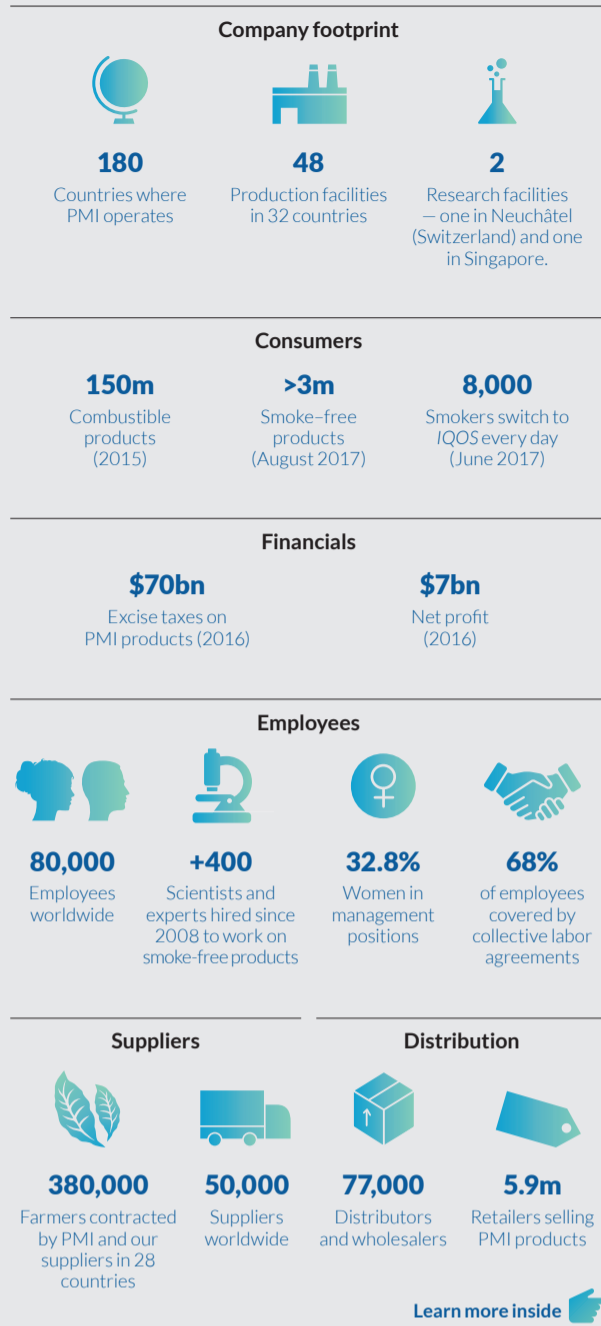




# Sustainability Insight

## Key facts about Philip Morris International Inc. (PMI)



## Our approach to sustainability and vision for a smoke-free future

For PMI, sustainability is about seeking opportunities to create value while minimizing the negative externalities associated with our products, our own operations, and our value chain.

In 2016 we announced our ambition to create a smoke-free future where cigarettes are replaced with less harmful, smoke-free products as soon as possible. Since then, we've been intensifying our work, focusing on the transformation of our company from a cigarette maker to a smoke-free technology leader. We're putting our product at the center of our sustainability strategy while strengthening our efforts across a number of areas.

### Our sustainability framework

At PMI we're using the UNGC's Ten Guiding Principles as a framework for our sustainability efforts, embedding them into our strategy, culture and daily work.

We also welcomed the adoption of the United Nations Sustainable Development Goals (SDGs) which set out the vision of the world we all want, and we're committed to doing our part to make them a reality.

### Taking decisive action where we have the greatest impact



Smoking causes serious disease. By replacing cigarettes with less harmful alternatives we can significantly reduce the negative impact of our products on society.

### Taking ownership where we can provide a substantial contribution



### Aligning our practices with the overall goals, even when we have less impact



Winter 2017

## Better alternatives for smokers

For PMI, translating our sustainability strategy into action starts with our products.

We've invested more than USD 3 billion in R&D to date to apply, develop, and assess new technologies culminating in a suite of non-combustible nicotine products – including e-cigarettes and heated tobacco products – that have the potential to significantly reduce individual risk and population harm compared to continued cigarette smoking.

### Our science and external validation

We follow a thorough and systematic approach to the development and assessment of smoke-free products and align with leading pharmaceutical industry standards and guidance from the US Food and Drug Administration's (FDA) Center for Tobacco Products. Our research also includes laboratory and clinical studies based on internationally accepted practices in this area.

## Our ambition for a smoke-free future

According to WHO projections, there will still be over 1 billion smokers worldwide in 2025. We believe smoking prevalence can be reduced much faster by supplementing government measures to discourage smoking initiation and encourage smoking cessation with efforts to encourage smokers, who would otherwise continue smoking, to switch to smoke-free products. **Our minimum ambition is to have at least 30% of our volume coming from smoke-free products by 2025.**

However, we cannot achieve a smoke-free future by ourselves. Government and civil society, especially leading scientists and public health professionals, and ideally the WHO, can play a decisive role in encouraging smoke-free products to replace cigarettes for people who would otherwise continue smoking.

## Business transformation metrics

We've developed **five Business Transformation Metrics** to make the actions we're taking to achieve our smoke-free vision measurable and verifiable. The first two metrics show our resource allocation between combustible products and smoke-free products, while the following three show progress in making smoke-free products the core of our business. We will publish updates on these metrics on a regular basis.

	2014	2015	2016	2017	2025
R&D expenditure <sup>2</sup> (Smoke-free/Total)		70%	72%	>70%	Aspiration <sup>1</sup>
Commercial expenditure (Smoke-free/Total)	2%	8%	15%	>30%	
Net Revenues <sup>3</sup> (Smoke-free/Total)	0.0%	0.2%	2.7%	>10%	
Smoke-free product <sup>4</sup> shipment volume (billion units)	0.2	0.8	7.7	>30	>250
Combustible product <sup>5</sup> shipment volume (billion units)	890	881	845	<800	<550

1 Assuming constant PMI market share. We do not set aspirational targets for R&D and commercial expenditure but we expect both ratios to continue increasing to enable the stated outcome in terms of shipment volume  
 2 R&D expenditures for smoke-free products were tracked separately as of 2015; the related metric was therefore left blank for 2014  
 3 Excluding excise taxes  
 4 Includes heated tobacco units and e-cigarettes  
 5 Includes cigarettes and other combustible tobacco products

## Human rights

We've been working to align our business practices with the United Nations Guiding Principles on Business and Human Rights. The foundation of PMI's human rights program is our Commitment to Human Rights.

At the heart of our Commitment is a structured governance process for ongoing human rights due diligence. We've established a **cross-functional Human Rights Core Team** of specialists to ensure continuous oversight and improvement of our human rights program across our entire value chain.

## Acting with integrity

We believe in doing business with integrity and preventing unlawful and unethical behavior as essential ingredients for long-term success; that includes how we market our products, advocate on issues related to our products, and our efforts to tackle the illicit tobacco trade.

**PMI has pledged USD 100 million to support a global initiative known as "PMI IMPACT"** to support public, private and nongovernmental organizations in developing and implementing projects to tackle illegal trade and related crimes. **An independent body of experts oversees and selects projects for funding.**



A hand-roller of kretek cigarettes in Indonesia

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# Key developments towards a smoke-free future

- Pre 2000s**
  - Late 1980s: PM USA commercialized Next, a nicotine-free cigarette. It failed to satisfy consumers and was later withdrawn.
- 2001**
  - 1998-9: PM USA and PMI launch the first electronically heated tobacco product, called Accord in the USA and Oasis in Japan. Consumer acceptance was low, and the product was subsequently withdrawn.
  - US Institute of Medicine publishes "Clearing the Smoke". It concludes that "reducing risk of disease by reducing exposure to tobacco toxicants is feasible".
- 2003**
  - PMI expands R&D on smoke-free products.
  - Adoption of the WHO Framework Convention for Tobacco Control (FCTC). It defines "tobacco control" as "a range of supply, demand and harm reduction strategies that aim to improve the health of the population".
- 2004**
  - The first e-cigarettes commercialized in China.
  - PMI completes multiple five-day clinical studies on IQOS, one of its smoke-free tobacco products. Smokers who switched to IQOS reduced their exposure to harmful chemicals on average to levels approaching those found in smokers who quit for the duration of the study.
- 2006**
  - 2006-7: Launch of Heatbar by PMI in Switzerland and Australia. Heatbar is the second generation of electronically heated tobacco products; consumer acceptance was low due to the bulky device and sub-optimal taste, and the product was withdrawn.
  - PMI launches an e-vapor product, Solaris, in Spain and Israel.
- 2007**
  - UK Royal College of Physicians publishes a report on tobacco harm reduction.
  - PMI city test of MESH in Birmingham, UK, an innovative e-vapor product.
- 2009**
  - PMI opens The Cube, a new R&D facility dedicated to smoke-free products in Neuchâtel, Switzerland.
  - US Family Smoking Prevention and Tobacco Control Act. Provides authority to US Food and Drug Administration (FDA) to regulate tobacco products and creates a regulatory framework for the commercialization of "Modified Risk Tobacco Products".
  - UK Department of Health publishes five-year tobacco control plan.
  - FDA announces comprehensive plan to reduce tobacco-related disease.
- 2010**
  - US FDA releases draft guidance on evidence that should support a Modified Risk Tobacco Product Application (MRTPA).
  - PMI opens R&D facility in Singapore dedicated to assessing smoke-free products.
- 2012**
  - PMI launches IQOS city tests in Italy and Japan.
  - PMI acquires Nicocigs Ltd. (e-cigarette maker).
  - EU Tobacco Products Directive II adopted.
- 2014**
  - PMI launches IQOS city tests in Italy and Japan.
  - PMI acquires Nicocigs Ltd. (e-cigarette maker).
  - EU Tobacco Products Directive II adopted.
- 2015**
  - PMI completes two three-month clinical studies on IQOS, confirming results of the five-day study.
  - Public Health England publishes report on e-cigarettes concluding they are significantly less harmful than cigarettes.
- 2016**
  - PMI reaches 200 peer-reviewed articles on the science around its smoke-free research.
  - IQOS available in 19 countries.
  - PMI submits an MRTPA on IQOS to the US FDA.
  - IQOS available in more than 25 countries.
  - >3m people have stopped smoking and switched completely to IQOS (August 2017).
- 2017**
  - PMI reaches 200 peer-reviewed articles on the science around its smoke-free research.
  - IQOS available in more than 25 countries.
  - >3m people have stopped smoking and switched completely to IQOS (August 2017).

## Our people

At PMI, we are a multigenerational, diverse community of around 80,000 employees worldwide, speaking over 80 languages and working together in a culture of honesty, respect and fairness. We are committed to being a top employer, and we seek to foster a safe, diverse and inclusive work environment which enables employees to thrive and contribute to our business success.

Ways in which we're doing this include: **improving the percentage of women in management positions at PMI to meet our target of 40% by 2022, and plans to achieve global Equal-Salary certification by 2019.**

We take pride in our **leading record on safety**, too, both in our facilities where we have one of the lowest lost injury time rates in our industry and across our global fleet of 25,000 vehicles.



## Our supply chain

With a complex, global supply chain, PMI has a number of sustainability issues that we need to understand, manage and continuously address.

We take our role in promoting sustainable agricultural production very seriously, and our **Good Agricultural Practices (GAP) program** is mandatory for farmers contracting with PMI or our suppliers. In 2016, PMI and our suppliers contracted with approximately 380,000 tobacco farms worldwide.

Our **Agricultural Labor Practices (ALP) program** aims to eliminate child labor and other labor abuses in tobacco growing. Since its inception, we have committed to full transparency regarding the evolution and status of the program, publishing standalone regular updates and external assessments of implementation status on a country-by-country or supplier basis.

In 2016, we set the foundations for a more comprehensive and systematic approach to addressing supply chain sustainability with the development of a set of **Responsible Sourcing Principles (RSP)** and Implementation Guidelines.



## Managing our environmental footprint

Climate change is one of the biggest challenges facing humanity today and requires global collective action.

At PMI, we're focusing on minimizing our environmental impact through carbon footprint and water use reduction, waste minimization and other initiatives, and we're taking steps to understand and adapt to potential future business impacts posed by megatrends such as climate change and water scarcity.

PMI has set ambitious targets to reduce our greenhouse gas (GHG) emissions intensity by 30% by 2020 against a 2010 baseline across our value chain. As well as adopting an internal price on carbon to help accelerate environmental performance improvements, PMI is one of just over 300 companies who have adopted science-based targets (SBTs) to contribute to keeping global warming below 2°C based on pre-industrial levels.

### PMI's Science-Based Targets (SBTs)

**We aim to reduce our absolute GHG emissions across our own operations and value chain by 40% by 2030 and by 60% by 2040 (all against a 2010 baseline).**

PMI gained recognition for corporate leadership in this area making the CDP A List for Climate & Water in this year's CDP rankings. CDP is a leading international not-for-profit organization independently assessing companies' environmental efforts.



For more information, log on to [www.pmi.com/sustainabilityreport](http://www.pmi.com/sustainabilityreport)

Share your feedback at [sustainability@pmi.com](mailto:sustainability@pmi.com)

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[www.pmi-impact.org](http://www.pmi-impact.org)  
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