



PHILIP MORRIS  
INTERNATIONAL

# LOW-CARBON TRANSITION PLAN

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EXECUTIVE SUMMARY  
OCTOBER 2021



# Introduction

At PMI, we have been increasingly engaged with aspects of sustainability in our products and processes. We are focused on our most material impacts on society, including product health impacts. Addressing the environmental footprint of our operations, developing technologies and practices to decarbonize our business, and safeguarding the long-term interests of our stakeholders are critical components in this.

As the urgency of the climate crisis becomes more pressing, we are increasing the pace of our initiatives and bringing the target dates for our carbon neutrality forward. [Our 2021 Low-Carbon Transition Plan \(LCTP\)](#) will help us achieve these targets. The plan showcases how they are underpinned by detailed operational measures and a solid business strategy, which are vital to translate ambition into action, achievement, and impact, and most importantly, the only way to safeguard the sustainability of our business and to help contribute to wider societal action.

What we describe in our Low-Carbon Transition Plan are the first steps on what is likely to be a long road ahead. The more we work on climate mitigation and climate adaption measures, the more we realize we don't have all the answers, and the more we value collaboration with peers and partners. Nevertheless, we believe we are on the right track.

This summary version is a condensed overview of PMI's Low-Carbon Transition Plan. The full version is available on [PMI's corporate website](#).



## Climate action is built with strategy, transparency, and engagement—

Making pledges has emerged as a popular and flexible way to attempt to govern the environment. Companies have promised to do what makes sense within their capacities, putting forward commitments or aspirations toward a shared goal and hoping that the sum of these pledges will safeguard the environment. What has become apparent is the opaqueness of how to achieve these desired goals. With enough transparency, however, pledging can enable implementation, accountability, and eventually significant change. This is the fundamental reason underlying our Low-Carbon Transition Plan (LCTP). We see it as timely due to the dramatic increase in net-zero and low-carbon corporate targets and commitments. —

**Jennifer Motles,**  
Chief Sustainability Officer



## Harnessing the power of new technologies and nature-based solutions

As a company with a multinational environmental footprint, we have a role to play in protecting our planet. We will do so by defining and executing strategies and initiatives that help us reduce the environmental impact across our value chain and allow us to achieve our mid- and long-term climate-related goals.—

**Massimo Andolina,**  
Senior Vice President, Operations



## Driving business growth forward by integrating ESG factors

ESG is core to our performance and success. Sustainability and a strong business performance do not contradict each other. They are fully interrelated and mutually reinforcing, and therefore should be organized and presented to all stakeholders alike in an integrated way.—

**Emmanuel Babeau,**  
Chief Financial Officer



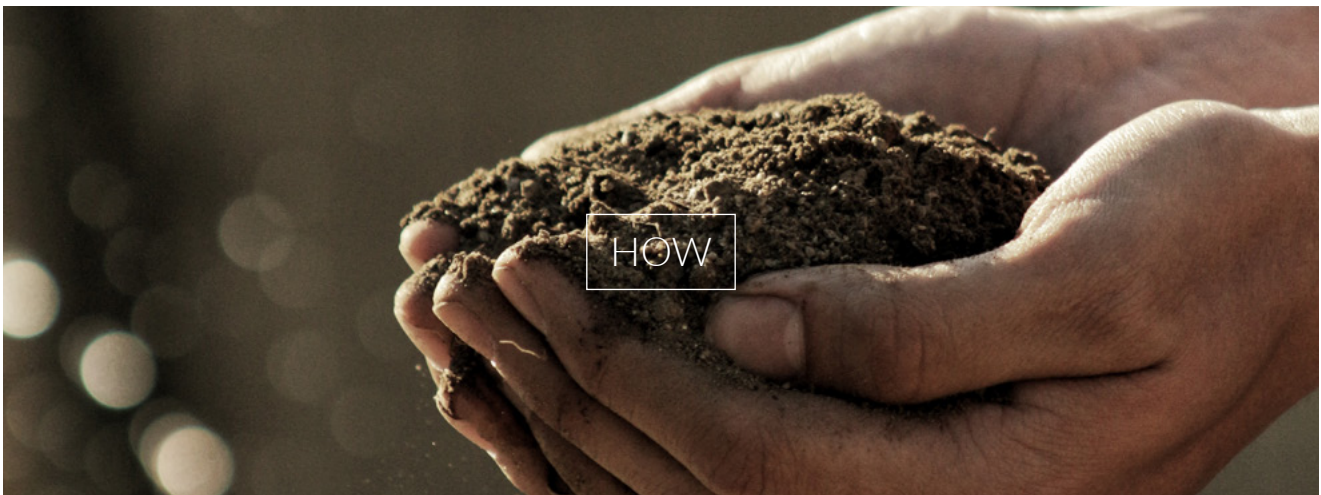
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WHY

# Ambition and values supporting climate goals

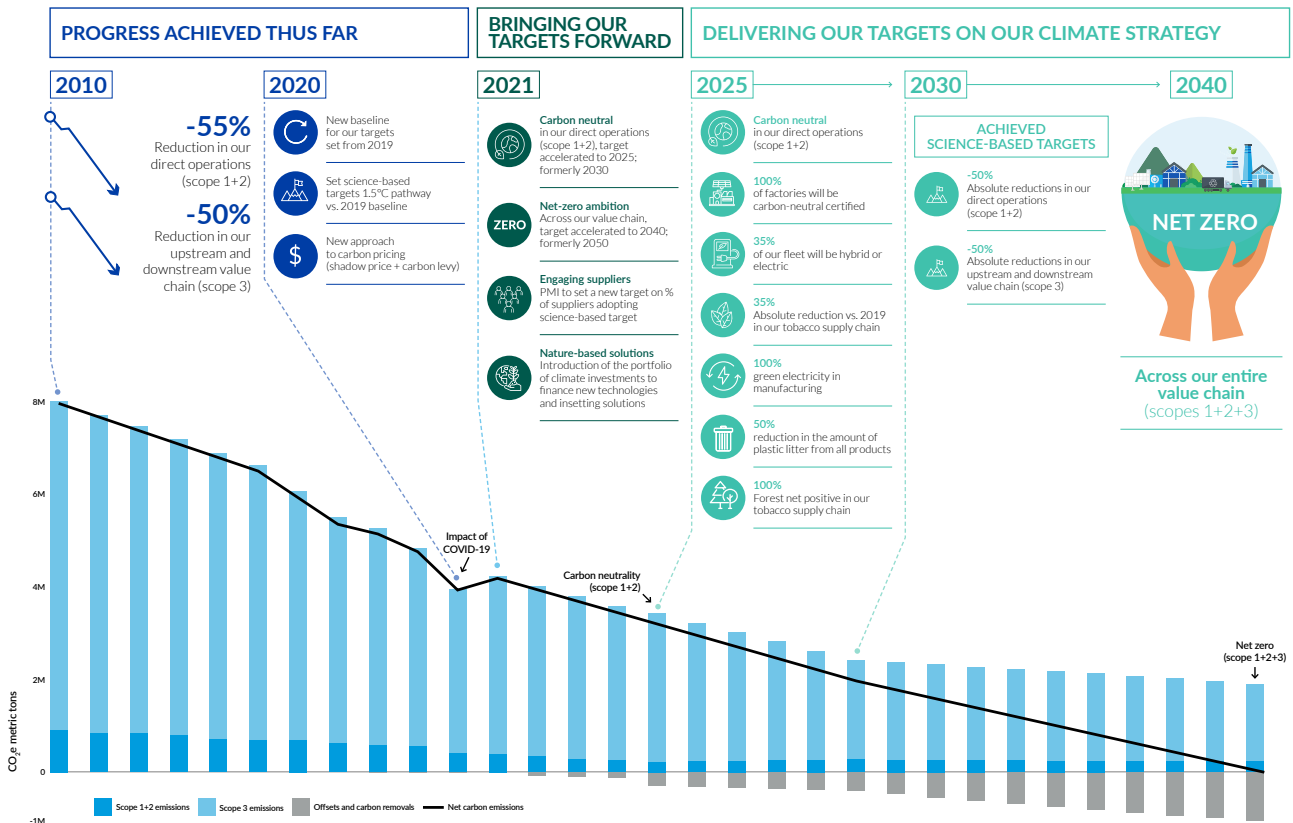
Sustainability efforts entail complexity due to the extent of variables involved and the variability of the impacts. To navigate through the complex landscape of climate change actions and to present PMI's position on key areas of future development, our Low-Carbon Transition Plan provides a clear accounting and display of activities that contribute to climate mitigation and adaptation.

[PMI's purpose](#) is to deliver a smoke-free future in which cigarettes are replaced by less harmful, science-based alternatives. Sustainability is at the core of PMI's transformation, which is based on a deep sense of purpose to create value not only for shareholders, but other stakeholders as well, including employees, customers, suppliers, and communities. We address the environmental and social implications of our products and operations, where climate protection is part of a bigger picture that includes the goals of innovation for better smoke-free alternatives, aiming at the lowest possible risk rate in the entire value chain, and respecting human rights.

The climate crisis threatens livelihoods, impacts human rights, biodiversity, water access, global health, and food security. It also exacerbates environmental changes such as ecosystem degradation, drought, flooding, and desertification. Science tells us that it is not too late to limit global warming to 1.5°C, which is considered to be the limit beyond which impacts will be catastrophic. This will require fundamental transformations in all aspects of society—how we grow food crops, use land, transport goods, and power our economies.

At PMI, climate transition is already afoot, with actions that strengthen resilience to climate impacts, reduce GHG emission, apply innovative low-carbon technologies, and support policies enabling a smooth transition to a low-carbon economy. Given the growing urgency to address the climate crisis, we have tightened our timelines for systematic decarbonization: We aim to achieve carbon neutrality by 2025 and net zero for our entire value chain by 2040.

## PMI'S LOW-CARBON TRANSITION PLAN





## WHY

### Ambition and values supporting climate goals

PMI will continue to implement new technologies in our operations to optimize the use of inputs (e.g., energy-efficiency initiatives) and to increase greener energies usage applied to multiple business areas (e.g., hybrid and electric car fleet or zero-carbon technologies in manufacturing and sustainable biomass in the tobacco-curing process). PMI will invest in carbon removal, insetting, and high-quality offsetting to further move forward to the decarbonization of our value chain by compensating unavoidable emissions. The company also took a pioneering approach to carbon pricing, including a shadow carbon price and a carbon levy.

Consistent with the climate action we promote internally and within our supply chain, as well as leveraging results and recognition we have received as a proactive and reliable climate actor, we voice support for national and global climate policies that put society on track toward a low-carbon economy—sustainable and beneficial for ecosystems and society. PMI's actions in that area are publicly recognized by external stakeholders such as CDP or S&P Global Corporate Sustainability Assessment. Effective climate policies also help us plan for business growth, as we believe that clear frameworks give us more certainty for short- and long-term planning and investments, as well as help us better anticipate regulatory trends and seize economic opportunities.



PMI took a pioneering approach to carbon pricing, including a shadow carbon price and a carbon levy.

## WHAT

# PMI's main climate goals

For PMI, climate protection means mitigating climate change by reducing energy consumption and greenhouse gas (GHG) emissions while adapting to climate change by improving resilience across our value chain.

To set meaningful emissions reduction targets, we closely follow the guidelines of the Science-Based Targets initiative (SBTi) which is a partnership between CDP, the United Nations Global Compact (UNGC), World Resource Institute (WRI), and the World Wide Fund for Nature (WWF). The SBTi assessed and approved that

our targets are aligned with the 1.5°C pathway necessary to meet the goals of the Paris Climate Agreement in 2020. PMI is aligned with the recommendations of the Intergovernmental Panel on Climate Change (IPCC) Special Report (2018) and is currently integrating the latest information from the IPCC Sixth Assessment Report (2021) to further improve the scope and direction of our climate action. We also moved the baseline of our accounting from 2010 to 2019 to include changes in footprint and business model.

PMI's main targets are:

- | **Achieving carbon neutrality for direct emissions (scopes 1+2) in 2025 (five years earlier than previously announced), and all factories certified as carbon neutral by 2025**
- | **Reaching net-zero emissions for the entire PMI value chain (scopes 1+2+3) by 2040 (10 years earlier than previously announced)**

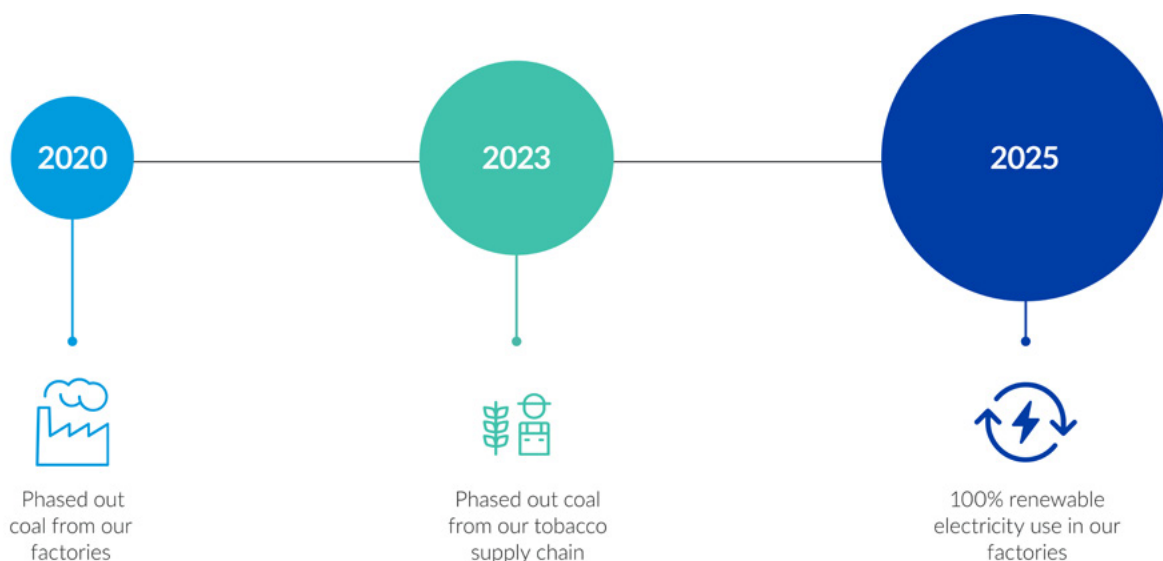
Supplier engagement will be essential for us to meet our carbon-neutrality target date of 2040, and we, therefore, are going to introduce a third target for PMI's critical suppliers to adopt science-based targets in line with PMI's own.

In 2020, the Science-Based Targets initiative (SBTi) furthermore assessed and approved PMI's emission reduction targets aligned with a 1.5°C scenario:

- | **Reduction of absolute scopes 1+2 GHG emissions by 50% by 2030 from a 2019 base year**
- | **Reduction of absolute scope 3 GHG emissions by 50% within the same time frame**

Additionally, PMI commits to:

- | **100% electricity used in our factories to come from renewable sources by 2025, phasing out coal in manufacturing by 2020 (a result PMI already achieved and is planning to maintain)**
- | **Phasing out coal in the tobacco supply chain by the end of 2023.**





# WHAT

## PMI's main climate goals

PMI developed new specific targets for the tobacco supply chain, which represented 23% of our total carbon footprint in 2020. We target to:

**Achieve an absolute carbon emissions reduction of 35% by 2025 and a 50% reduction by 2030 versus the 2019 baseline**

Beyond tobacco, the other categories of direct material with the greatest impact on PMI's CO<sub>2</sub> footprint are cellulose acetate tow for filters and wood-pulp-based materials for packaging and fine papers.

PMI is already working to limit our impact on the environment and climate by reducing packaging and addressing the issue of plastic litter from products. We are targeting to:

**Reduce plastic litter by 50% by 2025**

**Aim for zero waste to landfill by 2022 for our manufacturing plants**

Furthermore, PMI launched a 2025 eco-design and circularity ambition especially applicable for electronic devices with the targets of:

**100% of packaging materials to be recyclable**

**95% of packaging inputs to come from renewables**

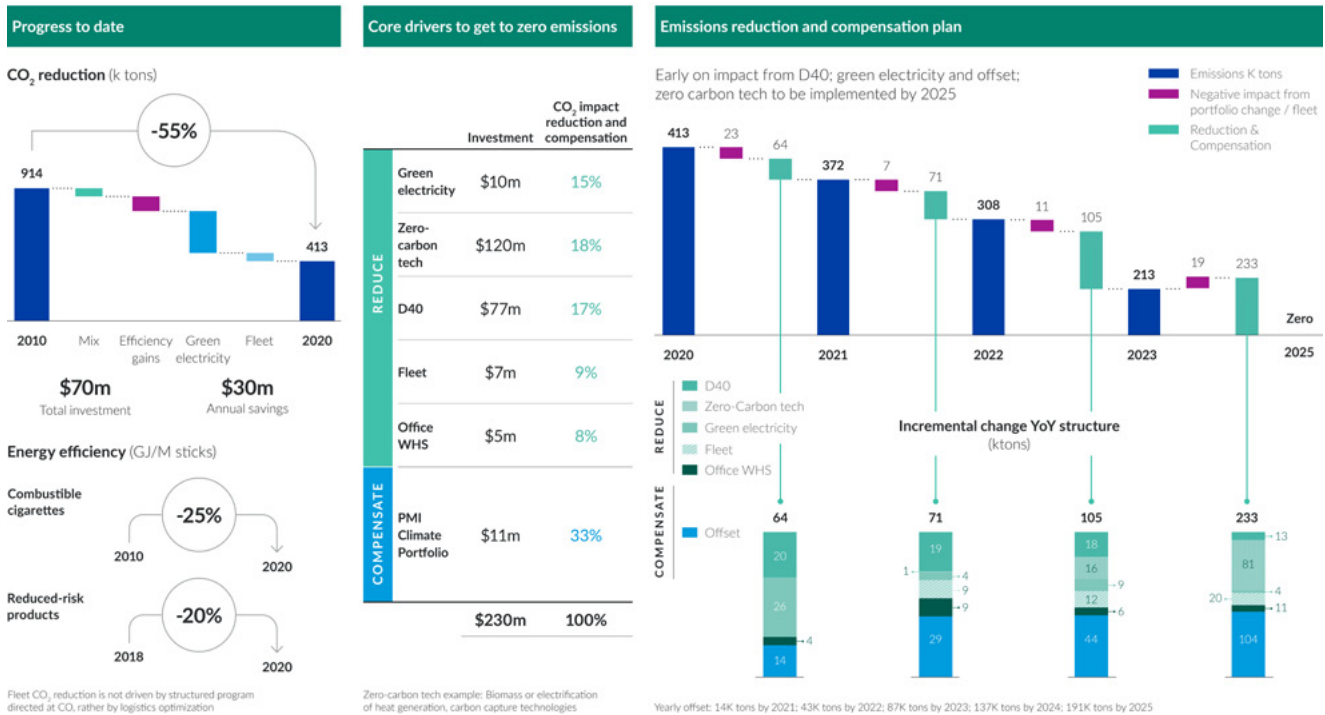
PMI is evolving as a climate-resilient business by identifying, accounting for, and managing climate risks and opportunities. In our direct operations, we follow a threefold approach to achieve our emission targets:

**Reduce energy consumption and optimize efficiency**

**Minimize the use of fossil fuels and promote switching to renewable energy**

**Compensate unavoidable emissions by prioritizing insetting projects (nature-based solutions) and by purchasing high-quality carbon credits**

### Plan to achieve CO<sub>2</sub> neutrality by 2025 (scopes 1+2)





# Understanding megatrends and assessing risks and opportunities



Climate change is a megatrend; companies, investors, and institutions are progressively addressing it.



Climate change is significant to society: It poses both ubiquitous and differentiated risks threatening ecosystems, livelihoods, and the most vulnerable people around the world. Beyond these repercussions, climate change can also threaten business continuity. This is especially true for businesses such as PMI, involving agricultural supply chain. Climate change is a megatrend; companies, investors, and institutions are progressively addressing it.

We understand the potential impacts of climate change across all areas of our operations, particularly upstream in our supply chain. For PMI, costs of raw materials such as tobacco leaf and cloves may rise, and both consumers and our employees are becoming increasingly sensitized to the environmental impact of corporate actions. Upfront expenditures with longer-term returns are required. At the same time, PMI's efforts to reduce GHG emissions, such as through increased energy efficiency, could alleviate potential costs and create a competitive advantage by meeting or exceeding the expectations of consumers, employees, and other stakeholders.

PMI has an interconnected three-step assessment process to identify, assess, and manage risks and opportunities that can have a substantive financial or strategic impact on our operations. Such impacts are defined as those identified and prioritized by management in our value chain, through key enterprise risks based on four risk dimensions: the impact a risk could have on the organization if it occurs, the likelihood a risk will occur, the velocity with which a risk will affect the organization if it occurs, and the interconnectivity of a risk with other risks, that exceed defined thresholds at the corporate level. This process takes place every year, covering short-, medium- and long-term time horizons.

Through its climate change risk assessment, PMI mapped different categories of climate-related risks that can be relevant for our business: risks caused by climate-related rules and regulations we have to follow in the countries we operate in, risks related to market changes, reputational risks, and acute and physical chronic physical risks.

HOW

# Measuring emissions and setting reduction targets

Due to the steady development of new products, PMI's value chain is evolving rapidly and becoming increasingly complex. We therefore calculate our GHG footprint annually, accounting for all relevant emissions generated across the entire value chain. The robust data set coming from a thorough measurement of the GHG footprint allowed for a strong emissions reduction target, validated by the Science Based Targets initiative (SBTi). PMI has a full value chain carbon footprint model in place, aligned with the GHG Protocol international standards.

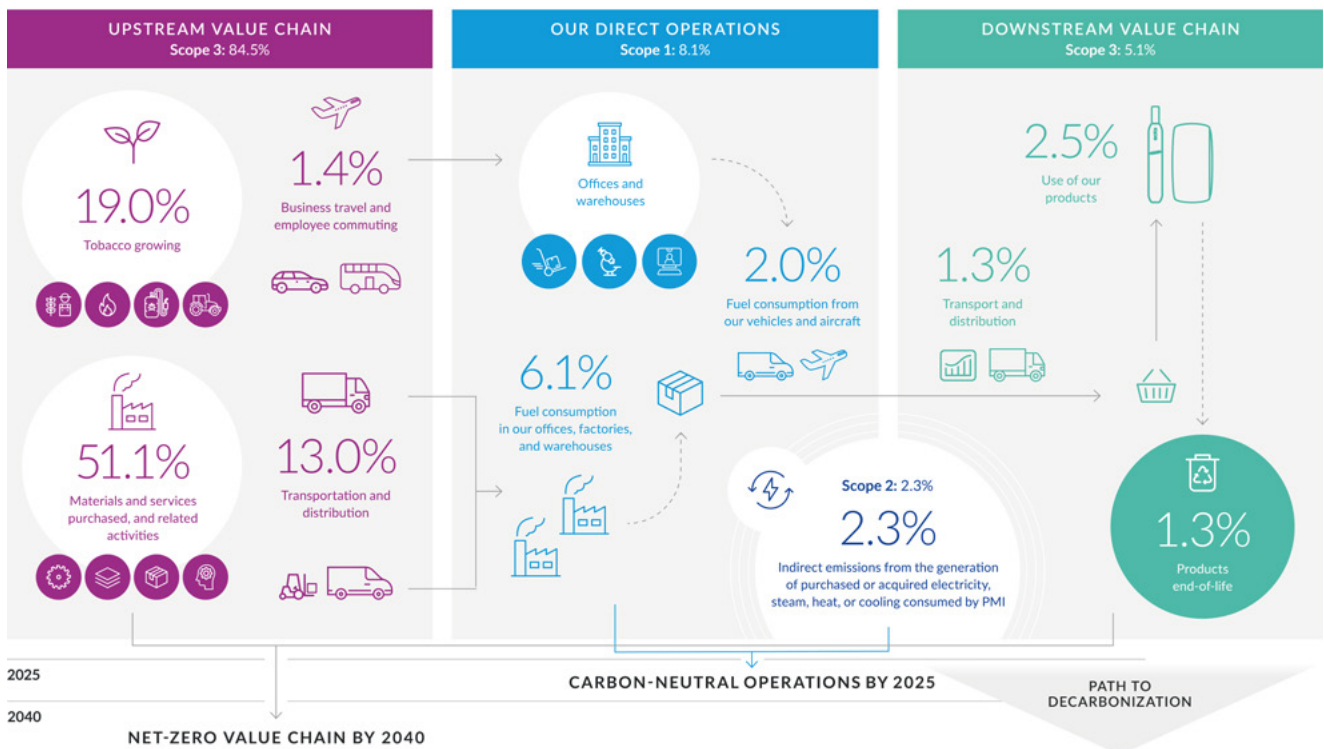
Our carbon footprint model helps us measure emissions reductions, conduct product life-cycle analysis, and support decision-making on investment in low-carbon technologies. These emissions are reported publicly on an annual basis in PMI's integrated report and on our website, and are used to respond to investors and public disclosures such as CDP's annual scores.

Activities covered in the carbon emissions calculations include the entire scope of PMI's operations: from purchase to materials (including raw materials), production, distribution, consumption, and disposal of our products,

as well as overhead activities such as marketing and business travel.

PMI uses primary data, collected directly from the sources or process concerned or obtained through suppliers and third-party partners when possible; when not available, we extrapolate emissions from international databases such as Ecoinvent. PMI relies on robust primary data collection and plans to extend supplier engagement and data collection efforts in 2021 to cover additional product categories. For this reason, a tobacco leaf digitalization program has been specifically launched with the aim to drive CO<sub>2</sub> data management via a digital solution developed by PMI and available to our suppliers, and a procurement digital platform covering multiple supplier categories is under evaluation. In relation to PMI's tobacco leaf supply chain, digitalization is possible through a tailor-made digital platform that allows PMI to collect disaggregated data uploaded and reported by suppliers. This new system is a powerful tool to track, account, and analyze CO<sub>2</sub> emissions in the tobacco supply chain and on-the-ground impact for each carbon emission reduction activity.

Carbon emissions along our value chain in 2020



Source: PMI Integrated Report 2020



## HOW

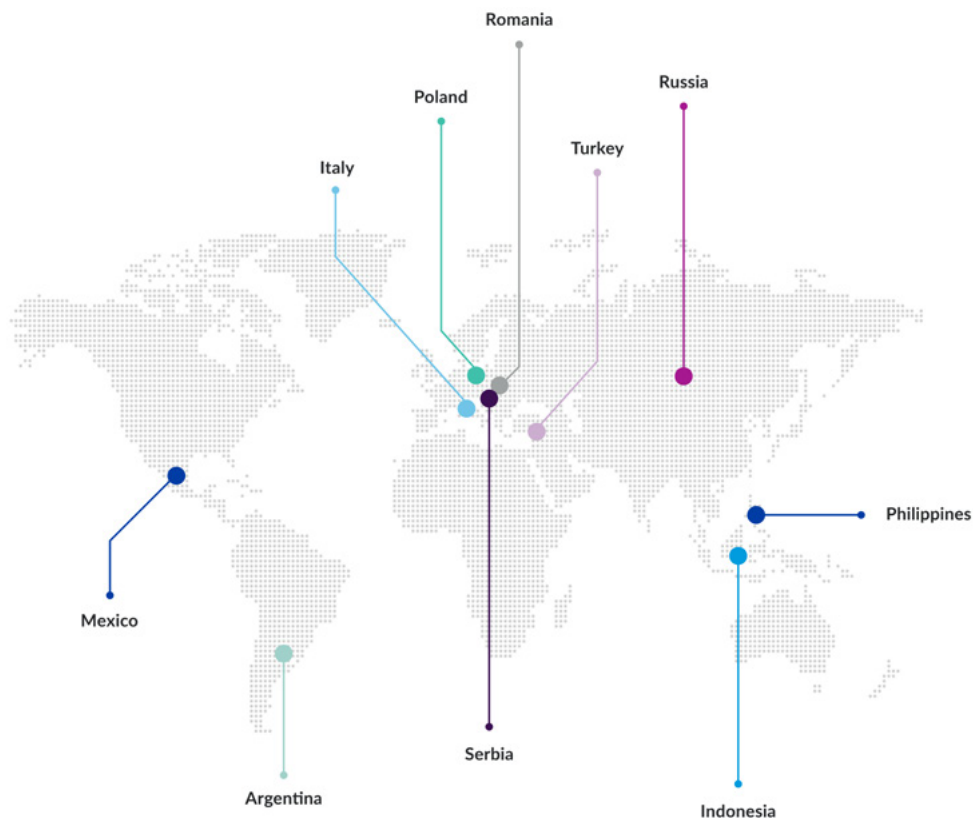
# Reducing emissions

Transition to a low-carbon economy implies efforts to account for and reduce emissions across the value chain. The goal of carbon neutrality of direct operations by 2025 requires extensive emission reduction efforts in factories, offices, and fleet.

The emissions reduction journey in PMI's direct operations is driven by two efficiency programs: Zero Carbon Technology (ZCT) and Drive4Zero (D4Zero):

**| The Zero Carbon Technology program supports PMI's commitment to carbon neutrality and renewable energies while presenting both environmental and cost-saving benefits for the business. It focuses both on reduction through the use of renewables and on carbon removal. With the help of a dynamic tool, ZCT explores alternative technological solutions such as innovative renewables and carbon capture technologies. The main target of the ZCT program is to enable PMI to master the complicated domain of energy in manufacturing linked to carbon emissions and to then extend this knowledge and approach to our suppliers.**

**| The Drive4Zero program is designed to drive energy efficiency in manufacturing and beyond, to deliver a step change in performance and productivity. D4Zero establishes a common way of working across the company's factories. Under this program, PMI looks for industrial and manufacturing solutions such as heat recovery and manufacturing-process optimization. We designed the systems to facilitate new ideas aimed at eliminating process losses (e.g., energy, materials, and water). This seeks to empower every worker to look for losses and recommend and implement solutions, promoting improvements not only across the factories but also throughout the company.**



Source: "ZCT in a nutshell"—PMI, 2021

## HOW

### Reducing emissions

Additionally, PMI updated its car fleet policy in 2020 aimed to decrease carbon emissions, improve employees' safety and overall experience, decrease the total cost of ownership, and optimize fuel consumption as well as improve operational efficiency. The effort to move quickly on the modernization of the fleet by embracing cleaner vehicles has already resulted in a reduction of 39% CO<sub>2</sub> emitted in 2021 for every kilometer run.

Agriculture is a sector among those at high risk of climate change effects. Because of this, PMI set new targets with the aim of achieving an absolute carbon emissions reduction of 35% by 2025 and 50% by 2030 versus the 2019 baseline for the overall emissions generated by six agricultural input categories (fertilizers, curing fuels, mechanization, seedling production, crop protection agents, and transport). The use of fertilizer (especially nitrogen-based) and the process of curing tobacco are the most relevant sources of carbon emissions in the tobacco agricultural supply chain. PMI is working closely with farmers to reduce environmental footprints through its Good Agricultural Practices (GAP) program, reforestation initiatives as outlined in the company's Zero Deforestation Manifesto, and strategic initiatives related to curing barn improvements.





# Pricing carbon



Carbon pricing means assigning a price and hence a theoretical cost to the emissions generated. An increasing number of organizations and sustainability leaders are using internal carbon pricing as a tool to structurally drive a reduction in CO<sub>2</sub> emissions. The underlying concept of carbon pricing is that the visible and fair quantification of the financial impact of those emissions will incentivize and increase the viability of actions and investments focusing on their reduction.

Integrating carbon pricing into a business decision will help us to:

- | **Mitigate hidden future risks due to climate change (such as regulations and taxations) by embedding their true impact in the business case of a project or investment, and helping drive and prioritize investments that organically reduce mid- and long-term CO<sub>2</sub> emissions**
- | **Allocate sufficient funds to activities aimed at decarbonizing the business and/or offsetting/insetting emissions**
- | **Position PMI as a leading company in environmental sustainability, enhancing our proposition for investors as they integrate ESG considerations into portfolio decisions**

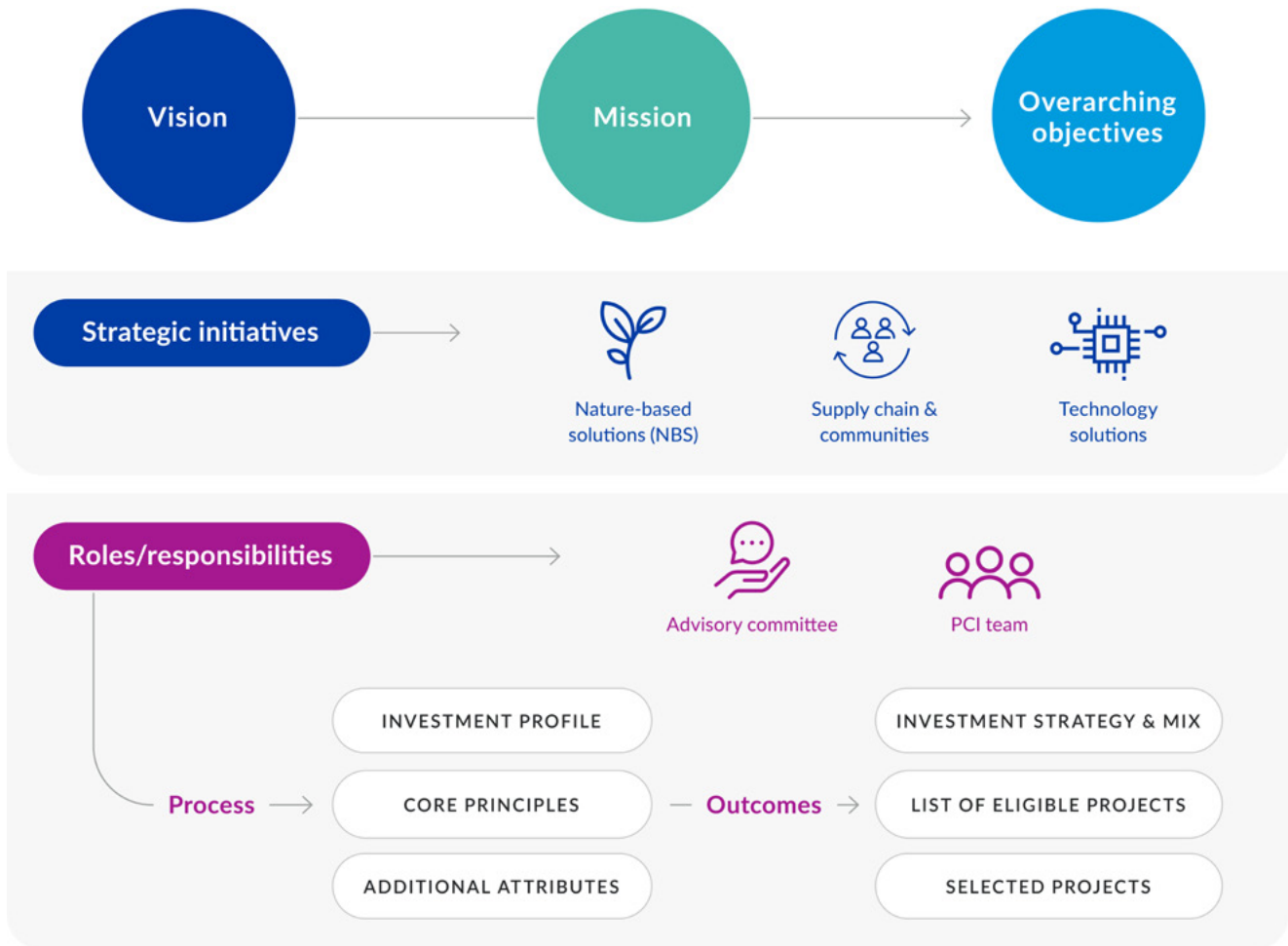
PMI has adopted two types of internal carbon pricing tools in 2020: a shadow carbon price of USD 65 per ton on CO<sub>2</sub>e and a carbon levy of USD 8 per ton of CO<sub>2</sub>e. The shadow price is an internal lever to assign a theoretical cost per ton of carbon emissions. It helps to ensure that business decisions reflect environmental costs, as it is integrated into the financial evaluation and preparation of business cases that will impact the carbon emissions (favorably or unfavorably); in 2020, it was instrumental in the approval of 13 additional carbon emissions reduction projects as part of our energy saving initiatives program in manufacturing sites.

The carbon levy is an internal tax that is virtually charged to selected business units for their emissions, with the aim of using the calculated amount to fund investments that contribute to the decarbonization of the business. It helps size the investments required today to abate emissions through offsetting (e.g., acquisition of carbon credits) or insetting initiatives (e.g., agroforestry projects, carbon sequestration programs).

Both the shadow price and the carbon levy will be revised on an annual basis to allow the integration of changes in risk and/or emissions profiles.

## HOW

# Getting to zero across our value chain



Source: PMI - Portfolio of Climate Investments, 2021

PMI is targeting to maximize emissions reduction while developing innovative solutions to compensate unavoidable emissions and transit to net zero. There are two main strategies to achieve this:

1. Offsetting (e.g., acquisition of green certificates and high-quality carbon credit from certified projects)
2. Insetting initiatives (e.g. forestry projects and other carbon sequestration programs in the company's supply chain)

In 2020, PMI developed a targeted study to map the potential of nature-based solutions (NBS) for insetting in our tobacco supply chain and evaluated natural carbon sinks in the context of our carbon neutrality ambition. In compensating unavoidable emissions, PMI is committed to prioritizing projects within our supply chain (insetting) and purchasing high-quality, certified carbon credits

when insetting is not feasible. PMI will gradually shift from relying on offsets (emissions avoidance/reduction) toward developing and making use of emissions removals, including nature-based and innovative technological carbon sequestration projects. Applying the principles of climate finance at PMI means to be guided by three main strategic initiatives: nature-based solutions (NBS), supply chain and communities (SCC), and technological climate solutions (TCS). Each initiative leads to specific impacts that PMI wants to generate when financing projects.

To support decarbonization efforts and net-zero targets, PMI created a Portfolio of Climate Investments (PCI) in line with internationally recognized practices, such as the International Carbon Reduction and Offsetting Alliance (ICROA) code of Best Practice, the report of the Taskforce on Scaling Voluntary Carbon Markets (TFVCM), and the GHG protocol Land Sector and Removals Initiative. It will play a key role in:



## HOW

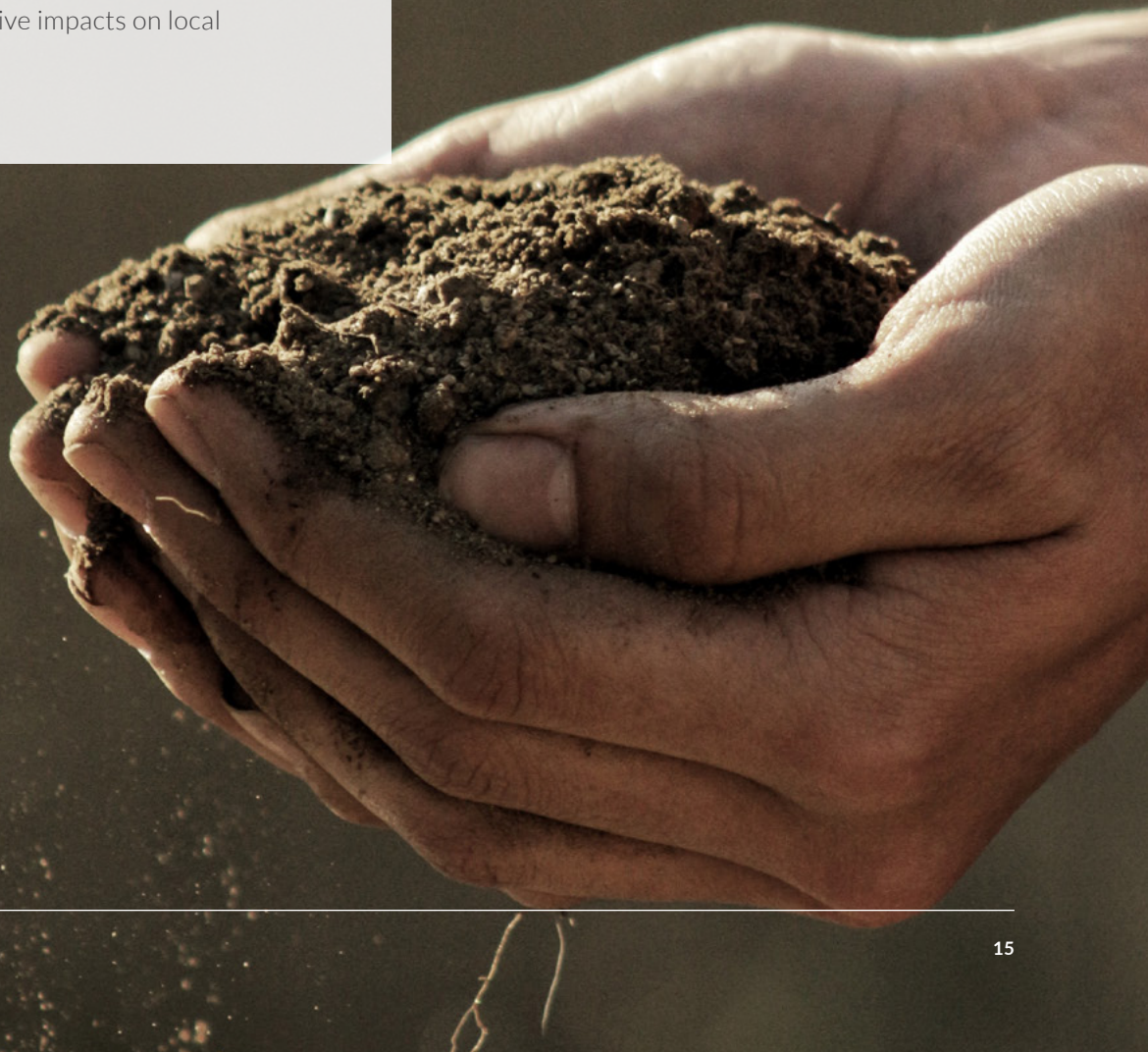
### Getting to zero across our value chain

| Positioning PMI as a **nature-based solution** leader in the medium/long term through insetting projects that will look at generating benefits for carbon, water, and biodiversity

| Further implementing in **PMI's supply chain sustainable agricultural land management** to reduce emissions while increasing soil organic carbon, fighting deforestation, and safeguarding natural ecosystems

| Promoting early **investment in projects and technologies** that are the most difficult to commercialize, scaling down the cost

The PCI standardized the approach to investing in offsets that are used to compensate unavoidable carbon emissions related to our operations. The PCI is built on a set of core carbon principles and additional attributes that strongly support the generation of benefits that go beyond carbon reduction/removal activities, such as ecosystem conservation, ecosystem enhancement, and positive impacts on local communities involved.





## HOW

# Engaging supply chains



PMI's suppliers play a major role in the transformation journey toward a low-carbon world. The tobacco supply chain alone represented 25% of our total carbon footprint in 2019. The role of suppliers in the decarbonization of PMI's business becomes very relevant.

To make this happen, we provide our suppliers with guidance and support to reduce environmental impacts related to tobacco growing, and especially GHG emissions. Actions include training on best practices on fuel efficiency, barn maintenance, and ecosystem protection. Through its renewable curing fuel program to improve the flue-cured tobacco-curing process, PMI contributed to the upgrade of around 82,500 barns to increase their efficiency since 2014.

In 2020, PMI developed and launched a new and comprehensive supplier engagement program to collect primary carbon data of the direct materials used in our products—cellulose acetate tow, pulp, and paper—and understand the suppliers' GHG emission reduction programs and targets. As a result, PMI achieved a 14% reduction in absolute emissions from the non-tobacco direct materials supply chain (such as cellulose

acetate tow, pulp and paper, and smoke-free electronic devices) versus 2019. PMI will further expand this supplier engagement to other supply chain material categories as well.

PMI will define targets aligned with SBTi with all critical suppliers to monitor progress in full alignment with PMI's SBTs, and we will measure performance of our supply chain against our SBTs—assessing and scaling up climate ambition. We will use SBTi to drive supplier-based temperature alignment, assessing where our supply chain stands in the SBTi temperature scorecard and defining a roadmap for suppliers to meet the temperature target in line with what we have committed to.

PMI considers it fundamental to recognize suppliers' excellent performance and contribution to PMI's business goals, fostering long-term partnerships and value creation. By engaging its suppliers on climate change, the company aims to contribute to their transition toward the net-zero sustainable economy. The CDP has recognized the strength of PMI's engagement in supply chain for four consecutive years since 2017 now, placing the company on its CDP Supplier Engagement Leaderboard.



## HOW

# Integrating sustainability considerations into our products

### Eco-design principles and circularity in a nutshell

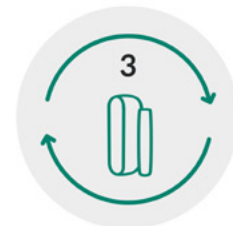
Five fundamental eco-design principles guide our progress



**1**  
Effective use of sustainable  
(such as renewable,  
recyclable, or recycled)  
materials



**2**  
Minimization of  
carbon footprint related  
to energy consumption  
and transport



**3**  
Product lifetime  
optimization



**4**  
Circularity: Reuse,  
repair, recycling, recovery,  
and zero waste



**5**  
Social responsibility  
in the production, use,  
and end-of-life phases

Source: PMI Integrated Report 2020

Net positive strategies are built on the concept that a company must give back more than it takes from society and the environment. Sustainability offers the opportunity for growth through investments in scientific research to continue innovating for better products.

By integrating sustainability considerations into our products—from development to end-of-use—we can lower their environmental and social impacts and associated costs. Potential benefits include energy savings, reduced consumption of natural resources, waste minimization, and a longer product life span. Minimizing the negative environmental and social impacts of products

commercialized at scale can help safeguard the interests of future generations.

Eco-design principles are strong pillars for PMI operations. They inform how PMI uses life-cycle analysis (LCA) to assess the carbon footprint of our products. Currently, our IQOS devices and heated tobacco units have a higher carbon footprint than combustible cigarettes. This is due to the use of an electronic device involving new components and requiring electricity to charge. Additionally, the process to manufacture heated tobacco units is more energy-intensive than for cigarettes.

## HOW

### Integrating sustainability considerations into our products

We are working to close the gap between combustible and smoke-free products through improved manufacturing processes, extending the usable life of our electronic devices, and decreasing the total CO<sub>2</sub> footprint through smart material selection and sustainable design practices. This is achievable through the application of eco-design and circularity principles, reducing costs of returns, obsolescence, and disposal.

Another key enabler for our net-positive goal is our anti-littering policy. Cigarette butts are among the most frequently littered items. We have an anti-littering policy in place to address this problem, which is sustained by three main pillars:

1. Reduce litter on the ground through efficient and cost-effective collection schemes and clean-up campaigns
2. Encourage behavioral change (that is the driver of PMI's transformation)
3. Design for circularity

PMI aims to reduce the amount of plastic litter by 50% from all products by 2025 through these three simultaneous strategies. The company also actively seeks to engage with external stakeholders to support efforts to build a more circular business model for reduced-risk products.

By integrating sustainability into the products from development to end-of-use, PMI can lower the risk of environmental and social impacts, and associated costs. Benefits are extensive and include energy savings, reduced consumption of natural resources, waste minimization, and a longer product life span—most of these outcomes have a positive impact on mitigating climate change.





## HOW

# Fostering engagement, promoting global climate action

Transitioning to a low-carbon economy requires engaging in multilateral, global initiatives to help push the climate agenda forward, mainly through cross-sector sharing of best practices. Addressing climate change requires urgent policy action to drive an unprecedented global infrastructure and technological transformation.

PMI aims to play its part in supporting society to achieve the UN Sustainable Development Goals (SDGs), by endorsing and implementing climate-aligned public policy, and participating in multi-stakeholder initiatives that foster climate change actions and sustainability efforts.

The company works with not-for-profit organizations and governments to support communities on environmental sustainability topics including sustainable forestry, reforestation, controlled use of pesticides in agriculture, sustainable rural living conditions, and education—all of these can have an influence on climate change, adaptation, and mitigation. PMI supports projects to protect and enhance natural resources, implement conservation agriculture, provide clean water, cater for food security, and improve the livelihoods of people living in rural communities.

We continue to support multi-stakeholder initiatives on environmental topics and are a member of multiple sustainability organizations, including the World Business Council for Sustainable Development, Sustainable Brands (SB), and the We Mean Business Coalition. These organizations have helped harness the power of collaboration

to implement solutions at scale and at greater speed. PMI affiliates are also members of other national business associations that are engaging with governments to advance progress on SDG 13 (take urgent action to combat climate change and its impacts).

Following the establishment of PMI's science-based emissions reduction targets consistent with keeping global warming to 1.5°C above pre-industrial levels, PMI signed the Business Ambition for 1.5°C commitment—responding to the call to actions for companies to step up their ambition for the best chance of tackling the climate crisis.

In 2020, PMI received external recognition for our efforts to tackle environmental issues, for example, by being included in the Dow Jones Sustainability Index (DJSI) North America, and achieving a “triple A” score for environmental sustainability leadership by the CDP.

To support the creation of a global impact measurement and valuation standard for monetizing and disclosing impacts of corporate activity, in 2019 PMI joined other companies to support the Value Balancing Alliance (VBA), a nonprofit organization to better evaluate impacts on nature. Impact valuation is a method by which companies identify, understand, improve, and demonstrate the benefits and costs of their activities on society and the environment, translated into monetary terms. This helps integrate environmental, social, and human aspects into decision-making and disclosures.

### **Business Ambition for 1.5°C**

Business Ambition for 1.5°C is led by the Science Based Targets initiative in partnership with the UN Global Compact and the We Mean Business Coalition. It is an urgent call to action from a global coalition of UN agencies, business and industry leaders, and it is calling on companies to commit to setting ambitious science-based emissions reduction targets.

To hold off some of the worst climate impacts, and avoid irreversible damage to our societies, economies, and the natural world, we must hold temperature rise to 1.5°C above pre-industrial levels. This requires halving greenhouse gas emissions by 2030 and hitting net-zero emissions by 2050. In early October 2021, over 900 companies, representing more than US\$13 trillion in market cap, have responded to the open letter from global leaders and signed the Business Ambition for 1.5°C commitment.

HOW

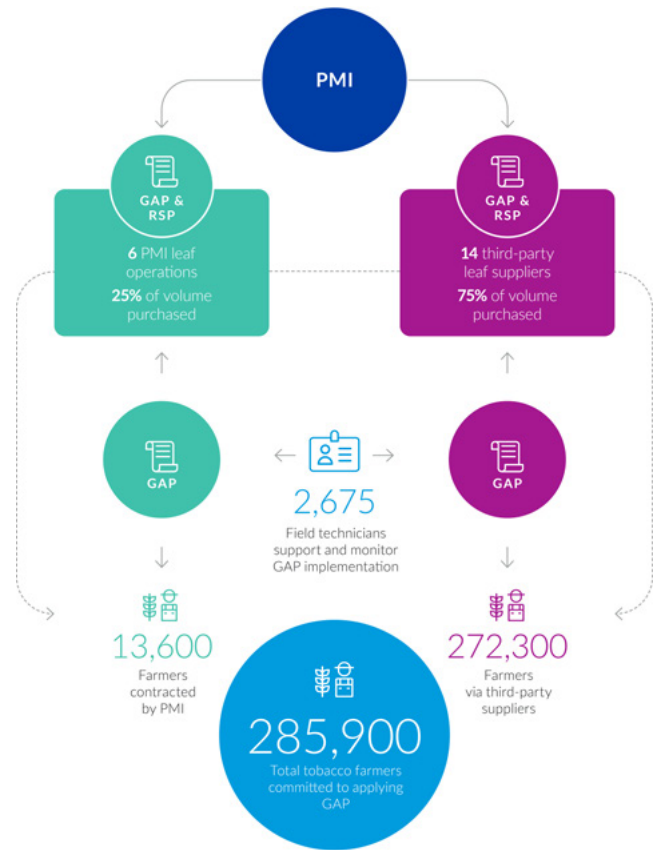
# Putting people and ecosystems' well-being center stage

Climate change efforts are part of a broader engagement toward sustainable development, including forest and ecosystem protection, employees' and communities' well-being, and human rights. Climate change is intrinsically linked to human rights in terms of food and water availability, the spread of diseases, extreme events, and rural communities' livelihoods.

PMI aims to address adverse impacts and maximize the opportunities to drive positive change for people. As the company transforms and advances decarbonization strategies, we recognize that these transitions need to be just and equitable and protect people's livelihoods. PMI has been working to identify and address the social and environmental risks and impacts resulting from our operations and supply chain footprint.

Protecting natural ecosystems and sustainably managing forests are key drivers in reducing greenhouse gas emissions, and PMI aims to be on the frontline of the transition to collectively fight against climate change. Deforestation can result in loss of biodiversity and destruction of habitats, compromising ecosystem services such as erosion and flood control, and water cycle regulation. To mitigate the risk of deforestation, the company developed its Zero Deforestation Manifesto in 2019 and has run a renewable curing fuel program since 2016. We also protect forests through engagement with suppliers and farmers—with our Good Agricultural Practices (GAP) program providing principles, guidelines, and tools for the sustainable management of fuel sources, including sustainable forest management practices, awareness of the risk associated with forest losses, and use of alternative renewable biomass.

PMI's social impact roadmap is the result of understanding how the company can continually respect human rights across global business practices and supply chains. PMI has more than 285,900 farmers and 130 million adult consumers of our cigarette brands, and close to 18 million IQOS users (2020). Regulation of fair and just working conditions, good agricultural practices, crop diversification, limiting deforestation, and promoting new and innovative farm practices are a few examples of the projects developed to enhance social responsibility across PMI's value chain.



Source: PMI Integrated Report 2020



## HOW

### Putting people and ecosystems' well-being center stage

Climate justice describes how the gains and losses of the environment are often unjustly distributed, not only regarding other species or future generations of humans, but also among humans living today. Social inequality between wealthy and poor nations—and within nations between people of different ethnicities, classes, genders, generations, work, and health conditions—influence our relationships with our shared planet.

PMI believes in the role of the private sector in climate justice. Governments cannot be left alone to take effective action on climate change and meet the Paris Agreement targets. It has been recognized that the private sector can be pivotal in advancing climate justice by realigning business incentives with international climate commitments. Businesses that take steps to protect workers and communities from climate insecurity, including those across supply chains, will advance human rights principles of justice, inclusion, and equity.



HOW

# Climate proofing the business and disclosing climate information

The low-carbon transition requires a colossal transformation from society and the economy. Looking ahead and evaluating possible future scenarios is key in identifying and seizing the opportunities of a low-carbon future. Transparency to external stakeholders is a required practice for the private sector to show alignment to the global sustainability agenda and proactive/reactive action on the ground.

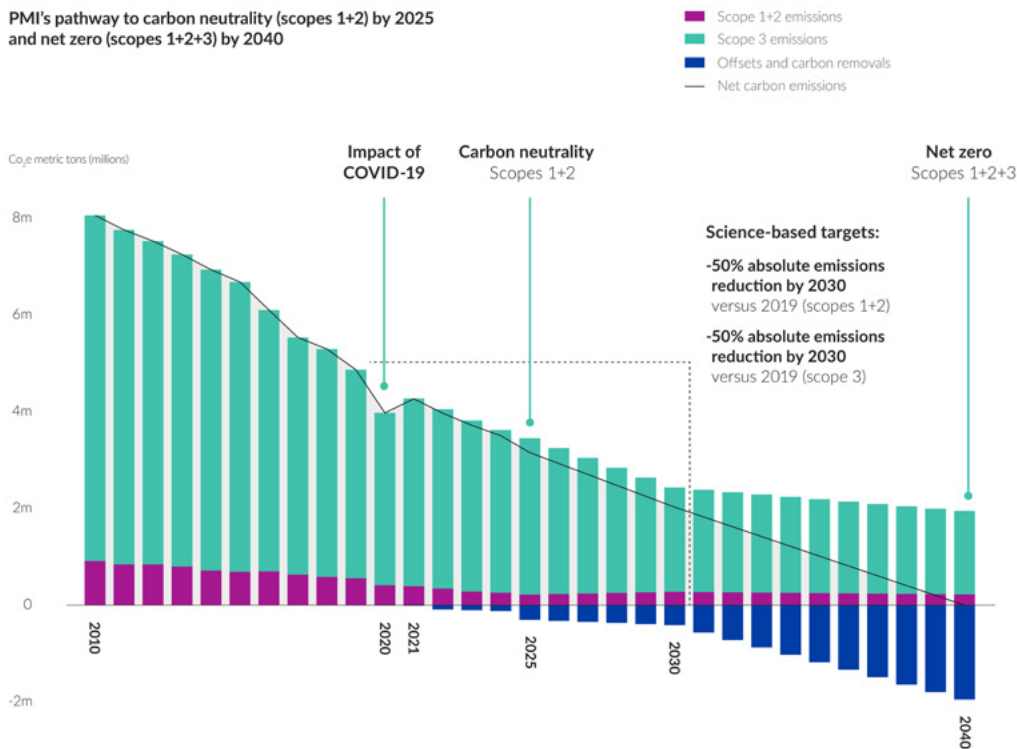
A number of international sustainability standards and practices are available for companies to embrace and use as a robust way to foster progress in the supply chain while accounting for issues and results in a standardized and transparent manner. PMI understands the value of participating in ESG ratings; it helps to report and assess sustainability performance transparently, benchmark against leaders in sustainability, and, most importantly, identify areas for improvement.

We prioritize our participation in ratings that are most useful to our stakeholders and have received high scores in several ESG ratings and international initiatives, such as the CDP and the Dow Jones Sustainability Index.

Increased environmental pressure to perform business activities in a sustainable way means business leaders should improve their approach to addressing environmental risks. The impacts of climate change, biodiversity loss, and water insecurity—among others—threaten more than supply chains and physical infrastructure; they jeopardize business progress and growth by exacerbating systems-level disruption to customers, investors, employees, and communities. Similar to other agricultural sectors, the production of tobacco is exposed to climate-related risks and opportunities resulting largely from tobacco’s reliance on land and natural resources. This scale of impact means that decarbonization of the sector will be critical to the transition to a zero-carbon economy, which is required between 2050 and 2100 if the commitments made under the Paris Agreement are to be met and global temperature increases are limited to 1.5°C above pre-industrial levels.

Carbon neutrality remains a top priority for PMI’s response to climate and environmental risks. The efforts extend beyond our own operations to the entire value chain, and strategies account for the interdependencies between multiple environmental challenges.

PMI’s pathway to carbon neutrality (scopes 1+2) by 2025 and net zero (scopes 1+2+3) by 2040



This chart aims to be indicative; underlying data are based on simulation and actual assumptions until 2030 (based on our science-based targets), and on simplified assumptions as of 2030. Source: PMI Integrated Report 2020

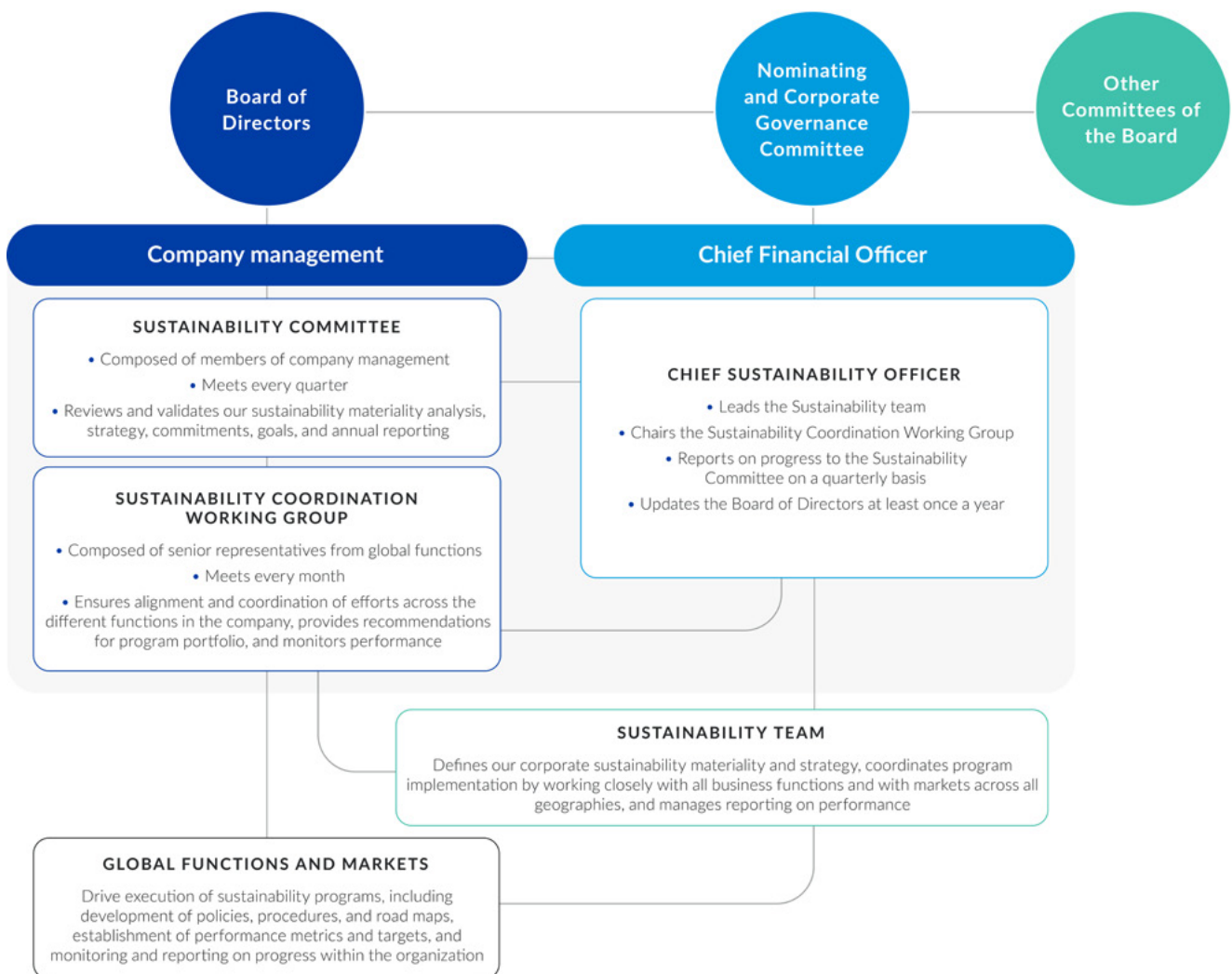


HOW

# Building effective climate governance

Climate change is a key factor to consider in long-term business strategies. Therefore, it is crucial to have rules and processes in place to identify, assess, and manage the responses to risks and opportunities of climate change. PMI's governance and management systems aim to ensure that climate-related risks and opportunities are considered in relevant decision-making processes.

At PMI, it is our belief that fully integrating ESG drivers into our business strategy can significantly enhance both sustainability and financial performance, and as a result, the company's Chief Sustainability Officer reports directly to the Chief Financial Officer (as of October 2020). This was the logical next step following the Board of Directors' (BoD) adoption of PMI's Statement of Purpose in 2020 and the shift to integrated reporting in 2019.



Source: PMI Integrated Report 2020



## HOW

### Building effective climate governance

The Nominating and Corporate Governance Committee of PMI's BoD oversees sustainability strategies and performance, including climate change-related issues. The Audit Committee of the BoD oversees the assessment and management of company risks, including those related to climate change, such as natural disasters, water scarcity, and agricultural supply chain instability. A member of PMI's company management, the Senior Vice President (SVP), Operations is tasked with addressing climate change risks, including physical and water-related risks, across all company activities. As of May 2021, the SVP, Operations reports directly to and regularly updates PMI's CEO on climate issues and has operational responsibility, including maintaining robust business resilience, risk assessment processes, and strategies to support business continuity.

Several corporate policies guide our approach to decarbonizing our operations and value chain: Reducing energy consumption and carbon emissions are embedded in PMI's Environmental Commitment, our Guidebook for Success (PMI's Code of Conduct), Responsible Sourcing Principles, and the Good Agricultural Practices program. Efforts to protect forests, a fundamental climate-regulation mechanism, are in accordance with the Zero Deforestation Manifesto.

Furthermore, PMI's compensation and benefits program supports business and financial objectives. The executive compensation program reflects the commitment to put sustainability at the core of our corporate strategy. This, integrated with our other efforts, coincides with our aim of building effective climate governance.





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INTERNATIONAL