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we are transforming for good  
10 YEARS OF SMOKE-FREE

we will be

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### This document at a glance

In 2021, PMI published its inaugural Sustainability KPI Protocol (the Protocol), which explained PMI's approach to reporting, and described the newly introduced PMI Sustainability Index (the Index). The initial edition of the Protocol provided detailed insights into the selection and weighting of the key performance indicators (KPIs) that formed the 2022–24 Sustainability Index.

This document is the fourth edition of the Protocol and reflects the most up-to-date information regarding our approach to reporting and covers *Sustainability Indexes 2022–24, 2023–25, and 2024–26* (further commonly referred to as the Index). The basis for preparation section incorporates the most recent descriptions of the definition, scope, calculation methodology, and related data management for each KPI that belongs to the Index. This Protocol is applicable for the full year 2024 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 2024](#), which discloses 2024 performance.

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

This Protocol is reviewed annually 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 underpins the strategic framework established by our Sustainability Index, which measures progress on our sustainability priorities. It defines KPIs that quantify the interconnection between our corporate purpose, business strategy, financial outcomes, and sustainability performance. Through this Protocol's publication, we transparently describe how we measure and evaluate metrics critical to our long-term business success.

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

The Protocol's rigorous methodology ensures that the Index includes objective, quantifiable, and verifiable KPIs enabling investors and other stakeholders to evaluate our performance and strategic execution over time. This data-driven approach to quantifying sustainability performance

has allowed us to link nonfinancial metrics to executive compensation through our 3-year performance share unit cycles since the cycle that started in the 2022–2024 performance share units (PSUs) cycle. As capital markets and regulators demand greater transparency and assurance of sustainability-related business impacts, risks, and opportunities, the Protocol provides the robust infrastructure needed to satisfy increasing scrutiny while building investor confidence in our integrated business model and strategic direction.

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



Jennifer Motles  
Chief Sustainability Officer

“Measuring and disclosing sustainability performance is essential to our business, and our commitment to transparency positions us well in a context where sustainability reporting evolves from voluntary to mandatory requirements in various jurisdictions around the world. The introduction of new international regulations and standards has established clearer methodologies, definitions, and disclosure requirements. We support efforts seeking to increase the rigor of sustainability reporting, and welcome the consistency and robust governance frameworks that these new standards seek to provide. Our Sustainability KPI Protocol and Index, developed ahead of these requirements, integrate robust controls and governance processes – from KPI definition and ownership to calculation methodology and final validation. This comprehensive system not only aligns with current mandatory frameworks but also serves its foundational purpose: drive meaningful performance by engaging employees, supporting program owners in prioritizing key initiatives, and building capabilities across finance, IT, and risk functions. This integrated, control-based approach ensures both regulatory compliance and credible, data-driven communication about our sustainability performance.”

## Our approach to reporting

### Reporting process

PMI reports sustainability 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 sustainability materiality assessments conducted in 2021 and refreshed in 2023, which inform the contents of PMI's Integrated Report 2024, we disclose data points related to all our most material sustainability topics, including but not limited to the 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, consolidated 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 continues to report the volume and corresponding royalty revenue 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 KPI's details and indicated with an 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 the 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

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 2024, we continued working with our Internal Controls function to review these standards and strengthen our KPI definitions, data management processes, and controls. The results of this effort were summarized in the internally published Sustainability Index governance process. The Nonfinancial Disclosures Assurance team has conducted independent audit reviews and delivered strategic guidance on preparing for external verification through holistic Auditability Principles to support our commitment to transparency and accountability. 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. Meanwhile, the "Controls over Sustainability Index governance and preparation" section outlines the controls implemented to further increase the process robustness. This document shall be reviewed annually to reflect any material updates to internal standards.

We will continue building 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 sustainability metrics being externally assured and further integrate sustainability considerations into business decisions and processes.

#### Independent verification

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 expanding the coverage of external verification of our nonfinancial metrics, focusing on our most material sustainability topics.

While external assurance is not a legal requirement, PMI has chosen to subject its Sustainability Index to independent verification given its unique, bespoke nature in linking sustainability performance to executive compensation. Through PwC's limited assurance of the 2022–24 Sustainability Index governance and preparation processes, we provide external stakeholders with transparency of our performance assessment methodology and demonstrate that KPI evaluation follows rigorous, well-defined protocols (see [independent limited assurance report](#)).

#### Path to full assurance

Our journey with the 2022–24 Sustainability Index involves external verification of the Index framework itself—encompassing its structure, processes, and governance. While some individual KPIs within this Index benefit from external verification, we haven't yet extended this practice to all performance indicators.

Looking ahead, starting with the Sustainability Index linked to the 2023–25 PSU cycle, we're expanding our verification approach to include all individual KPIs within each Sustainability Index, alongside its governance and processes. This evolution will naturally enhance our reporting credibility and strengthen our data management capabilities.

In parallel, we are working toward obtaining external limited assurance for our EU Corporate Sustainability Reporting Directive (CSRD) disclosures. By aligning future Sustainability Index KPIs with external regulatory frameworks like CSRD, we're fostering greater comparability in nonfinancial performance measurement while upholding our commitment to rigorous data quality standards.

**Reginaldo Dobrowolski**  
Vice President and Controller



"The increasing scrutiny of sustainability performance demands that nonfinancial data be held to high standards of rigor. Through our partnership between Corporate Controlling and the Sustainability function, we are leveraging decades of financial reporting expertise to establish robust processes for nonfinancial disclosures. This convergence is both timely and strategic, as sustainability performance is integrated into overall business performance, the natural synergies between financial and nonfinancial controlling is increasingly evident. Our integrated approach ensures that sustainability data are subject to rigorous treatment in terms of controls, verification, and assurance, establishing trustworthy reporting by design."

## Key definitions and notes

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

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

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

**Combustible tobacco products** – The term 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 worker** – We define a contracted worker (also referred to as “agency temp”) as a worker who is under the direct supervision of PMI employees but employed by a temporary employment agency.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Sustainable Tobacco Supply Chain (STSC) framework** – 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. It introduces the concept of eligible farm base, a preselection of farmers from PMI's suppliers' farm base, who may supply tobacco to PMI, as defined below.

**1. Total farm base of contracted farmers:** All contracted tobacco farmers who are by default subject to our ALP program and thus farm-by-farm monitoring. Only a subset of these contracted farmers end up supplying tobacco used in PMI's packed products, with the remainder providing tobacco to other companies.

**2. Eligible farm base of contracted farmers:** The eligible farm base is composed of that subset of tobacco farmers who have been preselected by suppliers based on their compliance with PMI's ALP Code requirements. This preselection takes into consideration farmers' past-year performance related to addressing child labor or forced labor issues, minimum wage payment, decent accommodation for workers, and access to personal protective equipment (except for newly contracted farmers for which such information is not available).

**3. Contracted farmers supplying tobacco to PMI:** This corresponds to the portion of the eligible farm base whose tobacco is, ultimately, included in PMI's products.

**Wellness and healthcare products:** The term we use to primarily refer to products associated with inhaled therapeutics and oral and intra-oral delivery systems that are included in the operating results of PMI's wellness and healthcare business.

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

For further terms and acronyms used in our reporting, please see the glossary on pages 200 to 204 of [PMI's Integrated Report 2024](#).

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

This document has been structured in alignment with the PMI Sustainability Index: the KPIs are organized by performance measure (i.e., Product Sustainability and Operational Sustainability) and linked to their corresponding strategies.

This section provides an overview of the Sustainability Index 2022–24, 2023–25, and 2024–26 structures, including the assignment of each of the KPIs described in this document to respective indexes.

PMI is gradually working on including newly acquired subsidiaries in reporting as soon as the appropriate processes and systems are implemented to enable consistent data collation and group-level consolidation. The respective Sustainability Index targets gradually incorporate Swedish Match – reflecting our process readiness of integrating the data of the acquired subsidiary.

		Inclusion of Swedish Match in KPI performance targets by Sustainability Index/PSU cycle			
		2022–24	2023–25	2024–26	
PRODUCT IMPACT	Purposefully phase out cigarettes	1 Smoke-free product shipment ratio (smoke-free/total) <sup>o</sup>	Yes	-	-
		2 Adjusted net revenue ratio (smoke-free/total) <sup>o</sup>	Yes	Yes	Yes
		3 Number of markets where smoke-free products are available for sale <sup>o</sup>	Yes	Yes	-
	Maximize the benefits of smoke-free products	4 Number of markets where >50% of net revenues are smoke-free <sup>o</sup>	-	-	Yes
		5 Proportion of markets where smoke-free products are available for sale that are low- and middle-income markets <sup>o</sup>	Yes	Yes	Yes
		6 Total number of users of PMI smoke-free products (in millions) <sup>o</sup>	Yes	-	-
		7 Proportion of shipment volume covered by markets with youth access prevention programs in place in indirect retail channels	No	Yes	Yes
	Seek net positive impact in wellness and healthcare	8 Annual net revenue from wellness and healthcare products (in billion USD) <sup>o</sup>	n/a	-	-
		9 Proportion of shipment volumes covered by markets with anti-littering programs in place for combustible cigarettes	n/a	n/a	n/a
	Reduce post-consumer waste	10 Proportion of shipment volume covered by markets with end-of-life take-back programs in place for smoke-free consumables	n/a	n/a	n/a
		11 Proportion of PMI smoke-free devices with an eco-design certification	n/a	n/a	-
		12 Cumulative number of smoke-free electronic devices refreshed or repaired since 2021 (in thousands)	n/a	n/a	n/a
<b>Product Sustainability performance</b>					
OPERATIONAL IMPACT	Foster an empowered and inclusive workplace	13 Proportion of women in senior roles	No	Yes	Yes
		14 Proportion of PMI employees with access to structured lifelong learning offers	No	Yes	-
		15 Average number of digital training hours per employee	-	-	Yes
	Improve the quality of life of people in our supply chain	16 Cumulative number of human rights impact assessments conducted since 2018, with findings addressed	No	Yes	Yes
		17 Prevalence of child labor among contracted farmers supplying tobacco to PMI	No	No	Yes
		18 Proportion of contracted farmers supplying tobacco to PMI who make a living income	No	No	-
		19 Proportion of the most economically vulnerable farmers benefit from interventions that drive a measured increase in income	-	-	Yes
	Tackle climate change	20 Net carbon emissions scope 1+2 (in thousands of metric tons) <sup>o</sup>	No	Yes	-
		21 Absolute carbon emissions reduction in scope 3 versus 2019 baseline (in line with science-based target) <sup>o</sup>	No	-	-
		22 Absolute carbon emissions reduction in scope 3 FLAG versus 2019 baseline (in line with science-based target) <sup>o</sup>	-	Yes	Yes
	Preserve nature	23 Proportion of tobacco purchased at no risk of deforestation of managed natural forest and no conversion of natural ecosystems <sup>o</sup>	No	No	-
		24 Proportion of priority forest area in PMI tobacco and paper and pulp-based product supply chains with zero deforestation	-	-	No
		25 Volume of water optimized in our tobacco-growing areas (mio m <sup>3</sup> – cumulative since 2019)	-	-	Yes
<b>Operational Sustainability performance</b>					

KPIs included in the respective Sustainability Index are highlighted in blue.

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

<sup>o</sup> Indicates metric has been subject to external verification in 2024. Performance against 2022–2024 Index is described in [PMI Proxy Statement 2025](#) and dedicated webpage on [PMI.com](#). The 2022–24 Sustainability KPIs described in the 2025 Proxy Statement represent the same KPIs listed in the table above, although individual KPI names may slightly differ.

# Controls over the Sustainability Index governance and preparation

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

## Index governance

### 001 – Review and approval of the Sustainability Index structure

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

### 002 – Review and approval of the Sustainability Index performance ranges

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

### 003 – Establishing Sustainability Index KPI ownership

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

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

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

## Index preparation

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

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

### 006 – Individual Sustainability Index KPI values calculation and approval

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

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

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

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

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

### 009 – Sustainability Index result publication for applicable PSU vesting years

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

# Product Sustainability

## Purposefully phase out cigarettes



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

**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 other tobacco products (OTPs) and smoke-free product consumables into cigarette equivalents using predefined conversion rates.

#### Data management

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

**Data verification** The smoke-free product shipment ratio (smoke-free/total), as published in [PMI's Integrated Report 2024](#), has been assured by PwC (limited assurance).

→ See the independent practitioner's limited assurance report on pages 195 to 197 of [PMI's Integrated Report 2024](#)



## 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 substantially smoke-free company. The proportion of revenue we derive from smoke-free business is a key indicator of the Company's transformation.

### Definitions

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

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

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

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

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

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

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

### Scope

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

**Excluded** Special items.

### Calculation methodology

Adjusted smoke-free net revenue ratio is calculated as:

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

### Data management

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

→ See [Investor Relations website](#)

**Data verification** The adjusted net revenue ratio (smoke-free/total), as published in [PMI's Integrated Report 2024](#), has been assured by PwC (limited assurance).

→ See the independent practitioner's limited assurance report on pages 195 to 197 of [PMI's Integrated Report 2024](#)



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

### Scope

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

**Excluded** Any market commercializing only combustible tobacco products and/or wellness 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 PMI's reporting system. The list of markets where PMI smoke-free products are available for sale is first validated by each region, and then approved centrally.

**Data verification** The number of markets where PMI smoke-free products are available for sale, as published in [PMI's Integrated Report 2024](#), has been assured by PwC (limited assurance).

→ See the independent practitioner's limited assurance report on pages 195 to 197 of [PMI's Integrated Report 2024](#)



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

##### KPI description

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

##### Definitions

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

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

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

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

##### Scope

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

**Excluded** Wellness and healthcare net revenues.

##### Calculation methodology

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

Net revenue ratio per market is calculated as:

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

##### Data management

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

**Data verification** Number of markets where >50% of net revenues are smoke-free, as published in [PMI's Integrated Report 2024](#), has been assured by PwC (limited assurance).

→ See the independent practitioner's limited assurance report on pages 195 to 197 of [PMI's Integrated Report 2024](#)



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

##### KPI description

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

##### Definitions

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

##### Scope

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

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

##### Calculation methodology

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

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

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

##### Data management

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

**Data verification** The proportion of markets where smoke-free products are available for sale that are low- and middle-income markets, as published in [PMI's Integrated Report 2024](#), has been assured by PwC (limited assurance).

→ See the independent practitioner's limited assurance report on pages 195 to 197 of [PMI's Integrated Report 2024](#)





## 6 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 PMI smoke-free products (SFPs) users** Defined as the sum of total IQOS users, total oral smokeless users, total e-vapor users of PMI products, minus poly-users across PMI SFPs categories.

**Total IQOS users** The estimated number of legal-age (minimum 18 years or older depending on market regulation) 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.

**Total PMI oral smokeless users** Defined as the estimated number of legal age (minimum 21 years in the U.S. and minimum 18 years outside the U.S.) users of oral smokeless products who consumed at least one of PMI oral smokeless products (nicotine pouches in the U.S., and nicotine pouches or snus outside the U.S.) over the past seven days.

**Total PMI e-vapor users** Defined as the estimated number of legal age (minimum 18 years or older depending on market regulation) users of e-vapor products who consumed at least one of PMI e-vapor products in the past seven days.

**Poly-users across PMI SFPs categories** Defined as the estimated number of legal age (minimum 18 years or older depending on market regulation) users who used multiple PMI SFPs over the past seven days.

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

### Scope

**Included** All PMI smoke-free products, including licensed KT&G HNB products and HTUs.

### Calculation methodology

The metric reflects PMI estimates, which are based on PMI's proprietary Nicotine Containing Products Tracker (NCPT). The methodology relies on NCPT e-vapor, oral smokeless (except the U.S.), and poly-usage data, which is calibrated using Total IQOS users data, leveraging our deeper understanding of PMI's heat-not-burn category and its size. Total PMI oral smokeless users in the U.S. are approximated through volume-based estimations, as NCPT data for the U.S. are not currently available.

Note: PMI SFPs user estimates are derived from sample-based estimations from NCPT at 95% confidence interval. The accuracy and reliability of PMI SFP users estimates may vary based on sample size, market maturity, and availability of information.

### Data management

The estimations of total IQOS 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 IQOS users are the sum of the individual markets' estimations, which are validated and consolidated centrally.

The estimations of oral smokeless users, e-vapor users, and poly-users across PMI SFPs categories are performed on a quarterly basis and approved by the global finance and consumer insights management.

**Data verification** The total number of users of PMI smoke-free products, as published on pages in [PMI's Integrated Report 2024](#), has been assured by PwC (limited assurance).

→ See the independent practitioner's limited assurance report on pages 195 to 197 of [PMI's Integrated Report 2024](#)



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

### KPI description

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

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

To be considered as having the YAP program in place, a market must deploy the program's three mandatory pillars as outlined on [page 18](#). The required number of indirect points of sale (POS) to be covered by each pillar, referred to as "reachable coverage," varies for the different activities (e.g., some require a physical visit to the POS, while other activities can be deployed digitally).

### Definitions

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

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

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

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

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

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

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

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

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



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

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

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

**Scope**

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

**Excluded** PMI Global Travel Retail market (duty free points of sale); the U.S. market, where the YAP program deployment starts in 2025.

**Calculation methodology**

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

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

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

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

**Data management**

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

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

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

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

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

**External monitoring** To assess the extent to which the YAP program's deployment meets its key requirements set out in the program's standard with an independent third party, PMI engages an external audit firm to review our assessment of the program's deployment results in several key and high risk markets. Key and high-risk markets are selected from PMI's high operating income markets that commercialize both smoke-free products and cigarettes; the selection of markets also considers the structure of the indirect retail channels and the distribution of legal age consumers by age groups.

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



**8 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. In the longer run, we are also laying the foundation of a strong business in the areas of broader lifestyle and consumer wellness and healthcare.

**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.

**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.

**Data management**

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

→ See [Investor Relations website](#)

**Data verification** The annual net revenue from wellness and healthcare, as published in [PMI's Integrated Report 2024](#), has been assured by PwC (limited assurance).

→ See the independent practitioner's limited assurance report on pages 195 to 197 of [PMI's Integrated Report 2024](#)



## Reduce post-consumer waste



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

#### KPI description

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

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

#### Reach

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

#### Impact

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

#### Definitions

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

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

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

#### Scope

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

**Excluded** PMI Global Travel Retail markets.

#### Calculation methodology

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

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

**Estimates and assumptions** Markets are evaluated for compliance with the requirements of PMI's AL guidelines, considering all activities deployed between January 1 and December 31 of the respective year. This evaluation is performed in January of the following calendar year. For simplicity, when calculating the proportion of shipment volumes covered by AL programs, the full-year shipment volumes are considered.

#### Data management

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

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

#### KPI description

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

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

Currently, the capacity of third parties to recycle our consumables is limited because, for the main structural components' materials, such as cellulose acetate, few viable recycling solutions exist today. Therefore, the materials from our products that can be recycled from our smoke-free consumables depend on the locally available infrastructure and technical capabilities of contracted waste treatment operators. While recycling is our preferred recovery solution, if recycling of materials is not locally available as a viable or feasible solution, the incineration of smoke-free consumables with energy recovery remains an option, and in some cases incineration without energy recovery for HTUs.

#### First year of program launch

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

#### Second year of program launch

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

- Deployment of the program with at least 50 percent of IQOS partners
- Mail-in services
- Other indirect retail partners (scale dependent on trade partner footprint for the respective market)

#### Third year of program launch

- Maintain second year of launch criteria

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

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

#### Definitions

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

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

#### Scope

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

**Excluded** China, the U.S., and PMI Global Travel Retail market, oral nicotine products, other smoke-free products (lighters, matches, phone cards).

#### Calculation methodology

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

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

#### Data management

PMI markets are responsible for data collection regarding the coverage of direct and indirect points of sale, which is reported to the central team on an annual basis. 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.





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

### KPI description

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

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

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

The product is considered to have eco-certification when:

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

### Definitions

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

- **Type 1: Environmental labels and declarations** are awarded by a third-party accrediting body based on best-in-class performance among the product category. A product category is a standardized set of performance-oriented criteria for a defined scope of products, according to which product sustainability information is assessed, evaluated, and partly disclosed by an accredited body. Type 1 certification currently is not possible for smoke-free electronic devices due to the lack of established product category ruling for this product category.

- **Type 2: Self-declared environmental claims** refer to self-declared and externally verified adherence to an internally developed standard, communicated through a statement, symbol, graphic, or text.

- **Type 3 – Environmental product declaration (EPD).**

Product Category Ruling (PCR) to execute a life cycle assessment (LCA) for a defined product category. Based on these standards, an LCA can be conducted. The EPD verifier evaluates product performance against a set of indicators, allowing for comparability between products within the same category. This type of eco-design certification prescribes guidelines for similar products to disclose product information, mainly focusing on transparency and accuracy.

### Scope

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

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

### Calculation methodology

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

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

Calculation of 2022–24 values is based on the intermediary metrics assessing product readiness for certification at defined project stages. The 2024 KPI assesses preparedness at the project deployment stage, before the product launch:

$$= \left( \frac{\text{Number of projects with eco-certification requirements}}{\text{Total number of projects in scope}} \right) \times 100\%$$

### Data management

The eligibility of 2025 product launches will be measured by achievement of third-party eco-design Type 2 and/or Type 3 certification. The interim 2022–24 metrics are calculated using internal project management tools and pre-agreed milestones at different project stages.



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

### KPI description

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

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

### Definitions

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

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

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

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

**Serviced devices** All smoke-free devices that go through care and maintenance, cleaning, firmware upgrade, and customization accessories (e.g., rings and door covers) for maintenance or replacement. Service is provided to adult users on the spot at

IQOS service points or at home. This service is not available at the hubs.

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

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

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

### Scope

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

**Excluded** Consumable products including disposable e-vapor and pods.

### Calculation methodology

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

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

### Data management

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

# Operational Sustainability

## Foster an empowered and inclusive workplace



### 13 Proportion of women in senior roles

#### KPI description

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

#### Definitions

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

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

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

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

#### Scope

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

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

#### Calculation methodology

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

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

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

#### Data management

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



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

### KPI description

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

We consider an employee to have access to structured lifelong learning offers if the employee has an account that allows access to the PMI-specific learning catalogue via an appropriately secure device, whether provided by PMI or not (e.g., phone, tablet, personal computer). With this access, they can obtain license within 48 hours to external platforms upon request (e.g., Rosetta Stone, Udemy, or EdEx).

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

### Definitions

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

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

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

### Scope

**Included** All employees as per headcount definition.

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

### Calculation methodology

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

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

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

### Data management

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



## 15 Average number of digital training hours per employee

### KPI description

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

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

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

### Definitions

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

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

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

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

### Scope

**Included** All digitally enabled employees.

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

### Calculation methodology

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

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

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

### Data management

Data on the number of digital learning hours are collected quarterly and consolidated annually before being reported in the [Integrated Report](#). This process follows a detailed procedure that defines the calculation method for each type of learning content.





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

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

#### KPI description

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

#### Definitions

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

#### Scope

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

**Excluded** n/a

#### Calculation methodology

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

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

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

#### Data management

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

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

#### KPI description

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

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

#### Definitions

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

**Identified child labor cases** Include prompt actions (observations by field technicians) and nonconformities (self-declarations) on contracted tobacco farms supplying tobacco to PMI, reported through the internal monitoring data recorded by field technicians or contracted service providers in markets 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, nonpayment of minimum wage, or lack of written contracts).

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

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



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

### 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 have not been systematically monitored. Additionally, all other suppliers of materials and services are out of scope for the purposes of reporting the prevalence of child labor in our tobacco supply chain. "Risk" nonconformities are not included in the scope of the calculation.

### Calculation methodology

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

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

Notes on the above calculation:

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

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

### Data management

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



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

### KPI description

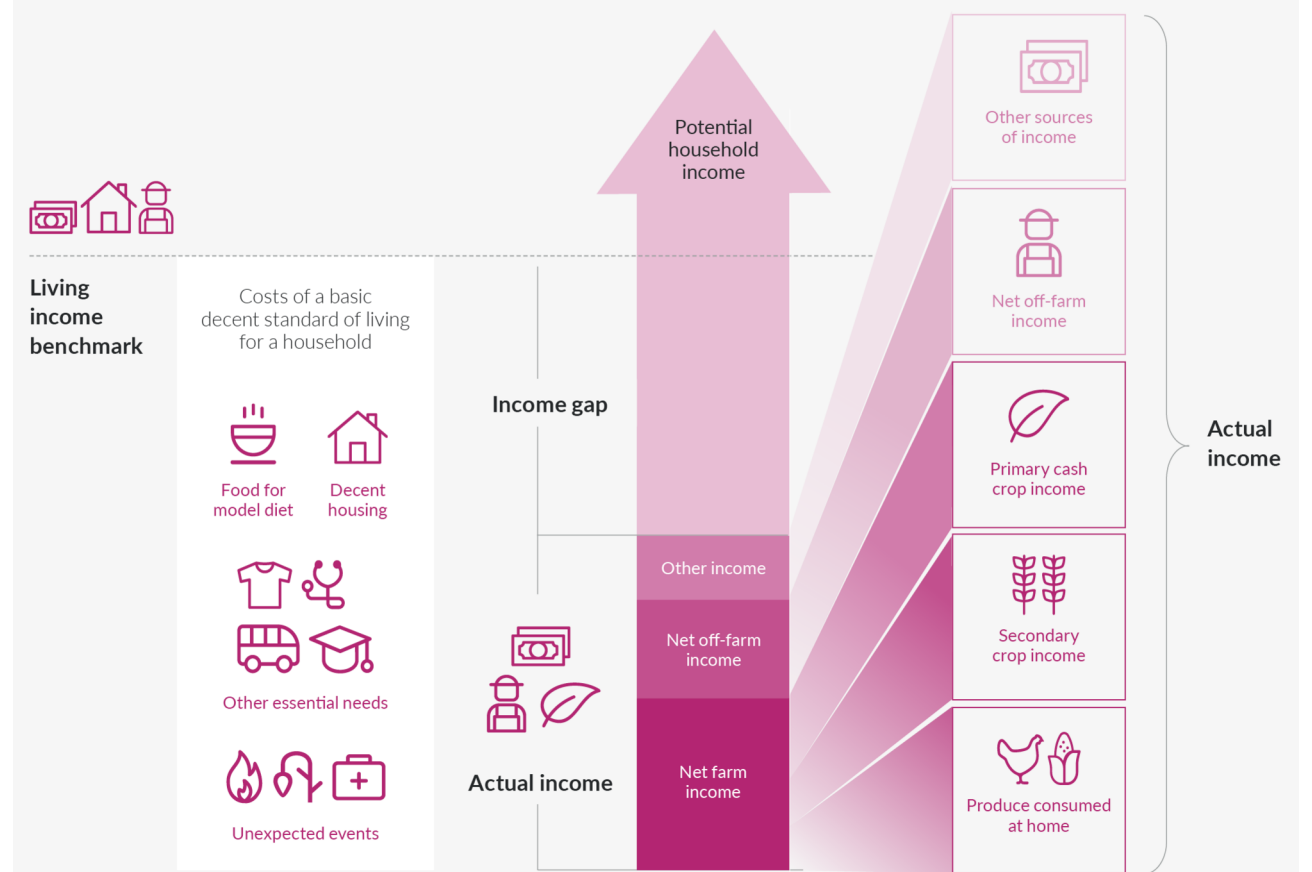
To foster socioeconomic well-being and address social inequality and labor-related issues in our tobacco supply chain, we seek to ensure that all contracted farmers supplying tobacco to PMI make a living income by 2025. To measure progress toward this aim, income data for contracted farmers supplying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

### Definitions

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

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

### Calculating the living income benchmark



Note: Visual adapted from the Living Income Community of Practice (source).





## 18 Proportion of contracted farmers supplying tobacco to PMI who make a living income *continued*

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

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

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

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

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

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

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

### Scope

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

#### Excluded

- Farmers (within PMI's supplier farm base and eligible farm base) who have not supplied tobacco to PMI
- PMI tobacco purchased volume for which monitoring data on farmer income is not available
- Supply chain Type 3 markets/suppliers<sup>1</sup>
- New markets that PMI started sourcing from after 2021
- Volumes coming from crops prior to 2021/2022 (depending on crop calendar) that fell into calendar years prior to 2022

### Calculation methodology

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

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

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

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

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

This second layer of segmenting was introduced in 2023<sup>2</sup> and is only conducted on those segments of farmers who are below living income, where further granularity is required to determine which of the farmers in these segments are truly below the living income value relevant for their family size.

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

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

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

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

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

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

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

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

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

### Data management

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

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





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

**KPI description**

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

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

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

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

**Definitions**

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

**Farmers benefiting from LI initiatives** Farmers that participate in the LI initiatives.

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

**Living income (LI) initiative** A program aimed at increasing farmers' income, with a measurable impact.

**Most economically vulnerable farmers** The lowest 15% of contracted farmers supplying tobacco to PMI, within pre-selected priority markets, ranked based on land size, tobacco yield, and crop diversification (based on historical farmer profile analyses).

**Priority markets** IPS markets with specific tobacco types. For the initial 4-year cycle from 2024 to 2027, the priority markets are India (burley), Mozambique (flue-cured), Indonesia (sun-cured and air-cured), and the Philippines (air-cured and flue-cured).

**Scope**

**Included** Contracted farmers supplying tobacco to PMI in priority markets, defined for the 4-year cycle 2024–2027.

**Excluded**

- Farmers (within PMI's supplier farm base and eligible farmers) who have not supplied tobacco to PMI
- Tobacco for which a full set of sustainability data are not available
- Supply chain Type 3 markets/suppliers<sup>1</sup>
- New markets/suppliers that PMI started sourcing from as of 2025
- Farmers supplying tobacco to PMI coming from previous crops
- Farmers supplying tobacco to PMI coming from nonpriority markets

**Calculation methodology**

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

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

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

**Current year (CY)** – reflects the reporting year.

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

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

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

**Data management**

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

Purposely 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



## Tackle climate change



### 20 Net carbon emissions scope 1 + 2 (metric tons)

#### KPI description

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

#### Definitions

**Carbon neutrality** Aligned with the working definition of the Science Based Target initiative (SBTi), individual actors are carbon neutral when 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, and others).

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

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

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

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

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

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

**Biogenic emissions** The direct 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)
- PMI's fleet
- Warehousing: PMI-owned or PMI-operated warehouses
- Offices: PMI-owned or PMI-operated office spaces
- Others: Other facilities under PMI's operational control such as data centers

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

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

- IQOS stores<sup>1</sup>
- HFCs<sup>2</sup>, PFCs, SF<sub>6</sub>, or NF<sub>3</sub> 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, as well as acquired electricity, steam, heat, or cooling consumed by PMI, is transformed, if needed, to energy units using standard conversion factors and calorific values.

Thereafter, to convert energy units to CO<sub>2</sub>e emissions, CO<sub>2</sub>e emission factors per energy type and country are used. PMI sources emission factors from the U.K. government's GHG Conversion Factors for Company Reporting and the International Energy Agency's (IEA) Emissions Factors. In line with the GHG Protocol guidelines, PMI reports both market-based and location-based 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>3</sup> and additionally some carry the Climate, Community & Biodiversity Standards (CCBS).<sup>4</sup>

The principles at the basis of the VCS define generated credits as real, triggering additional GHG emission reduction in comparison with business as usual, and projects are assessed using a technically sound GHG emission reduction quantification methodology specific to each project type. 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 emission reduction units are verified by an independent and accredited third party with credits that can be issued after the emission reduction has taken place and has been verified through an audit.

The CCBS, on top of 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 also be applied to projects that reduce GHG emissions from deforestation and forest degradation or projects that remove carbon dioxide by sequestering carbon or other land management.

#### Data management

On a monthly basis, the amount of energy consumed in PMI's direct operations (scope 1+2), by type of energy source<sup>5</sup> is reported in PMI's central environmental management system. Input data include:

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

Following the raw data input and validation of the consumption data into PMI's central environmental management system, the system automatically calculates the resulting 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 the responsible PMI head of function and verified by the third-party verifier.

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

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

1. As of 2022 a minor portion of PMI's retail stores have been included in the scope 1+2 emissions.
2. HFCs emissions are currently accounted for in Swedish Match operations.
3. [verra.org](#).
4. [climate-standards.org](#).
5. Energy sources include fossil fuels (diesel, fuel oil, natural gas, petrol, LPG, and coal), biofuels (biodiesel, bioethanol, biomass), district steam, district heating, district cooling, and electricity (renewable versus nonrenewable, split according to source (solar, wind, biofuel)).



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

### KPI description

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 provide a clearly defined path to reduce emissions, helping prevent the worst impacts of climate change and future-proof business growth. Targets are considered “science-based” if they are in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement – limiting global warming to 1.5°C above pre-industrial levels.

**Scope 3 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 5 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: Methodology Overview](#). 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 verification** PMI’s scope 3 GHG emissions are reviewed and verified annually by an external third party according to ISO 14064-3:2019 and a verification statement is available on [PMI.com](#).

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



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

### KPI description

FLAG targets apply to a company’s Forest, Land, and Agriculture related emissions up to the farm gate, including CO<sub>2</sub> emissions related with land use change (e.g., deforestation, forest degradation, conversion of wetlands, peatland burning), land management (e.g., N<sub>2</sub>O and CH<sub>4</sub> from enteric fermentation, biomass burning, application of fertilizers, manure management), and carbon removals and storage (e.g., carbon sequestration from improved forest management, agroforestry, afforestation, soil organic carbon, biochar, technological). PMI has set a science-based target to achieve a 33.3 percent reduction in scope 3 FLAG GHG emissions by 2030 versus 2019 baseline.

### Definitions

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

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

### Calculation methodology

PMI has a full value chain carbon footprint model in place, which includes Scope 3 FLAG emissions. Our carbon footprint model is aligned with the GHG Protocol “[Corporate Value Chain \(Scope 3\) Standard](#)” (2011) and “[Land Sector and Removals Guidance](#)” (2023). For more details on PMI’s accounting methodology, scope, and data collection process, please refer to [PMI’s Value Chain Carbon Footprint: Methodology Overview](#).

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

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





## Preserve nature

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

#### KPI description

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

PMI takes a risk-based approach to monitoring deforestation in the tobacco supply chain. As the risk of deforestation related to the curing of Virginia flue-cured tobacco is considered material, a detailed monitoring process has been established to ascertain the sustainability and traceability of 100 percent of the wood fuel used to cure tobacco by contracted farmers. Additionally, on an ongoing basis, the risk of deforestation of all tobacco-growing areas (TGAs) is monitored using externally available geophysical input data to assess the changes in forest coverage and natural ecosystems inside the TGAs. This combination of detailed monitoring of potentially high-risk activities and ongoing monitoring of all TGAs forms the basis of PMI's risk-based approach to monitoring deforestation risk in our tobacco supply chain.

#### Definitions

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

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

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

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

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

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

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

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

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

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

**Primary and protected forest** Forests that have not been subject to major human impacts in recent history and possess many or most of the characteristics of a forest native to the given site, including species composition, structure, and ecological function. More specifically, PMI's definition of primary and protected forest are those located inside PMI TGAs (see definition on [page 40](#)) that are mapped using publicly available sources.

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

**Sustainable wood fuel** Includes wood fuels derived from:

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

Sustainable wood fuel excludes wood fuels derived from:

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

#### Scope

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

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

#### Calculation methodology

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

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

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

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





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

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

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

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

### Calculation methodology

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

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

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

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

### Data management

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

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

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



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

### KPI description

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

To determine the amount of forest area in scope compliant with zero identified deforestation, we conduct an assessment of deforestation risk using geospatial monitoring tools on the growing areas (for tobacco) and the forest concessions (for provision of fuel wood for curing) within PMI's supply chain for tobacco. A buffer is added to account for the sourcing of biomass and firewood outside of the tobacco farm. AOIs provided for our paper and pulp-based product supply chain are mapped for Procurement Direct Materials (DIM) when the AOI coordinates or polygons are available. If not spatially determined, AOIs can be retrieved for both tobacco and DIM at jurisdictional level where the area in scope is, considering the municipality area where PMI-related business activities occur. Consequently, a monitoring and verification framework, including third-party verification, is applied to both supply chains to validate compliance with zero identified deforestation requirements.

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

### Definitions

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

**Sustainable wood fuel** Includes wood fuels derived from:

- Sustainably managed legal plantations, including on-farm planting
  - Sustainably managed secondary forest or degraded forest with no measurable deforestation by spatial analysis tools
- Excluded are identified invasive exotic species that have not been planted and require removal according to a thorough ecological assessment. Sustainable wood fuel also excludes wood fuels derived from:
- Unsustainably managed natural forests where deforestation is measurable by spatial analysis tools or onsite inspection visits
  - Plantations resulting from conversion of natural forests after the set cut-off date
  - Primary and protected forests

### Scope

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

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

### Calculation methodology

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

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

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

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

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

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





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

### Calculation methodology

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

**PF<sub>0</sub>** = proportion of priority forest area with zero identified deforestation

**PFt** = priority forest in tobacco with zero identified deforestation

**PFd** = priority forest in DIM with zero identified deforestation

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

### Data management

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

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

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

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



## 25 Volume of water optimized in our tobacco-growing areas (mio m<sup>3</sup> – cumulative since 2019)

### KPI description

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

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

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

### Definitions

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

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

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

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

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

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

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

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

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

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





## 25 Volume of water optimized in our tobacco-growing areas (mio m<sup>3</sup> – cumulative since 2019) continued

### Scope

**Included** Leaf tobacco supply chain.

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

### Calculation methodology

The volume of water benefits is calculated by summing the volumetric water benefits for each calendar year to consolidate the global figure. For the final annual actual, the benefits for the current year and past year (starting in 2019) are added to obtain a cumulative result in cubic meters (m<sup>3</sup>):

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

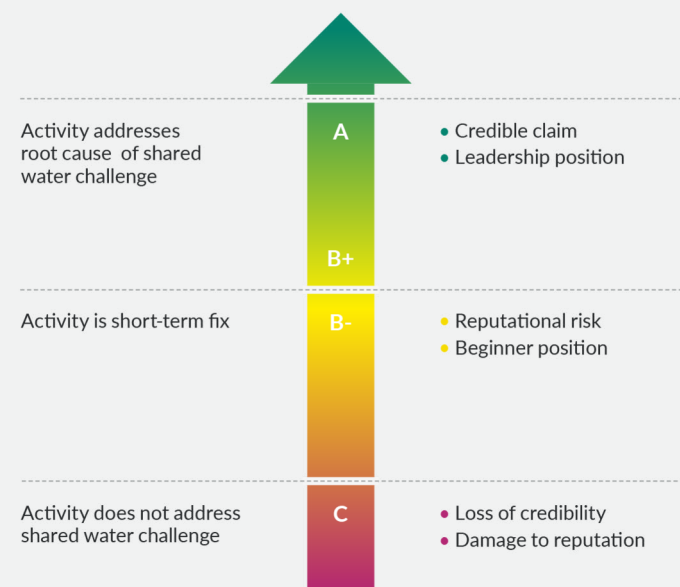
**Estimates and assumptions** Projects are implemented starting in January, and data are collected throughout the year. In October and November, data on the total cubic meters optimized and restored are consolidated and shared with a third party for external assurance. By the end of November, the total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

### Data management

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

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

### Water stewardship activity credibility thermometer



### Instructions

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

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

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

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

Sum the scores and rank the activity such that:

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

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