



Sustainability Materiality Report



PHILIP MORRIS INTERNATIONAL

What's relevant to PMI and our stakeholders

Our sustainability work only has meaning and impact if it focuses on addressing the issues that matter most.

Engaging our stakeholders in the process of defining our priorities is key to our approach to sustainability. It helps us prioritize our focus and resources in areas where we can have the greatest impact and, ultimately, make progress.

At PMI, we are committed to identifying, addressing and reporting on sustainability issues and opportunities that are relevant to us and our stakeholders.

The thorough sustainability materiality analysis we conducted in 2018 helped us prioritize our work. With the transformation of our business toward our smoke-free vision progressing at rapid pace, our sustainability work unveils both new challenges and new opportunities. To keep pace with this evolving context and make sure our sustainability priorities are up to date, we decided to refresh our materiality assessment at the end of 2019. The time was also right to further refine the development of our 2025 sustainability strategy.

An essential starting point to ensure a credible and thorough exercise is to work with an independent third party to facilitate the materiality assessment. For the past two years, we partnered with BSD Consulting, an ELEVATE company, to assist us in carrying out our analysis, providing independent expertise, and guidance on alignment with reporting frameworks.

In this report and in related communications, the terms "materiality," "material" and similar terms, when used in the context of economic, environmental, and social topics, are defined in the referenced sustainability standards and are not meant to correspond to the concept of materiality under the U.S. securities laws and/or disclosures required by the U.S. Securities and Exchange Commission.

Our assessment process

We followed a four-step approach:



Identifying topics

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Assessing impact

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Building and validating the sustainability materiality matrix

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STEP 1

Identifying topics

When researching sustainability topics that are likely to be relevant to PMI, we consider the impacts of our business across our value chain.

In 2018, our initial analysis had identified a list of topics that were potentially relevant for PMI, covering environmental, social and governance aspects.

These were derived from a review of PMI's disclosures and external sources, including analyses of public health debates, ESG ratings (e.g., Morgan Stanley Capital International or Dow Jones Sustainability Index), media reports, sustainability standards and frameworks such as the Global Reporting Initiative (GRI) and the United Nations Sustainable

Development Goals (SDGs), a benchmark of the sustainability practices of multinational peers and global sustainability trends.

We revised the list of topics in 2019, taking into account the internal and external feedback gathered during the 2018 exercise, as well as developments in the above-mentioned external sources.

As a result, we clustered some topics that were deeply connected, such as human rights and forced labor, and we split others, such as forest conservation and biodiversity, in order to assess them more granularly. Two new topics—product reliability and product eco-design and circularity—were also introduced, to reflect stakeholders' evolving expectations and the progress in PMI's work. Finally, we refined the topic names and descriptions, explaining how PMI understands each topic. In our 2019 Integrated Report, we share PMI's specific aspirational targets in relation to topics identified as tier 1 topics.

Topics and how PMI understands them

Innovating for better products

Access to smoke-free products	Ensuring our smoke-free products are accessible to all adult smokers, by making them available, acceptable and affordable, and by raising awareness.
Product addictiveness	Better understanding product addictiveness, separate from the risks to health associated with the usage of our products.
Product health impacts	Reducing the risks to health associated with the usage of our products.
Product reliability	Ensuring the quality and safety of our products and the ingredients used within them, in line with appropriate design and manufacturing standards.

Operating with excellence

Business integrity	Upholding ethics, business integrity and a culture of respect, honesty and fairness through governance structures, and policies and practices that require compliance with the law, encourage transparency and are designed to prevent unethical behavior across our operations and value chain (including corruption, fraud, bribery and anti-competitive behavior).
Data privacy and protection	Programs designed to protect our company's and stakeholders' data privacy from attacks and improper use.
Fair fiscal practices	Performing our transactions based on sound tax strategies in line with societal expectations and acting in good faith in all interactions with tax authorities and other stakeholders.
Illicit tobacco trade prevention	Securing our supply chain and collaborating with law enforcement agencies and other partners to prevent and reduce the illicit trade of tobacco and nicotine products (consumables and devices).
Respect for human rights	Safeguarding the human rights of all people affected by our activities. Ensuring compliance with international standards, and PMI's policies on topics within the realm of human rights.
Responsible advocacy	Acting in a fair, honest, accountable and transparent manner when advocating PMI's position in stakeholder engagements.
Responsible and transparent R&D	Ensuring the credibility, integrity and robustness of our scientific research through alignment with international standards and transparency on methodologies and results. Minimizing and replacing animal testing with alternative methods when possible and safeguarding animal well-being in the R&D processes when animal testing cannot be avoided.
Responsible marketing and sales practices	Commercializing our products responsibly to prevent access and usage by unintended users, including minors and nonsmokers, advertising tobacco and nicotine-containing products in a way that is directed to adult smokers; aiming to provide clear information on the product health risks through appropriate labeling and communication.
Sustainable supply chain management	Embedding sustainability in our procurement practices, managing risks and continuously evaluating and supporting suppliers to align their sustainability efforts to our requirements.

STEP 1

Identifying relevant topics (continued)

Caring for the people we work with

Community support	Contributing to local communities' development through charitable donations and employee volunteering initiatives.
Diverse and inclusive working environment	Fostering an inclusive and diverse working environment, ensuring fair treatment and non-discrimination.
Fair working conditions	Conducting effective labor relations through ongoing engagement and social dialogue, promoting freedom of association and the right to collective bargaining.
Health, safety, and well-being at work	Promoting a safe and healthy working environment that protects the physical and mental well-being of all while at work.
Socioeconomic well-being of tobacco farming communities	Eliminating child labor and providing safe and fair working conditions on tobacco farms. Promoting living income as a key strategy to achieving farmers and farmworkers' well-being.
Talent attraction, retention, and employability	Providing a workplace that is attractive to prospective employees and where current employees can grow and pursue fair career development, and responsibly addressing the future of work: the impacts of automation, digitalization, and business transformation.

Protecting the environment

Biodiversity	Managing and reducing the negative impacts on species and ecosystems of our operations and sourcing activities, such as land use and soil degradation.
Climate protection	Mitigating climate change by reducing greenhouse gas emissions and energy consumption, and adapting to climate change by increasing our resilience.
Product eco-design and circularity	Developing more environmentally friendly products (devices, consumables, accessories and packaging) by improving recyclability, efficiency and reparability.
Forest conservation	Preventing deforestation in our operations and sourcing activities by using sustainable curing fuels in our tobacco supply chain, and responsible sourcing of pulp and paper.
Littering prevention	Promoting anti-littering behavior among consumers through awareness and cleanup campaigns, and partnerships.
Waste reduction	Reducing the waste generated in our manufacturing facilities and offices and ensuring its reuse, recycling or responsible disposal.
Water stewardship	Reducing water usage, promoting water recycling, protecting water resources through watershed conservation, promoting sustainable water management in collaboration with stakeholders. Preserving water quality and promoting safe access to water, sanitation and hygiene.

STEP 2

Gathering stakeholders' perspectives

The second stage of our assessment involves reaching out to our stakeholders. We may do so in two ways: through in-depth qualitative interviews and through online surveys.

During our comprehensive analysis in 2018, we used both means. Aiming to go deep and wide into conversations with our stakeholders, our consultant interviewed 48 people, half of whom were PMI employees and half of whom were not. The latter group included investors, NGOs, business partners and other groups considered relevant to our industry. The in-depth conversations generated detailed insights into topics identified as relevant, as well as those seen as likely to gain importance in the short to medium term. We complemented this exercise with quantitative inputs collected through an online survey, in which 103 stakeholders participated (over 70 percent of respondents were PMI employees).

In 2019, we did not conduct qualitative interviews but decided to focus on broadening the outreach of the stakeholder online survey. The survey comprised two parts: the first set of questions asked participants to prioritize the topics by importance, while the second set consisted in open questions allowing for qualitative inputs.



STEP 2

Gathering stakeholders' perspectives (continued)

First, survey participants were asked for their opinion on the priority levels of the different sustainability topics from the list that had been set following our 2018 sustainability materiality assessment. Overall, respondents largely confirmed the ranking of sustainability topics while pointing to some topics that they believed should be addressed with a higher priority. This was particularly the case for the topic of "respect for human rights."

In total, we received over 820 responses from 12 stakeholder groups across 60 countries. The highest participation rate came from employees (representing two-thirds of the responses), followed by representatives from our suppliers, civil society and the business community. The survey sample, while broad, was not equally representative of all stakeholder groups, nor geographies.

To make sure the uneven stakeholder representation in the survey was not impacting its outcomes, we analyzed and compared results from different groups, attributing them different weights (internal versus external stakeholders, types of stakeholders, and regional representations). Overall, responses converged independently from the stakeholder types or locations, and no major discrepancy was identified.

Accordingly, we decided to allocate an equal weight to both internal and external stakeholders to generate the ranking of sustainability topics. This ranking reflects the level of relevance of each topic according to our stakeholders and is reflected in the Y axis of our sustainability materiality matrix.

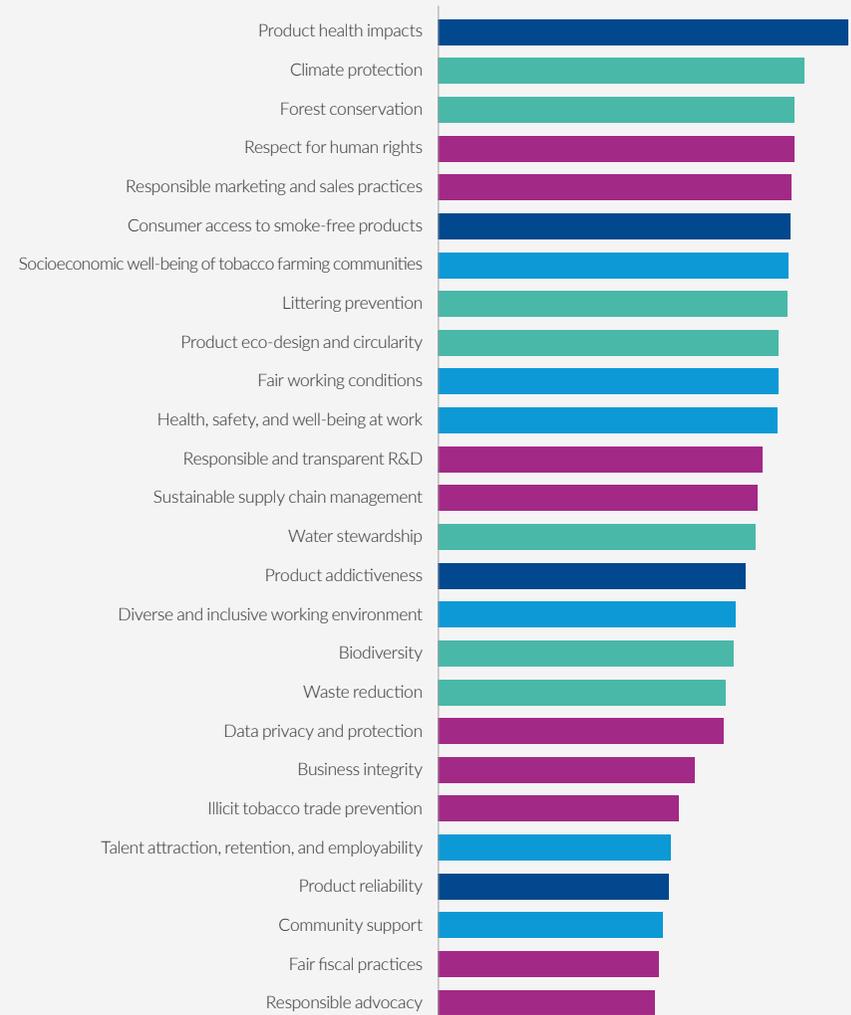
The survey also allowed us to gain further insights into our stakeholder's perspectives through open questions asking participants what sustainability issues they considered as top priority or as gaining momentum. Responses to both questions largely converged, highlighting the emerging topics of product eco-design and circularity, climate protection and water stewardship. As we did not conduct stakeholder interviews in 2019, the open comments from respondents to the survey provided valuable insights into their concerns and expectations.

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Generally, many participants mentioned that PMI's progress in its sustainability work was encouraging and rightly targeted. Responses also highlighted areas for improvement.

For instance, certain employees noted their willingness to be more involved in the company's sustainability efforts. Other stakeholders stressed the need for PMI to further communicate on its sustainability work and set clear targets and performance indicators to allow them to track progress, which we took into consideration while developing our 2025 sustainability strategy.

Ranking: Relevance of topics to our stakeholders



STEP 3

Assessing impact

As a third step, we conducted a desktop assessment to understand which topics have most impact on sustainable development, and where in our value chain.

Our consultant analyzed the significance of each topic's environmental, social and economic impacts on society at the different stages of our simplified value chain: upstream (e.g., tobacco growers, suppliers), operations and downstream (e.g., consumers, retailers). The likeliness, reversibility and severity of the impact were considered in this evaluation. Complementing the expert desktop assessment from our consultants, subject matter experts from PMI were also consulted during the assessment process. Taking the example of climate protection, this topic was highlighted as fairly high impact during the assessment. The likelihood of carbon emissions resulting from our activities was deemed significant, particularly upstream in our value chain, as tobacco growing and curing can be carbon intensive processes. Second, carbon emissions, once they occur, are not reversible in the short to medium term. And the severity of carbon emissions is also serious, as they contribute to global warming and affect life on earth and in oceans.

Impact in our value chain		 Upstream	 PMI operations	 Downstream
Pillar 1	Access to smoke-free products			
	Product addictiveness			
	Product health impacts			
	Product reliability			
Pillar 2	Business integrity			
	Data privacy and protection			
	Fair fiscal practices			
	Illicit tobacco trade prevention			
	Respect for human rights			
	Responsible advocacy			
	Responsible and transparent R&D			
	Responsible marketing and sales practices			
	Sustainable supply chain management			
Pillar 3	Community support			
	Diverse and inclusive working environment			
	Fair working conditions			
	Health, safety, and well-being at work			
	Socioeconomic well-being of tobacco farming communities			
	Talent attraction, retention and development			
Pillar 4	Biodiversity			
	Climate protection			
	Forest conservation			
	Littering prevention			
	Product eco-design and circularity			
	Waste reduction			
	Water stewardship			

STEP 3

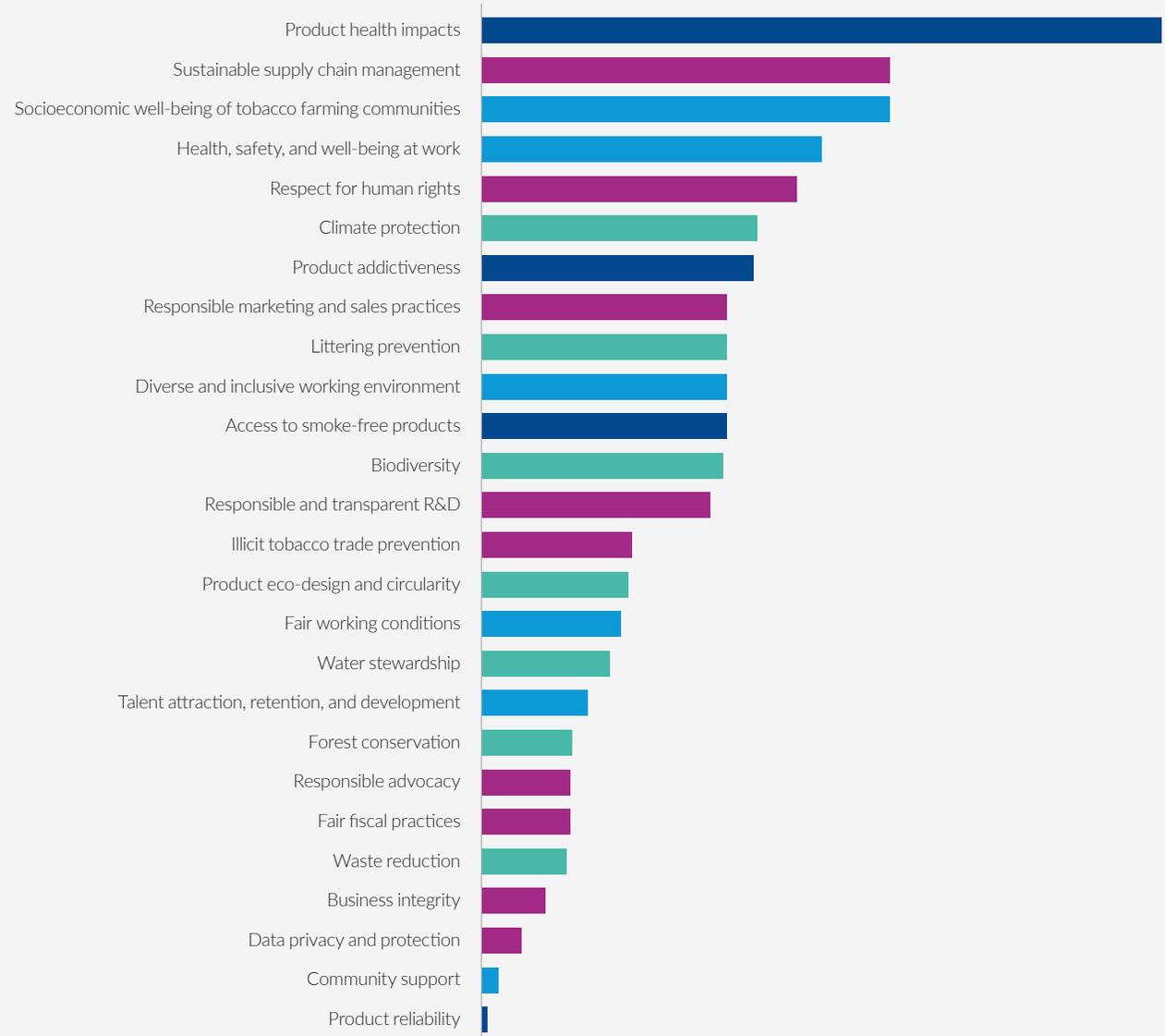
Assessing impact (continued)

As a result of the impact assessment, the topics PMI should address in priority to contribute to sustainable development are product health impacts, sustainable supply chain management, and socioeconomic well-being of tobacco farming communities.



The impact assessment generated a topic ranking in terms of relevance for sustainable development, which informed the X-axis of our sustainability materiality matrix.

Ranking: Significance of PMI's impacts on society

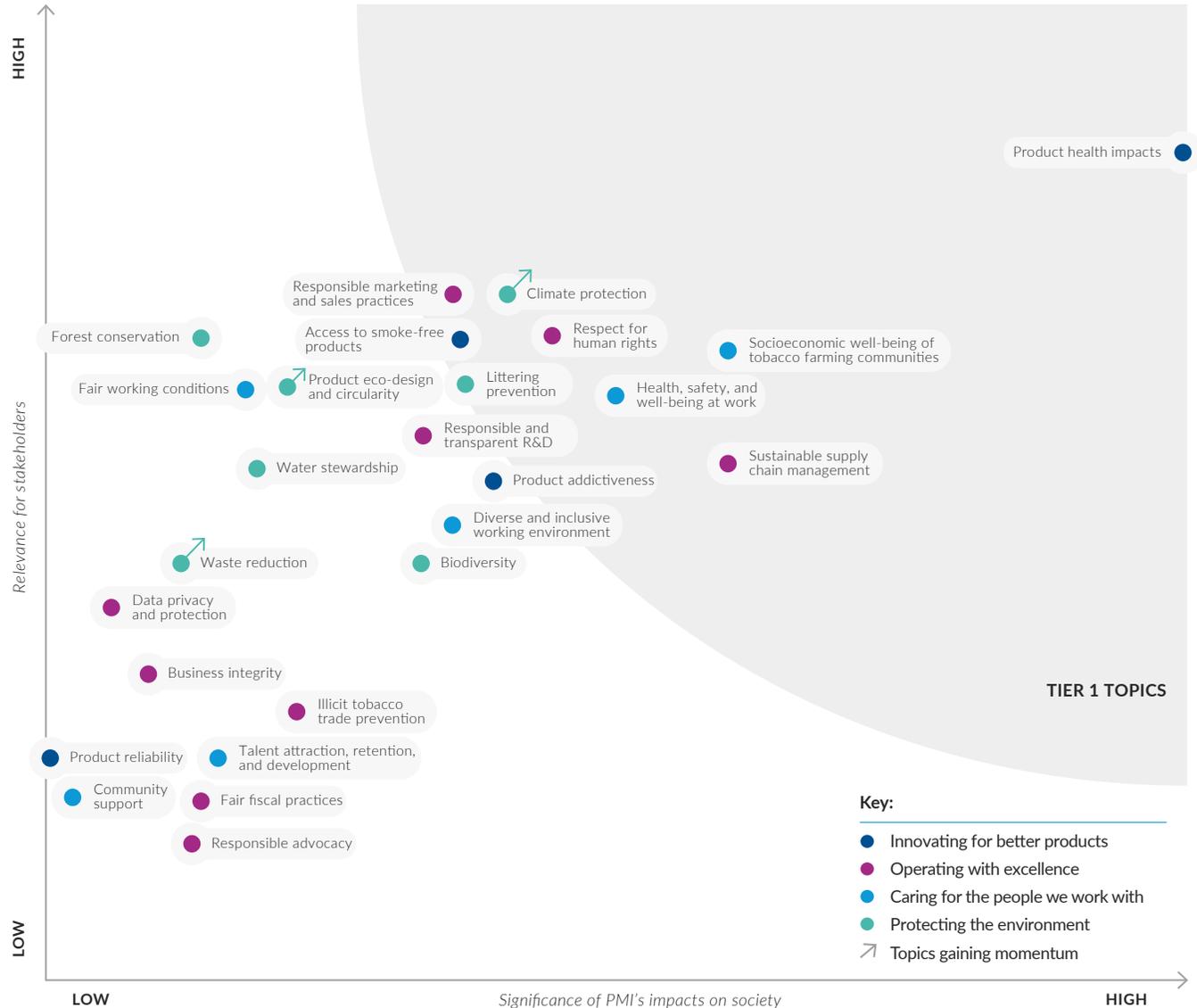


STEP 4

Building and validating our sustainability materiality matrix

Using all inputs gathered through the survey and impact assessment, we generated a sustainability materiality matrix in line with the Global Reporting Initiative's (GRI) requirements.

We mapped the topics with the four pillars of our sustainability strategy and highlighted those that stakeholders mentioned would likely gain momentum in the future. The final step, done upon discussion with our consultant, consisted of drawing the threshold for the relative materiality of sustainability topics.



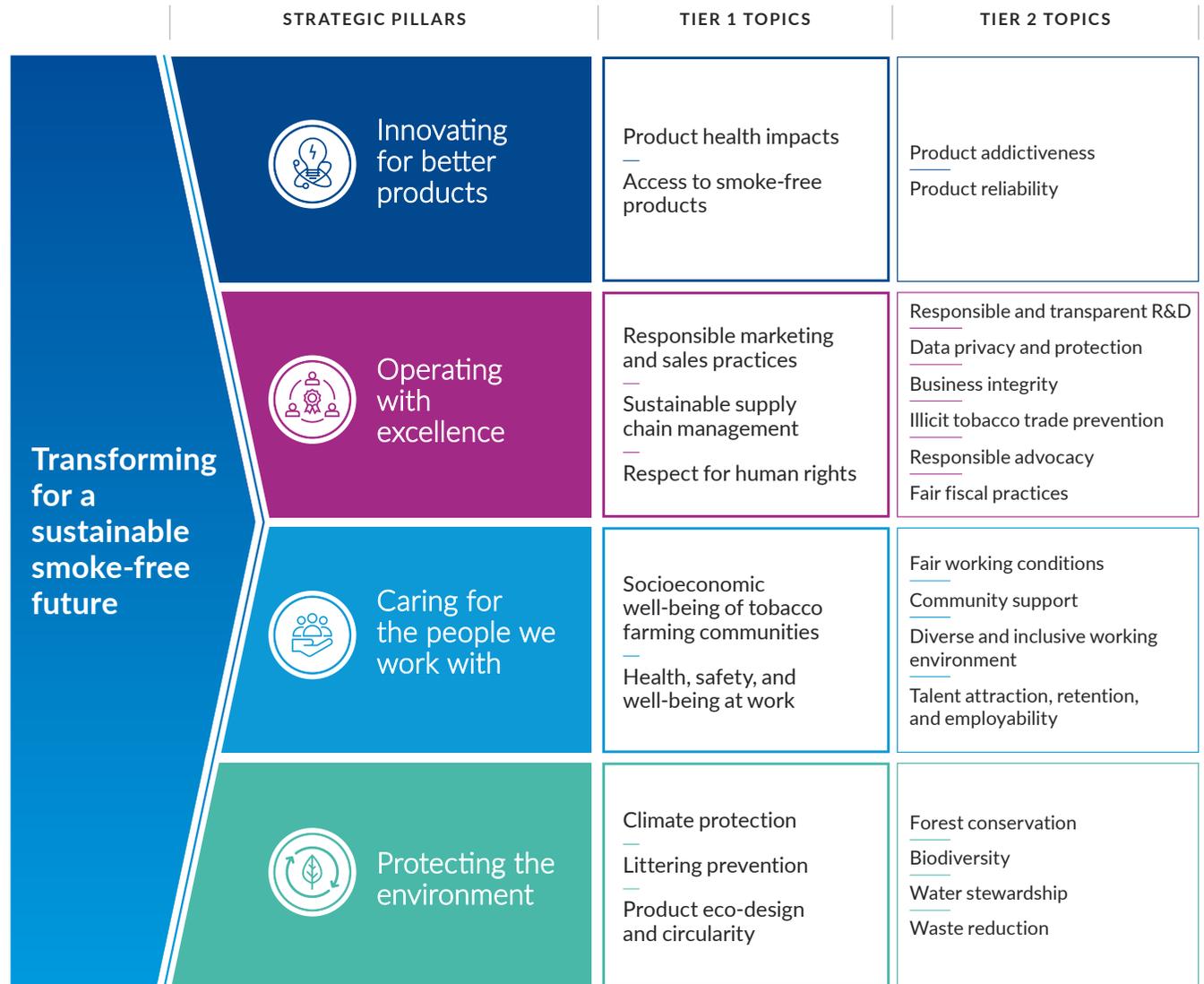
STEP 4

Building and validating our sustainability materiality matrix (continued)

Our sustainability matrix, based on stakeholders perspectives gathered through the sustainability survey and the desktop impact assessment, resulted in a ranking of topics into two categories: tier 1 and tier 2 topics.

The topic of eco-design and circularity was classified as tier 1 level, as most respondents underlined its propensity to become more important in the future.

The results were presented to our External Engagement Committee, comprised of our Chief Executive Officer, Chief Operating Officer, President External Affairs and General Counsel, Senior Vice President Operations, and senior leaders from our External Affairs department, who validated the sustainability materiality matrix and the updated prioritization of topics.



Understanding the assessment results

Distributing topics across two distinct categories provides useful insights on how to understand and manage each topic.

- There are 10 tier 1 topics, which reflect issues or opportunities where PMI can have the greatest impact on society. As such, they are key to our 2025 sustainability strategy. We are committed to implementing impactful programs to achieve the ambitious aspirations we have set for these topics. We will track our progress, regularly update our senior management and publicly report our performance on an annual basis.
- Tier 2 topics include topics that are important for PMI's value creation, as well as certain compliance-driven topics. We closely monitor and manage them and track our progress.

The connection between topics must be considered. Indeed, sustainability material topics do not exist independently; they are linked to one another. For example, the topic of sustainable supply chain management can be a catalyst for progress on various other topics, such as climate protection or fair working conditions.

Another example is access to smoke-free products, which is closely connected to responsible marketing and sales practices. Both should always be considered as we strive for a sustainable smoke-free future.

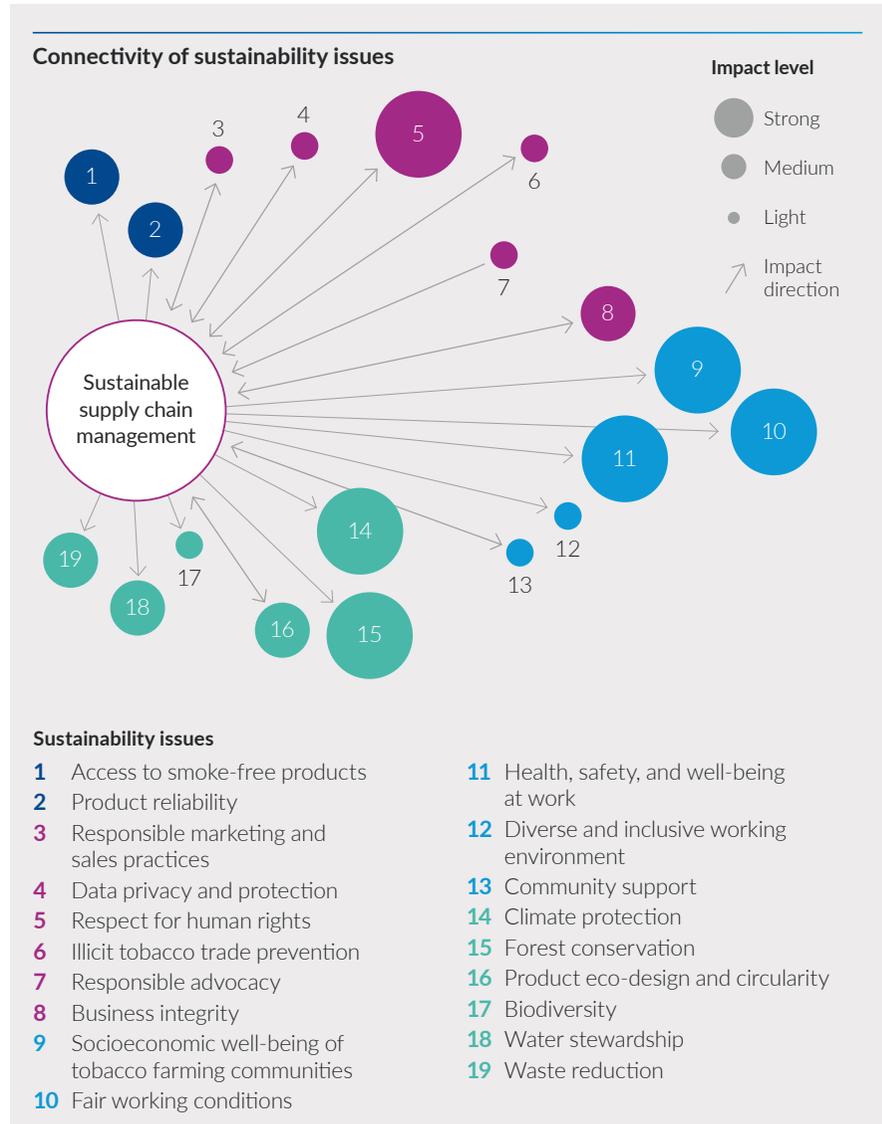
Such interdependences between topics must be considered to define the necessary approaches to put in place in order to drive progress.

Way forward

The purpose of our materiality analysis is to guide us in the prioritization of sustainability topics, listen and respond to our stakeholders' expectations and focus on areas where we can create most value for all our stakeholders and PMI. Our sustainability materiality refresher in 2019 informed the development of our 2025 strategy and will shape our sustainability work and reporting.

In 2020, we will focus on implementing the results of our assessment and new strategy across our business functions and affiliates.

We plan to conduct a comprehensive sustainability materiality analysis every three years and a light update between those assessments. We aim to strengthen and adjust our process at each exercise.



From global to local priorities

Assessing local sustainability priorities in our affiliates

PMI products are sold in over 180 countries, and our affiliates are key to bringing our sustainability efforts to life. The whole company is committed to our global sustainability strategy, and the activities carried out at the affiliate level must be tailored to our local footprint and context to be truly impactful.

In 2019, certain PMI affiliates undertook local sustainability materiality assessments to define the main sustainability issues to focus on. Highlighted below are some key topics identified in different countries.

Mexico

- New business opportunities
- Community support
- Child labor elimination and respect for human rights
- Responsible use of natural resources
- Talent development
- Illicit trade prevention



Kazakhstan

- Littering prevention
- Labor rights
- Recycling of heated tobacco units
- Youth access and usage prevention
- Community support to environmental causes
- Impact of smoke-free products on indoor air quality



Singapore

- Youth access and usage prevention
- Responsible and transparent R&D
- Responsible commercialization
- Access to smoke-free products for current adult smokers
- Constructive stakeholder dialogue



Indonesia

- Business integrity
- Economic performance
- Product innovation
- Fair working conditions
- Respect for human rights
- Responsible marketing and sales practices





PHILIP MORRIS INTERNATIONAL

Headquarters

Philip Morris International Inc.
120 Park Avenue
New York, NY 10017-5579
USA

www.pmi.com

Operations Center

Philip Morris Products S.A.
Avenue de Rhodanie 50
1007 Lausanne
Switzerland

www.pmi.com