

PMI'S
VALUE CHAIN CARBON FOOTPRINT:
METHODOLOGY OVERVIEW

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Methodology Overview

Philip Morris International (PMI) is leading a transformation in the tobacco industry to create a smoke-free future and ultimately replace cigarettes with smoke-free products to the benefit of adults who would otherwise continue to smoke, society, the company, and its shareholders. Following this objective and the launch of (and continued research and development into) new smoke free products, PMI's value chain is evolving rapidly and becoming more complex. In 2020 PMI established more ambitious targets to drive their decarbonization journey with a reduction in absolute CO₂e emissions consistent with science-based targets for a 1.5-degree scenario. Science based targets will guide the achievement of net zero across their entire value chain (scope 1¹, 2² and 3) by 2040 as announced in 2021, 10 years earlier than the previous targeted timeline. In order to achieve these targets, PMI has worked with carbon experts to develop a full 'Value Chain' carbon footprint model, to help measure emission reductions. These emissions are reported publicly on an annual basis in PMI's integrated report in its website and used to respond to investor and other enquiries such as CDP Climate Change disclosure. In 2023, PMI updated its science-based targets to align with SBTi's most recent criteria and guidance³, resulting in the classification of Scope 3 emissions into 'Forest Land and Agriculture' and 'Industrial'. In the same year, PMI integrated the greenhouse gas (GHG) emissions from the operations of Swedish Match (acquired in 2022), in PMI's value chain carbon accounting. Relevant changes and updates related to this integration are reflected in this document.

The Value Chain model calculates the carbon emissions for each relevant scope 3 category and combines these with the scope 1 & 2 results. The Value Chain model is calculated to align with the accepted international standard for Greenhouse Gas (GHG) value chain modelling 'Corporate Value Chain (scope 3) Accounting and Reporting Standard' published by the GHG Protocol. The model is built in line with PMI's reporting period which is calendar year and captures all activities with associated GHG emissions of PMI's owned and operated enterprises, as well as activities from PMI's licensees, franchises and joint ventures. Activities covered include the entire scope of PMI's operations: from purchased materials, including raw materials, production, distribution, consumption and disposal of PMI's products, as well as overhead activities such as marketing and business travel.

All Scope 3 categories have been assessed for inclusion within the model, to understand what is important, applying a materially threshold defined as 5% of total scope 3 emissions, in accordance with the 'SBTi Criteria and Recommendations for Near-Term targets v 5.1'.

Table 1 shows the scopes and categories which make up PMI's value chain footprint: The categories of the Corporate Value Chain (Scope 3) Accounting and Reporting Standard, and calculations type are described in detail below.

¹ 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.; emissions from chemical production in owned or controlled process equipment.

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

³ Including 'SBTi Criteria and recommendations for near-term targets version 5.1' as well as 'Forest, land and agriculture science-based target setting guidance'.

| Ref | Category | Calc Type | |
|--------------------|--|---|------------------------------|
| Scope 1 | Direct emissions from fuel combustion, and direct emissions of greenhouse gasses | Direct Calc | |
| Scope 2 | Emissions relating to purchased electricity, heating and cooling. | Direct Calc | |
| Upstream Scope 3 | 1a | Category 1a: Purchased Goods and Services – Product-Related | Product related ⁴ |
| | 1b | Category 1b: Purchased Goods and Services – Non-Product-Related | Direct Calc |
| | 2 | Category 2: Capital Goods | Direct Calc |
| | 3 | Category 3: Fuel and Energy related activities | Direct Calc |
| | 4 | Category 4: Upstream Transportation & Distribution | Direct Calc |
| | 5 | Category 5: Waste Generated in Operations | Direct Calc |
| | 6 | Category 6: Business Travel | Direct Calc |
| | 7 | Category 7: Employee Commuting | Direct Calc |
| | 8 | Category 8: Upstream leased assets | Excluded |
| Downstream Scope 3 | 9 | Category 9: Downstream Transportation & Distribution | Product related |
| | 10 | Category 10: Processing of sold products | Excluded |
| | 11 | Category 11: Use of Sold Products | Product related |
| | 12 | Category 12: End-of-life treatment of sold products | Product related |
| | 13 | Category 13: Downstream leased assets | Direct Calc |
| | 14 | Category 14: Franchises | Excluded |
| | 15 | Category 15: Investments | Excluded |

Table 1 – value chain footprint scopes and categorisations

| | |
|-----------------|--|
| Direct Calc | Directly calculated categories have specific calculations to quantify emissions. |
| Product related | Product-related categories have been calculated by determining a small set of Representative Products (RePs), then calculating average product footprints for these products by life-cycle stages. |
| Excluded | Where categories can be excluded completely because there are no or immaterial emissions, a robust exclusion statement has been written for use in external reporting. These are reviewed each year to ensure they remain valid. |

Purchased goods and services (category 1) is initially divided into product-related and non-product-related purchases. The product related purchased goods and services are distinguished into two major subcategories:

- Product related purchased goods and services:
 - tobacco, which is a key ingredient in PMI’s products and accounts for the largest carbon footprint of all raw materials. For each kilogram of green tobacco purchased the value chain model calculates the emissions from all upstream associated emissions (e.g., agricultural practices, curing, processing in stemmeries, and upstream transport, etc.).
 - other product related materials, e.g., filter, paper and packaging materials. PMI engages with suppliers to gather their materials’ cradle-to-gate emissions factors,

⁴ For the portion of emissions related to Swedish Match activities, this category is performed as a direct calculation.

and their plans for further reductions. Where this is not possible, industry average emission factors from public databases are being used.

- Other non-product related emissions which cover categories 1b and 2 are calculated using environmental extended input-output (EEIO) analysis, and GHG emissions factors that convert spend into GHG emissions.

GHG emissions associated with the production of fuels and energy purchased and consumed by PMI (category 3), are calculated using emission factors⁵ from the UK Government GHG Conversion Factors for Company Reporting and own operations activity data.

The upstream transport and distribution of goods (category 4) includes emissions from all purchased inbound and outbound logistics, transport between PMI facilities, and warehousing. Some of these emissions are calculated by carriers based on their own consumption and itinerary data, while others are calculated based on the volume of goods transported and the travelled distance where possible. When no other information is available, environmental extended input-output (EEIO) analysis is used, and GHG emissions factors that convert spend into GHG emissions.

GHG emissions from waste (category 5) includes all emissions from the third-party disposal and treatment of waste generated by PMI's owned or controlled operations, and are calculated based on the weight and type of waste and the treatment method, using emissions factors from the UK Government GHG Conversion Factors for Company Reporting.

PMI's employee business travel (category 6) is split into flights (calculated using flight data), hotel stays (calculated from the number of night stays), taxis and car rentals (calculated from distance), and train (calculated from number of trips). Other business travel (which is very minimal) is not directly collected by PMI and therefore emissions are calculated based upon an expert assumption on the size of the emissions relative to PMI's air travel.

PMI's employee commuting emissions (category 7) were calculated using headcount by country and commuting profiles related to each country's economic development and quality of public transport infrastructure. In this category, the optional impact of remote work is included.

The GHG emissions associated with the transportation and distribution of sold finished goods to retailers and end consumers that is not controlled and paid for by PMI (category 9) is calculated by defining profiles for a number of distribution channels (differing between transport mode, distances travelled, etc.) and allocating the percentage of distributed products between each of the distribution channels or either based on the volume and/or weight of goods transported and the travelled distance.

The associated impact of consumer use of PMI's products (category 11) primarily comes from the electricity used in charging PMI's smoke free products, devices and emissions from lighters to light the cigarette. The use phase emissions are calculated using the International Energy

⁵ <https://www.gov.uk/environment/greenhouse-gas-emissions>

Agency's (IEA) emissions factors⁶ for charging smoke free products devices in consumer countries / regions. In this category, the optional impact of indirect emissions from the use of lighters for combustible products like cigarettes, is being calculated based on sales values and emissions assumptions.

For each product PMI sells, there are associated emissions in their end of life (category 12). Emission factors for the end-of-life treatment for combustible products and smoke-free products (consumables and devices) were taken from life cycle analyses (LCAs). Emission factors for end-of-life of nicotine pouches were taken from the UK Government GHG Conversion Factors for Company Reporting.

Emissions associated with downstream leased assets (category 13) were estimated using primary data on energy consumption of these assets.

Emissions associated with investments (category 15) were estimated based on each of the investee organisations (full value chain), allocating the emissions to PMI based on ownership share, and eliminating any double counting if the emissions are already reported elsewhere. These emissions are currently excluded from the value chain inventory since their contribution to the PMI's scope 3 emissions is below the materiality threshold.

Since 2018, the Value Chain GHG footprint has been verified to ISO 14064-3 standards by an independent third party. This includes verification of the underlying data used as well as the emission factors and calculations applied.

⁶ <https://www.iea.org/subscribe-to-data-services/co2-emissions-statistics>