supply chain, in 2023 PMI's Sustainability Accelerator began providing tailored coaching, practical resources, and robust performance tracking with our suppliers. This experience-based, solution-driven collaboration inspires suppliers and equips them with the tools needed to take meaningful steps in their decarbonization journey.

In procurement categories where footprint calculations are largely spend-based, we anticipate that this program will build supplier capabilities to move to primary data. The Accelerator began with a pilot phase with a handful of suppliers in 2023 and has expanded to reach 50 suppliers in 2025, accounting for 70 percent of our direct material footprint.

While still in its early stages, the Accelerator represents a strategic investment in supplier capability building that will be essential to achieving our scope 3 targets. As suppliers transition from spend-based to primary data and develop deeper emissions management expertise, we anticipate opportunities for co-investment in decarbonization solutions and accelerated innovation. We are targeting expansion to high-impact procurement categories where enhanced supplier capabilities can unlock significant emissions reductions.

Sustainability by design

Incorporating sustainability considerations into the design of our products functions by integrating environmental considerations throughout the product life cycle—from material selection and manufacturing processes to packaging, use phase, and end-of-life recycling and disposal.

For smoke-free devices, circularity principles can significantly reduce the carbon footprint per unit while extending product lifespans and improving material efficiency and recovery. By embedding eco-design standards into product development, we can decrease resource consumption, minimize waste generation, and reduce the environmental impact of manufacturing and distribution.

This approach creates lasting emission reductions that compound over millions of units produced, making product design optimization an important lever for achieving scope 3 emission reductions, while potentially also reducing costs and meeting evolving consumer expectations for sustainable products.

We focus on reducing plastic use in the filters of tobacco consumables, consumption of virgin raw materials in devices, primarily with the use of recycled content as well as extending their durability, repairability, and recyclability, while maintaining product quality and protection and meeting consumer expectations. In addition, we put in place programs that bring to life the interventions made at design level, including research and development activities aimed at eliminating the use of CA in smoke-free product consumable filters and cigarette filters.

We aim to drive continuous improvement in future product generations. To this end, we have explored eco-design standards and identified the criteria applicable to smoke-free electronic devices, consumables, and packaging. Our product development work cuts across multiple aspects of our value chain.

Eco-design framework

Our device eco-design framework acts as a comprehensive guide, embedding environmental stewardship at the core of design and innovation processes, and providing a science-based, step-by-step mechanism for evaluating and improving environmental performance, including product carbon footprint. This framework, along with supporting tools and procedures, ensures interventions are not ad hoc but are instead deliberate, measurable, and repeatable.

The program adheres to internationally recognized environmental standards and regulations and aligns with ISO 14020 (Environmental labels and declarations) and its derivatives, including ISO 14021 and ISO 14025. We also reference industry-specific certifications such as UL 2710, TCO Certified, and EPEAT, as well as leading eco-design regulations for electronic devices.

PMI's Internal Standard and Eco-design Guidelines consolidates all design-related requirements and is complemented with Standard Operating Procedures, Product-Specific Compliance Cards, and other materials. These documents provide structured guidance and governance for applying eco-design principles and interventions across the design process.

Deploying design interventions

Design interventions are tailored to PMI's specific environmental hotspots and opportunities, as identified through product-specific materiality assessments.

This process is further reinforced by gathering and analyzing consumer insights to align product innovation with market expectations, embedding sustainability as a central value proposition.

Similarly, global regulatory trends on circular economy are acknowledged and embraced as innovation drivers. We see added value in anticipating future regulatory requirements so that our designs meet regulatory requirements, such as those arising from the EU Battery Regulation and Single Use Plastics Directive.

Devices: Interventions include, among others, incorporating recycled plastics and metals into devices, improving energy efficiency, and designing for durability, repairability, and recyclability. This work is complemented by our efforts to integrate material innovation, including sustainable material use and low carbon or carbon neutral alternatives, when possible. We also have programs to refresh and repair existing devices, manage end-of-life take-back programs, and promote circularity.

Consumables: Notable initiatives include exploring alternatives to replace traditional CA in nicotine-containing product filters. This includes evaluating alternative materials that could reduce environmental impact across the material life cycle while meeting the performance specifications required. In addition, we are exploring possibilities to reduce the amount of other fossil- and metal-based materials in our heat-not-burn and e-vapor consumables, as well as searching for low-carbon options. As with our devices, end-of-life programs are developed to collect used consumables and reduce littering.

Packaging: We are embedding circularity principles at the design stage for primary, secondary, and tertiary pack elements, optimizing material usage, especially plastic, while maintaining product protection, and including, where feasible, recycled materials. We aim to improve both material and CO_2 intensity through this work.

Additional resources

Learn about details on product composition, environmental profiles, and actions taken to reduce negative impacts post-consumption in our annual Integrated Report available on PMI.com.

Quantifying our impact

To ensure that improvements are measurable, we use life cycle analysis (LCA). LCA provides a structured methodology for quantifying the environmental impacts of main devices, consumables, and packaging across all product stages, from raw material sourcing to end-of-life, and is central to these efforts.

We also develop Environmental Product Declarations (EPDs) for key products to ensure environmental impacts are communicated in a standardized, transparent format, verified by independent third parties. Internal tools for repairability evaluation further structure and streamline the process.

The combined effect of these initiatives is estimated to result in a reduction in product carbon intensity over the coming years. This is based on current assessments of our various carbon reduction projects and their potential for successful implementation.

The specific percentage of reduction may vary based on factors such as consumer acceptance, scalability of new materials, and consistent performance delivery. Our ongoing commitment, investment, and innovation remain focused on achieving and possibly exceeding this estimated reduction.

Addressing trade-offs: Product development

Our strategy addresses sustainability's interconnected challenges across the value chain, guided by our sustainability materiality assessment. We prioritize synergistic solutions while making informed trade-offs between urgent actions and long-term initiatives. Decisions are governed by a framework balancing business needs and stakeholder interests. We transparently communicate our choices and rationale, ensuring accountability and credibility. This approach enables us to allocate resources effectively and focus on areas with the greatest potential for impact and sustainable value creation.

The most prominent example of trade-off between our climate commitment and broader product transformation agenda is the carbon footprint of our product portfolio. Heat-not-burn products may have a higher carbon footprint than do cigarettes. This is in part due to the inclusion of an electronic device, which involves new components, a more energy-intensive manufacturing process, and requires electricity to charge. It is also partially due to the more energy intensive process to produce cast-leaf tobacco in our sticks.

To address additional product impacts from our heat-not-burn portfolio, efforts are focused on reducing the overall carbon footprint by selecting materials efficiently, applying sustainable design practices, collecting and processing devices through expert partners, and expanding capabilities for refreshing and repairing devices to extend their lifespan. Another prominent example includes our attempts to replace CA filters with other materials, as mentioned previously. Replacing CA to remove plastic may benefit the environment but might not necessarily lead to significantly less carbon intensive filter materials.

Product quality and safety are not to be compromised and guide new developments, while being systematically assessed in terms of potential tradeoff with carbon footprint.

We describe our broader approach to product development based on the specificities of each product category in our annual Integrated Report available on PMI.com.

Mitigation measures

Climate change mitigation in our scope 3 operations cannot be successful without a robust supply chain engagement strategy in place and a coherent approach to climate transition that looks at the impact on various stakeholders with a broad scope. With this guiding principle, we are committed to achieving deforestation-free supply chains for our tobacco, paper- and pulp-based materials, and key ingredients that are land use intensive, which together represent the vast majority of the land use in our value chain. The same approach to decarbonization is applied with our logistics partners, particularly as part of our efforts to mitigate the impact of transition risks such as the increased cost of alternative fuels for ocean shipping and air freight.

Adaptation measures

Our supply chain adaptation strategy mirrors the work we are doing for our own operations. Through our CCRO assessment, we have identified climate risks and hot spots for intervention. Through the experience of working on climate change from a global perspective, we have drafted our first set of climate change adaptation guidelines that will be guiding the engagement with producer communities in our value chain to support action and sustain natural land stewardship in the long term.

In this context, our forestry management efforts support the provision of ecosystem services to local communities and especially to indigenous people in some of the geographies where we operate who depend on the functions of healthy natural ecosystems. In protecting tobacco crops from the increasing impacts of climate change, we ensure that crop technologies are adapted to drought and flood, and especially in areas of the world, such as southern Brazil or the Philippines, where some of the effects of climate change are emerging with recurring fashion.

Overview of uncontrollable factors

Our decarbonization efforts depend on external factors, including both policy- and industry-driven pathways to climate change mitigation.

Policy-driven factors that can influence decarbonization include emissions standards, fuel economy regulations, sustainable agriculture mandates, and agricultural policies. However, these remain beyond our control and may either accelerate or constrain our progress, creating uncertainty in our decarbonization planning timeline and outcomes. To influence what is outside of our sphere of influence, we actively engage with different stakeholders that can help drive policy, and in turn regulation, that supports transition (read more in the Stakeholder engagement section of this report).

Challenges persist, including limited access to low-emission transport, cost-driven reliance on non-renewable energy sources, and technological limitations in sustainable agriculture practices. These challenges confirm the need for adaptive strategies that balance ambition with external dependencies and evolving market conditions.

Financial planning

We have embedded climate-related considerations into our business's financial planning to ensure that our carbon transition plan is integrated into our broader business strategy.

The financial effects of this transition on our performance—cost, cash, and investments—are assessed on short- and long-term time horizons.

Additional resources

We disclose concrete examples and quantified update of our progress in our annual Integrated Report available on PMI.com, along with a range of case studies and market stories.

Executing our climate transition requires rigorous financial planning and cross-functional collaboration to manage physical and transition risks while capturing opportunities. Our Finance team works with Operation functions, Tax, and Legal functions to structure and execute climate investments.

To operationalize our decarbonization ambitions, we allocate annual resources via internally generated cash flow to sustainability teams within our functions (i.e., Operations, R&D, Category, etc.). These teams are tasked with identifying, evaluating, and tracking carbon abatement opportunities, supported by a structured intake process that mirrors our enterprise-wide stage gate methodology. This ensures that decarbonization initiatives undergo rigorous cost-benefit analysis and follow the same approval chain as other strategic investments.

In 2025, we transitioned responsibility for carbon accounting forecasts to the Finance function. This structural shift enhances alignment with corporate long-range planning by synchronizing the CO_2 glidepath with financial planning pillars—cost, cash, and CapEx—ensuring strategic coherence and operational accountability.

Key activities include developing financial models for decarbonization projects and climate adaptation investments, analyzing transition risks—particularly those associated with carbon pricing, environmental taxes, and evolving regulatory requirements—and assessing physical risks to our operations and supply chain. We evaluate risk-reward trade-offs across climate-related opportunities, from renewable energy investments to low-carbon product innovations, supporting leadership decisions on capital allocation.

Risk management is central to the process: scenario modeling, shadow carbon pricing, and de-risking pipelines are used to assess climate-related financial impacts and prioritize initiatives. The framework we use enables agile decision-making by consolidating CO_2e actuals, forecasts, and initiative tracking into a single repository supported by Finance, Global Business Solutions, and Operations functions. This ensures that climate performance is not only measurable but also financially viable and resilient to evolving regulatory and market conditions.

Based on the results of our most recent CCRO assessment and in particular scenario analysis in the short term to mid term, revenues and access to capital are not impacted by climate change, and recent acquisitions and divestments are not expected to materially impact PMI.

We maintain a quarterly cadence to review our climate financial plan, engaging all functions that materially contribute to our carbon footprint, as well as a monthly cross-functional drumbeat with subject matter experts to align on challenges and opportunities within the functions and to cross-pollinate ideas.

The integration of sustainability in the curriculum of these departments demonstrates the degree of sophistication we have reached in our financial planning for climate-related initiatives, with clear benefits arising from climate performance being on the same track as our business development strategy.

Carbon pricing

Assigning a monetary value to GHG emissions transforms emergent climate risks into concrete financial considerations. This approach enables us to internalize environmental externalities and drive meaningful action to reduce emissions contributing to global warming.

Since 2020, PMI has implemented internal carbon pricing mechanisms to support decarbonization efforts and align action within our direct operations.

Shadow carbon price

We apply an internal Shadow Carbon Price to be used as a carbon abatement cost. The most updated price is disclosed in our annual Integrated Report available on PMI.com. The price is integrated into investment evaluations, ensuring that the cost of carbon is considered in capital allocation and strategic planning.

The value was established through a rigorous methodology that incorporates recognized benchmarks, including guidelines from the World Bank, and follows the Stiglitz & Stern carbon price corridor which is revised and updated every two years. The approach is orchestrated by our Operations Sustainability function and is tailored to PMI's global emissions profile and geographic footprint, reflecting a multi-scenario analysis of transition risks projected through 2030. The price is also benchmarked against peer companies and evolving carbon markets and schemes to maintain relevance and competitiveness.

By embedding this price into our financial processes, we ensure that climate-related risks are proactively managed. This approach supports investments aligned with our long-term sustainability goals and prepares the organization for future regulatory and market developments.

As part of our 2030 strategy for climate, we plan to leverage the work done in recent years to extend our carbon pricing approach to scope 3 GHG emissions. In 2023, we developed our first internal carbon price pilot for ocean shipping. The initiative established a price reference to GHG emissions and incorporate them as a decision criterion for PMI's ocean logistics.

Building on this pilot, we are evolving into a more structured approach with our Procurement and Supply Chain functions. We will include material categories and additional means of transport (e.g., land, air) into internal carbon pricing. The end goal we are setting for our climate strategy is to have diversified internal carbon prices for the most relevant areas of our value chain and apply the concept where possible to drive engagement with our suppliers.

Carbon pricing will be an enabler for defining the strategy and investment conditions for our Climate Lab. Our Climate Lab is the structure we are establishing as we design our 2030 strategy that will focus on developing innovative solutions to support activities being implemented within each of our decarbonization levers. We plan to provide further details on this initiative in our next annual Integrated Report, scheduled for early 2026.

Carbon levy

Historically, we have complemented our shadow price with a carbon levy, most recently set at USD 11 per ton of CO_2. We have relied on this carbon levy to help determine adequate budgets required to support our carbon neutrality target that partially relies on emissions offsetting (e.g., through high-quality carbon credits) and on value chain initiatives (e.g., nature-based solution projects in our supply chain).

We introduced the concept of a carbon levy in 2020 to incentivize behavioral change and to form a budget that was conducive to set up a Portfolio of Climate Investments (PCI) to compensate remaining CO_2 emissions and achieve carbon neutrality. As we are set to achieve carbon neutrality in our direct operations (scope 1+2) in 2025, we are exploring opportunities to evolve our carbon financing mechanisms. This evolution will ensure our approach remains fit-for-purpose in supporting the next phase of decarbonization projects and initiatives aligned with our 2030 carbon reduction targets (read more about PCI in the next column).

PMI's Portfolio of Climate Investments (PCI)

Our PCI framework, introduced in 2021, established a comprehensive way to strategically invest in high-quality carbon projects offsetting our scope 1+2 GHG emissions.

We have operationalized PCI by applying a consolidated, technically robust approach to guide the selection and funding of our climate investment. We have evaluated opportunities to invest in additional carbon projects from the voluntary market through a proprietary checklist based on 25 criteria and verified with an external due diligence partner. This assessment has been complemented by a Sustainable Development Goal (SDG) evaluation for social impact aligned with the UN development agenda. The criteria that are adopted for project screening have been based on PMI's core principles and additional attributes for carbon credits and certification standard requirements.

We have maintained a budget for specific projects in the voluntary carbon market, overseen by an advisory committee of cross-functional PMI senior leaders (including our Chief Sustainability Officer and Senior Vice President, Operations). The committee has approved resource allocation for climate solutions and has validated investment selections.

The PCI has enabled us to build a diversified portfolio of carbon credits and nature-based solutions, prioritizing direct climate investments in our value chain rather than market approaches (offsetting) to deliver measurable environmental and social co-benefits, supporting both our 2025 carbon neutrality objectives and broader sustainability goals. This strategy has delivered high-quality results while controlling costs versus the fluctuations of the carbon credit market.

We have advanced value chain investments through nature-based solutions in our tobacco supply chain, generating carbon credits while enhancing the socioeconomic development of tobacco-farming communities. This has created co-benefits such as resilient ecosystems and improved safe water access.

Nature-based solutions are an important decarbonization lever in our broader value chain (scope 3) strategy. As such, we firmly believe in nature-based solution projects to advance our climate agenda both for carbon sequestration and ecosystem restoration and protection. The primary example to date pertains to testing our Perfect Forest™ concept in certain markets (read more about it here). Perfect Forest™ creates value through sustainable forestry practices to sustain production (e.g., wood, biomass or forestry products).

Carbon credits

To date, we have focused on maximizing emission reductions in our direct operations while compensating for remaining emissions to achieve carbon neutrality through carbon credits by year-end 2025.

PMI has purchased only carbon credits that are certified by well-regarded GHG sequestration programs and listed on public registries, in accordance with the latest international guidelines available (e.g., the Integrity Council for the Voluntary Carbon Market (ICVCM).

Currently, value chain projects fully managed by PMI are underway in Mozambique and at a different stage of development in other geographies; however, considering their lead time to generate credits, PMI has purchased carbon credits from the voluntary carbon market to meet our 2025 carbon neutrality aspiration across our scope 1+2 GHG emissions.

Looking ahead

Our long-term goal is to explore projects in our value chain to sequester, remove, and store carbon with a focus on nature-based solutions. Projects that generate additional environmental and social co-benefits will continue to be prioritized.

Moving forward, to support the evolution of our environmental strategy, we are working to scale up the PCI beyond its current focus on emissions compensation to support initiatives that contribute to decarbonizing our emissions at source.

We are also looking with growing interest into GHG removals to better integrate them into our environmental strategy, particularly in relation to our 2030 land-based emission reduction targets. We plan to reassess the relevance and applicability of carbon removals after the GHG Protocol publishes its "Land Sector and Removals Guidance" which is expected to be finalized after the publication of this report. We plan to focus on the role that regenerative agriculture, ecosystem restoration, reforestation, and other nature-based solutions can play in removing carbon in our value chain.

As we approach the achievement of our carbon neutrality in direct operations (scope 1+2) target, we plan to provide further details on the role that carbon market mechanisms might play in our climate strategy in our next annual Integrated Report, scheduled for early 2026.

Stakeholder engagement

Our approach

Our CTP is informed by and responsive to stakeholder expectations; our success is also contingent on our stakeholders' actions toward a low-carbon economy.

PMI regards stakeholder engagement as fundamental to the achievement of our decarbonization goals. Actively seeking open dialogue with our stakeholders allows us to understand their expectations and the impacts our business generates, and to respond in a proactive manner that is proportionate to our ability to manage such impacts effectively. Continuous engagement also enables us to build a shared understanding of climate-contingency issues, respond with agility, identify potential areas of compromise, stay abreast of global trends and market expectations, and find solutions that are good for our stakeholders and our business.

Further, we understand that PMI is part of a broader societal framework, where many of these impacts represent shared challenges. Through our engagements and advocacy efforts, we seek to achieve change on a broader scale beyond what we can achieve alone.

This CTP seeks to clearly articulate our transition plan and transparently specifies that there are certain areas beyond our full control that require systemic change, where a diverse group of stakeholders is critical to achieving success at scale.

Our stakeholder engagement incorporates both structured and ad hoc interactions. Above all, it is guided by transparency, integrity, and respect.

These interactions are governed by our Environmental Policy, Code of Conduct and its accompanying Policies including PMI 14-C Global Anti-corruption Policy, and PMI's Overview of our engagement principles.

In this section, we detail our engagement with the key external stakeholder groups outside of our value chain whom we consider instrumental in driving action toward decarbonization—civil society, the finance community, and regulators.

To complete the picture, detailed information on supplier engagement is included in the Implementation: Broader value chain section of this report, and our approach to employee engagement is described in the Human capital development section of this report.

Additional resources

We disclose our general approach to stakeholder engagement, key learnings, and additional information on memberships and alliances we support, as well as an overview of our sustainability advocacy work. on PMI.com.

Civil society

Civil society organizations, including environmental NGOs, academic institutions, and community groups, play a crucial role in driving climate awareness, advocating for ambitious policy frameworks, and holding organizations accountable for their environmental commitments. These stakeholders bring essential perspectives on environmental and social impacts, contribute with valuable research and expertise, and serve as important bridges between corporate action and community needs.

Understanding the local contexts of the communities from which we source is critical for deploying strategic programs in the markets where we operate. Accordingly, we work with local implementing partners, ensuring that our programs are adapted to local contexts and are maintained over time.

We work with more than 30 partners in our key sourcing regions on programs ranging from water stewardship, installation of photovoltaic panels, biodiversity and deforestation monitoring, sustainable agriculture, research and development of more sustainable fertilizer options, and expanding mechanization to improve yields without increasing fertilizer requirements.

Engaging with the Science Based Targets initiative

During 2025, the Science Based Targets initiative (SBTi) released several key updates to its Net-Zero Standard for public consultation. PMI provided input to the consultation through the WBCSD's aggregated response.

We support greater flexibility in scope 3 GHG emissions, particularly the shift from fixed percentage-based target boundaries to threshold-based approaches that prioritize material emissions-intensive activities. This aligns with our prioritization approach, which focuses on controllable elements of our GHG inventory. We also welcome the potential introduction of additional market-based levers to support net zero pathways. We welcome clearer guidance and recognition of the role of removals in addressing residual emissions in the future.

We also participate in multistakeholder initiatives to share challenges and best practices, with the aim of accelerating progress at scale. These allow us, among other considerations, to reinforce the skills and capabilities we need to deliver our strategy and remain up-to-date on emerging trends. Some of our most prominent engagements include:

- We Mean Business Coalition: Supporting the Fossil to Clean campaign and becoming part of the coalition of companies that developed the business action checklist, a near-term set of actions that businesses can take in the next two to five years to decarbonize their operations.
- World Business Council for Sustainable Development (WBCSD): Our membership supports the development of capabilities needed to achieve net zero. PMI is featured in numerous case studies, including those on the Climate Drive's best practice for engaging suppliers toward accelerating reductions in scope 3 emissions, innovative work on Heat-as-a-Service, and the integration of the climate and nature agendas as part of WBCSD's TNFD Pilot.
- World Sustainability Organization: We worked with WSO's Friends of the Earth to develop the world's first standard for sustainable flue-curing of tobacco. We shared our methodology and encouraged its use across industry to scale-up adoption of sustainable tobacco production (learn more here).
- Other strategic memberships include those platforms that enable us to assess climate-related risks, opportunities, and impacts (read more here), and to monitor progress in our supply chain (read more here).
- Partnerships with strategic organizations such as BSR, Trellis Group, Business for Nature, Sustainable Brands, and several other NGOs and academic stakeholders enable us to convene and connect with experts, identify common challenges, and signal support for systemic solutions.

In addition to these examples, we belong to many carefully selected business and trade associations around the world. We work with these groups because they represent our industry and the larger business community in policy discussions on issues where we have a common interest or objective.

Our stakeholder engagement activities are guided by transparency, integrity, and respect. They are governed by our Code of Conduct and its accompanying policies. We routinely evaluate our participation to ensure that the groups' objectives align with the long-term interests of PMI and its shareholders, and that their activities continue to reflect PMI's values and high standards of conduct.

Recognizing the potential of the trade associations in which we are members to support an enabling policy environment for our decarbonization strategy, we are currently collaborating with civil society organizations—recognized thought leaders in constructive policy engagement—to identify the most effective approach for monitoring whether these associations' climate-related activities and policy positions align with our strategic ambition.

Finance community

The finance community—including investors, rating agencies, and other capital market participants—is a key stakeholder group in our climate transition journey. Their expectations and demands for transparency shape our strategy and practices, guiding us as we strive for accountability and progress.

To support their assessment of our climate performance, we provide comprehensive nonfinancial disclosures aligned with international standards. Our annual integrated report and other sustainability disclosures, which contain disclosures that go beyond regulatory requirements, focus on the information needs of financial stakeholders and provide clear, data-driven insights.

Our participation in leading ratings, such as CDP or S&P Global, enables independent evaluation of our efforts and facilitates comparison with peers.

Moreover, through ongoing engagement and dialogue, we also share directly our climate transition plans and progress, gather feedback, and refine our approach and reporting.

Regulators

Our engagement with regulators focuses on providing transparent information about our climate strategy and performance, contributing technical expertise to policy development processes, and demonstrating compliance with evolving environmental laws and climate-related disclosure requirements such as the EU's CSRD, California's SB 253 and SB 261, other jurisdiction-specific climate regulations, and voluntary standards such as the ISSB's S2 and TPT framework.

We recognize the value of mandatory, harmonized disclosures of sustainability-related data, including climate information. Standardized and comparable reporting can help stakeholders gain clearer insights into companies' impacts, risks, and opportunities, and help identify systemic challenges and areas for potential progress. Furthermore, we advocate for regulation that not only sets clear pathways for transition but also actively fosters technology and innovation. As outlined in the External factors shaping our strategy section of this report, we believe that regulatory frameworks that catalyze investments can play a critical role in driving adoption of new technologies, and accelerating progress toward climate goals.

Engagement Prioritization Framework

In 2025, we established a framework to prioritize our future policy engagement on climate issues, focusing initially on scope 3 emissions reductions, as summarized below:

1. Identify priorities: Through sustainability materiality assessments, stakeholder engagement activities, business relevance reviews, and analysis of external megatrends and public policy trends, we identify priority sustainability topics and determine where policy intervention can support our transition plan.
2. Pinpoint emissions hotspots: We cross-reference our carbon footprint and reduction targets to identify the most emissions-intensive activities in countries where policy interventions can enable decarbonization.
3. Assess opportunities: Working with internal teams and external experts, we plan to evaluate potential engagement activities at global and local levels to maximize impact.
4. Deploy advocacy: We will seek to engage through industry bodies, membership associations, and multistakeholder platforms, or directly through public policy engagement.

Our approach will be continuously informed by external perspectives and policy developments, with insights feeding back into the framework.

Impact on our stakeholders

We recognize that the transition to a low-carbon economy must be both rapid and responsible. While urgency is essential, we also aim to ensure our transition approach considers the diverse needs and potential impacts on all stakeholders affected by these changes.

As with all significant business transformations, decarbonization efforts may have unintended social and economic consequences for stakeholders, including farmers, workers in the value chain, employees, and communities. We are committed to engaging with our stakeholders, conducting thorough impact assessments, and developing appropriate support mechanisms and mitigation strategies to address potential disruptions.

To date, our efforts have centered on stakeholder engagement and embedding stakeholder impact considerations in our environmental initiatives. Such initiatives include crop diversification, no deforestation of primary forests and protected areas, effective irrigation methods, water stewardship in manufacturing operations, water, sanitation, and hygiene (WASH) access, and nature-based solutions connected to community benefits.

As we advance our decarbonization strategy, we will leverage learnings and experience from this work. We view stakeholder impact management as both a process and an outcome. Our efforts to ensure integrity and fairness when considering stakeholder impacts are integral to all elements of our decarbonization strategy.

While progressing toward realizing our climate ambitions, we will strive to prevent and mitigate potential negative impacts while maximizing the benefits for stakeholders at every stage. Our goal is to ensure that the needs and perspectives of all stakeholders are meaningfully addressed.

To prioritize the social and economic dimensions of our decarbonization efforts, we have established a structure that brings together subject matter experts from across our Operations Sustainability functions and reports progress to our Operations Leadership Team to ensure accountability at the management level.

Our technical and social sustainability experts collaborate closely and are guided by our long-standing commitment to the United Nations Guiding Principles on Business and Human Rights (UNGPs), the Transition Plan Taskforce disclosure requirements, and relevant OECD Guidelines and ILO Conventions. We seek to align with regulation from various jurisdictions and align our operating standards to meet these requirements.

As our decarbonization strategy progresses, this team will lead efforts to engage with all relevant stakeholders, evaluate social risks, impacts, and opportunities, and define appropriate support mechanisms and mitigation strategies. Our ongoing efforts reflect a deepening understanding of our responsibility, as well as a recognition of the opportunity for us to contribute meaningfully to sustainable economic development.

We will focus on our tobacco supply chain to assess the extent to which the promotion and implementation of climate change mitigation measures among stakeholders address potential disparities and vulnerabilities in relation to our net zero progress.

Additional resources

We disclose more about this topic in our 2021 briefing paper and about our work on human rights in our annual Integrated Report, dedicated 2023 report, and market-specific human rights impact assessment case studies.

Governance

Policies

PMI policies, frameworks, and commitments provide the rules and principles that guide our business—from how we run our operations and develop, manufacture, and sell our products to how we engage with our direct and indirect business partners. These policies underpin our strategic climate ambition and the work described throughout this report.

In 2025, we published our new Environmental Policy. In today's business environment, environmental stewardship has evolved from a compliance obligation to a fundamental business imperative that directly impacts financial performance, competitive positioning, and long-term viability.

Environmental risks—from climate change and resource scarcity to biodiversity loss and regulatory shifts—represent material business risks that require systematic management through clear governance frameworks. At the same time, stakeholders—including investors, customers, employees, and communities—increasingly expect transparent environmental leadership, with environmental performance directly influencing access to capital, market opportunities, and talent acquisition.

Our newly introduced Environmental Policy establishes a comprehensive, materiality-based framework that enables our organization to proactively manage environmental risks, capitalize on sustainable business opportunities, ensure robust governance over environmental decision-making, and maintain stakeholder trust.

By addressing our most significant environmental impacts across product circularity, climate change, and nature stewardship, this policy positions our company to thrive while protecting long-term shareholder value and fulfilling our responsibility to operate within planetary boundaries.

This rationale connects environmental action to core business drivers: risk management, stakeholder expectations, competitive advantage, and long-term value creation. It also reinforces our materiality-based approach, aligning with the environmental outcomes of our most recent SMA and our updated sustainability framework. The policy extends across our value chain and is reviewed by our Sustainability Committee, and approved by the Board of Directors.

Some of our other key policies with respect to climate, nature, and our impacts on stakeholders are summarized below.

Policy or condition	Description	Climate- and nature-related topics covered
Good Agricultural Practices (GAP)	GAP define the principles and measurable standards that must be met by all who grow and supply tobacco to PMI. These principles and standards focus on three areas: how to improve working conditions on the farm, how to address the impact of tobacco farming on the environment, and how to make tobacco farming profitable and sustainable.	Soil conservation and erosion control, water management and conservation, biodiversity protection, reducing deforestation, reforestation, integrated pest management, reduced agrochemical use, and climate risk adaptation through sustainable farming practices.
Responsible Sourcing Principles (RSP)	The RSP outlines PMI's overarching framework of values, as well as process and performance requirements that PMI's suppliers must refer and adhere to as part of their business relationship with PMI. Section 1 contains a set of fundamental principles which are mandatory for suppliers who wish to do business with us ("Fundamental Principles"). Section 2 contains a set of guidelines and implementation tips relating to the Fundamental Principles, to support suppliers in the development of good practices ("Guidelines and Implementation Tips"). The Guidelines and Implementation Tips are indicative, not exhaustive, and should be used solely for guidance purposes. It is focused on the supply chain and endorsed by PMI's CEO.	Environmental principles, reducing environmental impact, supplier sustainability-related risk screening (including climate and nature), encouraging climate risk mitigation and nature preservation programs.
Zero Deforestation Manifesto (ZDM)	The ZDM complements and details the deforestation-related aspects described in PMI's Environmental Policy. It outlines how PMI will achieve its vision and specific approaches and commitments with respect to halting deforestation. It is focused on the upstream and direct operations portion of our value chain. The updated version was rolled out in 2025 and endorsed by PMI's CEO.	Halting deforestation and forest degradation; protecting biodiversity and ecosystem services; achieving zero net deforestation of managed natural forests and no conversion of natural ecosystems; addressing deforestation risks in tobacco and paper and pulp supply chains; and supporting climate regulation through forest conservation and sustainable land use practices.
Sustainable Tobacco Supply Chain (STSC) Framework	The STSC Framework focuses on the full life cycle of tobacco production and targets actions toward the tobacco we purchase and use in our products. The aim of this approach is to address the sustainability risks and impacts in the countries where PMI sources its tobacco.	Traceability of environmental risks in the supply chain, monitoring of climate-related risks and resilience building, integration of GAP environmental standards, emissions reduction, and sustainable sourcing, aligned with sustainability goals (including climate and nature).
Human Rights Commitment	This Commitment outlines PMI's commitment to human rights in its own workforce and in value chain workers. It outlines PMI's basic principles, implementation, and governance of human rights commitments, prevention and remediation of human rights commitments, and grievance mechanisms. It extends throughout the value chain and is endorsed by PMI's CEO.	Right to a healthy environment; ecosystem and biodiversity protection; minimizing emissions and resource use; respecting land rights and Free, Prior, and Informed Consent (FPIC); addressing environmental risks to vulnerable groups; due diligence in high-risk regions; and impact on stakeholders.
Code of Conduct	This code is the foundation for the "PMI Way" of doing business. It requires PMI directors, officers, and employees to use good ethical judgment when conducting business by applying our ethical principles of honesty, respect, and fairness. This code defines PMI's culture and ethical principles, explains what ownership of the code means, and discusses topics including asking questions and reporting concerns, and delivering with integrity (in PMI's workplaces, marketplace, for PMI's shareholders, and communities). It is applicable also to PMI's direct operations and is approved by PMI's CEO.	Minimizing environmental impact, complying with environmental laws, supporting sustainable practices across operations and the supply chain, protecting natural resources, reducing emissions and waste, contributing to climate- and biodiversity-related goals, and promoting ethical decision-making that accounts for long-term environmental consequences, reinforcing environmental stewardship.

Board oversight

The primary responsibility of the Board of Directors (the Board) is to support the long-term success of our company.

The Board establishes broad corporate policies, sets strategic direction, and oversees Company Management—the individuals responsible for PMI's day-to-day operations.

To assist in fulfilling its responsibilities, the Board has established various standing committees and adopted corporate governance guidelines. Together with the company's articles of incorporation, bylaws, Board committee charters, PMI's Code of Conduct, and related-person transactions policy, these documents form the governance framework for the company.

While the Nominating and Corporate Governance Committee (NCGC) oversees the company's sustainability strategies and performance, several other committees are tasked with oversight of specific sustainability topics. For instance, the charter of the Audit and Risk Committee (ARC) assigns responsibility for reviewing, with management and internal and independent auditors, any sustainability information—including information pertaining to the CTP—to be included in the company's financial reporting framework as well as the internal controls and procedures related to sustainability disclosures.

PMI's Chief Sustainability Officer and Senior Vice President, Operations presented the outcomes of the updated CCRO assessment, as well as changes to key climate targets, to the ARC for review and approval as part of the development of our climate strategy and further preparation of this CTP.

The Compensation and Leadership Development Committee (CLDC) is responsible for executive compensation matters, which include, among other things, evaluating the company's performance in relation to the PMI Sustainability Index.

PMI's Chief Sustainability Officer updates the CLDC, the NCGC, the ARC, and the full Board of Directors at least once per year on sustainability-related matters, including progress in priority areas and an overview of key initiatives.

PMI assigns ownership of each prioritized key risk area, including those related to climate and nature, to a member of our Company Management. Furthermore, risk oversight is conducted by the full Board of Directors, as well as by Board committees within their respective areas of responsibility.

Throughout the year, Company Management regularly updates the Board and its committees on the evolution of key risk areas. Our Enterprise Risk Management practices are designed to support Company Management and the Board in their respective roles and, ultimately, to ensure the adequacy of PMI's responses against each prioritized key risk area.

The complete text of our CTP has been shared with our Board. The CTP has not been subject to shareholder approval.

Governance mechanisms into which climate-related issues are integrated

- Reviewing and guiding strategy, major plans of action, risk management policies, annual budgets, and business plans.
- Setting performance objectives and monitoring their implementation.
- Reviewing, approving, monitoring, and overseeing progress against goals and targets for addressing climate-related issues, including those contained in the CTP and those linked to long-term executive compensation.
- Overseeing major capital expenditures, acquisitions, and divestitures.
- Reviewing and approving climate-related disclosures and external assurance of climate-related disclosures (including those provided by PwC).

Additional disclosures

Documents related to PMI's governance framework are available on PMI.com. PMI's 2025 Proxy Statement contains detailed information on our Board and committee structure, the independence of its members, and the responsibilities and meeting frequency of each committee.

PMI's annual Integrated Report, available for download on PMI.com, provides updated details on the Board's sustainability responsibilities.

Management oversight

Anchoring our sustainability priorities within executive responsibilities and accountabilities helps ensure that our climate strategy remains aligned with our business priorities.

Disclosure governance

Over the past decade of voluntary sustainability reporting, PMI has established a disciplined process to ensure the quality and reliability of its disclosures. This approach has been developed and reviewed by our internal risk functions. It has been applied to this CTP and includes well-defined reporting objectives, cross-functional collaboration, and clear ownership of disclosure responsibilities.

Ongoing monitoring and regular reporting to senior management ensure effective oversight and guidance. Additionally, we engage external assurance providers to verify key metrics reported annually, including climate-related ones (read more in the Metrics and targets section of this report).

By consistently applying sustainability reporting controls, we strive to continuously enhance the accuracy and robustness of our disclosures.

Sustainability Committee

Composed of members of Company Management, including our CEO, PMI's Sustainability Committee meets at least four times per year. Members of Company Management are ultimately accountable for executive oversight and delivery of PMI's sustainability agenda within their respective areas of responsibility. PMI's Company Management primarily consists of our Chief Executive Officer, his direct reports who lead various business functions and regions, and other senior management, such as the Vice President of Treasury and Corporate Finance and the Vice President & Controller.

This includes, among other responsibilities, approving climate targets and monitoring the progress of our CTP. Our Chief Sustainability Officer (CSO), who reports to the Chief Financial Officer, leads the integration of sustainability into our corporate strategy and regularly briefs both the Sustainability Committee and Board of Directors on progress and strategic implications.

Senior Vice President, Operations

Reporting directly to the CEO, PMI's Senior Vice President, Operations (SVP Operations), a member of Company Management, is strategically positioned within the company's structure to effectively engage the Board and specific departments on climate issues. He periodically holds discussions with individual Board members on climate-related issues and risks.

PMI's SVP Operations leads the Operations Sustainability function and receives updates on progress toward objectives and their achievement in monthly meetings with the Operational Leadership Team reporting to him.

Our SVP Operations is tasked with operational responsibility, including:

- Setting business direction, objectives, and performance appraisal process with respect to our climate ambition
- Setting climate-related targets and driving PMI's decarbonization agenda, including the development, monitoring, and delivery of our CTP
- Maintaining robust business resiliency and risk assessment processes aligned with this plan and corporate-wide risk management practices, including strategies to support business continuity
- Addressing climate-related risks and opportunities identified during our CCRO assessments—both physical and transition—across the company's activities
- Ensuring that climate change risks and opportunities are assessed, managed, monitored, and integrated into PMI's long-range planning and budget review process

Climate-related risk management

Our business operates in a complex, volatile, and regulated environment with a rapidly evolving global landscape where stakeholder expectations are constantly increasing. In response to such expectations, we run a robust Enterprise Risk Management (ERM) program to manage current and emerging risks that may impact our ability to achieve our business objectives. This program enables us to effectively manage uncertainties while enhancing the company's resilience and protecting its value.

As part of our risk management practices, we have a Corporate Risk Governance Committee (CRGC) made up of senior executive officers. The CRGC periodically reviews enterprise risk management reports for each key risk area and, where required, makes decisions to ensure risks are appropriately managed. It oversees, challenges, and monitors the integrity, scope, and design of the ERM program. You can learn more about our risk governance in PMI's annual Proxy Statement available on PMI.com.

Within this context, sustainability-related risks and opportunities are considered as part of our risk management practices (read more about how we identify material impacts, risks, and opportunities in the Climate as a strategic business priority section of this report).

All material sustainability-related risks and opportunities, including climate- and nature-related risks and opportunities, are integrated into our enterprise-wide risk landscape and mapped to specific key risk areas within the Enterprise Risk Taxonomy. Climate- and nature-related risks and opportunities are primarily associated with sourcing, supply, and manufacturing key risk areas. These areas are owned by the SVP Operations, who regularly reports to the CRGC on how known climate-related risks are being managed to safeguard our business objectives.

Mapping results to business risks

We continuously enhance our understanding of how climate-related risks may impact the achievement of our business objectives, while also identifying opportunities that may arise. To deepen this insight, we have initiated a closer alignment of the CCRO assessment methodology with our Enterprise Risk Rating Methodology. This enables us to present climate-related risks within the broader context of enterprise-wide risks, using available scenario planning models and existing risk mitigation mechanisms. As a result, we are able to make more informed decisions about resource allocation, ensuring that long-term considerations are effectively incorporated into the ERM process.

Operational oversight

Through a cross-functional Sustainability Performance Group, our Chief Sustainability Officer orchestrates collaboration across departments to capture emerging opportunities and manage risks.

PMI's central Sustainability Team drives strategic planning through sustainability materiality assessments, develops implementation roadmaps, and ensures cohesive execution across business units and markets. Program-specific working groups coordinate initiatives to maximize business impact and operational efficiency.

Our Sustainability Performance Group, comprised of senior representatives from global functions, meets quarterly to ensure alignment and coordination of efforts across PMI's various functions. The group also provides recommendations for the program portfolio and monitors performance.

Engaging our employees

To support the work of the Sustainability Performance Group, we leverage internal communications and PMI's internal Sustainability Hub intranet site that is available to all employees and is structured around our Roadmap. Each section of our Roadmap, including climate and nature, has a dedicated landing page that summarizes our approach to the topic and links to internal resources and materials to support both internal and external communications and engagement. It also lists global internal subject matter experts for each topic. Supporting materials such as internal trainings and toolkits, question and answer sessions, and videos complement these resources.

Engaging with markets

At regional and market levels, dedicated sustainability coordinators ensure strategic alignment while adapting initiatives to local business contexts and tracking performance against key metrics. Regular engagement with this network of sustainability coordinators at market level helps drive progress and consistency locally.

We have also developed an internal Market Sustainability Scorecard to provide a comprehensive measurement of each country's sustainability progress. Its primary objective is to guide markets in the development of local sustainability strategies that are aligned with global priorities as outlined in our Roadmap. Among a broad range of sustainability topics, aspects aligned with our global strategic climate ambition include emissions reduction activities related to sustainable fleets, office operations, marketing materials, and country-level carbon neutrality certification.

Operationalizing our climate strategy

The Operations Sustainability function drives environmental strategies and their full integration into the Operations function, reflecting the strategic importance of environmental issues, including climate-related matters. The Vice President, Operations Sustainability owns sustainability-related objectives and is part of the Operational Leadership Team (OLT).

The OLT meets monthly with the SVP Operations to guide overall strategy deployment across the Operations function. In addition, a horizontal group coordinates sustainability-related strategy deployment across Operations.

Specifically for climate, regular execution of future-oriented risk scenario planning by the Operations function helps inform the function's resilience strategy, preparing the organization for the long-term implications of climate change.

Beyond the Operations function, other functions such as our Combustible Category, Smoke-free Category, Research & Development, and Finance functions contribute to our climate-related objectives. The Operations function coordinates the company's climate change-related activities in cross-functional monthly meetings with relevant functions.

Speaking up

At PMI, individuals (including suppliers and their employees and workers whether or not directly employed) are encouraged to speak up early to identify and address misconduct effectively. They may ask questions, raise concerns, or report instances of observed or suspected misconduct by contacting any of the following:

- The individual's supervisor, department head, or affiliate or function leadership
- Compliance key contacts (e.g., Regional and Local Compliance Officers)
- PMI Global Compliance confidential email address
- PMI Compliance Help Line (online or by telephone), which is a third-party-operated reporting channel available 24 hours a day, seven days a week, in all languages spoken at PMI. Individuals may use the Compliance Help Line anonymously, subject to local laws and regulations.

PMI has also implemented a Global Speak Up Policy, the principles of which are reinforced by the PMI Code of Conduct and all PMI compliance policies.

The Compliance team regularly communicates to employees about PMI's speak up program. For example, the Compliance team publishes quarterly statistics about speak up reports, compliance violations, and disciplinary actions, and shares with employees anonymized real-life examples of misconduct and advisory guidance.

Integrating climate-related performance into executive compensation

In 2021, PMI developed a Sustainability Index (the Index) to measure and communicate progress toward its aspirations using a set of clearly defined and verifiable metrics. The Index comprises KPIs that are aligned with PMI's 2025 Roadmap which outlines PMI's key goals that aim to address the priority sustainability topics identified by PMI's 2021 sustainability materiality assessment.

In 2022, to better align with shareholder and other stakeholder expectations, PMI linked the Index to 30 percent of its long-term performance share unit (PSU) awards granted to PMI's executives for the 2022–2024 performance cycle. Over the past few years, a number of PMI's shareholders and other stakeholders singled out the incorporation of the Index into PSU performance metrics as a positive development.

Accordingly, PMI has continued the practice of linking its sustainability performance to long-term equity compensation by leveraging an updated version of the Index for subsequent three-year PSU cycles.

In 2023, PMI introduced the Index linked to the 2023–2025 PSU cycle, in 2024 PMI introduced the Index linked to the 2024–2026 PSU cycle, and in 2025 PMI introduced the Index linked to the 2025–2027 cycle. Each version of the Index was approved by PMI's Board of Directors.

PMI assesses and assigns a score to each KPI of the Index against preapproved target ranges (provided by the relevant business functions, validated by PMI's Sustainability Committee, and approved by PMI's Board of Directors). Thereafter, using a weight assigned to each KPI (informed by the results of the sustainability materiality assessment), PMI calculates the total Index score, which is then reviewed and certified by PMI's Board of Directors.

The number of KPIs in the Index, and relative weightings, are not identical for each PSU cycle, but consistent with the results of PMI's sustainability materiality assessment. The structure of each version of the Index is publicly available on PMI.com.

Our Sustainability KPI Protocol includes details of the standards for each KPI included in the Index, including definitions, assumptions, scope, methodology, and basis for preparation. PMI's Sustainability KPI Protocol is updated annually and available on PMI.com.

Currently, 30 percent of PSUs are directly linked to the achievement of Index-related targets. PSUs represent between 40–60 percent of total target equity award for PMI's executives.

In addition to linking our sustainability performance to our executive long-term compensation, sustainability performance is part of PMI's annual incentive compensation (IC) awards, which apply to management employees worldwide. The strategic initiative "Shaping Tobacco Harm Reduction and Championing Sustainability to create a positive social and environmental impact" is one out of five of PMI's strategic initiatives assessed as part of this award program.

Strategic initiatives represent 15 percent of PMI's total Incentive Compensation award rating, one-fifth of which is sustainability-related.

The percentage of variable remuneration that is linked to climate for PMI's executives will be published in PMI's annual integrated report, available on PMI.com.

Specific climate performance metrics linked to incentives

The integration of climate-related performance into PMI's variable compensation program is associated with PMI's PSU award and the introduction of Sustainability Index metric as one of its components. The first PSU grant with Sustainability Index related KPIs vested in 2025 based on the 2022–2024 performance cycle. Climate-related targets represented 2 out of 19 targets for the 2022–2024 cycle, and represent 2 out of 16 targets for the 2023–2025 cycle, and 2 out of 15 targets for the 2024–2026 cycle.

2022–2024 PSU cycle

- Net carbon emissions in scope 1+2 (in thousands of metric tons)
- CO_2e scope 3 absolute reduction versus 2019 baseline (in line with science-based target)

2023–2025 PSU cycle

- Net carbon emissions in scope 1+2 (in thousands of metric tons)
- CO_2e scope 3 Forest, Land and Agriculture (FLAG) absolute reduction versus 2019 baseline (in line with science-based target)

2024–2026 PSU cycle

- Net carbon emissions in scope 1+2 (in thousands of metric tons)
- CO_2e scope 3 FLAG absolute reduction versus 2019 baseline (in line with science-based target)

Several other KPIs in the Index indirectly contribute to our climate-related commitments, such as those related to forestry and products, supporting our overall decarbonization pathway and strengthening the interdependency of our sustainability strategies. You can review the full version of each Index on PMI.com.

Individual management employees may have additional climate-related objectives that form part of their annual performance review and impact their annual variable compensation in addition to the Index KPIs.

Human capital development

As we accelerate our climate transition, the development of our human capital is fundamental to achieving our sustainability ambitions.

By cultivating the necessary skills and leadership behavior at every level, we ensure our workforce can deliver on our commitments.

Focus on executive management

Sustainability training was incorporated into our Executive Development Program with the objective of developing and honing leadership approaches, as well as leveraging external opportunities and insights.

The training included an overview of the concept of planetary boundaries, as well as sustainability-related risks and opportunities specific to PMI. Climate was one of the most prominent drivers discussed from both perspectives.

The PMI DNA is a codification of our culture that defines the values and behaviors guiding how we work, lead, and grow together. In 2025, we strengthened the PMI DNA by adding a dedicated Growth initiative, underscoring that the continuous learning and subsequent development of our people is central to both our long-term business success and its sustainability.

Embedded across leadership, performance, development, and capability building programs, PMI DNA and Growth equip employees with the skills, resilience, and collaboration needed to deliver on our strategic climate ambitions while driving PMI's transformative journey.

Climate capability building model

Specific to climate, the Operations Sustainability function, in collaboration with People & Culture (P&C) and PMI's central Sustainability Team, has developed a capability-building model that includes global training. The model itself starts with individuals within Operations and, when relevant, can extend company-wide with targeted trainings.

In 2024, the team conducted a global benchmarking exercise to identify the sustainability skills most critical for the next three to five years. These insights informed the creation of a capability-building framework that emphasizes essential short- and mid-term sustainability-related skills—over half of which relate to climate risks, opportunities, or technical skills.

Each key Operations role is mapped to a set of 10 to 20 essential skills required to meet our climate goals, as well as broader sustainability and business objectives. The Operations Sustainability Capability Building Team introduces new trainings annually, guided by strategic sustainability needs, business objectives, and role development requirements. Progress is systematically tracked by monitoring training completion, performance, and practical application on the job.

Climate-related training

PMI Campus, our digital learning platform, offers a wide range of content, from product knowledge to leadership, IT, and digital capability development. PMI Campus features three key learning centers: Core Business, Leadership, and Technical.

Sustainability is part of the core business skill module. In 2024, we launched a global e-learning program accessible to all employees, which details PMI's sustainability strategy and highlights how it underpins PMI's smoke-free vision. Climate-related topics are integral, making up 25 percent of one of the two pillars of this online course.

Targeted trainings

We also develop targeted learning programs to support sustainability initiatives, strategy implementation, and change management. These initiatives extend beyond our Operations function, ensuring employees across the organization have the information and resources they need to adapt processes, monitor progress, and report in line with PMI's strategy.

These targeted training programs—delivered as e-learning, facilitated sessions, or immersive experiences—are rolled out to specific audiences or the entire organization. Examples include:

- **Responsible Sourcing Principles (RSP):** All of our managerial-level employees (over 13,000 individuals) have been trained on PMI's RSP, which include critical climate-related components, enabling them to identify and escalate potential non-compliance instances.
- **Scope 3 emission reductions:** Following the approval of our SBTi FLAG and Industrial emission reductions targets for scope 3 emissions, we launched a series of specialized trainings for internal subject matter experts involved in the implementation and tracking of these targets.
- **Fleet:** We leverage eco-training and telematics, where permitted, to improve driver behavior and actively engage employees in our sustainability agenda across our fleet.
- **EU Deforestation Regulation (EUDR) trainings**: FLAG targets rely on achieving zero deforestation and this is supported by the recent EUDR. In 2025, in line with our preparation plan to implement management systems aligned with EUDR for products and materials in scope, we have developed and delivered trainings for in-scope suppliers.
- **CDP trainings:** In 2025, we introduced targeted training for internal stakeholders involved in PMI's CDP disclosure, increasing understanding of the methodology, scoring requirements, and disclosure preparation process.
- **Carbon accounting training:** Within our Finance functions, we rolled out training on carbon accounting fundamentals, climate target setting, and the foundations of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).
- **Curing barn efficiency and Forest Positive:** Through our suppliers, we deliver training to farmers on fuel consumption efficiency, barn maintenance, and fuel sustainability attributes in our tobacco supply chain, while our Forest Positive program trains suppliers and farmers, improving knowledge and practices on sustainable forest management.
- **ALP and GAP trainings:** Agronomists and field technicians monitor tobacco farmers' performance and provide hands-on training in line with PMI's ALP Code and GAP (learn more in the Implementation: Broader value chain section of this report).
- **Power to Change:** This campaign encourages behavioral change and efficient energy use among employees in our direct operations. It showcases PMI's energy efficiency initiatives and celebrates individual contributions to our sustainability progress within our workforce.

Appendices

TPT Disclosure Framework Index

Foundations

	Strategic ambition	Location in PMI's CTP 2025	Location in other PMI published materials	Additional information
1.1	An entity shall disclose its strategic ambition for its transition plan. As part of this, an entity shall disclose:			
1.1.a	The company's climate objectives and priorities	Climate as a strategic business priority Our strategic climate ambition		
1.1.b	Whether and how the transition plan has identified, assessed and taken into account the impacts and dependencies of the transition plan on its stakeholders, society, the economy, and the natural environment, throughout its value chain, that may give rise to sustainability-related risks and opportunities			
1.1.c	The extent to which the transition plan has taken into account and aligned with any external requirements, commitments, science-based targets, transition pathways, roadmaps, or scenarios			
1.1.d	Any potential trade-offs, synergies or co-benefits identified between the objectives and priorities			
1.1.e	Any short-, medium- and long-term targets and milestones it has set to measure progress, including how short-, medium-, and long-term are defined in the context of transition planning			
	Business model and value chain			
1.2	An entity shall disclose a description of the current and anticipated implications of its strategic ambition on its business model and value chain. As part of this, an entity shall disclose:			
1.2.a	At a high level the current and anticipated strategic changes to the organization's business model and value chain, elaborated in 2. Implementation Strategy and 3. Engagement Strategy	Climate change-related business implications		
1.2.b	The timeframe over which changes are expected to occur			
	Key assumptions and external factors			
1.3	An entity shall disclose key assumptions that it has made and external factors on which it depends in order to achieve the strategic ambition of its transition plan. As part of this an entity shall disclose:			
1.3.a	The nature of the key assumptions that it uses and external factors on which it depends, and their implications for the achievement of the Strategic Ambition of its transition plan	External factors shaping our strategy		
1.3.b	The timeframes over which any key assumptions and external factors under 1.3.a. are expected to occur			
1.3.c	Whether and how the key assumptions under 1.3a are reflected in the entity's financial statements		Annual Form 10-K	

Implementation strategy

Business operations		Location in PMI's CTP 2025	Location in other PMI published materials	Additional information
2.1	An entity shall disclose information about the short-, medium-, and long-term actions it is taking or plans to take in its business operations in order to achieve the Strategic Ambition of its transition plan. As part of this, an entity shall disclose:			
2.1.a.	Information about any current and anticipated actions, including timelines	Implementation	Annual Integrated Report	
2.1.b	Information about any current and anticipated changes relating to the entity's facilities and other physical assets	Locked-in emissions		
2.1.c	the expected principal contributions of its actions towards achieving its Strategic Ambition	Our strategic climate ambition		
Products and services				
2.2	An entity shall disclose information about short-, medium-, and long-term actions it is taking or plans to take to change its portfolio of products and services in order to achieve the Strategic Ambition of its transition plan. As part of this, an entity shall disclose:			
2.2.a	Information about any current and anticipated actions, including timelines, to change the portfolio of products and services that it provides or facilitates (e.g. via franchising, financing, or underwriting activities)	Sustainability by design	Annual Integrated Report	
2.2.b	Any underlying taxonomy, tools, methodologies, or definitions used to classify products and services		Annual Integrated Report	
2.2.c	The expected principal contributions of its actions towards achieving its Strategic Ambition	Our strategic climate ambition		
Policies and conditions				
2.3	An entity shall disclose information about any policies and conditions that it uses or plans to use in order to achieve the Strategic Ambition of its transition plan. As part of this, an entity shall disclose:			
2.3.a	a brief description of any policy or condition that it uses or plans to use in order to achieve the Strategic Ambition of its transition plan;	Policies	Sustainability resources	
2.3.b	The expected principal contributions of the policy or condition towards achieving its Strategic Ambition			
Financial planning				
2.4	An entity shall, to the extent the financial effects of its transition plan are separately identifiable, disclose information about the effects of its transition plan on its financial position, financial performance and cash flows over the short-, medium-, and long-term, including information about how it is resourcing or plans to resource its activities in order to achieve the Strategic Ambition of its transition plan. As part of this, an entity shall disclose:			
2.4.a	information about how the entity is resourcing, and plans to resource, the current and planned activities set out in its transition plan	Financial planning	Annual Integrated Report	
2.4.b	qualitative and quantitative information about how it expects implementation of its transition plan to affect its financial position over the short-, medium-, and long-term			
2.4.c	qualitative and quantitative information about how it expects implementation of its transition plan to affect its financial performance and cash flows over the short-, medium-, and long-term (e.g. increased revenue from products and services aligned with a low-GHG emissions, climate-resilient economy, and expenses associated with climate adaptation or mitigation)			

Engagement strategy

	Value chain	Location in PMI's CTP 2025	Location in other PMI published materials	Additional information
3.1	An entity shall disclose information about any engagement activities with other entities in its value chain that it is undertaking or plans to undertake in order to achieve the Strategic Ambition of its transition plan. As part of this, an entity shall disclose:			
3.1.a	an explanation of how the entity prioritizes engagement activities in order to maximize their contribution towards achieving the Strategic Ambition of the entity's transition plan; this may reference key assumptions and external factors disclosed under 1.3 Key assumptions and external factors	Supplier engagement	Stakeholder engagement, Case study	
3.1.b	a description of current and planned engagement activities			
3.1.c	a description of escalation processes or criteria in place to manage instances where engagement activities do not lead to the desired changes			
3.1.d	the expected principal contributions of its activities towards achieving its Strategic Ambition	Our strategic climate ambition		
	Industry			
3.2	An entity shall disclose information about any engagement and collaborative activities with industry counterparts (and other relevant initiatives or entities) that it is undertaking or plans to undertake in order to achieve the Strategic Ambition of its transition plan. As part of this, an entity shall disclose:			This CTP seeks to clearly articulate our transition plan and transparently specifies that there are certain areas beyond our full control that require systemic change, where a diverse group of stakeholders is critical to achieving success at scale. This contributes to closing gaps shown in the waterfall diagrams in the Our strategic climate ambition section.
3.2.a	information about memberships in trade organizations or industry bodies	Stakeholder engagement	Stakeholder engagement	
3.2.b	an explanation of how the entity prioritizes engagement and collaborative activities in order to maximize their contribution towards achieving the Strategic Ambition of the entity's transition plan			
3.2.c	a description of current and planned engagement and collaborative activities with membership bodies, industry associations, industry counterparts (and other relevant initiatives or entities; e.g. peers and labor unions) including any commitments by the entity arising from these activities		Annual Integrated Report; Stakeholder engagement	
3.2.d	the expected principal contributions of its activities towards achieving its Strategic Ambition			
3.2.e	the steps it takes to monitor the activities of membership bodies or industry bodies in which it participates and minimize any actions that may conflict with its own Strategic Ambition.			
	Government, public sector and civil society			
3.3	An entity shall disclose information about any direct and indirect engagement activities with the government, regulators, public sector organizations, communities, and civil society that it is undertaking or plans to undertake in order to achieve the Strategic Ambition of its transition plan. As part of this, an entity shall disclose:			
3.3.a	an explanation of how the entity prioritizes engagement activities in order to maximize their contribution towards achieving the Strategic Ambition of the entity's transition plan	Civil society, Regulators		
3.3.b	a description of current and planned engagement activities			
3.3.c	the expected principal contributions of its activities towards achieving its Strategic Ambition			

Metrics and targets

Governance, business, and operational		Location in PMI's CTP 2025	Location in other PMI published materials	Additional information
4.1	An entity shall disclose information about the governance, engagement, business and operational metrics and targets that it uses in order to drive and monitor progress towards the Strategic Ambition of its transition plan, and report against these metrics and targets on at least an annual basis. As part of this, an entity shall:			
4.1.a	disclose any targets the entity has set, and any targets the entity is required to meet by law or regulation	Metrics and targets	Annual Integrated Report; annual Sustainability KPI Protocol	
4.1.b	disclose information about how the targets gets disclosed under 4.1a reflect the Strategic Ambition of its transition plan, and how they relate to the actions outlined under 2. Implementation Strategy and 3. Engagement Strategy			
4.1.c	For each target disclosed under 4.1a, disclose detailed information outlined in the framework			
4.1.d	disclose information about its approach to setting and reviewing each target disclosed under 4.1a, and how it monitors progress against each target.			
4.1.e	report against metrics used to assess progress towards the targets disclosed under 4.1a at least on an annual basis			
Financial				
4.2	An entity shall disclose information about any financial metrics and targets, relevant to its business, sector, and strategy, that it uses in order to drive and monitor progress towards the Strategic Ambition of its transition plan, and report against these metrics and targets on at least an annual basis.			We do not set financial metrics and targets given the industry we operate in.
GHG				
4.3	An entity shall disclose information about the GHG emissions and removals metrics and targets that it uses in order to drive and monitor progress towards the Strategic Ambition of its transition plan, and report against these metrics and targets on at least an annual basis. As part of this, an entity shall:			
4.3.a	shall disclose information about any targets for reducing absolute gross GHG emissions for Scopes 1 and 2 that it has set	Metrics and targets	Annual Integrated Report	
4.3.b	shall disclose information about any targets for reducing absolute gross GHG emissions for Scope 3 that it has set			
4.3.c	shall disclose information about any additional GHG emissions targets that it has set (e.g. methane reduction targets)			
4.3.d	shall disclose information about how the targets disclosed under 4.3.a–c reflect the Strategic Ambition of its transition plan, and how they relate to the actions outlined under 2. Implementation Strategy and 3. Engagement Strategy			
4.3.e	may disclose information about any gross GHG emissions intensity targets expressed as metric tonnes of CO_2 equivalent per unit of physical or economic output for Scopes 1 and 2			
4.3.f	may disclose gross GHG emissions intensity targets expressed as metric tonnes of CO_2 equivalent per unit of physical or economic output for Scope 3			
4.3.g	may disclose any targets for increasing GHG removals from activities such as land use, land use change, bioenergy, and carbon removal technologies			We have not set targets for these activities.
4.3.h	shall disclose the categories of Scope 3 GHG emissions included within the Scope 3 emission reduction targets disclosed under 4.3b and, where it has excluded categories of Scope 3 GHG emissions from its targets, disclose the reason for omitting them, and any steps it is taking to improve monitoring and reporting systems.		Annual Integrated Report; annual Sustainability KPI Protocol	
4.3.k	shall report against metrics used to assess progress towards GHG emission reduction targets disclosed under 4.3a-c at least on an annual basis		Annual Integrated Report	
4.3.m	may, where relevant, further disclose information about GHG removals from activities such as land use, land use change, bioenergy, and carbon removal technologies	Financial planning		

Metrics and targets continued

Carbon credits		Location in PMI's CTP 2025	Location in other PMI published materials	Additional information
4.4	An entity shall disclose information about how it uses or plans to use carbon credits to achieve the Strategic Ambition of its transition plan, and report on the use of carbon credits on at least an annual basis. As part of this, an entity shall:			
4.4.a	disclose an explanation of why the entity is employing carbon credits and the extent to which, and how, the entity relies on the use of carbon credits to achieve the Strategic Ambition of its transition plan	Financial planning		
4.4.b	disclose the number of credits sold, purchased and retired		Annual Integrated Report	
4.4.c	disclose which third-party scheme(s) has or will verify or certify the carbon credits	Financial planning		
4.4.d	disclose information about which standard or methodology the carbon credits have been or will be certified against			
4.4.e	disclose the type of carbon credit, including whether the underlying offset will be nature-based or based on technological carbon removals, and whether the underlying offset is achieved through carbon reduction or removal			
4.4.f	disclose whether and how the entity identifies and manages the impacts and dependencies of carbon credits on its stakeholders, society, the economy, and the natural environment throughout its value chain, that may give rise to sustainability-related risks and opportunities			
4.4.g	disclose any other factors necessary for users of general purpose financial reports to understand the credibility and integrity of the carbon credit the entity is using or plans to use			
4.4.h	report on the use of carbon credits at least on an annual basis			

Governance

Board oversight and reporting		Location in PMI's CTP 2025	Location in other PMI published materials	Additional information
5.1	An entity shall disclose information about the governance body(s) (which can include a board, committee, or equivalent body charged with governance) or individual(s) responsible for oversight of the transition plan. As part of this, an entity shall identify that body(s) or individual(s) and disclose:			
5.1.a	its arrangements for review and approval of the transition plan and its Strategic Ambition, including oversight of any changes, updates, and reporting	Board oversight		
5.1.b	how responsibilities for the transition plan are reflected in the terms of reference, mandates, role descriptions, and other related policies applicable to that body(s) or individual(s)			
5.1.c	how the body(s) or individual(s) determines whether appropriate skills and competencies are available or will be developed to oversee the transition plan			
5.1.d	how and how often the body(s) or individual(s) is informed about the transition plan			
5.1.e	how the body(s) or individual(s) takes into account the transition plan when overseeing the entity's strategy, its decisions on major transactions and its risk management processes and related policies, including whether the body(s) or individual(s) has considered trade-offs associated with the transition plan			
5.1.f	how the body(s) or individual(s) oversees the setting of targets in the transition plan, and monitors progress towards these targets and the wider strategic ambition of the transition plan			
Roles, responsibility, and accountability				
5.2	An entity shall disclose information about management's role in the governance processes, controls, and procedures used to monitor, manage, and oversee the transition plan, as well as how it is embedded within the entity's wider control, review, and accountability mechanisms. As part of this, an entity shall disclose:			
5.2.a	the identity of the management body(s) or individual(s) responsible for executive oversight and delivery of the transition plan	Management oversight, Operational oversight		
5.2.b	the role of the body or individual(s) responsible for executive oversight and delivery of the transition plan, including their involvement in defining the strategic ambition, setting targets, and monitoring progress			
5.2.c	how oversight is exercised over that body(s) or individual(s)			
5.2.d	whether the body(s) or individual(s) responsible for executive oversight and delivery of the transition plan uses controls and procedures to support the oversight of the transition plan and ensure the reliability of information disclosed; if so, an entity shall disclose how these controls and procedures are integrated with other internal functions and information about which aspects of the transition plan are subject to external assurance or verification, including the nature of the assurance or verification			
5.2.e	e) whether the transition plan is subject to shareholder approval, including through a shareholder vote	Board oversight		

Governance continued

Culture		Location in PMI's CTP 2025	Location in other PMI published materials	Additional information
5.3	An entity shall disclose information about how it aligns or plans to align its culture with the Strategic Ambition of its transition plan. As part of this, an entity may disclose information about any relevant steps taken in respect of:			
5.3.a	company values and purpose statements	Human capital development		
5.3.b	communications, systems, processes			
5.3.c	HR policies and procedures (including escalation processes, compensation, and benefits)			
5.3.d	the employee value proposition			
5.3.e	leadership and manager training programs			
5.3.f	workforce engagement strategies			
Incentives and remuneration				
5.4	An entity shall disclose information about how it aligns or plans to align its incentive and remuneration structures with the Strategic Ambition of its transition plan. As part of this, an entity shall disclose:			
5.4.a	a description of whether and how its executive incentive and remuneration structures are aligned with the Strategic Ambition of its transition plan; this may include information about, i. the metric(s) used	Integrating climate-related performance into executive compensation	Sustainability Index; annual Proxy Statement	
5.4.b	a description of whether and how incentive and remuneration structures for employees across the organization are aligned with the Strategic Ambition of its transition plan, including whether it has applied a consistent approach with that in 5.4.a or whether it has taken a differentiated approach for specific teams or roles.			
Skills, competencies, and training				
5.5	An entity shall disclose information about actions it is taking or plans to take to assess, maintain, and build the appropriate skills, competencies, and knowledge across the organization in order to achieve the Strategic Ambition of its transition plan. As part of this, an entity shall disclose:			
5.5.a	information about how the entity assesses whether it has the appropriate skills, competencies, and knowledge across the organization to effectively design, develop, deliver, and govern the transition plan in accordance with its Strategic Ambition	Human capital development		
5.5.b	where it has identified a skills gap, information about actions it is taking or plans to take to acquire or develop the required skills			
5.5.c	information about actions it is taking or plans to take to provide the Board and executive management with access to the appropriate skills, competencies and knowledge required to effectively oversee the transition plan.			

IFRS S2 Climate-related Disclosures Index

The Index below cross-references contents of this Climate Transition Plan and other relevant PMI publications with the requirements of IFRS S2 Climate-related Disclosures. The requirements in IFRS S2 integrate and align with the four core recommendations and 11 recommended disclosures published by the Task Force on Climate-related Financial Disclosures (TCFD), which are fully addressed by this Climate Transition Plan.

Governance

An entity shall disclose information about:	Location in PMI's CTP 2025	Location in other PMI published materials	Additional information
(a) the governance body(s) (which can include a board, committee or equivalent body charged with governance) or individual(s) responsible for oversight of climate-related risks and opportunities.	Climate-related risk management	Annual Integrated Report; annual Proxy Statement	
(b) management's role in the governance processes, controls and procedures used to monitor, manage and oversee climate-related risks and opportunities	Climate-related risk management	Annual Integrated Report	

Strategy

An entity shall disclose information to enable users of general purpose financial reports to understand:	Location in PMI's CTP 2025	Location in other PMI published materials	Additional information
(a) the climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects;	Climate-related risks and opportunities	Annual Form 10-K	
(b) the current and anticipated effects of those climate-related risks and opportunities on the entity's business model and value chain;	Climate change-related business implications		
(c) the effects of those climate-related risks and opportunities on the entity's strategy and decision-making, including information about its climate-related transition plan;	Our strategic climate ambition		
(d) the effects of those climate-related risks and opportunities on the entity's financial position, financial performance and cash flows for the reporting period, and their anticipated effects on the entity's financial position, financial performance and cash flows over the short, medium and long term, taking into consideration how those climate-related risks and opportunities have been factored into the entity's financial planning; and	Financial planning		
(e) the climate resilience of the entity's strategy and its business model to climate-related changes, developments and uncertainties, taking into consideration the entity's identified climate-related risks and opportunities.	Climate change-related business implications		
An entity shall disclose information that enables users of general purpose financial reports to understand the climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects. Specifically, the entity shall:			
(a) describe climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects;	Climate-related risks and opportunities	Annual Form 10-K	
(b) explain, for each climate-related risk the entity has identified, whether the entity considers the risk to be a climate-related physical risk or climate-related transition risk;			
(c) specify, for each climate-related risk and opportunity the entity has identified, over which time horizons—short, medium or long term— the effects of each climate-related risk and opportunity could reasonably be expected to occur; and	Climate as a strategic business priority		
(d) explain how the entity defines 'short term', 'medium term' and 'long term' and how these definitions are linked to the planning horizons used by the entity for strategic decision-making.			
An entity shall disclose information that enables users of general purpose financial reports to understand the current and anticipated effects of climate-related risks and opportunities on the entity's business model and value chain. Specifically, the entity shall disclose:			
(a) a description of the current and anticipated effects of climate-related risks and opportunities on the entity's business model and value chain; and	Climate change-related business implications		
(b) a description of where in the entity's business model and value chain climate-related risks and opportunities are concentrated (for example, geographical areas, facilities and types of assets).			

Strategy continued

An entity shall disclose information that enables users of general purpose financial reports to understand the effects of climate-related risks and opportunities on its strategy and decision-making. Specifically, the entity shall disclose:	Location in PMI's CTP 2025	Location in other PMI published materials	Additional information
(a) information about how the entity has responded to, and plans to respond to, climate-related risks and opportunities in its strategy and decision-making, including how the entity plans to achieve any climate-related targets it has set and any targets it is required to meet by law or regulation.	Our strategic climate ambition	Annual Integrated Report	
(b) information about how the entity is resourcing, and plans to resource, the activities disclosed in accordance with paragraph 14(a).	Financial planning		
(c) quantitative and qualitative information about the progress of plans disclosed in previous reporting periods in accordance with paragraph 14(a).		Annual Integrated Report	
An entity shall disclose information that enables users of general purpose financial reports to understand:			
(a) the effects of climate-related risks and opportunities on the entity's financial position, financial performance and cash flows for the reporting period (current financial effects); and	Financial planning		
(b) the anticipated effects of climate-related risks and opportunities on the entity's financial position, financial performance and cash flows over the short, medium and long term, taking into consideration how climate-related risks and opportunities are included in the entity's financial planning (anticipated financial effects)			
Specifically, an entity shall disclose quantitative and qualitative information about:			
(a) how climate-related risks and opportunities have affected its financial position, financial performance and cash flows for the reporting period;	Financial planning		
(b) the climate-related risks and opportunities identified in paragraph 16(a) for which there is a significant risk of a material adjustment within the next annual reporting period to the carrying amounts of assets and liabilities reported in the related financial statements;			
(c) how the entity expects its financial position to change over the short, medium and long term, given its strategy to manage climate-related risks and opportunities	Financial planning		
(d) how the entity expects its financial performance and cash flows to change over the short, medium and long term, given its strategy to manage climate-related risks and opportunities (for example, increased revenue from products and services aligned with a lower-carbon economy; costs arising from physical damage to assets from climate events; and expenses associated with climate adaptation or mitigation).			
In preparing disclosures about the anticipated financial effects of a climate-related risk or opportunity, an entity shall:			
(a) the quantification of financial effects related to risks and opportunities in the CDP report appears well justified.; and		Annual CDP Corporate Questionnaire	
(b) use an approach that is commensurate with the skills, capabilities and resources that are available to the entity for preparing those disclosures.			
An entity shall disclose information that enables users of general purpose financial reports to understand the resilience of the entity's strategy and business model to climate-related changes, developments and uncertainties, taking into consideration the entity's identified climate-related risks and opportunities. The entity shall use climate-related scenario analysis to assess its climate resilience using an approach that is commensurate with the entity's circumstances (see paragraphs B1–B18). In providing quantitative information, the entity may disclose a single amount or a range. Specifically, the entity shall disclose:			
(a) the entity's assessment of its climate resilience as at the reporting date, which shall enable users of general purpose financial reports to understand	External factors shaping our strategy; Financial planning		
(b) how and when the climate-related scenario analysis was carried out	CCRO assessment methodology		

Risk management

An entity shall disclose information about:	Location in PMI's CTP 2025	Location in other PMI published materials	Additional information
(a) the processes and related policies the entity uses to identify, assess, prioritize and monitor climate-related risks,	Policies; Climate-related risk management		
(b) the processes the entity uses to identify, assess, prioritize and monitor climate-related opportunities, including information about whether and how the entity uses climate-related scenario analysis to inform its identification of climate-related opportunities; and	CCRO assessment methodology		
(c) the extent to which, and how, the processes for identifying, assessing, prioritizing and monitoring climate-related risks and opportunities are integrated into and inform the entity's overall risk management process.	Management oversight		

Metrics and targets

An entity shall disclose:	Location in PMI's CTP 2025	Location in other PMI published materials	Additional information
(a) information relevant to the cross-industry metric categories (see paragraphs 29–31);		Annual Integrated Report; annual SASB Index	
(b) industry-based metrics that are associated with particular business models, activities or other common features that characterize participation in an industry (see paragraph 32); and			
(c) targets set by the entity, and any targets it is required to meet by law or regulation, to mitigate or adapt to climate-related risks or take advantage of climate-related opportunities, including metrics used by the governance body or management to measure progress towards these targets (see paragraphs 33–37)	Metrics and targets		
An entity shall disclose information relevant to the cross-industry metric categories of:			
(a) greenhouse gases		Annual Integrated Report; annual Sustainability KPI Protocol; annual Form 10-K	
(b) climate-related transition risks—the amount and percentage of assets or business activities vulnerable to climate-related transition risks;			
(c) climate-related physical risks—the amount and percentage of assets or business activities vulnerable to climate-related physical risks;			
(d) climate-related opportunities—the amount and percentage of assets or business activities aligned with climate-related opportunities;			
(e) capital deployment—the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities;			
(f) internal carbon prices—the entity shall disclose: (i) an explanation of whether and how the entity is applying a carbon price in decision-making (for example, investment decisions, transfer pricing and scenario analysis); and (ii) the price for each metric tonne of greenhouse gas emissions the entity uses to assess the costs of its greenhouse gas emissions;	Carbon pricing	Annual Integrated Report	
(g) remuneration—the entity shall disclose: (i) a description of whether and how climate-related considerations are factored into executive remuneration (see also paragraph 6(a)(v)); and (ii) the percentage of executive management remuneration recognized in the current period that is linked to climate-related considerations.	Integrating climate-related performance into executive compensation	Annual Integrated Report; annual Sustainability KPI Protocol	
An entity shall disclose industry-based metrics that are associated with one or more particular business models, activities or other common features that characterize participation in an industry. In determining the industry-based metrics that the entity discloses, the entity shall refer to and consider the applicability of the industry-based metrics associated with disclosure topics described in the Industry-based Guidance on Implementing IFRS S2.		Annual Integrated Report	

Metrics and targets continued

An entity shall disclose the quantitative and qualitative climate-related targets it has set to monitor progress towards achieving its strategic goals, and any targets it is required to meet by law or regulation, including any greenhouse gas emissions targets. For each target, the entity shall disclose:	Location in PMI's CTP 2025	Location in other PMI published materials	Additional information
(a) the metric used to set the target (see paragraphs B66–B67);	Metrics and targets	Annual Integrated Report; annual Sustainability KPI Protocol	
(b) the objective of the target (for example, mitigation, adaptation or conformance with science-based initiatives);			
(c) the part of the entity to which the target applies (for example, whether the target applies to the entity in its entirety or only a part of the entity, such as a specific business unit or specific geographical region);			
(d) the period over which the target applies;			
(e) the base period from which progress is measured;			
(f) any milestones and interim targets;			
(g) if the target is quantitative, whether it is an absolute target or an intensity target; and			
(h) how the latest international agreement on climate change, including jurisdictional commitments that arise from that agreement, has informed the target.			
An entity shall disclose information about its approach to setting and reviewing each target, and how it monitors progress against each target, including:			
(a) whether the target and the methodology for setting the target has been validated by a third party;	Metrics and targets		This report presents GHG targets validated by the SBTi that form the basis for our strategic climate ambition.
(b) the entity's processes for reviewing the target;			
(c) the metrics used to monitor progress towards reaching the target; and			
(d) any revisions to the target and an explanation for those revisions.			
An entity shall disclose information about its performance against each climate-related target and an analysis of trends or changes in the entity's performance.		Annual Integrated Report	
For each greenhouse gas emissions target disclosed in accordance with paragraphs 33–35, an entity shall disclose:			
(a) which greenhouse gases are covered by the target		Annual Integrated Report; annual Sustainability KPI Protocol	
(b) whether Scope 1, Scope 2 or Scope 3 greenhouse gas emissions are covered by the target.	Metrics and targets		
(c) whether the target is a gross greenhouse gas emissions target or net greenhouse gas emissions target. If the entity discloses a net greenhouse gas emissions target, the entity is also required to separately disclose its associated gross greenhouse gas emissions target (see paragraphs B68–B69).			
(d) whether the target was derived using a sectoral decarbonization approach.			
(e) the entity's planned use of carbon credits to offset greenhouse gas emissions to achieve any net greenhouse gas emissions target.	Financial planning	Annual Integrated Report	

CCRO assessment methodology

Our 2024 CCRO assessment employed a rigorous and science-based modeling approach, aligned with internationally recognized best practices to evaluate physical and transition risks throughout our value chain, enabling robust projections through 2040.

We conduct CCRO assessments on a biennial basis to ensure our climate risk understanding remains current and responsive to evolving climate science, regulatory developments, and business conditions. This two-year assessment cycle aligns with regulatory requirements such as California's SB 261 while allowing sufficient time to integrate findings into strategic planning and operational adjustments.

We continue to work toward integrating findings from our CCRO assessment into our ERM program (learn more in the Climate-related risk management section of this report). We also are working to map existing initiatives and identify potential mitigation measures that can contribute to reducing climate-related risk exposure and prevent future costs associated with transition risks.

Time horizons

Short term (0–5 years): Environmental risks and opportunities that may materialize within the next five years. Short-term environmental risks are identified and assessed through a variety of internal processes including as part of, among other processes, our quarterly financial reporting process where short-term profits and losses are evaluated and our annual long-range planning process which is updated annually and reviews and sets business direction over a three-to five-year horizon.

Medium term (6–10 years): Environmental risks and opportunities that may materialize by the 2033 time horizon. This time period aligns with PMI's climate strategy targets set for 2030, as well as the goals of our water and biodiversity strategies, which run through 2033. The selected horizon reflects the interconnectedness of climate- and nature-related risks and opportunities.

Long term (11–17 years): Environmental risks and opportunities that may materialize until the 2040-time horizon used for scenario analysis in our CCRO assessment. This time period aligns with PMI's external commitment of net zero emissions as approved by the Science Based Targets initiative (SBTi). It is also an intermediate step toward internationally agreed policy commitments to 2050 (e.g., EU climate law).

Identification and assessment of physical risks and opportunities

Physical climate risks stem from the changing climate system itself, including both acute events such as extreme weather and chronic changes such as rising temperatures and shifting precipitation patterns.

Our assessment evaluated how these physical manifestations of climate change could impact our operations, supply chain, and market conditions across different climate scenarios, while also identifying potential opportunities for operational advantages and new business development arising from changing environmental conditions.

We conducted our scenario analysis based on the most frequently used Representative Concentration Pathways (RCPs), which are used to model future climate conditions. These RCPs range from RCP 2.6 (representing a strong emissions reduction scenario) to RCP 8.5 (representing high emissions and minimal mitigation scenarios).

By starting with these RCP scenarios, we examined climate-related data to evaluate how different levels of global warming could affect PMI's areas of interest. Specifically, we considered scenarios that align with the successful achievement of the Paris Climate Agreement's goals (focusing on limiting warming to 1.5°C and 2°C above pre-industrial levels), as well as another scenario reflecting a failure to meet these goals, resulting in 3°C of warming.

To conduct our assessment, we utilized a comprehensive database that draws upon the analysis of multiple outputs from seven Regional Circulation Models, which provide site-specific climate variables, and 23 General Circulation Models,which deliver regional climate variables. These models are part of the broader Climate Model Intercomparison Project (CMIP), enabling us to access a wide range of climate projections.

With these variables, we evaluated the level of exposure for each site to climate hazards such as droughts, heatwaves, and flooding. By comparing projected scenarios against the historical baseline period of 1980–2010, we were able to estimate the change in frequency and intensity (i.e., moderate, severe, extreme) of climate-related physical hazards for each location. Our projections extended through 2040.

To synthesize this information, we calculated a final hazard risk index for each asset. This allowed us to systematically score the potential inherent risk exposure for each site and pinpoint locations that are particularly vulnerable to climate hazards—designated as hotspots—where adaptation initiatives are needed most.

Our assessment covered around 600 assets—such as tobacco-growing areas, factories, and warehouses—across various regions around the world, using a precise, location-based approach with a 60-kilometer radius around each asset.

Our risk assessment followed the Intergovernmental Panel on Climate Change (IPCC) definition of climate risk that considers climate hazards, exposure (i.e., the people, ecosystems, and assets of value that could be impacted) and vulnerability (i.e., the propensity of people and assets to be negatively affected by the hazards).

We distinguished between acute risks (i.e., site-specific extreme events such as more frequent floods and heatwaves) and chronic risks, which stem from the gradual changes in temperature and rainfall that increase the frequency of extreme droughts. This distinction aligns with the characteristics of climate variables used in the CMIP models to calculate indicators for drought, heatwave, and flood risks. Additionally, we assessed the exposure of ports to sea level rise, considering this as a long-term, chronic risk.

To further refine our analysis, we calculated the number of people and the financial value exposed at each asset, concentrating especially on the main hotspots with the highest risk levels. We are working to map existing initiatives and identify potential adaptation measures—such as improved irrigation systems in drought-prone tobacco-growing areas—that can contribute to reducing climate-related risks. These measures are assessed as cost avoidance opportunities to enhance resilience across our operations.

Looking ahead to 2040, we projected the cumulative increase in losses and damages resulting from the heightened occurrences of droughts and floods. For PMI manufacturing sites, this translates into greater risks of potential property damage, inventory losses, and business interruption. In tobacco-growing areas, more frequent and intense climate events are expected to negatively impact crop yields. This analysis has been informed by data on observed losses and damages associated with past climate-related extreme events affecting those asset categories. Furthermore, we estimated the number of workers at each site potentially exposed to heat stress.

Identification and assessment of transition risks and opportunities

Transition risks and opportunities emerge from the global shift toward a low-carbon economy, encompassing policy changes, technological developments, market evolution, and stakeholder expectations.

Our assessment examined how regulatory developments, carbon pricing mechanisms, shifting consumer preferences, and emerging technologies could affect our business model, competitive positioning, and financial performance, while identifying strategic opportunities to capitalize on the transition to sustainable business practices.

We evaluated transition risks using two climate scenarios from the Network of Central Banks and Supervisors for Greening the Financial System (NGFS), representing the potential impacts of global warming pathways: 1.5 °C and 3 °C. These NGFS scenarios offer a standardized framework to project how climate change, policy measures, and technological advances may transform future conditions:

- Net Zero 2050 scenario: This scenario, aligned with SSP2-1.9 (1.5 °C), anticipates stringent climate policies and significant innovation that limit global warming to 1.5 °C, reaching net zero CO_2 emissions around 2050.
- Current Policies scenario: Aligned with SSP2-4.5 (3 °C), this scenario assumes that only currently implemented policies and existing commitments are maintained. These are insufficient to meet official climate commitments, and emissions continue to rise until 2080, resulting in around 3 °C of warming by 2100 and substantial physical risks.

We compared the results from these two climate scenarios to a business-as-usual (BAU) baseline scenario which assumes no additional climate policies or actions are taken beyond the present moment (i.e., inaction) to estimate the value at stake.

These scenarios are grounded in the Integrated Assessment Models, which underpin the IPCC assessment reports and are considered best practice globally. They are updated annually to include new national net zero commitments and incorporate a broader set of macroeconomic variables with detailed country-level data.

We identified transition risks and opportunities through desktop research, internal stakeholder consultations, and a review of the main findings from past CCRO assessments. Risks and opportunities were categorized according to the TCFD sub-categories and prioritized using criteria for materiality, velocity, and likelihood, resulting in a final ranked list.

Key changes from our 2022 TCFD report

Following the CCRO assessment that formed the basis for our TCFD Report 2022, Swedish Match was acquired by PMI. This is reflected in the expanded coverage of our new assessment. The scope now also includes the direct operations of Aspeya, PMI's wellness and healthcare business. Further, we have extended the scope of our analysis to include third-party manufacturers (TPMs) and third-party operators (TPOs) as part of our broader value chain beyond our direct operations. Moreover, we have updated source data (fiscal year 2023) for both physical and transition risk assessments.

We have also streamlined our reporting of results to focus exclusively on a 2040 horizon (we previously also disclosed a 2030 horizon). This time period is aligned with PMI's external commitment of net zero emissions as approved by the Science Based Targets initiative at the time of our analysis. It is also an intermediate step toward internationally agreed policy commitments to 2050 (e.g., EU climate law).

For future-looking projections, we aligned anticipated volume mix with financial estimates to 2030, then assumed a flat rate. This better aligns climate projections with our anticipated product transformation, which is critical as smoke-free products have a different carbon and environmental footprint than cigarettes.

We also updated volumes from different tobacco-growing areas. This better aligns risk projections with changes to our tobacco supply chain since the last assessment. These updated volumes form the basis for the estimation of potential impacts in our leaf supply chain to 2040.

Specific to our physical risk assessment, business interruptions due to extreme drought account only for conversion costs (i.e., how much it would cost us in overhead to maintain the site as operational such as the cost of personnel and utilities). This makes value at stake calculations more aligned with anticipated expenses, representing a concrete cost avoidance opportunity.

Also specific to our physical risk assessment, we have removed data associated with batteries to avoid double-counting smoke-free electronic device suppliers' footprints and refined how data has been gathered for our pulp and paper supply chain, as well as for port data within our logistics segment.

Climate-related risks and opportunities

How to interpret the inherent risks presented in our climate-related risks and opportunities tables

The tables in this section present the projected magnitude, likelihood, and velocity of our inherent climate-related risks per the methodology described in the previous section.

As inherent risk projections, these tables reflect the baseline magnitude, likelihood, and velocity of each risk before taking into account any existing or potential mitigation or adaptation strategies.

Our comprehensive strategy includes the development and implementation of robust mitigation and adaptation strategies designed to prevent or reduce the impact and likelihood of inherent climate-related risks while simultaneously strengthening our organization, building a resilient business, and continuing to lead the way in environmental stewardship by maximizing opportunities arising from climate transition pathways.

Key

2040 cumulate damage and loss (USD millions)*

<25	25–75	>75

Likelihood

Unlikely	Possible	Likely

Velocity

Low (mid- to long-term)	Medium (mid-term)	High (short-term)

* Absent impact of additional mitigation actions

Direct physical risks to assets

The CCRO assessment projected potential acute and chronic physical risks under 1.5 °C, 2 °C, and 3 °C global warming scenarios until 2030 and 2040 for our factories. Figures represent projected potential cumulative losses and damages to 2040 for physical risks absent additional mitigation actions. Read more about our identification process here and our glossary for terminology definitions here.

Manufacturing

Climate change may present chronic and acute physical risks with direct impacts on our factories. Cumulative 2040 figures are calculated absent additional mitigation actions.

Inherent risk	TCFD Category	Impact	Indicator	Geographies	Likelihood	Velocity	Cumulative 2040[1] 1.5 °C	3 °C
Increased frequency and intensity of extreme droughts in manufacturing sites	Chronic risk	Downtime due to water scarcity could result in business interruption costs for factories at high drought risk	Potential losses due to business interruption for factories at high drought risk	9 factories across Europe, Africa, Americas, and the Middle East				
Increased frequency and intensity of extreme floods in manufacturing sites	Acute risk	Floods could damage buildings, equipment, and inventory and lead to business interruption costs	Potential losses and damages to property and inventory, and business interruption for factories with high flood risk	8 factories across Asia Pacific, Central Asia, and Latin America				

1 We assume that the factory value exposed is constant and we have not projected future factory values.

Indirect physical risks to assets

The CCRO assessment projected potential acute and chronic physical risks under 1.5 °C, 2 °C, and 3 °C global warming scenarios until 2030 and 2040 for assets in our supply chain and logistics. Relative exposed value at risk is based on the total value of those assets exposed to the risks defined in each table absent additional mitigation actions, as opposed to projections on potential damages and losses, for these indirect risks. We have classified risks as "Low," "Mid," and "High" relative to other prioritized indirect physical risks to assets. Read more about our identification process here and our glossary for terminology definitions here.

Key

2040 relative value at stake*

Low	Medium	High

Likelihood

Unlikely	Possible	Likely

Velocity

Low (mid- to long-term)	Medium (mid-term)	High (short-term)

* Absent impact of additional mitigation actions

Tobacco supply chain

Climate change may present chronic and acute physical risks with indirect impacts in our tobacco-sourcing activities. Relative exposed value at risk depicted in the table is projected absent the impacts of additional mitigation actions.

							Cumulative 2040	
Inherent risk	TCFD Category	Impact	Indicator	Geographies	Likelihood	Velocity	1.5 °C	3 °C
Increased frequency and intensity of extreme droughts in tobacco-growing areas	Chronic risk	Increasing yield losses for PMI tobacco suppliers could result in increased tobacco price in local markets or scarcity of alternative volumes with the same quality of tobacco, leading to increased procurement costs for PMI	Value of tobacco supplied to PMI by suppliers facing high drought risk	16 sourcing areas across Africa, Europe, and Latin America				
Increased frequency and intensity of extreme floods in tobacco-growing areas	Acute risk	Increasing yield losses for PMI tobacco suppliers could result in increased tobacco price in local markets or scarcity of alternative volumes with the same quality of tobacco, leading to increased procurement costs for PMI	Value of tobacco supplied to PMI by suppliers facing high flood risk	8 sourcing areas across Latin America and Asia Pacific				
Increased frequency and intensity of extreme floods in tobacco-growing areas	Acute risk	Increasing yield losses for PMI tobacco suppliers could result in increased tobacco price in local markets or scarcity of alternative volumes with the same quality of tobacco, leading to increased procurement costs for PMI	Value of tobacco flood-related losses for suppliers' growing areas at high flood risk	8 sourcing areas across Latin America and Asia Pacific				

Broader supply chain

Climate change may present chronic and acute physical risks with indirect impacts in our sourcing activities, namely in our electronics supply chain and paper- and pulp-based supply chain, which includes cellulose acetate. Relative exposed value at risk depicted in the table is projected absent the impacts of additional mitigation actions.

Inherent risk	TCFD Category	Impact	Indicator	Geographies	Likelihood	Velocity	Cumulative 2040 1.5 °C	Cumulative 2040 3 °C
Increased frequency and intensity of extreme droughts in Pulp and paper and Electronics supply regions	Chronic risk	Increased downtime and reduced supplier productivity due to water scarcity could result in increased procurement costs and business interruption for PMI	Value of assets at risk with suppliers facing high drought risks	Pulp and paper: 29 suppliers across the Americas and Europe	Pulp and paper	Pulp and paper	Pulp and paper	Pulp and paper
				Electronics: 2 suppliers in Europe	Electronics	Electronics	Electronics	Electronics
Increased frequency and intensity of extreme floods in Pulp and paper and Electronics supply region	Acute risk	Increased downtime and damages to suppliers' sites due to extreme flood events could result in increased procurement costs and business interruption for PMI	Value of assets at risk with suppliers facing high flood risks	Pulp and paper: 16 suppliers across Asia Pacific, Europe, and Latin America	Pulp and paper	Pulp and paper	Pulp and paper	Pulp and Paper
				Electronics: 9 suppliers across Asia Pacific	Electronics	Electronics	Electronics	Electronics

Third-party logistics

Climate change may present chronic and acute physical risks with indirect impacts on third-party logistics. Relative exposed value at risk depicted in the table is projected absent the impacts of additional mitigation actions.

Inherent risk	TCFD Category	Impact	Indicator	Geographies	Likelihood	Velocity	Cumulative 2040 1.5 °C	Cumulative 2040 3 °C
Increased frequency and intensity of extreme floods in ports	Acute risk	Increased downtime and damages to port infrastructure could undermine shipping/storage activities resulting in increased logistics costs for PMI and supply chain disruption	Value of PMI containers in ports exposed to future high flood risks	6 ports across Asia, Latin America, and the Middle East				
Sea level rise in port locations	Chronic risk	Increased downtime and damages to port infrastructure could undermine shipping/storage activities resulting in increased logistics costs for PMI and supply chain disruption	Value of PMI containers in ports exposed to fastest sea level rise	5 ports across Asia Pacific				

Key

2040 relative value at stake*

Low	Medium	High

Likelihood

Unlikely	Possible	Likely

Velocity

Low (mid- to long-term)	Medium (mid-term)	High (short-term)

* Absent impact of additional mitigation actions

Physical risks for occupational health

Climate change may present chronic and acute physical risks for our workers and workers in our supply chain. This table includes direct and indirect impacts as described in the "Impact" column. Relative impact on workforce depicted in the table is projected absent the impacts of additional mitigation actions.

Inherent risk	TCFD Category	Impact	Indicator	Geographies	Likelihood	Velocity	Cumulative 2040: 1.5 °C	Cumulative 2040: 3 °C
Increased frequency and intensity of extreme heatwaves in factory locations	Acute risk	Extreme temperature could affect the productivity of factories due to increasing fatigue and illnesses of workers exposed to high temperatures	Exposed workers to heat stress and percent of total workforce	6 factories across Asia Pacific	PMI factories	PMI factories	PMI factories[1]	PMI factories[1]
Increased frequency and intensity of extreme heatwaves in tobacco-growing areas	Acute risk	Extreme temperature could affect the productivity and incomes of suppliers due to increasing fatigue and illnesses of workers exposed to high temperatures	Exposed workers to heat stress	7 sourcing areas across Asia Pacific	Leaf suppliers	Leaf suppliers	Leaf suppliers[2]	Leaf suppliers[2]
Increased frequency and intensity of extreme heatwaves in supply regions in third-party factories	Acute risk	Extreme temperature could affect the productivity of suppliers due to increasing fatigue and illnesses of workers exposed to high temperatures	Exposed workers to heat stress and percent of total workforce	Pulp and paper: 5 suppliers across Asia Pacific, Europe, and Latin America	Pulp and paper	Pulp and paper	Pulp and paper[3]	Pulp and paper[3]
				Electronics: 5 suppliers across Asia Pacific and Europe	Electronics	Electronics	Electronics[4]	Electronics[4]

1 We assume a constant worker population based on 2023 data with 4 percent turnover rate for forward-looking assessment.
2 We assume a constant worker population based on 2023 data with 5 percent turnover rate for forward-looking assessment.
3 Suppliers in our pulp and paper supply chain do not provide precise, facility-level figures, preventing us from properly assessing impacts tied to specific facilities.
4 We assume a constant worker population based on 2023 data for forward-looking assessment.

Key

2040 relative impact on workforce*

Low	Medium	High

Likelihood

Unlikely	Possible	Likely

Velocity

Low (mid- to long-term)	Medium (mid-term)	High (short-term)

* Absent impact of additional mitigation actions

Transition risks

The CCRO assessment projected transition risks under 1.5 °C, 2 °C, and 3 °C global warming scenarios until 2030 and 2040. Their cumulative financial impacts were reassessed under two global warming scenarios. The 3 °C global warming scenario appears more favorable from a transition risk perspective because it assumes no further policy instruments (i.e., carbon pricing, energy taxes) will be introduced, resulting in less potential financial risk related to growing energy and carbon prices. The value at stake (VaS) represents the difference between the business as usual and the climate scenarios. Read more about our identification process here and our glossary for terminology definitions here.

Key

2040 cumulative value at stake (USD millions)*

<1,000	1,000–2,000	>2,000

Likelihood

Unlikely	Possible	Likely

Velocity

Low (mid- to long-term)	Medium (mid-term)	High (short-term)

* Absent impact of additional mitigation actions

Manufacturing

Climate change may present transition risks with direct impacts on our factories. Exposed value at stake depicted in the table is projected absent the impacts of additional mitigation actions.

Inherent risk	TCFD Category	Impact	Indicator	Geographies	Likelihood	Velocity	Cumulative 2040[1] 1.5 °C	Cumulative 2040[1] 3 °C
Growing energy prices	Market risk	Increased prices of energy sources in manufacturing sites could result in increased energy procurement costs for PMI	Energy costs for manufacturing	Most of PMI's sites in countries across Asia Pacific, Europe, Latin America, and the Middle East				
Growing carbon prices	Policy and legal risk	Increased carbon levy could result in higher costs for manufacturing emissions	Carbon levy costs for manufacturing	Countries covering 90 percent of PMI activities across Asia Pacific, Europe, Latin America, and the Middle East				

1 We assume that the factory value exposed is constant and we have not projected future factory values.

Tobacco supply chain

Climate change may present transition risks with indirect impacts in our tobacco-sourcing activities. Exposed value at stake depicted in the table is projected absent the impacts of additional mitigation actions.

Inherent risk	TCFD Category	Impact	Indicator	Geographies	Likelihood	Velocity	Cumulative 2040 1.5 °C	Cumulative 2040 3 °C
Growing energy prices	Market risk	Increased prices for fuels used in curing barns could result in increased costs for PMI's suppliers and consequently higher procurement costs for PMI	Energy costs for curing	Africa, Asia Pacific, and Latin America were considered (excluding firewood self-collected)				
Growing energy prices	Market risk	Increased price of natural gas could result in increased production cost for PMI's suppliers and consequently higher procurement costs for PMI	Natural gas costs for fertilizer suppliers	- 20 countries in which PMI procures nitrogen fertilizer across Africa, the Americas, Asia Pacific, Europe, and the Middle East - Worldwide approach is taken for potassium and phosphate fertilizer				
Carbon Border Adjustment Mechanism (EU - CBAM)	Policy and legal risk	CBAM tax on imported fertilizers could result in increased fertilizer procurement costs for PMI in EU markets	CBAM on purchased fertilizers	Countries considered for CBAM rates (as largest fertilizer exporting countries to EU) across Eastern Europe, Asia, the Americas and MENA				

Broader supply chain

Climate change may present chronic and acute risks with indirect impacts in our sourcing activities in our broader supply chain, including pulp and paper materials and electronics. Exposed value at stake depicted in the table is projected absent the impacts of additional mitigation actions.

Inherent risk	TCFD Category	Impact	Indicator	Geographies	Likelihood	Velocity	Cumulative 2040 1.5 °C	Cumulative 2040 3 °C
Growing carbon prices	Policy and legal risk	Increased carbon prices could result in higher costs for suppliers' emissions and consequently increased procurement costs for PMI	Carbon levy costs for pulp and paper suppliers	Regions covering 90 percent of PMI's pulp and paper suppliers across the Americas, Asia, and Europe				

Logistics

Climate change may present chronic and acute risks with direct impacts on PMI's own logistics and indirect impacts on third-party logistics. Exposed value at stake depicted in the table is projected absent the impacts of additional mitigation actions.

Inherent risk	TCFD Category	Impact	Indicator	Geographies	Likelihood	Velocity	Cumulative 2040 1.5 °C	Cumulative 2040 3 °C
Growing energy prices	Market risk	Increased price in energy sources for transportation could result in higher logistics costs for PMI	Energy costs for logistics	Worldwide approach	PMI logistics	PMI logistics	PMI logistics	PMI logistics
					Third-party logistics	Third-party logistics	Third-party logistics	Third-party logistics
Growing carbon prices	Policy and legal risk	Increased carbon prices could result in higher costs for logistics emissions for PMI	Carbon levy costs for logistics	Worldwide approach	PMI logistics	PMI logistics	PMI logistics	PMI logistics
					Third-party logistics	Third-party logistics	Third-party logistics	Third-party logistics

Key

2040 cumulative value at stake (USD millions)*

<1,000	1,000–2,000	>2,000

Likelihood

Unlikely	Possible	Likely

Velocity

Low (mid- to long-term)	Medium (mid-term)	High (short-term)

* Absent impact of additional mitigation actions

Glossary of terms

Abatement[1] – Measures taken to prevent, reduce, or eliminate sources of GHG emissions within an organization's value chain. Includes both CO_2 and other greenhouse gases.

Adaptation[2] – Adjustments in ecological, social, or economic systems in response to actual or expected physical climate risks, such as extreme weather events or long-term shifts in climate patterns. These aim to reduce harm or seizing opportunities and include measures such as climate-resilient infrastructure, drought-tolerant crops, revised policies, and early warning systems.

Afforestation[3] – The process of planting trees in areas that have not been forested in recent history.

Baseline Scenario[4] – A description of the expected emissions or removals in the absence of the carbon crediting activity, used to calculate the impact of the mitigation activity.

Biogenic emissions[5] – CO_2 emissions related to the natural carbon cycle, as well as those resulting from the combustion, harvest, digestion, fermentation, decomposition, or processing of biologically based materials.

Carbon Credit[4] – A tradable unit representing one metric ton of CO_2-equivalent emissions reduced or removed from the atmosphere, verified against a baseline scenario. This is calculated as the difference in GHG emissions or removals from a baseline scenario to the emissions or removals occurring under the mitigation activity, and any adjustments for leakage.

Carbon Markets[3] – Trading schemes that create financial incentives for activities that reduce or remove greenhouse gas emissions. In these schemes, emissions are quantified into carbon credits that can be bought and sold. One tradable carbon credit equals one ton of carbon dioxide, or the equivalent amount of a different greenhouse gas reduced, sequestered, or avoided. Carbon credits can be bought by countries as part of their NDC strategy, by corporations with sustainability targets, and by private individuals that want to compensate for their carbon footprint.

Carbon Neutrality[6] – A condition in which during a specified period there has been no net increase in the global emission of greenhouse gases to the atmosphere as a result of the greenhouse gas emissions associated with the subject. The specific requirements to achieve carbon neutrality vary depending on the standard/approach being used as a basis for the claim; however, these typically display requirements related to scope of emissions included in the claim (e.g., scope 1, scope 2, scope 3), existence of an emission reduction strategy that annually drives reductions within the claiming entity, and others.

Carbon removal[7] – Anthropogenic activities removing CO_2 from the atmosphere and durably storing it in geological, terrestrial, or ocean reservoirs, or in products. Carbon Dioxide Removals (CDRs) include existing and potential anthropogenic enhancement of biological or geochemical CO_2 sinks and direct air carbon dioxide capture and storage (DACCS) but exclude natural CO_2 uptake not directly caused by human activities.

Carbon sequestration[7] – The process of storing carbon in a carbon pool (IPCC, 2018). Carbon sequestration differs from CDRs in that in the latter the CO_2 must be captured (either directly or indirectly) from the atmosphere, while carbon sequestration also includes processes that capture CO_2 from fossil fuels (i.e., CCS).

CCRO assessment (Climate Change Risks and Opportunities assessment)[8] – A structured process used to identify, evaluate, and prioritize the potential threats and benefits that climate change poses to an organization's operations, assets, and value chain. It combines impact assessment with scenario modeling to inform decision-making, resilience planning, and long-term sustainability strategies.

Deforestation[9] – Loss of natural forest as a result of: (i) conversion to agriculture or other non-forest land use; (ii) conversion to a tree plantation; or (iii) severe and sustained degradation.

Double counting[4] – A situation in which a single GHG emission reduction or removal is counted more than once toward achieving mitigation targets or goals. Double counting can occur through double issuance, double use, and double claiming. Double counting is monitored through standard owner registry's mechanisms and efforts are in place to minimize it.

FLAG (Forest, Land, and Agriculture)[1] – A sector-specific category used in climate target-setting frameworks—such as the Science Based Targets initiative (SBTi)—to account for greenhouse gas emissions and removals from land-based activities.

GHG emission reduction[4] – A net reduction in anthropogenic greenhouse gas emissions by sources.

Greenhouse gas (GHG)[4] – Those gaseous constituents of the atmosphere, both natural and anthropogenic, that absorb and emit radiation at specific wavelengths within the spectrum of thermal infrared radiation emitted by the Earth's surface, the atmosphere itself, and by clouds. This property causes the greenhouse effect.

High-quality carbon credits[4] – Carbon credits generated by projects that comply with high-quality principles as defined by leading initiatives such as the ICVCM, and that create real, verifiable climate impact.

Inherent risk[8] – The initial level of risk posed by climate-related threats prior to the implementation of any mitigation or adaptation measures. It represents the unmanaged exposure of assets, operations, or communities to both physical and transition climate risks, assuming no actions have been taken to reduce vulnerability or impact. This baseline assessment is essential for identifying hotspots—areas or systems where climate change impacts are expected to be most severe—highlighting the need for in-depth evaluations to determine the effectiveness of existing risk management strategies.

Integrity Council for the Voluntary Carbon Market (ICVCM)[4] – Multistakeholder-led independent governance body. It establishes and maintains the highest standards of ethics, sustainability, and transparency for the global voluntary carbon market.

Likelihood[10] – The probability or chance that a given climate-related risk will materialize and have an impact on the organization within a defined time horizon.

Locked in emissions[11] – Estimates of future GHG emissions that are likely to be caused by an undertaking's key assets or products sold within their operating lifetime.

Losses and damages[12] – Adverse tangible economic and noneconomic impacts that result from physical effects of climate hazards when they exceed the capacity of a system to adapt to the stress caused by climate change. They are a granular estimation of tangible impacts based on field/site observations of current and past events.

Mitigation activity[4] – An activity that reduces anthropogenic emissions of a GHG or enhances removals by sinks relative to GHG emissions or removals in the activity's baseline scenario and that may seek registration and issuance of carbon credits under a carbon-crediting program, subject to meeting eligibility conditions. The term refers to activities that may be implemented at different scales, including projects, programmatic approaches, policies, jurisdictional REDD+ programs, and other interventions. They may also be implemented at one or more sites.

Monitoring, Reporting, and Verification (MRV)[13] – Multi-step process to measure the amount of greenhouse gas (GHG) emissions reduced by a specific mitigation activity, such as reducing emissions from deforestation and forest degradation, over a period of time and report these findings to an accredited third party. The third party then verifies the report so that the results can be certified and carbon credits can be issued.

Net zero[1] – Net zero emissions are achieved when anthropogenic emissions of greenhouse gases to the atmosphere are balanced by anthropogenic removals over a specified period. Where multiple greenhouse gases are involved, the quantification of net zero emissions depends on the climate metric chosen to compare emissions of different gases (such as global warming potential, global temperature change potential, and others, as well as the chosen time horizon).

Offsetting[1] **(or Compensation)** – The activity of purchasing carbon credits from activities outside of a company's value chain as a substitute for abating emissions within its value chain.

Opportunities[8] – The potential positive impacts and benefits that organizations can achieve through efforts to mitigate and adapt to climate change. These opportunities emerge from the transition to a low-carbon, climate-resilient economy, and can enhance long-term value creation, competitiveness, and organizational resilience. They include initiatives to improve resource efficiency, adoption of clean technologies, development of climate-smart products and services, access to new green markets, and strengthening brand value through climate leadership.

Physical risks[8] - The potential adverse impacts of climate change hazards that directly affect natural and human systems, infrastructure, and economic activities.

- **Acute** physical risks arise from extreme weather events—such as floods or heatwaves—that occur suddenly and can cause immediate damage, disrupt operations, and endanger human safety.
- **Chronic** physical risks stem from long-term shifts in climate patterns—such as sea level rise or persistent drought—that gradually degrade infrastructure, reduce agricultural productivity, and increase operating costs.

Reforestation[1] – The act of replanting of forests on lands that have previously contained forests but that have been converted to some other use.

Residual Emissions[1] – Emissions that remain after all technically and economically feasible abatement measures have been implemented.

Residual risk[14] – The level of risk that remains after mitigation and adaptation measures have been implemented to address climate-related threats. It represents the remaining exposure to physical or transition climate risks despite efforts to reduce vulnerability, enhance resilience, or manage impacts. It is essential for identifying where additional measures are needed to minimize future risks.

Transition risks[8] - The potential adverse impacts on organizations that arise from the global shift toward a low-carbon and climate-resilient economy. These risks are driven by changes in policies and regulations, technological advancements, market shifts, reputational pressures, and stakeholder expectations. These risks can lead to increased operational costs, stranded assets, loss of market share, or reduced access to capital, especially for businesses that are slow to transform.

Value at stake (VaS)[15] – Potential financial exposure to climate-related risks on a company's assets, operations, or value chain over a defined time horizon.

- Examples of VaS from **physical** climate risks include the total value of buildings, equipment, inventory, and production output at manufacturing sites located in high flood-risk areas, or the value of agricultural commodity volumes purchased from suppliers operating in regions exposed to chronic extreme drought.
- Examples of VaS from **transition** climate risks include additional operating costs resulting from rising energy prices, increased supply chain expenses due to stricter environmental regulations and carbon levies, and higher compliance costs associated with evolving climate-related reporting requirements.

Value chain projects – Interventions by an organization within its value chain that are designed to generate GHG emissions reductions or carbon removals, and at the same time create positive impacts for communities, landscapes, and ecosystems.

Velocity[16] – The rate at which a climate-related risk materializes and begins to affect an organization's financial performance.

- **High velocity risks** result in immediate or near-term impacts once triggered. Examples include a sudden implementation of a carbon tax or a flood that damages critical infrastructure.
- **Medium velocity risks** have impacts that become evident over a medium-term horizon, typically within a few years. These may include policy changes with defined transition periods or emerging regional water stress that gradually affects operations.
- **Low velocity risks** develop and exert influence gradually over time, such as rising sea levels or slow shifts in consumer behavior toward sustainable products.

Voluntary carbon market[4] – The voluntary carbon market (VCM) is a decentralized market where private actors voluntarily buy and sell carbon credits that represent removals or reductions of greenhouse gases (GHGs) in the atmosphere.

Endnotes:

Definitions are excerpted and adapted from the following sources:

1. Science Based Targets initiative (SBTi) – SBTi Glossary V1.2
2. UNFCCC - Adaptation and resilience and IPCC – Sixth Assessment Report Glossary
3. UNDP - The Climate Dictionary – The Climate Dictionary
4. ICVCM (Integrity Council for the Voluntary Carbon Market) - Definitions Volume 2
5. U.S. Environmental Protection Agency – Climate change
6. PAS 2060:2014 Standard
7. IPPC – SR15_Annex
8. Task Force on Climate-related Financial Disclosures – TCFD Recommendations
9. Accountability Framework Initiative – Definitions | Accountability Framework initiative
10. UNEP – Changing Course
11. EFRAG – 23 Appendix VI - Glossary and acronyms
12. UNEP – About loss and damage
13. World Bank Group – Climate Explainer: MRV
14. UNFCCC – Article 6 of the Paris Agreement
15. World Economic Forum – The cost of inaction
16. UNEP – Bridging climate and credit risk

Forward-looking and cautionary statements

This report and related materials contains projections of future results and goals and other forward-looking statements, including statements regarding expected financial or operational performance; capital allocation plans; investment strategies; regulatory outcomes; market expectations; business plans and strategies. Achievement of future results is subject to risks, uncertainties and inaccurate assumptions. In the event that risks or uncertainties materialize, or underlying assumptions prove inaccurate, actual results could vary materially from those contained in such forward-looking statements. Pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, PMI is identifying important factors that, individually or in the aggregate, could cause actual results and outcomes to differ materially from those contained in any forward-looking statements made by PMI.

PMI's business risks include: excise tax increases and discriminatory tax structures; increasing marketing and regulatory restrictions that could reduce our competitiveness, eliminate our ability to communicate with adult consumers, or ban certain of our products in certain markets or countries; health concerns relating to the use of tobacco and other nicotine-containing products and exposure to environmental tobacco smoke; litigation related to tobacco and/or nicotine use and intellectual property; intense competition; the effects of global and individual country economic, regulatory and political developments, natural disasters and conflicts; the impact and consequences of Russia's invasion of Ukraine; changes in adult smoker behavior; the impact of natural disasters and pandemics on PMI's business; 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; recent and potential future tariffs imposed by the U.S. and other countries; 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 introduce, commercialize, and grow smoke-free 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; if it is unable to attract and retain the best global talent, including women or diverse candidates; or if it is unable to successfully integrate and realize the expected benefits from recent transactions and acquisitions. Future results are also subject to the lower predictability of our smoke-free products performance.

PMI is further subject to other risks detailed from time to time in its publicly filed documents, including PMI's Annual Report on Form 10-K for the fourth quarter and year ended December 31, 2024, and the Quarterly Report on Form 10-Q for the third quarter ended September 30, 2025. PMI cautions that the foregoing list of important factors is not a complete discussion of all potential risks and uncertainties. PMI does not undertake to update any forward-looking statement that it may make from time to time, except in the normal course of its public disclosure obligations.

Notes

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

Unless stated otherwise, in this report and in related communications, the term "materiality," "material," and similar terms are defined in the referenced sustainability standards and certain regulatory requirements, as may be applicable to us, and are not meant to correspond to the concept of materiality under the U.S. securities laws and/or disclosures required by the U.S. Securities and Exchange Commission.

Additionally, in this report and in related communications, "climate-related risks," "risks," and similar terms, when used in the context of the Climate Change Risks and Opportunities assessment ("CCRO assessment"), are aligned with the recommendations of the Task Force on Climate-related Financial Disclosures, represent forward-looking projections based on uncertain future climate scenarios, and are not meant to correspond to the concept of material risk factors contemplated by U.S. securities laws and/or disclosures required by the U.S. Securities and Exchange Commission.

This report contains references and links to websites operated by third parties. These references are provided as a convenience to you and as an additional avenue of access to the information contained in those sources; they should not be viewed as an endorsement by us of the content of these references and linked sites or opinions of their authors.

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This report reflects PMI's current views and estimates based on the data and information available at the time of publication. Changes in circumstances or new information may have occurred since the report's publication, which could impact the accuracy of certain details. This report includes metrics that are subject to measurement uncertainties due to inherent limitations in the nature and methods for data collection and measurement. The precision of different collection and measurement techniques may also vary. This report includes data or information obtained from external sources or third parties.

Aspirations, targets, and goals do not constitute financial projections, and achievement of future results is subject to risks, uncertainties, and inaccurate assumptions, as outlined in our forward-looking and cautionary statements alongside these notes in this page of the report.

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