

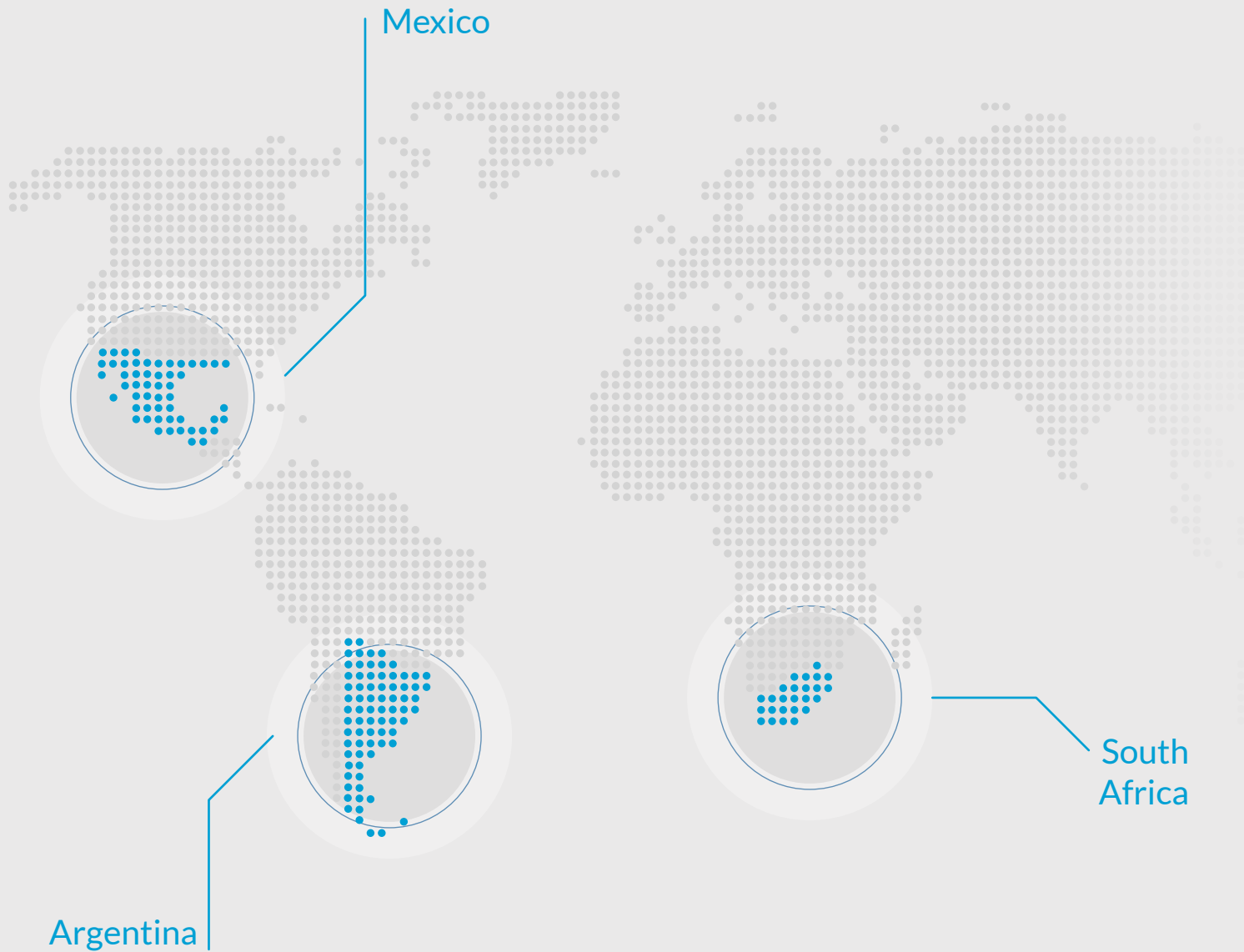


PHILIP MORRIS
INTERNATIONAL

AGRICULTURAL LABOR PRACTICES

PROGRESS UPDATE **1/2019**





ACCOMMODATION

Since 2011, PMI has been working with suppliers to implement the Agricultural Labor Practices (ALP) program to eradicate child labor and other labor abuses, to achieve safe and fair working conditions and a decent livelihood on all farms where our tobacco is sourced. In 2018, as part of PMI's ALP program we deployed our 'Step Change' approach to achieve significant improvements in areas where persistent issues were occurring. One of our focus areas identified is the provision of adequate accommodation for farm workers with the objective to make necessary investments to help farmers address all accommodation issues by 2020. In this first 2019 ALP Progress Update, we will present our efforts to achieve the accommodation objectives in three of the countries where we source tobacco: Mexico, South Africa, and Argentina.

MEXICO

In the 2017 and 2018 Sustainability Reports, we shared an illustration of our Step Change approach focusing on the intensive efforts in Nayarit, Mexico, to address the poor living and working conditions of migrant workers in tobacco growing areas. Every year, these migrant workers come from Mexico's highlands and settle in tobacco growing areas for the season.

In 2017, PMI and our supplier Tabaco del Pacífico Norte (TPN – a subsidiary of Universal Corporation) conducted an in-depth analysis of this complex and deep-rooted problem. We developed a plan with the objective to provide adequate accommodation and working conditions to all migrant workers and create the conditions to ensure that they do not sleep in tobacco fields. To achieve this, we developed an integrated approach comprising the following action items:

- 25% increase on the piece-rate paid to workers;
- Awareness campaigns in the workers' communities of origin;
- Extension of the opening hours and increased capacity of five childcare centers for the children of migrant families; and
- Support to farmers to provide adequate accommodation, transportation, as well as sanitation and access to clean water;

- Non-renewal of contracts with farmers not demonstrating commitment to the objective.

In order to support farmers to provide adequate accommodation, PMI and TPN began by training all field Staff on the new objective and equipping them with tools to address these issues (e.g., a list of minimum housing standards aligned with local standards of living). In addition, during the first year of implementation, a cost compensation was given to the farmers providing adequate accommodation, transportation, as well as sanitation and clean water access to their workers.

We engaged a third-party NGO (Fundación Mexicana de Apoyo Infantil – FAI) to establish a set of monitoring indicators and independently assess the housing and working conditions.

In 2018, FAI monitored around 381 farms with two visits per farm on average. The outcomes were encouraging. FAI reported that 93% of migrant workers no longer lived in the tobacco fields or worked at night, and 87% of them had access to adequate accommodation. PMI and TPN will continue working with both farmers and workers to provide adequate living and working conditions and to achieve PMI's Step Change target.



SOUTH AFRICA

PMI continues to identify and make efforts to improve the working and living conditions of labor within our supply chain as part of its Agricultural Labor Practices (ALP) program. In 2017, during the Control Union assessment of Universal Leaf South Africa (ULSA), our tobacco supplier in South Africa, it was found that 89% (of 16 farms visited) of workers accommodation in Limpopo, as well as 65% in the Eastern and Western Cape, were inadequate. In 2018, ULSA worked with 72 contracted farmers which typically operate large commercial farms (average farm size of 14 Ha) with 31 workers living on each farm, on average.

To ensure PMI's ALP workers accommodation standards are met, together with our strategic partner Verite and ULSA, we developed an action plan to address this issue and ensure all accommodation provided to workers is safe, clean and conforms to the country's laws. In 2017, a pilot project was undertaken in Limpopo where 54 rooms were constructed. The outcomes of the pilot created significant improvements for the farmers and workers and were endorsed by the South African Department of Labor. Following this, in line with PMI's Step Change approach, we rolled out of a full-scale initiative that covered all contracted tobacco farms in 2018, with expected completion by December 2019.

In 2018, accommodation improvements focused on the most serious needs in Limpopo. To-date, 80% of the project plan for Limpopo has been completed with 174 rooms

(58 units) constructed and fully meeting the standard.

In 2019, the accommodation improvements will continue at the remaining 4 farms in Limpopo and at all farms in the Eastern and Western Cape.

The accommodation improvements will encompass a total of 243 new rooms, 326 renovated rooms (including 408 glass replacements) and 83 toilets, benefitting 564 workers and their families. We are confident that we will achieve the target of providing adequate accommodation to all contracted farms in South Africa by the end of 2019, ahead of PMI's global timeline of the end of 2020.





ARGENTINA

Since 2018, PMI's affiliate in Argentina (Massalin Particulares S.R.L), implemented the ALP Step Change journey, focusing, among other topics, on improving farm worker's accommodation in order to meet the standards set by PMI's Agricultural Labor Practices (ALP) Code. Massalin Particulares contracts directly 462 flue cured farmers, each farm has an average tobacco growing area of 20 hectares and a significant number of workers living there 71% of farmers provide accommodation, around 1.900 workers living on the farms), especially during harvesting season.

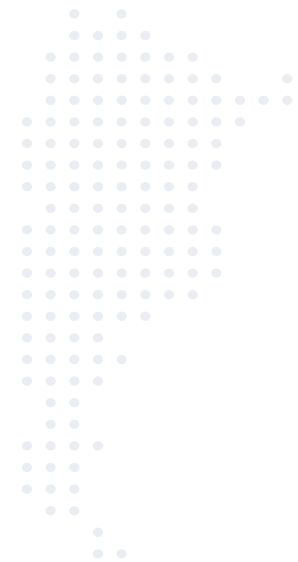
During 2018, PMI worked with Massalin Particulares to assess workers' living conditions through a detailed farm by farm monitoring performed by Field Technicians. Based on the findings, the Field Technicians agreed individual action plans with the farmers to improve living conditions on the farms.

The work was focused on a set of "critical standards", agreed with Verite that had to be addressed as a priority. These are: water availability, sanitation facilities, secure electricity system, cooking area separated from sleeping areas, enough beds for family members and housing area free of toxic elements.

Almost 151 farmers (out of 421) were found not meeting at least one of the critical standards: 56% of them already made the necessary improvements and the remaining

44% are implementing the agreed action plans in order to fully meet the standards by Q2 2019.

Other indicators, considered "non-critical" but, if not met, still inadequate living conditions according to PMI's ALP standards (e.g., warning signs, waste management, furniture, soap availability and cleaning), are expected to be provided by all relevant farmers by Q4 2019 and successfully achieving PMI's goals set out following the Step Change approach.





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

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