



PHILIP MORRIS
INTERNATIONAL

Sustainability

Key Performance Indicator (KPI)

Protocol for Sustainability Index 2023-25

March 2026

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This document at a glance

This Protocol was developed solely for assurance processes of the Sustainability Index 2023-25. The Protocol covers key performance indicators (KPIs) included in PMI Sustainability Index (further commonly referred to as the Index 2023-25), subject to external assurance for the 2025 reporting year. For completeness, it also describes the KPIs covered in the subsequent 2024-26, and 2025-27 indexes. It incorporates the most recent descriptions of the definition, scope, calculation methodology, and related data management for each KPI that belongs to the Sustainability Index 2023-25. This Protocol is applicable for the full year 2025 reporting period and should be regarded as a framework and reference guide to help ensure consistency and completeness in our reporting. Further, it should be read in conjunction with PMI's [Value Report 2025](#), which discloses 2025 performance.

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Overview

The sole objective of this document (or the Protocol) is to support the assurance process for the Sustainability Index 2023-2025. By providing clear guidance and standardized methodologies, it ensures that the data and metrics reported within the Index are reliable, consistent, and verifiable. .

Launched in 2021, PMI's first Sustainability KPI Protocol paved the way for our Sustainability Index, a sophisticated instrument that links our company's sustainability performance on our most material sustainability-related matters with long-term performance-based equity awards.

The KPI methodology, summarized in that Protocol ensures that the Index includes objective, quantifiable, and verifiable KPIs, enabling investors and other stakeholders to evaluate our performance and strategic execution over time. This data-driven approach to quantifying non-financial performance has allowed us to link nonfinancial metrics to executive compensation through our three-year performance share unit (PSU) cycles, starting with the 2022-24 PSU cycle.

This Protocol reflects the latest information regarding the definition, scope, calculation methodology, and related data management for each of the KPIs that comprise the Sustainability Index 2023-25. Within this context, we continue to refine our approach and systems to manage nonfinancial data and enhance their robustness and reliability. This approach is periodically reviewed with relevant KPI owners, ensuring the accuracy, relevance, and applicability of reported data. This enables us to ensure that the nonfinancial data we disclose are reliable, comparable, and meaningful, allowing shareholders and other stakeholders to assess and track progress in a consistent manner over time.

Beyond the Sustainability Index KPIs, PMI will also gradually publish definitions of all external targets included in the Value Report. This information will be available online, in [PMI's non-financial KPI hub](#).

Key definitions and notes

Adult – A person who is of legal age to purchase tobacco- or nicotine-containing products or, where no such age is defined in applicable law, is at least 18 years old.

Aerosol – Gaseous suspension of fine solid particles and/or liquid droplets. In the context of our smoke-free products, an aerosol is not smoke and does not contain solid particles.

Agricultural Labor Practices (ALP) code – PMI’s code which defines the labor practices, principles, and standards PMI expects from all tobacco farms with which PMI or PMI third-party leaf suppliers have contracted to grow tobacco. Further details can be found [here](#).

Combustible tobacco products – The term we use to refer to cigarettes and other tobacco products that are combusted.

Combustion – The process of burning a substance in oxygen, producing heat and often light.

Contracted farmers – Tobacco farmers supplying to PMI and contracted either directly by PMI (through the company’s leaf operations) or through third-party leaf suppliers.

Contracted workers – We define a contracted worker (also referred to as “agency temp”) as a worker who is under the direct supervision of PMI employees but employed by a temporary employment agency.

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

Good Agricultural Practices (GAP) – A set of internally developed principles and measurable standards that serve as a guideline for all those who grow and supply tobacco to PMI, organized under four pillars: Governance, Crop, Environment, and People. The Agricultural Labor Practices (ALP) code forms the people pillar of the GAP code. Further details can be found [here](#).

Heated tobacco units (HTUs) – The term PMI uses to refer to heated tobacco consumables, which include our *BLENDS*, *DELIA*, *HEETS*, *HEETS Creations* (defined collectively as “*HEETS*”), *SENTIA*, *TEREA*, *TEREA CRAFTED*, and *TEREA Dimensions*, as well as the KT&G-licensed brands, *Fiiit* and *Miix* (outside of South Korea). HTUs also include zero-tobacco heat-not-burn consumables (*LEVIA*).

Integrated Production System (IPS) – PMI sources tobacco directly through our leaf operations or through third-party leaf suppliers who contract farmers directly. IPS refers to a set of processes and ways of working between third-party leaf suppliers/PMI leaf operations and contracted farmers, from the start of crop planning until tobacco is processed and packed. Importantly, IPS requires third-party leaf suppliers to have a commercial contract with farmers; tier 2 farmers (not directly contracted) or tobacco purchased on the auction floor is outside the scope of IPS. IPS also provides technical support, provision of crop inputs, and financial services to contracted farmers.

Markets – The taxonomy used in our reporting is aligned with PMI’s financial reporting systems. For the purposes of reporting shipments and financial results, multiple small countries may be grouped into one market (e.g., market France includes countries France and Monaco, and market Switzerland includes countries Switzerland and Liechtenstein), or one country may be split into multiple markets (e.g., country Spain is reflected as markets: Spain Mainland, Canary Islands, and Ceuta & Melilla).

Other tobacco products (OTP) – Primarily roll-your-own and make-your-own cigarettes, pipe tobacco, cigars, and cigarillos, and does not include smoke-free products.

Performance share units (PSUs) – A type of long-term variable equity award, which are intended to motivate our executives to align incentives that enhance sustainable shareholder value and strengthen the Company over the long term. For further details, see our [proxy statement](#).

PMI – Refers to Philip Morris International Inc. and its subsidiaries. Trademarks and service marks that are the registered property of, or licensed by, the subsidiaries of PMI, are italicized.

PMI heat-not-burn products (also referred to as PMI heated tobacco products) – Include licensed KT&G heat-not-burn products.

PMI leaf operations – Refers to our PMI affiliates with a vertically integrated tobacco leaf supply chain that contract tobacco farmers directly.

Responsible Sourcing Principles (RSPs) – A set of sustainability principles which PMI expects all its suppliers to implement diligently. These principles are aligned with globally recognized standards, such as the United Nations (UN) Guiding Principles on Business and Human Rights, the Ten Principles of the UN Global Compact, and the relevant International Labour Organization (ILO) Conventions. Further details can be found [here](#).

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

Smoke-free business (SFB) – The term PMI uses to refer to all of its smoke-free products. SFB also includes wellness products, as well as consumer accessories, such as lighters and matches.

Smoke-free product consumables – The term PMI uses to refer to heated tobacco units used with heat-not-burn products, e-vapor disposables, cartridges containing e-liquids that are used for e-vapor products, and oral nicotine products including snus and nicotine pouches.

Smoke-free product devices – The term PMI uses to refer to its electronic smoke-free devices (heat-not-burn (HNB) and e-vapor), to be used with smoke-free product consumables.

Smoke-free products (SFPs) – The term PMI uses to refer to all of its products that provide nicotine without combusting tobacco, such as heat-not-burn, e-vapor, and oral smokeless, and that therefore generate far lower levels of harmful chemicals. As such, these products have the potential to present less risk of harm versus continued smoking.

Sustainable Tobacco Supply Chain framework (STSC) – PMI's new approach focused on the full life cycle of tobacco production and targets actions toward the tobacco we purchase and use in our products. It introduces the concept of eligible farm base, a preselection of farmers from PMI's suppliers' farm base, who may supply tobacco to PMI, as defined below.

- 1. Total farm base of contracted farmers:** All contracted tobacco farmers who are by default subject to our ALP program and thus farm-by-farm monitoring. Only a subset of these contracted farmers end up supplying tobacco used in PMI's packed products, with the remainder providing tobacco to other companies.
- 2. Eligible farm base of contracted farmers:** The eligible farm base is composed of that subset of tobacco farmers who have been preselected by suppliers based on their compliance with PMI's ALP Code requirements. This preselection takes into consideration farmers' past-year performance related to addressing child labor or forced labor issues, minimum wage payment, decent accommodation for workers, and access to personal protective equipment (except for newly contracted farmers for which such information is not available).
- 3. Contracted farmers supplying tobacco to PMI:** This corresponds to the portion of the eligible farm base whose tobacco is, ultimately, included in PMI's products.

Wellness products – Primarily refer to products associated with oral and intra-oral delivery systems.

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

For further terms and acronyms used in our reporting, please see the glossary on pages 137 to 141 of [PMI's Value Report 2025](#).

Basis for preparation and reporting of PMI's Sustainability Index 2023-25

This basis for preparation and reporting provides a summarized version of PMI's internal standards for each KPI included in PMI's Sustainability Index.

These internal standards ensure consistent definitions of success, progress measurement, and accountability. The following content provides key definitions, KPI descriptions, scopes, calculation methods, data assumptions, collection and management processes, governance, and verification details for each KPI.

This document has been structured in alignment with PMI's Sustainability Index: the KPIs are organized by performance measure) and linked to their corresponding strategies.

This section provides an overview of the Sustainability Index 2023-25 subject to external assurance for the 2025 data. Additionally, for completeness and reference only, it outlines the key performance indicators (KPIs) included in the following, 2024-26, and 2025-27 index cycles.

PMI gradually integrates newly acquired subsidiaries into reporting scope as soon as the appropriate processes and systems are implemented to enable consistent data collation and group-level consolidation. The respective Index targets gradually incorporate Swedish Match—reflecting our process readiness of integrating the data of the acquired subsidiary.

		Sustainability Index	Inclusion of Swedish Match in KPI performance targets by Sustainability Index/PSU cycle		
			2023-25	2024-26	2025-27
 PRODUCT IMPACT	Purposefully phase out cigarettes	1. Adjusted net revenue ratio (smoke-free/total)*	Yes	Yes	Yes
		2. Number of markets where smoke-free products are available for sale*	Yes	-	-
	Maximize the benefits of smoke-free products	3. Number of markets where >50% of net revenues are smoke-free*	-	Yes	Yes
		4. Proportion of markets where smoke-free products are available for sale that are low- and middle-income markets*	Yes	Yes	-
		5. Proportion of shipment volume covered by markets with youth access prevention programs in place in indirect retail channels*	Yes	Yes	Yes
	Reduce post-consumer waste	6. Proportion of shipment volumes covered by markets with anti-littering programs in place for combustible cigarettes*	n/a	n/a	-
		7. Proportion of shipment volume covered by markets with end-of-life take-back programs in place for smoke-free consumables*	n/a	n/a	-
		8. Number of markets with end-of-life take-back programs in place for smoke-free consumables	-	-	n/a
		9. Proportion of PMI smoke-free devices with an eco-design certification*	n/a	-	-
		10. Cumulative number of smoke-free electronic devices refreshed or repaired since 2021 (in thousands)*	n/a	n/a	-
Product Sustainability performance					
 OPERATIONAL IMPACT	Foster an empowered and inclusive workplace	11. Proportion of women in senior roles*	Yes	Yes	-
		12. Proportion of PMI employees with access to structured lifelong learning offers*	Yes	-	-
		13. Average number of digital training hours per employee	-	Yes	-
		14. Average number of learning hours per employee	-	-	Yes
	Improve the quality of life of people in our supply chain	15. Cumulative number of human rights impact assessments conducted since 2018, with findings addressed*	Yes	Yes	-
		16. Prevalence of child labor among contracted farmers supplying tobacco to PMI*	No	Yes	-
		17. Proportion of contracted farmers supplying tobacco to PMI who make a living income*	No	-	-
	Tackle climate change	18. Proportion of the most economically vulnerable farmers benefit from interventions that drive a measured increase in income	-	Yes	Yes
		19. Net carbon emissions scope 1+2 (in thousands of metric tons)†	Yes	-	-
	Preserve nature	20. Absolute carbon emissions reduction in scope 3 FLAG versus 2019 baseline (in line with science-based target)†	Yes	Yes	Yes
21. Proportion of tobacco purchased at no risk of deforestation of managed natural forest and no conversion of natural ecosystems*		No	-	-	
22. Proportion of priority forest area in PMI tobacco and paper and pulp-based product supply chains with zero deforestation		-	No	Yes	
Operational Sustainability performance					

Swedish Match performance inclusion in the KPI targets is provided in the table, values are as follows: Yes—included; No—not included; n/a—not applicable when the KPI is not pertinent to Swedish Match (e.g., Swedish Match does not have smoke-free devices).

Metrics indicated with (*) and (†) were subject to external verification by PwC and SGS, respectively, for 2025.

Performance against 2023-25 Index is described in [PMI Proxy Statement 2026](#) and dedicated web page on [PMI.com](#). The 2023-25 Sustainability KPIs described in the 2026 Proxy Statement represent the same KPIs listed in the table above, although individual KPI names may slightly differ.

Controls over the Sustainability Index 2023-25 governance and preparation

To ensure robustness and rigor, PMI has a set of controls over the governance process around the Sustainability Index (the Index) and its data. These controls are stated in the section below and serve as a base for the independent limited assurance run by PwC.

Index governance

001 – Review and approval of the Sustainability Index structure

The control ensures that the Sustainability Index and its KPIs align with PMI's Sustainability Strategy and Roadmap, and that the structure is approved by PMI Leadership and the Board of Directors. The control is tested by verifying documentation of the approval process, including the approval of the Board of Directors.

002 – Review and approval of the Sustainability Index performance ranges

The control ensures that the performance ranges linked to every Index KPI are specific, measurable, achievable, and owned by the organization. The control is tested by reviewing approval records, and confirming final approval by the Board of Directors.

003 – Establishing Sustainability Index KPI ownership

The control ensures that each Index KPI is overseen by a senior leader, prioritizing sustainability goals and integrating them into the strategic agenda. The control is tested by checking assignment records, verifying senior leader oversight, and reviewing KPI performance management documentation.

004 – Establishing and reviewing Sustainability Index KPI definitions as part of KPI standards

The control establishes well-defined rules for Sustainability Index KPIs documented in KPI standards, including key definitions, scope, calculation methodology, and data management. The control is tested by reviewing KPI standards documentation, validating alignment with external reporting standards, and confirming that updates are published.

Index preparation

005 – Regular reviews of the Sustainability Index projections for completeness and accuracy

The control ensures regular monitoring and review of KPI projections for completeness and accuracy, escalating deviations as needed. The control is tested by verifying regular forecast records, checking for updates and risk escalations, and reviewing communication to the Sustainability Committee.

006 – Individual Sustainability Index KPI values calculation and approval

The control ensures that KPI values accurately reflect performance, with standardized calculation methods and approval by KPI owners. The control is tested by reviewing calculation methodologies, validating KPI values against internal standards, and confirming approval by KPI owners.

007 – KPI values submission and validation as part of the Value Report submission process

The control ensures data consistency through a standard data submission, approval, and validation process. The control is tested by checking data submission records, verifying approval by KPI owners and teams, and reviewing consistency checks performed by Sustainability Controlling.

008 – Sustainability Index calculation and validation for applicable PSU vesting years

The control ensures consistency in Sustainability Index calculation using a standard method, and is tested by validating Sustainability Index calculations, checking data integrity, and confirming approval by the Chief Sustainability Officer.

009 – Sustainability Index result publication for applicable PSU vesting years

The control ensures the provision of transparency to external stakeholders regarding Sustainability Index results and PSU awards, and is tested by reviewing publication records, verifying the accuracy of published results, and linkage to PSU awards.



Product Sustainability

Purposefully phase out cigarettes

1

Adjusted net revenue ratio (smoke-free/total)

KPI description

PMI is transforming its business, aiming to phase out cigarettes and shifting toward becoming a substantially smoke-free company. The proportion of revenue we derive from smoke-free business is a key indicator of the Company's transformation.

Definitions

Net revenues PMI's operating revenues from the sale of our products, including shipping and handling charges billed to customers, net of sales and promotion incentives, and excise taxes if applicable.

Adjusted net revenue Management reviews net revenues on an adjusted basis, which excludes special items that may distort underlying business trends.

Net revenues related to smoke-free, excluding wellness Refer to the operating revenues generated from the sale of these products, including shipping and handling charges billed to customers, net of sales and promotion incentives, and excise taxes, if applicable. These net revenue amounts consist of the sale of our products that are not combustible tobacco products, such as heat-not-burn, e-vapor, and oral products, as well as consumer accessories.

Net revenues from wellness Represent operating revenues generated from the sale of products primarily associated with oral and intra-oral delivery systems.

Net revenues related to combustible tobacco products The operating revenues generated from the sale of these products, including shipping and handling charges billed to customers, net of sales and promotion incentives, and excise taxes. These net revenue amounts consist of the sale of our cigarettes and other tobacco products that are combusted. Other tobacco products primarily include roll-your-own and make-your-own cigarettes, pipe tobacco, cigars, and cigarillos, and do not include smoke-free products.

Smoke-free business (SFB) The term PMI uses to refer to all of its smoke-free products. SFB also includes wellness products, as well as consumer accessories, such as lighters and matches.

Total adjusted net revenue Refers to the combined total of net revenues related to smoke-free business and net revenues related to combustible tobacco products.

Scope

Included Net revenues includes all those recognized within the reporting period by PMI, as disclosed in our Annual Report on Form 10-K and Year-End Earnings Release.

Excluded Special items.

Calculation methodology

Adjusted smoke-free net revenue ratio is calculated as:

$$= \left(\frac{\text{Adjusted net revenues related to smoke-free business (billion USD)}}{\text{Total adjusted net revenues (billion USD)}} \right) \times 100\%$$

Data management

For further details on our reporting of revenues, please refer to our 10-K filings and Investor Relations materials.

[See Investor Relations website](#)

Data verification The KPI, as published in [PMI's Value Report 2025](#), has been assured by PwC (limited assurance).

[See the independent practitioner's limited assurance report](#)



Maximize the benefits of smoke-free products

2

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

KPI description

The indicator refers to the number of markets where PMI smoke-free products are available for sale to adult consumers, wherein both the PMI smoke-free product consumables and PMI smoke-free product devices (for platforms which require both to operate and be used as intended) are commercialized.

Definitions

Available for sale When PMI products are available for general sale in the market, through direct retail, indirect retail, or e-commerce.

General sale Commercial initiative by which PMI provides PMI products to adult consumers in exchange for monetary value or other considerations, including activities such as sale-for-purchase, renting, leasing, lending, and loaning. Adult consumers must have access to PMI products without any purchase restrictions imposed by PMI that go beyond local regulations (e.g., club membership, registration, etc.).

In-market sales (IMS) Sales to the trade channels, which serve the end legal age nicotine users. Depending on the market and distribution model, IMS may represent an estimate.

Scope

Included All markets that commercialize at least one variant of PMI smoke-free products and all distribution channels are considered.

Excluded Any market commercializing only combustible tobacco products and/or wellness products.

Calculation methodology

The count of markets where smoke-free products are available for sale, based on the market status at the end of each calendar year (December 31). Markets are reported as per the taxonomy defined in PMI's financial reporting system and aligned with our Annual Report on Form 10-K.

Data management

In-market sales as reported in PMI's reporting system. The list of markets where PMI smoke-free products are available for sale is first validated by each region, and then approved centrally.

Data verification The KPI, as published in [PMI's Value Report 2025](#), has been assured by PwC (limited assurance).

See the independent practitioner's [limited assurance report](#)



Maximize the benefits of smoke-free products

3

Number of markets where >50% of net revenues are smoke-free

KPI description

The indicator refers to the number of markets where net revenues from smoke-free exceed 50% of total net revenues for each relevant market, measuring the access provided to adult smokers around the world in combination with the degree of global product penetration among adult smokers who switch to better alternatives rather than continued smoking. This serves as a key indicator of our commitment to drive the obsolescence of cigarettes as fast as possible in as many markets as possible.

Definitions

Net revenues The term refers to PMI's operating revenues from the sale of our products, including shipping and handling charges billed to customers, net of sales and promotion incentives, and excise taxes if applicable.

Net revenues related to smoke-free, excluding wellness Refer to the operating revenues generated from the sale of these products, including shipping and handling charges billed to customers, net of sales and promotion incentives, and excise taxes, if applicable. These net revenue amounts consist of the sale of our products that are not combustible tobacco products, such as heat-not-burn, e-vapor, and oral products, as well as consumer accessories.

Net revenues related to combustible tobacco products The operating revenues generated from the sale of these products, including shipping and handling charges billed to customers, net of sales and promotion incentives, and excise taxes. These net revenue amounts consist of the sale of our cigarettes and other tobacco products that are combusted. Other tobacco products primarily include roll-your-own and make-your-own cigarettes, pipe tobacco, cigars, and cigarillos, and do not include smoke-free products.

Total net revenue Refers to the combined total of net revenues related to smoke-free products and net revenues related to combustible tobacco products.

Scope

Included Net revenues includes all those recognized within the reporting period by PMI, as disclosed in our Annual Report on Form 10-K and Year-End Earnings Release.

Excluded Wellness net revenues.

Calculation methodology

The count of markets where over 50% of net revenues are derived from smoke-free.

Net revenue ratio per market is calculated as:

$$= \left(\frac{\text{Net revenues related to smoke-free in the market}}{\text{Total net revenues in the market}} \right) \times 100\%$$

Data management

Markets are reported as per the taxonomy defined in PMI's financial reporting system and aligned with our Annual Report on Form 10-K. For further details on our reporting of revenues, please refer to our 10-K filings and Investor Relations materials.

Data verification The KPI, as published in [PMI's Value Report 2025](#), has been assured by PwC (limited assurance).

See the independent practitioner's [limited assurance report](#)



Maximize the benefits of smoke-free products

4

Proportion of markets where PMI smoke-free products are available for sale that are low- and middle-income markets

KPI description

To track progress on broadening access to PMI smoke-free products in different geographies with varying levels of income, PMI reports on the proportion of low- and middle-income markets where PMI smoke-free products are available for sale, out of the total number of markets where PMI smoke-free products are available for sale.

Definitions

Low- and middle-income markets Markets comprising countries classified by the World Bank as low- and middle-income economies based on Gross National Income per capita; or, where no World Bank classification exists, those with Gross National Income per capita below the World Bank low- and middle-income country threshold.

Scope

Included All markets where PMI smoke-free products are available for sale (see KPI number 3), considering the exclusion below.

Excluded PMI Global Travel Retail market is excluded in the income-level classification.

Calculation methodology

Proportion of markets selling PMI smoke-free products which are low- and middle-income markets is calculated as:

$$= \left(\frac{\text{Markets where PMI smoke-free products are available for sale which are low- and middle-income markets}}{\text{Total number of markets where PMI smoke-free products are available for sale}} \right) \times 100\%$$

Estimates and assumptions In case the Gross National Income per capita parameter is not available, PMI may determine alternative parameters as a substitute (e.g., GDP per capita). The classification of each market between income levels is performed on a comparable basis, based on the World Bank report available at the time of the Sustainability Index target setting.

See the independent practitioner's [limited assurance report](#)

Data management

As per above, reporting on the number of markets where PMI smoke-free products are available for sale. Country Income Level report extracted from World Bank website.

Data verification The KPI, as published in [PMI's Value Report 2025](#), has been assured by PwC (limited assurance).



Maximize the benefits of smoke-free products

5

Proportion of shipment volume covered by markets with youth access prevention programs in place in indirect retail channels

KPI description

PMI implements a comprehensive set of measures aimed to guard against youth access to PMI products. Among them is our global youth access prevention (YAP) program for indirect retail channels defined by a fundamental requirement that a consumers' age must be verified before they can purchase our products, ensuring that they are of legal age to purchase or at least 18 years old (in markets without a minimum legal age). The program sets robust requirements for our affiliates to work with our trade partners and the indirect retail universe to guard against the sale of our products to youth, complementing local regulations for youth access prevention.

By targeting indirect retail channels, which account for the vast majority of retail outlets selling our products and which we do not own and do not control, the impact of the program can reach a wider scope than those covered by the requirements of our Marketing Codes. PMI implements the program in all markets where PMI commercializes its products and can directly or indirectly, through trade partners, deploy it.

To be considered as having the YAP program in place, a market must deploy the program's three mandatory pillars as outlined in Definitions. The required number of indirect points of sale (POS) to be covered by each pillar, referred to as "reachable coverage," varies for the different activities (e.g., some require a physical visit to the POS, while other activities can be deployed digitally).

Definitions

Digital trade engagement tool PMI's global platform or any other digital tool used to communicate and engage with trade partners.

Field force automation systems Systems that support field force daily operations.

Point of sale (POS) An indirect retail point of sale where PMI products are sold to end consumers.

Point of sale materials (POSM) Such as stickers and other materials, containing youth access prevention information, which are placed at the point of sale in a visible place.

Selling universe Estimated number of indirect retail POS within a market in which PMI products are sold.

Total shipment volume Includes PMI's combined combustible tobacco products shipment volume and smoke-free product consumables shipment volume.

Regular markets Are those where PMI can deploy the program directly (has an affiliate) or through third parties (e.g., distributors, or other trade partners).

White Space Market (WSM) A market where PMI products are sold but PMI has limited or no capacity to ensure the YAP program's deployment and to obtain necessary Proof of Performance. WSMs are divided into two clusters:

- **WSM Cluster 1:** Markets where PMI operates through third parties that agree to deploy the YAP program.
- **WSM Cluster 2:** Markets where PMI has minimal or no influence on trade partners on implementation of trade activities, and where there is no infrastructure or resources to deploy the YAP program.

Pillars of PMI's YAP program in indirect retail channels

Pillar	Description	Reachable coverage
YAP Trade communication	YAP letter from PMI affiliate to POS owner or operator	All POS for which PMI has either a physical or email address
YAP Trade education	Online or physical training sessions to POS/retailers' staff	All POS that can be reached digitally via digital trade engagement tool or by field force
YAP Point of sale materials placement	YAP posters, banners, or stickers placed in POS in a visible place	All POS that can be reached by field force



Scope

Included All indirect retail channels, consisting of third party physical points of sale that sell tobacco and nicotine containing products. All markets in which PMI commercializes combustible or smoke-free products are included in scope, whether PMI-developed products or third-party products that PMI sells through license agreement.

Excluded PMI Global Travel Retail market (duty free points of sale).

Calculation methodology

Proportion of shipment volume covered by markets with the YAP program in place in indirect retail channels is calculated as:

$$= \left(\frac{\text{Full-year shipment volume (billion stick equiv.) of combusted and smoke-free products for markets which have a YAP program "in place"}}{\text{Total PMI full-year shipment volume (billion stick equiv.)}} \right) \times 100\%$$

Estimates and assumptions For each of the three pillars, markets are required to quantify the number of reachable POS. The reachable POS defined by the markets represents a portion of the total selling universe, which, due to various geographic, distribution model, and logistic reasons, differs market by market.

If markets have deployed the program and have met at least 90 percent of the reachable coverage for each pillar in accordance with the program requirements set out in the program's standards, the shipment volume of such markets for the full calendar year, January 1 through December 31, is considered as being covered by the YAP program.

Data management

Data on shipment volumes, by market, are extracted from PMI's financial reporting systems. Data on POS is maintained in the following systems:

Pillar 1: PMI affiliates or PMI third-party trade partners have local databases in which the physical or email addresses of the POS in their markets are maintained.

Pillar 2: PMI maintains a Global Digital Trade Engagement platform, and markets utilize this global platform or their local ones for the YAP educational content. The lists of POS in scope for the YAP training coverage are maintained in the local field force automation systems.

Pillar 3: The lists of POS in scope of PMI or third-party field force coverage are maintained in local field force automation systems.

For each market, the YAP program plans and deployment results are reviewed and approved by the regional and central teams on an annual basis. The regional teams consolidate results of each market and together with the central governance team determine the total PMI shipment volume for markets that have indirect retail YAP programs in place; the central team consolidates global results.

Data verification The KPI, as published in [PMI's Value Report 2025](#), has been assured by PwC (limited assurance).

[See the independent practitioner's limited assurance report](#)



Reduce post-consumer waste

6

Proportion of shipment volume covered by markets with anti-littering programs in place for combustible cigarettes

KPI description

To address the issue of cigarette butt littering, PMI has established global guidelines harmonizing the deployment of anti-littering (AL) programs in the markets where it operates. These programs are driven and implemented by our affiliates and focus on driving behavior change through awareness-raising initiatives. While we have set minimum criteria for a market to be considered as having a program in place, our guidelines also accommodate differences between markets, socioeconomic and cultural realities, consumer norms, and regulatory environments.

For a market to be counted for as having an AL program in place, it must deploy at a minimum one "Reach" activity and one "Impact" activity per year, defined as follows:

Reach

Communication activities with a meaningful reach, delivering a littering prevention message directly to legal-age smokers (LAS) and/or point of sales (POS). Accepted activities include on-pack messaging, limited pack editions, anti-littering communications which can be accessed by links printed on the pack, digital trade engagement campaigns, and placement of POS materials.

Impact

Corporate campaigns and partnerships aimed at making littering socially unacceptable. They could be deployed nationally or focus on key areas clearly identified as priority, to support behavior change and/or provide concrete solutions. Examples of Impact activities, involving events and partnerships raising awareness of the issue, include analyses to identify cigarette butt littering hotspots, and local or global partnerships or initiatives.

Definitions

Littering Inadequate behavior by consumers which consists of carelessly or inadvertently discarding waste into the environment and other outdoor places in the public domain instead of disposal in appropriate waste receptacles such as ashtrays or waste bins.

Reach activity Communication activity aiming to make awareness for the LAS, which are available on/in the product directly or at POS or digital trade engagement.

Impact activity Activity aiming to raise awareness for the LAS via events, partnerships, and any other communication campaigns.

Scope

Included All markets in which PMI commercializes cigarettes. Additionally, China, where we have a strategic cooperation agreement with China National Tobacco Corporation (CNTC), is included in scope.

Excluded PMI Global Travel Retail markets.

Calculation methodology

Proportion of PMI shipment volume covered by AL programs is calculated as:

$$= \left(\frac{\text{Full-year shipment volume (billion stick equiv.) of combustible cigarettes for markets which have a program "in place"}}{\text{Total PMI full-year shipment volume of combustible cigarettes (billion stick equiv.)}} \right) \times 100\%$$

Estimates and assumptions Markets are evaluated for compliance with the requirements of PMI's AL guidelines, considering all activities deployed between January 1 and December 31 of the respective year.

This evaluation is performed in January of the following calendar year. For simplicity, when calculating the proportion of shipment volumes covered by AL programs, the full-year shipment volumes are considered.

Data management

For each market, the AL plans are reviewed and implemented, and AL programs are evaluated, documented, and approved by the regional teams on a rolling 12-month basis. Each calendar year starts with collection of the activity plans from the markets, followed by a mid-year health check to review AL program status versus plans, and year-end consolidation and reporting period. The program results are consolidated and checked centrally to report on the global shipment volume covered by markets with an AL program in place for the respective year.

Data verification The KPI, as published in [PMI's Value Report 2025](#), has been assured by PwC (limited assurance).

[See the independent practitioner's limited assurance report](#)



Reduce post-consumer waste

7

Proportion of shipment volume covered by markets with end-of-life take-back programs in place for smoke-free consumables

KPI description

As we grow our smoke-free business, we seek to address the post-consumer waste of our smoke-free product consumables by deploying take-back schemes.

When measuring the progress of our markets in providing consumers access to our end-of-life take-back programs, our criteria will evolve as the program matures. In the initial years, our strategy is to prioritize sales channels in which we have direct control, i.e., our brand retail including boutiques, islands, in order to build awareness about the programs. Then, as we scale up, we will expand to our IQOS partners with whom we work closely on consumer experience activities.

Currently, the capacity of third parties to recycle our consumables is limited because, for the main structural components' materials, such as cellulose acetate, few viable recycling solutions exist today. Therefore, the materials from our products that can be recycled from our smoke-free consumables depend on the locally available infrastructure and technical capabilities of contracted waste treatment operators.

While recycling is our preferred recovery solution, if recycling of materials is not locally available as a viable or feasible solution, the incineration of smoke-free consumables with energy recovery remains an option, and in some cases incineration without energy recovery for HTUs.

First year of program launch

- 50 percent of direct retail channels (including boutiques, islands)

Second year of program launch

100 percent of direct retail channels, plus one of the following:

- Deployment of the program with at least 50 percent of IQOS partners
- Mail-in services
- Other indirect retail partners

Third year of program launch

- Maintain second year of launch criteria

Markets that have a different channel mix, limited or no presence of brand retail or IQOS partners may launch the program via other channels such as indirect retail or mail-in services.

Additionally, before launching the program, markets must conduct a due diligence process, including legal, financial, and commercial review.

Definitions

End-of-life take-back programs Services offered to adult users of PMI smoke-free products, which enable them to return used or unwanted consumables to PMI's suppliers for disposal. This may include recycling, composting, or energy recovery of all or part of the returned consumable and may occur in the country in which the product is collected or exported for treatment elsewhere, if not available locally.

IQOS partners – third party (indirect) Retailers with an IQOS dedicated space within their premises where experiences (e.g., guided trial, product demo) and services are delivered to LAS or legal-age users (LAU) by the retailer's staff.



Scope

Included All markets in which we commercialize smoke-free product consumables. Product consumables in scope are HTUs, e-vapor cartridges, and disposable vaping devices.

Excluded Markets in which our products are sold through partnership agreements and PMI Global Travel Retail market; oral nicotine products, other smoke-free products (lighters, matches, phone cards).

Calculation methodology

$$= \left(\frac{\text{Full-year smoke-free product consumables shipment volume (billion stick equiv.) for markets which have a collection program "in place"}}{\text{Total PMI full-year shipment volume of smoke-free product consumables (billion stick equivalent)}} \right) \times 100\%$$

Estimates and assumptions When calculating the proportion of shipment volumes covered by the consumables take-back program, the full-year shipment volumes are considered. Additionally, in markets with multiple smoke-free platforms (e.g., HTUs and e-vapor), but where the end-of-life take-back program only covers part of the portfolio, only the shipment volume of the covered platform/product is considered in the numerator of the calculation.

Data management

PMI markets are responsible for data collection regarding the coverage of direct and indirect points of sale, which is reported to the central team on an annual basis. Results are consolidated centrally for the annual global reporting of the proportion of shipment volume covered by markets with take-back programs in place for smoke-free consumables.

Data verification The KPI, as published in [PMI's Value Report 2025](#), has been assured by PwC (limited assurance).

 [See the independent practitioner's limited assurance report](#)



Reduce post-consumer waste

8

Number of markets with take-back programs in place for smoke-free consumables

KPI description

As we grow our smoke-free business, we seek to address the post-consumer waste of our smoke-free product consumables by deploying take-back schemes.

When measuring the progress of our markets in providing consumers access to our end-of-life take-back programs, our criteria will evolve as the program matures. In the initial years, our strategy is to prioritize sales channels in which we have direct control, i.e., our brand retail, including boutiques, islands, in order to build awareness about the programs. Then, as we scale up, we will expand to our IQOS partners with whom we work closely on consumer experience activities.

Currently, the capacity of third parties to recycle our consumables is limited because, for the main structural components' materials, such as cellulose acetate, few viable recycling solutions exist today. Therefore, the materials from our products that can be recycled from our smoke-free consumables depend on the locally available infrastructure and technical capabilities of contracted waste treatment operators.

While recycling is our preferred recovery solution, if recycling of materials is not locally available as a viable or feasible solution, the incineration of smoke-free consumables with energy recovery remains an option, and in some cases incineration without energy recovery for HTUs.

First year of program launch

- 50 percent of direct retail channels (including boutiques, islands)

Second year of program launch

100 percent of direct retail channels, plus one of the following:

- Deployment of the program with at least 50 percent of IQOS partners
- Mail-in services
- Other indirect retail partners

Third year of program launch

- Maintain second year of launch criteria

Markets that have a different channel mix, limited or no presence of brand retail, or IQOS partners may launch the program via other channels such as indirect retail or mail-in services.

Additionally, before launching the program, markets must conduct a due diligence process, including legal, financial, and commercial review.

Definitions

Take-back programs Services offered to adult users of PMI smoke-free products, which enable them to return used or unwanted consumables to PMI's suppliers for disposal. This may include recycling or energy recovery of all or part of the returned consumable and may occur in the country in which the product is collected or be exported for treatment elsewhere, if not available locally.

IQOS partners-third party (indirect) Retailers with an IQOS dedicated space within their premises where experiences (e.g., guided trial, product demo) and services are delivered to LAS or legal-age users (LAU) by the retailer's staff.



Scope

Included All markets in which we commercialize smoke-free product consumables. Product consumables in scope are HTUs, e-vapor cartridges, and disposable vaping devices.

Excluded Markets in which our products are sold through partnership agreements, and PMI Global Travel Retail market; oral nicotine products; other smoke-free products (lighters, matches, phone cards).

Calculation methodology

The count of markets with take-back programs in place for smoke-free consumables (December 31). Markets are reported as per the taxonomy defined in PMI's financial reporting system and aligned with our Annual Report on Form 10-K.

Data management

PMI markets are responsible for data collection regarding the coverage of direct and indirect points of sale, which is reported to the central team on an annual basis. Results are consolidated centrally for the annual global reporting of the proportion of shipment volume covered by markets with take-back programs in place for smoke-free consumables.



Reduce post-consumer waste

9

Proportion of PMI smoke-free devices with an eco-design certification

KPI description

To integrate sustainability principles into our design process, we endeavor to embed eco-design in the product development process. Accordingly, we are seeking an eco-design certification for our smoke-free devices.

Our interpretation of the term “eco-certification” is the achievement of an externally recognized sustainably designed product certification. This achievement can be obtained through a Type 1, Type 2, or Type 3 environmental statement, as defined by ISO 14020:2022.

To meet PMI's 2025 goal, we will use a Type 2 self-declared environmental statements and/or Type 3 Environmental Product Declaration (EPD).

The product is considered to have eco-certification when:

- At least one self-declared environmental statement (Type 2) is communicated after external verification by an independent third-party, and/or
- An Environmental Product Declaration (EPD (Type 3) is created, externally verified, and published on the website of a Type 3 program operator.

Definitions

Environmental statement (ISO 14020:2022) Information on one or more environmental aspects or environmental impacts of a product, which aims to inform an intended audience and to influence the market of this product. The ISO 14020:2022 standards define three types of product environmental statements:

- **Type 1: Environmental labels and declarations** are awarded by a third-party accrediting body based on best-in-class performance among the product category. A product category is a standardized set of performance-oriented criteria for a defined scope of products, according to which product sustainability information is assessed, evaluated, and partly disclosed by an accredited body. Type 1 certification currently is not possible for smoke-free electronic devices due to the lack of established product category ruling for this product category.
- **Type 2: Self-declared environmental claims** refer to self-declared and externally verified adherence to an internally developed standard, communicated through a statement, symbol, graphic, or text.
- **Type 3: Environmental Product Declaration (EPD)**. Product Category Ruling (PCR) to execute a life-cycle assessment (LCA) for a defined product category. Based on these standards, an LCA can be conducted. The EPD verifier evaluates product performance against a set of indicators, allowing for comparability between products within the same category. This type of eco-design certification prescribes guidelines for similar products to disclose product information, mainly focusing on transparency and accuracy.

Scope

Included Electronic smoke-free devices designed by PMI, both HNB devices (holder and charger) and e-vapor devices (holder only).

Excluded Disposable devices, device accessories, and electronic smoke-free devices designed by third-party manufacturers and commercialized by PMI, limited-edition devices, products that are not part of commercial deployment, launches of existing product versions in new markets.

Calculation methodology

The KPI measures eco-certified product launches at the end of 2025:

$$= \left(\frac{\text{Total number of PMI smoke-free electronic devices launched as of Q4 2025 that are eco-certified}}{\text{Total number of PMI smoke-free electronic devices launched by Q4 2025}} \right) \times 100\%$$

Data management

Smoke-free electronic devices launched in 2025 that have Type 2 and/or Type 3 certification as of Q4 2025 will be in scope of the KPI.

Data verification The KPI, as published in [PMI's Value Report 2025](#), has been assured by PwC (limited assurance).

[See the independent practitioner's limited assurance report](#)



Reduce post-consumer waste

10

Cumulative number of smoke-free electronic devices refreshed or repaired since 2021 (in thousands)

KPI description

In markets where we commercialize PMI smoke-free products, we aim to collect used devices and process them to improve their circularity, minimize e-waste, and maximize resource use. A key element of this strategy is our device second-life program, which seeks to refresh and repair smoke-free devices for reuse.

The number of devices refreshed or repaired represents the number of devices that are processed in PMI operated or contracted qualified hubs and partners, and then received by our markets for reuse. The reuse of devices includes the commercialization and remarketing of the products to adult smokers or adult nicotine-product consumers, replacement under warranty, or other consumer program offerings (e.g., lending program). These devices can be either a full mobility kit (charger, holder, and related accessories) or single line-up (either charger or holder).

Definitions

Refresh services Care and maintenance activities with respect to smoke-free devices, which may include unpacking, diagnostics, cleaning, battery charging, firmware update, cosmetic parts replacement, and repacking of devices, allowing their reuse without functional repair.

Refreshed devices Smoke-free devices resulting from the refresh services that meet the agreed quality requirements to allow for their reuse as pre-owned devices.

Repair services Repair, care, and maintenance activities with respect to smoke-free devices, which may include unpacking, diagnostics, testing, cleaning, battery charging, and firmware update, cosmetic part or battery replacement, component harvesting, and repacking of devices allowing their reuse.

Repaired devices Smoke-free devices resulting from the repair services that meet the agreed quality requirements to allow for their reuse as pre-owned devices.

Serviced devices All smoke-free devices that go through care and maintenance, cleaning, firmware upgrade, and customization accessories (e.g., rings and door covers) for maintenance or replacement. Service is provided to adult users on the spot at IQOS service points or at home. This service is not available at the hubs.

Expired/Loss on Goods Destroyed Devices Devices that have passed or will pass their expiry date deeming them ineligible to sell to a consumer or that are not intended to be sold and therefore are destined for recycling if not serviced.

CIRCLE program Program that covers services provided at the CIRCLE hubs, generally including inspection, dismantling, disposal and recycling, and repair services. In addition, CIRCLE hubs serve as a consolidation point for devices returned from various market affiliates.

CIRCLE hubs Any of one or more partner-operated sites under direction of PMI for the purposes of carrying out services related to our CIRCLE program.

Scope

Included Smoke-free electronic devices sold by PMI, including devices commercialized through licensing arrangements, and e-vapor devices. Additionally, close to being expired/expired/Loss on Goods Destroyed Devices that would otherwise be recycled, and which are shipped for repair (where possible) and subsequent reuse. Refresh services and/or repair services have been developed as of IQOS 3 DUO (launched in 2019) and subsequent generations of devices with the blade or IQOS ILUMA Smartcore Induction System™.

Excluded Consumable products including disposable e-vapor and pods.

Calculation methodology

Cumulative number of devices refreshed or repaired and received by PMI markets from the respective hubs since January 2021 until December 31 of the reporting year.

Estimates and assumptions Devices might be refreshed or repaired multiple times over their lifetime. Each time a device is refreshed or repaired, it is accounted for in the respective year in which the activity occurs.

Data management

Source data on the number of devices repaired or refreshed and received by PMI markets is extracted from our SAP system monthly. Exceptionally for devices repaired or refreshed on which service is performed without change of ownership, the reporting is based on a packing list containing a unique code of the devices on which service was performed.

Data verification The KPI, as published in [PMI's Value Report 2025](#), has been assured by PwC (limited assurance).

[See the independent practitioner's limited assurance report](#)



Operational Sustainability

Foster an empowered and inclusive workplace

11

Proportion of women in senior roles

KPI description

We disclose the proportion of senior positions held by women in our annual [Value Report](#), calculated considering employee headcounts in salary grade 14 and above.

Definitions

Employee headcount All active as well as inactive employees, including employees on parental leave, medical/sick leave, unpaid leave or long-term disability.

Women For the purposes of this report, PMI counts as women those employees whose gender is recorded as female based on official documentation (passport, national identity card, etc.).

Senior roles The term we use to refer to all positions in a defined salary grade 14 and above, regardless of their job title or function.

Salary grade (SG) Levels used to group jobs of similar value according to PMI's job evaluation methodology, which is based on Hay methodology. PMI uses 28 levels, starting from SG 1 and ascending to SG 28.

Scope

Included All employees captured in PMI's HR reporting tools.

Excluded Non-employee population (temporary agency workers, freelancers, merchandisers, IQOS coaches, consultancy, and outsourced services), benefit recipients (retirees or those who no longer have a working relationship with the company), and employees on salary continuation.

Calculation methodology

Proportion of women in senior roles (SG 14+) is calculated as:

$$= \left(\frac{\text{Women headcount in salary grade 14+}}{\text{Overall employee headcount number in salary grade 14+}} \right) \times 100\%$$

Estimates and assumptions The calculation considers the total number of employees and the salary grade at a specific point in time; for year-end reporting, this is December 31 of the respective year.

Data management

On a daily basis, employee headcount data are transferred from PMI's HR reporting tool to PMI's data ocean (a corporate data warehouse solution). The data are consolidated and analyzed for internal reporting purposes monthly. The data are validated centrally, prior to external annual reporting in the [PMI's Value Report](#).

Data verification The KPI, as published in [PMI's Value Report 2025](#), has been assured by PwC (limited assurance).

[See the independent practitioner's limited assurance report](#)



Foster an empowered and inclusive workplace

12

Proportion of employees with access to structured lifelong learning offers

KPI description

Maintaining and further developing human capital is critical to our employees and the success of PMI. Therefore, we seek to provide PMI employees with access to structured learning activities to meet personal and professional growth aspirations. Our lifelong learning offers include access to learning opportunities (e.g., courses, resources, sessions, and communities) provided by PMI that empower individuals to proactively develop skills relevant for current and future employability and performance.

We consider an employee to have access to structured lifelong learning offers if the employee has an account that allows access to the PMI-specific learning catalogue via an appropriately secure device, whether provided by PMI or not (e.g., phone, tablet, personal computer).

With this access, they can obtain license within 48 hours to external platforms upon request (e.g., Rosetta Stone, Udemy, or EdEx).

Driven by our aspiration to reach a significant number of employees, the structured lifelong learning program leverages digital solutions. However, as some employees do not have access to PMI systems, we have set an aspiration to achieve full coverage of the population with access to our learning systems. Additionally, when digital access expands, we would expect the absolute number of employees with access to lifelong learning offers to also increase (and with it, the KPI).

Definitions

Access Employees are considered to have “access” when they can be granted access to learning solutions and have the appropriately secure device or personal computer by which to access the learning from. This does not mean licenses to external platforms will be purchased for all employees outright. License usage is monitored to ensure sufficient licenses are available at any given point in time for any employee who requests one.

Employee headcount All active employees, as well as inactive employees including employees on parental leave, medical/sick leave, unpaid leave or long-term disability.

Lifelong learning While the term lifelong learning is widely used beyond PMI, the definition is not standardized. PMI defines lifelong learning as a form of self-initiated education that is focused on personal and professional development through informal or formal education. Lifelong learning opportunities at PMI go beyond the skills necessary to perform an employee’s current job or to further understand PMI processes, systems, and strategies. Rather, the scope of learning opportunities covers capabilities essential to an employee’s future employability and fulfillment.

Scope

Included All employees as per headcount definition.

Excluded Third-party workers, employees on salary continuation, benefit recipients (retirees or those who no longer have a working relationship with the company) and employees from mergers and acquisitions who have not yet been fully integrated into PMI’s HR reporting tools.

Calculation methodology

Proportion of employees with access to structured lifelong learning offers is calculated as:

$$= \left(\frac{\text{Number of employees who have access to PMI's internal learning catalogue and can request access to external platforms}}{\text{Total number of employee headcount}} \right) \times 100\%$$

Estimates and assumptions The calculation considers the employee status at December 31 of the reporting year.

Data management

Data regarding the employees with access to lifelong learning offers (on PMI platforms and external learning platforms) are collected on a quarterly basis and consolidated centrally on an annual basis prior to reporting in the [PMI's Value Report](#).

Data verification The KPI, as published in [PMI's Value Report 2025](#), has been assured by PwC (limited assurance).

[See the independent practitioner's limited assurance report](#)



Foster an empowered and inclusive workplace

13

Average number of digital training hours per employee

KPI description

We continuously provide our employees with opportunities to learn, develop, and contribute to our ambitious company purpose. Learning new skills enables employees to co-create their growth in line with evolving company needs.

Tracking the hours each employee spends on digital learning helps us measure the adoption of our online, self-paced learning programs, which are essential for building a learning culture.

The KPI focuses on our digitally enabled population, who have access to PMI's digital systems and resources.

Definitions

Digitally enabled employees Employees who have access to PMI's digital systems allowing them to access PMI's learning offers. For this KPI, these employees are specifically identified as those who are registered in the main PMI's HR system, HR2U.

Digital learning Learning activities supported by technology and electronic resources. These can include:

- **Internal content libraries:** Standard format learning resources (in Sharable Content Object Reference Model (SCORM) format) reported via learning management systems (LMS), and nonstandard learning resources such as videos and various online files.
- **External content libraries:** Collections of educational materials, such as online courses, videos, articles, etc., developed by third parties. These libraries can typically be integrated into LMS and include platforms like Udemy, EdX, Rosetta Stone, Learnlight, and other external platforms defined as having a notable impact on learning hours.

Digital training hours The time, in hours, spent by employees on digital learning activities.

Scope

Included All digitally enabled employees.

Excluded Third-party workers, employees on salary continuation, benefit recipients (retirees or those who no longer have a working relationship with the company) and employees from mergers and acquisitions who have not yet been fully integrated into PMI's HR reporting tools.

Calculation methodology

Average number of digital training hours per employee is calculated as:

$$= \left(\frac{\text{Total number of digital learning hours}}{\text{Total number of digitally enabled employees}} \right)$$

Estimates and assumptions The calculation considers the employee status at December 31 of the reporting year.

Data management

Data on the number of digital learning hours are collected quarterly and consolidated annually before being reported in the PMI's Value Report. This process follows a detailed procedure that defines the calculation method for each type of learning content.



Foster an empowered and inclusive workplace

14

Average number of learning hours per employee

KPI description

We believe that all PMI employees should have an opportunity to engage in learning activities to meet personal and professional growth aspirations, based on intrinsic motivation. This helps to ensure a culture of learning is embedded in the organization, developing new skills and knowledge to the mutual benefit of PMI and our employees.

Understanding how many hours each employee spends learning allows us to understand the extent to which our employees have adopted our learning offers, including offline, online, self-paced learning offers, that support the building of a learning culture.

The KPI reveals average learning hours per employee.

Definitions

Total number of learning hours Refers to the sum of all offline and digital learning hours from the in-scope employee population.

Offline learning Comprises learning activities completed in person. It can take multiple forms, including:

- Corporate, global, and local in-person programs
- PMI funded external learning programs and seminars
- In-field coaching for field force
- Manufacturing training
- On the job training—refers to structured learning activities conducted directly within the work environment, where employees acquire job-specific skills and knowledge by performing tasks under the guidance of a supervisor, trainer, or experienced colleague.

Digital learning Learning activities supported by technology and electronic resources. These can include:

- **Internal content libraries:** Standard format learning resources (in Sharable Content Object Reference Model (SCORM) format) reported via learning management systems (LMS), and nonstandard learning resources such as videos and various online files.
- **External content libraries:** Collections of educational materials, such as online courses, videos, articles, etc., developed by third parties. These libraries can typically be integrated into LMS and include platforms such as Udemy, EdX, Rosetta Stone, Learnlight, and other external platforms defined as having a notable impact on learning hours.

Scope

Included All PMI employees.

Excluded Third-party workers, employees on salary continuation, benefit recipients (retirees or those who no longer have a working relationship with the company).

Calculation methodology

Average number of learning hours per employee is calculated as:

$$= \left(\frac{\text{Total number of learning hours}}{\text{Number of PMI employees}} \right)$$

Estimates and assumptions The calculation considers the employee status at December 31 of the reporting year.

Total learning hours reflect all learning hours captured and reported from January 1 to December 31 of the calendar year.

The learning hours from offline learning or digital learning may include approximate learning time per learning.

Data management

Data on the number of learning hours are collected and consolidated annually before being reported in the PMI's Value Report. This process follows a detailed procedure that defines the calculation method for each type of learning content.



Improve the quality of life of people in our supply chain

15

Cumulative number of human rights impact assessments conducted since 2018, with findings addressed

KPI description

[PMI's Human Rights Commitment](#) is the cornerstone of our human rights strategy and commits PMI to conduct business practices respecting and upholding the United Nations Guiding Principles on Business and Human Rights (UNGPs). Human rights impact assessments (HRIAs) are an integral part of our due diligence framework, and allow us to proactively identify risks and mitigate potential adverse impacts in our operations and value chain. HRIAs are carried out by independent expert organizations based on a formal process in accordance with the UNGPs.

Definitions

Highest-risk countries The countries assessed as highest risk for PMI from a human rights standpoint. They are determined based on key parameters, such as PMI's footprint (e.g., manufacturing operations, head office, or sourcing activities) and the country's human rights risk profile, as determined by internationally recognized indicators, such as the Heidelberg Conflict Barometer, Freedom House's Freedom in the World Index, U.S. Trafficking in Persons Report, and Transparency International.

Scope

Included When assessing which countries are of highest risk, we consider all countries where PMI operates or sources tobacco.

Excluded n/a

Calculation methodology

The HRIAs are conducted in alignment with the UNGPs and the relevant methodology. After each HRIA, the external expert organization presents its findings and suggests ways to address the issues identified. The report is shared with our local leadership team, who develops a time-bound action plan in collaboration with the relevant corporate functions. The action plan assigns responsibilities for implementation and progress measurement at the local level. While the implementation of these action plans often takes several years, for the purposes of reporting against this indicator, once an action plan has been approved by the local management (including key milestones and measurements of progress), we consider the "findings addressed."

To monitor and track the implementation of the action plans, on a biannual basis, markets that have ongoing action plans provide a status update to the central Operations Sustainability team. On an annual basis, we report the cumulative number of HRIAs conducted in the highest-risk countries from January 2018, with findings addressed.

The list of highest-risk countries for PMI from a human rights standpoint is determined and reviewed on a yearly basis in collaboration with independent expert organizations. If an assessment is carried out in a country which in subsequent years is removed from the list of top 10 highest-risk countries, we continue to count this assessment toward our target, given that it was conducted at a moment in time during which the country was identified within the top 10 highest risk.

Data management

The Managing Director of the market in scope is responsible for the implementation of the action plan and determining whether a country assessment can be considered as completed, with findings addressed. The central Operations Sustainability team supports and guides the markets during the implementation of the action plan, receiving biannual status updates from the local teams.

Data verification The KPI, as published in [PMI's Value Report 2025](#), has been assured by PwC (limited assurance).

[See the independent practitioner's limited assurance report](#)



Improve the quality of life of people in our supply chain

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Prevalence of child labor among contracted farms supplying tobacco to PMI

KPI description

Our objective is to reduce child labor in the tobacco supply chain by influencing the rest of the industry and our partners in tobacco-growing countries to accelerate actions addressing sustainability challenges.

The focus of this KPI is contracted farmers in the agricultural segments of our tobacco supply chain. We work with these farmers directly through our integrated affiliates, or indirectly through the actions of our suppliers.

We measure the prevalence of child labor among contracted farms supplying tobacco to PMI; the prevalence of child labor within the total farm base of contracted farmers is monitored through the Integrated Production System (IPS) due diligence framework. If incidences of child labor are identified, our suppliers are required to take immediate action.

Definitions

Child labor Defined by the International Labour Organization (ILO), child labor is work that deprives children of their childhood, their potential, and their dignity, and that is harmful to physical and mental development. Under PMI's [ALP Code](#), and in line with the ILO, the minimum age for admission to work is not less than the age at which compulsory schooling is completed and, in any case, is not less than 15 years old or the minimum age accepted by the country's laws, whichever age limit affords greater protection. No person under 18 should be involved in any type of hazardous work. In the case of family farms, a child may only help on the farm provided that the work is nonhazardous, and the child is at least 13 years old or above the minimum age for such work as defined by the country's laws, whichever affords greater protection.

Identified child labor cases Include prompt actions (observations by field technicians) and nonconformities (self-declarations) on contracted tobacco farms supplying tobacco to PMI, reported through the internal monitoring data recorded by field technicians or contracted service providers in markets from which PMI sources tobacco.

Prompt action (PA) Situation that is recorded when, during a farm visit, the field technician or contracted service provider physically observes either a Type 1 or Type 2 situation:

- **Type 1:** Situations where a person's physical or mental integrity is at risk, children, or a vulnerable group (e.g., pregnant women and/or nursing mothers), are working and in danger, or workers might not be free to leave their job on a tobacco farm.
- **Type 2:** Situations where a person's well-being is at risk and the farmer will need additional time and support to remediate the issue (e.g., lack of accommodation, nonpayment of minimum wage, or lack of written contracts).

Nonconformity (NC) Situation that is recorded when a field technician or contracted service provider does not physically observe a violation of the ALP Code, but, through engagement with the farmer, spouse, or worker (for their own children), identifies a risk that a violation is likely to occur or has occurred. There are two types of nonconformities:

- **Self-declaration:** Declaration confirming the occurrence of a situation (equivalent to a prompt action), although not witnessed by field technicians or contracted service providers (e.g., a farmer declares his 14-year-old child harvests tobacco).
- **Risk:** Observation or declaration that represents a risk which, if not addressed, could evolve into a prompt action (e.g., the farmer is not aware of the minimum working age).

Only PAs and NCs related to child labor are included in the count for this KPI.

Systematic monitoring Refers to the methodological monitoring of PMI's ALP Code implementation and related measurable standards at farm level. It is either conducted on a farm-by-farm level or through representative sampling in markets where there is an intermediary entity between PMI's suppliers and the farmers, and farm-by-farm monitoring is not feasible.

Systematically monitored farmers Include all monitored farmers. When farmers are monitored on a sample or pilot basis, only those farms within the sample or pilot are in scope.



Scope

Included Contracted farmers supplying tobacco to PMI that are systematically monitored.

Excluded Farmers (within PMI's supplier farm base and eligible farmers) who have not supplied tobacco to PMI; purchased tobacco volumes for which labor practices and adherence to our [ALP](#) have not been systematically monitored due to limited sustainability information, up to a threshold of 10%. Additionally, all other suppliers of materials and services are out of scope for the purposes of reporting the prevalence of child labor in our tobacco supply chain. "Risk" nonconformities are not included in the scope of the calculation.

Calculation methodology

Prevalence of child labor among contracted farms supplying tobacco to PMI is calculated as:

$$= \left(\frac{\text{Number of contracted farmers supplying tobacco to PMI with a PA reported} + \text{Number of contracted farmers supplying tobacco to PMI with NC self-declaration reported}}{\text{Contracted farmers supplying tobacco to PMI}} \right) \times 100\%$$

Notes on the above calculation:

- If one farmer has multiple PAs or NCs raised during the reporting period (multiple incidences of the same child, multiple children in the same instance), this is counted only once.
- When an identified child labor case is raised and resolved (field technician has verified the corrective action developed in response to the PA or NC has been properly implemented) within the reporting period, this identified case is included in the above calculation.

Estimates and assumptions PMI integrated reporting is on a calendar-year basis from January to December. Therefore, we report all PAs and NCs for the tobacco that is purchased within the calendar year. These PAs and NCs are based on monitoring data which were reported during the tobacco crop stage and may have physically occurred in the preceding year(s) (e.g., the tobacco may be purchased in year n, though due to the timing of the crop cycle or tobacco leaf inventory movements, the respective crop was actually grown and harvested in the preceding year(s) (n-1 or n-2)). All PAs and NCs, including self-declarations, occurring on contracted farms supplying to PMI tobacco purchased in that calendar year are in scope for reporting, regardless of whether the contract has been renewed for next crop season.

Data management

Data regarding PAs and NCs are recorded in the third-party leaf supplier's or PMI leaf operations monitoring systems. On a monthly basis, consolidated data for all contracted farmers supplying tobacco to PMI is provided by third-party leaf suppliers and PMI leaf operations, which is then reviewed and consolidated regionally. For suppliers or sourcing markets where disaggregated reporting is not feasible, third-party suppliers submit an annual aggregated report. On an annual basis, prior to external publication, the data are aggregated and validated centrally.

Data verification The KPI, as published in [PMI's Value Report 2025](#), has been assured by PwC (limited assurance).

[See the independent practitioner's limited assurance report](#)



Improve the quality of life of people in our supply chain

17

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

KPI description

To foster socioeconomic well-being and address social inequality and labor-related issues in our tobacco supply chain, we seek to ensure that all contracted farmers supplying tobacco to PMI make a living income by 2025. To measure progress toward this aim, income data for contracted farmers supplying tobacco to PMI are collected by PMI leaf operations, third-party leaf suppliers, or third-party partners in all countries where PMI sources tobacco, and assessed against the relevant living income benchmark.

Definitions

Business for Social Responsibility (BSR) benchmarks Living wage benchmarks in higher-income countries from which we source tobacco. BSR uses the living wage estimates, adjusted based on the reference family size, to define the relevant living income benchmarks.

Living income The net annual income required for a household to afford a decent standard of living for all its members. The living income value can be the result of a full benchmark, a reference value, or an internal desktop exercise.

Anker full benchmark A study conducted in line with the methodology of [Anker Research Institute \(ARI\)](#), or similar methodology in case the ARI methodology can no longer be used, and specific for low- and middle-income countries. Full benchmarks are developed through analysis of secondary data, and adjusted using on-the-ground field visits.

Anker reference values A type of desktop benchmark provided by the ARI, based on a regression analysis of 40 quality-assured studies, relevant for low- and middle-income countries, and can be utilized as an alternative to the full benchmark. The reference values represent typical or average living incomes for rural and urban areas within each country. They are not location-specific, and so are not representative of region or city.

Anker regional adjustments Are created by splitting the country into regions that share similar characteristics, and use Anker full benchmark assessments as a basis. If needed, ARI complements these benchmarks with on-the-ground adjustments. The regional adjustments are specific to low- and middle-income countries.

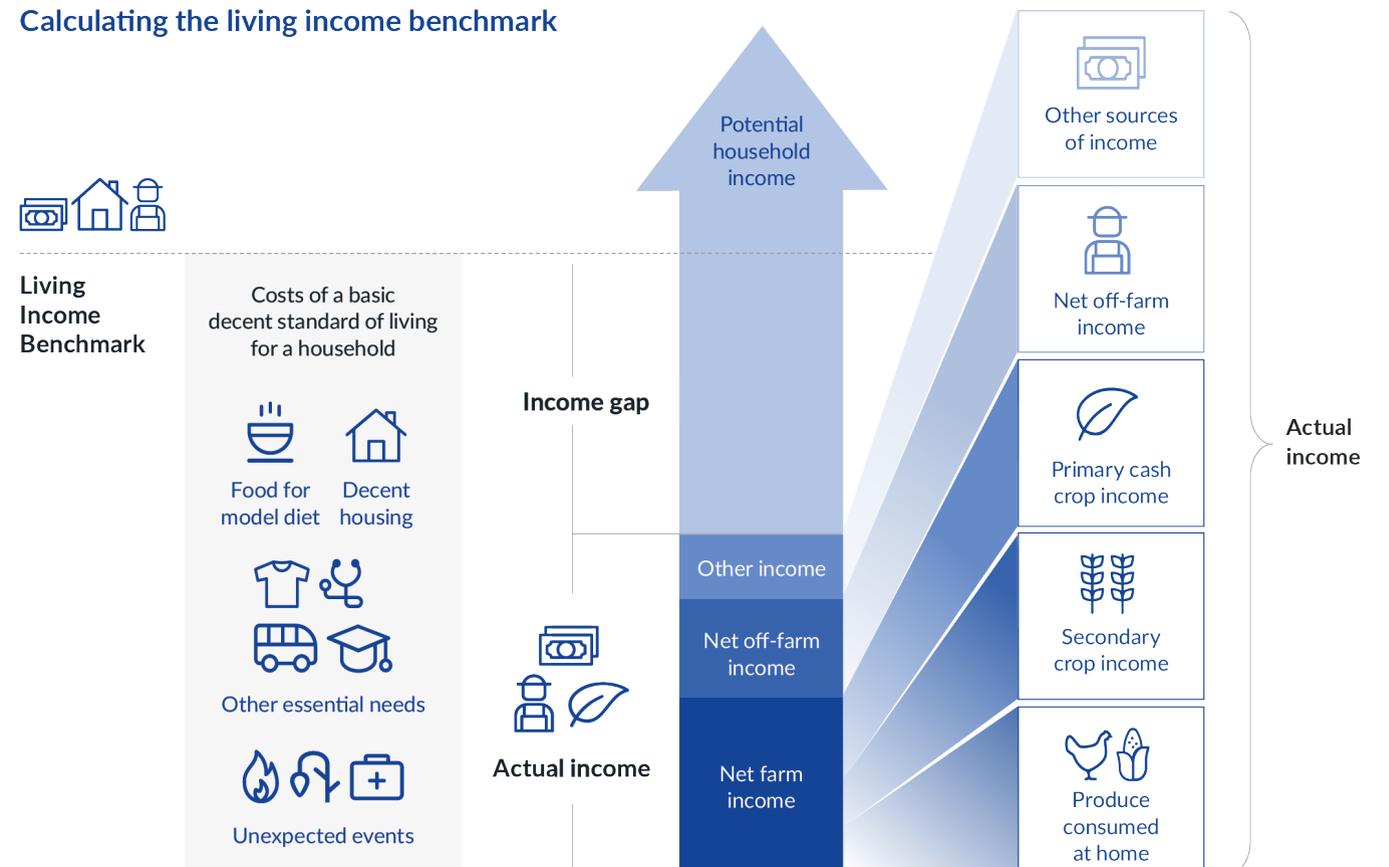
Internal desktop exercise value The value that is calculated internally by following the Anker methodology, in absence of an official calculation (full benchmark, reference value, regional adjustment, or BSR Benchmark).

Family size adjusted benchmark The adjustment to the average benchmark based on a specific family size and used in Household Dependency Modelling. The methodology for this calculation is sourced from the Organization for Economic Co-operation and Development (OECD) family equivalency scale.

Farmer income The income of a farmer, including both on-farm and off-farm income, net of production cost, as well as remittances, grants, other subsidies, or addbacks.

Housing addback Applied in those cases where farmers own their own houses and do not incur rental expenses that are included in the benchmark values.

Calculating the living income benchmark





Scope

Included Contracted farmers supplying tobacco to PMI.

Excluded

- Farmers (within PMI's supplier farm base and eligible farm base) who have not supplied tobacco to PMI
- PMI tobacco purchased volume for which monitoring data on farmer income is not available
- Supply chain Type 3 markets/suppliers¹
- New markets that PMI started sourcing from after 2021
- Volumes coming from crops prior to 2021/2022 (depending on crop calendar) that fell into calendar years prior to 2022

Calculation methodology

Farmer income PMI's third-party leaf suppliers and PMI leaf operations calculate farmer income, both tobacco and non-tobacco income, considering only legal sources of income both in terms of type of activity and minimum age limitations.

Tobacco income is estimated using data collected during the field monitoring and supplier or PMI leaf operations own estimates. Typically, income from tobacco is calculated considering the contracted hectares, yield, price, and cost of production. Nontobacco income is estimated through either third-party farmer income studies or internal desktop analyses.

- Farmer income studies are performed by third parties, specialized in data collection and familiar with the local context, culture, and language. These studies are based on a representative sample size selected from the eligible farmer base to represent the pre-defined segments (typically based on contracted tobacco area). Data collection consists of quantitative data (such as surveys to understand the different income sources (e.g., complementary crops, off-farm income, or remittances)) and/or qualitative data (such as individual farmer interviews and focus group discussions).
- Where farmer income studies are not available, PMI third-party leaf suppliers or PMI leaf operations perform internal desktop analyses. For internal desktop analysis, other nontobacco income sources are estimated based on averages using publicly available data (e.g., government-released statistics) or internal representative sample surveys.

Household dependency modelling During 2022, as our Living Income Program became more sophisticated and mature, we developed a more granular approach to analyze farmers' income, based on extensive research on existing methodologies. More specifically, we explored ways to further segment our most vulnerable farmer base in order to account for household size (instead of relying on averaged family size data). Doing this enables us to compare, in a more granular way, the farmers' income with the relevant family size adjusted benchmark and assess whether they achieve the equivalent living income benchmark for their family size or not, thereby allowing us to better identify potential income gaps and help focus our efforts on the most vulnerable households.

This second layer of segmenting was introduced in 2023² and is only conducted on those segments of farmers who are below living income, where further granularity is required to determine which of the farmers in these segments are truly below the living income value relevant for their family size.

Living income benchmark At PMI, the Anker methodology has been identified as the foundational methodology to establish living income benchmarks in the identified priority and low- and middle-income countries sourcing markets. It is the predominant methodology used and is widely accepted in the living income community. Where a living income benchmark (full benchmark, reference value, or regional adjustment) is established by the Anker Research Institute, PMI suppliers and PMI leaf operations shall use the same value for the respective sourcing location.

In case full benchmarks or reference values are not (yet) available, an internal desktop analysis is performed as a starting point by applying the Anker methodology and using secondary data available from official websites (government, universities, or reputable organizations). The benchmark is updated annually, to account for the volatility of the country's economy, measured by economic indicators such as inflation.

As the current Anker methodology is not applicable in higher-income countries, for these, PMI uses benchmarks from BSR.

Consolidated KPI On an annual basis, inputs from each region are consolidated globally to calculate the number of farmers achieving a living income as a proportion of the total contracted farmer base supplying to PMI, within the respective period. The calculation is based on an analysis of the farmer base which is typically segmented at market level according to the contracted tobacco area:

- If the average farmer income is greater than the living income benchmark, then all farmers within the segment are reported as achieving the living income benchmark.
- If the average farmer income is lower than the living income benchmark, then all farmers within the segment are considered as not achieving a living income benchmark. In these cases we conduct a second layer of household dependency modelling, where we sub-segment this group of farmers further based on family size and assess, using family size specific benchmarks, which sub-segments are still not meeting the living income value required for their specific family size. Those sub-segments that are still below the specific family size adjusted benchmark are considered as not achieving living income, while those sub-segments that are above their family size adjusted benchmark are considered as achieving the living income.

¹ Those markets/suppliers where there is an intermediary entity between PMI's suppliers and the farmers. This intermediary can be in the form of a, but not limited to, governmental organization, auction provider, or third-party supplier.

² The methodology requires updated family size definitions for our farm profile data, and a resulting detailed and robust set of family size data for each farmer's family. Considering this preparatory work, we were only able to implement this secondary layer of modelling for Indonesia in 2023. As of 2024, household dependency modelling will be applied for all markets/farmer segments below living income.



This analysis is repeated for each segment and the final percentage of farmers achieving a living income is calculated.

Proportion of contracted farmers supplying tobacco to PMI who make a living income is calculated as:

$$= \left(\frac{\text{Number of contracted farmers supplying tobacco to PMI at (or above) the living income benchmark}}{\text{Total number of contracted farmers supplying tobacco to PMI}} \right) \times 100\%$$

Data management

All data regarding farmer income are collected and managed by PMI third-party leaf suppliers or PMI leaf operations monitoring systems. On an annual basis, following the conclusion of the tobacco packing completion in each sourcing market, the final data for all contracted farmers supplying tobacco to PMI are uploaded into PMI's reporting system. The reporting on living incomes is based on the 12-month period preceding the end of the tobacco crop season in the respective country.

Each PMI regional leaf team validates the farmer income data uploaded by PMI's third-party leaf suppliers and, upon successful review, PMI leaf operations and central team aggregates and validates the global results for annual reporting.

Data verification The KPI, as published in [PMI's Value Report 2025](#), has been assured by PwC (limited assurance).

 [See the independent practitioner's limited assurance report](#)



Improve the quality of life of people in our supply chain

18

Proportion of the most economically vulnerable farmers benefit from interventions that drive a measured increase in income

KPI description

To foster socioeconomic well-being and address social inequality and labor-related issues in our tobacco supply chain, we seek to improve the living income of our contracted farmers supplying tobacco to PMI. We measure progress towards this aim via our current KPI, Proportion of contracted farmers supplying tobacco to PMI who make a living income, as described [here](#).

To strengthen our approach, we aim to further drive a tangible and verifiable positive impact on the farmers' livelihoods. We are increasing our efforts towards local initiatives that will generate an improved income for farmers supplying tobacco to PMI, with a focus on the most economically vulnerable population of farmers in priority markets.

We also acknowledge the challenges in this area, such as uncontrollable climate conditions, socioeconomic and market dynamics, inflationary impacts, and limited visibility and influence on nontobacco incomes.

The impact of the initiatives will be monitored and measured by the implementing partners for the markets in scope.

Definitions

For definitions related to **living income (LI)**, refer [here](#).

Farmers benefiting from LI initiatives Vulnerable farmers who benefit from or participate in the LI initiatives in a specific calendar year.

IPS Integrated Production System: for details refer to [Key definitions and notes](#).

Living income (LI) initiatives Any initiative aimed at increasing farmers' and/or household' income, with a measurable impact. This income improvement can be achieved through, but not, limited to, diversifying income sources, enhancing productivity and reducing existing costs.

Most economically vulnerable farmers The lowest 15 percent of contracted farmers supplying tobacco to PMI, within pre-selected priority markets/ tobacco types, ranked based on the final data related to contracted tobacco hectares, tobacco yield, and crop diversification from the previous crop year.

Priority markets Sourcing markets which will be the priority focus for our targeted living income interventions. For the initial 4-year cycle from 2024 to 2027, the priority markets are India (burley), Mozambique (flue-cured), Indonesia (sun-cured and air-cured), and the Philippines (air-cured and flue-cured). As of 2027 onwards, this assessment will be conducted on a three-year cycle and define priority markets for 2028–30.

Livelihood Index tool A composite indicator, developed by a third-party consultant, that measures various dimensions of livelihood across a group of beneficiaries or a community.



Scope

Included Most economically vulnerable farmers supplying tobacco to PMI in defined priority markets and tobacco types.

Excluded

- Farmers (within PMI's supplier farm base and eligible farmers) who have not supplied tobacco to PMI.
- Tobacco for which a full set of sustainability data are not available.
- Supply chain Type 3 markets/suppliers¹.
- New markets/suppliers that PMI started sourcing from as of 2025.
- Tobacco volumes originated from previous crops.

Calculation methodology

Farmer income and **Farmers below living income** calculation methodology is described [here](#).

Priority markets and the tobacco types are determined based on:

- Farmer vulnerability: markets/tobacco types where farmers face the greatest risk related to living income.
- Business rationale: markets of strategic relevance for PMI.

Vulnerable farmers are determined by selecting the 15 percent lowest ranking farmers, per supplier and priority tobacco type, using a multi-step criteria approach, i.e., farmers with:

- The smallest contracted tobacco hectares.
- The lowest yield, if further ranking is needed
- No crop diversification, if further ranking is needed

LI initiatives are governed via PMI's established project governance board, ensuring conformance to project requirements.

Initial suitability and expected impact of initiatives should be reviewed and documented using the Livelihood Index tool.

LI initiatives can be funded by PMI, the suppliers, farmers, or a combination thereof.

Proportion of the most economically vulnerable farmers supplying to PMI that benefit from initiatives that drive a measured increase in income is calculated as:

$$= \left(\frac{\text{Number of farmers benefiting from CY LI initiatives + Number of farmers benefiting from PY initiatives}}{\text{Average number of most economically vulnerable farmers in CY and PYs}} \right) \times 100\%$$

Current year (CY)–reflects the reporting year.

Prior year(s) (PYs)–reflects prior reporting year(s), with 2024 as the baseline year.

The farmers benefiting from the LI initiative are counted only once, i.e., if they were part of the program in the prior year, they will not be counted in the current and future years.

Data management

The lowest 15 percent of contracted farmers supplying tobacco to PMI, within pre-selected priority markets, ranked based on land size, tobacco yield, and crop diversification (based on historical farmer profile analyses) are the most economically vulnerable farmers and will be the focus of interventions and projects to increase income. The farm profile information and the number of economically vulnerable farmers benefiting from LI initiatives will be provided by PMI third-party leaf suppliers or PMI leaf operations monitoring systems.

¹ Those markets/suppliers where there is an intermediary entity between PMI's suppliers and the farmers. This intermediary can be in the form of, but not limited to, a governmental organization, auction provider, or third-party supplier.



Tackle climate change

19

Net carbon emissions scope 1 + 2 (metric tons)

KPI description

PMI has set ambitious targets to reduce its scope 1+2 emissions, including a science-based target to reduce absolute emissions in line with a 1.5°C scenario, and a goal to achieve carbon neutrality (scope 1+2) by 2025.

Definitions

Carbon neutrality Aligned with the working definition of the Science Based Target initiative (SBTi), individual actors are carbon neutral when CO₂e emissions attributable to an actor exclusively claimed by the actor, such that the actor's net contribution to global CO₂e emissions over a given time period (e.g., one year) is zero. Carbon neutrality is an intermediate step toward net zero, as it happens before the net zero emissions state, and it can be reached using carbon credits (offsetting) or with mitigation activities within the value chain (insetting) (source: SBTi, UNFCCC Race to Zero, and others).

Offsetting The act of compensating or canceling out all, or a portion of, the GHG emissions released into the atmosphere through investments in activities that reduce or remove an equivalent amount of GHG emissions and that are located outside the boundaries of the organization or a particular product system. Such investments are often in the form of purchasing a carbon credit. Offsetting is effectuated by purchasing and retiring an amount of carbon credits equivalent to the volume of GHG emissions that is being compensated (source: Voluntary Carbon Market Initiative, 2021).

Insetting A company's efforts to prevent, reduce, or remove emissions within its own supply chain, but outside of its operational boundaries. The SBTi considers such insetting measures to be distinct from efforts to "compensate," instead proposing that insetting measures are directly accounted for in a company's efforts to abate all its supply chain emissions as it pursues its net zero target. See glossary in [PMI's Low Carbon Transition Plan](#).

Scope 1 GHG emissions Direct GHG emissions that occur from sources that are owned or controlled by PMI, for example, emissions from combustion in owned or controlled boilers, vehicles, etc., and emissions from chemical production in owned or controlled process equipment.

Scope 2 GHG emissions Indirect GHG emissions from the generation of purchased or acquired electricity, steam, heat, or cooling consumed by PMI.

Location based Emissions from electricity consumption calculated based on the national grid of the country where the facility is located, without taking into consideration an actor's specific emissions.

Market based Emissions of the specific providers that PMI has purposefully chosen (i.e., factories that purchase green electricity).

Biogenic emissions The direct CO₂e emissions generated by the combustion of biofuels.

Scope

The baseline year chosen for reporting is 2019. The reporting period of GHG emissions is aligned with PMI's financial reporting, which is calendar year, i.e., January 1 until December 31.

Included Gases included are carbon dioxide, methane, and nitrous oxide¹. The geographic and physical boundaries set for scope 1+2 emissions reporting are:

- Manufacturing: All emissions from PMI-owned manufacturing sites (emissions from third-party manufacturing sites are included in scope 3 emissions)
- PMI's fleet
- Warehousing: PMI-owned or PMI-operated warehouses
- Offices: PMI-owned or PMI-operated office spaces
- Others: Other facilities under PMI's operational control such as data centers

In line with the GHG Protocol guidelines, biogenic emissions are reported separately from scope 1+2 GHG emissions; however, we include them in our scope 1+2 science-based targets.

Excluded The following items are excluded from our reporting as they have been assessed against materiality threshold defined as 5 percent of total scope 1+2 emissions:

- IQOS stores²
- HFCs¹ gases
- Energy consumed by electric vehicles³

All exclusions are assessed annually.



Calculation methodology

Methodology and conversion factors PMI's scope 1+2 emissions are calculated in accordance with the GHG Protocol's "[A Corporate Accounting and Reporting Standard](#)" (2004). Scope 2 emissions are calculated using the location-based and market-based reporting methods in adherence with the GHG Protocol's "[Scope 2 Guidance](#)" (2015).

To calculate scope 1+2 emissions, fuel consumption by type, as well as acquired electricity, steam, heat, or cooling consumed by PMI, is transformed, if needed, to energy units using standard conversion factors and calorific values.

Thereafter, to convert energy units to CO₂e emissions, CO₂e emission factors per energy type or country are used. PMI sources emission factors from the U.K. government's GHG Conversion Factors for Company Reporting and the International Energy Agency's (IEA) Emissions Factors. In line with the GHG Protocol guidelines, PMI reports both market-based and location-based CO₂e emissions.

Our methodology takes a conservative approach and uses location-based emission factors unless 100 percent of the electricity purchased is certified green electricity, in which case we assume zero emissions. Where a PMI affiliate classifies their electricity as green, a green energy certificate must be submitted to the central sustainability team for validation and meet the GHG scope 2 emissions protocol requirements. Such certificates are verified externally by third parties as part of the annual data verification process.

Verification of offsetting and insetting credits PMI invests in offsetting and insetting projects that comply with rigorous international standards. Selected projects are certified against reputable carbon standards including the Verified Carbon Standard (VCS)⁴ and the Gold Standard⁵; additionally some VCS projects carry the Climate, Community & Biodiversity Standards (CCBS).⁶

The principles at the basis of those carbon standards define generated credits as real, triggering additional GHG emission reduction in comparison with business as usual, and projects are assessed using a technically sound GHG emission reduction quantification methodology specific to each project type. Carbon methodologies further ensure that projects delivering credits meet, among others, the criteria of permanence, avoided leakage, and double counting. They also require that the emission reduction units are verified by an independent and accredited third party with credits that can be issued after the emission reduction has taken place and has been verified through an audit.

The CCBS, applicable for some VCS projects, evaluates land management projects from the early stages of development through implementation and fosters the integration of best-practice and multiple-benefit approaches into project design and implementation. The CCBS can also be applied to projects that reduce GHG emissions from deforestation and forest degradation or projects that remove carbon dioxide by sequestering carbon or other land management.

Data management

On a monthly basis, the amount of energy consumed in PMI's direct operations (scope 1+2), by type of energy source⁷ is reported in PMI's central environmental management system. Input data include:

- Manufacturing sites: the amount of energy consumed by type of energy source based on invoiced amounts or consumption reports from suppliers
- PMI's fleet: the kilometers travelled, and respective fuel consumed, by the vehicles in our fleet
- Warehouses, offices, and others: data on the amount of energy consumed collected on a quarterly basis, based on purchased quantities derived from consumption reports or invoiced amounts

Following the raw data input and validation of the consumption data into PMI's central environmental management system, the system automatically calculates the resulting CO₂e emissions for manufacturing sites, fleet, offices, and warehouses. All data are validated by PMI-accountable subject-matter experts or third-party representatives. For external reporting purposes (e.g., PMI's Value Report and CDP submissions), the consolidation of CO₂e emissions is done by PMI's Central Operations Sustainability team.

Restatement of baseline In line with the maximum exclusion amount for scope 1+2 as defined by the SBTi, PMI applies a significance threshold of +/-5 percent for restatement of baseline emissions. On such occasions, the baseline year is recalculated, to reflect changes in the company that would otherwise compromise the consistency and relevance of the reported GHG emissions information. All restatements of the baseline are validated by the responsible PMI head of function and verified by the third-party verifier.

Data verification The scope 1+2 GHG emissions are reviewed and verified annually by an external third party according to ISO 14064-3:2019 and the verification statement is published on [PMI.com](#).

[See the external verification statement from SGS for scope 1+2 here.](#)

1 HFCs historical emissions are accounted for in Swedish Match operations, while in 2025 these were further incorporated for PMI's scope.

2 Since 2022 a minor portion of PMI's retail stores was included in the scope 1+2 emissions, while in 2025 these were fully incorporated.

3 Emissions associated with the energy consumption from electric vehicles have been included from 2025 reporting year.

4 [verra.org](#).

5 <https://www.goldstandard.org/>

6 [climate-standards.org](#).

7 Energy sources include fossil fuels (diesel, fuel oil, natural gas, petrol, LPG, and coal), biofuels (biodiesel, bioethanol, biomass), district steam, district heating, district cooling, and electricity (renewable versus nonrenewable, split according to source (solar, wind, biofuel)).



Tackle climate change

20

Absolute carbon emissions reduction in scope 3 Forests, Land, and Agriculture (FLAG) versus 2019 baseline (in line with science-based target)

KPI description

FLAG targets apply to a company's Forest, Land, and Agriculture related emissions up to the farm gate, including CO₂ emissions related with land use change (e.g., deforestation, forest degradation, conversion of wetlands, peatland burning), land management (e.g., N₂O and CH₄ from enteric fermentation, biomass burning, application of fertilizers, manure management), and carbon removals and storage (e.g., carbon sequestration from improved forest management, agroforestry, afforestation, soil organic carbon, biochar, technological). PMI has set a science-based target to achieve a 33.3 percent reduction in scope 3 FLAG GHG emissions by 2030 versus 2019 baseline.

Definitions

Science-based targets SBTi is a partnership between CDP, the UN Global Compact, World Resources Institute (WRI), and the World Wide Fund for Nature (WWF). Science-based targets provide a clearly defined path to reduce emissions, helping prevent the worst impacts of climate change and future-proof business growth. Targets are considered "science-based" if they are in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement—limiting global warming to 1.5°C above pre-industrial levels.

Scope 3 FLAG GHG emissions Indirect emissions that result from PMI's acquisition of raw materials with a biogenic origin, including but not limited to tobacco, pulp and paper materials, packaging materials, ingredients, and others.

Calculation methodology

PMI has a full value chain carbon footprint model in place, which includes Scope 3 FLAG emissions. Our carbon footprint model is aligned with the GHG Protocol "[Corporate Value Chain \(Scope 3\) Standard](#)" (2011) and "[Land Sector and Removals Guidance](#)" (2024). For more details on PMI's accounting methodology, scope, and data collection process, please refer to [PMI's Value Chain Carbon Footprint: Methodology Overview](#).

Data verification

PMI's scope 3 FLAG GHG emissions are reviewed and verified annually by an external third party according to ISO 14064-3:2019 as part of PMI's carbon footprint verification. The verification statement is available on [PMI.com](#).

 See the external verification statement from SGS for scope 3 FLAG [here](#).



Preserve nature

21

Proportion of tobacco purchased at no risk of net deforestation of managed natural forest and no conversion of natural ecosystems

KPI description

PMI's [Zero Deforestation Manifesto](#) reinforces its commitments to measure the impact on forests linked to PMI's supply chain. Having achieved zero gross deforestation of primary and protected forests in our tobacco supply chain in 2020, PMI has furthered its commitment by targeting zero net deforestation of managed natural forest and no conversion of natural ecosystems by 2025 for all its tobacco suppliers.

PMI takes a risk-based approach to monitoring deforestation in the tobacco supply chain. As the risk of deforestation related to the curing of Virginia flue-cured tobacco is considered material, a detailed monitoring process has been established to ascertain the sustainability and traceability of 100 percent of the wood fuel used to cure tobacco by contracted farmers.

Additionally, on an ongoing basis, the risk of deforestation of all tobacco-growing areas (TGAs) is monitored using externally available geophysical input data to assess the changes in forest coverage and natural ecosystems inside the TGAs. This combination of detailed monitoring of potentially high-risk activities and ongoing monitoring of all TGAs forms the basis of PMI's risk-based approach to monitoring deforestation risk in our tobacco supply chain.

Definitions

Zero Deforestation Manifesto 2.0 (ZDM 2.0) Published in 2021, the ZDM 2.0 outlines PMI's commitments to zero gross and zero net deforestation—covering all our relevant tobacco leaf-sourcing areas (TGAs) and defines expectations against zero gross deforestation of primary and protected forests and zero net deforestation for natural managed forests in our supply chain.

Zero gross deforestation Aggregate deforestation for a given natural forest area (e.g., a forest reserve or natural park within the tobacco or pulp and paper supply chain), without deduction for reforestation or other compensation activities.

Zero net deforestation The difference in forest area between two points in time, taking into account both losses from deforestation and gains from forest regeneration and restoration. Net deforestation is measured with reference to a given geographic area (e.g., a district, state, nation, or globe) and a given timeframe.

Cut-off date As defined by the Accountability Framework initiative (AFi), the cut-off date is “the date after which deforestation or conversion renders a given area or production unit non-compliant with no-deforestation or no-conversion commitments.” The set cut-off date for PMI applies to all current and future suppliers. Therefore, any new supplier has to demonstrate its adherence to PMI's commitment of no deforestation as of January 1, 2019, regardless of the year in which their engagement with PMI commenced.

Deforestation Loss of natural forest area as a result of: (i) conversion to agriculture or other non-forest land use; (ii) conversion to a tree plantation; or (iii) severe and sustained degradation (AFi, 2024).

Tobacco-growing areas (TGAs) Geographical spaces that include a farm area where tobacco cultivation takes place and the potential area of impact on nature that tobacco-related activities could generate.

Tree plantation A forest predominantly composed of trees established through planting and/or deliberate seeding that lacks key elements of a natural forest native to the area, such as species composition and structural diversity. Tree plantations generally have one or a few tree species and tend to include one or more of the following characteristics:

- Planted on cleared land
- Intensive use of chemical inputs (fertilizers, pesticides)
- Harvested regularly
- Trees of even ages
- Products from the plantation managed and processed for commercial production

Natural ecosystem An ecosystem that substantially resembles—in terms of species composition, structure, and ecological function—one that is, or would be, found in a given area in the absence of major human impacts. This includes human-managed ecosystems where much of the natural species composition, structure, and ecological function are present (AFi, 2024). For the scope of this document, the relevant ecosystems are peatland, wetland, savannah, grassland, and semi-forest formations.

Natural forest Forests that possess many or most of the characteristics of a forest native to the given site, including species composition, structure, and ecological function.



Primary and protected forest Forests that have not been subject to major human impacts in recent history and possess many or most of the characteristics of a forest native to the given site, including species composition, structure, and ecological function. More specifically, PMI's definition of primary and protected forest are those located inside PMI TGAs (see definition of TGAs on pg. 35) that are mapped using publicly available sources.

Wood fuel All types of biofuels derived directly and indirectly from trees and shrubs grown on forest and non-forest lands, from silvicultural activities, harvesting, and logging, as well as industrial by-products, timber-based fuels such as firewood, pellets, woodchips, and briquettes.

Sustainable wood fuel Includes wood fuels derived from:

- Legal plantations that are sustainably managed, including on-farm planting
- A sustainably managed secondary forest or degraded forest with no measurable deforestation by spatial analysis tools
- Identified invasive exotic species that have not been planted and require removal according to a thorough ecological assessment

Sustainable wood fuel excludes wood fuels derived from:

- Unsustainable managed natural forests where deforestation is measurable by spatial analysis tools or on-site inspection visits
- Plantations resulting from conversion of natural forests after the set cut-off date

Scope

Included Any forest type and forest management that can be directly or indirectly (e.g., biomass for energy in tobacco curing) linked to PMI's tobacco supply chain. Natural ecosystems that may not be entirely forested, like peatland or savannah, or unique ecosystems such as the Cerrado in Brazil or the Miombo forest in Mozambique, are also in scope. All TGAs covered by PMI's Integrated Production System (IPS) and monitored by field technicians or contracted service providers for adherence to GAP and ALP.

Excluded Loss of forest area resulting from natural disturbances that are part of the natural life cycle of forests and characteristic of ecosystem formation and evolution are not considered in scope of our deforestation commitments. Artificial plantations.

Calculation methodology

Monitoring and verification framework To ensure adherence and measure progress toward PMI's zero deforestation commitments, PMI provides third-party leaf suppliers, PMI leaf operations, and contracted farmers with guidelines to deploy a monitoring and verification system ([here](#)), including measurement criteria. The monitoring and verification framework for deforestation in PMI's tobacco supply chain can be broken down into three main activities.

The first activity is defining and mapping forest types in TGAs. GPS coordinates of the TGAs, collected by third-party leaf suppliers and PMI leaf operations, are mapped against publicly available sources of forest cover to define the forest types contained within the TGAs. Forest types include primary and protected forests, managed natural forests, or natural ecosystems.

Second, the monitoring of deforestation risk is carried out. This is typically done at two levels:

1. Supply chain inputs: A monitoring framework for sustainable curing fuels is applied to all TGAs in which Virginia flue-cured tobacco is cultivated due to the associated material risk for gross and net deforestation. Accordingly, all suppliers of Virginia flue-cured tobacco must record and verify the sources of the wood fuel used to cure tobacco. A third-party auditor assesses conformity with the monitoring framework to ascertain sustainability and traceability of 100 percent of the fuel used to cure tobacco by contracted farmers.

Data verification The KPI, as published in [PMI's Value Report 2025](#), has been assured by PwC (limited assurance).

[See the independent practitioner's limited assurance report](#)

2. Landscape analysis is applied to all TGAs, which combines the GPS data of the TGAs with forest cover maps from Global Forest Watch or equivalent platforms to assess the change in forest cover and conversion of natural ecosystems over a defined period. PMI conducts this analysis on an annual basis and the results provide an indication of the intrinsic risk towards gross and net deforestation and/or conversion of natural ecosystems.

3. The identified deforestation risk is to be verified. For each Virginia flue-cured market, the verification is conducted by the third-party auditor. The outcome is an opinion of compliance against the monitoring framework on tobacco-curing fuel. Additionally, when the annual landscape analysis indicates an intrinsic risk of a deforestation event in the TGA, such an event needs to be further confirmed through ground-truthing (i.e., on-site validation) or, when ground-truthing is not applicable, through verification of the declaration of farmer/supplier or validation of supporting documents.



If zero net deforestation is detected by the monitoring framework indicating unsustainable volumes of firewood from managed natural forests, the number of hectares impacted will be compensated to showing that activities to reach the zero net balance are developed at the end of 2025. Compensation activities must follow the guidelines from the mitigation hierarchy (avoid, minimize, restore, transform) and will have to be proven, by a dedicated impact assessment to validate the intervention, to have contributed to generate or restore a natural ecosystem. Regular suppliers, TGAs, and markets will be recognized as having achieved zero gross deforestation or zero net deforestation and no conversion of natural ecosystems when the results of the external audit will show full compliance with the principles and indicators of the monitoring framework. New suppliers, TGAs, and markets will be recognized as having achieved zero gross deforestation when landscape risk analysis is performed, and when the external audit shows full compliance with the zero gross compliance requirement defined in our monitoring framework. Zero net deforestation will be recognized as achieved by new suppliers/markets if traceability and sustainability requirements, as described in our monitoring framework, are achieved, and when the external audit shows full compliance with the zero net compliance requirement defined in our monitoring framework.

Proportion of tobacco purchased at no risk of net deforestation of managed natural forest and no conversion of natural ecosystems.

$$= \left(\frac{\text{Tobacco at risk of deforestation purchased at no evident risk of net deforestation}}{\text{Total tobacco purchased at risk of deforestation}} \right) \times 100\%$$

In cases wherein there will be a tobacco volume purchased from a new market, the percentage of tree cover loss is to be discounted from the zero net calculation.

Estimates and assumptions Total tobacco purchased by PMI is based on a full calendar year (January through December), considering the January through September actual purchased volumes, combined with the forecasted volume for the period October through December.

Data management

Supply chain inputs are managed via third-party leaf suppliers' data collection processes and reported in PMI's proprietary curing fuel data monitoring system twice a year. For the mapping of forest types contained within each TGA, PMI recommends third-party leaf suppliers and PMI leaf operations use the Hansen global forest maps available at Global Forest Watch (GFW). This mapping is maintained in PMI's geospatial analysis tools, with the landscape risk analysis updated on an annual basis following the GFW update in Q4.

Following the verification process, on an annual basis, the results of the tobacco supply chain inputs and landscape risk analysis are consolidated centrally to report the global figure of the proportion of tobacco purchased at no risk of net deforestation of managed natural forest and no conversion of natural ecosystems in PMI's tobacco supply chain.

Data verification In addition to verification of the supply chain inputs and any deforestation events as identified by the landscape analysis, prior to external reporting, the program auditor verifies PMI's assertion of compliance on the global consolidated tobacco purchased figure at no risk of net deforestation of managed natural forest and no conversion of natural ecosystems.

Data verification The KPI, as published in [PMI's Value Report 2025](#), has been assured by PwC (limited assurance).

 [See the independent practitioner's limited assurance report](#)



Preserve nature

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Proportion of priority forest area in PMI tobacco and paper and pulp-based product supply chains with zero deforestation

KPI description

PMI's [Zero Deforestation Manifesto](#) (ZDM) outlines our commitment to achieving zero identified deforestation in priority forest area in our tobacco and paper and pulp-based product supply chains. PMI's priority forest area KPI is a next-generation indicator that measures the state of nature (outcome) as a lagging output and uses due diligence in the process as a leading indicator (i.e., forest integrity versus certification of sourced timber materials). The KPI allows us to monitor the preservation of natural capital over time, including the tracking of forest degradation that could be indirectly linked to PMI activities in the areas of interest (AOIs).

To determine the amount of forest area in scope compliant with zero identified deforestation, we conduct an assessment of deforestation risk using geospatial monitoring tools on the growing areas (for tobacco) and the forest concessions (for provision of fuel wood for curing) within PMI's supply chain.

An area buffer, calculated ad hoc, is added to account for the sourcing of biomass and firewood outside of the tobacco farm. AOIs provided for our paper and pulp-based product supply chain are used for Procurement Direct Materials (DIM) when the AOI coordinates or polygons are available directly from suppliers. If not spatially determined, AOIs can be defined for both tobacco and DIM at jurisdictional level as the municipality area where PMI-related business activities occur. Consequently, a monitoring and verification framework, including third-party verification, is applied to both supply chains to validate compliance with zero identified deforestation requirements.

The commitment to zero identified deforestation in priority forest areas in our tobacco and paper and pulp-based supply chains is aligned with PMI's biodiversity strategy, aiming to achieve No Net Loss on PMI's value chain by 2033.

Definitions

PMI's effort to address deforestation focuses on its agriculture and forestry supply chains, where deforestation poses the greatest risk to nature, society, and business operations. These areas are prioritized according to the Taskforce on Nature-related Financial Disclosure (TNFD) recommended criteria of sensitivity and materiality.

Sensitive location An area with high ecological importance or vulnerability, as defined by the TNFD. They typically include biodiversity hotspots, legally protected areas, key biodiversity areas (KBAs), critical habitats for endangered species, areas of importance for ecosystem service provision, including benefits to Indigenous people and local communities, and water-stressed areas (TNFD, 2023).

Material location An area where nature-related risks and opportunities are likely to have a substantial impact on a company's financial position, performance, and value creation (TNFD, 2023). Materiality is often determined by the potential magnitude of the risk or the opportunity in specific contexts. Identifying material locations requires assessing the dependency on ecosystem services (e.g., water supply, pollination) and the negative impact on natural resources (e.g., deforestation, pollution). The yields, production volumes, or purchased materials can serve as proxies for determining the materiality of a location, based on the assumed direct cause-effect relationship between these volumes and the biodiversity impacts and dependencies.

Priority location An area where a company should focus its efforts to address nature-related risks, opportunities, and impacts (TNFD, 2023). They are determined through the combination of the sensitivity of the area (i.e., sensitive locations), the materiality of the business activities (i.e., material locations), and the alignment with regulatory requirements or stakeholders' concerns. Prioritization facilitates efficient allocation of resources to the most critical areas. Prioritized areas undergo further analysis based on local data.

Cut-off date The date after which deforestation or conversion renders a given area or production unit noncompliant with no-deforestation or no-conversion commitments, as defined by the Accountability Framework initiative (AFI). The set cut-off date for PMI applies to all current and future suppliers. Therefore, any new supplier will have to demonstrate their adherence to PMI's commitment of no deforestation as of January 1, 2019, regardless of the year in which their engagement with PMI commenced. This date aligns with and surpasses the EU Deforestation Regulation request for setting a baseline year in 2020.

Deforestation Loss of natural forest area as a result of: (i) conversion to agriculture or other non-forest land use; (ii) conversion to a tree plantation; or (iii) severe and sustained degradation (AFI, 2020).

Tobacco-growing areas (TGAs) Geographical spaces that include a farm area where tobacco cultivation takes place and the potential area of impact on nature that tobacco-related activities could generate (buffer area).



Tree plantation A forest predominantly composed of trees established through planting and/or deliberate seeding that lacks key elements of a natural forest native to the area, such as species composition and structural diversity. Tree plantations generally have one or a few tree species and tend to include one or more of the following characteristics:

- Planted on cleared land
- Intensive use of chemical inputs (fertilizers, pesticides)
- Regular harvesting
- Trees of even ages
- Products from the plantation managed and processed for commercial production

Natural ecosystem An ecosystem that substantially resembles—in terms of species composition, structure, and ecological function—one that is, or would be, found in a given area in the absence of major human impacts. This includes human-managed ecosystems where much of the natural species' composition, structure, and ecological function are present (AFi, 2020). For the scope of this document, the relevant ecosystems beyond forest are peatland, wetland, savannah, grassland, and semi-forest formations.

Natural forest Forests that possess many or most of the characteristics of a forest native to the given site, including species composition, structure, and ecological function.

Primary forest Forests that have not been subject to major human impacts in recent history and possess many or most of the characteristics of a forest native to the given site, including species composition, structure, and ecological function.

Key biodiversity areas (KBAs) Sites that contribute significantly to the global persistence of biodiversity. The criteria used to identify KBAs incorporate elements of biodiversity across genetic, species, and ecosystem levels, and are applicable to terrestrial, freshwater, marine, and subterranean systems. KBAs have delineated boundaries and are actually or potentially manageable as a unit ([Map Search](#)).

Wood fuel All types of biofuels derived directly and indirectly from trees and shrubs grown on forest and non-forest lands, from silvicultural activities, harvesting, and logging, as well as industrial byproducts, and timber-based fuels such as firewood, pellets, woodchips, and briquettes.

Sustainable wood fuel Includes wood fuels derived from:

- Sustainably managed legal plantations, including on-farm planting
- Sustainably managed secondary forest or degraded forest with no measurable deforestation by spatial analysis tools

Excluded are identified invasive exotic species that have not been planted and require removal according to a thorough ecological assessment. Sustainable wood fuel also excludes wood fuels derived from:

- Unsustainably managed natural forests where deforestation is measurable by spatial analysis tools or onsite inspection visits
- Plantations resulting from conversion of natural forests after the set cut-off date
- Primary and protected forests

Scope

Included Any forest area defined as priority based on sensitive location and material location analysis according to specific thresholds for tobacco and direct materials. Among the selected priority forest areas, the forest management can be directly or indirectly linked to PMI's tobacco and paper and pulp-based product supply chains (e.g., biomass for energy in tobacco curing, feedstock source plantations for DIM). Natural ecosystems that may not be entirely forested, like peatland or savannah, or unique ecosystems like the Cerrado in Brazil or the Miombo forest in Mozambique, are also in scope, as is any specific key biodiversity area when it intersects with material locations.

Excluded All the forest area that does not meet the priority forest area criteria, i.e., forest areas that do not represent sensitive locations. Additionally, any areas where loss of forest area results from natural disturbances that are part of the natural life cycle of forests and characteristic of ecosystem formation and evolution are not considered in the scope of our deforestation commitments.

Calculation methodology

Monitoring and verification framework To ensure adherence and measure progress toward PMI's zero deforestation commitments, PMI provides third-party leaf suppliers, PMI leaf operations, and contracted farmers with guidelines to deploy a monitoring and verification system ([here](#)), including measurement criteria. Similarly, PMI offers zero deforestation implementation guidelines to our paper and pulp-based product suppliers.

The monitoring and verification and implementation of PMI's zero deforestation commitments for tobacco and paper and pulp-based product supply chains can be broken down into three main activities.

The first activity is defining and mapping forest types in TGAs for the tobacco supply chain; for the paper and pulp-based product supply chain, it involves disclosing the origins of the wood fiber or AOIs in sourcing raw materials for PMI's products. GPS coordinates of the TGAs and AOIs are mapped against publicly available sources of forest cover to define the forest types contained within these areas. Forest types include primary forests, managed natural forests, or natural ecosystems, and proximity to key biodiversity areas.



The second activity involves monitoring of deforestation risk and conducting landcover change analysis. This is typically done at three levels:

- 1. Supply chain inputs:** A monitoring framework for tobacco supply chain sustainable curing fuels is applied to all TGAs in which Virginia flue-cured tobacco is cultivated, due to the associated material risk for deforestation. Accordingly, all suppliers of Virginia flue-cured tobacco must record and verify the sources of the wood fuel used to cure tobacco. A third-party auditor assesses conformity with the monitoring framework to ascertain sustainability and traceability of 100 percent of the fuel used to cure tobacco by contracted farmers. Similarly, for the paper and pulp-based product supply chain, a third-party auditor assesses conformity to ascertain that all products for PMI are coming from sustainable sources and comply with the ZDM requirements.
- 2. Landscape analysis:** This is applied to all TGAs, combining the GPS data of the TGAs and AOIs with forest cover maps from Global Forest Watch or equivalent platforms to assess changes in forest cover and the conversion of natural ecosystems over a defined period. Land cover change analysis and proximity to key biodiversity area assessments are also conducted. PMI conducts this analysis annually, and the results provide an indication of the intrinsic risk towards identified deforestation and/or conversion of natural ecosystems.

- 3. Verification of identified deforestation:** For each Virginia flue-cured market and each paper and pulp-based source market, verification is conducted by a third-party auditor. The outcome is an opinion of compliance with the monitoring framework on tobacco curing fuel and adherence to PMI's ZDM. Both tobacco and paper and pulp-based product suppliers must comply with PMI's ZDM requirements and provide evidence that they safeguard the primary and key biodiversity areas where they operate.

The third activity is the compensation. Interventions to counterbalance identified deforestation are requested from PMI-related supply chain stakeholders involved in the issue. Specifically, reforestation/afforestation activities must be designed and delivered in accordance with the mitigation hierarchy ([here](#)) and the Like for Like approach (AFi). The compensated area needs to undergo third-party validation on the design and planned implementation. Compensation projects must be implemented within three years of detecting the deforestation.

Calculation methodology

$$PF_0 = \frac{(PFt + PFd)}{PFtot}$$

PF₀ = proportion of priority forest area with zero identified deforestation

PFt = priority forest in tobacco with zero identified deforestation

PFd = priority forest in DIM with zero identified deforestation

PFtot = total priority forest area in scope for tobacco and DIM

Data management

Supply chain inputs are managed via third-party leaf suppliers' data collection processes and reported in PMI's proprietary curing fuel data monitoring system annually, with tobacco data collected in line with the reporting year. DIM-related supply chain data are provided on a year-minus-one basis and are always related to the feedstock area (polygons, GPS coordinates, municipalities) in relation to the sourcing of timber-based materials.

For mapping forest types within each TGA and AOIs, PMI uses global forest maps publicly available online and a database of KBAs, with overlaps calculated using a Geographic Information System (GIS) tool. This mapping is maintained in PMI's geospatial analysis tools, with the landscape risk analysis updated annually following the GFW update in Q4.

Following the verification process, the results of the supply chain inputs, and landscape risk analysis are consolidated centrally on an annual basis to report the global figure of the proportion of priority forest area in PMI tobacco and paper and pulp-based product supply chains with zero identified deforestation.

Data verification In addition to verifying the supply chain inputs and any deforestation events identified by the landscape analysis, the program auditor verifies PMI's assertion of compliance on the global consolidated information about proportion of priority forest area in PMI's tobacco and paper and pulp-based product supply chains with zero identified deforestation, prior to external reporting.



Preserve nature

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Volume of water optimized in our tobacco-growing areas (mio m³ – cumulative since 2019)

KPI description

As part of its commitment to environmental stewardship, PMI aims to ensure that its water use and impact remain within local ecological and societal limits by prioritizing water stewardship. To enhance water security on tobacco farms and in the surrounding watersheds, PMI has set a target to, by 2033, optimize and restore 25 million cubic meters of water across tobacco-growing areas by identifying and addressing shared water challenges.

By addressing water challenges at watershed level in relation to the most impacted stakeholders, we gain better control on water-related risks where our supply chain operates. This approach contributes to the resilience of our contracted farmers and their communities. Examples of these challenges include physical water scarcity, deteriorating water quality, and regulatory restrictions on water allocation. Water is restored towards the target when farm or landscape-level projects address these shared challenges.

To track the progress of water optimized since 2019, PMI follows the World Resource Institute's (WRI) Volumetric Water Benefit Accounting methodology.

Definitions

Global Risk Assessment (GRA) A desktop study that evaluates our tobacco supply chain, key procurement categories, and direct operations. It utilizes publicly available global water risk data to assess drivers of physical water quantity and quality. The GRA provides a high-level snapshot of water risk, with indicators including water stress, seasonal variability, flood occurrence, drought severity, and groundwater resource trends. The GRA serves as an initial prioritization tool, informing PMI about the locations and severity of physical water risks.

Local Water Risk Assessment (LWRA) A in-depth study conducted after the GRA to enhance risk profiles. It uses locally reported data, stakeholder interviews, and focuses on key water basins from which the farmers draw and discharge water. The purpose of the LWRA is to help local suppliers' teams and farmers understand water risks in a specific growing area.

Shared Water Challenge A water-related issue, concern, or threat shared by the site and one or more stakeholders within the catchment(s). Examples include physical water scarcity, deteriorating water quality, and regulatory restrictions on water allocation.

Tobacco-growing areas (TGAs) Geographical spaces that include a farm area where tobacco cultivation takes place and the potential area of impact on nature that tobacco-related activities could generate.

Volumetric Water Benefits (VWB) Water stewardship activity outputs, estimated in volume per unit of time, that help in reducing shared water challenges.

Volumetric Water Benefit Accounting (VWBA) A globally recognized methodology for assessing the water benefits related to the execution of water stewardship activities.

Watershed An area of land where precipitation collects and drains off into a common outlet, such as into a river, bay, or other body of water. Also commonly referred to as a drainage basin or catchment.

Water stewardship The responsible use of water in a socially and culturally equitable manner, considering environmental sustainability while remaining economically beneficial. This process involves working with stakeholders and taking actions both at specific sites and across entire watersheds. Water stewardship values and respects the limited amount of fresh water located on our planet.

Water Stewardship Accounting Tool A tool using WRI's VWBA methodology. It offers step-by-step guidance allowing project ideation that addresses shared water challenges and lists the necessary measurements for each project type.

Water Stewardship Thermometer The approach used by PMI to assess the credibility of water stewardship projects, developed by Bluerisk and Valuing Impact (2021).



Scope

Included Leaf tobacco supply chain.

Excluded Projects outside of TGAs. Projects in leaf tobacco areas not funded or supported by PMI.

Calculation methodology

The volume of water benefits is calculated by summing the volumetric water benefits for each calendar year to consolidate the global figure. For the final annual actual, the benefits for the current year and past year (starting in 2019) are added to obtain a cumulative result in cubic meters (m³):

$$= \text{Current year water benefits (m}^3\text{)} + \text{Past year (since 2019) water benefits (m}^3\text{)}$$

Estimates and assumptions Projects are implemented starting in January, and data are collected throughout the year. In October and November, data on the total cubic meters optimized and restored are consolidated and shared with a third party for external assurance. By the end of November, the total cubic meters optimized and restored in the calendar year are available.

Data management

Data are collected from PMI's leaf operations and third-party suppliers. For each of the projects implemented in the calendar year, a results capture template is prepared, reflecting the total water benefits optimized and restored in that year (e.g., the amount of water saved by a drip irrigation project) along with the project's supporting documentation. Each project is then assessed by a third party and ranked according to a credibility thermometer (see picture). Only A-rated projects are considered for the KPI calculation.

Data verification All volumetric water benefit claims since 2019 have been externally assessed and validated. Going forward, annual volumetric water benefits will be verified each year by an external third-party auditor.

Water stewardship activity credibility thermometer



Instructions Review the proposed water stewardship activity within the sites physical scope and ask yourself the following questions:

- Does the activity address a shared water challenge?
- Does the activity address the root cause of the shared water challenge?
- Does the activity contribute to a shared vision for the catchment and have stakeholder support?
- Are you confident that the activity does not have negative consequences or dependencies?

For questions you answer "Yes" give the activity a score of 1,

For questions you answer "No" or "Unknown" give the activity a score of 0.

Sum the scores and rank the activity such that:

- A** Sum of scores = 4
- B+** Sum of scores = 3
- B-** Sum of scores = 1 or 2
- C** Sum of scores = 0

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