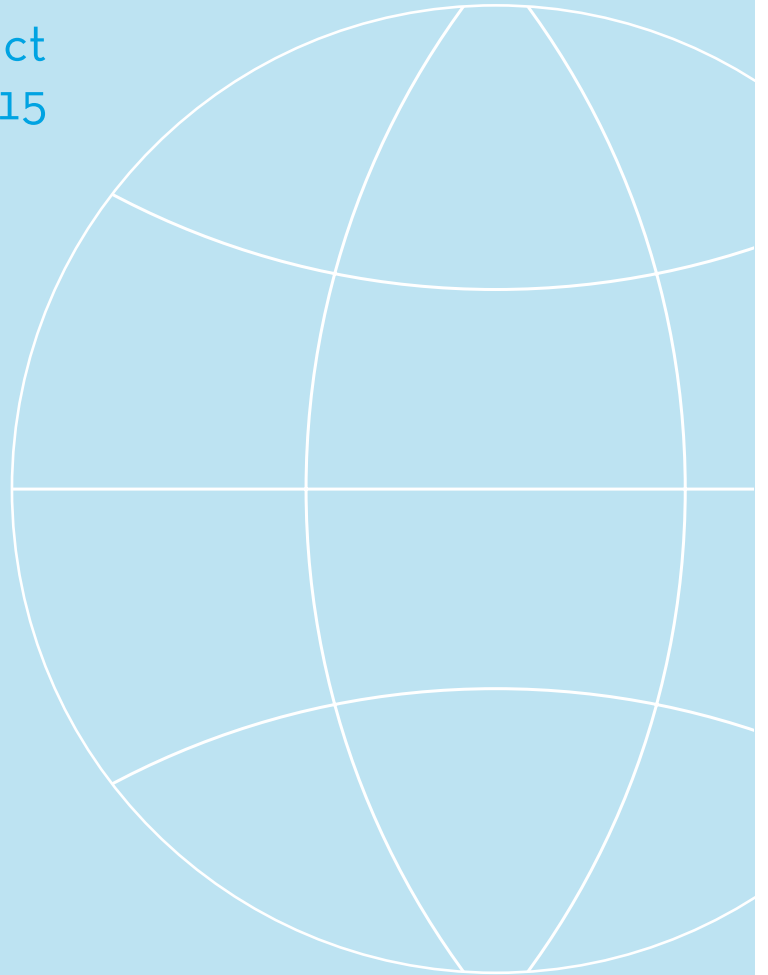




PHILIP MORRIS INTERNATIONAL

United Nations Global Compact
Communication on Progress 2015



**HUMAN
RIGHTS &
LABOR RIGHTS
ENVIRONMENT
ANTI-CORRUPTION**

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PMI AND THE UN GLOBAL COMPACT

The United Nations (UN) Global Compact is a voluntary public-private partnership aimed at advancing global sustainability goals through business commitment to ten fundamental Principles relating to Human Rights, Labor Rights, Environmental Responsibility, and Anti-Corruption measures.

This is our first Communication on Progress under the Global Compact and focuses on our progress during the calendar year 2015. It illustrates how we manage our business with regard to the Ten Principles and describes our policies, activities, measurements and future plans for key topics across our value chain. We provide links to further information at the end of each section.

PMI is also taking action to support broader UN goals and to participate in local UN Global Compact Networks. At this time, we have engaged at our market level with 22 local UN Global Compact networks.

Letter from our CEO

Philip Morris International (PMI) joined the UN Global Compact (UNGC) in 2015. By doing so we committed ourselves to making the UNGC Principles part of the strategy, culture and day-to-day operations of our company.

I am pleased to renew our commitment to the UNGC and to the implementation of its Ten Principles. Preparing this Communication on Progress provided us with an opportunity to reflect on, and share our work in the areas of Human Rights, Labor Rights, Environment and Anti-Corruption. We have areas of strong performance across each and every principle and are determined to play an active role in the sustainability agenda, while delivering long-term growth for our business. For instance, in 2015 we achieved CDP “Climate ‘A’ List” status and 100% Carbon Disclosure rating. We have shown leadership in the fight against child and forced labor and in supporting farmers to improve the productivity of their crops and respect the environment. Our efforts in tobacco-growing communities are unique and are also helping tobacco farmers grow a range of alternative crops that will better sustain their livelihoods in a turbulent global economy. We have comprehensive compliance programs, signed the United Nations Call to Action on Anti-Corruption, and continue to focus on the fight against illicit trade in tobacco. Finally, we continue to invest in the advancement of diversity and inclusion in our company, a key priority in terms of our organizational development.

While we are proud of these and many other initiatives, the greatest contribution that PMI can and must make towards global sustainability is to address the impact of smoking on health. We recognize that combustible cigarettes are a dangerous product, and the best way to avoid the harms of smoking is never to start, or to quit. But much more can be done to reduce health risks for the world’s 1.1 billion smokers. Technological innovation is transforming our industry with a wide range of non-combustible nicotine products that have the potential to significantly reduce health risks when compared to smoking. PMI has been, and will continue to be, a driving force in this transformation.

Our ambition is to lead a full-scale effort to ensure that non-combustible products ultimately replace cigarettes to the benefit of adult smokers, society, our company and our shareholders.

We recognize the challenges ahead and that a collaborative approach is key to success. We aim to be transparent regarding the issues we face, humble regarding our progress and open to share, learn and engage with others. I cordially invite you to comment, challenge, and guide us as we seek to continuously improve the sustainability of our business and contribute to the global sustainability agenda (sustainability@pmi.com).



A stylized, handwritten signature in black ink, consisting of several fluid, overlapping strokes.

ANDRE CALANTZOPOULOS
CHIEF EXECUTIVE OFFICER
PHILIP MORRIS INTERNATIONAL

About PMI



Over 400 scientists, engineers and technicians

Research & Product Development

We have over **400** dedicated scientists, engineers and technicians working on the development and assessment of Reduced Risk Products across our two research and development sites in Neuchâtel, Switzerland and Singapore.



180 countries worldwide

Sales & Marketing & Retail

Our products are available to adult consumers in more than **180** countries, through **many millions of third-party retail outlets**.



25,000 vehicles worldwide

Distribution & Logistics

We operate a fleet of around **25,000** vehicles as well as engaging with specialized logistics partners to distribute our products within our markets.

Farmers & Our Suppliers

Our business depends on quality agricultural raw materials. Each year, we purchase in excess of **400,000** metric tons of tobacco from **450,000** farmers (mainly small-holders) and suppliers in close to **30** countries. Around **2.5** million people live or work on farms supplying to PMI and it is estimated that over **30** million people are involved in tobacco farming worldwide. We support farmers in the implementation of practices to improve the productivity and the quality of their crops, reduce the impact on the environment, and achieve safe and fair working conditions. Over **3,500** field technicians support farmers with knowledge transfer, access to inputs, technology and financing, and monitor adherence to our standards.

In addition, paper/board and cellulose acetate filter material are significant raw materials for our business – we purchase a wide variety of direct and indirect materials as well as services from over **40,000** suppliers.



450,000
smallholder
farmers



Over 80,000
people

working across our
global facilities.



33 countries

Manufacturing & Packaging

We operate **48** production facilities
in **33** different countries.

TAKING AN ACTIVE ROLE IN COMMUNITIES

PMI has a long and proud history of partnering with not-for-profit and public sector organizations around the world to advance the social and economic conditions of the communities where our employees live and work and in the agricultural regions where we source tobacco.

According to local context and needs, the programs we support can range from access to quality education or vocational training, to income generating and employment creation entrepreneurship, or the promotion of women's leadership role in society.

In 2015, PMI provided over **29 million USD** to support projects across the world.

Throughout this Communication on Progress we provide a few examples of projects we support that are directly relevant to our commitment to the UNGC Principles, but a more complete overview can be found at www.pmi.com/contributions

PMI concentrates its efforts in four key areas:



Access to Education



Economic Opportunity



Empowering Women



**Disaster Relief and
Preparedness**

Sustainability and our Business

Embedding the Ten UNGC Principles into our day-to-day work requires the commitment and active contribution of all our employees.

To ensure alignment with the UNGC Principles and advance our work in this area, we have set up a Working Group of subject-matter experts from our business functions. This Group is supported by the functional leaders who report to our CEO and is coordinated by a Sustainability Team reporting directly to our Senior Vice President for Corporate Affairs.

Integrating the UNGC Principles within our business also means assessing our current programs for opportunities to improve, and putting in place plans to achieve the desired results. Sustainability program results are included in the assessment of our annual company-wide performance that is reviewed by the Compensation and Leadership Development Committee of the Board of Directors. Accordingly, these results are included in our overall performance rating which determines the cash and stock bonus pool for Senior Management and other eligible employees.

Metrics and Goals: One improvement area for us is the definition of metrics and goals for the various sustainability topics. This will help us benchmark against other companies and substantiate our progress. We will be using the Global Reporting Initiative Guidelines to support that work and publish our progress in future reports. We also welcome the recent adoption of the Sustainable Development Goals (SDGs) as an additional reference for our sustainability journey. We aim to align our work to the SDGs and commit to play our part in making them become reality.

Materiality: A key starting point was to undertake a preliminary internal review of the material sustainability topics to our business, including wider stakeholder perspectives. We will complete this materiality assessment over the next year, in the meantime we have used our preliminary review to confirm the most important elements for inclusion in this Communication on Progress.

A Strong Foundation for our Commitments

Our Compliance systems underpin the way we work and how we uphold our commitments.

The related tools and processes help us consistently do business in a manner that reflects what the law and society expect from us, especially given the nature of our products. Specifically, our Code of Conduct, known as our Guidebook for Success, describes the fundamental beliefs that unite and guide us in working for PMI. It describes our Core Principles – practical and clear direction about how we work. The Guidebook is available in 45 languages and is complemented by 18 Compliance policies, known as Principles and Practices.

We use training and communication to build the necessary understanding and motivation, with employees completing around 200,000 compliance trainings each year. In addition to classroom and online training, we engage with employees through town halls, leadership communications and team discussions. For example, 48,000 employees participated in supervisor-led discussions, using real-life work situations, as part of the roll-out of our Guidebook.

We have clear policies, regular training and robust processes to motivate employees to speak up if things don't seem right. Compliance concerns can be raised with supervisors, other leaders, directly to our Compliance Department or through a third-party operated Compliance Helpline available all day, every day in all languages spoken at PMI.

We conduct regular risk assessments to identify, evaluate and mitigate the risks of misconduct. We continuously adapt, and stay-up-to-date by using behavioral ethics research to enhance the effectiveness of our program.

We measure progress and identify improvement opportunities through employee opinion surveys on Compliance and Integrity. Our latest survey in 2015 was available in 36 languages and was completed by more than 28,000 employees representing a response rate of 74%. Different feedback tools are also provided for factory floor employees.

Finally, the adherence of company processes to our Principles and Practices is monitored by our Internal Controls function as well as our independent Corporate Audit function, which reports to the Audit Committee of the Board of Directors.

CORE COMPLIANCE RISK AREAS

Competition Law, Conflicts of Interest, Environment, Health, Safety & Security, Fiscal & Trade (including Anti-Illicit Trade), Anti-Corruption, Information Protection, Marketing & Sales, and Workplace and Labor Practices.

Our Products

No report on our commitment to sustainable business practices would be complete without first reflecting on, and acknowledging, the societal harm caused by our products.

PMI manufactures and sells over 800 billion cigarettes per year to an estimated 150 million adult consumers in more than 180 countries. Smoking cigarettes causes serious disease. Smokers are far more likely than non-smokers to get heart diseases, lung cancer, emphysema and other diseases. In addition, smoking is addictive, and it can be very difficult to stop.

The best way to avoid the harms of smoking is never to start, or to quit. Based on World Health Organization estimates, over 1.1 billion people currently smoke cigarettes. As a result of global population growth, this number is projected to remain largely unchanged over the next decade despite the considerable efforts to discourage tobacco use.

We are convinced that much more can be done to improve the health and quality of life of smokers by improving the product through science and innovation. For over a century, the basic design and use of cigarettes has not changed: shredded tobacco leaves are burned, which produces smoke. The cigarette smoker inhales nicotine along with various toxic substances contained in that smoke. While nicotine is addictive, it is the smoke generated by burning the tobacco (combustion) that is the principal problem.

Now, a number of non-combustible nicotine products, including e-cigarettes and heated tobacco products, have the potential to significantly reduce individual risk and population harm compared to smoking cigarettes. We refer to these products as “Reduced Risk Products“, or “RRPs“. To ensure that as many smokers as possible give up cigarettes, we see the need for a broad range of RRP to satisfy varied consumer preferences.

Heated tobacco products are a relatively new category of RRP. We currently commercialize one product in this category under the brand name iQOS. Instead of burning tobacco and creating smoke, iQOS heats tobacco just enough to release a vapor that provides consumers with a nicotine experience and tobacco flavor similar to that of a cigarette but with a significant reduction of the harmful or potentially harmful compounds found in cigarette smoke.

We have compiled a substantial amount of scientific evidence related to iQOS. The results so far are very encouraging and point to the conclusion that the effects on adult smokers who switch to iQOS are very close to those observed in people who quit smoking; a high standard to meet in terms of individual risk reduction. We are fully committed to the transparent sharing of our science for third-party verification. Over the last five years, our scientists have published over 150 book chapters and articles on RRP-related research in leading peer-reviewed scientific journals, such as the American Journal of Physiology, Nature Biotechnology, Scientific Data, and Toxicological Sciences.

We already announced our goal to lead a full scale effort to ensure that RRPs ultimately replace cigarettes. Indeed, we envision a smoke-free world where a broad range of RRPs fully satisfy the continuing consumer demand for tobacco and nicotine products. To make this future a reality, all manufacturers should be encouraged to develop and commercialize RRPs in all countries where they operate.

Government regulation and oversight remain key. First of all, measures to encourage smokers to switch to RRPs should complement, not replace, the regulatory efforts to reduce smoking prevalence. Second, because RRPs are addictive and not harmless, measures should be taken to ensure that: (1) the public is accurately informed about the health risks of RRPs; (2) youth does not consume nicotine in any form; and (3) products are taxed and regulated in proportion to the harm they cause. Finally, governments have a critical role in reviewing the science related to RRPs and in preventing manufacturers from making unfounded claims.

At PMI, we understand that our vision of replacing combustible cigarettes is unprecedented for a tobacco company. Some will question our motives and others will question why PMI would seek to transform a very profitable market for combustible cigarettes. The answer is simple: our goal of developing and commercializing less harmful products to replace cigarettes is completely aligned with the expectations of smokers, society and our shareholders.

Our success as a business was primarily built on offering smokers a great choice of cigarette brands, including Marlboro, L&M and Chesterfield. We are convinced that our continued success will depend, above all, on our ability to offer smokers around the world less harmful alternative products.

PMI recognizes the importance of the UN Sustainable Development Goals and especially Goal 3 on health. We see our specific contribution to Goal 3 in prioritizing the development and commercialization of RRP.

Our industry is standing on the cusp of a true revolution. For commercial, ethical and public health reasons, we aim to be the leader of the transformation that lies ahead.

LEARN MORE

- **Company Overview:** www.pmi.com/overview
- **Our Management:** www.pmi.com/management
- **Corporate Governance:** www.pmi.com/governance
- **Guidebook for Success:** www.pmi.com/guidebook
- **Financial reports and investor information:** investors.pmi.com
- **PMI Science:** www.pmiscience.com



PMI's R&D HQ in Neuchâtel, Switzerland.



Human Rights and Labor Rights

- 01 Businesses should support and respect the protection of internationally proclaimed human rights
- 02 Businesses should make sure that they are not complicit in human rights abuses
- 03 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining
- 04 Businesses should uphold the elimination of all forms of forced and compulsory labor
- 05 Businesses should uphold the effective abolition of child labor
- 06 Businesses should uphold the elimination of discrimination in respect of employment and occupation

Overview

Respecting labor rights and human rights is a critical element of doing business responsibly. That has been our strong belief for a long time. Now, prompted by our commitment to the Global Compact, we are embarking on a more systematic, rights-based approach in accordance with the UN Guiding Principles on Business and Human Rights (Guiding Principles).

In line with the practical guidance issued by the Global Compact's Human Rights and Labor Working Group, the Guiding Principles will frame our path forward with regard to Global Compact Principles 1-6. We recognize that there is much work for us to do and we intend to build on the lessons we have learned through our longstanding commitment and culture of doing business with integrity across our value chain.

Introduction to our Human Rights Policies

Human rights naturally include labor rights, namely those covered by the Global Compact's Principles 3-6, which are recognized in international human rights conventions.

Our related commitments are reflected in PMI's Guidebook for Success and in a supporting network of policies which address the needs of our diverse global operations, with a particular focus on our workplace and supply chain.

While we take pride in the policies and robust systems that we have put in place, we are working with business and human rights experts to undertake a detailed and systematic gap analysis to determine where our policies and procedures need to improve.

For this first Communication on Progress to the UNGC, we have adopted the following interim Human Rights Policy Statement:

“PMI is committed to respecting all internationally recognized human rights in accordance with the UN Guiding Principles on Business and Human Rights. We commit, in particular, to respect the relevant rights embodied in the International Bill of Rights and the International Labor Organization's 1998 Declaration on Fundamental Rights and Principles at Work throughout our operations, including our entire value chain – from supplier to consumer.

While we cannot promise that we will be able to anticipate and avoid all adverse human rights impacts, we will strive to implement a comprehensive human rights risk management system. We will progressively develop and implement policies and procedures to identify, mitigate, and respond to adverse human rights impacts with which we are actually or potentially involved. We commit to doing so with our foremost focus on risks to rights-holders.”

Based on internal and external engagement over the next year, we intend to develop a more detailed Human Rights Policy to fill any specific policy gaps and embed our commitment to human rights throughout the company, covering:

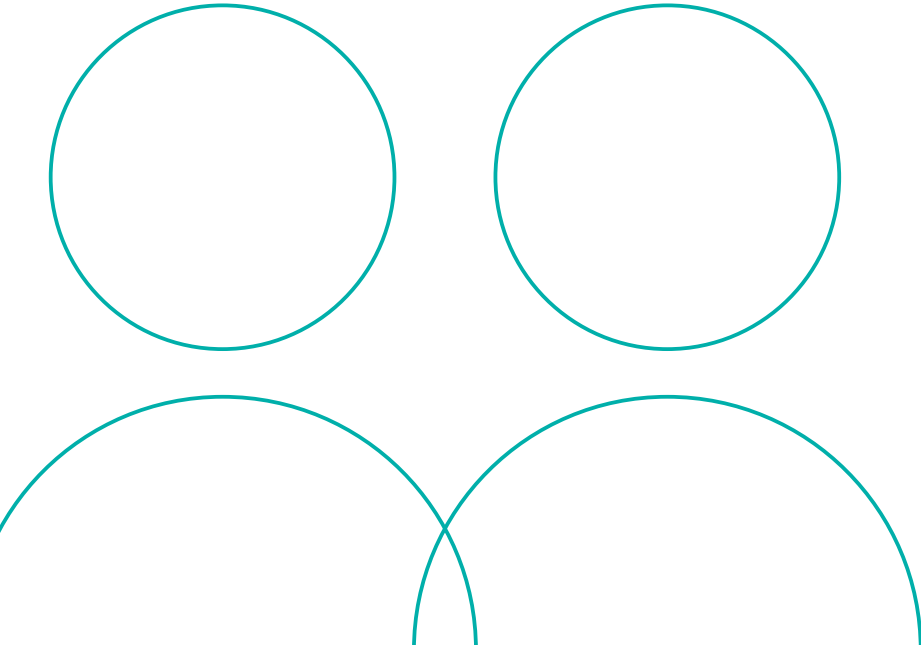
- 1. Our overarching human rights commitment**
- 2. The oversight responsibilities of PMI senior management**
- 3. Implementation responsibilities within line management and central functions**
- 4. Our human rights impact assessment approach**
- 5. Our approach to integrating assessment results in our operations**
- 6. Our method for developing grievance mechanisms**
- 7. Our approach to monitoring responses to actual and potential human rights impacts**
- 8. Our approach to consistent reporting on our human rights impacts and responses**
- 9. Our approach to prioritizing responses to human rights impacts**
- 10. Our approach to remedying human rights impacts**
- 11. How the Human Rights Policy interacts with other compliance and integrity policies**

Introduction to our Human Rights Due Diligence

Our human rights due diligence will include assessment, integration, monitoring and reporting and will build on our existing processes.

Line management is accountable for policy implementation and our Compliance function supports management through communication, training, and other tools. Our Internal Controls and Corporate Audit functions check the adherence to our Principles and Practices.

We rely on a strong culture of internal reporting and investigate all reported suspected violations of any of our Compliance Principles and Practices. These reports can be made through multiple specified channels, including anonymously via an independent and confidential Compliance Helpline. We proscribe, with related disciplinary action, any retaliation or threats of retaliation against any employee or participant in an investigation into any suspected compliance violation.



Structuring our Human Rights Reporting

Our human rights ambitions are grounded in the Guiding Principles' practical insight on how companies should respect human rights. We have tailored our reporting on Global Compact Principles 1 to 6 around Guiding Principle 15:

“In order to meet their responsibility to respect human rights, business enterprises should have in place policies and processes appropriate to their size and circumstance, including:

- (a) A policy commitment to meet their responsibility to respect human rights;
 - (b) A human rights due diligence process to identify, prevent, mitigate and account for how they address their impacts on human rights;
 - (c) Processes to enable the remediation of any adverse human rights impacts they cause or to which they contribute.”
-

In the following sections we describe our existing efforts to respect human rights through policies, due diligence processes and remediation measures, across three material dimensions of our operations: Supply Chain; Workplace Integrity; and Product Development and Marketing.

Supply Chain

A good example of our commitment to respect human rights is the Agricultural Labor Practices (ALP) program, which we launched in 2011 in the wake of stakeholder concerns about risks to rights-holders in tobacco-growing.

The Agricultural Labor Practices (ALP) Program

PMI's commitment is to progressively eliminate child labor and other labor abuses where they are found, and to achieve safe and fair working conditions on all farms where we source tobacco.

The ALP Code defines the labor practices, principles and standards we expect to be met by all tobacco farmers with which PMI or PMI's suppliers have contracts to grow tobacco. It is organized around seven principles relating to fundamental human rights and particularly notable risks to rights-holders, and is based on the Standards of the International Labor Organization (ILO) Declaration on Fundamental Principles and Rights at Work and other relevant ILO conventions.

Farmers and suppliers are expected to apply the ALP Code (see pages 20-21) in a diligent and transparent manner, and to work with us on continuously improving practices. We recognize that labor abuse can often have underlying systemic causes that require the serious and lasting commitment from all actors in the supply chain as well as government and other stakeholders.

Addressing Child Labor Through Community Initiatives and Operational Support to Farmers, Two Complementary Efforts:

In Mexico, the PMI affiliate, PMM, collaborated with an array of stakeholders – including the Secretaries of Social Development, Health, and Education and two local NGOs (Save the Children in Mexico and Desarrollo Rural de Nayarit) – to outfit and develop Child Care and Education Centers (CAEIs) for children of tobacco workers in the tobacco-growing areas of Nayarit. Since the program’s launch in 2001, PMI has supported the establishment of eight CAEIs, which provide full-day activities, education, balanced nutrition, and health care services to benefit approximately 6,900 children. Despite having stopped direct sourcing of tobacco in Mexico in 2015, PMI continues to support the program to this day.

In the Philippines, Pakistan and Indonesia, PMI’s local affiliates developed a two-pronged program to reduce the risk of children being involved in hazardous farm work. The local affiliates equip farmers with a labor-saving technique in the form of devices called “clips”, which allow for more efficient preparation of tobacco leaves for curing, simultaneously reducing the risk of children being involved in the process. In parallel, these affiliates are running a summer school program for farmers’ children during the harvest season.

To assess the efficacy of this program, our affiliates in the Philippines and Pakistan implemented a detailed protocol of increased random unannounced visits during peak season to groups of farmers who 1) received only clips; 2) whose children were involved in the summer school program; 3) were participating in both initiatives; and 4) a control group not involved in the program.

While further validation is needed, the 2015 assessments suggest promising results. The risk of farmers relying on child labor appears to have declined markedly for those who participated in the program, particularly for those who participated in both initiatives. The assessment will be repeated in the next crop seasons in the Philippines and Pakistan and trialed in Indonesia, Thailand and India.



Child Care and Education Center in Mexico.



A farmer uses a labor-saving technique (known as “clip-sticks”) to hang up tobacco leaves for curing. PMI supports the introduction of “clip-sticks” on direct contract farms coupled with after-school programs for children and regular, ad hoc monitoring by dedicated field staff on tobacco farms to prevent child labor.

The ALP Code Principles and Standards

i. ELIMINATE CHILD LABOR

The ALP Code unequivocally states that there shall be no child labor. Based on ILO Convention 138, it also specifies clear “Measurable Standards” which allow us to assess progress over time and to be precise in communicating our expectations:

- There is no employment or recruitment of child labor. The minimum age for admission to work is not less than the age for the completion of compulsory schooling and, in any case, is not less than 15 years or the minimum age provided by the country’s laws, whichever affords greater protection.
- No person under 18 is involved in any type of hazardous work.
- In the case of family farms, a child may only help on his or her family’s farms provided that the work is light and the child is between 13 and 15 years or above the minimum age for light work as defined by the country’s laws, whichever affords greater protection.

ii. FAIR INCOME AND WORK HOURS

We expect of farmers that the income earned by workers during a pay period or growing season is enough to meet workers’ basic needs and shall be of sufficient level to enable the generation of discretionary income. Workers shall not be made to work excessive or illegal work hours. Measurable Standards:

- Wages of all workers (including for temporary, piece rate, seasonal, and migrant workers) meet, at a minimum, national legal standards or agricultural benchmark standards.
- Wages of all workers are paid regularly, with a minimum frequency, in accordance with the country’s laws.

- Work hours are in compliance with the country’s laws. Excluding overtime, work hours do not exceed, on a regular basis, 48 hours per week.
- Overtime work hours are voluntary.
- Overtime wages are paid at a premium as required by the country’s laws or by any applicable collective agreement.
- All workers are provided with the benefits, holidays, and leave to which they are entitled by the country’s laws.

iii. FAIR TREATMENT

We expect farmers to ensure fair treatment of workers. There shall be no harassment, discrimination, physical or mental punishment, or any other forms of abuse. Measurable Standards:

- There is no physical abuse, threat of physical abuse, or physical contact with the intent to injure or intimidate.
- There is no sexual abuse or harassment.
- There is no verbal abuse or harassment.
- There is no discrimination on the basis of race, color, caste, gender, religion, political affiliation, union membership, status as a worker representative, ethnicity, pregnancy, social origin, disability, sexual orientation, citizenship, or nationality.
- Workers have access to a fair, transparent and anonymous grievance mechanism.

iv. ELIMINATE FORCED LABOR

The ALP Code provides that all farm labor must be voluntary and that farmers must not rely on forced labor. Measurable Standards:

- Workers do not work under bond, debt or threat and must receive wages directly from the employer.
- Workers are free to leave their employment at any time with reasonable notice.
- Workers are not required to make financial deposits with employers.
- Wages or income from crops and work done are not withheld beyond the legal and agreed payment conditions.
- Farmers do not retain the original identity documents of any worker.
- The farmer does not employ prison or compulsory labor.

v. SAFE WORK ENVIRONMENT

We expect farmers to provide a safe environment to prevent accidents and injury and to minimize health risks. Accommodation, where provided, shall be clean, safe and meet the basic needs of the workers. Measurable Standards:

- The farmer provides a safe and sanitary working environment, and takes all reasonable measures to prevent accidents, injury and exposure to health risks.
- No worker is permitted to top or harvest tobacco, or to load barns unless they have been trained on avoidance of green tobacco sickness.
- No worker is permitted to use, handle or apply crop protection agents (CPA) or other hazardous substances such as fertilizers, without having first received adequate training and without using the required personal protection equipment. Persons under the age of 18,

pregnant women, and nursing mothers must not handle or apply CPA.

- Workers do not enter a field where CPA have been applied unless and until it is safe to do so.
- Workers have access to clean drinking and washing water close to where they work and live. Accommodation, where provided, is clean, safe, meets the basic needs of workers, and conforms to the country's laws.

vi. FREEDOM OF ASSOCIATION

We expect farmers to recognize and respect workers' rights to freedom of association and to bargain collectively. Measurable Standards:

- The farmer does not interfere with workers' right to freedom of association.
- Workers are free to join or form organizations and unions of their own choosing and to bargain collectively.
- Worker representatives are not discriminated against and have access to carry out their representative functions in the workplace.

vii. COMPLIANCE WITH THE LAW

We expect farmers to comply with all applicable laws in their country relating to employment. Measurable Standards:

- All workers are informed of their legal rights and the conditions of their employment when they start to work.
- Farmers and workers have entered into written employment contracts when required by a country's laws and workers receive a copy of the contract.

ALP Due Diligence

Implementing the ALP Code has been a tremendous challenge and learning opportunity because of the vast size of our tobacco supply chain.

We source tobacco from around 450,000 farmers in close to 30 countries around the world. Most farms are small scale, with the vast majority of tobacco grown on two hectares or less. We are indebted to Verité, an internationally renowned labor rights NGO, for their invaluable support in helping us to design and implement a program to address issues and improve conditions for an estimated 2.5 million people living or working on tobacco farms from the United States to Brazil to Kazakhstan.

Our approach to ALP due diligence is built on four pillars:

- 1. Training and operational support:** Together with our suppliers, we have trained more than 3,500 field technicians on the ALP Code. These technicians are responsible for supporting farmers through visits at regular intervals throughout the growing season. The technicians draw on their relationships of trust with the farmers to engage regarding their concerns, train them continuously on the ALP Code requirements, and provide concrete support to help continuously improve farm practices (including technical know-how, access to inputs, new technologies, financing, and health and safety equipment and training, among others).
- 2. Monitoring:** We have started by building detailed farm profiles to track the socio-economic status of each contracted farm and are progressively introducing systematic monitoring of farm labor practices through PMI affiliates and supplier organizations, either with prioritized ALP Code risks or defined geographic areas. The farm-by-farm monitoring (operationalized on the ground by the field technicians) is a cornerstone of our approach and was designed to provide a clear picture of tangible progress (or lack thereof) in the adoption of the ALP Code standards.

3. Assessment: We supplement the internal monitoring conducted by PMI affiliates and suppliers with independent, external assessments conducted by Control Union Certifications – assessors who have been trained, and often accompanied, by representatives from Verité. These assessments provide independent verification of how well the ALP Code is understood and implemented.

4. Reporting: We have embraced complete transparency regarding the results of our ALP assessments, including the challenges we continue to face. Control Union’s assessments are available on the PMI website. In addition, we regularly publish detailed progress reports on ALP’s global implementation. The most recent of these was published in March 2016 and is available on our website.

“PMI continues to achieve a commendable level of disclosure. During this reporting period, the company published on its website third-party assessment reports on ALP implementation in Brazil, Mexico, Italy, the Philippines and the United States with additional reports from audits conducted during 2014-2015 forthcoming. (...) This monitoring is done against 32 measurable standards on over 450,000 farms in approximately 30 countries – a massive undertaking that bolsters the credibility and validity of PMI’s problem-solving interventions.”

- Dan Viederman, Verité’s former Chief Executive Officer

The establishment of direct contractual relationships with independent farmers, either by us or by our suppliers, is the critical enabler to effectively implement all the elements of PMI’s ALP due diligence. PMI currently purchases around 88% of the tobacco it needs through direct contracts, after having significantly reduced purchases from the auction floor (e.g. in Malawi) or middlemen (e.g. in Indonesia), to gain visibility into farm level practices and to leverage improvement of the overall conditions of production.

ENSURING FOOD SECURITY IN AFRICA

Assuring farming communities’ food security alongside cash crop production is of vital importance in Africa. Monitoring other crops that are grown on tobacco farms not only helps to gain a better understanding of food insecurity risks, but is also an important way to measure progress of various ongoing initiatives to promote food security and crop diversification that are implemented by PMI’s suppliers. In 2014, more than 300,000 tons of maize was produced on farms supported by PMI’s suppliers. In 2015, approximately 180,000 tobacco farmers in Mozambique, Malawi, and Tanzania additionally grew food crops. We have set a 2:1 ratio of food crops to tobacco (on a weight basis) as an overall target for our food security initiatives. Currently we are assessing the possibility of also having specific targets for individual farms, considering their production capacity and the needs of farmer families and workers.



Direct contract farmers growing food crops (maize) alongside their tobacco in Malawi.

Workplace Safety in Our Tobacco Growing Supply Chain

Safety of the work environment is another principle of our ALP Code, operationalized by measurable standards covering the key areas of risk on a tobacco farm, including handling of crop protection chemicals and prevention of green tobacco sickness. We have implemented numerous initiatives to help farmers meet the requirements set, including the distribution of Personal Protective Equipment (PPE) and specialized training to improve the understanding of hazards on the farm and promote the adoption of risk avoidance behaviors. **For example, in 2015, Field Technicians provided PPE kits and associated training to approximately 127,000 farmers in Mozambique, more than 25,000 farmers in Malawi (representing 87% of farms contracted by our suppliers), and approximately 44,000 farmers in Tanzania (80%).** Despite identified incidents related to health and safety remaining the second most prevalent issue monitored by Field Technicians in Africa (after child labor), **the occurrence dropped by around 40% during 2014-2015.**

In Brazil, PMI's local affiliate introduced the program "+Campo" consisting of mobile units driven by health and safety experts, with media and practical training capabilities, which visit tobacco-farming communities to provide information and practical training on health and safety practices to farmers and rural workers alike. Since May 2015, we have carried out over 112 training sessions for 1,560 farmers in all three tobacco-growing states, with very positive feedback from the communities.

One of the most salient human rights risks in our tobacco supply chain is child labor. To address it effectively, we collaborate with multiple stakeholders to change mindsets and behavior with regard to this serious issue. In addition to working with Verité, we have engaged consistently with many NGOs and government authorities in the markets where we source tobacco to progressively address this collective challenge. While much remains to be done, we are encouraged with the progress made so far, which includes significant reductions in child labor in several countries (e.g. Mozambique, Turkey and Brazil).

ECLT FOUNDATION

Since 2002, PMI has been a contributing member of the Eliminating Child Labor in Tobacco Growing Foundation (ECLT), a partnership between tobacco growers and tobacco companies. The International Labor Organization (ILO) and Save the Children serve as advisors to the ECLT Board. ECLT supports advocacy, research and policy initiatives, and promotes area-based projects in several countries, to eliminate child labor in tobacco-growing communities. A detailed account of the foundation's activities can be found on its website (www.eclt.org).

Human Rights Watch (HRW) Report on Child Labor

On May 25th 2016, HRW issued a report highlighting the issue of children exposed to hazardous work in tobacco-growing, mainly on smallholder family farms in Indonesia.

While we see significant reductions in child labor incidence in the areas where we have established our ALP program, we agree with HRW that there is much work still to be done. We know that we cannot succeed alone and remain committed to working with all stakeholders to bring a positive shift in the behavior and practices which are unfortunately common across the agricultural sector.

We note that HRW acknowledges in its report that:

.....

“Transparency is a key element of effective and credible human rights due diligence” and that “Among the companies we studied, Philip Morris International appears to have taken the greatest number of steps to be transparent about its human rights policies and monitoring procedures, including by publishing on its website its own progress reports as well as several detailed reports by third-party monitors.”

.....

For us, key to making improvements in Indonesia is progressively moving away from the multi-layered purchasing system towards direct contracts with independent farmers, which are coupled with agronomy extension support and field staff monitoring. PMI’s tobacco leaf purchases from contracted farmers in Indonesia grew significantly from 12% in 2011 to approximately 70% in 2015.

For more information on the HRW report, our strategy and ongoing efforts, please see http://www.pmi.com/eng/media_center/Pages/PMI_welcomes_Human_Rights_Watch_report.aspx

Migrant Workers

We identified migrants working on tobacco farms as a particularly vulnerable population with regard to human and labor rights abuses. Approximately 27,000 of the 450,000 farms in our supply chain hire migrant workers at some stage during the crop cycle, representing almost 100,000 migrants.

The issues and risks migrant workers face vary between countries and migrant communities. We have found that the risks often involve unscrupulous crew leaders or labor contractors. The risks are also frequently tied to traditional practices, such as season's end payments. PMI is committed to understanding these risks and addressing the needs of these migrant communities in a holistic and context-sensitive way.

In addition to prioritizing specific interventions and the ongoing work under the ALP Program, PMI is also sensitive to the wider context in which these migration phenomena occur. Specifically in Europe, which is experiencing a dramatic increase in migration and movement of peoples, PMI is partnering with the International Organization for Migration (IOM) to provide assistance to the most vulnerable migrants, and to reduce exploitation and other forms of human rights abuses in the agricultural sector in Italy including tobacco producing areas. The collaboration promotes labor and social integration of migrant workers, supporting better access to social services, addressing immediate needs, providing legal counseling and psycho-social assistance. PMI has also provided emergency support to IOM in Serbia and the Former Yugoslav Republic of Macedonia to build winter-proof facilities for vulnerable migrants' transit, temporary stay, registration and assistance.

Detailed information about all the ongoing initiatives, progress and challenges with the implementation of our ALP program can be found in the latest progress report covering the period 2014-2015 available on our website: www.pmi.com/ALPprogress

Supply Chain: Beyond Tobacco-Growing

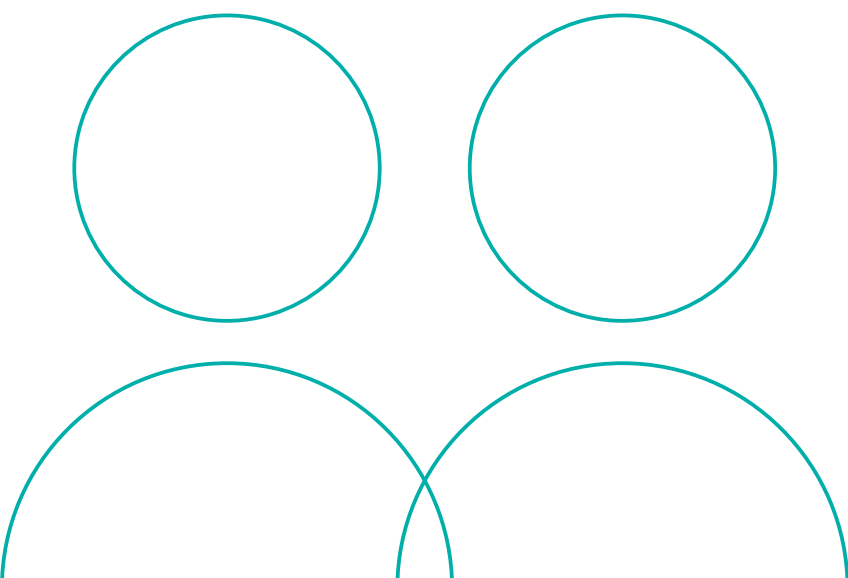
With respect to suppliers in general, we follow a risk-based approach.

Depending on the country and sector in question, we include specific contractual clauses to mandate standards relating to, amongst others, child labor, forced labor, income, work hours and safe working conditions. In addition, we have retained specialized external auditors to carry out risk based assessments – we follow up and take action on findings. We also contractually require all third parties – including business partners and contractors – who carry out tasks at our factories, or on behalf of PMI, to comply with our Environmental, Health, Safety and Security requirements.

These approaches will be further developed and integrated in a comprehensive set of Responsible Sourcing Principles (RSP) to align with the Guiding Principles. The RSP will set clear expectations for our suppliers regarding their responsibility to respect human rights, the environment and anti-corruption measures. Based on internal engagement, we are preparing a preliminary version of the RSP which we will use to gather feedback from external stakeholders and key business partners to ensure that our expectations are legitimate and credible. We intend to roll out the RSP to suppliers, starting with engagement with key selected suppliers by early 2017.

LABOR PRACTICE AUDITS IN THE NON-TOBACCO SUPPLY CHAIN

We also continuously audit suppliers in our non-tobacco supply chains using third-party experts. In 2015, we assessed 37 higher risk supplier locations. Three of those assessments identified severe issues, resulting in a red-flag audit. As one of those was a new supplier location, we did not enter into a business relationship with that site. The other two red-flag audits referred to health and safety and compensation issues, based on which we suspended our business relationship with those suppliers. We afforded each of those suppliers one year to remedy the identified issues and improve their social compliance performance. After that time, we will re-audit each supplier to evaluate if the identified audit findings have been remedied and whether to re-start the business relationship.



In line with our UNGC commitment, we have started the process of informing our suppliers that we expect them to progressively implement appropriate sustainability measures. With over 40,000 suppliers in scope, we have first prioritized communication with our top suppliers by spend. Our letter specifies that our ambition is to source all our products exclusively from suppliers who also commit to respecting the UNGC Ten Principles, noting:

“If you have not already done so, we encourage you to look into the UN Global Compact and the Guiding Principles and consider how these can affect your current practices with a view to adapting and implementing sustainability policies and procedures appropriate to your size and circumstances. Your commitment will help ensure our shared success. We intend to formalize specific supplier expectations and develop processes in line with the Guiding Principles to honor our Global Compact commitment in due course. We look forward to working with you to ensure practical implementation of an industry-leading sustainability strategy.”

While we respect our suppliers’ autonomy as independent enterprises, we are committed to a collaborative approach to ensure that human rights, as well as the environment and anti-corruption measures, are respected throughout our supply chain.

CONFLICT MINERALS

PMI has established an internal policy and due diligence process on Conflict Minerals, this relates to components that may be included in our electronic products. According to SEC rules we report on our efforts to refrain, to the extent possible, from, directly or indirectly, taking or supporting any action which contributes to the financing of armed groups that are committing human rights abuses in the region of the Democratic Republic of the Congo (DRC). Specifically, PMI will:

- not knowingly procure Gold, Tin, Tungsten and Tantalum that originates from the DRC region, unless it is certified as “conflict free”; and
- ask its suppliers to undertake reasonable due diligence with their supply chains to assure that they do not knowingly procure Gold, Tin, Tungsten and Tantalum that originates from the DRC region unless it is “conflict free”.

Workplace Integrity

Policies

At PMI, Workplace Integrity means fostering and protecting a corporate environment that is inclusive, safe, and professional.

To this end, we have adopted a suite of Principles and Practices to complement the expectations set out in the Guidebook, including:

- **Comprehensive Employment Principles and Practices:** We set mandatory requirements for all employees of PMI, including its direct and indirect subsidiaries. We make employment decisions only on merit. We have no tolerance for any form of discrimination or harassment. We do not employ or condone forced or child labor anywhere we operate. We will not employ persons below the age of fifteen, or the local minimum employment age or mandatory schooling age, whichever is higher, except for official apprenticeship programs authorized under local laws and regulations. We will not employ persons below the age of eighteen for any hazardous work. We make safety of all our employees and those who might be affected by our operations a priority. We recognize our employees' right to freedom of association and to collective bargaining. There are no exceptions to this policy.
- **Labor Relations Principles:** PMI's goal is to enable fair working conditions by observing high standards of employment and labor relations. Our Labor Relations Principles guide our Human Resources teams around the world in the promotion of effective and consistent engagement with trade unions, works councils and other employee representative bodies to ensure fair working conditions for all our employees.

- **Diversity and Inclusion Program:** Diversity and inclusion are essential to compete and perform successfully in today’s dynamic, global and increasingly connected environment. Our Diversity and Inclusion Program is built on a merit-based approach to all employment-related decisions. We do not limit people’s opportunity to contribute or advance based on age, childcare responsibilities, disability, ethnicity, gender, gender expression, sexual orientation, religion, pregnancy, or other protected personal characteristics. We actively seek to create the enabling conditions for women to progress to senior management positions, to ensure a more representative PMI leadership.
- **Workplace Safety and Wellbeing:** Our commitment to safety is captured in our Environment, Health, Safety and Security (EHSS) Principles, which sets out mandatory practices based on risk assessment. The EHSS Principles and Practices bind us to continuously improve safety performance by meeting or exceeding applicable regulatory and company safety requirements and provide a safe and secure work environment for all employees, contractors, visitors and others with whom we interact in the course of business. Our safety values are captured in our “Mission Zero” program where we outline our vision of zero lost time injuries at work – we believe that all accidents can be prevented and we put safety first. The Mission Zero program also provides the tools and guidance to materialize this vision.

We believe that a motivated and satisfied workforce is a key enabler of individual and business performance. This is why in every market we provide career and development opportunities, with diverse and exciting working experiences. **Our Compensation & Benefits Policy in every market is at or above market median and in 2015 our company-wide recognition programs rewarded over 12,000 employees at all levels.**

Workplace Integrity: Due Diligence

The Human Resources (HR) Leadership Team is accountable for creating the culture and practices to enable a professional workplace that is free from discrimination, harassment and workplace violence.

Working together with line management, our HR organization across PMI is responsible for creating the relevant processes and tools, and for their implementation.

In 2015, over 8,460 employees (including contractors) received either online or classroom training on the standards set by our Employment Principles and Practices, and over 4,350 employees were trained on our Environment, Health and Safety Principles and Practices. Our Corporate Audit function reviews both these areas and, as an example, conducted nine separate country-level assessments against our employment policy, covering approximately 44 percent of our total employees. Brazil, Turkey, Indonesia and Ukraine were amongst the largest audits by employee population.

Labor Relations

Our HR teams manage labor relations around the world.

Collective Labor Agreements (CLA) with trade unions and employee representatives govern terms and conditions at work, which may include working hours, occupational health and safety, holidays, wages, rights and duties of the employers and employees, and procedures for dispute resolution. We regularly monitor collective bargaining activities and agreements in our affiliates. **In 2015, we had in place 86 collective labor agreements in 34 countries, covering 67% of our employees.**

Our HR teams have access to a labor relations assessment toolkit that helps enable sensitive and consistent engagement to establish and maintain trustful and constructive relationships with employees and their representatives.

EUROPEAN WORKS COUNCIL

Our European Works Council dates back from 1996 and consists of management and employees representing PMI's affiliates in the European Union. In 2015, to improve the competitiveness and efficiency of our business in the region we launched a significant restructuring covering important areas of the organization, including Commercial, Operations, Finance and HR. During this process, the European Works Council has proven its function as a forum for constructive dialogue and consultation between management and employee representatives. The constructive dialogue allowed a successful transition to the new organizational model while minimizing the impacts on our employees.

Diversity and Inclusion

As part of our wider diversity and inclusion efforts, PMI seeks to increase the proportion of female employees in management positions, with a goal to reach 40% by 2022.

- We piloted workshops in Turkey, Indonesia and Mexico to educate our management on inclusive leadership and to define and prioritize future activities. In addition, we launched our Diversity and Inclusion Guidelines, a toolkit to support markets in practically achieving our ambitions.
- We undertake efforts for non-discriminatory candidate attraction and hiring processes to achieve a gender balanced hiring for senior specialist and managerial positions by the end of 2017. This includes a verification of job advertisement against our internal guidelines for non-discriminatory hiring procedures and specific interview skills training for line managers.
- Flexible work arrangements are another important component of this mission. They support our employees in their efforts to balance work commitments with their individual living circumstances and needs. We have already implemented flexible work arrangements in 25 countries and plan to continue increasing this number.



PMI's Diversity & Inclusion Guidelines Booklet.

In 2015, we received external recognitions for our extensive efforts on gender equality:

- **Mexico** - Gender Equity Model certification by the Instituto Nacional de las Mujeres (National Women Institute);
- **Australia** - 'Employer of Choice for Gender Equality' award by the Australian Government's Workplace Gender Equality Agency;
- **Switzerland** - Certification by the Equal-Salary Foundation covering all our employees in Switzerland.

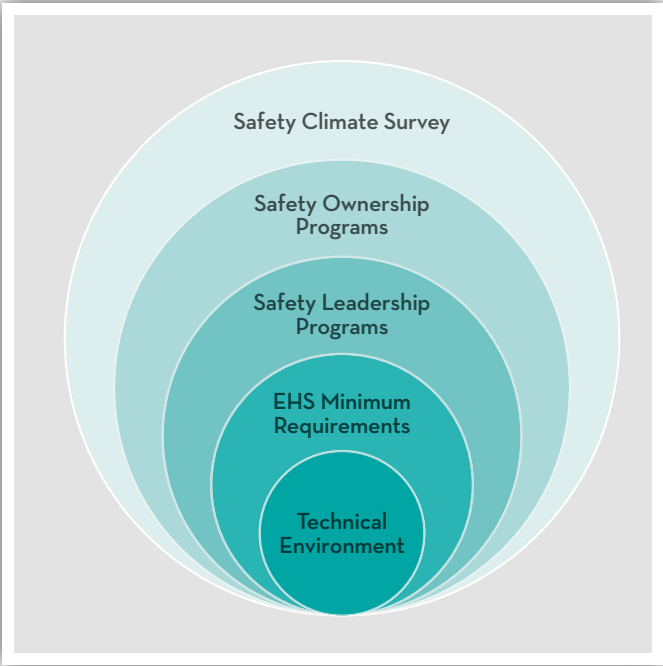
THE WOMANITY FOUNDATION

Our commitment to gender equality also extends to our community programs. One example is the three-year partnership PMI established with the Womanity Foundation, a non-profit that "undertakes to empower girls and women in developing countries to shape their future". We are supporting the WomenChangeMakers (WCM) fellowship program, which identifies, supports and connects promising female social entrepreneurs across India and Brazil. The main objectives of this intervention are to advance (1) women's economic participation and opportunity; (2) women's social and political leadership; and (3) women's health and wellbeing. The WCM program helps fellows to scale up their enterprise, to develop synergies with professional experts, strategic program partners and other stakeholders, and, if relevant, to replicate their business model to significantly increase their impact. As of December 2015, the program has a consolidated network of 27 active program partners, such as non-governmental organizations and multinational companies, offering technical support to 14 social entrepreneurs.

Workplace Safety and Wellbeing

We embed our strong commitment to workplace safety through a risk-based approach that enables continuous improvement.

Our commitment is practically demonstrated in Mission Zero, a program we launched in 2012 to deliver a step-change and pursue our vision of zero Lost Time Injuries at work. Mission Zero touches all critical areas covering safe working environment, mindset, competence and culture. At the heart of our integration process is risk assessment – understanding the potential hazards associated with work tasks and delivering the physical, procedural, competence-based controls, protective equipment and working culture to reduce working risk to a low level.



A systems-based approach to improve health and safety practices and conditions across our operations.

To implement Mission Zero, we work to:

- assign suitably qualified and trained persons to implement, manage and coordinate EHSS activities, initiatives and management systems; including coverage of third parties and contractors;
- identify, assess and manage compliance with all applicable regulations and Company requirements;
- undertake risk assessments to identify and assess EHSS risks and impacts and implement appropriate measures to control, reduce or mitigate those risks;
- train employees and communicate with them on relevant work related EHSS matters, risks and applicable legal and Company requirements;
- provide the resources and promote a culture where EHSS considerations form an inherent part of PMI's business and are recognized as an integral management responsibility;
- report up and investigate incidents and take appropriate corrective, preventive and improvement actions; and
- monitor and report on EHSS performance.

The program has delivered significant results, especially in our factories.

In 2015, our Lost Time Injury (LTI) rate – the most widely used benchmark to assess the prevalence of serious work-related injuries – **was 0.11 per 200,000 hours worked on average, and 0.05 in factories.**

This is one of the lowest levels across our corporate peer group.

Improving Driving Safety

Given our global value chain, ground transportation represents our most important safety risk outside factories.

Our field forces in over 100 countries operate more than 25,000 company vehicles. We have delivered safety guidance and training programs – through simulators, driving schools, and other interactive programs – to more than 80 percent of drivers engaged in everyday field work. The results are tangible: our continuous improvement is evidenced by **a 40 percent reduction in injuries associated with driving our vehicles in 2015**. In October 2014, Fleet Europe awarded us the International Fleet Safety Award, which recognized the progress that we have made in vehicle safety through a focus on safety leadership, training and local awareness programs.

But we still have more to do.

Having made significant progress in our factories, we aspire to ensure that safety performance across all our global operations comes to the same level.

We are increasing our focus on accountability, engagement and culture across non-factory activities, as well as on proactive measurement, covering minor injuries or near-misses in the workplace and our performance across all our business.

Behavioral safety management is a key contributor to further improvement. We are therefore cultivating pre-emptive mindsets in PMI employees to enable potential hazards to be anticipated before they actually materialize in a near-miss or an actual accident. We are also assessing our organizational safety culture with “Climate Surveys” to understand organizational dynamics and develop targeted actions to enhance our safety culture.

Wellbeing

Complementing our commitment to safety, PMI is also seeking to improve the health and wellbeing of our employees.

As an example, we have recently established minimum requirements for implementing and promoting health and wellbeing programs and initiatives in the workplace. These requirements include training and communication to ensure that the programs actively involve employees, are designed based on risk, have objectives and results, and include feedback of information to employees.

More broadly, we are also establishing local Wellbeing Committees, which consist of cross-functional teams and include employee representatives. To date, such committees have been implemented in 9 countries, their role being to prioritize wellbeing programs while considering local circumstances and facilitating use by employees.

Our wellbeing programs mainly focus on four areas:

- Illness and disease prevention (e.g. flu shots, medical screenings)
- Promotion of physical fitness (e.g. exercise programs, discounted gyms)
- Promotion of healthy eating (e.g. education around healthy eating habits, healthy food available to employees)
- Stress management and Work-Life-Balance (e.g. education or resources on resilience, programs that promote balance between work and life)



Awareness raising poster of PMI's 'cycle to work' program.

Product Development and Marketing

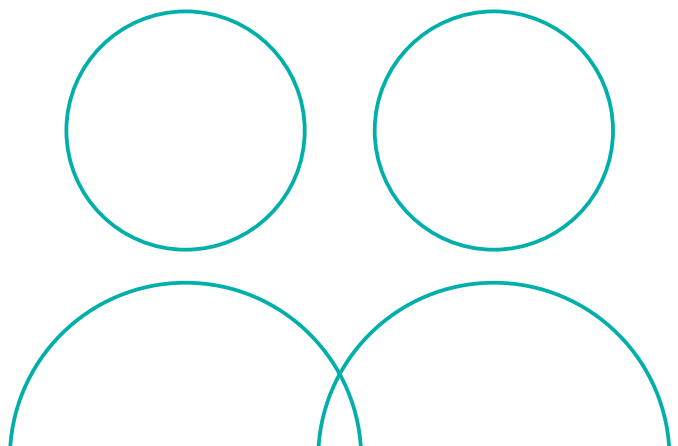
Policies

PMI competes with other companies for market share among adult smokers, and we do so based on quality and product differentiation.

We recognize that cigarettes and other conventional tobacco products pose serious health risks. Accordingly, we understand and respect that tobacco companies have a special obligation to develop and market their products responsibly.

For PMI, this responsibility goes beyond respecting the law and complying with applicable regulations. When manufacturing and marketing conventional tobacco products, we adhere to the following fundamental principles:

1. We verify that the use of any particular additive or combination of additives or change in product design does not increase the inherent risks associated with smoking.
2. We market only to adult smokers.
3. Our marketing must be honest, accurate and not misleading. We inform consumers about the health effects of our products and disclose the contents of our products to regulators and the general public. Even where the law does not require it, we ensure that all advertising and consumer packaging has clear health warnings.



Specific policies and guidelines spell out in more detail what these principles mean in practice. For instance, our employees follow specific rules on the toxicological assessment of new additives; the handling of complaints and inquiries by consumers; how to conduct market research; age verification for direct communications to consumers; placement of health warnings in marketing materials; and the use of company websites. In countries where these rules go above and beyond existing regulatory requirements, we always hold ourselves to the stricter standard.

Our responsible marketing policies extend to the third-parties – including agencies, retailers, and promoters – with whom we work to market our products. We require each of them to honor PMI's strict standards of conduct.

Importantly, our special responsibility as a tobacco company has also been the driver for our strong commitment to develop, assess and market Reduced Risk Products (RRPs) that have the potential to reduce individual risk and population harm relative to traditional cigarette consumption. In a world where large numbers of people would otherwise continue to smoke cigarettes, providing them with a scientifically validated, less harmful alternative is by far the most promising way of addressing the health risks associated with smoking.

Current tobacco control efforts to prevent initiation and promote cessation can and should be complemented by making a range of RRP's available to smokers. **Of course, RRP's contain nicotine and are not risk-free. We therefore strongly support the enactment of regulations to govern how these products are marketed, developed and assessed, consistent with these principles: the public is accurately informed about the health risks of RRP's; youth does not consume nicotine in any form; and products are taxed and regulated in proportion to the harm they cause.**

Product Development and Marketing: Due Diligence

PMI's robust and thorough toxicological testing and research program with respect to additives used in our conventional tobacco products has been in place since 1999.

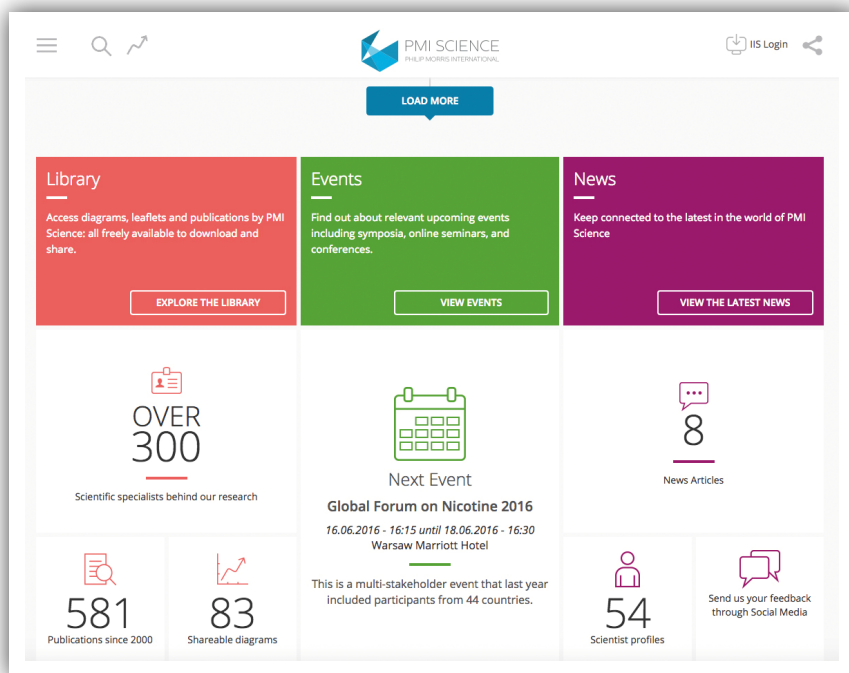
The testing approach we apply is consistent with ICH ("International Conference on Harmonization of Technical Requirements for Registration of Pharmaceuticals for Human Use"), the UK Department of Health procedure on "the approval and use of new additives to tobacco products in the United Kingdom" (Scientific Committee on Tobacco and Health – SCOTH, 1998) and the German Standards Institute's guidelines DIN SPEC 10133:2014-09 ("Toxikologische Bewertung von Zusatzstoffen für Tabakprodukte").

The Product Stewardship group is responsible for overseeing the toxicological assessment process and regulatory compliance of all ingredients used in PMI products. Internal review and approval are centralized for all of PMI's product development activities, and decisions allowing the use of a new additive require the approval of the Director Product Stewardship. We have been rigorous and transparent about our research and testing approach in submissions to regulators and in respected science journals. In May 2011, for instance, PMI scientists Dempsey et al. published "Toxicological assessment of cigarette ingredients" in the peer-reviewed journal, *Regulatory Toxicology and Pharmacology*.

Reduced Risk Products: PMI's comprehensive assessment program follows relevant scientific precedents, the FDA's Draft Guidance for Modified Risk Tobacco Product Applications and international scientific testing standards and practices such as Good Laboratory Practices and Good Clinical Practices. The assessment methods are similar to those used by the pharmaceutical industry, including product design controls, a range of toxicological tests, clinical studies, premarket consumer perception and behavior studies and post-market assessments. PMI's aspiration is to demonstrate that its novel products have a risk-reduction profile approaching that of cessation, referred to by the U.S. Institute of Medicine as the "gold standard" for assessing risk reduction.

In addition to the expertise provided by PMI's team of more than 400 scientists and experts on staff, our research is assisted by an external Scientific Advisory Board of leading independent scientists.

Since 2010, our scientists have published more than 150 RRP-related studies in respected, peer-reviewed science journals. We have set up a dedicated website (www.pmiscience.com) where we share detailed information about our efforts to develop RRPs, our approach to their scientific assessment, as well as a wealth of scientific information, including clinical data, which we have gathered in relation to our portfolio of products. Our studies on one of our heated-tobacco products, iQOS, are well advanced and PMI intends to file a modified risk tobacco product application with the U.S. Food and Drug Administration (FDA) by the end of 2016. **We are fully committed to the transparent sharing of our RRP science for unbiased third-party verification of both our product technologies and risk assessment science.**



The PMI Science website provides a detailed overview of the rigorous scientific research that is the foundation of PMI's Reduced Risk Product (RRP) portfolio of products. More details can be found at www.pmiscience.com.

Marketing: PMI's commitment to responsible marketing is deeply embedded in our compliance culture. We have robust processes to ensure that our marketing activities – from point-of-sale advertisements, to package designs, to direct communications with consumers – comply with applicable law and our internal policies, and are not directed to those below the legal age. At affiliate level, both the Law and Corporate Affairs functions must review each proposed activity, and the affiliate's management is accountable for approving (or rejecting) the proposal. Depending on the geographical and commercial scope of a proposed marketing activity, additional layers of review and approval at the regional and corporate level are required.

We train PMI employees across functions to ensure a thorough understanding of the various policies and guidelines and, equally important, why those matter to PMI. Trainings include online learning programs as well as classroom sessions for marketing professionals, including for relevant third parties. In 2015, over 35,000 staff from PMI and relevant third parties participated in class room sessions; in addition, over 4,000 staff completed an online training. Centers of expertise, including a specialized team from our Law and Compliance functions at the Operations Center, provide further tailored guidance to marketing professionals regarding specific situations on an ongoing basis.

The actual implementation of these marketing-related processes is subject to reviews by both the Internal Controls function as well as Corporate Audit. For instance, in 2015, Corporate Audit conducted 15 reviews of direct and trade marketing across our affiliates. Our marketing activities are also subject to constant scrutiny by regulators and other external stakeholders. We welcome opportunities to evaluate, explain, and refine our approach as part of our mission to market responsibly.



A poster from the youth smoking prevention retail campaign in the UK reinforcing the message of 'No ID, no sale'.

YOUTH SMOKING PREVENTION IN THE UK

PMI has set up a Responsible Retailer Program in the United Kingdom together with industry peers to support small and independent retailers in adopting best practice to prevent under age sales of cigarettes. Using mystery shoppers, the program identifies retailers who may be at risk of providing tobacco products to minors and offers them additional staff training, materials, and support to improve their sales systems and procedures of all age-restricted goods. More specifically, the program spreads best practice procedures among retailers such as the 'Challenge 25' where anybody looking younger than 25 years old is required to prove their legal age. Since its start in 2015, 4,812 mystery shopping visits and direct trainings were delivered to 912 retailers across the North of England, the Midlands and Wales. In addition, more than 11,000 'No ID, No Sale' advice and support packs were provided to retailers. The program is currently being rolled out in the south of England, Scotland and Northern Ireland and will cover the entire United Kingdom by early 2017.

Remediation Processes

We recognize that, no matter how effective our due diligence processes, we will not be able to avoid every adverse human rights impact.

We will work progressively to build and improve our remediation capabilities, including through the use and development of grievance mechanisms aligned with the Guiding Principles.

Our Supply Chain

In the case of non-compliance with our ALP Code standards for tobacco farmers, PMI's response is case-specific, and depends on a variety of factors, including the nature and severity of the impact.

Our preferred enforcement approach is to work with both farmers and suppliers to address any issues identified and to improve their practices. However, in cases of severe violations, or if there is no clear commitment to corrective actions, or a persistent lack of action and improvement, PMI will terminate the contract. In all actions concerning children, the best interests of the child are the primary consideration.

With Verité's support and guidance, we have also invested in developing pilot grievance mechanisms in many markets, and intend to expand these programs in the coming years. We endeavor with these mechanisms to go beyond just creating a channel for workers to file their complaints and grievances. In a context of mainly smallholder farms, our grievance mechanisms are better understood as farmer and worker support services consisting of two main components:

- **Solving conflicts and problems:** enabling workers to raise questions and/or issues about labor practices to a trusted and neutral third-party that can advise and follow up when appropriate (e.g., mailboxes, toll-free lines, visitor centers, and/or specialized field staff that can visit farms, talk to farmers and workers, make referrals to relevant official agencies, to local mediators, "ambassadors", etc.); and,

- **Providing additional services:** providing assistance to workers and farmers to build trust, capacity, and improve labor and business practices through services tailored to their needs (e.g., training on labor laws, help with health and safety topics, registering workers, psychological, legal or other counseling support).

Verité guides us in defining, implementing and evaluating the effectiveness of those mechanisms in the different countries. Starting in 2013 with Brazil, Macedonia and Mexico, we have established or promoted access to existing support mechanisms in 13 countries.

“As a result, workers and farmers have access to help in solving problems as they arise on farms. Verité believes this is the first time a major agricultural buyer has implemented such tailored and locally oriented mechanisms on such a scale.”

- Dan Viederman, Verité’s former Chief Executive Officer

We still consider ourselves at the early stages of our supply chain grievance-mechanism ambition. Our projects are pilots from which we hope to learn valuable lessons. Their form and complexity varies greatly. In Colombia, we worked to promote the use of COLabora, a mechanism run by the Ministry of Labor. In the Philippines, by contrast, our local affiliate participated in a multi-stakeholder initiative to develop an entirely new service, working with the Department of Labor and Employment, worker representatives, and a local NGO. In other countries we have worked to leverage or build the capacity of local NGOs to process grievances. We endeavor in each case to tailor the mechanism to local circumstances and stakeholder expectations. Our early results are encouraging regarding the value of such mechanisms, but we recognize that this will be a long-term and iterative learning process.

Workplace Integrity, Product Development and Marketing

We believe our employees and their strong culture of integrity and speaking-up is our best asset to ensure we become aware of, and take action to ensure respect for our human rights commitments across all our operations.

They know and understand it is their duty to speak-up when they see something that does not seem right, or if it appears that our Guidebook for Success, one of our Principles and Practices, or legal requirements are being compromised. Issues are raised directly and openly, as evidenced by the fact that the vast majority of compliance allegations are reported directly to supervisors, other leaders, or the Compliance Department. We have grievance processes and investigation procedures, including a third-party operated Compliance Helpline.

For example, in 2015 we received 336 reports of suspected compliance violations of our Employment Principles and Practices. All reports were investigated by our compliance teams and 154 violations of our policy were substantiated. All 150 involved employees were disciplined, including 45 separations from the company.

Our Future Remediation Processes

Over the next year we will launch new pilot projects to implement ALP grievance mechanisms in Indonesia and Pakistan.

As we progressively align our policies and practices with the Guiding Principles, we will start exploring how best to leverage these mechanisms and our employee grievance processes to address all human rights concerns.

We intend to engage with stakeholders to ensure that the mechanisms and processes we develop align with the Guiding Principles' effectiveness criteria.

METRICS	COVERAGE	2013	2014	2015	LONG-TERM GOAL
Total number of employees	All PMI	91,000	82,500	80,200	
Employees undergoing training on employment principles (including contractors)	All PMI	15,383	10,939	8,463	
% of management positions held by women	All PMI	28.6	29.5	31	40 by 2022
% of employees covered by Collective Labor Agreements	All PMI	N/A	67.7	67.0	
Lost Time Injury (LTI) Rate <i>LTIs per 200,000 hours worked</i>	All PMI	0.11	0.14	0.11	<0.1
Fleet Crash rate <i>Vehicle crashes per million km driven</i>	PMI vehicles	6.6	5.9	5.3	<4
% of manufacturing facilities with OHSAS 18001 certification	PMI factories	86	91	93	100
% of tobacco purchased by direct contract (by our affiliates or our suppliers)*	Tobacco supply chain – total purchases	80	87	88	>90
Systematic monitoring of labor practices (% coverage)*	Tobacco farmers supplying PMI affiliates or our suppliers via direct contract	N/A	N/A	32.5	100
Number of farms within the scope of external assessments by year**	Tobacco supply chain	24,313	23,870	11,043	
Number of supplier locations assessed		5	5	6	>5
		2016	2017	2018	
Coverage of supplier communication on Sustainability (% of total spend)	Non-tobacco materials and services	In progress	90***	>90	>90

* Data relates to crop seasons which may span more than one year – for example 2015 data relates to the 2014-2015 crop season.

**The number of farms within the scope of assessment varies according to the crop-size and number of contracts in a given supplier location.

*** In the remaining 10%, no individual supplier represents more than 0.1% of the total annual spend.

As we develop our approach to labor and human rights, we will be considering additional metrics, as listed below. This list is preliminary and not exhaustive; we note that it already covers topics where we have activities in place but do not currently measure results as specific KPIs.

- (1) Employees trained on Workplace Integrity (including Employment Principles and Practices, EHSS, Diversity & Inclusion)
- (2) Employees trained on Product Development and Marketing Principles
- (3) Employees trained on Supply Chain Responsibility
- (4) Human rights-related Corporate Audits conducted
- (5) Human rights-related Supplier Audits conducted
- (6) ALP Grievance Mechanisms implemented
- (7) ALP Grievances filed
- (8) Substantiated workplace conduct violations

We intend to refine these metrics over the next year on the basis of expert advice and stakeholder engagement.

LEARN MORE

- **ALP Code:** www.pmi.com/ALPcode
- **ALP Program:** www.pmi.com/ALPprogram
- **ALP Progress Report:** www.pmi.com/ALPprogress
- **Workplace Safety:** www.pmi.com/safety
- **Guidebook for Success:** www.pmi.com/guidebook



Environment



Businesses should support a precautionary approach to environmental challenges



Businesses should undertake initiatives to promote greater environmental responsibility

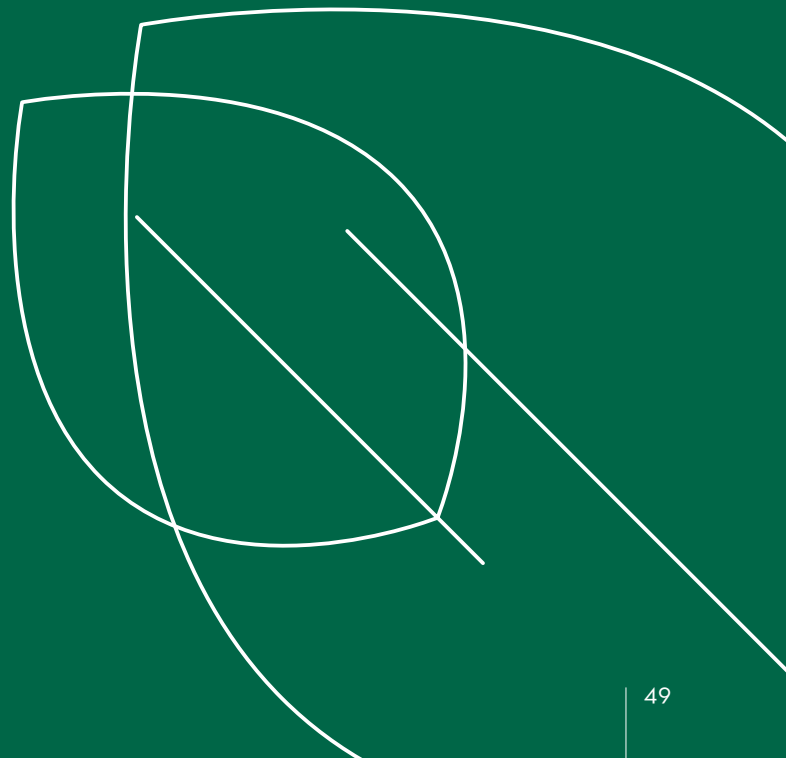


Businesses should encourage the development and diffusion of environmentally friendly technologies

Overview

From tobacco farming to our factories, right up to distribution and logistics, to retailers and ultimately our consumers, environmental sustainability is key for our long term business success. We have assessed the environmental impact that we have on the world around us, and in turn how the changing environment can impact our value chain. In this section we summarize the key programs that we have put in place to mitigate and adapt to those environmental impacts.

Effective environmental management across our operations and value chain ensures that PMI complies with laws and regulation, promotes efficiency and savings, ensures security of raw material supplies and minimizes environmental impacts. It's also something that all our employees and partners can get behind with a passion to do well for the planet as well as for our business.



Our environmental strategy is split into two main areas:

- 1) Minimizing our impact on the environment through carbon footprint reduction, water use reduction, waste minimization and other mitigation initiatives.
- 2) Understanding and adapting to potential future business impacts of major environmental trends, such as climate change and water scarcity. We undertake risk assessments to quantify the impacts of these trends along our value chain. Based on the results, we develop management and adaptation strategies.

To deliver on these objectives, we have established global programs that cover:

- Environmental management and related standards for our factories and facilities
- Value chain carbon reduction, climate change impacts and CDP (formerly known as Carbon Disclosure Project) reporting
- Energy and Water management
- Agricultural Environmental Practices

Environmental Management

We have the following activities in place to manage environmental impacts in our operations

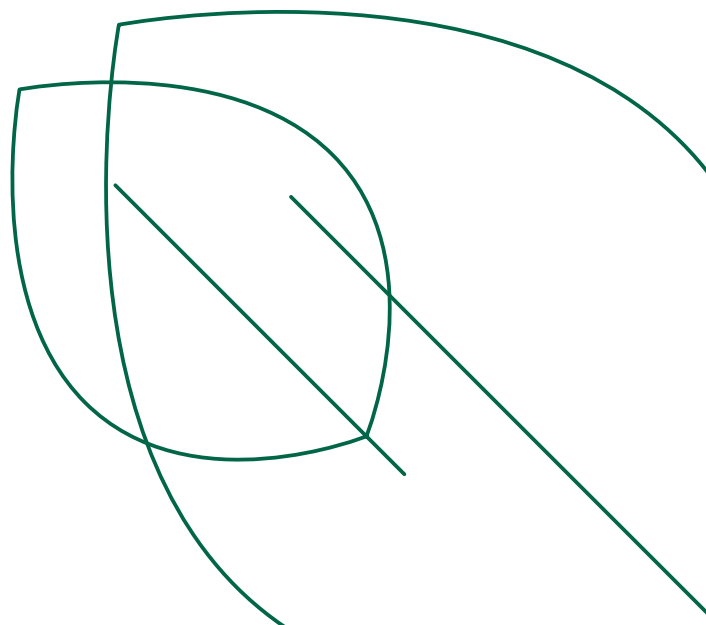
- **Environmental management systems (EMSs):** We have strong environmental management arrangements, ranging from our overarching Principles and Practices to our voluntary adherence to the international ISO14001 standard for environmental management in our factories. This includes risk assessment, standard operating procedures, goals, metrics and initiatives for continuous improvement of environmental performance. Our environmental management arrangements cover chemical and hazardous material storage requirements and emergency preparedness and response procedures and equipment.
- **Dedicated environmental staff:** We have trained, professional environmental staff at our Operations Center, in our regions and all our major facilities to identify, manage, and reduce our environmental impacts. Our Senior Vice-President Operations has overall accountability for environmental management and is supported by our Director EHS.

Sustainability in the tobacco supply chain means promoting good agricultural practices that support farmers to improve productivity and the quality of their crops, respect the environment, and achieve safe and fair working conditions. Since 2002, we have adopted and continually developed a Good Agricultural Practices program (GAP), the implementation of which constitutes a contractual requirement for doing business with PMI. GAP defines the principles and standards we expect to be met by all those who grow and supply tobacco for PMI. These principles and standards are organized around three focus areas (pillars): Crop, Environment, and People (our ALP program).

Our GAP Implementation Guide lays out extensive agricultural environmental practices and guidance covering crop rotation, pesticide and fertilizer handling and use, land use and deforestation/reforestation, farm worker training, energy efficiency and sustainable fuels, water conservation, soil quality, and waste management amongst other areas. This is particularly important because through life-cycle assessment, we identified our agricultural supply chain as currently having our largest potential environmental impact.

In other areas we work with suppliers on environmental improvement programs such as raw material and packaging reduction, the energy efficiency of our equipment, logistics optimization and the fuel efficiency of our own fleet of over 25,000 vehicles.

In addition, through the CDP Supply Chain program, we are working with key partners across our supply chain to identify opportunities for collaboration and innovation. In 2015, we invited over 30 suppliers to participate, covering more than 70% of our spend on non-tobacco raw materials as well as key tobacco leaf and distribution/logistics providers.



A Precautionary Approach

Planning and preparing for what is coming next is key to good business management and environmental challenges are no different.

In addition to our environmental management arrangements and active programs, we have identified 3 main areas where we take a precautionary approach (as per Principle 7):

- Developing Science-Based Targets:** We are committed to developing science-based carbon reduction targets that go beyond continuous improvement and ensure we play our part in delivering the sustained reduction in greenhouse gas emissions needed to keep global temperature rise to under 2°C from pre-industrial levels. These efforts are part of our participation in the “We Mean Business Coalition” and also relate to our support in 2015 for the ambitious deal reached at the Paris UNFCCC meeting “COP21”.
- Proactively seeking to understand climate risks:** We have undertaken a climate risk assessment to better understand the actual and potential future impacts of a changing climate on PMI and key nodes in our value chain. It covers 85 facility types and nodes across six categories, such as manufacturing, supply chain or ports, and considers change in impacts relating to drought, flood, cyclone, temperature and precipitation.
- Using Lifecycle Assessment:** We use LCA to understand the share of environmental impact from different areas of our value chain and to prioritize improvements. We are also using both simple and complex environmental assessment when considering both new products and product developments so that we can make the right informed choices.



Solar panels to generate clean energy at our Global Operations Center in Lausanne, Switzerland.

Climate Change and Energy

PMI has established ambitious emission reduction targets which include a long-term commitment to tackle climate change centered **on a 20% reduction in fossil-fuel related energy and greenhouse gas (as equivalent carbon dioxide (CO₂)) emissions from our manufacturing operations by the end of 2015, and a 30% reduction in our carbon footprint across our whole value chain by 2020 on a unit product basis.** In 2014, through energy reduction and the use of greener energy in our EU-based factories, we reduced the annual carbon emissions from our operations by 10%, or 80,000 metric tons, our largest annual reduction to date. This gave us the momentum to achieve further improvement in 2015 – a 7% absolute reduction of 55,000 metric tons. On a unit product basis we surpassed our 20% reduction target for our manufacturing operations by achieving a 24% reduction of CO₂ emissions in 2015 from 2010.

- The majority (9 out of 12) of our manufacturing facilities in the EU source 100% of their electricity from certified renewable resources.
- Globally, we ran over 200 energy saving projects during 2014-2015, which have helped save more than 1 million Gigajoules of energy since 2010. These savings could supply energy for one year to around 100,000 households.
- In Lithuania, our factory has moved from traditional boilers that are fueled by oil or gas, to boilers that are fueled by sustainably sourced wood pellets. This effort will replace 1.6 million m³ of natural gas each year with wood pellets, delivering a reduction of around 3,000 tons of CO₂.

RENEWABLE ENERGY

We don't just focus on reducing our energy use through the implementation of new technologies, we also have a program to make sure that the type of energy we use is progressively more environmentally friendly. For example, our Sahiwal and Kotri factories in Pakistan became the first PMI manufacturing sites to substantially use solar energy for production purposes. The newly installed solar panels have a peak capacity of 458.6 kilowatts providing around 2,430 Gigajoules of clean energy or a carbon saving of over 360 metric tons each year.

This also complements the leading edge development of "Tri-generation" facilities producing power, steam and air conditioning utilities at our Kotri factory.

SAVING CARBON ACROSS OUR FACTORIES

Improvement projects in our factories range from small, even zero cost, measures up to large-scale process changes. All of them are essential to learn and continually improve – and contribute to the 55,000 metric tons CO₂ annual saving we made – just some of the project highlights across our regions from 2015 included:

Installation of low or no-energy (natural) lighting – Indonesia, Kazakhstan, Russia, Ukraine, Poland, Lithuania, Colombia, Argentina, Brazil, Mexico, Dominican Republic

Heat recovery from process equipment – Indonesia, Russia, Poland, Canada

Steam system optimization or reduction – Indonesia, Argentina, Poland, Switzerland, Canada, Germany, Lithuania, Russia, Pakistan

Chiller system improvements – Indonesia, Kazakhstan, Russia

Air compressor, vacuum or ventilation improvements – Indonesia, Mexico, Poland, Russia

More Efficient Humidification – Turkey, Canada



Inside one of PMI's factories.

Linked to our Operations Performance and Engagement (OPEN) model, we have an Energy Management Program, expanded in 2015 to include Water Saving Initiatives, which we use to share ideas and best practices between our affiliates including those mentioned here in our examples.

We also look after the fuel efficiency of our fleet of vehicles. Through a Fleet Management and Optimization Project we have **improved the fuel efficiency of our vehicles by 10% since 2013, with a 7% improvement in 2015 alone.**

Water

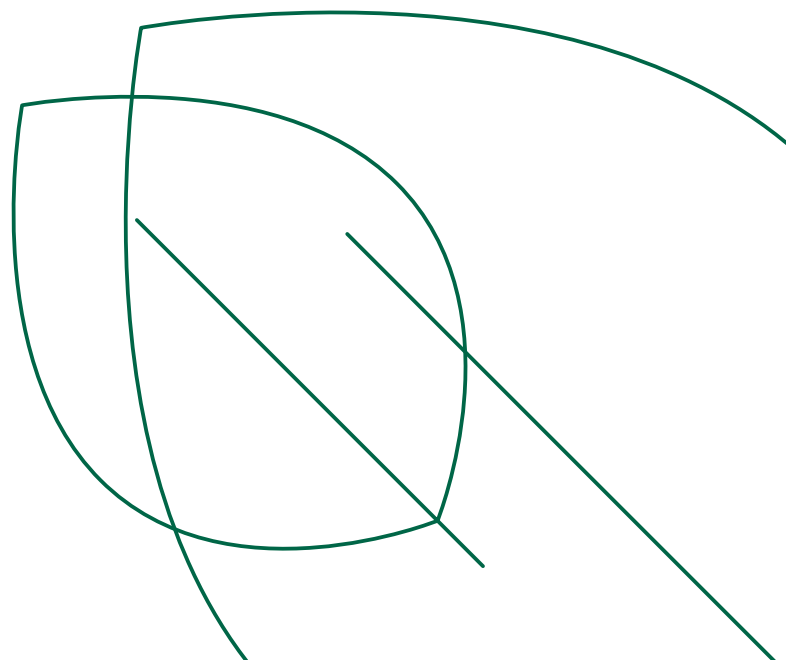
Water is a fundamental natural resource for our business, essential for growing tobacco and operating our factories.

We are committed to the responsible and sustainable management of water to help conserve this resource globally. In tobacco-growing, we expect our affiliates and suppliers to have a water management plan that takes into account the locations that are most at risk from water scarcity and promotes efficient water use and renewability of sources. These plans address the use and management of water for tobacco production to minimize adverse impacts to other users within water catchment areas, including local communities. The plans also cover access to adequate, clean water for drinking, cooking, bathing, and cleaning purposes for local communities, workers, and their families. Over the next year, we will develop a Water Stewardship Strategy for our tobacco supply chain that will include a strategic mix of three basic principles, water preservation, innovation, and engagement.

For our own operations, in 2010, we set the **goal of reducing water consumption in our manufacturing facilities by 20% per unit of product by 2015, and we beat that target, achieving a 24% reduction.** To help us do this, we follow the 3R Concept – Reduce, Reuse, Recycle – in our manufacturing operations around the world.



Irrigation pond from water harvesting on a tobacco farm in Colombia.



For the first time in 2015, PMI recognized factories for outstanding achievements in minimizing water use and their contribution to reaching our goal of reducing water consumption in our manufacturing facilities by 20% by 2015 from 2010.

The 2015 PMI Water Awards received a total of 71 submissions across all our regions. The winning entries were:

The biggest improvement over the previous year: Even with a hot summer and increased production volumes, **our factory in Berlin managed to improve water-use efficiency by 14%**, using a combination of focused workshops, awareness programs and monthly energy team meetings with all main departments involved.

A second winner was also celebrated – our Tobacco leaf processing operation in Colombia for showing that smaller facilities can also make big improvements in this case by implementing daily consumption monitoring and leak detection, behavioral change and implementation of low cost solutions like flow inhibitors to save water.

The most effective single project: there were also 2 winners here – **our two Russian factories** tied for the Award:

Our factory in St Petersburg reduced water consumption by the factory chiller system, through harvesting rainwater to feed the system. In Krasnodar our factory upgraded a water scrubbing system using biological filtration to be much more water efficient.

Both projects provide savings of over 25,000m³ of water per year – enough to fill 10 Olympic-size swimming pools from each project.

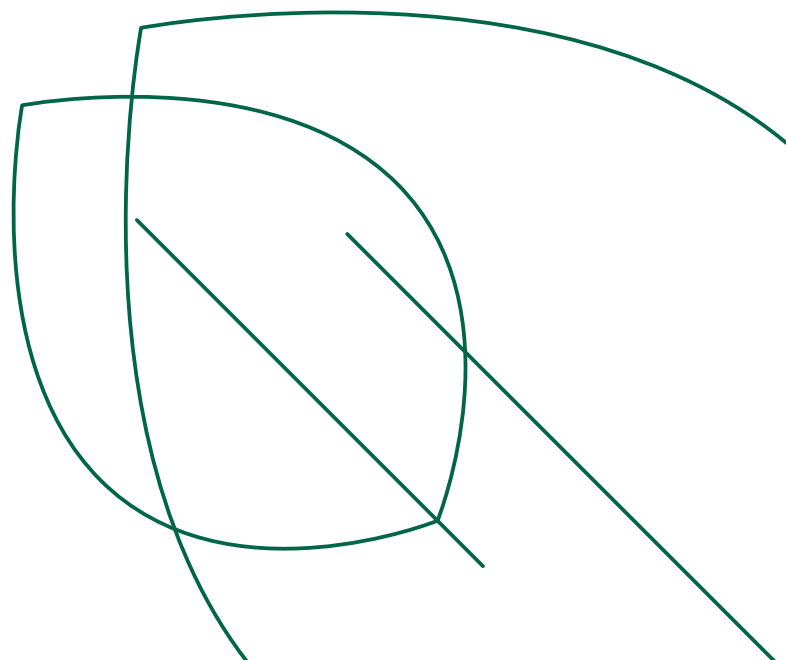
PMI's overall champion for water efficiency: The most impressive results in terms of absolute amount of water saved, the biggest improvement in efficiency and the consistency of improvements (since our water measurement program started in 2010) were obtained by our factory in **Canada. Since 2010, our Quebec facility has decreased its water consumption by over 79% – by the end of 2015 it saved more than 300,000 m³ of water.** The main project that led to this remarkable reduction was the implementation of closed loop cooling systems.

Waste

We have targets to reduce the waste from our manufacturing facilities (such as packaging waste and other materials) and increase our recycling rate from 80% in 2010 to 85% by 2015.

In 2015 we beat our target and achieved a rate of 87% recycling. We have a waste management program to promote reduction, reuse, and recycling before the final option to dispose of waste is taken. Practices active in 2015 included:

- In our Turkish operation, a series of measures on waste segregation and elimination have reduced the waste per cigarette manufactured by 25% and increased the recycling rate to 97%.
- In the Philippines, we reuse the cartons used to transport tobacco leaf as storage bins for tobacco farmers that can also be further used as insulation in curing barns. This project helped distribute more than 11,000 storage bins made from recyclable cardboard to farmers.



Agricultural Environmental Practices

Changes in climate and the environment which could impact the crops we depend on (such as tobacco and clove) are important for our current and future strategy.

We share common interests with the communities where our tobacco leaf is grown and processed, and in addition to our own efforts to achieve the efficiency and low environmental impact of our operations, we also work with tobacco farmers to improve.

While topics include improving farming techniques, chemical safety, biodiversity, water stewardship and waste, for example working with tobacco farmers to improve the recycling of plastic materials; a key element is helping deliver our 2020 target for CO₂ reduction in our value chain. Following an internal assessment of our entire carbon footprint, we found that around **40% of our carbon emissions come from our tobacco supply chain, mainly driven by the use of fuel on the farms in curing certain tobacco types.**

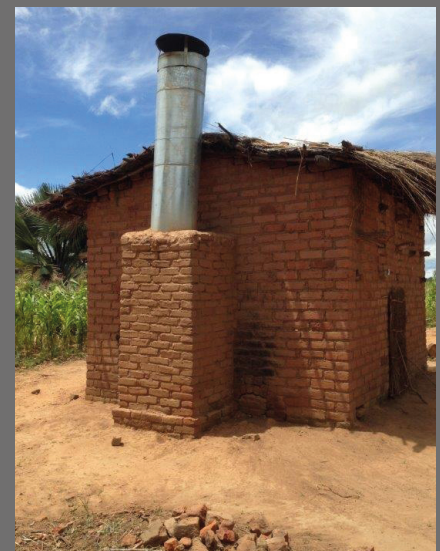
As a result, a key part of our carbon emission reduction strategy is to support farmers on improving Agricultural Environmental Practices, with a focus on curing practices, through the implementation of GAP.

This includes strategic initiatives revitalized in 2015 to:

- Reduce the tobacco curing fuel consumption rate via curing barn efficiency improvement and optimization programs (including the development and diffusion of environmentally friendly technologies such as digital curing barn controls);
- Move to more sustainable curing fuel sources (e.g. traceable sources of wood fuel); and
- Encourage fuel-switching to less polluting fuels and the use of biomass as an alternative fuel where appropriate.

TOBACCO CURING

Virginia-type tobacco is cured in heated barns. Most traditional curing barns are made of brick or mud and the heat needed to cure the tobacco is distributed through flue pipes, often with low energy efficiency. Together with our suppliers, we are supporting farmers to improve these traditional methods, for example, by furnace and flue modifications and improved insulation and controls, which can lead to energy efficiency improvements of up to 30%. Bulk barns are one modern method of curing tobacco that can be 60% more efficient than traditional barns. In these barns, fresh tobacco is loaded into racks or cages and transferred into large, insulated containers where heat and air is circulated over 6-7 days to cure the tobacco. Whilst implementation of bulk barns is not currently feasible everywhere we source tobacco, we are supporting its introduction in specific locations (e.g. Brazil).



Virginia-type tobacco curing barn in Malawi.

Specifically by 2020, we aim to:

- Be 70% more efficient in CO₂ emissions per kilogram of cured tobacco leaf compared to our 2010 baseline.
- Have zero coal usage for tobacco curing.
- Ensure no deforestation of old growth forest due to the growing and curing of tobacco we purchase.

We have implementation programs for these initiatives across all regions where we source tobacco. For example:

- Using mango tree prunings as a fuel in Mexico, which saved using over 10,000 cubic meters of native firewood in 2015.
- Installing “bulk barns” for curing in Brazil which are both more fuel and cost efficient.
- Continuing forestation activities, such as in Pakistan, Philippines and Indonesia where around a million trees were planted or provided to farmers in each country in 2015.
- Upgrading curing barns in Indonesia – an additional 1,143 barns upgraded across Indonesia in 2014-5. This includes furnace, insulation and flue pipe improvements.

During 2015, PMI and its suppliers **planted more than 29 million trees and implemented programs to achieve a level of 26% of the total fuel consumed for tobacco curing coming from renewable energy sources, up from 24% in 2014.** Currently we believe that biomass and traceable sources of wood fuel are the most cost effective renewable energy options, however we continue to review the potential of new technologies, for example pilot projects on using solar energy in curing barns.

BIOMASS IN ITALY



In Italy we worked with local farmers to open a biomass center, composed of 68 curing barns with capacity to cure approximately a million kilograms of Flue Cured Virginia tobacco using an innovative technology based on advanced heat generators. By using an integrated heating system that uses pre-heated water from a biodigester and burns sustainably sourced woodchip, this curing center considerably reduces the impact on the environment, increases energy efficiency and maintains more sustainable curing costs over a longer period.

Crop Protection

PMI has implemented an Integrated Pest Management (IPM) program to: 1) reduce safety risks to farm workers and minimize the impact of chemical products on the environment resulting from the use of Crop Protection Agents (CPAs) and 2) demonstrate the financial benefits resulting from optimization of crop yields and quality. PMI has engaged the support of the Centre for Agriculture and Biosciences International (CABI), an international not-for-profit organization applying scientific expertise to solve problems in agriculture and the environment.

In 2014, a base assessment of CPA usage was performed in 12 key countries from which PMI procures tobacco, representing 77% of our sourcing footprint. This was followed in 2015, with workshops in 8 countries to develop action plans with CABI. We are currently focusing on training in responsible CPA usage to minimize risks and apply best practices, the elimination of WHO toxicity class 1 pesticides, ensuring safe disposal of CPA containers, building knowledge about tobacco pests and diseases, and gaining the buy-in of farmers and field technicians.

We continue to roll out our IPM program in 2016 and have also targeted to discontinue the use of all WHO toxicity class 1 pesticides for tobacco we purchase by 2018.

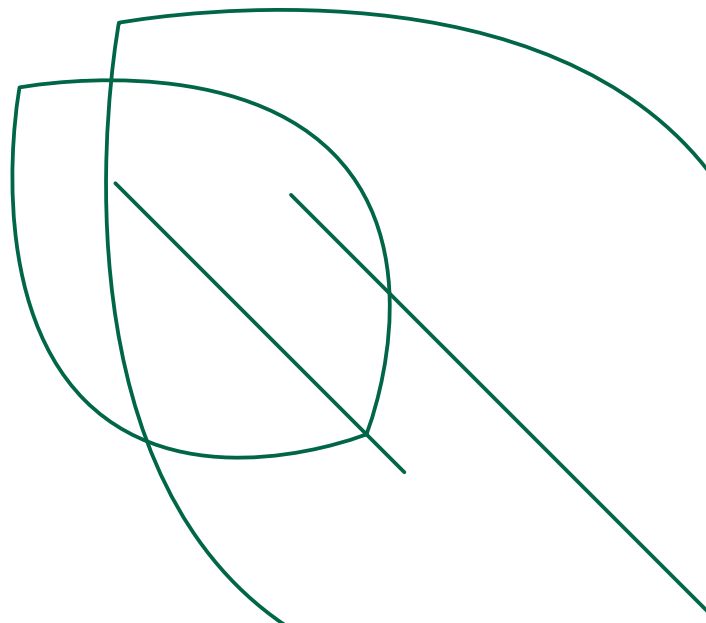
AMERICAN FARM SCHOOL IN GREECE

In Greece, PMI supports the American Farm School, an institute dedicated to teaching legal age adult farmers how to practice sustainable land stewardship through good cultivation practices. In addition, the school also supports the development of entrepreneurial skills. The 58 hour program began in 2014 with 128 tobacco growers and is currently reaching another 277 tobacco growers; PMI is committed to continuing its funding beyond 2016.

Reporting on our Progress

We regularly report on our progress via CDP, an international NGO promoting public disclosure of organizational carbon reduction and management.

The CDP ratings provide a tool for institutional investors and stakeholders to assess corporate efforts to mitigate climate change and associated risks. We also report on our water stewardship activities through the CDP Water program. In 2015, we were awarded Band A performance in CDP's Global Climate Change Report and were the only consumer staples company in the S&P 500 index to be both in the CDP Climate "A" list for top performers and the Climate Disclosure Leadership Index, achieving 100% for the quality and transparency of our reporting.



Looking Forward

2015 has been a successful year for our environmental results, achieving targets that we set ourselves and performing well in the CDP results.

However, we are conscious that significant work remains to be done and new challenges need to be addressed. For example, the downturn in oil prices during 2015 means that some renewable energy programs become less attractive financially. We therefore have to plan for the long term and that's why we are reviewing the potential role that an internal price on carbon can play to optimize our decision-making and support continued reduction of our carbon footprint.

Another important part of our precautionary approach to environmental challenges is dealing with water quality and scarcity. We will further evolve our water stewardship activities through 1) Agricultural Environmental Practices and 2) considering the availability of clean water in the locality of our own operations.

In addition, we are increasingly using life-cycle assessment (LCA) thinking to evaluate options for reducing environmental impacts throughout the entire life-cycle of our products. This means not just looking at our supply chain and manufacturing activities, but also the environmental impact associated with product use and packaging. In particular, building on existing country-level programs, we will develop a company-wide position and comprehensive activities related to product waste, specifically including cigarette butt litter. Considering the transformation of our business with the introduction of RRP, we will expand our LCA and product waste work to cover the new suite of products including review of programs for end-of-use electronic equipment recycling.

METRICS	COVERAGE	2013	2014	2015 RESULTS	2015 GOALS
% of manufacturing facilities certified to ISO 14001	PMI factories	86	91	93	100 (Long-term goal)
CDP Climate Change Score	All PMI	97B	96A	100A	
Total CO ₂ (Scope 1 and 2) Metric tons	All PMI facilities	828,407	746,286	691,044	
Total Water consumption, thousand m ³	PMI factories	4,314	3,886	3,654	
Total Waste, Metric Tons	PMI factories	131,748	133,488	127,361	
CO ₂ kg per million units of product equivalent	PMI factories	727	661	603	635 (-20% from 2010)
Water consumption m ³ per million units of product equivalent	PMI factories	4.67	4.35	4.05	4.27 (-20% from 2010)
Recycling Waste (%)	PMI factories	82	85	87	85
Vehicle CO ₂ emissions (gCO ₂ per km driven)	PMI fleet	239	230	215	

LEARN MORE

- CDP Climate Change and CDP Water Reports: www.cdp.net
- Sustainability: www.pmi.com/sustainability
- Climate Change: www.pmi.com/carbon
- Environmental Performance: www.pmi.com/environment
- Good Agricultural Practices: www.pmi.com/GAP
- We Mean Business Coalition: www.wemeanbusinesscoalition.org



Anti-Corruption



Businesses should work against corruption in all its forms, including extortion and bribery

Overview

Any form of corruption is completely at odds with PMI's standards of doing business. It is contrary to free markets, undermines the rule of law, and dilutes public trust in business and government. We recognize that our refusal to participate in corrupt activities may make doing business more difficult in some markets, but bribery is simply unacceptable at PMI. And we have proven time and time again that we can ultimately achieve our business objectives without resorting to inappropriate short cuts.



Our Principles and Practices address a broad array of anti-corruption and anti-bribery topics.

These include:

- **giving and receiving gifts and entertainment;**
- **facilitating payments (which we specifically prohibit);**
- **non-charitable contributions involving or connected with government officials;**
- **third parties that interact with government officials on behalf of PMI;**
- **membership in organizations;**
- **lobbying; and**
- **reporting and record-keeping.**

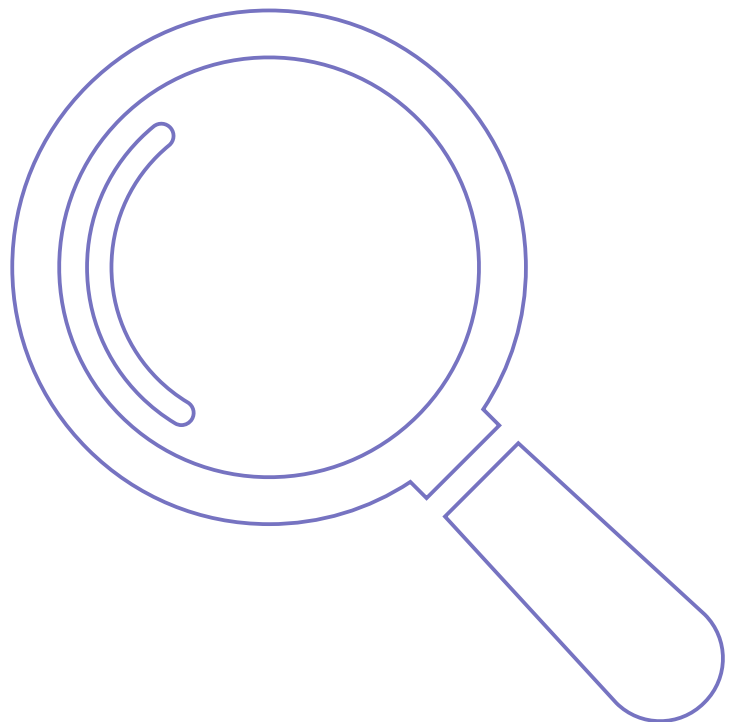
To deliver on our commitments, we have a robust anti-corruption and anti-bribery program that consists of: (1) regularly identifying corruption and bribery risks relevant to the business; (2) providing clear policies and tools to mitigate those risks, including avenues for raising concerns; (3) training for internal and external audiences, via e-learning and in-person sessions; and (4) requiring an extensive documentation process, reviewed by our internal controls department. Our Corporate Audit team also regularly checks compliance with our government relations program – for example **12 country-level audits were undertaken in 2015 covering interactions with government officials and business partners.**

Anti-Corruption Training

We undertake training and communication efforts to build awareness and understanding among our employees on anti-corruption and anti-bribery, so as to guide their behavior.

Part of our training is also about encouraging our employees and business partners to report any concerns or suspected violations of our standards and Principles and Practices. The content and format of courses completed depends on risk profiles of individual employees, with those in higher risk positions receiving more intensive training. **Between 2013 and 2015 over 49,000 e-trainings (over 12,300 in 2015) and nearly 14,000 classroom trainings (over 4,600 in 2015) were completed on anti-corruption and anti-bribery topics. We also trained nearly 3,000 third-party participants.**

In 2016, we are focusing on refreshing our training materials. These are intended to provide a tailored, practical, and interactive training experience. For example, training materials for “front-line” employees focus on real world situations that may be encountered in a specific market, and provide both the appropriate (lawful) response to the situation as well as how employees can obtain timely help and support from local management and the Law and Compliance Departments. In particular, we are providing robust and interactive anti-corruption and anti-bribery training to employees in countries where we previously did not have a presence and where we assess higher potential risks of local corruption.



Interaction with Governments

As a global leader in a highly regulated industry, we believe that it is our responsibility to share our technical expertise and views regarding policies, laws or regulations that may impact our business. We believe that we have a right to express our legitimate interests in dialogue with governments.

We conduct our public affairs activities with transparency and integrity, and in compliance with all applicable laws and our own corporate policies.

We comply with rules for, and support the registration of, lobbying activities with political institutions, including in the United States, where we file quarterly reports on our lobbying activities, and in the EU, where we participate in the voluntary register for lobbyists with the EU Commission. Recent submissions in the U.S. and EU can be found here: **www.pmi.com/transparency**

In the limited cases where we make political contributions, we publicly disclose both the recipients and amounts of those contributions: **www.pmi.com/politicalcontributions**

We are also committed to ensuring transparency when others act on our behalf. PMI and its affiliates are members of many industry and trade groups 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 website includes a list of several of the main trade and business associations to which we belong: **www.pmi.com/stakeholderengagement**

As set out in our Guidebook for Success, we are transparent about our role in developing materials that seek to influence policy decisions of interest to the company. This includes the results of work we have funded on the health implications of our products, as well as when we have financed third parties who present data or views on our behalf, in order to inform policy decisions.

All employees are required to comply with our internal rules regarding the prevention of bribery and corruption in interactions with government officials and private individuals. We also require our external consultants to comply with our internal policies and Guidebook when they act on our behalf. When presenting information or data to government officials or other third parties, we commit to providing information that is up-to-date, truthful and reliable.

We support the principle of transparency set forth in Art. 5(3) of the Framework Convention on Tobacco Control. We believe in the simple proposition that dialogue is better than exclusion, and especially so in the area of Reduced Risk Products, which are uncharted territory for governments and industry alike. Of course, engagement of the private sector with government must be based on transparency and integrity.

We support laws and regulations that apply these principles to the lobbying activities of all industries, companies and organizations. The OECD's Principles for Transparency and Integrity in Lobbying provide a useful framework for governments that are considering enacting or improving their existing lobbying regulations, as well as for companies, organizations and professionals who regularly engage in dialogue with government.



Anti-Illicit Trade Strategies and Prevention

Preventing the illegal sales of tobacco products is one of our core business strategies. For us, it is a key element of sustainability because reducing illicit trade is not only good for our business but also important to mitigate the devastating consequences illicit trade has on governments, society and communities.

Fighting illicit trade is directly linked to fighting corruption, as well as improving human rights, labor rights and environmental standards for doing business – principles that organizations involved in illicit trade are likely to ignore.

Illicit trade accounts for 10 to 12% of consumed cigarettes worldwide and deprives governments of tax revenues valued at 40-50 billion USD annually, while financing organized crime and not abiding by tobacco regulations. The profits generated and the cross-border nature of the illegal tobacco trade increase corruption. Wrongdoers exploit large-scale trafficking routes and often pave their way by corrupting government officials across borders. They use the same distribution networks to fund other criminal activities such as drug and human trafficking.

Curbing corruption is therefore an essential prerequisite to effectively fight the illegal tobacco trade and other related crimes. As corruption is both a key enabler and a consequence of the proliferation of illicit trade, implementing effective anti-illicit trade solutions will inevitably contribute to reducing corruption.

Our anti-illicit trade strategy covers three main objectives:

- Ensure that effective supply chain control measures are in place to prevent the illegal diversion of our own products;
- Stop the spread of “illicit whites”. Illicit whites are cigarettes that are produced legally in one country, but with the sole purpose of being smuggled into and sold illegally in another market; and
- Advocate for implementation of anti-illicit trade regulations, including the control of key inputs and implementation of tracking and tracing systems.

We implement these objectives by:

Training and Awareness Raising

Raising public awareness about illicit trade and its consequences is key to tackling the demand for illegal cigarettes. To understand the size and impacts of illicit trade in tobacco products, we conducted research studies in 95 countries and issued two regional reports in 2015, see: www.pmi.com/anti-illicit

We promote awareness campaigns in several countries that are designed to inform the public and raise governments’ attention to the negative consequences of illicit trade. We also educate retailers about the serious implications of selling illegal cigarettes and offer advice on how to avoid becoming involved in the illicit trade.

Our Product Intelligence and Security team provides technical trainings to law enforcement officers in several countries to help them improve their ability to perform preliminary assessment of the authenticity of products bearing our brands. To date, we have trained over 11,000 law enforcement officers worldwide.

Advocacy and Partnering

In order to effectively fight illicit trade across the industry, a multi-stakeholder approach and collaboration between public and private partners is key.

PMI is a founding member of the Digital Coding and Tracking Association (DCTA). In October 2015, the DCTA signed a Memorandum of Understanding with the United Nations Conference on Trade and Development (UNCTAD), the aim of which is to cooperate and strengthen the operational capacity of customs administrations in monitoring and controlling the trade of excisable goods, including tobacco products.

To date, we entered into public private partnerships, through Memoranda of Understanding with governments and customs authorities in over 30 countries worldwide to facilitate joint activities against illicit trade.

Supply Chain Controls and Action on Illicit Whites

We implement strong controls in our own value chain, such as track and trace procedures, volume monitoring and customer due diligence procedures. These measures not only have yielded tangible results, but have also become the industry standard. According to the European Commission, between 2006 and 2014, the volume of illegal PMI products seized in the EU has dropped by 85%.

Regulation of the legal tobacco market should assist in identifying when products are being manufactured, sold, or distributed outside of the legitimate supply chain. Today, most of the illicit whites are produced in just a few main hubs, namely Paraguay, the United Arab Emirates, Russia and Belarus, which together account for more than 60% of global illicit whites production.

We advocate for better controls of Free Trade Zones, engage with international organizations to fight illicit whites and promote know-your-customer policies for suppliers of key raw materials (tobacco, paper, and filters).

Implementing Product Tracking and Tracing

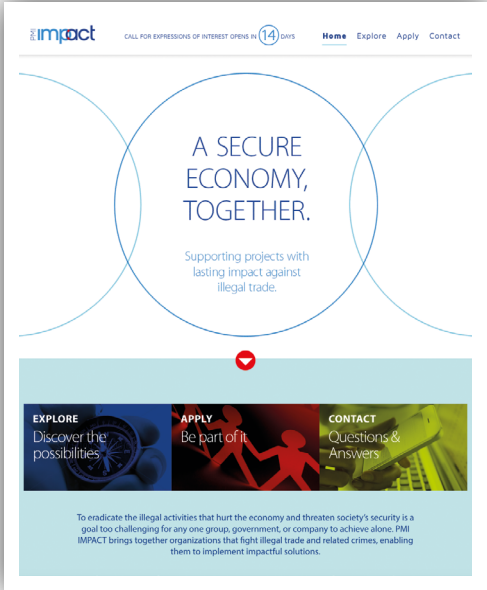
A track-and-trace regime can contribute to preventing the diversion of tobacco products into illegal channels.

We are pioneers in the area of product tracking and tracing, and stay at the forefront by continuously investing in the development and implementation of innovative technologies and processes. The technology we use is a proven international solution operating across national boundaries for more than ten years. To date, it has tracked the movement of more than 500 million master cases of our products in over 120 countries. Specifically: in 2015, 124 out of our 180 markets have master case (container of 10,000 cigarettes) tracking systems in place while already 98 markets have carton (container of 200 cigarettes) tracking systems in place; tracking at cigarette pack level takes place in 48 markets. According to the European Commission, PMI's tracking and tracing systems "have allowed OLAF [the European Anti-Fraud Office] and the Member States rapidly to recreate the route taken by genuine smuggled cigarettes from the factory into the hands of the smugglers."

LAUNCH OF PMI IMPACT

After years of fighting the illegal tobacco trade, we believe that eradicating illegal trade even in one product category, or the corruption that is inextricably linked with cross-border illegal trade, are goals too challenging for any one group, government, or company to pursue alone. Achieving sustainable results against illegal trade requires more focus, more coordinated actions, and more resources. It also requires an inclusive approach for governments, the private sector and civil society to work together to address the issue in its entirety – across a range of illegally traded goods and by tackling crimes often linked to illegal trade, including corruption. Effective government policy and enforcement, the private sector’s resources and experience, civil society initiatives – all are vital to achieve concrete and lasting results.

As part of our commitment to fight illegal trade, we have launched a new initiative in 2016. The initiative, named PMI IMPACT, aims to be a catalyst for a more holistic approach against the illegal tobacco trade, corruption and organized crime. PMI IMPACT will fund projects in three focus areas – Research, Education and Awareness and Action. It will provide resources for innovative projects that improve knowledge on the illegal tobacco trade, organized crime and corruption, and enable public entities, the private sector, and civil society to implement comprehensive solutions against these persisting issues. Public organizations, private entities, and non-governmental organizations have been invited to submit their project proposals for funding. Projects are selected through an open and defined evaluation process, led by a council of independent experts. For more information about PMI IMPACT, see www.pmi-impact.com



PMI Impact is a global initiative with a 100 million USD fund to support public, private and non-governmental organizations in tackling illicit trade.

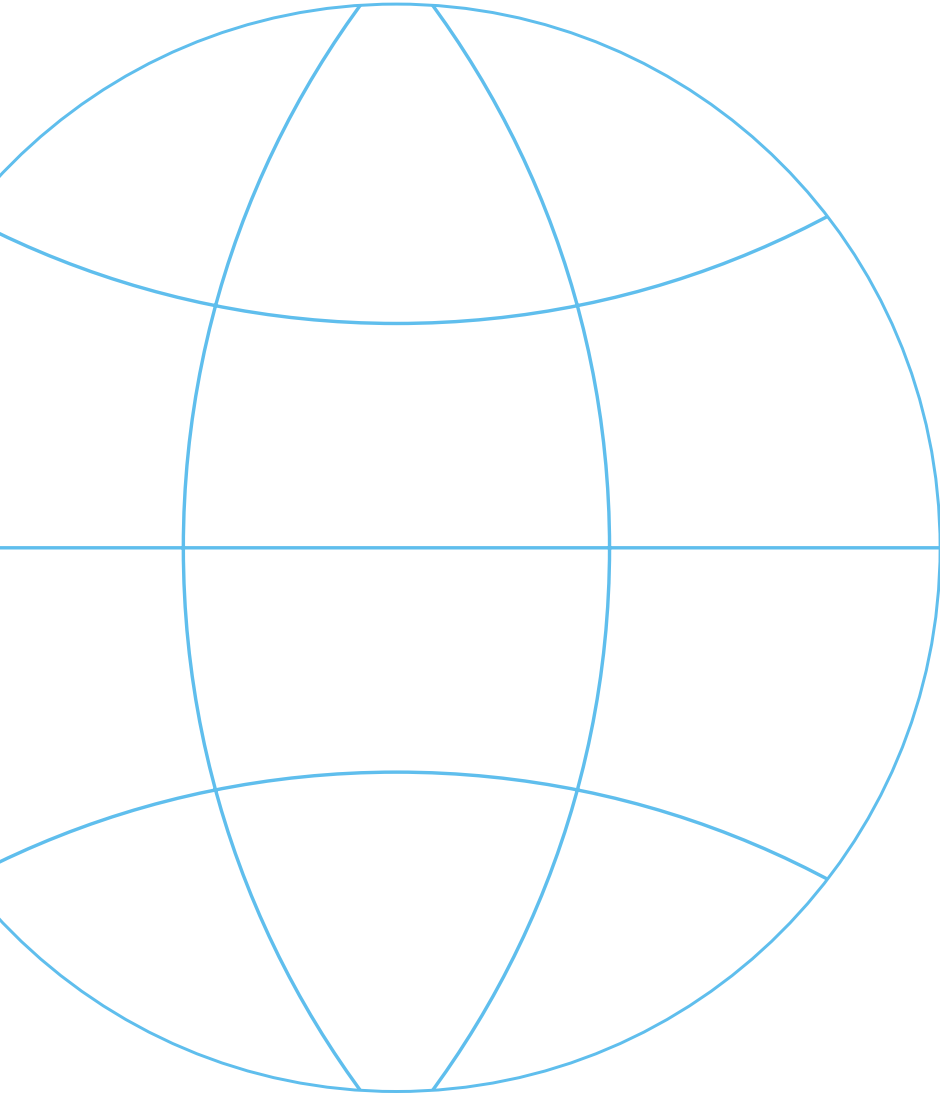
Looking Forward

PMI is currently bringing innovative new products to the market that may, in time, dramatically change the way people use and experience tobacco.

It is imperative that all of our efforts in this new area – from working with new business suppliers to engaging with government officials on appropriate regulation – are in strict compliance with our standards for conducting business honestly and transparently. Furthermore, we are expanding our business into countries where we previously did not have a presence – meaning new affiliates, new partners and new parties with whom we do business. While international corruption indices raise concern about practices in some of these countries, we are striving to ensure that our commitment to anti-corruption and anti-bribery is fully adopted and implemented internally and by all our business partners.

LEARN MORE

- **Government Advocacy:** www.pmi.com/advocacy
- **Anti-Illicit Trade:** www.pmi.com/anti-illicit
- **Stop Illegal Cigarettes:** www.stopillegalcigarettes.com
- **Tobacco Regulation:** www.pmi.com/regulation
- **Compliance:** www.pmi.com/compliance
- **OECD's Principles for Transparency and Integrity in Lobbying:** <http://www.oecd.org/gov/ethics/oecdprinciplesfortransparencyandintegrityinlobbying.htm>
- **PMI Impact:** www.pmi-impact.com





Summary

Although this is the end of PMI's first Communication on Progress, it's only the starting point in sharing our sustainability journey.

We outlined to what extent the Ten Principles of the UN Global Compact are already part of our business today. We are committed to furthering our activities in the areas of Human Rights, Labor Practices, Environmental Responsibility, and Anti-Corruption and have defined our key priorities to build on existing areas of strength:

- 1) Developing and expanding sustainability metrics and goals, with a particular focus on the transformation of our business towards Reduced Risk Products**
- 2) Embedding a comprehensive sustainability strategy across our value chain, including external reporting in line with international standards and best practices**
- 3) Developing a comprehensive Human Rights Policy and related due diligence and remediation processes**
- 4) Engaging with our non-tobacco suppliers on human and labor rights as well as on environmental protection and anti-corruption measures**
- 5) Implementing innovative approaches for environmental improvement such as science-based targets for carbon reduction and product waste programs**

In September 2015, the United Nations adopted the SDGs to guide global development over the next 15 years. We have highlighted activities where we contribute to sustainable development and will use the SDGs as guidance during the development of our sustainability strategy. In future reports we will provide information on how we have aligned with and are working towards the achievement of the SDGs.

We look forward to engaging with you, our stakeholders, as we seek to continuously improve the sustainability of our business and contribute to the global sustainability agenda. As highlighted by our CEO, we invite you to feedback to us at sustainability@pmi.com



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