



DELIVERING A SMOKE-FREE FUTURE

Progress toward a world without cigarettes

ESG HIGHLIGHTS FROM OUR INTEGRATED REPORT 2019



PHILIP MORRIS INTERNATIONAL

About PMI

Philip Morris International (PMI) is leading a transformation in the tobacco industry to create a smoke-free future and ultimately replace cigarettes with smoke-free products to the benefit of adults who would otherwise continue to smoke, society, the company, and its shareholders.

PMI is a leading international tobacco company engaged in the manufacture and sale of cigarettes, as well as smoke-free products and associated electronic devices and accessories, and other nicotine-containing products in markets outside the United States. In addition, PMI ships a version of its IQOS Platform 1 device and its consumables authorized by the U.S. Food and Drug Administration

to Altria Group, Inc. for sale in the United States under license. PMI is building a future on a new category of smoke-free products that, while not risk-free, are a much better choice than continuing to smoke. Through multidisciplinary capabilities in product development, state-of-the-art facilities, and scientific substantiation, PMI aims to ensure that its smoke-free products meet adult consumer preferences and rigorous regulatory requirements. PMI's smoke-free IQOS product portfolio includes heat-not-burn and nicotine-containing vapor products. As of December 31, 2019, PMI estimates that approximately 9.7 million adult smokers around the world have already stopped smoking and switched to PMI's heat-not-burn product, available for sale in 52 markets in key cities or nationwide under the IQOS brand.

For more information, please visit www.pmi.com ► www.pmisience.com ►

Cover: Employees sampling tobacco leaves in PMI's Plant Research facility where the team explores avenues for selecting crops for more environmental resilience and reduced footprint

About these highlights



In line with our commitment to transparency and disclosure, PMI has published its first Integrated Report, our fifth Sustainability Disclosure, which follows our last sustainability report published in May 2019.

In these highlights, we share a condensed overview of our approach and performance in managing our most material sustainability topics across the four pillars of our strategy.

For a more in-depth overview of our progress to date, we invite you to read our Integrated Report 2019 in full on www.pmi.com/IntegratedReport2019 ► the contents of which are shaped by a formal sustainability materiality assessment, refreshed in 2019, which takes into account stakeholder perspectives as well as our impacts on sustainable development.

[Disclosures on additional PMI sustainability topics are available on PMI.com/sustainability](http://www.pmi.com/sustainability) ►

Unless otherwise indicated, the scope of the data in this report highlights embraces our operations worldwide for the full calendar year 2019 or reflect status as of December 31, 2019. Where not specified, data come from PMI estimates.

We welcome your feedback on these report highlights by emailing us at sustainability@pmi.com.

Key milestones

1847

Mr. Philip Morris opens a shop on London's Bond Street, selling tobacco and ready-made cigarettes

1902

Philip Morris & Co., Ltd. is incorporated in New York

1908

Marlboro, which will become the company's most famous brand, is established and registered as a trademark

1919

A new company is incorporated in Virginia under the name Philip Morris & Co. Ltd., Inc. and starts to manufacture cigarettes in its factory in Richmond by the end of the next decade

1963

The entity purchases Fabriques de Tabac Réunies in Neuchâtel, Switzerland, a family business that already began to manufacture Marlboro cigarettes under license in 1957

1972

Marlboro becomes the world's number-one-selling cigarette

1985

Philip Morris Companies Inc. becomes a holding company and acquires General Foods. Other acquisitions in the food sector follow over the next decade, including Kraft Foods and Jacobs Suchard

1987

Philip Morris International Inc. (PMI) is incorporated as an operating company of Philip Morris Companies Inc.

2001

PMI's Operations Center is transferred from New York to Lausanne, Switzerland

2003

Philip Morris Companies Inc. is renamed Altria Group, Inc., and remains the parent company of Kraft Foods Inc., Philip Morris International, Philip Morris USA and Philip Morris Capital Corporation

2008

PMI is spun off from Altria Group, Inc.

2009

PMI unveils its new research and development facility in Neuchâtel, Switzerland

2014

PMI pilots its heat-not-burn product, IQOS, in Italy and Japan

2016

PMI announces its ambition to deliver a smoke-free future, shifting its resources toward the development and responsible marketing of scientifically substantiated smoke-free products

2020

PMI's Board of Directors adopts PMI's Statement of Purpose, reaffirming the company's commitment to deliver a smoke-free future

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These Highlights cover the 2019 calendar year, but the aspirations, goals and forward-looking plans it contains may be impacted by COVID-19 and its effects on our business. Aspirational targets and goals do not constitute financial projections, and achievement of future results is subject to risks, uncertainties, and inaccurate assumptions. Please refer to our forward-looking and cautionary statements on page 29.

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COVID-19

In the last decade, the sustainable business agenda has advanced in many ways, but one of the most remarkable shifts has been the growing focus on solutions — not only understanding what issues matter and why but also how the private sector can accelerate positive change and help communities in need.

Megatrends are significant developments that shape our lives. In contrast to normal trends, their effects are stronger, their duration longer, and their scale larger. Although COVID-19 caught the world off-guard, global pandemics were, are, and will continue to be a looming threat and megatrend. Sustainability will redefine itself in the COVID-19 era, as times of extraordinary change require urgent adaptation.

The pandemic has forced us to adapt some of our projects, but has also pressed us to make sure sustainability is truly connected to delivering value to all our stakeholders.

PMI has been actively working against this pandemic since its outbreak, with ongoing and planned initiatives in more than 60 countries where our employees live and work. These initiatives involve monetary and in-kind donations, as well as volunteer work by teams to support local efforts to combat the virus and help those most affected by it.

The company's activities include providing protective equipment to trade partners, support to care communities, procurement support to purchase items essential in the fight against COVID-19, and financial support to institutions and nongovernmental organizations (NGOs) working to end this crisis. As of the end of May 2020, PMI has provided more than USD 31 million in financial and in-kind donations, very often in response to requests for assistance from government authorities.

Repurposing our value chain to better respond to the crisis is a tangible example of PMI's transformation.

We are aware of significant supply disruptions for alcohol-based hand sanitizers, due to an increased demand during the COVID-19 pandemic. We temporarily repurposed parts of our

factories around the world to produce large quantities of hydroalcoholic gels (hand sanitizer), distributed primarily to local hospitals and vulnerable communities, to help mitigate the spread of coronavirus.

Scientists from the Genomics and Transcriptomics laboratory at PMI's R&D Cube in Neuchâtel helped local hospitals to analyze inactivated nasopharyngeal swab samples from suspected COVID-19 patients using the World Health Organization's (WHO's) recommended RT-qPCR protocol. The work was performed respecting the safety measures under the Biosafety Level 2 and WHO Good Clinical Laboratory Practices. The anonymized raw data was then transmitted to the hospitals for interpretation. The batches of samples will continue to be analyzed at PMI's R&D Cube until hospitals are able to cope with current high demand for COVID-19 testing.

PMI's commitment to its employees is an integral part of the company's broader response during the COVID-19 crisis across the world. The company established a set of guiding principles that outline our strong commitment to our employees' job security, safety, and peace of mind throughout the global pandemic period, by guaranteeing employment and financial stability, as well as granting special recognition awards.

Creating value at PMI

Our value creation model describes what we do and how we allocate our resources to deliver long-term value for both our company and our stakeholders.

Our mission

Accelerate the end of smoking

What we do

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

Capitals Sources

-  Human
-  Intellectual
-  Manufactured
-  Natural
-  Financial
-  Social

We use the Integrated Reporting Framework, published by the IIRC (International Integrated Reporting Council), as the basis for the presentation of information in this visual.



Letter from the Chief Executive Officer



To all our stakeholders,

PMI manufactures nicotine containing products that are made of, or derived from, tobacco. Although the vast majority of our sales is still in combustible products, mainly cigarettes, we are seeking to completely replace these by non-combustible, smoke-free products, which are a better alternative for the health of those consumers who would otherwise continue smoking.

Since we announced our vision to deliver a smoke-free future in 2016, our annual combustible product shipment volume declined by 114 billion units. Almost half of this decline can be attributed to our own efforts, complementing government measures to prevent smoking initiation and encourage cessation, as we actively and purposefully switched many smokers who would otherwise have continued smoking cigarettes to our smoke-free alternatives. The increase in our smoke-free product shipment volume by 52 billion units over the same time period is a testament to this massive business transformation.

The business case for our strategy is clear: We were able to gain overall market share in the nicotine-containing products market and deliver strong financial results in 2019. We generated an adjusted operating income of USD 11.8 billion, an increase of 11.2 percent on a currency-neutral like-for-like basis versus the prior year. This was driven by growth in smoke-free product users and sales volume, price increases of combustible products, coupled with the favorable impact of our cost-saving initiatives and increasing leverage of existing smoke-free product infrastructure.

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Sustainability strategy is corporate strategy, and ESG issues are business issues. This is what we want to emphasize with our first integrated report.

We also improved our performance in a number of environmental, social, and governance (ESG) related areas, while strengthening our sustainability strategy, and setting new and ambitious targets for our most material sustainability topics. For example, PMI continues to demonstrate leadership in addressing climate change. We ranked on CDP's A Lists for climate and water security, achieved A- for forest disclosure, and featured on CDP's Supplier Engagement Leaderboard once more.

We have set the target to become carbon neutral as a company by 2030, and by 2050 including the whole value chain. We also aim to reduce our absolute emissions consistent with a 1.5-degree global warming scenario.

Another ambitious and new environmental target relates to plastic and post-consumer waste, specifically the litter caused by cigarette butts. We have developed and are implementing comprehensive plans to achieve a 50 percent reduction of the plastic litter from our products by 2025.

Regarding social impact, I would like to highlight the importance we place on guarding against youth initiation and youth use of nicotine-containing products. All of our markets have been tasked to further enforce and modernize youth access prevention programs. Moreover, it is our priority to ensure that by 2023, at the latest, our full portfolio of electronic smoke-free devices will be equipped with age-verification technology.

I recognize that we still need to make meaningful progress with regard to diversity, equality, and inclusion. We are proud to be the first multinational company to achieve the Global EQUAL-SALARY certification in March 2019. More recently, I appointed a Chief Diversity Officer, reporting directly to me, to push harder toward creating a more inclusive and diverse workplace.

These are all important developments, but it is equally clear to all of us at PMI that the biggest positive impact our company can have on society is to replace cigarettes with less harmful alternatives. This is at the very core of our corporate strategy and sits atop our sustainability priorities. Our aspirational target set three years ago is that by 2025, at least 40 million adult consumers will have stopped smoking and switched to our smoke-free products. I am convinced that it is possible to completely end cigarette sales in many countries within 10 to 15 years, but for that to happen, manufacturers and governments need to work in the same direction.

In March 2020, PMI's Board of Directors issued our company's Statement of Purpose, available in these highlights. It reaffirms that we are disrupting our business from the inside, leading the industry toward a future without cigarettes, while meeting the needs of our stakeholders, and ensuring the long-term viability of our company.

Clarity of purpose is essential for internal alignment; change is tough for well-established companies like ours, with strong business performance over decades. It is natural for employees to continue the behaviors that have led to strong results.

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Business success, more than failure, presents a big hurdle to a company's transformation, and I devote a large part of my time to ensuring that we have the right organizational capabilities and mindset.

Since the launch of our smoke-free product IQOS, we have made enormous progress in terms of organizational capabilities, know-how, the integration of sustainability in the way we operate, and in our business results. To accelerate our progress, we must further enhance our ability to stay at the forefront of consumer centricity, technology, science, and innovation – to build on PMI's unique scientific capabilities and outline the company's strategy for new products and services that go beyond tobacco and nicotine.

We continue to deal with skeptical stakeholders: international organizations, NGOs, media, and academics, who doubt that harm reduction through smoke-free alternatives is sound public health policy or argue that our purpose-driven strategy is nothing more than window dressing. Harm reduction is an accepted approach in many areas of life: from reducing salt and sugar contents in food and drinks to lowering carbon emissions by switching to electric cars. The alternatives are rarely without health risk or environmental impact, but product improvements are always welcomed when they are scientifically substantiated. I feel strongly that people who smoke cigarettes, the most harmful nicotine-containing product, should not be denied the opportunity to switch to better alternatives. We will therefore not give up and will continue to proactively engage with such critics, explaining what we are trying to achieve. Listening closely and showing that our company takes criticism seriously is an essential part of our transformation.

Sustainability strategy is corporate strategy, and ESG issues are business issues. This is what we want to emphasize with our first integrated report and these highlights. I hope it gives you a better insight into PMI, the challenges that we face, and the progress we have made since announcing our smoke-free vision in 2016.

I cordially invite you to respond, challenge, and most of all, work with us as we remain focused on making our business one with a sustainable purpose.

André Calantzopoulos
Chief Executive Officer

PMI's Statement of Purpose

While Philip Morris International Inc. (PMI) is widely known as a cigarette company, in 2016 it announced its new purpose: to deliver a smoke-free future by focusing its resources on developing, scientifically substantiating and responsibly commercializing smoke-free products that are less harmful than smoking, with the aim of completely replacing cigarettes as soon as possible. These innovative alternative products do not burn tobacco, do not create cigarette smoke and therefore generate significantly lower levels of carcinogens and other toxic substances compared to cigarettes.

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

Building on the Board's Letter to Shareholders in PMI's 2017 Proxy Statement, we would like to reaffirm PMI's purpose and acknowledge that, as the Company continues to transform its business and organization, its core effort to provide smoke-free alternatives that appeal to today's adult smokers—and to work hard to convince them to switch—will not be enough. The Company needs to continue earning the trust and active cooperation of a host of stakeholders, from its supply chain partners to regulators and public health authorities.

A smoke-free future is attainable, and the benefits it can bring to the people who would otherwise continue to smoke, and hence to global public health, are enormous. However, the Company cannot succeed alone. Together with governments and civil society we can maximize this opportunity through a consensus that smoke-free alternatives, when subject to proper government oversight and regulation, are part of a sound tobacco policy.

The quest for better alternatives for adult smokers

Smoking causes serious disease, and the best way to avoid the harms of smoking is never to start, or to quit. For decades, tobacco control has focused on strict fiscal, marketing and other measures to deter initiation and to encourage cessation. These must be continued. Nevertheless, while smoking prevalence rates continue to slowly decline, the World Health Organization projects that the estimated number of 1.1 billion people who smoke tobacco products today will remain largely unchanged by 2025, reflecting population growth.

Nicotine, while addictive and not risk free, is not the primary cause of smoking-related disease. The primary cause is the harmful chemicals released or generated by the burning of tobacco and contained in the smoke. Eliminating combustion from nicotine-containing products is the way to significantly reduce their toxicity. Thanks to rapid advances in science and technology, and strong PMI commitment, these products are now a reality.

Currently, PMI's smoke-free portfolio comprises platforms that heat tobacco, vaporize nicotine-containing liquids or essentially contain only nicotine, all without combustion. Their development and manufacturing follow high standards of quality and consistency. The scientific evaluation to substantiate their harm reduction potential compared to cigarette smoking is based on rigorous pre-clinical and clinical assessments and sophisticated systems toxicology. The results are publicly available, are peer-reviewed and have been submitted to numerous regulatory authorities including the U.S. Food and Drug Administration. The totality of the scientific evidence makes the Company confident that switching completely to these products is likely to present less risk of harm than continuing to smoke. Post-market surveillance is necessary to continue building this confidence, and, over time, quantify the reduction in morbidity and mortality through epidemiology.

To be clear, these smoke-free alternatives are not risk free and should not be used by youth or non-smokers. For those who use nicotine in any form it is best to quit completely. The Company must market them responsibly, so as to minimize any unintended use, while maximizing the switching of adult smokers who would otherwise continue smoking.

IQOS Platform 1, a heat-not-burn tobacco product, was commercially launched in late 2015 and was very well received by adult smokers, with conversion rates exceeding 70 percent. This confirmed that the Company had the products and the science to fulfill its ambition to completely replace cigarettes. In 2016, with the full support of the Board of Directors, the Company announced its new purpose of delivering a smoke-free future. Since then the Company has fully aligned its employees with this purpose, and swiftly shifted its organizational focus and resources to smoke-free alternatives. The Company is essentially disrupting its traditional business from the inside out and is leading the industry in this unprecedented transformation.

While cigarette sales today remain the largest part of PMI's business in most countries, this is changing rapidly. In 2019, the Company's smoke-free products were already commercialized in 52 markets and represented 18.7 percent of PMI's global revenue, 71 percent of its commercial expense and 98 percent of its R&D expenditure. As of December 31, 2019, of the approximately 150 million people who regularly use the Company's products, approximately 14 million already use IQOS, of whom 9.7 million have stopped smoking and switched to this product. The Company is actively accelerating the decline of cigarette smoking beyond what can be achieved by traditional tobacco control measures alone.

Going forward, the Company is committed to providing less harmful alternatives to the hundreds of millions of adult smokers who would otherwise continue to smoke, 80 percent of whom PMI estimates are looking for better alternatives. The Company will do so through a research agenda to innovate and substantiate a portfolio of products that are affordable and acceptable for these smokers in both developed and developing countries. While PMI will continue to responsibly sell cigarettes as long as there is a significant legitimate demand, it will continue focusing its commercial efforts toward raising awareness of, and informing adult smokers in appropriate ways about, smoke-free products and the benefits of switching versus continued smoking. The Company carefully monitors the results of its marketing to best ensure its smoke-free products are not reaching non-smokers, youth and people who have already quit nicotine use altogether.

Key stakeholders to deliver a smoke-free future

PMI's key stakeholder constituencies, which are fundamental to both the achieving of its purpose and to the pace of its progress, will be affected in different ways by PMI's transformation. The Company will seek to engage and collaborate with relevant stakeholders to speed the transformation while mitigating negative consequences.

Employees

PMI's ability to accomplish its purpose depends on the skills, dedication and relentless efforts of its employees. The Company's focus on a smoke-free future has enhanced its ability to attract the new talent needed to support its transformation. The Company compensates its employees fairly and provides important benefits. It supports them with enriching job experiences, training and education to help them develop new skills and maximize their employability in a rapidly changing world. The Company treats employees with respect, dignity, care and fairness. It fosters diversity, inclusion, equal opportunity and equal salary policies to ensure PMI's workforce reflects modern society.

Regulators

Regulators can decisively accelerate the industry's transformation toward, and the speed at which adult smokers switch to, smoke-free products by implementing risk-proportionate regulations and taxation for all nicotine-containing products and by providing smokers with accurate information. PMI is committed to engaging transparently with regulators, sharing its scientific research and post-market data. The Company will be ready to support an industry-wide gradual phase-out of cigarettes as soon as a majority of smokers in a country have switched to scientifically substantiated smoke-free products. PMI believes that with the right regulatory encouragement and support from civil society, cigarette sales can end within 10 to 15 years in many countries.

Public health community

The public health community is, unfortunately, polarized on the issue of smoke-free products. Without question, their work to discourage youth and non-smokers from starting to use any tobacco or nicotine product and to encourage cessation should continue. At the same time, when better alternatives to cigarettes exist, the discussion should not be whether they should be made available to the more than one billion men and women who smoke today, but how fast, and within what regulatory framework to maximize their adoption while minimizing unintended use. The Company is urging this important stakeholder group to seize the immense opportunity that smoke-free products present for advancing public health

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

within the present generation of smokers. PMI asks the public health community to scrutinize its smoke-free products, to provide feedback for improvement and to be open to considering that PMI's purpose aligns with the societal goal to change the health trajectories of the people who smoke.

Supply chain

People working in the Company's supply chain around the world, including tobacco farmers, rely on PMI for a substantial portion of their income. PMI deals fairly and ethically with its suppliers, and is dedicated to acting as a good partner to other companies, large and small, that help us meet PMI's missions. PMI recognizes that smoke-free products differ from cigarettes and entail change for some of its supply chain partners, and PMI is ready to help them in this transition.

Shareholders

The Company is confident of the business opportunity that smoke-free products bring. It is leading this new highly promising category and is dedicated to ensuring its shareholders continue to receive strong and sustainable financial returns over time, while recognizing the initial uncertainty that transforming the Company's business model may bring. We are aware of the growing investor movement in select geographies to exclude tobacco from portfolios, but we do not believe that exclusion will convince people who smoke to quit or to improve their lives. On the contrary, by investing in PMI—a tobacco company that is aiming to end cigarette sales—and holding the Company accountable to its purpose and targets, investors can combine positive societal impact with long-term financial returns. The Company welcomes suggestions, pressure and support from engagement with both current and potential investors.

Civil society

Continued engagement and partnerships with civil society remain essential to the Company's success. PMI respects the many communities around the world where it operates. PMI works hard to protect the environment through sustainable practices across its businesses and to address both existing social and environmental challenges, such as child labor in tobacco growing, and emerging topics pertaining to its business transformation, such as helping tobacco farmers to diversify their crops. The scope, metrics and progress of these practices are outlined in PMI's annual Sustainability Report, published on PMI's website.

Achieving PMI's purpose

The Company understands the need to continue to build legitimacy and trust by being honest, respectful, fair and transparent, and by aligning actions with words across all areas of its business. To make the Company's progress in delivering its smoke-free vision verifiable, it introduced a set of business transformation metrics, which it publishes every year. As outlined previously, there has already been significant progress.

To assess the impact of PMI's current and future value chains on society and the environment, the Company regularly conducts sustainability materiality analyses and measures its performance through financial, environmental and social metrics that are key to a sustainable corporate strategy. The Compensation and Leadership Development Committee of the Board has ensured a strong link between executive compensation and both short- and long-term performance toward achieving the Company's smoke-free ambition. It is management's responsibility to ensure that the Company's purpose is achieved through the appropriate structures, systems, processes and people. The Board oversees management's efforts to enhance shareholder value responsibly and sustainably over the long term in ways that are consistent with the Company's purpose. Transparency and engagement between the Board and management are paramount, and the relationship is excellent. In conclusion, PMI is fully committed to its corporate purpose of delivering a smoke-free future.

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

- PMI's Board of Directors
- André Calantzopoulos
 - Louis C. Camilleri
 - Werner Geissler
 - Lisa A. Hook
 - Jennifer Li
 - Jun Makihara
 - Kalpana Morparia
 - Lucio A. Noto
 - Frederik Paulsen
 - Robert B. Polet

A Statement of Purpose is a declaration, issued by a company's board of directors, that clearly articulates the company's purpose and how to harmonize commercial success with social accountability and responsibility. It specifies within that purpose those stakeholders most critical to long-term value creation and sustainability. On March 26, 2020, PMI published its 2020 Proxy Statement, which contained a Letter from the Board of Directors that corresponds to PMI's Statement of Purpose. The groundwork for the Statement of Purpose was laid in the 2017 Proxy Statement in a letter to shareholders from the Board of Directors announcing for the first time our company's smoke-free vision.

Transforming our business in a coherent way

We have made significant progress in transforming our business. Net revenues from smoke-free products already exceed 10 percent of total net revenues in 31 markets, and over 50 percent in four markets. We have reallocated significant amounts of commercial spending from cigarettes to smoke-free products, and have streamlined our cigarette portfolio to focus on fewer brands and variants, reducing the global number of SKUs by over 600 in the last three years. Nevertheless, cigarettes and other combustible products remain at this stage the largest part of our business, representing 92.4 percent of our volume and 81.7 percent of our revenues. Perhaps counterintuitively, our objective to completely replace cigarettes with smoke-free alternatives is best served by maintaining our competitive position in the declining cigarette market. This

has allowed us to generate the cash flows needed to continue investing in scientific research, product development, manufacturing, and the commercialization of smoke-free products. The extensive commercial and distribution infrastructure from the traditional tobacco business also provides an effective platform for launching smoke-free products at scale. Maintaining leadership within the cigarette segment furthermore enables us to engage more smokers regarding the benefits of switching, especially where we can communicate directly with our consumers, for instance through cigarette pack inserts. One of our key transformational challenges regards deciding how to compete within the cigarette market, while simultaneously disrupting it with our smoke-free products. How should we react to product innovation by our competitors within the cigarette

segment? What to do when competitors lower cigarette prices to gain market share? While seeking to remain competitive in the cigarette segment in an efficient way, we give careful consideration to the coherence of the commercial activities needed to do so, such as when selecting a few new product launches in response to changing consumer preferences or competitor actions. We strive to make these decisions based on consumer insights, responsible practices, and guided by a clear principle: our decision to launch a new product in the combustible segment should not hinder the realization of a smoke-free future. Where appropriate, we will complement our business response with advocacy for regulatory and fiscal measures to close tax loopholes or restrict product innovation within the combustible segment, where such innovation raises concerns regarding youth use.

Overview of PMI's performance

The ESG metrics on these pages are explained in the relevant sections of the Integrated Report 2019. Please also refer to the glossary on page 188 of the Integrated Report 2019 ►

This report covers the 2019 calendar year, but the aspirations, goals, and forward-looking plans it contains may be impacted by COVID-19 and its effects on our business, which are currently unknown. Aspirational targets and goals do not constitute financial projections, and achievement of future results is subject to risks, uncertainties, and inaccurate assumptions, as outlined in our forward-looking and cautionary statements on page 29 ►

1 The information is a summary and is qualified in its entirety by reference to the full texts of PMI's Annual Reports for the years ended 2015 through 2019, available on PMI.com.

2 This indicator refers to the amount paid by PMI entities, and excludes excise tax paid in several markets where third-party operators collected taxes on PMI products. The total amount of excise tax paid by consumers on PMI products amounted to USD 72.1 billion in 2019.

3 Smoke-free products: include heated tobacco units and e-cigarettes. Total products: include smoke-free products, cigarettes, and other combustible products.

4 Aspirations: Assuming constant PMI market share.

5 Excluding excise taxes. For future periods, at today's pricing and excise tax assumptions.

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

7 See glossary on page 188 of the Integrated Report 2019.

8 In 2019, we reviewed our carbon footprint model (see page 149 of the Integrated Report 2019). We have restated our 2017 and 2018 data according to the new model.

9 We launched CIRCLE in 2018, and the number of markets covered was expanded in 2019. The decrease in coverage of sales volume in 2019 versus 2018 is explained by IQOS growth in markets not yet covered by the program.

10 Depending on device type and processing facility.

11 We introduced this indicator in 2019.

12 Our transformation journey as we mobilized to deliver our vision of a smoke-free future resulted in higher turnover in 2019. This, combined with our business strategy to close our skills gap, a number of planned restructures, and closure of some factories, contributed to the increase observed.

13 Management positions include all employees above a defined grade; it encompasses managers, directors, and senior management. We have expanded the scope of our gender diversity data to cover approximately 95 percent of PMI's total workforce and restated previous years' data accordingly.

14 The farm-level data related to our tobacco supply chain reported in this report cover 22 countries from which we source.

15 Our monitoring and reporting of child labor refer to situations of hazardous work performed by children below 18 years old.

16 The increase can be attributed to a new global training toolkit that has reinforced overall awareness, leading to higher speaking-up rates; also, there has been a constant increase in the number of IQOS coaches and consequently higher risk of incidences to occur (read more on page 76 of the Integrated Report 2019).

17 Suppliers' criticality is evaluated taking into account spend segmentation and nature of component, as well as supply flexibility as relevant. 2019 figure includes tier 1 suppliers of direct materials and electronics managed by PMI central procurement team. Procurement spend excludes tobacco leaf sourcing.

18 We started to formally onboard critical suppliers into our supplier due diligence platform (STEP) in July 2019.

Financials (in million USD) ¹	2016	2017	2018	2019
Revenues including excise taxes	74,953	78,098	79,823	77,921
Excise taxes on products ²	48,268	49,350	50,198	48,116
Net revenues	26,685	28,748	29,625	29,805
Operating income	10,903	11,581	11,377	10,531
Net earnings attributable to PMI	6,967	6,035	7,911	7,185
Total assets	36,851	42,968	39,801	42,875
Total liabilities	47,751	53,198	50,540	52,474
Capital expenditures	1,172	1,548	1,436	852
R&D expenditure	429	453	383	465

Environment	2010 baseline	2017	2018	2019
CO ₂ e scope 1+2 ('000 metric tons)	914	630	584	556
CO ₂ e scope 1+2+3 ('000 metric tons) ⁸	8,062	5,536	5,298	4,682
CO ₂ e scope 1+2+3 intensity reduction versus 2010 baseline	n/a	22%	25%	32%
Proportion of IQOS device sales volume covered by CIRCLE take-back program ⁹	n/a	n/a	66%	39%
Recycling rate of IQOS devices at CIRCLE hubs (weighted average) ¹⁰	n/a	n/a	45%	74%
Number of PMI affiliates with anti-littering strategy ¹¹	n/a	n/a	n/a	31

Social	2017	2018	2019
Number of PMI employees	80,591	77,435	73,542
Number of PMI full-time equivalent positions	n/a	77,039	71,795
Overall employee turnover ¹²	9.37%	11.51%	14.10%
Voluntary employee turnover	3.96%	4.12%	4.53%
Proportion of management positions held by women ¹³	34.4%	35.1%	36.1%
Proportion of women on PMI's Company Management	10%	9%	8%
Proportion of women on PMI's Board of Directors	15%	25%	25%
Proportion of tobacco purchased for which labor practices have been systematically monitored ¹⁴	77%	88%	92%
Proportion of farms monitored found with child labor incidents ¹⁵	1.2%	1.3%	0.8%
Number of prompt actions recorded by field technicians related to child labor incidents (proportion resolved)	4,417 (67%)	4,587 (89%)	2,712 (88%)
Total recordable incidents rate (TRIR) per 200,000 hours worked – PMI and contracted employees	0.22	0.22	0.20
Lost time incident (LTI) rate per 200,000 hours worked – PMI and contracted employees	0.10	0.13	0.12

Governance	2017	2018	2019
Number of training sessions completed by PMI employees and third parties on PMI's Marketing Code	37,903	23,438	14,500
Number of violations of PMI's Marketing Code and Good Conversion Practices that resulted in substantiated cases of misconduct ¹⁶	2	8	42
Cumulative number of external human rights impact assessments completed in high-risk countries	0	1	2
Critical suppliers, as a proportion of total procurement spend ¹⁷	n/a	n/a	35%
Critical suppliers' procurement spend assessed in PMI's supplier due diligence platform (STEP) ¹⁸	n/a	n/a	84%
Proportion of tobacco purchased through direct contracts by PMI and PMI's third-party suppliers (by volume)	90%	93%	96%

Business transformation metrics

“How can stakeholders know if our transformation is real? Are we really doing everything we can to achieve a world without cigarettes? To allow anyone to scrutinize the pace and scale of our transformation, we introduced a set of Business Transformation Metrics in 2016. These metrics can help our stakeholders assess our purpose, actions, resource allocation, and outcomes achieved; and we constantly review and expand the list of metrics based on stakeholder feedback.”

Huub Savelkoul
Chief Sustainability Officer

In 2019 we expanded our KPIs by introducing 10 new Business Transformation Metric indicators, further making our transformation both measurable and verifiable, while showing the massive shifts taking place within the company and rapid pace of our progress. These new metrics are part of our ongoing expansion of our transparent measurement process and follow the two additional indicators that were added in 2018.

	2016	2017	2018	2019
R&D expenditure (smoke-free/total) ¹	72%	74%	92%	98%
R&D expenditure (in millions USD)	429	453	383	465
Number of R&D positions (FTEs) ²	n/a	n/a	764	942
Patents granted relating to smoke-free products (cumulative)	1,800	2,900	4,600	5,800
Patents granted in IP5 jurisdictions relating to smoke-free products (cumulative) ³	170	300	480	740
Number of studies completed by PMI on smoke-free products (cumulative, since 2015)				
• Toxicological assessment	36	57	82	109
• Clinical assessment (short-term, focused on biomarkers)	11	12	19	19
• Perception and behavior	7	7	9	9
Number of factories producing smoke-free products out of total number of factories ⁴	3 out of 48	4 out of 46	8 out of 44	8 out of 38
Total SKU ⁵ count – combustible cigarettes	4,421	4,201	3,968	3,799
Total SKU count – heated tobacco units	62	145	253	414
Number of markets where PMI smoke-free products are available for purchase	20	38	44	52
Proportion of markets where PMI smoke-free products are available, which are outside the OECD ⁶	32%	43%	47%	47%
Number of IQOS stores	26	63	81	199
Number of retailers that sell PMI smoke-free product consumables (in thousands)	90	292	488	679
Commercial expenditure (smoke-free/total)	15%	39%	60%	71%
Net revenues (smoke-free/total) ⁷	2.7%	12.7%	13.8%	18.7%
Number of markets where net revenues from smoke-free products exceed 10% of total net revenues	1	5	19	31
Number of markets where net revenues from smoke-free products exceed 50% of total net revenues	0	1	3	4
Smoke-free product shipment volume (billion units)	7.7	36	42	60
Combustible product shipment volume (billion units)	845	791	767	732
Smoke-free product shipment ratio (smoke-free/total) ⁸	0.9%	4.4%	5.1%	7.6%
Total users of PMI smoke-free products (in millions) ⁹	2.1	6.9	9.6	13.6
Estimated users who have stopped smoking and switched to PMI smoke-free products outside of the OECD countries (in millions) ⁶	0.0	0.2	1.1	3.0
Estimated users who have stopped smoking and switched to PMI smoke-free products (in millions) ⁹	1.5	4.7	6.6	9.7

¹ Smoke-free products include heated tobacco units and e-cigarettes. Total products include smoke-free products, cigarettes, and other combustible products.

² R&D positions: include scientists, engineers, technicians, and support staff. Comparable data for years prior to 2018 are not available, as the scope of R&D positions changed following company organizational changes.

³ Includes published international (PCT) patent applications. IP5 jurisdictions include Europe (patent applications published and patents granted by the European Patent Office), China, South Korea, Japan, and the U.S.

⁴ Previous years' data were restated to account for our second manufacturing facility in Italy, Bologna, that started producing heated tobacco units in 2016.

⁵ "SKU" stands for stock keeping unit.

⁶ Excluding PMI Duty Free.

⁷ Excluding excise taxes. For future periods, at today's pricing and excise tax assumptions.

⁸ The smoke-free product shipment ratio is compiled based on millions of units.

⁹ See glossary on page 188 of the Integrated Report 2019.

Sustainability at PMI

Sustainability materiality assessment

In 2019 we refreshed our sustainability materiality assessment to guide us in prioritizing sustainability topics, help us meet stakeholders' expectations, and focus our efforts in areas where we can create value and have the greatest impact. We received input from over 800 internal and external stakeholders which informed the development of our 2025 strategy and our reporting.

Our updated Sustainability Materiality Report was published in April 2020 and can be found on www.pmi.com ►

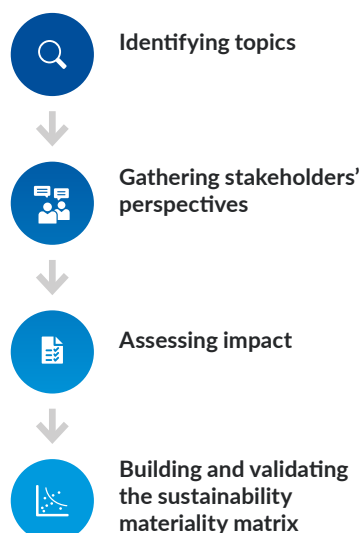
Stakeholder engagement

PMI's Statement of Purpose (see page 4-6) highlights key stakeholders to achieve a smoke-free future. During our sustainability materiality assessment, we collected feedback from an inclusive group of stakeholders, mapped in the graph below, on specific topics and trends involving key issues. The nature of our engagement changes over time to reflect the evolution of our business – particularly our transformation to smoke-free products.

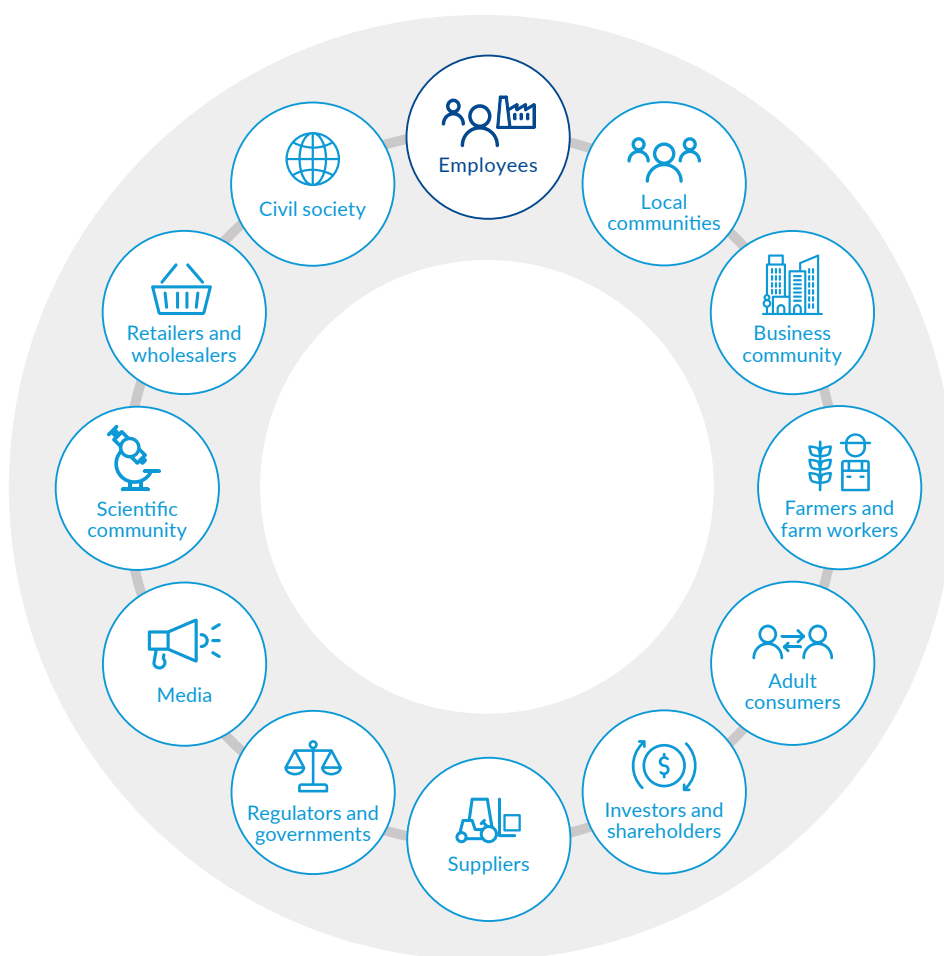
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Stakeholders stressed the need for PMI to communicate on its work further and set clear targets and performance indicators so that progress may be tracked. We took such comments into consideration when developing our sustainability strategy

PMI's sustainability materiality assessment refresh in 2019 followed a structured and inclusive four-step approach:



Stakeholders



“

Engagement enhances our mutual understanding of interests, concerns, and aspirations. We received input from over 800 internal and external stakeholders which informed the development of our 2025 strategy and reporting

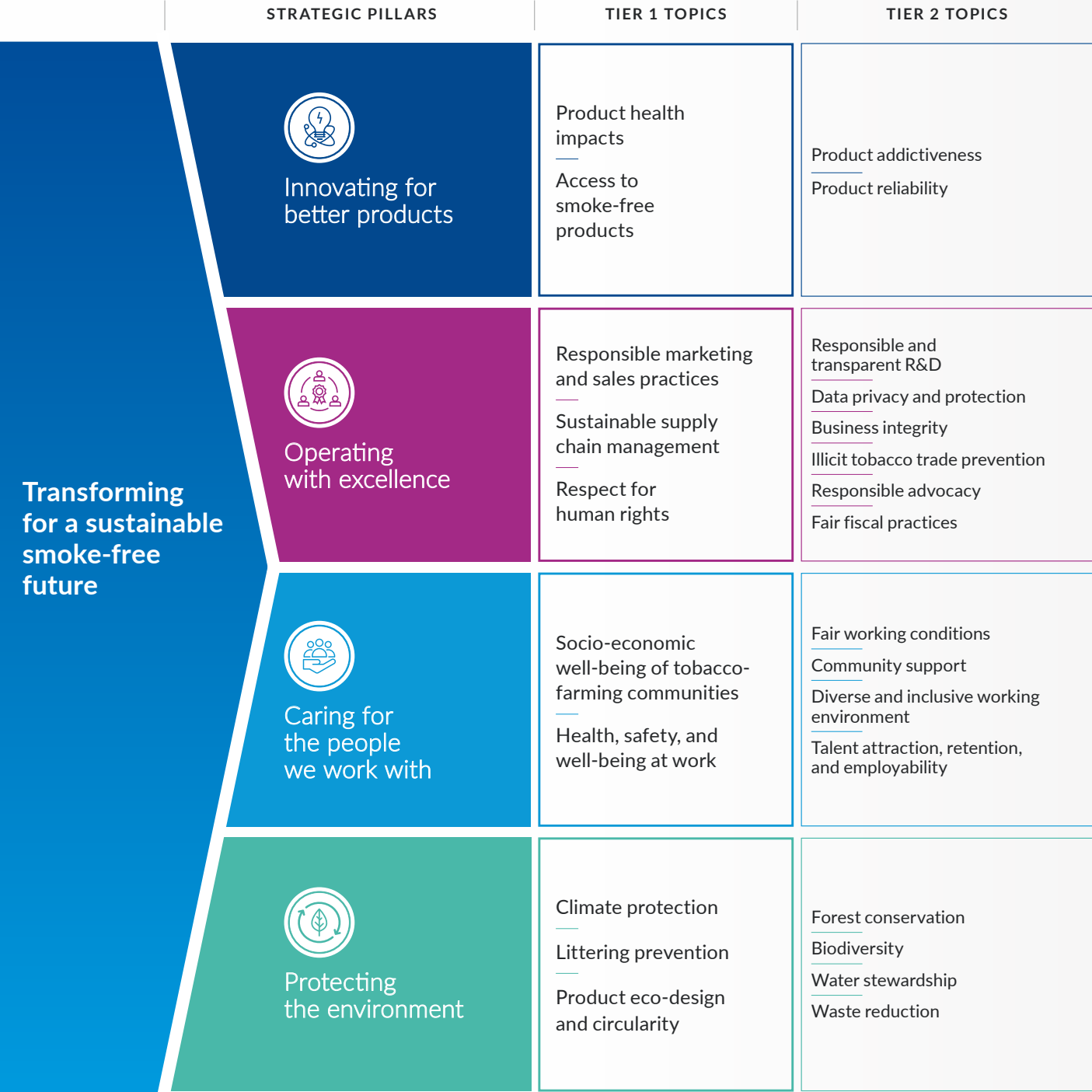
Defining our Strategy

To become a sustainable tobacco company, we must take every step to completely replace cigarettes with smoke-free alternatives. Innovating for better products is therefore at the core of our corporate strategy.

As we are transforming our company, we need to put increased emphasis on sustainability: effective management of operational topics such as responsible commercialization and respect for human rights; social topics, such as the socioeconomic well-being

of tobacco farming communities and the health, safety, and well-being of all at work; and environmental topics such as climate protection, littering prevention, and integrating eco-design and circularity into product development. Building on our refreshed sustainability materiality assessment and our sustainability roadmap, we reviewed the UN Sustainable Development Goals (SDGs) to which we believe we can contribute most.

We mapped our sustainability work to the 17 SDGs and 169 targets; we identified the SDGs for which we believe we can have the greatest positive impact; we aligned these SDGs to our sustainability strategy; and we identified no significant changes versus our 2018 assessment, with SDG 3 (health and well-being) remaining at the core of our efforts.



CONTRIBUTING TO THE SUSTAINABLE DEVELOPMENT GOALS



Our 2025 roadmap

Throughout 2019, we crafted our 2025 roadmap, based on our sustainability materiality assessment and focusing on tier 1 topics – those areas in which we believe we can make the greatest difference.

Each priority topic falls under the responsibility of a member of PMI's Company Management and is assigned a target against which our progress will be measured and reported on annually. As we are still developing certain KPIs, we will provide a more comprehensive overview in our next report.

WE FOCUS WHERE WE CAN HAVE THE GREATEST IMPACT	OUR 2025 ASPIRATIONAL TARGETS
Product health impact and access to smoke-free products Broaden access for adult smokers to smoke-free products that are scientifically substantiated as less harmful alternatives to cigarettes	>40m Number of adult smokers globally who switch to PMI smoke-free products >20m Number of adult smokers in non-OECD countries who switch to PMI smoke-free products >250bn PMI's smoke-free product shipment volume <550bn PMI's combustible product shipment volume
Responsible marketing and sales practices Commercialize our products responsibly, preventing youth from accessing and using them Sustainable supply chain management Further embed sustainability in our procurement practices, leveraging on opportunities to create long-lasting social and environmental impact Respect for human rights Safeguard the human rights of people impacted by our activities across our value chain	>90% Youth access prevention programs in place in markets representing over 90 percent of PMI's total shipment volume by 2020 100% Percentage of PMI's portfolio of electronic smoke-free devices equipped with age-verification technology by 2023 100% Percentage of critical suppliers from whom PMI sources sustainably 10 Highest risk countries covered by external human rights impact assessments and findings addressed
Socio-economic well-being of tobacco-farming communities Eliminate child labor and provide safe and fair working conditions on tobacco farms, and promote a living income for farmers Health, safety, and well-being at work Promote a safe and healthy working environment which protects the physical and mental well-being of all while at work	100% Percentage of contracted farmers supplying tobacco to PMI who make a living income Zero Child labor in PMI's tobacco supply chain <0.3 Total recordable incidents rate for employees and contractors
Climate protection Mitigate climate change by decarbonizing our operations and value chain, while increasing our resilience Littering prevention Prevent littering of our products by promoting appropriate behavior among adult consumers Product eco-design and circularity Integrate circularity when developing our products, improving efficiency and recyclability, and strengthening our collection program	Net zero Achievement of carbon neutrality of PMI's direct operations (scope 1+2) by 2030 Net zero Achievement of carbon neutrality of PMI's value chain (scope 1+2+3) by 2050 -50% Reduction of plastic litter from our products (versus 2021) 100% Percentage of PMI smoke-free product users who have access to collection and recovery for devices and consumables 100% Percentage of PMI smoke-free devices that have eco-design certification

**Transforming
for a
sustainable
smoke-free
future**

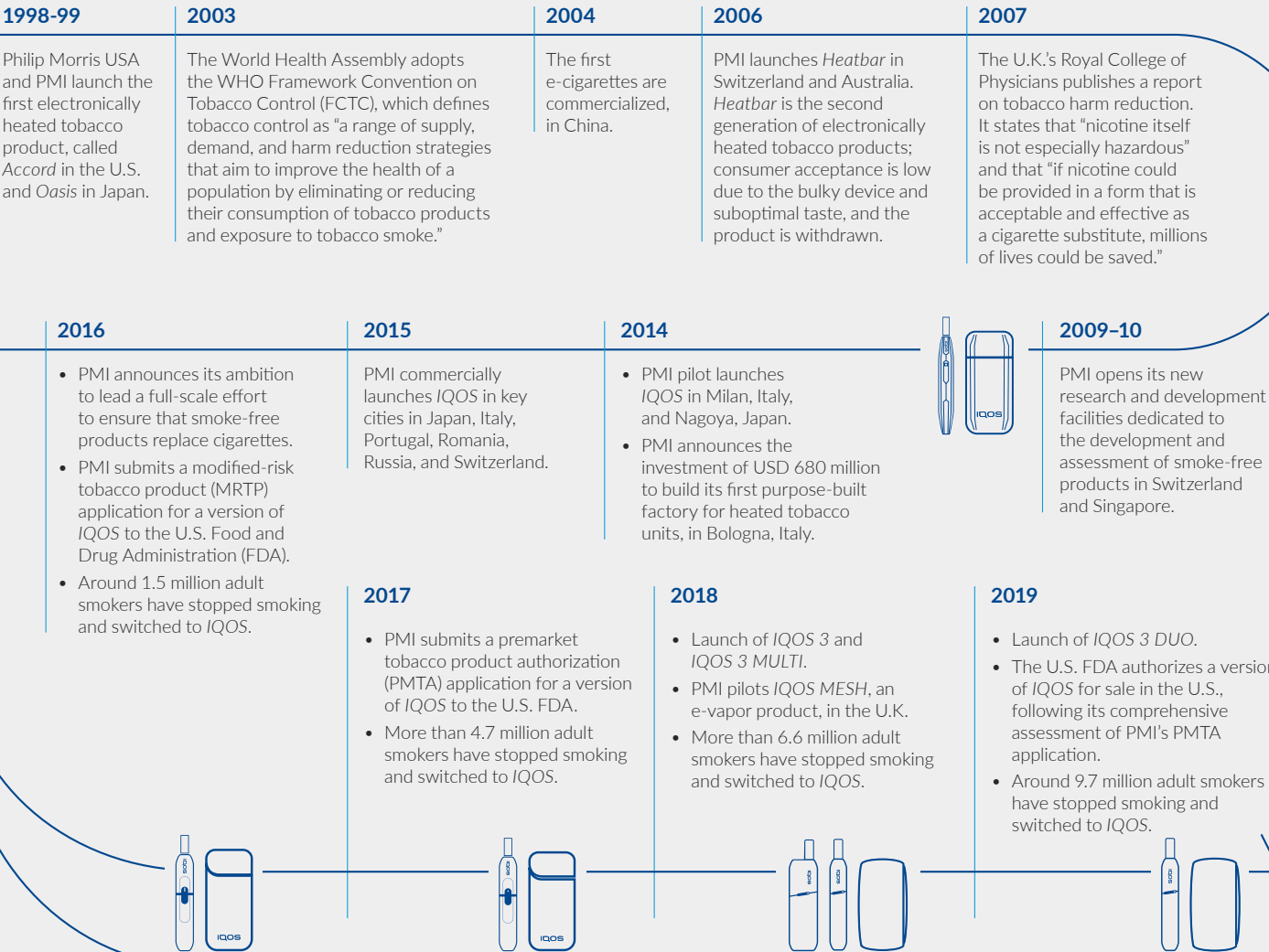
PILLAR I

Innovating for better products

“The best way to avoid the harms of smoking is never to start or, for those who do smoke, to quit. However, according to WHO forecasts, there will still be more than 1 billion smokers by the year 2025.”

We recognize that cigarette smoking causes serious diseases and that the best way to avoid the harms of smoking is never to start or to quit. Nevertheless, for adult smokers who would otherwise continue to smoke, we believe that product innovation has a significant potential to benefit public health.

To be successful, we need to continue innovating in two areas. First, we are developing a product portfolio of smoke-free products with a significantly reduced health impact compared to combustible cigarettes. The reduced risk profile of these products is scientifically substantiated, following a step-by-step program derived from practices of the pharmaceutical industry. Second, to reduce harm at the individual and population level, smokers must be interested in switching to smoke-free products, rather than continuing to smoke cigarettes. Here we need to innovate, transform our internal organization, and engage with legislators and regulators to ensure that people who would otherwise continue to smoke have access to smoke-free alternatives.



Product health impacts

Experts and many regulatory bodies, such as the U.S. FDA, agree that the primary cause of smoking-related diseases is not nicotine, but the inhalation of harmful and potentially harmful constituents formed as a result of burning tobacco.¹ We are therefore developing a portfolio of products that deliver nicotine without combustion – smoke-free products.

2019 Progress



98% of total R&D expenditure focused on smoke-free products²



\$465 USD millions in R&D expenditure in millions USD



740 Patents granted in IP5 jurisdictions relating to smoke-free products (cumulative)³

¹ Source: <https://www.fda.gov/tobacco-products/healthinformation/nicotine-addictive-chemical-tobacco-products>

² Smoke-free products include heated tobacco units, devices, and e-cigarettes. Total products include smoke-free products, cigarettes, and other combustible products.

³ Includes published international (PCT) patent applications. IP5 jurisdictions include Europe (patent applications published and patents granted by the European Patent Office), China, South Korea, Japan, and the U.S.

The principal source of cigarette-related diseases is known: It is the burning process that creates the vast majority of the harmful chemicals that are the primary causes of smoking-related diseases. In our smoke-free tobacco products, we are able to precisely control temperatures so that they release nicotine and flavors but do not reach the temperature necessary for combustion to occur. By avoiding combustion, we reduce or eliminate the formation of harmful and potentially harmful chemicals (HPHCs).

For men and women who smoke, cessation has been demonstrated to lead to reduced harm and risk of tobacco-related disease by eliminating exposure to cigarette smoke toxicants. Complete, long-term cessation is the maximum risk-reduction that a smoker can achieve, and hence is the “gold standard” for the assessment of smoke-free products.

Our heat-not-burn IQOS product

Our main smoke-free product, IQOS, is a battery-powered heat-not-burn product, which heats the tobacco to produce a nicotine-containing aerosol that is inhaled by the user without combustion of the tobacco. IQOS works as a tobacco-heating system and is composed of three main components: a heated tobacco unit, a holder, and a charger.

How does it reduce risk?

IQOS reduces the risk to health compared with cigarette smoking by avoiding burning tobacco. Decades of epidemiological data have demonstrated that the development of smoking-related diseases is triggered by the chronic inhalation of the harmful and potentially harmful chemicals (HPHCs) found in cigarette smoke. When a smoker lights a cigarette, it starts a high-temperature

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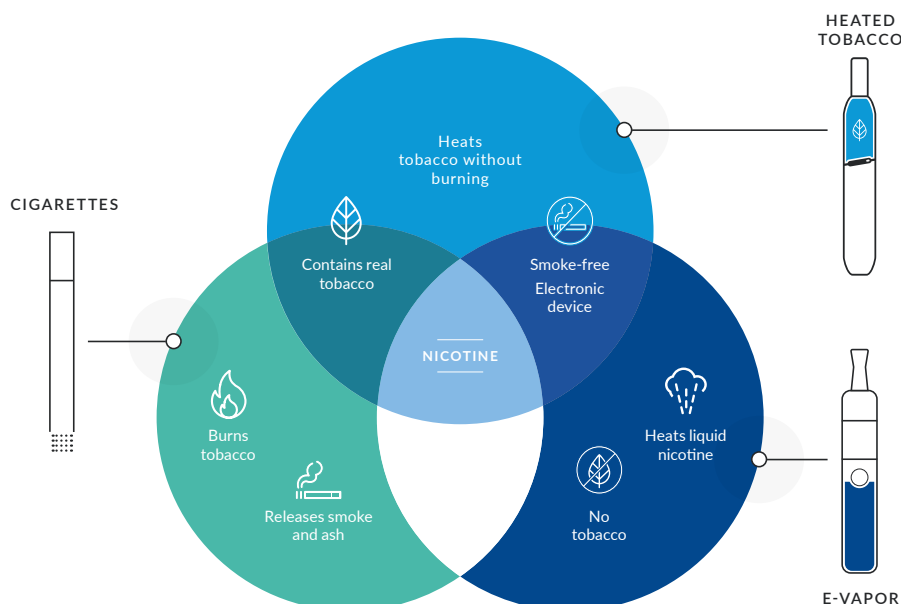
Importantly, the carcinogens are reduced by over 95 percent in the IQOS aerosol.

reaction, from 600 to 900 degrees Celsius, known as burning or combustion, which releases HPHCs. When IQOS is used, the device constantly monitors and controls the temperature of the tobacco so that it stays below 350 degrees Celsius. As a result, the nicotine-containing vapor the consumer inhales contains significantly lower levels of HPHCs than cigarettes. We have scientifically substantiated that during the operation of IQOS, no combustion occurs, and the aerosol generated has on average 95 percent lower levels of HPHCs than found in reference cigarette smoke.



Scientists in PMI's R&D center in Neuchâtel, Switzerland

The difference between combustible cigarettes, e-vapor products (also known as e-cigarettes), and heated tobacco products



To demonstrate that switching to our smoke-free products results in reduced exposure to toxicants, which can or does reduce the risk of disease compared with continued cigarette smoking, we are following a rigorous scientific assessment program aligned with the U.S. FDA's draft guidance on modified risk tobacco products (learn more about how we conduct our R&D on PMI.com). Our assessment program also aims to guard against the use of our smoke-free products by unintended audiences, such as former smokers, never smokers, and youth.

In 2019, we launched long-term assessment tools to find out how consumers understand the reduced risk associated with smoke-free products and how that understanding

influences their choices. The new survey tools are intended to measure what people think about and how they use the products across a set of categories, such as perceived risk, perceived dependence, and functioning and well-being. Results of the assessment are available to the public in an article on F1000Research¹, and its peer review is ongoing.

What are the external findings to date?

Our scientific results are supported by a growing body of independent research. For the period of January 2019 to February 2020 alone, more than 60 third-party peer-reviewed publications and systematic reviews have been published on heated tobacco products. The list of independent studies published around PMI's smoke-free products and/or our methods and results as of December 19, 2019, is available on PMIscience.com.

In 2019, a version of the IQOS system became the first electronic heat-not-burn product to be authorized for sale in the U.S., pursuant to the 2009 law that empowers the FDA to regulate tobacco products, including through oversight of innovative products. The agency stated: "Following a rigorous science-based review through

the premarket tobacco product application (PMTA) pathway, the agency determined that authorizing these products for the U.S. market is appropriate for the protection of the public health because, among several key considerations, the products produce fewer or lower levels of some toxins than combustible cigarettes. (...) While today's action permits the tobacco products to be sold in the U.S., it does not mean these products are safe or 'FDA approved.'" The FDA published a detailed report describing its assessment and conclusions, including results on aerosol chemistry, toxicology, and unintended use. The agency found that "the aerosol produced by the IQOS Tobacco Heating System contains fewer toxic chemicals than cigarette smoke, and many of the toxins identified are present at lower levels than in cigarette smoke" and that "available data, while limited, also indicate that few non-tobacco users would be likely to choose to start using IQOS, including youth."²

¹ Reference: <https://f1000research.com/articles/8-214>

² Source: <https://www.fda.gov/news-events/pressannouncements/fda-permits-sale-iqos-tobacco-heating-systemthrough-premarket-tobacco-product-application-pathway>



A scientist in PMI's R&D center in Neuchâtel, Switzerland

Product addictiveness

Nicotine is a substance that stimulates the brain and affects mood, creating an effect that tobacco and nicotine users will often describe as helping them to relax and concentrate at the same time; nicotine also is what causes addiction to tobacco products, which can make them hard to quit. Nicotine is not risk-free, but its presence in smoke-free products plays an important role in facilitating switching to less harmful alternatives for those who would otherwise continue to smoke.

In this domain, we can act on three axes.

- **First**, we need to do our utmost to ensure that all our products are commercialized in a responsible way, helping to prevent youth nicotine initiation.
- **Second**, we conduct post-market studies to understand how the product is used and by whom. These studies are necessary to confirm the results of the premarket perception and behavior assessments and to measure that current adult smokers switch to the product, while never and former smokers are not using it.
- **Third**, we continue to analyze the risks and potential benefits of nicotine use and share our findings to encourage a science-based and objective debate on these important societal questions.

In 2019, we dedicated our eighth Scientific Update to a review of nicotine; the publication is available on pmiscience.com.

Addictiveness of nicotine-containing products

It has been recognized that the addictive properties of nicotine-containing products are caused by a complex interaction of factors that enhance the action caused by nicotine alone. Beyond nicotine, other factors make such products addictive: Ritual, sensory experience, and social experiences all play a significant role. Exposure to nicotine and the extent of its effects can also be influenced by individual differences in smoking behavior, metabolism, body mass index, and genetic differences.

It is important for people to have a balanced perspective on nicotine. On the one hand, nicotine is not risk-free and products containing nicotine should not be used by pregnant women, women who are breastfeeding, young people, or those suffering from cardiovascular diseases. On the other hand, while the best option for adult smokers is to quit altogether, nicotine can support public health by encouraging adult smokers who would not otherwise quit to switch to smoke-free products.

The Royal College of Physicians has said: "Nicotine is not, however, in itself a highly hazardous drug ... it is inherently unlikely that nicotine inhalation itself contributes

significantly to the mortality or morbidity caused by smoking. The main culprit is smoke and, if nicotine could be delivered effectively and acceptably to smokers without smoke, most if not all of the harm of smoking could probably be avoided."

We agree that the burning of tobacco, not the nicotine, is the biggest problem with cigarettes. This is why we have and continue to develop and research a portfolio of smoke-free nicotine-containing products that are a better choice for adult smokers than continuing to smoke cigarettes.



A scientist in PMI's R&D center in Neuchâtel, Switzerland

Access to smoke-free products

The public health benefit of smoke-free products depends not only on their potential to reduce the risk of smoking-related disease, but also on their actual use as alternatives to cigarettes by adult smokers. For consumers to use them, these alternatives must be accessible. With access we refer to four aspects: **improving consumer awareness, acceptability, availability, and affordability** of our smoke-free products.

Aspirational targets

>40m

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

>20m

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

>250bn

PMI's smoke-free product shipment volume by 2025

<550bn

PMI's combustible product shipment volume by 2025

2019 Progress



52 markets where PMI smoke-free products are available for purchase



47% of markets where PMI smoke-free products are available, outside of OECD countries¹



9.7 million estimated adult smokers worldwide who have stopped smoking and switched to PMI's smoke-free products²



In the three years following the announcement of our smoke-free vision in 2016, PMI's smoke-free product shipment volume increased from 7.7 to 60 billion units. We actively accelerated the decline in shipment volume of our combustible tobacco products, which contracted from 845 billion to 732 billion over that time period.

Product awareness

The first component of our access strategy is raising awareness of smoke-free products among adult smokers. We want adult smokers to understand the difference and benefits of our smoke-free products in comparison with combustible cigarettes, but also make sure they understand that smoke-free products are addictive and not risk-free. In our awareness-raising efforts we remain cautious to guard against the use by unintended audiences such as never smokers, former smokers, and youth (see page 72 of full Integrated Report 2019).

Product acceptability

Smokers will only stop smoking and switch to better alternatives if these products are acceptable and meet their preferences. An important indicator in this regard is the so-called full-switching rate: the percentage of IQOS users that stopped smoking versus total IQOS users.

Product availability

As of December 2019, our main smoke-free product, IQOS, was available in 52 markets, either in key cities or nationwide, and we estimate that in total over 120 million adult smokers worldwide could buy IQOS devices and consumables near where they live. Of these markets, 27 are OECD countries.

At the end of 2019, there were over 3,000 exclusive IQOS retail touchpoints³ around the world and around 679,000 points of sale where IQOS heated tobacco units are sold.

Product affordability

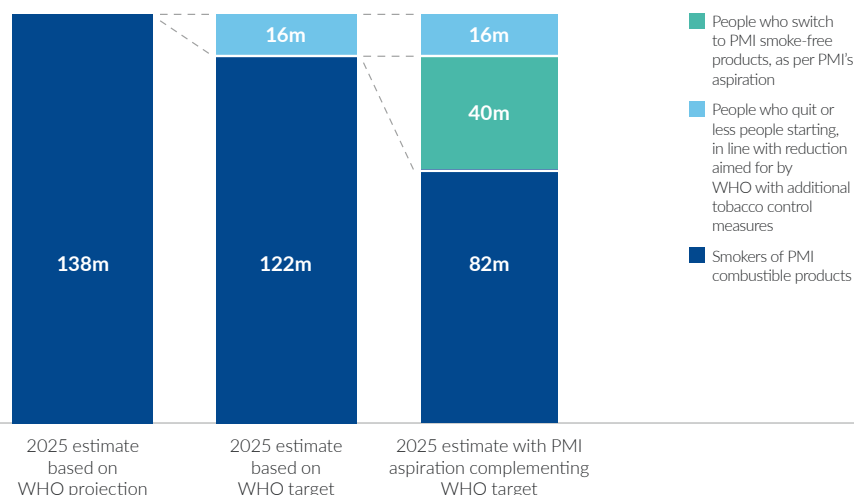
We will only achieve a smoke-free future if all adult smokers who would not quit but would like to switch to smoke-free products can afford to do so.

“

Our aspiration is to reduce smoking more than three times faster than the target set by WHO.

Consumers of PMI products – projection 2025

(Illustration based on WHO projections, assuming constant PMI market share)



1 Excluding PMI Duty Free.

2 See glossary on page 188 of Integrated Report 2019.

3 Touchpoints relate to all permanent and temporary retail touchpoints, where IQOS is sold exclusively (boutiques, flagship stores, pop-ups, shop-in-shop, and corners).

PILLAR 2

Operating with excellence

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

Our supply chain accounts for a significant part of our social and environmental footprint. We are embedding sustainability in our supply chain management, working closely with our suppliers to create sustainable value. In all this, our guiding principle is the safeguarding of human rights of those impacted by our operations.



Hand-rollers of kretek cigarettes at Sampoerna, PMI's Indonesian affiliate

Responsible marketing and sales practices

For PMI, responsible marketing and sales means commercializing our products in a way that limits access and use by unintended users, including minors and nonsmokers. It also entails advertising tobacco and nicotine-containing products in a way that is directed to adult smokers while providing clear information on the products' health risks through appropriate labeling and communication.

Our aims

>90%

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

100%

Percentage of PMI's portfolio of electronic smoke-free devices equipped with age-verification technology by 2023

2019 Progress



90% of markets representing PMI's total shipment volume have developed youth access prevention (YAP) plans



14,500 compliance training sessions conducted on our Marketing Code were completed by PMI employees and relevant third parties

At PMI, we believe that regulation should continue to dissuade people from starting to smoke and encourage cessation. While smoking rates, including youth smoking rates, have gone down in most countries, smoking continues to be a public health issue.

Our commercialization practices support our business vision: To create awareness among adults who smoke that better alternatives to cigarettes exist and to move those adult smokers who otherwise would not quit to our smoke-free products. Doing this responsibly, by directing our activities toward adult smokers and providing them with accurate and relevant information about our products, is fundamental to our long-term success.

“

Responsible commercialization demonstrates our commitment to regulatory compliance and our own standards, fosters credibility among our stakeholders, and presents an opportunity to accelerate a smoke-free future.

Our commercialization activities are guided by four core principles:

- We only market and sell our products to adult smokers.
- We warn consumers about the health effects of our products.
- Our marketing is honest, transparent, and accurate.
- We respect the law and our high standards.

We engage with various stakeholders on this issue, including retailers and governments.

“

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

PMI has a robust and tested infrastructure aimed at ensuring compliance with its existing policies and processes. We monitor incidents of noncompliance with regulations and/or PMI's Marketing Code and the GCP concerning marketing communications, including advertising, promotion, and sponsorship.

Our commitment to youth access prevention

In 2019 – in response to a 2018 shareholder resolution – a cross-functional team at PMI undertook a comprehensive and critical review of the steps we take in our commercial activities to restrict product marketing and sales activities to adults. It resulted in Responsible Marketing Practices at PMI, a report approved by PMI's Board of Directors and published on PMI.com in December 2019.

The report concluded that, throughout PMI, people are deeply committed to the fundamental principle that we should not target our marketing and sales activities to minors. Our findings indicate a strong adherence to our responsible marketing policies and practices. As part of our assessment, we also considered opportunities to strengthen our existing responsible marketing policies and practices.

For instance, we are evaluating whether our mystery shopping program, currently run in a sample of our smoke-free product retail stores, can be scaled up to provide robust feedback on the consistency of age controls at our stores. Also, during 2019, we developed a set of guidelines that will help our affiliates work more effectively with their trade partners to guard against sales to underage purchasers.

All markets commercializing PMI products were tasked to increase enforcement of youth access prevention programs.



An IQOS store in Ginza, Japan

Sustainable supply chain management

Our supply chain accounts for a significant part of our social and environmental footprint. With an increasingly integrated and globalized value chain, balancing the security of our supplies with cost efficiency and high-quality, environmental, and social standards is a major priority and challenge.


Increasingly closer supplier relationships offer opportunities to create sustainable value. At the same time, supply chains may be exposed to potentially significant environmental, social, and governance risks. PMI is fully committed to continuously identifying and addressing such risks, thereby increasing the sustainability performance of our supply chain.

Our aim


100%

Percentage of critical suppliers from whom PMI sources sustainably by 2025

2019 Progress



2,875 field technicians providing support to contracted farmers and monitoring the implementation of PMI's GAP and ALP



96% proportion of tobacco purchased through direct contracts by PMI and PMI tobacco suppliers



84% of critical suppliers' procurement spend assessed in PMI's supplier due diligence platform (STEP)¹

1 We started to formally onboard critical suppliers into our supplier due diligence platform (STEP) in July 2019.
2 The scope of farm-level data related to our tobacco supply chain reported in these highlights cover 22 countries we source from (it excludes Ecuador and Lebanon).

The way we work is grounded in our **Responsible Sourcing Principles (RSP)**, which align with the UN Guiding Principles on Business and Human Rights, the Ten Principles of the UN Global Compact, and the International Labour Organization (ILO) Conventions. Sustainability work in our tobacco supply chains is managed at farm level through our **Good Agricultural Practices (GAP)** and our **Agricultural Labor Practices (ALP)** programs.

Overview of our supply chain spend in 2019



Indirect materials and services (including R&D)	48%
Direct materials and smoke-free product devices	33%
Tobacco leaf	13%
Manufacturing equipment	6%

With over 33,200 suppliers across more than 180 markets, our spend amounts to approximately USD 11.4 billion. Thirty-three percent of our total supply chain spend is for direct materials (such as cellulose acetate tow for filters and paperboard for packaging) and smoke-free product devices, 13 percent is on tobacco leaf, and 6 percent on manufacturing equipment.


Our large agricultural supply chain ranges from tobacco growers to producers of other agricultural raw materials such as clove, menthol, and guar gum. Our tobacco supply chain includes 16,500 directly contracted tobacco farmers and a further 318,500 growers contracted through 13 third-party suppliers.² Regardless of whether our tobacco is sourced directly or through third-party suppliers, our GAP requirements and monitoring processes are the same. In 2019, we sourced tobacco from 24 countries, mostly from smallholder tobacco farms of less than two hectares. Our long-term success depends in part on our ability to secure the materials and services required for our operations in a professional and sustainable manner.



A field technician and tobacco farm workers in San Vicente, Argentina

STEP (Supplier due diligence process and platform)

Is the supplier due diligence and performance program to achieve supplier compliance with our RSP. STEP is based on the risk management approach that guides our supply chain due diligence framework. Through STEP, our suppliers' potential ESG risks are determined based on the type of material or service supplied, as well as the country in which the material is produced, or the service is delivered. In 2019, we focused STEP deployment on critical suppliers identified by our risk-based criteria. We started to formally onboard suppliers in July. This first wave focused mainly on suppliers of direct materials and electronics.



In 2019, for the third consecutive year, PMI earned a place on CDP's Supplier Engagement Leaderboard for our actions and strategies to reduce emissions and lower climate-related risks in our supply chain

Tobacco supply chain

In our tobacco supply chain, GAP is a demanding set of standards focused on governance, crop, environment, and labor practices. To a large extent, responsible sourcing succeeds when relationships on the ground are strong. At PMI, our Integrated Production System connects leaf suppliers and farmers in a commercial relationship that enables direct technical support, agronomic advice, financial loans, and various other services. At the center of the system are field technicians: Men and women who support the implementation of GAP and are facilitators of progress on the ground.

On top of the farm-by-farm monitoring by field technicians, since 2016, we have been assessing the conformity of our contracted tobacco farmers and suppliers to the GAP standards through the industry-wide Sustainable Tobacco Program (STP) managed by the independent supply chain management specialist AB Sustain.

Electronics supply chain

For our electronics supply chain – which is key to our transformation toward a smoke-free future – we looked at risk exposure with an eye to tackling any potential issues involving our new electronic manufacturing supply base in Asia. On top of our STEP program and regular engagement, which incorporates supplier onboarding and the inclusion of sustainability clauses in supplier contracts, we strengthened our monitoring through specific sustainability scorecards and key performance indicators (KPIs) for our key suppliers.



IQOS device manufacturing in Asia

Addressing impacts in our electronics supply chain: progress update

In our last report, we detailed our work with a key electronics supplier in Asia. The progress made one year on is testimony to a robust process of due diligence, strong relationships, and expert support from Verité, a leading NGO in supply chain sustainability.

The potential risks to which PMI was exposed from this supplier relationship centered on migrant-worker practices, working conditions, accommodation, and safety, and oversight of external recruiters.

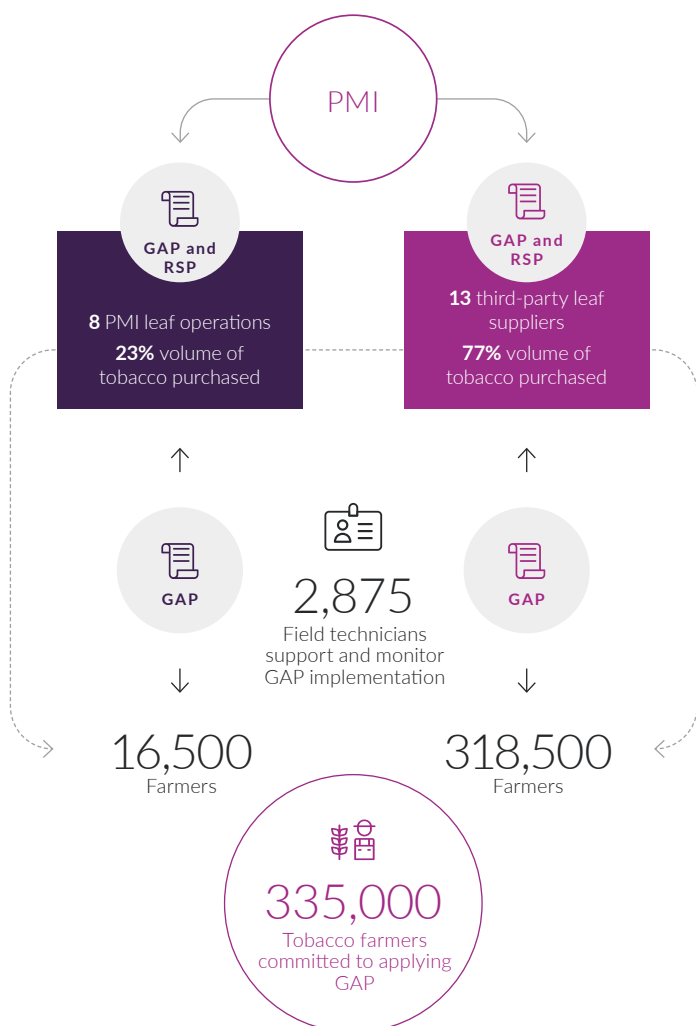
A second audit in 2019 yielded good news. Interviews with workers revealed a favorable response to our supplier as a result of the due diligence process; they now see that they have a voice and that the management is acting on their concerns.

Building on its success in improving recruitment standards and communication, our supplier delivered on its commitment to construct new dormitories in 2019. Further, our team in Asia is working to monitor and engage with suppliers and help improve safety, productivity, and labor conditions.

Furthermore, in 2019, electronics suppliers accounting for 80 percent of our procurement spend attended our capability-building program. We piloted KPIs to better understand working hours in our supply chain. We focused on 19 key suppliers and asked them to submit monthly data about weekly working hours and labor composition. This helped us understand the pattern of working hours and to discuss the root causes of excessive hours based on the data. We also integrated working-hour criteria into our scorecard program. Moreover, we introduced a new supplier onboarding process through self-assessment questionnaires, on-site management review, and our STEP program.

This illustrates how we work with tier 1 and tier 2 suppliers to constructively resolve gaps in performance and deliver positive social outcomes.

PMI's tobacco supply chain



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In 2019, PMI assessed conformity of all our tobacco suppliers with the GAP standards of the industry-wide STP through annual self-assessments.

Respect for human rights

Respect for human rights must be embedded in the corporate culture, allowing human rights principles to shape the way we work and guide interactions with employees, suppliers, business partners, consumers, and the communities in which we operate. Beyond being the right thing to do, protecting human rights strengthens our business by allowing us to better manage operational risks, build trust, and secure our license to operate.

Our aim

10

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

2019 Progress



2 human rights impact assessments conducted since 2018



Workers at our tobacco supplier's facility in Isabela in the Philippines



Our Human Rights Commitment and our Roadmap are the cornerstones of our human rights strategy

We aim to address our adverse impacts and maximize our opportunities to drive positive change for people across our value chain. While this can be challenging given the scope and complexity of the issues and the breadth of our operations, we believe that human rights are an absolute and universal requirement – and one that we are committed to upholding. Our Human Rights Commitment (HRC) and our Roadmap are the cornerstones of our human rights strategy. This work is delivered through extensive internal engagement and training, externally conducted human rights impact assessment (HRIA), consultation with experts, and partnership projects with peers.

We will be expanding the number of assessments in the next five years and, as we do so, will apply substantial focus on the depth and scope of each one. Building on our pilot in Mexico in 2018, we conducted a second HRIA assessment in the Philippines in 2019 which included desktop research, stakeholder mapping, training, and awareness-raising.

Our assessment revealed several positive developments which include:

- A strong commitment to diversity and inclusion, with all feeling welcome and supported;
- Consistent mentions of above average salaries and industry-leading benefits, training, development, and support for nursing mothers;
- A strong culture of safety and security among employees and contractors that extends to their families and communities;
- Strong awareness of available grievance-raising channels and PMI's "Speak Up" culture.

In addition to these positive elements, we noted areas in need of improvement. For instance during the focus group discussions, sales employees – especially women – raised concerns about risks to their personal safety while working in locations with high crime rates. To address these risks, we will undertake mitigating measures, including a review of route assignments in consultation with the sales staff, and ensure that two employees are teamed up when working in identified high-risk areas.

The risk for sales employees of being involved in hold-ups also exists. In addition to all necessary security measures applicable, employees will be provided with appropriate counseling.

HRIA help shed light on local challenges, and provide an important evaluation of how our Guidebook for Success, ALP, RSP, and Marketing Code are implemented on the ground. From a corporate perspective, we aim to use local learnings to enhance our global understanding, training, and management of human rights impacts.

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This iterative process, called 'Human Rights Impact Assessment,' requires us to engage with all stakeholders to whom we need to listen and from whom we need to learn. Listening to practitioners and those that confront the challenges is the first ingredient in transformation. And this transformation journey that our company is undergoing is not without new challenges or impacts on human rights – in our operations, supply chain, or even our external engagements. As an industry leader, we need to be humble and open to learning from others' lessons, build on what works, and together plug the gaps. Together we should reinforce the key message that respect for human rights is possible. It is our responsibility and a major contribution of our business to realizing sustainable development.

The perspective of our managing director in the Philippines

Our Human Rights Roadmap at a glance



PILLAR 3

Caring for the people we work with

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

Promoting a safe and healthy working environment is key for our company. In our factories, offices, laboratories, retail outlets, and sales teams, we aim for a safe and secure workplace populated by a healthy and motivated workforce.

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



A farm worker next to a water pump used for drip irrigation in Malawi

Socio-economic well-being of tobacco-farming communities

The tobacco we source is cultivated in many regions of the world, including low- and medium-income countries, where it is typically grown on smallholder farms of less than two hectares.

Our aims

100%

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

Zero

Child labor in our tobacco supply chain by 2025

2019 Progress



92% of tobacco purchased by PMI for which labor practices have been systematically monitored



0.8% of farms monitored found with child labor incidents¹



88% of ALP prompt actions recorded by field technicians relating to child labor that were resolved²



80% of tobacco farmworkers provided with safe and adequate accommodation²



99% of farmers and farmworkers having access to personal protective equipment³



A tobacco farm worker stringing tobacco under a Burley barn in Malawi

Child labor and other such practices are morally unacceptable to PMI. Tobacco is the main ingredient in our products, and a stable and successful farmer base is critical to ensuring the continuity of a high-quality tobacco supply. There is opportunity for us: As a global business sourcing tobacco from 24 countries, we can help address poverty and child labor through targeted initiatives and by developing strong working relationship with farmers, suppliers, civil society, governments, industry, and other stakeholders.

Contributing to alleviating poverty

We have designed a number of initiatives to support contracted farmers in improving their income levels and thus the livelihoods of their households. In 2019, we brought together these initiatives under a "Living Income Program," which aims to assess actual farmer income versus the living income benchmark of a given area. The initiatives offer a clear route to resolving labor abuses, particularly child labor, and include farming efficiency programs, improved mechanization and irrigation, crop diversification, and alternative business models.

Agricultural Labor Practices

We use a risk-based approach to identify, prevent, and mitigate human rights—and labor rights-related incidents in PMI's tobacco supply chain. Across the countries we source

tobacco from, the most recurrent and difficult problems we aim to address include:

- Work performed by children;
- Inadequate and unsafe accommodation for farmworkers;
- Payment to workers below the minimum legal wage or formalized agricultural benchmark; and
- Inadequate access to PPE that can prevent harm from exposure to CPA and GTS.

In 2019, part of our work to prevent child labor focused on strengthening the support provided to farmers and workers, including awareness-raising and training, efforts to strengthen school access and attendance, vocational training, and other initiatives to improve household income levels such as women's self-help groups, village savings and loans associations, and crop diversification.

Additionally, we are committed to the following set of targets to improve the socio-economic well-being of tobacco-farming communities:

- 100 percent of tobacco farmworkers paid at least the minimum legal wage by 2022;
- 100 percent of tobacco farmworkers provided with safe and adequate accommodation by the end of 2020;
- 100 percent of farmers and workers having access to personal protective equipment (PPE) for the application of crop protection agents (CPA) and prevention of green tobacco sickness (GTS) by the end of 2020.

¹ Our monitoring and reporting of child labor refer to situations of hazardous work performed by children below 18 years old.

² We introduced this category of prompt actions in 2019. Scope is limited to farmers providing accommodation to workers (approximately 6 percent of the total farmer base).

³ We introduced this category of prompt actions in 2019.

Health, safety, and well-being at work

An environment that keeps everyone safe and protects the well-being of all is a prerequisite to productive work. We are committed to providing a safe and secure working environment for all employees, contractors, and visitors. Our responsibility doesn't stop at the factory gate; we expect our suppliers and tobacco growers to keep their own workers safe, too.

A highly dedicated and productive workforce is an enabler of PMI's business transformation. Implementing strong safety and well-being management is the right thing to do: It creates and protects value, prevents potential reputational issues, and helps us to manage operational costs.

Our aim

<0.3

Total recordable incident rate for employees and contractors by 2025

2019 Progress



0.20 total recordable incidents rate (TRIR) per 200,000 hours worked – PMI and contracted employees



0.87 collision rate per million kilometers driven versus 0.91 in 2018



98% of manufacturing facilities with OHSAS 18001 and ISO 14001 certification¹

¹ Scope: manufacturing facilities producing more than 3 billion cigarette equivalents annually. The 2018 figure has been adjusted due to an internal reporting error.

Safety in manufacturing

In 2019, shared responsibility for safety evolved rapidly across PMI. A sustainable and active attitude of care is leading to an interdependent safety culture, guided by our behavioral and observation-based approach.

In our manufacturing operations, the primary focus in 2019 was to instill a culture of behavioral and observation-based safety (BOS). Within such a culture, everyone involves themselves in openness, care, observation, and behavior reinforcement. We help move this culture change forward through communication with employees and safety alerts or notice boards.

Focus on fleet safety

Driving presents a risk to workers at PMI. We have almost 24,000 cars on the road, covering around 500 million kilometers a year. The challenges we face in delivering safe working conditions relate to road conditions, law enforcement, and driving culture. Drivers almost always work alone, and we recognize that they may at times be under stress, so organizational risk controls can be impaired.

Technology can help manage these risks, and we use telematics to monitor driver behavior to improve safety and efficiency. In various countries, the introduction of telematics, coupled with other elements of our fleet safety management system, has significantly decreased our collision rate.

Employee well-being

The pace of change in the working world creates stress and anxiety, and we recognize that this may be heightened in some instances by PMI's current transformation. We consider it our duty to equip our employees to better cope with stress and uncertainty. Fundamental to this are flexible working arrangements and life-centered benefits, but also awareness raising, training, and coaching.



In 2019, we reduced our fleet collision rate per million kilometers driven, achieving 0.87 (versus 0.91 in 2018)

A snapshot of our efforts to promote employee well-being, and diversity and inclusion worldwide*

- In 2019, we became the first company to receive the global EQUAL SALARY certification certifying that we pay men and women equally for equal work everywhere PMI operates in the world, covering more than 90 countries.
- 55 health, safety, and well-being committees are set up at country-level, composed of workforce representatives.
- Maternity or primary caregiver leave or benefits going beyond local legislation requirements are offered to employees in 77 of our markets.
- Women network groups are set up in 22 countries.
- Flexible working arrangements are available to PMI employees in 85 countries.
- 71 countries offer paternity or secondary caregiver leave or benefits going beyond local legislation.
- Childcare facilities or contributions are provided in 41 of our markets.
- 32 markets employ people with disability and 65 markets have buildings accessible for disabled persons.
- We have initiatives or networks to support the LGBTQ+ community in 27 countries.

* Data was collected from over 90 countries where PMI has employees and is estimated to cover over 95% of office-based employees.



Employees in the manufacturing facility of Tabaqueira, PMI's Portuguese affiliate

PILLAR 4

Protecting the environment

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

While improving the environmental performance of our manufacturing operations is key, the majority of our environmental impacts arise elsewhere in our value chain, especially in tobacco growing and curing, and with consumer waste. Working collaboratively with tobacco growers, suppliers, retailers, NGOs, and governments is key to the success of our environmental programs and to achieving our targets.



Employees in the manufacturing facility of Papastratos, PMI's Greek affiliate

Climate protection

For PMI, climate protection means mitigating climate change by reducing greenhouse gas (GHG) emissions and energy consumption and adapting to climate change by increasing our resilience.

Our aims

Net zero

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

Net zero

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

2019 Progress



First Carbon neutral factory



42% absolute reduction of CO₂e scope 1+2+3 versus 2010 baseline¹



39% CO₂e scope 1+2 absolute reduction versus 2010 baseline¹



65% of electricity used and purchased that is from renewable sources (covers PMI factories, offices, and fleet)



61% CO₂e intensity reduction in tobacco curing versus 2010 baseline

¹ We report on our progress against our current science-based targets, which align with a 2-degree scenario: we committed to achieve an absolute reduction of our scope 1+2 emissions of 30 percent by 2020, 40 percent by 2030, and 60% by 2040; and to achieve an absolute reduction of our scope 1+2+3 emissions of 40 percent by 2030.

10%



The GHG emissions of flue-cured tobacco curing represent 10 percent of our total carbon footprint

The climate crisis affects ecosystems, agriculture, industry, finance, and people's livelihoods. We aim to reduce our carbon emissions across our value chain, particularly upstream in our supply chain. We have several programs in place to meet corporate targets and achieve our ambition. PMI, alongside many of its suppliers, is working within a context of stabilizing the global temperature rise to below the internationally agreed 1.5-degree Celsius scenario.

We recently established new and more ambitious targets to guide our decarbonization journey:

- PMI to be carbon-neutral by 2030 (scope 1 and 2);
- our whole value chain to be carbon-neutral by 2050 (scope 1, 2, and 3); and
- a reduction in absolute CO₂ emissions consistent with science-based targets for a 1.5-degree scenario.

Reducing carbon emissions is central to PMI's environmental management, alongside our adaptation to the potential business impacts of climate change. Based on our footprint model, our carbon reduction strategy focuses on our climate impacts across our value chain.

Toward carbon-neutral manufacturing

Our strategy follows a three-step approach:

- Drive energy efficiency to reduce consumption;
- Switch to renewable energy, including green electricity; and
- As a last resort, offset unavoidable carbon emissions, ideally by in-setting projects developed in our supply chain and generating certified carbon credits, and alternatively by purchasing carbon credits.

In 2019, our factory in Klaipėda, Lithuania, became our first carbon-neutral factory, receiving its certification from Swiss nonprofit myclimate. We are aiming for an additional two production sites to be certified by 2021.

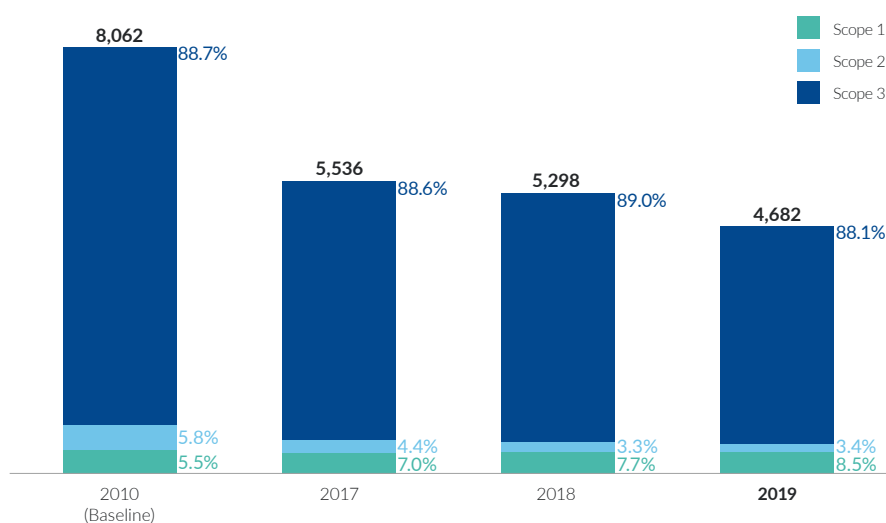
Reducing carbon in our tobacco supply chain

We are currently running strategic initiatives to reduce carbon emissions in our tobacco supply chain, which are focused on three areas: reducing fuel consumption by improving curing-barn efficiency, promoting the switch from fossil fuels to biomass fuels, and ensuring sustainable and traceable firewood. In our tobacco supply chain, we achieved an absolute reduction in 2019 of 244,423 tons of CO₂e versus the previous year, with over two-thirds of that reduction attributable to efficiency gains in curing barns and reductions in use of curing fuels.

Our direct materials supply chain

In 2019, we worked on collecting primary data for our scope 3 emissions pertaining to our direct materials. The procurement categories with the greatest impact on our CO₂ footprint are cellulose acetate tow, pulp, and paper (packaging board). We are currently engaging with our suppliers to develop an emissions reduction strategy in line with our carbon emissions reduction objectives. In 2019, the CO₂ reductions in our direct materials supply chain amounted to 71,225 tons of CO₂, contributing 12 percent to our annual reduction across our value chain.

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



Littering prevention

Around the world each year over 350 million tons of plastic waste are generated. Improperly disposed plastics can spoil landscapes and impact wildlife. About 1 million tons of cigarette filters are produced annually across the tobacco industry. While made of cellulose acetate (CA), a wood-sourced bioplastic that biodegrades slowly, they are among the most frequently found litter items. We aim to reduce littering at its source by encouraging and enabling smokers to dispose properly of their cigarette butts.

Our aim

-50%

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

2019 Progress



31 PMI affiliate in 51 cities participated in PMI supported clean-ups on World Cleanup Day, the world's largest litter cleanup event



3,900 PMI employees and other volunteers participated in World Cleanup Day



83 tons of waste and more than **827,000 cigarette butts** picked up by PMI teams (representing almost 170 kilograms)



We will continue in 2020 to work with partners to evaluate innovative solutions that may enable us to bring our long-term vision of full circularity of our consumables to life

Littering is clearly linked to consumer awareness and attitudes, as well as to the availability of an adequate waste-disposal infrastructure. To curb butt littering, PMI emphasizes changing consumer habits. Many consumers do not perceive cigarette butts as having a significant environmental impact, due to the items' small size and to misconceptions about their composition and degradability. Our efforts focus on raising consumer awareness and promoting the availability of proper disposal infrastructures. We then seek to contribute to effective public policy development by sharing insights into the environmental, social, and economic aspects of anti-littering approaches.

We have an anti-littering policy in place and are acting across PMI to deliver on it. To ensure activities are implemented globally and will have a tangible impact, we have developed an anti-littering toolbox that our affiliates use to develop local, context-based strategies. By the end of 2019, 64 countries were using the toolbox to develop their plans, with 31 of them ready to start or already having started implementation.

Raising awareness

Education is the starting point in our promotion of anti-littering. We aim to create impact by developing campaigns that raise awareness, appeal to individuals' consciences, and show them how to properly dispose of cigarette butts and other litter. An essential starting point to any campaign is to identify the littering hot spots perceived as focal areas by local authorities, anti-littering organizations, and citizens. These might include areas such as particular streets, squares, parks, beaches, and outdoor event spaces. We also collaborate with industry peers and partner with antilittering organizations and public authorities. Smoking habits, environmental awareness, and disposal practices vary by country, and combating cigarette butt littering requires a locally customized approach. Anti-littering programs led by PMI at the country level have grown: By the end of 2019, we had 54 anti-littering initiatives mobilizing our employees globally.

In September 2019, PMI joined the annual World Cleanup Day, the world's largest litter cleanup event. Over 3,900 PMI employees and other volunteers in

51 cities across 31 countries participated in cleanups. Highlights included:

- **Mexico** – 140 colleagues in seven cities filled a hundred bags with waste.
- **Senegal** – Our team helped to clean up the beach in Ngo, the westernmost point of the African mainland.
- **Poland** – We launched a digital competition through which 500 employees conducted individual cleanups.
- **Indonesia** – More than 260 participants between Jakarta and Surabaya gathered a total of 12,500 kilograms of waste and 25,000 cigarette butts.
- **Philippines** – We mobilized community partners, recruiting more than 1,000 cleanup participants.

Research for filters with higher degradability

For many years, PMI has been actively evaluating alternative cigarette filter materials with a lower environmental impact than cellulose acetate (CA), an already renewable and partially biodegradable material. To be acceptable, any new material has to satisfy four criteria:

- good filtration efficiency and consistency, similar to CA filters;
- significant reduction in total carbon footprint and/or significant improvement in marine, aquatic, and soil biodegradation versus a CA filter;
- acceptable taste characteristics, as a product must be successful in the market to have the desired positive impact on the environment; and
- commercially viable at scale (all materials science developments start in the laboratory and need to be conducive to industrialization at large scale and at competitive costs).

Based on extensive chemical testing, machinability trials, biodegradation evaluations, and consumer-testing conducted using prototypes, past projects have met one or more of the above criteria, but no better alternative to CA has yet been found. We will continue to explore options as new materials and processes become available.



PMI employees cleaning up a beach in Portugal

Product eco-design and circularity

There is a need to change economic models of production and use, moving to a more restorative model. Building sustainability considerations into product design is a way to control environmental and social impacts across the life cycle of a product – from development and manufacture to use and disposal.

Our aims

100%

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

100%

Percentage of PMI's smoke-free devices that have eco-design certification by 2025

2019 Progress



74% rate of recycling of IQOS devices at the CIRCLE hubs (weighted average)¹



93.5% of packaging material that is recyclable



87.7% of packaging material that is renewable

¹ We established our two recycling CIRCLE hubs in 2018. Recycling rate: Depending on device type and processing facility (figures provided for product processed through CIRCLE hubs, varied by device type, zero landfill, remainder to energy recovery or material loss).

For PMI, contributing to the circular economy means developing more environmentally friendly products – devices, consumables, accessories, and packaging – by improving their recyclability, efficiency, and reparability.

Over the past two years, we have reduced the overall CO₂ impact of our smoke-free products through improvements in manufacturing processes and in our tobacco supply chain. Focusing on the end-of-life of our devices, we adopted a centralized approach with the establishment of two recycling hubs in 2018 – one in Europe and the other in Asia. The benefits associated with such an approach include economies of scale, regional investment, illicit trade prevention, and quality enhancement (by identifying potential manufacturing and design improvements).

In 2019, we continued to build our understanding of consumer behavior related to the disposal of used heated tobacco units (HTUs) and consumers' potential motivations and requirements for participating in a PMI-driven collection scheme. We also continued to discuss with

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Our journey to meet these goals relies on a systematic management approach in which sustainability is considered from the start of the product development process.

several waste management and recycling partners the potential second life that we could give to our recycled HTUs, and will continue to evaluate innovative solutions that may enable us to bring our long-term.

Our packaging is made primarily from paper and board, renewable materials that can be recycled and that biodegrade in the environment. We still have less than 10 percent of plastics-containing materials used in our portfolio, e.g. for wrapping films and pouches, for which we are testing potential alternatives.



IQOS device recycling hub in Japan



We are committed to evaluating sustainability characteristics and making design choices that will continually enhance the performance of all our products and packaging

Foundation principles of eco-design and circularity guiding our work



ESG ratings performance

At PMI, we understand the value of participating in ESG ratings; it helps us to assess our sustainability performance, benchmark ourselves against our peers, and, most important, identify improvement areas.

We prioritize our participation in ratings that are most useful to us and our stakeholders, based on:

- Credibility of the methodology and our ability to interpret and use the results;
- Recognition of the rating among our stakeholders and the investor community, as well as participation by our competitors and peers so we can benchmark our performance;
- Value as a learning opportunity, with sufficient feedback to allow us to improve over time;
- Resources required, which should not undermine our company's focus on performance improvement; and
- Openness to dialogue; we want to be able to understand expectations and results, share knowledge, and provide input on ratings enhancements.

Rating agencies	PMI's performance in 2019	Score
CDP Climate	Recognized as a Climate A List company for sixth year in a row	A
CDP Forest	Achieved A- ranking for Forest Disclosure	A-
CDP Supplier Engagement	Placed on Supplier Engagement Leaderboard for third year in a row	Leader
CDP Water Security	Achieved Water Security A List	A
ISS-oekom	Earned a "C" score, achieving industry leadership	C
MSCI	Improved performance versus previous year	BBB
SAM Corporate Sustainability Assessment	Earned third place among our industry in second year of active participation	3rd rank
Sustainalytics	Ranked 34th out of 180 companies; awarded "Leader" status for environmental performance	34th rank
State Street R-factor Score	Outperformer within the tobacco industry; industry average score 44	52



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What does transformation mean? It has become a buzzword many refer to lightly. Some companies are 'transforming' by selling off the 'bad' part of their business, often to private investors not subject to the level of scrutiny applied to publicly listed companies. Our stakeholders sometimes ask us why we haven't sold our cigarette business to speed up our transformation. Even though selling off our cigarette business would (indeed) make our company smoke-free faster, it would not resolve the cigarette problem – it would just become somebody else's problem to solve. Our purpose is not (only) to make our company smoke-free, but to make cigarettes obsolete. This, we are convinced, can best be achieved by transforming from the inside out, replacing cigarettes with smoke-free products, market-by-market, and as soon as possible.

Huub Savelkoul
Chief Sustainability Officer

Forward-looking and cautionary statements

These highlights contain projections of future results and other forward-looking statements. Achievement of future results is subject to risks, uncertainties and inaccurate assumptions.

In the event that risks or uncertainties materialize, or underlying assumptions prove inaccurate, actual results could vary materially from those contained in such forward-looking statements.

Pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, PMI is identifying important factors that, individually or in the aggregate, could cause actual results and outcomes to differ materially from those contained in any forward-looking statements made by PMI.

PMI's business risks include: excise tax increases and discriminatory tax structures; increasing marketing and regulatory restrictions that could reduce our competitiveness, eliminate our ability to communicate with adult consumers, or ban certain of our products; health concerns relating to the use of tobacco and nicotine-containing products and exposure to environmental tobacco smoke; litigation related to tobacco use; intense competition; the effects of global and individual country economic, regulatory, and political developments, natural disasters and conflicts; changes in adult smoker behavior; lost revenues as a result of counterfeiting, contraband, and cross-border purchases; governmental investigations; unfavorable currency exchange rates and currency devaluations, and limitations on the ability to repatriate funds; adverse changes in applicable corporate tax laws; adverse changes in the cost and quality of tobacco and other agricultural products and raw materials; and the integrity of its information systems and effectiveness of its data privacy policies.

PMI's future profitability may also be adversely affected: should it be unsuccessful in its attempts to produce and commercialize reduced-risk products or if regulation or taxation do not differentiate between such products and cigarettes; if it is unable to successfully introduce new products, promote brand equity, enter new markets or improve its margins through increased prices and productivity gains; if it is unable to expand its brand portfolio internally or through acquisitions and the development of strategic business relationships; or if it is unable to attract and retain the best global talent. Future results are also subject to the lower predictability of our reduced-risk product category's performance.

The COVID-19 pandemic has created significant societal and economic disruption, and resulted in closures of stores, factories and offices, and restrictions on manufacturing, distribution, and travel, all of which will adversely impact our business, results of operations, cash flows, and financial position during the continuation of the

pandemic. Our business continuity plans and other safeguards may not be effective to mitigate the results of the pandemic.

While much of the COVID-19 pandemic and its effect on our business is still unknown, currently, significant risks include our diminished ability to convert adult smokers to our RRP's as store closures preclude in-person guided trials, significant volume declines in our duty-free business and certain other key markets, disruptions or delays in our manufacturing and supply chain, increased currency volatility, and delays in certain cost saving, transformation, and restructuring initiatives. Our business could also be adversely impacted if key personnel or a significant number of employees or business partners become unavailable due to the COVID-19 outbreak.

The significant adverse impact of COVID-19 on the economic or political conditions in markets in which we operate could result in changes to the preferences of our adult consumers and lower demand for our products, particularly for our mid-price or premium-price brands. Continuation of the pandemic could disrupt our access to the credit markets or increase our borrowing costs. Governments may temporarily be unable to focus on the development of science-based regulatory frameworks for the development and commercialization of RRP's or on the enforcement or implementation of regulations that are significant to our business. In addition, messaging about the potential negative impacts of the use of our products on COVID-19 risks may lead to increasingly restrictive regulatory measures on the sale and use of our products, negatively impact demand for our products, the willingness of adult consumers to switch to our RRP's and our efforts to advocate for the development of science-based regulatory frameworks for the development and commercialization of RRP's.

The impact of these risks also depends on factors beyond our knowledge or control, including the duration and severity of the outbreak and actions taken to contain its spread and to mitigate its public health effects, and the ultimate economic consequences thereof.

PMI is further subject to other risks detailed from time to time in its publicly filed documents, including the Form 10-Q for the quarter ended March 31, 2020. Aspirational targets do not constitute financial projections. PMI cautions that the foregoing list of important factors is not a complete discussion of all potential risks and uncertainties. PMI does not undertake to update any forward-looking statement that it may make from time to time, except in the normal course of its public disclosure obligations.

These highlights should be read in conjunction with PMI's Integrated Report 2019, available at [PMI.com/sustainability](https://www.pmi.com/sustainability)

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