



PHILIP MORRIS
INTERNATIONAL

AGRICULTURAL LABOR PRACTICES PROGRESS UPDATE

DELIVERING ON OUR TARGETS: PERSONAL PROTECTIVE EQUIPMENT AND ACCOMMODATION

Q1 2021



CELEBRATING AN ACHIEVEMENT

2020 has been an unprecedented year and brought new challenges we were not ready to deal with. At PMI, we have been navigating the different stages of the COVID-19 pandemic and the consequent impacts across our different geographies with the key focus to safeguard and support our employees, suppliers, farmers, and workers, as well as those within our communities.

Clearly, the overall implementation of our Agricultural Labor Practice (ALP) program has been impacted, however, we found alternative ways to continue our activities while providing farming communities with the support needed. For PMI, 2020 was also the year to deliver and report on an important milestone, the achievement of two ALP targets: 1) providing safe and decent accommodation to workers and 2) ensuring full availability of personal protective equipment (PPE) for the application of crop protection agents (CPA), and prevention of green tobacco sickness (GTS) for all those working on tobacco. I am proud to announce that we have achieved them both!

The work of the teams in the markets was resourceful and persistent. Our affiliates and third-party suppliers were able to support our contracted farmers by finding new and innovative ways of implementing the key

components of the ALP program. These range from virtual monitoring visits, contracting online or through the post, and delivering virtual trainings while implementing action plans to ensure safe and fair working conditions. The tireless work of our team has been incredible.

This ALP progress update focuses on this achievement and shares concrete examples of what we did to overcome the challenges we faced on the ground. This, of course, is not the end of the journey on PPE and accommodation standards, but rather a solid starting point to put the foundations in place and strive for continuous improvement.



I hope this progress update will give you a good insight into the two focus areas of our ALP program. What I can say is that despite the challenging times with still a lot of unknowns ahead—now more than ever, our colleagues around the globe, my team and I are fully committed to our sustainability agenda and will relentlessly work to improve livelihoods and provide a decent standard of living for all contracted farmers in our tobacco supply chain.

Mauro Gonzalez,
Director Sustainable Agriculture

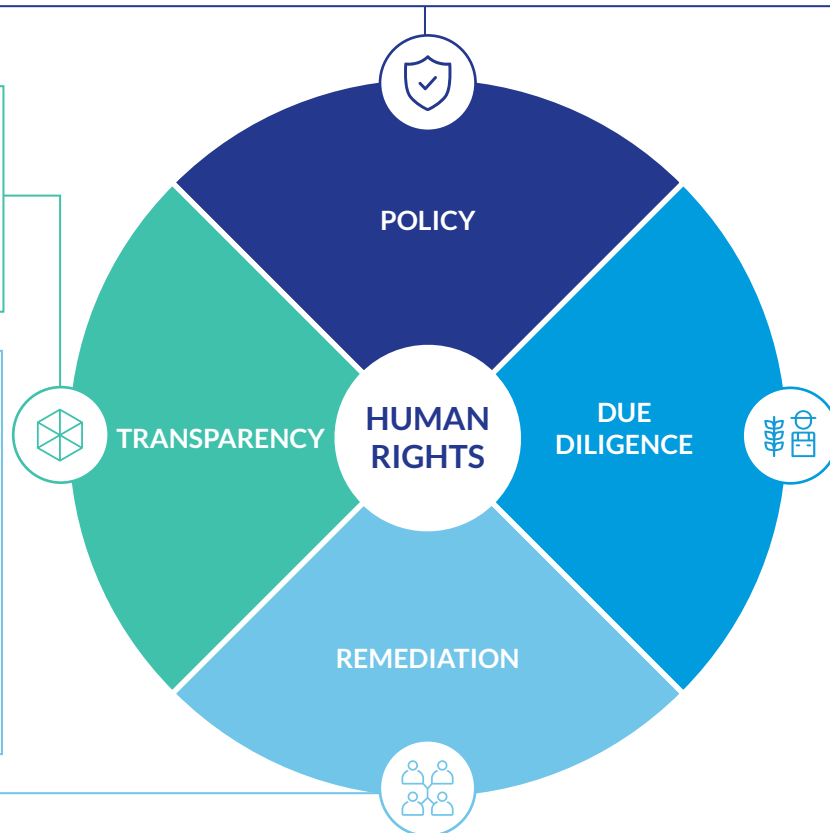
OUR AGRICULTURAL LABOR PRACTICES PROGRAM

The ALP Code, comprising seven principles and 33 measurable standards, applied to around 286,000 farmers from whom tobacco is sourced directly or indirectly. The principles are as follows: no child labor, no forced labor or human trafficking, fair treatment, safe work environment, income and work hours, freedom of association, and term of employment. This Code is based on the labor standards of the International Labor Organisation (ILO) Declaration of Fundamental Principles and Rights at Work and other relevant ILO conventions.

Transparency, by sharing progress and challenges annually in the integrated report, quarterly progress updates on specific topics or countries, and publishing all Control Union assessments (available at pmi.com).

Following our due diligence work, both internal and external, when an issue is identified **action plans** are put in place (e.g., in 2020, over 10,000 prompt actions were resolved).

Collaboration with civil society organisations, governments, and the private sector on initiatives to address systemic issues and to empower communities through participatory processes and grievance mechanisms.



Pre Contracting Due Diligence occurs before the beginning of every crop season to analyze past performances and assess new farmers.

Awareness-raising and training of suppliers, farmers, workers, and PMI's Sustainable Agriculture teams about applying the code and addressing any shortcomings in the process.

Internal farm-by-farm monitoring by 2,675 field technicians employed by PMI and their tobacco leaf suppliers across 23 countries. Field technicians visit the farms regularly to ensure the implementation of the ALP code and identify and address issues.

External assessment and verifications - by Control Union (a specialist supply chain auditor) and local partners - to independently evaluate the implementation of the ALP program and data reporting by the farm-by-farm monitoring.

KEY GLOBAL INFORMATION



100%

of tobacco farmworkers
provided with safe and
adequate accommodation



100%

of farmers and workers having access to
personal protective equipment (PPE) for the
application of crop protection agents (CPA) and
prevention of green tobacco sickness (GTS)



286,000

Farmers



23

Tobacco sourcing
countries



1.7 Million

People on the farm



1,193,304

PPE sets distributed



21,683

Farmers' accommodations
meeting the standard

INTRODUCING THE BACKGROUND

In 2018, we strengthened our ALP program (infographic 1) with an in-depth analysis of the data emerging from our monitoring system, which we triangulated with external assessments and other public sources to better understand the risk factors and root causes of the most salient human rights issues in our tobacco sourcing markets. This exercise led to the introduction of the Step Change strategy, the establishment of priority markets, and four company-wide targets:

- Zero child labor in our tobacco supply chain by 2025
- 100 percent of tobacco farmworkers paid at least the minimum legal wage by 2022
- 100 percent of tobacco farmworkers provided with safe and adequate accommodation by the end of 2020
- 100 percent of farmers and workers having access to personal protective equipment (PPE) for the application of crop protection agents (CPA) and prevention of green tobacco sickness (GTS) by the end of 2020

The Step Change strategy is guided by the ALP Code, which is fully aligned with international human rights and labor standards. One of the seven principles of the code is “Safe Work Environment,” which encapsulates the measurable standards on workers’ accommodation and PPE availability. On the one hand, providing safe and adequate accommodation to tobacco farmworkers guarantees not only a decent living condition, but also structural safety and reasonable levels of decency, hygiene, and comfort. On the other hand, providing proper PPE ensures that farmers and workers can be protected from the exposure to hazardous materials (such as sharp tools) or substances (such as crop protective agent [CPA] and green tobacco).

KEY DEFINITIONS

ACCOMMODATION FOR TOBACCO FARMWORKERS

Decent and adequate accommodation are facilities that comply with national or local requirements. In the case where these regulations are not outlined in the legislations, standards have been set in accordance to international framework or best practices and have been verified by our strategic partner, Verite.

GREEN TOBACCO SICKNESS (GTS)

Green tobacco sickness (GTS) is a type of poisoning caused by the absorption of nicotine from the surface of wet, fresh, green tobacco leaves through the skin. The characteristic symptoms of GTS include nausea, vomiting, weakness, dizziness, stomach cramps, difficulty breathing, excessive sweating, headache, and fluctuations in blood pressure and heart rate, and can last from 12 to 48 hours.

CROP PROTECTION AGENTS (CPA)

Farmers may use the recommended crop protection agents (CPA) to protect the crop from damages and to increase the yield. Through our Good Agricultural Practices (GAP) program, using the appropriate CPA is a key component of GAP and sanitation procedures. The CPA could be synthetic or organic substance, and is intended to control mainly against weeds, insects, fungi, and bacteria. These organisms compete with plants’ resources (e.g., water, nutrients) with the main crop, tobacco, or may feed from it, and diminish the full potential yield and quality of the crop.

RESPECTING HUMAN RIGHTS: OUR DUE DILIGENCE IN PRACTICE

The ALP program, aligned with the United Nations Guiding Principles on Business and Human Rights, has a strong due diligence process that allows us to identify and address potential social and environmental issues resulting from our agricultural activity. This due diligence process is repeated on a regular basis and is composed of the following main steps:

PRE-CONTRACTING DUE DILIGENCE

The preparation phase, before the crop season begins, is dedicated to analyzing the data collected from the previous years, which includes the farm profile, performance on the ALP code requirements, and action plan implementations. Through this, the field technicians create a risk profile for each farmer that will be used as a base for the re-contracting. Farmers with a good ALP record and commitment to good agricultural practices are given priority. When needed to complement tobacco volumes, new farmers are also selected after assessment of farm conditions.

In the actual contracting phase, PMI and third-party suppliers are informing and reminding farmers both on their rights and responsibilities contained in the ALP code. Throughout the contracting phase, the number of PPE kits needed are defined based on land size and the people that will be

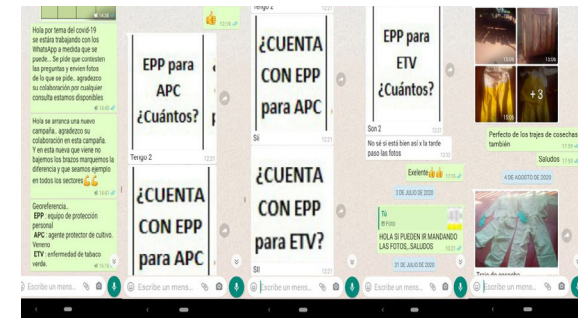


Individual PPE Distribution (due to COVID restrictions) to farmers in Turkey and Greece.



involved in the activities and are distributed. Additionally, if the farmer hires workers in need of accommodation (e.g., for migrant workers), the house is assessed based on pre-defined standards.

In Argentina, measures had been taken as consequence of COVID-19 pandemic to adapt to local protocols. For example, one of the local suppliers communicated to farmers via text messages to verify PPE availability (as per the screenshot).




TRAINING

A key component of our due diligence system in our ALP program is training and awareness raising. Farmers and workers acquire the fundamental understanding of how the ALP code is operationalized on the ground and how to safely cultivate tobacco without affecting their well-being and safety. These are carried out at the beginning and during the crop season as either general sessions or focused trainings on specific topics.

Specifically, on PPE, the training focuses on raising awareness of the hazards related to certain tobacco tasks and introduces farmers to a safe way of working through the appropriate PPE availability and usage. The different sets of PPE are presented, and farmers and workers are shown how to properly use the complete kit.

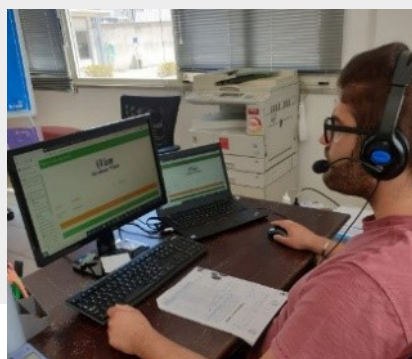
For accommodation, the field technicians and local implementing partners focus on training the farmers on local legislation and local standards, to ensure that the accommodation provided to workers is decent, safe, and clean.




 In Italy, farm-by-farm trainings are performed by an external partner, iVan, who has the role to communicate on the ALP principles and on other good agricultural practices (including crop quality and environmental stewardship). They also distribute PPE to farmers and conduct monitoring activities on top of the market's internal farm-by-farm control systems.

Normally, iVan facilitators conduct live-group training sessions and use videos, leaflets, and posters to train farmers on the ALP requirements regarding PPE usage and accommodation. However, in 2020, these activities were fully re-designed to adapt to the COVID-19 restrictions. All trainings were digitized and conducted remotely through webinars where farmers could easily interact with the iVan facilitators and other participants.

iVan's work was perceived as an example of resilience, showing how important it is to maintain human interactions (even virtually), especially during these challenging times. Farmers appreciated the efforts of Philip Morris Italy to provide (to some extent) normality by inventing new delivery models.



Remote training to farmers in Italy

 In Argentina, the work of the field technicians was greatly affected by the pandemic. All agronomy processes were reviewed and adjusted to strict COVID protocols to ensure safety for FT, farmers, and workers. Field visits were reduced not only on time but also frequency, and PPE availability and usage were considered a priority. PPE trainings were also affected by the pandemic.

The main initiative to distribute and deliver PPE trainings in Argentina is "Mas Chacra." Farmers who participated in both initiatives received online trainings through webinars or phone calls, with the few farmers without access to digital platforms receiving individual farm visits. Trainings to workers that are typically delivered through our Porvenir program, conducted by Conciencia and other local partners, were adapted to respect current regulations; instead of gathering workers in community spaces, the training team went to the farms, reaching almost 1,000 workers in groups of 20 people.



Small group trainings for farmers in Argentina.



MONITORING

A foundational component of the ALP program is our farm-by-farm monitoring. In the past three years, we have been systematically covering more than 90 percent of our tobacco contracted farms, with the commitment of our third-party suppliers and the 2,675 field technicians.

Field technicians visit the farms throughout the tobacco-growing season and evaluate, among other things, how well labor practices align with the principles of the ALP code. “Prompt actions” are raised by field technicians to flag and trigger a response to any serious ALP violation. A remediation plan is then discussed with the farmer, followed up on, and monitored.

One of the standards field technicians monitor is the availability of PPE on the farm. Although PPE are normally distributed at the beginning of the season, often, they may be damaged or misplaced. PPE availability is particularly important before specific crop stages, for example, before harvesting tobacco or spraying CPA, because these activities are potentially exposing farmers to hazardous conditions if the appropriate PPE are not used.

If PPE are not available, then a prompt action is raised and an action plan is agreed upon immediately. This includes the provision of additional kits and reinforcing the importance of both availability and usage.

Regarding the monitoring of accommodation, the field technicians refer to a set of minimum standards based on local legislation, or standards developed with guidance from Verite or other implementing partners. They monitor against this list, and when issues are identified—e.g., the window is broken or waste

is improperly disposed of—action is taken. This can be done directly by the farmer or, together with the suppliers, we support with the provision of construction materials, refurbishments, and repairs.



Farm-by-farm monitoring in Italy.

Overall, the prompt actions raised by the field technicians and the action plans implemented inform our global performance. In other words, we measure our achievement of PPE availability and accommodation based on the number of prompt actions that have been resolved. In some cases, we integrated an additional layer of control and validation, especially for accommodation, through local, external verification assessments. Consolidated data from this exercise confirmed 100 percent achievement for both PPE availability and provision of safe and decent accommodation.

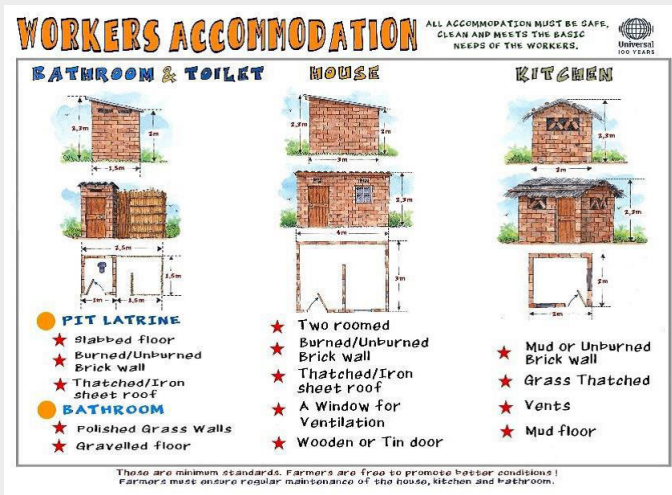


A tobacco field in Mexico.



In Malawi, as in all sourcing markets, when workers need accommodation, farmers must ensure that it is in good condition and is in alignment with the country's laws. All farmers, irrespective of whether they provide accommodation or not, are trained by field technicians at the beginning of the crop season on accommodation standards so that everyone shares a collective understanding. Field technicians use the poster below to visually explain the minimum workers' accommodation standards, including the materials to be used and dimensions that each facility should have.

In 2018, a baseline study was conducted to assess the accommodations that were provided by the farmers. Of these, 48 percent were found to not meet the minimum standards. To support the farmers, alongside our third-party supplier, we implemented a collaborative improvement project with three options. In one option, we supported the farmers fully to build the accommodation while they provided the bricks and the construction sand. For the second option, we supported farmers by providing specific construction materials (such as cement, roofing sheets, windows, and door frames). The final option was supporting the farmers with minor adjustments for maintenance needs such as for doors, roofs, and windows. By end of 2020, as per PMI's global commitment, with hard work and determination, we succeeded in bringing all accommodations provided to the desired standards. In total, more than 2,000 houses were constructed benefitting more than 2,500 farmers and workers.



Workers' accommodation in Malawi, before refurbishments.



Workers' accommodation in Malawi, after refurbishments.

 In 2018, South Africa was identified as a priority market, as 68 percent of workers' accommodations were not meeting the national standards. In some instances, significant issues were reported, such as facilities with no electricity or toilets. Our third-party supplier helped these farmers throughout the years to refurbish the accommodations and ensure they met the standards. The support ranged from finding specific materials to fully building the structures.

In March 2020, an external verification was conducted and confirmed that all accommodations were safe, clean, and appropriate. In addition to the external assessment, the local government also visited a sample of accommodations in two growing areas to validate their adequacy and compliance to the national law. Overall, in a three-year period, more than 600 accommodations were refurbished, benefitting over 1,000 workers. This made South Africa the first country to achieve PMI's global 2020 accommodation target, and the first to be removed from PMI's priority countries.

Workers' accommodation in South Africa, before refurbishments.



Workers' accommodation in South Africa, after refurbishments.

“ Having been able to facilitate the program to improve the basic living conditions of the tobacco farmworkers in South Africa on behalf of PMI has been a great personal gratification moment and a true revelation of the impact that companies can make on the ground. Ensuring their accommodation and living conditions were improved to meet the country's minimum standards, I also witnessed a positive behavioral change in both the workers and farmers, especially with access to electricity. Some workers adopted the entrepreneurial route, like selling soft drinks to their fellow workers; farmers were going the extra mile to improve their staff quarters—on one farm, overhead lights were installed to brighten the area at night and increase security around the compound. Most workers started purchasing electronic equipment like television sets, refrigerators, music players, etc., while others even installed cable TV. They started taking pride in their dwellings and ensured that the surroundings were kept clean; some even made small gardens in front of their rooms. All these were heartwarming displays, especially having witnessed the living conditions before. Both the workers and farmers could not stop conveying their gratitude toward PMI and its local supplier for this fantastic opportunity. ”



— Lethabo Matji,
Manager Social Sustainability, Leaf PMI

CONTINUOUS IMPROVEMENT

Our ALP program is based on a continuous improvement approach: We work to strengthen our ALP requirements and current methodologies, as well as implementing stronger integrated solutions to tackle the issues identified.

Thinking ahead, we already reinforced our requirements by issuing a set of global minimum accommodation standards to be implemented across all sourcing markets. This was the result of an extensive mapping exercise between local practices in all sourcing markets and relevant international standards. Additionally, following the commitment related to our water access, sanitation, and hygiene (WASH) program, relevant requirements have also been included into these guidelines. This approach brings not only better standardization and consistency, but will further enhance the living and working conditions for workers. In 2021, we will roll out these new standards to suppliers.

Regarding PPE, we focus on two interrelated areas: improving the materials of the PPE sets to increase comfort for the users and, most importantly, ensuring their appropriate usage on the farms. This is why extensive training and awareness raising, as well as focused monitoring, is taking place every year, to ensure that PPE are properly used to provide full protection from the hazardous agricultural tasks. In 2021, we are establishing our baseline in terms of PPE usage, and—based on the outcome—we will define our target, as it is ultimately the goal we want to achieve.



“ We are proud to produce good-quality tobacco while protecting the environment and following the safety rules that our supplier has taught us. We grow tobacco without harming the environment, and with the PPE being given to us, we protect ourselves when spraying pesticides and harvesting tobacco. We feel safer in the fields, and we all work under very good conditions.

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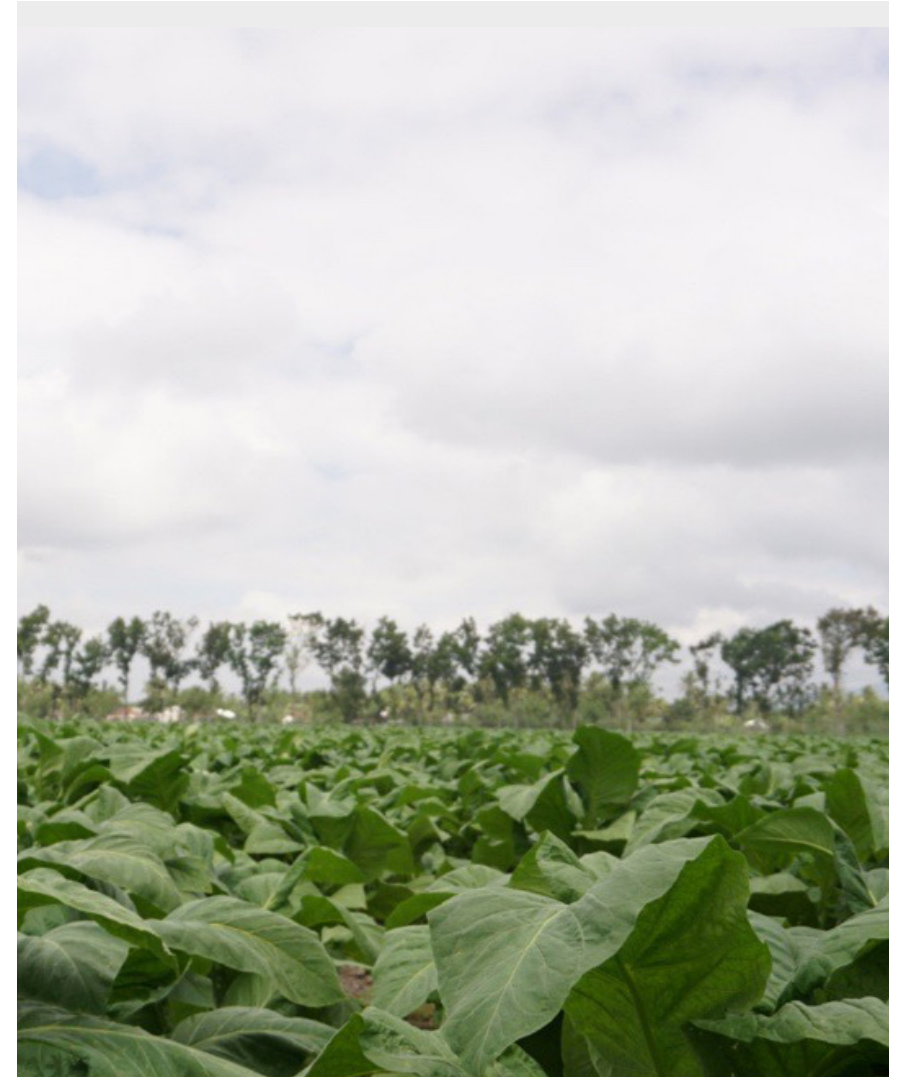
— farmer in Greece

Worker wearing the full set of PPE while applying CPA.

■ Considering the temperature and humidity in Indonesia during the tobacco season, it is challenging to ensure that farmers and workers will wear necessary items to protect themselves during the application of CPA. It is not only availability and awareness raising that are important, but also comfort should be taken into account when designing PPE so farmers and workers will be willing to use them while maintaining adequate protection.

The design combines the long sleeves with head protection and the apron in a single item to prevent potential chemical spillage. This also minimizes the risk that farmers and workers use the incomplete PPE set during CPA application. The new design is made with more comfortable material that is well adapted to Indonesia's climate while still offering full protection.

Our supplier will continue enhancing the design of PPE to ensure that they are comfortable, wearable, and also available to farmers and workers while maintaining full protection. Simultaneously, they are exploring the use of less toxic CPA and innovative methodologies for its application, reducing the risk of exposure for users.



A tobacco field in Indonesia.



CONFIRMING OUR COMMITMENT

Respect for human and labor rights is embedded in our corporate culture, allowing human rights' principles to shape the way we work and guide interactions with suppliers, farmers, workers, and the communities in which we operate.

Beyond being the right thing to do, protecting human rights strengthens our business by allowing us to better manage operational risks, build trust, and reinforce our license to operate. We aim to continuously improve our practices that allow us to identify and address risks and impacts to "rights holders" across our supply chain.

Continuous improvement is what we want to achieve with our ALP program. In this progress update, we share our successes, but we also highlight our challenges. We feel confident that in these two areas of focus today we no longer face systemic issues. If isolated cases occur (due to the farmer base turnover or misbehavior), we will identify these through our robust due diligence process and will take immediate action.

We will keep working on strengthening our monitoring and improving the effectiveness of how to respond to identified issues. While we will continue working

on the new standards introduced in 2021, we are not losing sight of the remaining targets we have set for ourselves: zero child labor, access to WASH services, and minimum wage payment. And these will be complemented by achieving our ambitious target of 100 percent of farmers achieving a living income, positively impacting the livelihoods of entire tobacco growing communities.





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We welcome your feedback. If you have comments or suggestions, please contact sustainability@pmi.com

Or visit www.pmi.com/sustainability to find out more.

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