



Ms. L. Xia
Sector Analyst – Food & Beverage
Sustainability Accounting Standards Board
1045 Sansome Street, Suite 450
San Francisco, CA 94111
United States of America

Re: Exposure Draft – Provisional Standards for Tobacco

December 28, 2017

Dear Ms. Xia,

We appreciate the opportunity to provide our comments to the Exposure Draft of the Provisional Standards for the tobacco sector. We support many elements of the proposed draft and have a few additional suggestions.

Allow me to first provide our general perspective on sustainability. What does it take to be a sustainable tobacco company? In our view, sustainability needs to start with the impact of a company's products on consumers and society at large. For a tobacco company, the focus must therefore be, first and foremost, on tobacco harm reduction.

Smoking cigarettes causes serious disease, and the best way to avoid the harms of smoking is never to start, or to quit. But much more can be done to reduce the health risks for the world's 1.1 billion smokers. While nicotine is addictive, it is the smoke generated by burning tobacco that is the principal problem. Through extensive research, we have developed a range of smoke-free products that are enjoyable for smokers and have the potential to significantly reduce health risks when compared to smoking.

Our main smoke-free product, *IQOS*, is now available in key cities in over 30 markets worldwide, and already over 3.7 million people have stopped smoking cigarettes and switched to *IQOS*, and 8,000 more are switching every day. It is our ambition that by 2025, at least 40 million PMI cigarette smokers will have switched to smoke-free products, and we envisage that one day we will no longer sell cigarettes.

We provide this introduction to raise awareness of the major business transformation that started some years ago at PMI and could eventually impact the whole industry. To illustrate the significance of this transformation: Citibank¹ recently listed heat-not-burn tobacco

¹ DISRUPTIVE INNOVATIONS V, Ten More Things to Stop and Think About, Citi GPS: Global Perspectives & Solutions, November 2017



products as one of the 10 most disruptive innovations, along with blockchain, unmanned commercial aircraft, smart robotics and hyperloop.

In our view, SASB should aim to capture this development in its sustainability accounting standards, thereby assisting investors in distinguishing between those tobacco companies that lead this transformation and those that lag behind. As such, we think the proposed standards could go further by suggesting disclosure of a company's (relative) resource allocation to non-combustible products. Specifically, we recommend including the disclosure of R&D expenditure related to non-combustible products as a % of total R&D expenditure, and commercial expenditure (including marketing and sales) related to such products as a % of total commercial expenditure.

In addition to this general point, we have some detailed suggestions:

1. Page 206, Table 1, Activity Metrics

We recommend renaming "smokeless tobacco sales volume" to "non-combustible products sales volume" and then split this category into 3 sub-categories: "traditional smokeless tobacco", "non-tobacco nicotine products", and "heat-not-burn tobacco products". Consequently, we recommend to state "Number of units" in the Unit of Measure column instead of "Number of cans."

2. Page 208, Table 2, Sustainability Disclosure Topics & Accounting Metrics

In order to ensure consistency with our proposed changes in table 1, page 206, we recommend renaming the sub-categories of non-combustible products as follows: (i) traditional smokeless tobacco products; (ii) non-tobacco nicotine products and (iii) heat-not-burn tobacco products.

3. Page 209, Description

For consistency, we recommend to draw a clearer line between combustible and non-combustible tobacco products in the description instead of referring to "tobacco" or "tobacco use". We recommend to refer to "the use of combustible tobacco products" and to "combustible tobacco products" in the whole paragraph. Further, we recommend to rephrase sentences six and seven as follows: "In an effort to address this, tobacco product manufacturers have created an array of non-combustible products, such as e-cigarettes, aimed at minimizing the health impacts of tobacco. These products are not without their own health risks, but they are potentially less harmful than combustible tobacco products."

4. Page 209, Accounting metric TA08-25-01.03

We recommend clarifying the following text related to this metric: "The registrant shall disclose its revenue, in U.S. dollars, from heat-not-burn tobacco products, which are non-combustible tobacco products."



5. Page 209 – Accounting Metrics TA08-25-01.04

Given that the presentation of revenues on a gross or net basis for accounting purposes can vary, due to accounting policies and standards, we suggest removing item 4 from this section of the standard. Instead, it may be more appropriate to consider adding a reference to indicate that registrants disclose the applicable revenue amounts, in accordance with their respective accounting policies and applicable accounting standards.

6. Page 209/210, accounting metric FB301-02

For consistency, we recommend to replace “tobacco-harm reduction products” with “non-combustible products” and include the sub-categories used in TA 08-25-01, namely, (i) traditional smokeless tobacco products; (ii) non-tobacco nicotine products; and (iii) heat-not-burn tobacco products.

We strongly support efforts to improve the quality of disclosure. Our views above pertain to the consistency of terminology and are not an undertaking to include matters discussed in this letter in our periodic reports or elsewhere. Consistent with SASB’s views in the Purpose & Structure section of the Exposure Draft, we believe that materiality in respect to all matters and decisions on whether to publicly disclose specific matters in SEC filings or elsewhere should be determined by each company.

We hope these suggestions are useful. Please do not hesitate to contact us if you have any questions.

Best regards,

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