



PHILIP MORRIS INTERNATIONAL

**ENVIRONMENTAL, SOCIAL & GOVERNANCE  
KEY PERFORMANCE INDICATORS PROTOCOL  
ESG KPI PROTOCOL 2022**

we were

we are transforming for good

we will be

APRIL 2023



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### This document at a glance

In 2022, PMI published its inaugural ESG KPI Protocol (the Protocol), which explained PMI's approach to reporting and described in detail the newly introduced PMI Sustainability Index (the Index). The first edition of the Protocol described in detail how the 19 key performance indicators (KPIs) that comprise the Index were selected and weighted, and how the Index is used to measure and report on progress towards achieving our 2025 Roadmap on an annual basis ([read more here](#)). The basis for preparation and reporting section of the document included key definitions, scope, calculation methodology, and related data management for each KPI.

This document is the second edition of the Protocol and reflects the most up-to-date information regarding our approach to reporting. The basis for preparation section incorporates the most recent description of the definition, scope, calculation methodology, and related data management for each of those 19 KPIs that belong to the Index, which we continuously seek to strengthen. This Protocol is applicable for the FY 2022 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 Integrated Report 2022 ([available here](#)), which provides a description of PMI's 2022 performance as measured by the Index.

For further information on the structure of the Index, please refer to [PMI.com](#).

This Protocol will be reviewed periodically to reflect relevant developments, such as changes in business priorities, revised methods of measuring or capturing data, stakeholder feedback, and developments related to mandatory and voluntary reporting frameworks and standards.

## Overview

This Protocol establishes a bespoke framework to measure progress on our most material environmental, social and governance (ESG) topics. It clearly defines KPIs that make the connection between our company's purpose, strategic direction, financial performance, and environmental and social considerations. By publishing this Protocol, we aim to provide transparency on how we define those key metrics we use to measure how our company is progressing toward achieving its purpose and creating value for its shareholders, as well as other stakeholders.

The introduction of PMI's first ESG KPI Protocol in 2021 permitted the development of a bespoke Sustainability Index (the Index) to measure progress toward our 2025 goals.

The Protocol ensures the Index consists of measurable, comparable, and verifiable KPIs, which allows shareholders and other stakeholders to assess and track progress in a consistent manner over time. Moreover, this objective, quantifiable, and robust data-driven approach to measuring ESG performance allows us to link it to our company's long-term executive compensation scheme as of the 2022-2024 performance share units (PSUs) performance cycle. In addition, the Protocol offers the necessary basis on which to expand the scope of our external assurance, helping build preparedness and helping us to anticipate regulatory requirements, including the need for external assurance, increasing shareholders' and other stakeholders' confidence in our reporting.

This document reflects the latest information regarding the definition, scope, calculation methodology, and related data management for each of the 19 KPIs that comprise the current Index. Beyond this, we aim to pursue the same degree of rigor in internal risk, control, and measurement systems for nonfinancial metrics as we do for financial information. This will enable 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.

However, unlike financial accounting standards, and despite evolving practices, currently there are few industry norms or globally recognized practices for measuring and evaluating nonfinancial performance. Consequently, standard-setters and regulators are working towards the creation of clearer guidelines and requirements for the disclosure and assurance of nonfinancial information.

We monitor closely these developments and expect to be prepared to respond to mandatory reporting requirements, when applicable, including the U.S. SEC proposal on climate-related financial disclosures, and the European Union Corporate Sustainability Reporting Directive (CSRD), as well as an early adopter of meaningful voluntary standards to be issued by the International Sustainability Standards Board (ISSB), among others.

Within this context, during 2022 we continued to enhance the robustness of our ESG data management and reporting and we undertook an extensive relevance review of all our reported ESG metrics. As part of this exercise, we evaluated the strength, validity, and maturity of the data reported.

We also categorized the full universe of our existing ESG indicators by type and use. This categorization allowed us to begin prioritizing our actions as we seek to increase the reliability of our ESG data, and lay the groundwork for future efforts to reduce the number of KPIs included in our Integrated Report to ensure that we focus on the most meaningful indicators ([read more here](#)).

In the coming years, we seek to expand this Protocol to cover a larger set of our priority metrics, notably those that are bespoke to PMI and are linked to PMI's most material sustainability topics, but not covered by external reporting requirements or rating agencies.



Jennifer Motles  
Chief Sustainability Officer

**“As sustainability matures and gains importance inside and outside our company, the question of how to measure ESG performance is something that remains top of mind. There is a need for greater transparency, more robust methodologies, and better clarity on definitions and assumptions. We have long expressed our support for more rigor in sustainability-related reporting and certainly welcome recent developments leading to more consistency in standards under strong governance frameworks. Our intention in developing the concept of an ESG KPI Protocol was to contribute toward the measurement of ESG performance, noting that metrics are often unique to each company's strategy and materiality. PMI's ESG KPI Protocol and Sustainability Index act as a tool to engage employees at all levels of the organization, support program owners by ensuring key sustainability initiatives are prioritized, and act as a vessel through which we continue to build capabilities within our financial, IT, and risk management functions regarding the management of ESG performance. Externally, it allows us to communicate with rigor, accuracy, and credibility our annual progress, using a robust data-driven approach to managing our most material ESG-related risks.”**



## Our approach to reporting

### Reporting process

PMI measures and reports ESG performance primarily through its annual Integrated Report, available on [PMI.com](https://www.pmi.com), and on an ad hoc basis in other external communications.

Consistent with our 2021 sustainability materiality assessment, our reporting includes data points related to all our most material ESG topics, including but not limited to the 19 KPIs described in further detail in this document. To prepare our annual Integrated Report, data are collected through a central repository and approved by data-owners through a system workflow prior to publication.

### Scope

Data and information reported in our annual Integrated Report cover all PMI subsidiaries globally unless explicitly stated otherwise.

Newly acquired subsidiaries, partially or fully owned by PMI, are included in our reporting as soon as the appropriate processes and systems are implemented to enable consistent data collation and group-level consolidation.

Additionally, operations or products related to joint ventures, partnerships, or license agreements, are excluded from the scope of all performance measures, unless otherwise indicated.

Following the deconsolidation of PMI's Canadian subsidiary, Rothmans, Benson & Hedges Inc. (RBH), effective March 22, 2019, PMI reports the volume of brands sold by RBH for which other PMI subsidiaries are the trademark owner. These include *HEETS*, *Next*, *Philip Morris*, and *Rooftop*.

### Reporting period

The reporting period for our Integrated Report is aligned with our financial calendar and extends from January 1 to December 31 of any given year, unless otherwise stated in the selected KPIs' details and indicated with appropriate footnote in PMI's Integrated Report.

### Restatement of nonfinancial data

To ensure consistency, comparability, and accuracy in our year-on-year reporting, we may restate previously reported data to reflect KPI definition, methodology, or scope changes, if the impact is material. Restatements are considered material if they improve quality of data and facilitate performance comparison, account for changes in the company's footprint, or if a material variance in prior years reported data is identified. Prior to restating historical data, both the business owner and sustainability controlling group are accountable for assessing the materiality of the change and approving the restatement. Whenever we restate historical data, we provide an appropriate footnote explaining the change in PMI's annual Integrated Report.

### Uncertainty and estimates

We make every effort to capture all relevant data globally, often working with our partners along our value chain to collect reliable primary data. However, it may not always be feasible or practical to do so, particularly for data connected with activities that are outside our direct or indirect control. This Protocol therefore contains descriptions where such occasions require us to make estimates and assumptions.

### Data integrity

This Protocol, and the standards contained herein, seeks to ensure that all KPIs included in the Index are both measurable and verifiable.

To ensure that the data we report are measured consistently, from year to year, with a clearly defined scope and calculation methodology, the KPIs described in the Protocol are supported by detailed internal standards.

In 2022, we worked with our internal Risk & Controls function to review these standards and strengthen our KPI definitions, data management processes, and controls. Each of these standards is assigned an owner, who is a subject-matter expert from the relevant business function and is responsible for ensuring the standards are reviewed and updated periodically to reflect any significant changes. The "Basis for preparation and reporting" section of this Protocol summarizes these internal standards and is intended to provide external stakeholders with transparency as to our reporting methodology. This document shall be reviewed periodically to reflect any material updates to internal standards.

We will build on this foundation in the coming years, further embedding the management of nonfinancial risks and data across our business functions. This will allow us to expand the number of our ESG metrics being externally assured and further integrate sustainability considerations into business decisions and processes.

### Independent assurance

At PMI, we recognize the important role that external reviews of our data disclosures play in our reporting process. Such reviews not only increase the credibility of our reporting but support us in continuous improvement of our internal data management processes. In line with regulatory developments, we are committed to expanding the coverage of external assurance on our nonfinancial metrics, focusing on our most material ESG topics.

For the 2022 reporting year, a selection of our financial and nonfinancial Business Transformation Metrics, indicators related to environmental health and safety (EHS) of our operations, and our greenhouse gas (GHG) emissions data were externally assured (see 2022 assurance reports on [PMI.com](https://www.pmi.com)). The primary reason we have started with the assurance of these metrics is that they either pertain to our most material topics or we have significant historical data which has enabled us to develop robust reporting systems. Moreover, the Business Transformation Metrics have been consistently reported externally in our Integrated Report and investor materials and used in our Business Transformation-linked Financing Framework published in 2021. In the coming years, we will work to expand the external assurance of our reporting, prioritizing the KPIs described within this document, while keeping abreast of regulatory developments.

**“By fully integrating ESG into our enterprise risk management (ERM) and assurance programs, we are ensuring that our ESG efforts benefit from our strategic objective-centric risk management practices, including its structure, methodologies, technology, and processes. We are also deploying continuous efforts to elevate the rigor and robustness of our nonfinancial sustainability-related disclosures. Our seamless collaboration proves that together as a whole we are greater than the sum of each individual discipline on its own.”**

Marie-Pauline Lauret  
Vice President Risk & Assurance







## Key definitions

**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.

**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 PMI uses 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 employee** – An employee who is under the direct supervision of PMI employees but employed by a temporary employment agency.

**Contractor** – A person employed by or working on behalf of a third-party company contracted by PMI, who remains under the direct supervision of his or her employer rather than PMI and who is often involved in project-specific or outsourcing arrangements.

**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 or HTUs** – The term we use to refer to heated tobacco consumables, which for PMI primarily include the company's *BLEND*s, *HEETS*, *HEETS Creations*, *HEETS Dimensions*, *HEETS Marlboro*, and *HEETS FROM MARLBORO* (defined collectively as *HEETS*), *Marlboro Dimensions*, *Marlboro HeatSticks*, *Parliament HeatSticks*, *SENTIA*, and *TEREA*, as well as the KT&G-licensed brands, *Fiit* and *Miix* (outside of South Korea).

**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 include 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** – Refer to our PMI affiliates with a vertically integrated tobacco leaf supply chain that contract tobacco farmers directly.

**Reduced-risk products or RRP**s – The term PMI uses to refer to products that present, are likely to present, or have the potential to present less risk of harm to smokers who switch to these products versus continuing smoking. PMI has a range of RRP's in various stages of development, scientific assessment, and commercialization. PMI's RRP's are smoke-free products that contain and/or generate far lower quantities of harmful and potentially harmful constituents than found in cigarette smoke.

**Responsible Sourcing Principles (RSP)**s – 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 UN Guiding Principles on Business and Human Rights, the Ten Principles of the UN Global Compact, and the relevant International Labor 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 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 or SFP**s – The term PMI primarily uses to refer to all of its products that are not combustible tobacco products, such as heat-not-burn, e-vapor, and oral nicotine. In addition, SFPs include wellness and healthcare products as well as consumer accessories such as lighters and matches.

**Sustainable Tobacco Supply Chain Framework (STSC)** – This approach, introduced in 2022, focuses on the full life cycle of tobacco production and targets actions toward the tobacco we purchase and use in our products. Accordingly, we shifted from reporting sustainability progress on the PMI's supplier farm base to farmers whose tobacco volumes are directly included in PMI's purchased tobacco to ensure better data quality and granularity. For further detail see [PMI's 2022 Integrated Report](#).

- 1. PMI's supplier farm base:** All tobacco farmers from whom our third-party leaf suppliers purchase tobacco in PMI's tobacco growing areas.
- 2. Eligible farmers contracted by suppliers and applying PMI's GAP and ALP:** The eligible farm base is composed of that subset of tobacco farmers who have been contracted by suppliers based on a set of sustainability requirements established by our suppliers, which include PMI's GAP and ALP Code. 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). Only a subset of these eligible farmers end up supplying tobacco used in PMI's packed products.
- 3. Eligible 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. We refer to this group as “contracted farmers supplying tobacco to PMI” throughout this document.

**Wellness and healthcare products** – Primarily consist of products related to inhaled therapeutics and oral and intra-oral delivery systems that are included in the operating results of PMI's new Wellness and Healthcare business, Vectura Fertin Pharma.

For further terms and acronyms used in our reporting, please see the glossary on pages 205 to 209 of [PMI's 2022 Integrated Report](#).



## Basis for preparation and reporting of PMI's Sustainability Index

This basis for preparation and reporting provides external stakeholders with a summarized version of PMI's internal standards for each of the 19 KPIs included in PMI's Sustainability Index.

These internal standards have been developed to ensure alignment on how we define success, measure progress, and ensure accountability and governance. Accordingly, the content below includes relevant definitions, KPI descriptions, scopes, calculation



### PRODUCT SUSTAINABILITY

#### Purposefully phase out cigarettes

- 1 Smoke-free product shipment ratio (smoke-free/total)\*
- 2 Adjusted net revenue ratio (smoke-free/total)\*\*

#### Maximize the benefits of smoke-free products

- 3 Number of markets where PMI smoke-free products are available for sale\*†
- 4 Proportion of markets where PMI smoke-free products are available for sale that are low- and middle-income markets\*†
- 5 Total number of users of PMI smoke-free products\*
- 6 Proportion of shipment volume covered by markets with youth access prevention programs in place in indirect retail channels

#### Seek net positive impact in wellness and healthcare

- 7 Annual net revenue from wellness and healthcare products\*

#### Reduce post-consumer waste

- 8 Proportion of shipment volume covered by markets with anti-littering programs in place for combustible cigarettes
- 9 Proportion of shipment volume covered by markets with end-of-life take-back programs in place for smoke-free consumables
- 10 Proportion of PMI smoke-free devices with an eco-design certification

- 11 Cumulative number of electronic smoke-free devices refreshed or repaired since 2021

methodologies, data estimates and assumptions, data collection processes, data management and governance, and data assurance details for each KPI.

This document has been structured in alignment with the PMI Sustainability Index; the 19 KPIs are organized by performance measure (i.e., Product Sustainability and Operational Sustainability) and linked to their corresponding strategies. More concretely, information below pertains to the indicators numbered from 1 to 19.



### OPERATIONAL SUSTAINABILITY

#### Foster an empowered and inclusive workplace

- 12 Proportion of women in senior roles
- 13 Proportion of employees with access to structured lifelong learning offers

#### Improve the quality of life of people in our supply chain

- 14 Cumulative number of human rights impact assessments conducted since 2018, with findings addressed
- 15 Prevalence of child labor among contracted farms supplying tobacco to PMI
- 16 Proportion of contracted farmers supplying tobacco to PMI who make a living income

#### Tackle climate change

- 17 Net carbon emissions Scope 1+2\*
- 18 Absolute carbon emissions reduction in scope 3 versus 2019 baseline (in line with science-based target)

#### Preserve nature

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

\*Indicates metric has been subject to external assurance in 2022.

†Unless explicitly stated, the data, information, and aspirations in PMI Integrated Report 2022 do not incorporate PMI's Vectura Fertin Pharma subsidiary (consolidating the 2021 acquisitions of wellness and healthcare companies Fertin Pharma A/S, Vectura Group plc, and OtiTopic, Inc.), nor the late 2022 acquisition of Swedish Match AB. Accordingly, the KPIs described in this ESG KPI Protocol 2022 exclude these entities except those marked with (†) above. As we evolve and continue to integrate these business acquisitions, we will, where material and feasible, include them into our ESG reporting in coming reporting periods.



## Product Sustainability

### Purposefully phase out cigarettes



#### 1 Smoke-free product shipment ratio (smoke-free/total)

##### KPI description

PMI is committed to developing better alternatives to cigarettes and accelerating smoking prevalence decline by providing broad access to science-based smoke-free products for adult smokers who wouldn't otherwise quit smoking, while purposefully working to phase out cigarettes. A key measure to track progress in that regard is the proportion of our total shipment volume represented by smoke-free consumables shipment volume.

##### Definitions

**Smoke-free shipment volume** Shipment volume of PMI smoke-free product consumables that can be expressed in cigarette equivalent units, such as heat-not-burn, e-vapor, and oral nicotine.

**Combustible tobacco product shipment volume** Shipment volume of PMI combustible tobacco products.

**Total shipment volume** Includes PMI's combustible tobacco product shipment volume and smoke-free product shipment volume.

##### Scope

**Included** All shipment volumes of consumables (smoke-free and combustible tobacco products) that can be expressed in cigarette equivalent units, and are recorded within the reporting period, to all PMI markets.

**Excluded** Shipment volumes of smoke-free devices, and wellness and healthcare products.

##### Calculation methodology

Smoke-free product shipment ratio (smoke-free/total) is calculated as:

$$= \left( \frac{\text{Smoke-free product shipment volume (billion stick equivalent)}}{\text{Total shipment volume (billion stick equivalent)}} \right) \times 100\%$$

**Estimates and assumptions** PMI shipment volume is reported based on the cigarette-equivalent unit of each product. We convert OTPs and smoke-free product consumables into cigarettes equivalent by pre-defined conversion rates.

##### Data management

Shipment volumes data are recorded in PMI's financial systems on a monthly basis.

**Data assurance** The smoke-free product shipment ratio (smoke-free/total), as published in PMI's 2022 Integrated Report, has been assured by PwC (limited assurance).

➔ See the independent practitioner's limited assurance report on pages 202 to 204 of [PMI's Integrated Report 2022](#)



## 2 Adjusted net revenue ratio (smoke-free/total)

### KPI description

PMI is transforming its business, aiming to phase out cigarettes and shifting toward becoming a smoke-free product company while also expanding into a broader lifestyle, consumer wellness, and healthcare company. The proportion of revenue we derive from smoke-free products is a key indicator of the Company's transformation.

### 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.

**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 products** Represent operating revenues from the sale of non-combustible tobacco 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 all of our products that are not combustible tobacco products, such as heat-not-burn, e-vapor, and oral nicotine, also including wellness and healthcare products, as well as consumer accessories such as lighters and matches.

**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 adjusted 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** Special items.

### Calculation methodology

Adjusted smoke-free net revenue ratio is calculated as:

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

### Data management

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

→ See [Investor Relations website](#)

**Data assurance** The adjusted net revenue ratio (smoke-free/total), as published in PMI's 2022 Integrated Report, has been assured by PwC (limited assurance).

→ See the independent practitioner's limited assurance report on pages 202 to 204 of [PMI's Integrated Report 2022](#)

## Maximize the benefits of smoke-free products



## 3 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** Sales to the retail channel, depending on the market and distribution model.

### 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 combusted tobacco products and/or wellness and healthcare 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 the PMI's volume 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 assurance** The number of markets where PMI smoke-free products are available for sale, as published in PMI's 2022 Integrated Report, has been assured by PwC (limited assurance).

→ See the independent practitioner's limited assurance report on pages 202 to 204 of [PMI's Integrated Report 2022](#)



#### 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.

→ [Read more about broadening access in PMI's Integrated Report](#)

##### Definitions

**Low- and middle-income markets** Markets consisting of 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 Duty-Free 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:

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

**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-level is performed based on the latest available World Bank report.

##### Data management

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

**Data assurance** The proportion of markets where smoke-free products are available for sale that are low- and middle-income markets, as published in PMI's 2022 Integrated Report, has been assured by PwC (limited assurance).

→ [See the independent practitioner's limited assurance report on pages 202 to 204 of PMI's Integrated Report 2022](#)



#### 5 Total number of users of PMI smoke-free products

##### KPI description

Our priority is to address the health impacts associated with smoking by offering science-based smoke-free alternatives that have been proven to be a better choice than cigarettes for those adults who would otherwise continue to smoke. Accordingly, the impact on society of the Company's transformation, namely shifting our product portfolio toward smoke-free products, can be measured by the number of adult smokers or nicotine users who have become users of our smoke-free products.

##### Definitions

**Total smoke-free product users** The estimated number of legal age (minimum 18 years) users of PMI heat-not-burn products, for which PMI HTUs represented at least a portion of their daily tobacco consumption over the past seven days.

##### Scope

**Included** HNB products, including licensed KT&G HNB products and HTUs.

**Excluded** E-vapor products, nicotine pouches, or any other smoke-free products are currently not considered in our users' calculation.

##### Calculation methodology

The user metrics reflect PMI estimates, which are based on consumer claims and sample-based statistical assessments with an average margin of error of +/-5% at a 95% Confidence Interval in key volume markets. The accuracy and reliability of IQOS user metrics may vary based on individual market maturity and availability of information.

##### Data management

The estimations of users are performed monthly at a market level and are approved by the finance management team of each market, and then additionally validated and approved by regional teams. The global estimations of total PMI smoke-free product users are the sum of the individual markets' estimations which are validated and consolidated centrally.

**Data assurance** The total number of users of PMI smoke-free products, as published in PMI's 2022 Integrated Report, has been assured by PwC (limited assurance).

→ [See the independent practitioner's limited assurance report on pages 202 to 204 of PMI's Integrated Report 2022](#)





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

### KPI description

The global youth access prevention (YAP) requirements included in our [Marketing Codes](#) apply to all our commercial activities, even when not required by local laws, with the aim to reduce the likelihood that our products and related consumer communications reach or are particularly appealing to youth. A fundamental requirement is that a consumer's 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 methods used to age verify adult consumers vary by channel. In our indirect retail channels, which account for the vast majority of retail outlets that sell our products, PMI aims to deploy robust YAP programs.

By targeting indirect retail channels, the impact of these programs can reach a wider scope than those covered by the requirements of our Marketing Codes, which apply where we engage retailers directly. The activities required by our YAP programs in indirect retail are comparable to those provided in our Marketing Codes. These programs support our affiliates to work with the indirect retail universe to guard against the sale of our products to underage purchasers.

To be considered as having a YAP program in place, a market must deploy the three mandatory pillars of the YAP program as outlined in the below table. The required number of indirect point 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 used to engage with trade partners.

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

**Point of sale (POS)** Physical location where PMI products are sold to end consumers.

**Temporary point of sale materials (tPOS)** Materials such as stickers and other items, which are placed at the point of purchase and visible to adult consumers.

**Registered POS** Includes all POS captured in the digital trade engagement tool.

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

**Total shipment volume** Includes cigarettes, OTPs, and smoke-free product consumables. It is defined as the combined total of combustible tobacco products shipment volume and smoke-free product consumables shipment volume.

### Pillars of PMI's YAP program in indirect retail channels

Pillar	Description	Reachable coverage
<b>Trade communication</b>	Letter from PMI affiliate to POS owner or operator	All third-party retailers for which PMI has either a physical or email address
<b>Trade education</b>	Online or physical training sessions to POS/retailers' staff	All POS covered by field force or registered in digital trade engagement tool
<b>Point of sale materials placement</b>	Temporary printed materials, such as stickers, placed at the POS	All POS that are in scope of PMI or third-party sales force coverage

### Scope

**Included** All indirect retail channels, whether directly engaged by PMI (i.e., covered by PMI Marketing Codes) or otherwise. 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. Additionally, China, where we have a strategic cooperation agreement with China National Tobacco Corporation (CNTC), is included in scope.

**Excluded** Duty-Free market, although this channel continues to be in scope of PMI's marketing codes.

### Calculation methodology

Proportion of shipment volume covered by markets with YAP programs 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.

On an annual basis markets are evaluated for compliance with the requirements of PMI's YAP program. If markets have met at least 90 percent of the reachable coverage for each pillar, the shipment volume for the full calendar year, January 1 through December 31, is considered as being covered by YAP programs.

### Data management

Data on shipment volumes, by market, are extracted from PMI's financial reporting systems.

**Pillar 1:** PMI affiliates have local databases in which the physical or email addresses of the POS in their markets are maintained.

**Pillar 2:** PMI's Central Commercial function maintains a Global Digital Trade Engagement platform for all registered POS and markets maintain the platform in terms of educational content.

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

For each market, the YAP plans are approved, implemented, and evaluated on an annual basis. Specifically, at the end of June each calendar year the YAP plans for each market are approved by the Company's regional teams. In the first quarter of the following year, each market is evaluated by the regional teams' function to determine if the actual deployment of the YAP program in the preceding year met the minimum requirements. The regions consolidate results of each market to determine the total PMI shipment volume to markets that have youth access programs in place and the central team consolidates global results.





## Seek net positive impact in wellness and healthcare



### 7 Annual net revenue from wellness and healthcare products

#### KPI description

PMI aims to completely replace cigarettes as soon as possible with smoke-free products that are scientifically substantiated to be less harmful than smoking and to evolve in the longer run to a broader lifestyle, consumer wellness, and healthcare company. Accordingly, with a strong foundation and significant expertise in life sciences, in February 2021 we announced our ambition to expand into wellness and healthcare areas and deliver innovative products and solutions that aim to address unmet consumer and patient needs.

#### Definitions

**Net revenues from wellness and healthcare** Represent operating revenues generated from the sale of products primarily associated with inhaled therapeutics, and oral and intra-oral delivery systems that are included in the operating results of PMI's new wellness and healthcare business, Vectura Fertin Pharma.

#### Scope

**Included** Net revenues from wellness and healthcare 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** n/a

#### Calculation methodology

Absolute annual net revenue from wellness and healthcare segment.

#### Data management

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

→ See [Investor Relations website](#)

**Data assurance** The adjusted net revenue ratio (smoke-free/total) as published in PMI's 2022 Integrated Report, has been assured by PwC (limited assurance).

→ See the independent practitioner's limited assurance report on pages 202 to 204 of [PMI's Integrated Report 2022](#)

## Reduce post-consumer waste



### 8 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 reality, consumer norms, and regulatory environment.

For a market to be accounted 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 in terms of adult smokers (LAS) and 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

Campaigns and partnerships deployed nationally or covering areas clearly identified as having a greater accumulation of cigarette butts in the environment (hotspots). Examples of Impact activities involving events and partnerships raising awareness of the issue include the corporate online platform "Our world is not an ashtray", analyses to identify cigarette butt littering hotspots, and local or global partnerships or initiatives.

Isolated "Reach" or "Impact" activities with a limited scope do not count toward adherence to the program.

#### 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** Activity aiming to make awareness for the LAS, which are available on/in the product directly or in the point of sale, or digital trade engagement.

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

#### Scope

**Included** All markets in which PMI commercializes combustible cigarettes. Additionally, China, where we have a strategic cooperation agreement with CNTC, is included in scope.

**Excluded** Duty-Free markets and the United States.

#### Calculation methodology

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

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

**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 approved, implemented, and evaluated by the regional teams on a rolling 12-month basis. Each calendar year starts with collection of the budget and activity plans, followed with a mid-year health check to review AL program status and closed with year-end consolidation and reporting period. The regional 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.



## 9 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 and recycling schemes.

When measuring the progress of our markets in providing consumers access to our collection 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, shop in shops & corner shops, and e-commerce, 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 engagement 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 for energy recovery remains an option.

In 2022, we made it mandatory for markets launching VEEV cartridges, VEEBA disposable e-vapor products, and TEREА HTUs to put in place end-of-life take-back programs (with an intent to recycle collected products), as a prerequisite for product launches.

#### First year of program launch

- 50 percent of direct retail channels (including boutiques, shop-in-shops, and embassies)

#### 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 (scale dependent on trade partner footprint for the respective market)

Markets that have a different channel mix (e.g., retail/limited presence of brand retail or IQOS partners) may, however, launch the program via other channels like indirect retail or mail-in services.

Additionally, before launching the program, markets must conduct a due diligence process, including legal, financial and commercial review and enter into an agreement with a recycling and/or waste disposal supplier which meets the program guidelines.

### 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 parts 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** Retailers with an IQOS dedicated space within their premises where experiences (e.g., immersive education, guided trial) and services are delivered to LAS or legal age users (LAU) by the retailer 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** China, US, and PMI Duty-Free market, Snus, Nicotine Pouches, Snuff, Moist Snuff, Snuff Leaf, Chewing Tobacco, Chew bags, Chewing Tobacco bits, 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 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 six months after launch of the program, and thereafter on an annual basis. Regional 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.

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

### KPI description

To integrate sustainability considerations into our design process, we endeavor to follow eco-design principles. Accordingly, we are seeking an eco-design certification for all our smoke-free devices.

Our interpretation of the term "eco-certification" is the achievement of an externally recognized sustainably designed product. The pathway to achieve the eco-design certification is currently open for the organization, which is exploring the best avenues to reach the target. To consolidate the achievement of PMI's 2025 goal we may consider either a type 1, type 2 and/or type 3 product environmental statements, as defined by ISO 14020:2022, as constituting an "eco-certification".

### Definitions

**Environmental statement (ISO 14020 3.2.1)** Information on one or more environmental aspects or environmental impacts of a product, which intends to inform an intended audience and intends to influence the market of this product. The ISO 14020:2022 standard defines 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. The awarding body may be either a governmental organization or a private non-commercial entity.
- **Type 2 - Self-declared environmental claims** Self-declared or externally audited adherence (communicated through a statement, symbol, or graphic or text) to internally developed standard.

- **Type 3 - Environmental product declaration** Standardized set of rules, requirements, and guidelines for a defined product category by an accredited body, based on which a life cycle assessment (LCA) can be conducted. The accredited body evaluates product performance against a set of indicators that allows comparability between products within the same category. This type of eco-design certification prescribes guidelines for similar products to disclose product information (without performance evaluation) mainly focusing on transparency rather than providing a ranking/score of product performance.

### Scope

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

**Excluded** Device accessories, including caps, rings, door covers, cases, sleeves, wraps, power charges and cables, trays, and electronic smoke-free devices designed by third-party manufacturers and commercialized by PMI. Smoke-free product consumables and limited-edition devices are also out of scope.

### Data management

Our aspiration is to have eco-design certifications for all smoke-free devices which are launched as of the fourth quarter of 2025. Given the long-term nature of this aspiration, we have developed internal metrics based on key milestones that will allow us to track our progress in the interim years leading up to 2025.





## 11 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 CIRCLE hubs and then received by our markets for reuse. The reuse of devices includes the commercialization and re-marketing 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. Service is provided to adult users on the spot at IQOS service points or at home. This service is not available at the hubs.

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

Services provided at the CIRCLE hubs generally include inspection, dismantling, disposal and recycling, and repair services, in addition to serving as a consolidation point for devices returned from various market affiliates.

### Scope

**Included** Smoke-free electronic devices sold by PMI, including devices commercialized through licensing arrangements, and e-vapor devices. 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 device accessories.

### 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 the unique codes of the devices on which service was performed.

## Operational Sustainability

### Foster an empowered and inclusive workplace



## 12 Proportion of women in senior roles

### KPI description

A key element to ensuring that we nurture a more diverse culture that promotes both equity and inclusion is to improve gender balance in senior roles.

Note: We also disclose the proportion of management positions held by women in our annual Integrated Report, which is calculated using the same methodology described in this document but considers employee headcounts in salary grade 10 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 measuring progress on gender equality, PMI considers women to include those employees who are identified as female based on official documentation (passport, national identity card, etc.).

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

**Management positions** The term we generically use to refer to all positions in a defined salary grade 10 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 grade 1 and ascending to grade 28.

### Scope

**Included** All employees captured in PMI's HR reporting tool.

**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), fixed-term employees and employees on salary continuation.

### Calculation methodology

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

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

**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) without any manual intervention or manipulation. On a quarterly basis, the data are consolidated and analyzed in an internal dashboard. The data are validated centrally, prior to external annual reporting in our Integrated Report.





### 13 Proportion of employees with access to structured lifelong learning offers

#### KPI description

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 they have access to:

- At least one internal PMI-specific learning catalogue (FUSE)
- Two externally provided solutions catalogues (e.g., Rosetta Stone, Udemy, or EdEx for our Operations Teams)

Driven by our aspiration to reach a significant number of employees, the structured lifelong learning program leverages digital solutions. However, as not all PMI employees currently have individual access and the necessary technology to access our online systems we cannot currently deploy the online learning catalogues to the entire PMI employee population as reflected in our aspiration. As digital access expands, we would expect the absolute number of employees with access to lifelong learning offers to also increase.

#### Definitions

**Access** Employees are considered to have “access” when they have an account that allows them to access our internal learning platform, FUSE, via an appropriately secure device and can obtain a license within forty eight hours to external platforms upon request. 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, and those on salary continuation.

**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** The total number of employees is determined according to the methodology used for annual reporting on form 10-K.

**Excluded** Third-party workers (temporary agency workers, freelancers, merchandisers, IQOS coaches, consultancy, and outsourced services), and benefit recipients (retirees or those who no longer have a working relationship with the company).

#### 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 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 Integrated Report.

### 14 Improve the quality of life of people in our supply chain



#### 14 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 managing work in accordance with 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 proactively to 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** Represent 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 Freedom of 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 its relevant methodology. After each HRIA, the external expert organization presents its findings and suggested 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 who have ongoing action plans provide a status update to the central 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 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 bi-annual status updates from the local teams.

Purposefully phase-out cigarettes  
 Maximize the benefits of smoke-free products  
 Seek net positive impact in healthcare and wellness  
 Reduce post-consumer waste  
 Foster an empowered and inclusive workplace  
 Improve the quality of life of people in our supply chain  
 Tackle climate change  
 Preserve nature





## 15 Prevalence of child labor among contracted farms supplying tobacco to PMI

### KPI description

In 2022, we strengthened our approach to monitoring the quality of life of people in our supply chain by introducing the STSC framework. This new approach focuses on the full life cycle of tobacco production and targets actions toward the tobacco we purchase and use in our products.

Accordingly, we shifted from reporting sustainability progress on the PMI's supplier farm base to farmers whose tobacco volumes are directly included in PMI's purchased tobacco (i.e., those eligible contracted farmers supplying tobacco to PMI) to ensure better data quality and granularity. However, our objective remains to reduce child labor in our tobacco supply chain, through influencing the rest of the industry, as well as our partners who operate in tobacco-growing countries, to accelerate actions to address sustainability challenges.

### 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 non-hazardous, 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 non-conformities (self-declarations) on contracted tobacco farms supplying tobacco to PMI, reported through the internal farm-by-farm monitoring data recorded by field technicians or contracted service provider in markets where PMI sources tobacco from.

**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, non-payment of minimum wage, or lack of written contracts).

**Non-conformity (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 non-conformities:

- **Self-declaration** Declaration confirming the occurrence of an issue (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.

### Scope

**Included** Contracted farmers supplying tobacco to PMI.

**Excluded** Farmers (within PMI's supplier farm base and eligible farmers) who have not supplied tobacco to PMI and purchased tobacco volumes for which labor practices and adherence to our ALP Code have not been systematically monitored. "Risk" non-conformities 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:

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

Notes on the above calculation:

- If one farmer has multiple prompt actions or non-conformities raised during the reporting period (multiple incidences of same child, multiple children in 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 prompt action or non-conformity 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 PA and NC for the tobacco which is purchased within the calendar year. These PA and NC are based on farm by farm 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 PA and NC, 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 prompt actions and non-conformities are recorded in the third-party leaf suppliers 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. On an annual basis, prior to external publication, the data are aggregated and validated centrally.



## 16 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 the contracted farmers supplying tobacco to PMI make a living income by 2025. To measure progress towards 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

**BSR Benchmarks** Provide living wage benchmarks in high- and medium-income countries from which we source tobacco. We used these estimates alongside the reference family size to deduce the living income benchmarks.

**Living income** The net annual income required for a household to afford a decent standard of living for all its members and applies to, for example, self-employed farmers. The living income value can be the result of an official benchmark, a reference value, or an internal desktop exercise.

**Official benchmark** The result of studies conducted in specific regions or areas to estimate the net annual income required for a household to afford a decent standard of living for all members of that household. The official benchmark is the one produced and published on the Global Living Wage Coalition's website by the Anker Research Network.

**Reference value** Represents typical or average living incomes for rural and urban areas within each country. They are not location-specific, and so are not representative of a specific region or city. On the contrary, quality-assured [Anker methodology](#) living income benchmarks are related to a specific location within a country.

**Regional adjustment** The regional adjustment methodology was introduced in 2022 by the Anker Research Institute. It relies on previous full assessments conducted in the country to create regional benchmarks by splitting the country into regions that share similar characteristics. If needed, these benchmarks are then complemented with on-the-ground adjustments.

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

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

### Scope

**Included** Contracted farmers supplying tobacco to PMI.

**Excluded** Farmers (within PMI's supplier farm base and eligible farmers) who have not supplied tobacco to PMI, and PMI purchased volumes for which monitoring data on farmer's income is not available. Additionally, tier 2 tobacco suppliers (including China), and new sourcing markets that PMI started to source from after 2021, are not in scope.

### 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 vertically integrated operations own estimates. Typically, income from tobacco is calculated considering the contracted hectares, yield, price, and cost of production. Non-tobacco 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 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 non-tobacco income sources are estimated based on averages using publicly available data (e.g.: government-released statistics) or internal sample surveys.

**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- to 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 (official benchmark, reference value or regional adjustment) is established by the Anker Research Network, PMI suppliers and VI shall use the same value for the respective sourcing location.

In case official benchmarks or reference values are not (yet) available, an internal desktop analysis is performed as a starting point, applying the Anker methodology and using secondary data available from official websites (government, universities, or reputable organizations). The benchmark is updated regularly, notably for markets with high monthly or yearly 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 within the respective period. The calculation is based on an analysis of the farmer base which is typically segmented at market level according to tobacco farm size.

- 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 reported as not achieving a living income benchmark.

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:

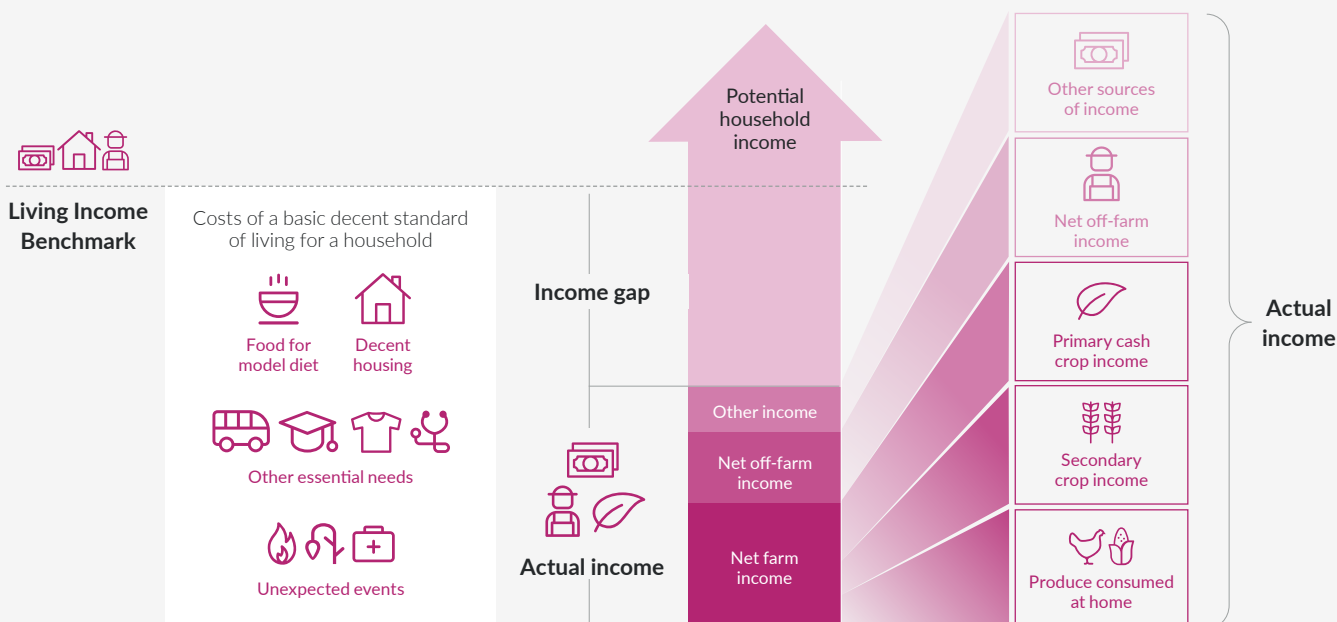
$$= \left( \frac{\text{Number of contracted farmers supplying tobacco to PMI at (or above) the living income benchmark}}{\text{Total number of contracted farmers supplying tobacco to PMI}} \right) \times 100\%$$

### 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 crop season and buying process in each sourcing market, the final data for all contracted farmers supplying tobacco to PMI are provided to PMI. The reporting on living incomes is based on the 12-month period preceding the end of the crop season in the respective country.

Each PMI regional leaf team validates the farmer income data provided by PMI's third-party leaf suppliers and PMI leaf operations and then submits the regional results to the central team who aggregate and validate the global results for annual reporting.

### Calculating the living income benchmark



Note: Visual adapted from the Living Income Community of Practice [\(source\)](#).



## Tackle climate change



### 17 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 Targets initiative (SBTi), individual actors are carbon neutral when CO<sub>2</sub>e emissions attributable to an actor exclusively claimed by the actor, such that the actor's net contribution to global CO<sub>2</sub>e 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, et al.)

**Offsetting** The act of compensating or canceling out all, or a portion of, the GHG emissions released to 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 are being compensated (source: Voluntary Carbon Market Initiative, 2021).

**Insetting** The term "insetting" is used to refer to 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 CO<sub>2</sub>e 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 oxide. 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)
- Fleet and transport: PMI private jet aircraft, employee working vehicles, employee benefit vehicles
- Warehousing: PMI-owned or PMI-operated warehouses
- Offices: PMI-owned or PMI-operated office spaces

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 stores
- HFCs, PFCs, SF4, or NF3 gases
- Energy consumed by electric vehicles
- 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 is transformed to energy units using standard conversion factors and calorific values.

Thereafter, to convert energy units to CO<sub>2</sub>e emissions, CO<sub>2</sub>e emission factors (kg CO<sub>2</sub>e per GJ) per energy type and country are used. PMI sources emission factors from the UK 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 CO<sub>2</sub>e 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 has put in place offsetting and insetting programs that comply with rigorous international standards. Selected projects are certified against the Verified Carbon Standard (VCS)<sup>1</sup> and additionally some carry the Climate Community and Biodiversity Standard (CCBS)<sup>2</sup>.

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

The CCBS, on top of the VCS, 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 be applied also 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 source<sup>3</sup> are 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.
- Fleet and private jet: the kilometers traveled, and respective fuel consumed by the vehicles in our fleet are recorded in PMI's central environmental management system.
- Warehouses and offices: data on the amount of energy consumed are 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 CO<sub>2</sub>e 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 Integrated Report and CDP submissions), the consolidation of CO<sub>2</sub>e 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 responsible PMI head of function and verified by the third-party verifier.

**Data assurance** The scope 1+2 GHG emissions are reviewed and verified annually by an external third party according to ISO 14064-3 and the verification statement is published on PMI.com.

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

<sup>1</sup> [verra.org](#)

<sup>2</sup> [climate-standards.org](#)

<sup>3</sup> Energy sources include fossil fuels (diesel, fuel oil, natural gas, petrol, LPG, coal), biofuels (biodiesel, bioethanol), district steam, district heat, and electricity (renewable vs. non-renewable, split according to source (solar, wind, biofuel))





## 18 Absolute carbon emissions reduction in scope 3 versus 2019 baseline (in line with science-based target)

### KPI description

PMI has set an ambitious target to achieve a 50 percent reduction in upstream and downstream value chain GHG emissions (scope 3) by 2030. PMI works with carbon experts to develop a full “value chain” carbon footprint model, to help measure emission reductions. The value chain model calculates the carbon emissions for each relevant scope 3 category and combines these with the scope 1+2 results (described above). Efforts to reduce absolute scope 3 emissions in line with the 1.5° C pathway are critical to PMI’s broader ambition to achieve net-zero GHG emissions across its full value chain (scope 1+2+3) by 2040.

### Definitions

**Net zero** The Intergovernmental Panel on Climate Change (IPCC) defines net zero as the point when “anthropogenic emissions of greenhouse gases to the atmosphere are balanced by anthropogenic removals over a specified period”. Individual actors such as companies or public entities are considered to have reached a state of net zero when: an actor reduces its emissions following science-based pathways, with any remaining GHG emissions attributable to that actor being fully neutralized by like-for-like removals (e.g., permanent removals for fossil carbon emissions) exclusively claimed by that actor, either within the value chain or through purchase of valid offset credits.

**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 show companies how much and how quickly they need to reduce their GHG emissions to prevent the worst effects of climate change. The SBTi defines and promotes best practice in emissions reductions and net-zero targets in line with climate science; provides technical assistance and expert resources to companies that set science-based targets in line with the latest climate science; brings together a team of experts to provide companies with independent assessment and validation of targets.

**Scope 3 GHG emissions** Indirect emissions that are a consequence of the activities of PMI. All scope 3 categories have been assessed for inclusion within the model, applying a materiality threshold defined as 10 percent of total scope 3 emissions and in accordance with the “Corporate Value Chain (Scope 3) Accounting and Reporting Standard”.

### Calculation methodology

PMI has a full value chain carbon footprint model in place, aligned with the GHG Protocol international guidelines. For details on this methodology, scope, and data collection process, please refer to PMI’s value chain [Carbon Footprint Executive Summary](#). The value chain model is calculated to align with the accepted international standard for GHG value chain modelling “Corporate Value Chain (Scope 3) Accounting and Reporting Standard”, published by the [GHG Protocol](#).

**Data assurance** PMI’s scope 3 GHG emissions are reviewed and verified annually by an external third party according to ISO 14064-3 (2006) and a verification statement is available on [PMI.com](#).

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

## Preserve nature



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

### KPI description

PMI issued a [Zero Deforestation Manifesto](#) in 2021, in which the Company reinforced its commitments to measure the impact on forests linked to the 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 Initiatives ([AFI, 2020](#)), 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 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.

**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 space that includes 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 are of even ages; and
- Products from the plantation are managed and processed for commercial production.





## 19 Proportion of tobacco purchased at no risk of net deforestation of managed natural forest and no conversion of natural ecosystems *continued*

**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 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 TGA (see definition on page 31) 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 onsite inspection visits
- Plantations resulting from conversion of natural forests after the set cut-off date
- Primary and protected forests

### 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 to and measure progress towards 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, 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.

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 that the intervention has contributed to generate or restore a natural ecosystem. 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 to the principles and indicators of the monitoring framework.

**Calculation methodology** Proportion of tobacco purchased at no risk of net deforestation of managed natural forest and no conversion of natural ecosystems = Tobacco at risk of deforestation purchased at no evident risk of net deforestation / Total tobacco purchased at risk of deforestation.

**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 Environmental Insights tool on an annual basis following the update (in Q4) from GFW.

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 assurance** 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.





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