



PHILIP MORRIS INTERNATIONAL

# 2021 Sustainability Materiality Report

FEBRUARY 2022

With the transformation of our business progressing at a rapid pace towards a smoke-free future, and with stakeholder priorities constantly evolving, our sustainability work unveils both new challenges and new opportunities. This requires a regular update of our sustainability materiality assessment.

Our sustainability work only has meaning and impact if it focuses on addressing the issues that matter most. To remain successful in the long term, it is key for us to better understand and account for: the impacts we have on society and the environment; the risks and opportunities that environmental, social, and governance (ESG) issues may have on our business; and the views of our stakeholders around those ESG issues and where they expect our company to focus. A robust sustainability materiality assessment, conducted periodically, allows us to do that.

This report summarizes the approach and findings of the sustainability materiality assessment we conducted during the second half of 2021. The insights gathered helped refine our sustainability blueprint by redefining our goals, recalibrating our priorities, and restructuring our strategic framework, which then informs our key performance indicators, targets, reporting, and communications.

### What is a sustainability materiality assessment?

A sustainability materiality assessment is a formal process through which a company identifies, assesses, and prioritizes ESG topics.

In the last couple of years, various standard setters and regulatory bodies have begun to refine the concept of sustainability materiality. In particular, the European Union Corporate Sustainability Reporting Directive (CSRD) proposal and the International Sustainability Standards Board (ISSB) recently set up by the International Financial Reporting Standards

(IFRS) Foundation Trustees both distinguish between “single materiality” and “double materiality.” Double materiality acknowledges that businesses should assess both the risk and opportunities linked to ESG topics that can influence enterprise value creation (“inward impacts”) and the ESG impacts that a company can have on the planet and society (“outward impacts”). Further, the concept of “dynamic materiality” recognizes that the financial materiality of an ESG impact can evolve over time.

Note: 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.

# Overview

Our sustainability materiality assessment is the foundation of our sustainability strategy. It helps to ensure that our efforts remain focused on those areas where we can have the greatest impact and that we continue to deliver relevant reporting to our stakeholders.

Further, with every assessment completed, we strengthen the understanding of our impacts, further integrate sustainability within our company, reinforce our approach to stakeholder engagement, and improve the quality of our reporting. We conducted our last holistic materiality assessment in 2018, and a refresh in 2019. The 2021 process allowed us to account for internal developments related to the rapid advancement of our business transformation, our recently announced ambition to venture beyond tobacco and nicotine products, and the progress we have made on achieving the sustainability goals presented in our 2025 Roadmap.

Our sustainability materiality assessment also allowed us to remain at the forefront of corporate sustainability, better positioning us to anticipate the most demanding trends, and to demonstrate to investors and other stakeholders the coherence and seriousness of our sustainability strategy. Our assessment considered external indices, new academic research on sustainability practices, ESG policy and regulatory developments, and emerging best practices in the sustainability materiality field. Moreover, as a company operating on a global scale in a fast-paced world, our long-term success requires that we continuously monitor and adapt to significant social, environmental, economic, political, and technological changes. Our 2021 sustainability materiality analysis accounted for the latest megatrends, including political events, climate disruption, far-reaching health-crises, and technological developments. It also supported us in anticipating emerging trends and accounting for ESG topics that are likely to become more relevant in the coming years.





Global society is striving for social justice and environmental conditions that support the long-term well-being of humanity. In this context, a global company the size of PMI can significantly create or erode value for society and the environment.

Hence, PMI's stakeholders are interested in understanding the manifold interconnections of PMI with sustainability: Investors and the company itself need to know about the risks and opportunities emerging from ESG topics; business partners, NGOs or customers want to know how PMI's business activities and products affect the stakeholders' interests; and finally, the company and society want to understand its actual and potential impacts on society and the environment along the value chain to make the most meaningful decisions.

PMI's 2021 materiality assessment is based on a sound analysis combining in-depth qualitative data with additional quantitative information that allows not only to account for but to really understand the three dimensions.

PMI thus meets all relevant current and upcoming standards:

- the concept of double materiality promoted by the EU and other legislators around the globe
- the outward-looking and due diligence-driven view of the Global Reporting Initiative (GRI) Standards 2021 corresponding to the United Nations (UN) guiding principles on business and human rights and the Organisation for Economic Co-operation and Development (OECD) guidance on responsible business conduct
- the inward-looking perspective of Sustainability Accounting Standards Board (SASB), upcoming ISSB/IFRS and other investor-driven frameworks.

In addition, PMI gained deep insights that go far beyond generic sectoral or geographical approaches to match the company's business model and dynamic transformation path. By considering emerging topics and aligning the process with internal risk management, PMI paved the way for pragmatic interim reviews and adjustments. In this way, the chosen approach allows the company to identify topics with medium- to long-term strategic relevance for PMI and its business model, as well as to dynamically adapt them to external or internal developments.

**BSD Consulting (an ELEVATE company)**



# Our assessment

We are committed to regularly conducting sustainability materiality assessments, and to strengthening and adjusting our process with each exercise.

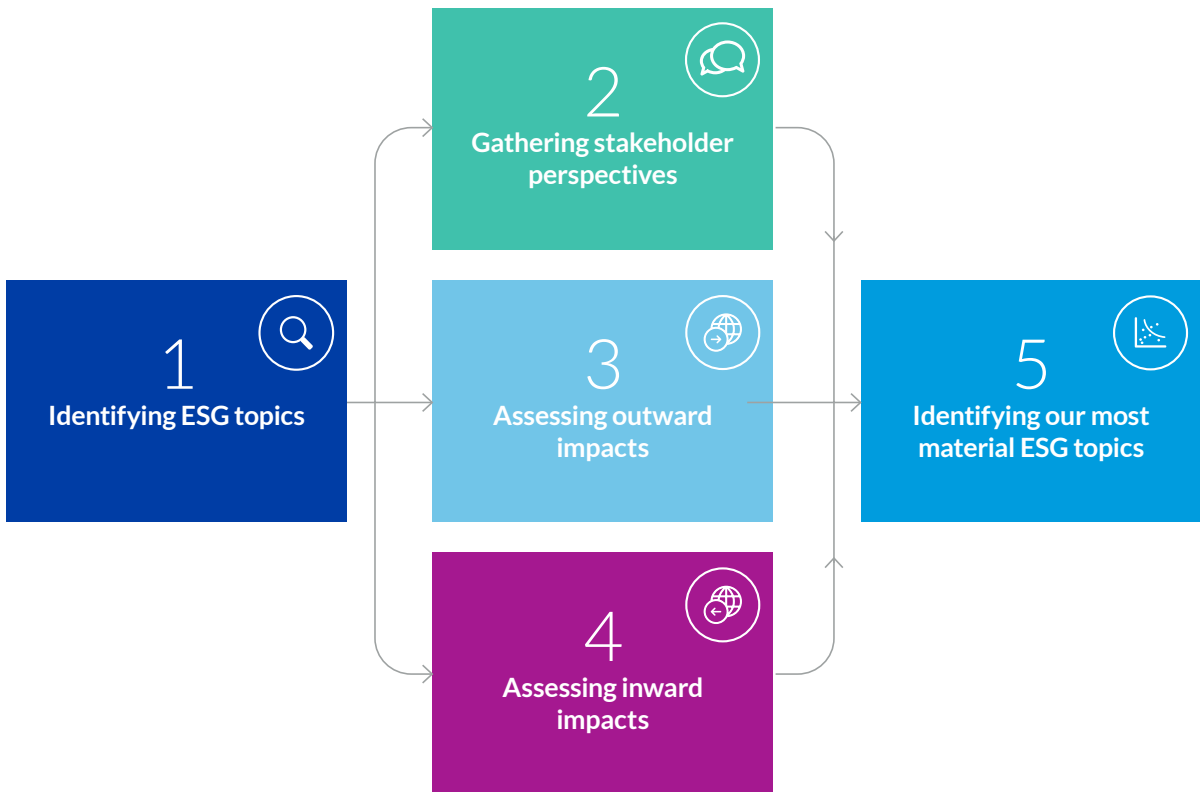
An essential starting point is to identify and partner with an independent and external third party to facilitate the assessment. We partnered with BSD Consulting (an ELEVATE company) to assist us in carrying out our 2021 sustainability materiality assessment by providing independent expertise and guidance on how to best align with relevant standards and best practices.

We expanded our assessment in 2021, recognizing that there is value in integrating different perspectives into our analysis to deepen our understanding. We prepared a list of potentially relevant ESG topics, and then evaluated them according to three different lenses:

- **Stakeholder perspective:** The likelihood of impacting the judgment and decisions of key stakeholder groups.
- **Outward impact:** The impact on society and the planet at different stages of PMI's value chain.
- **Inward impact:** The impact on PMI's overall performance and business in terms of risks and opportunities that have or will have an impact on corporate value.

We combined the results of those three perspectives to build our sustainability materiality matrix and identify the topics we should focus on to have the greatest impact.

## Our five step process







# Identifying ESG topics

It is key that our sustainability materiality assessment be based on an exhaustive list of ESG topics covering all areas that are potentially relevant to PMI.

The starting point for our materiality analysis corresponds to the identification of the sustainability topics that are potentially relevant to PMI.

We conducted desktop research to define an initial list of topics covering ESG aspects.

Our list of sustainability topics was derived from a review of PMI's disclosures and external sources, including the list of topics defined during our 2019 sustainability materiality exercise, local analyses conducted by various PMI affiliates worldwide, consumer insights, public health debates, ESG investor topics and ratings requirements (e.g., MSCI and Dow Jones Sustainability Indices (DJSI)), media reports, sustainability standards and frameworks (e.g., the GRI and the SASB), the UN Sustainable Development Goals (SDGs), a benchmark of sustainability practices of other multinationals, and global sustainability and megatrends.

To ensure a stronger connection with our company's broader risk management processes, we also took into consideration the results of our most recent integrated risk assessment.

We sought to achieve balance and completeness by developing a list of topics covering all ESG areas likely to be relevant across our value chain. To avoid potential bias, we strived to label and describe the different topics in an objective and factual way, and, for comparability purposes, we sought to focus on impact, rather than on activity or input.

This thorough research resulted in the list of 22 ESG topics summarized on the next page.

## What changed?

### A comparison between the list of topics in 2019 and 2021

While our 2021 list of topics accounted for those assessed during our 2019 sustainability materiality analysis, it underwent significant changes. Most topics were renamed as we sought to define them in a neutral way, accounting for both their potential positive and negative impacts. We also: introduced new topics (e.g., "innovation in wellness and healthcare" or "laws and regulations") to reflect changes in our business and value proposition, and the rapid evolution of the regulatory landscape; bundled topics that were deeply

connected (e.g., consolidating under "economic contribution" aspects related to fiscal practices or illicit tobacco trade prevention); and split some topics that merited a more granular assessment (e.g., decoupling "health and safety at work" and "employee well-being"). Lastly, reflecting the maturity of sustainability at PMI, we did not consider "human rights" as a standalone topic, but rather as an ever-present topic pervasive across our company and all ESG issues. All these changes impact the comparability of results between the 2019 and 2021 assessments.



## Long list of ESG topics (alphabetical order)

| ENVIRONMENTAL   | SOCIAL  | GOVERNANCE   |
|---|---|--|
| <p>Animal welfare</p> <hr/> <p>Biodiversity</p> <hr/> <p>Climate</p> <hr/> <p>Operational discharge</p> <hr/> <p>Post-consumer waste</p> <hr/> <p>Materials and product eco-design</p> <hr/> <p>Water</p> <hr/> | <p>Diversity and inclusion</p> <hr/> <p>Economic contribution</p> <hr/> <p>Employee well-being</p> <hr/> <p>Health and safety at work</p> <hr/> <p>Human capital development</p> <hr/> <p>Innovation in wellness and healthcare<sup>1</sup></p> <hr/> <p>Labor standards</p> <hr/> <p>Philanthropy</p> <hr/> <p>Product health impact</p> <hr/> <p>Sales, marketing, and consumer communications</p> <hr/> <p>Socioeconomic well-being of tobacco-farming communities</p> <hr/> | <p>Business integrity</p> <hr/> <p>Engagement with policymakers</p> <hr/> <p>Laws and regulations</p> <hr/> <p>Privacy</p> <hr/> |

➔ **For more information**, the full list of topics and sub-topics, along with respective descriptions, is available at the end of this [report](#).

<sup>1</sup> This topic was referred to as “innovation beyond nicotine” throughout the assessment process and updated to “innovation in wellness and healthcare” per the request of the executive-level Sustainability Committee as explained in step five.



## Gathering stakeholder perspectives

Engaging our stakeholders in the process of identifying our priorities is essential. By incorporating their input as feedback into our strategy, we are best able to jointly address those issues that are important for them, where we have an impact, and can develop long-lasting solutions.

Gathering the feedback of our key stakeholders is an essential step of our sustainability materiality assessment. It helps us understand their expectations and prioritize sustainability topics effectively, informing our overall sustainability approach and our ability to deliver against shared sustainability goals.

As we continue to transform our products, company, business model, and value proposition, we must rely on the cooperation of multiple stakeholders, from supply chain partners to regulators and public health authorities. This requires that we work continuously to build trust and legitimacy, earning the license to operate in a highly scrutinized environment. Engaging with stakeholders in an open and transparent way offers the opportunity to understand their expectations and concerns, while allowing us to explain the context and the challenges related to our transformation.

For our 2021 sustainability materiality assessment, we focused on reaching out to constructive, informed, and critical voices rather than opening our stakeholder outreach in a broader yet unrestrained manner, seeking objective and representative views. With guidance from our consultant and our PMI subject matter experts, we identified individuals from all relevant stakeholder groups with whom we should engage to achieve a fair representation of our key stakeholder groups across the geographies where we operate.

Our consultant then held in-depth qualitative interviews and conducted an online survey to gather our stakeholder perspectives on the list of ESG topics we had identified.

We collected quantitative inputs through an online survey, in which close to 150 stakeholders participated (45% internal stakeholders and 55% external stakeholders).

The core of the survey was asking stakeholders to select the 10 sustainability topics they deemed most important for PMI to focus on, and to rank them by order of priority.

We also embedded the concept of “double” materiality in the questionnaire, to gather insights on our stakeholders’ perception of our company’s outward and inward impacts. Further, we asked our stakeholders open questions, to generate the sustainability topics that first came to their mind in the context of PMI, or the topics they deemed likely to gain importance in the period ahead to 2030, for instance.

### Including the views of our consumers

Adult consumers are at the heart of our business transformation, and we strive to drive consumer centricity in all we do. Adult consumers constitute a key yet heterogeneous stakeholder group, and we acknowledged early on the challenge of reaching out to them in the context of our sustainability materiality assessment through standard channels of interviews and surveys.

To ensure that the consumer perspective was adequately integrated into our materiality assessment, we built on consumer understanding acquired over time (e.g., through studies on consumer perception of sustainability issues associated with our industry). While limited, those insights were incorporated by our consultant and treated as a specific stakeholder interview.



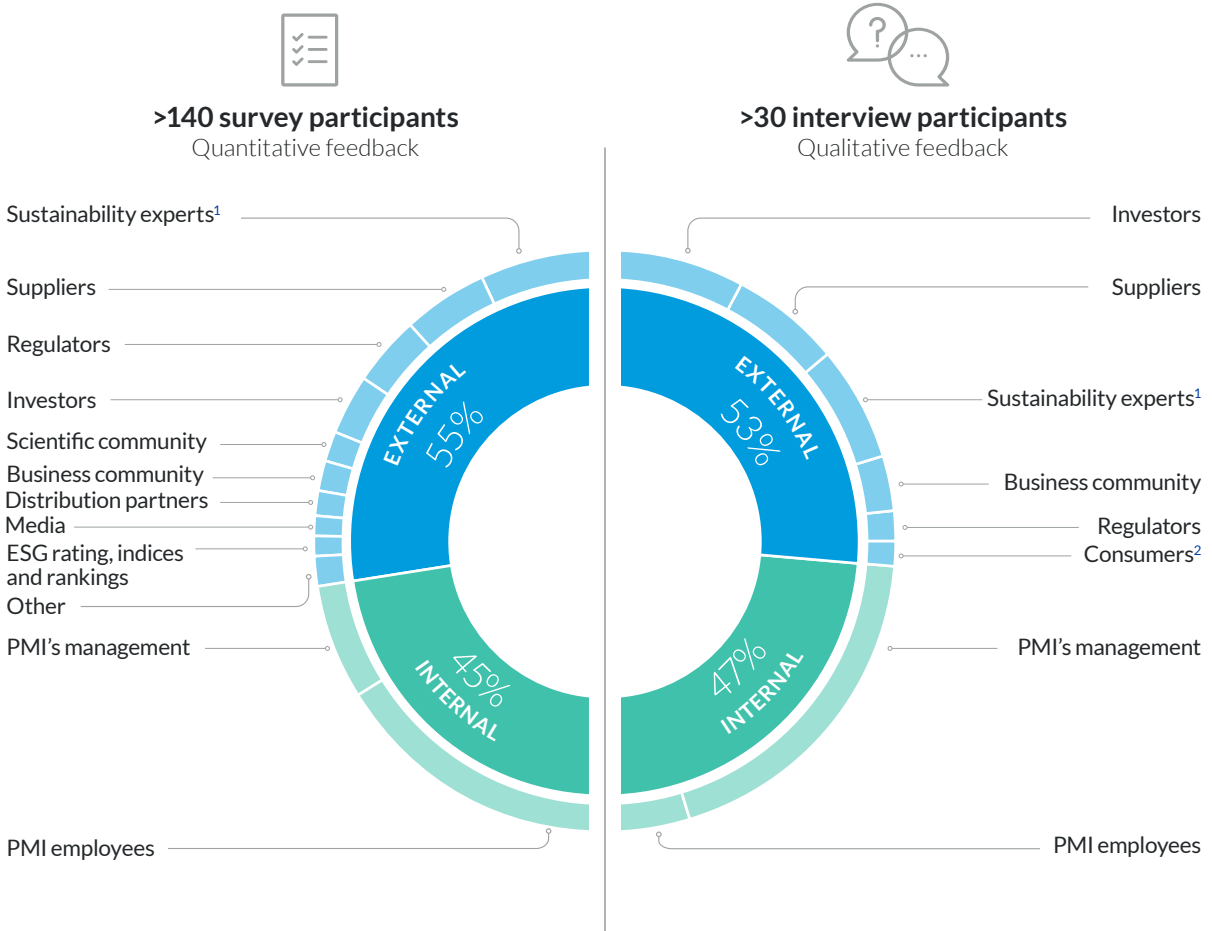
## STEP 2: Gathering stakeholder perspectives



In addition, to reach a deeper understanding (beyond what a survey could provide), our consultant interviewed 31 stakeholders: 15 internal stakeholders (PMI employees) who consisted mainly of members of our company’s Sustainability Committee, which comprises representatives of PMI’s Company Management team; and 16 external stakeholders, including representatives of the financial community, sustainability leaders, business partners, and other relevant groups.

These in-depth conversations generated detailed insights into the ESG topics that interviewees deemed most relevant, as well as those seen as likely to increase in importance in the short to medium term. We also gathered insights into stakeholders’ views on sustainability, and their expectations and priorities for PMI’s future performance and related disclosure.

### Breakdown of stakeholder inputs



<sup>1</sup> Including non-profit organizations, academia, consultants, assurers, standard setters, and social and environmental specialists.  
<sup>2</sup> As noted in the feature box on the previous page, we integrated the views of our consumers through market research insights and treated results as a single interview.



## Results overview

Overall, both the interviews and the survey confirmed that sustainability continues to increase in importance, and that ESG factors play an increasingly important role for all stakeholders, irrespective of the group they represent.

Two topics were universally mentioned during the discussions and clearly ranked the highest in the survey:



**Product health impact,**  
which is specific to our industry,  
its activities, and products



**Climate,**  
which is industry-agnostic  
and on top of the global  
societal agenda

Beyond these two topics, a set of ESG issues – including “materials and product eco-design”, “post-consumer waste”, “socioeconomic well-being of tobacco-farming communities”, “business integrity”, “innovation in wellness and healthcare”, “laws and regulations”, “sales, marketing, and consumer communications”, and “diversity and inclusion” – were all deemed very important.

While the comparison of internal and external views did not highlight major discrepancies, we observed some differences.

For instance, governance-related topics (e.g., “laws and regulations” or “business integrity”) were more dominant among external stakeholders, while internal stakeholders underlined the need to focus on our company’s newly introduced topic of “innovation in wellness and healthcare” more strongly and considered “sales, marketing, and consumer communications” a higher priority than external voices.

Generally, interviewees and survey respondents highlighted that PMI’s overall sustainability efforts were clearly perceived and well communicated. During the interviews, most external stakeholders recognized PMI’s unique value proposition, putting sustainability at the core of its strategy, and mentioned the potential for PMI to act as a role model for other companies in similar industries under public scrutiny and undergoing (or expected to undergo) transformation. The discussions also helped unveil areas for improvement, as stakeholders highlighted the need to continue pushing for greater transparency and demonstrably increased efforts in areas such as access to smoke-free products, eco-design of devices, stakeholder engagement, and labor conditions in the supply chain.

When asked about ESG topics gaining momentum, the answers provided largely confirmed the importance of continuing to work on product health impact and climate, while collectively demonstrating an increasing awareness around the topic of human capital development.

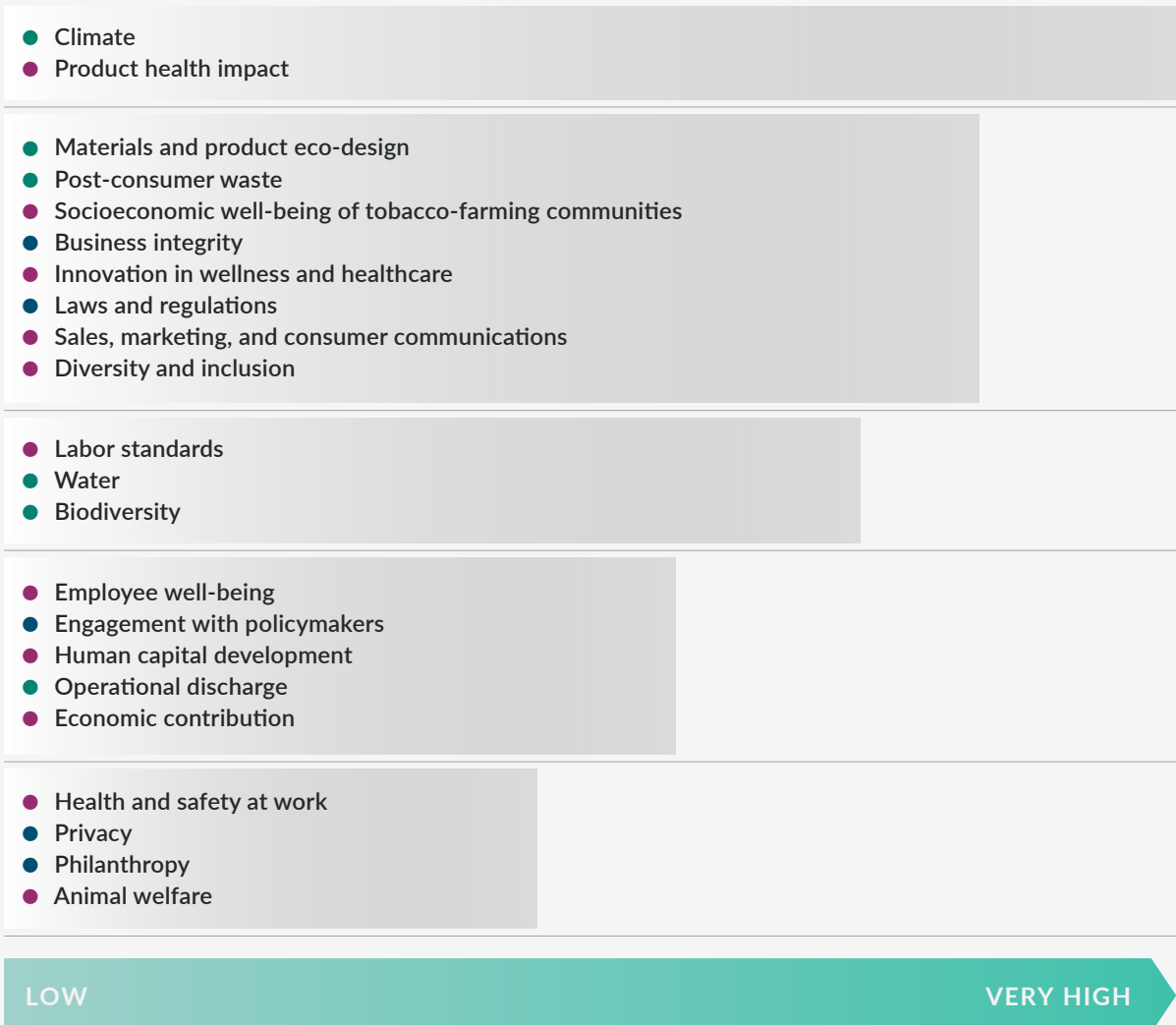


The sentiment and insights gathered were consolidated into one overall ranking of sustainability topics, to provide a comprehensive overview of stakeholder perspectives.

To ensure that the uneven stakeholder representation in the interviews and online survey did not impact outcomes, we analyzed and compared the results, attributing them different weights. However, as no major discrepancy was identified, we decided to allocate an equal weight to the results of both the interviews and the online survey, to generate the ranking of sustainability topics, which are listed corresponding to their relevance.

This is reflected in our sustainability materiality matrix where the size of the bubbles represents the importance of the topic to stakeholders.

### Categorizing stakeholder perspectives





# Assessing outward impacts

As a third step, we conducted an analysis to understand the topics on which PMI can have the greatest impact externally.

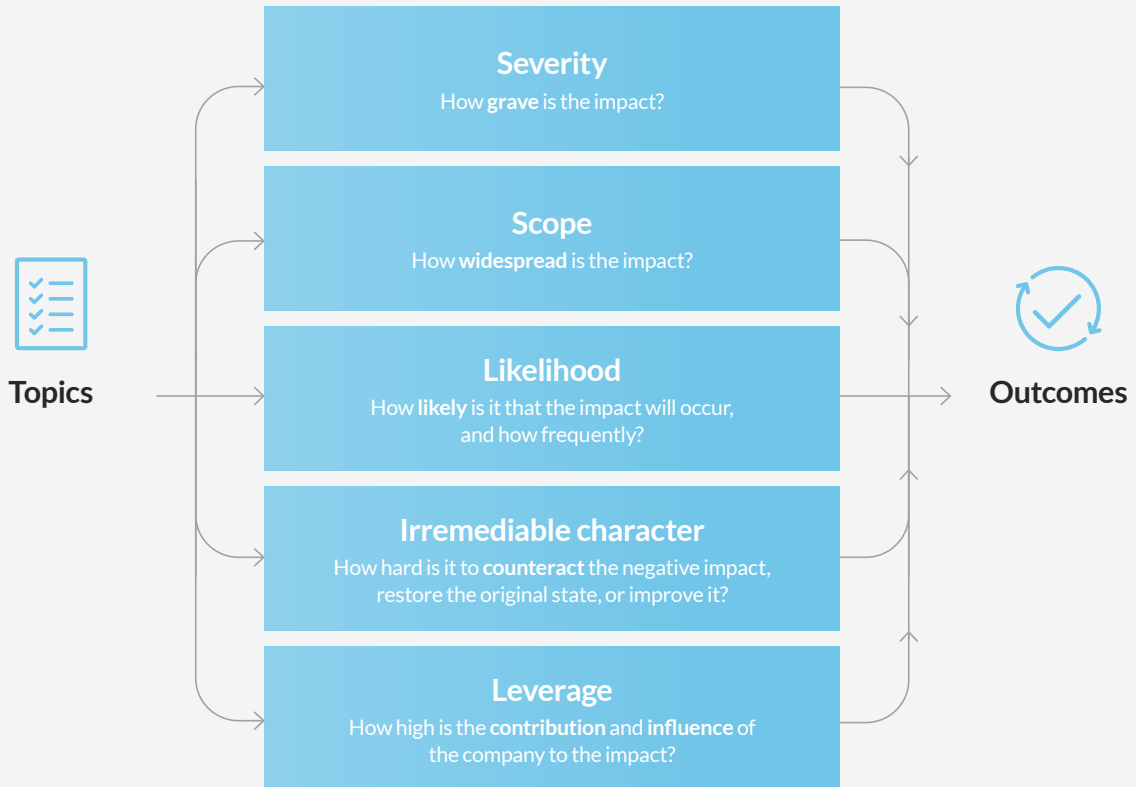
Our consultant analyzed the significance of ESG impacts on society at the different stages of our simplified value chain.

To perform their analysis, our consultant used different sources, including, for instance, the insights from PMI's pilots of the Value Balancing Alliance (VBA) impact valuation methodologies or our company's most recent human rights risks saliency mapping. Subject matter experts from PMI were also consulted during the analysis to complement and calibrate the expert desktop-based research.



## Evaluation criteria

The evaluation was performed taking into consideration the following criteria:





## Results overview

The assessment highlighted the predominantly large outward impact linked to the topic of “product health impact.”

Unquestionably, this topic is linked to severe impacts – with the harmfulness of cigarette smoking widely known – that must be addressed with a short- and long-term view (today, an estimated 1.1 billion people worldwide smoke cigarettes or other combustible tobacco products<sup>2</sup>). Further, in terms of leverage, PMI is considered to be well positioned to drive change on this topic.

### Impact in our value chain

|                    |  Upstream |  PMI operations |  Downstream |  |
|--------------------|--|--|--|--|
| <b>ENVIRONMENT</b> | Animal welfare   |  |  |  |
|                    | Climate  |  |  |  |
|                    | Biodiversity   |  |  |  |
|                    | Materials and product eco-design   |  |  |  |
|                    | Operational discharge  |  |  |  |
|                    | Post-consumer waste  |  |  |  |
|                    | Water  |  |  |  |
| <b>SOCIAL</b>      | Diversity and inclusion  |  |  |  |
|                    | Economic contribution  |  |  |  |
|                    | Employee well-being  |  |  |  |
|                    | Health and safety at work  |  |  |  |
|                    | Human capital development  |  |  |  |
|                    | Innovation in wellness and healthcare  |  |  |  |
|                    | Labor standards  |  |  |  |
|                    | Philanthropy   |  |  |  |
|                    | Product health impact  |  |  |  |
|                    | Sales, marketing, and consumer communications  |  |  |  |
|                    | Socioeconomic well-being of tobacco-farming communities                                    |  |  |  |
| <b>GOVERNANCE</b>  | Business integrity   |  |  |  |
|                    | Engagement with policymakers   |  |  |  |
|                    | Laws and regulations   |  |  |  |
|                    | Privacy  |  |  |  |

<sup>2</sup> WHO Global Report on Trends in Prevalence of Tobacco Use 2000–2025, third edition (December 2019).

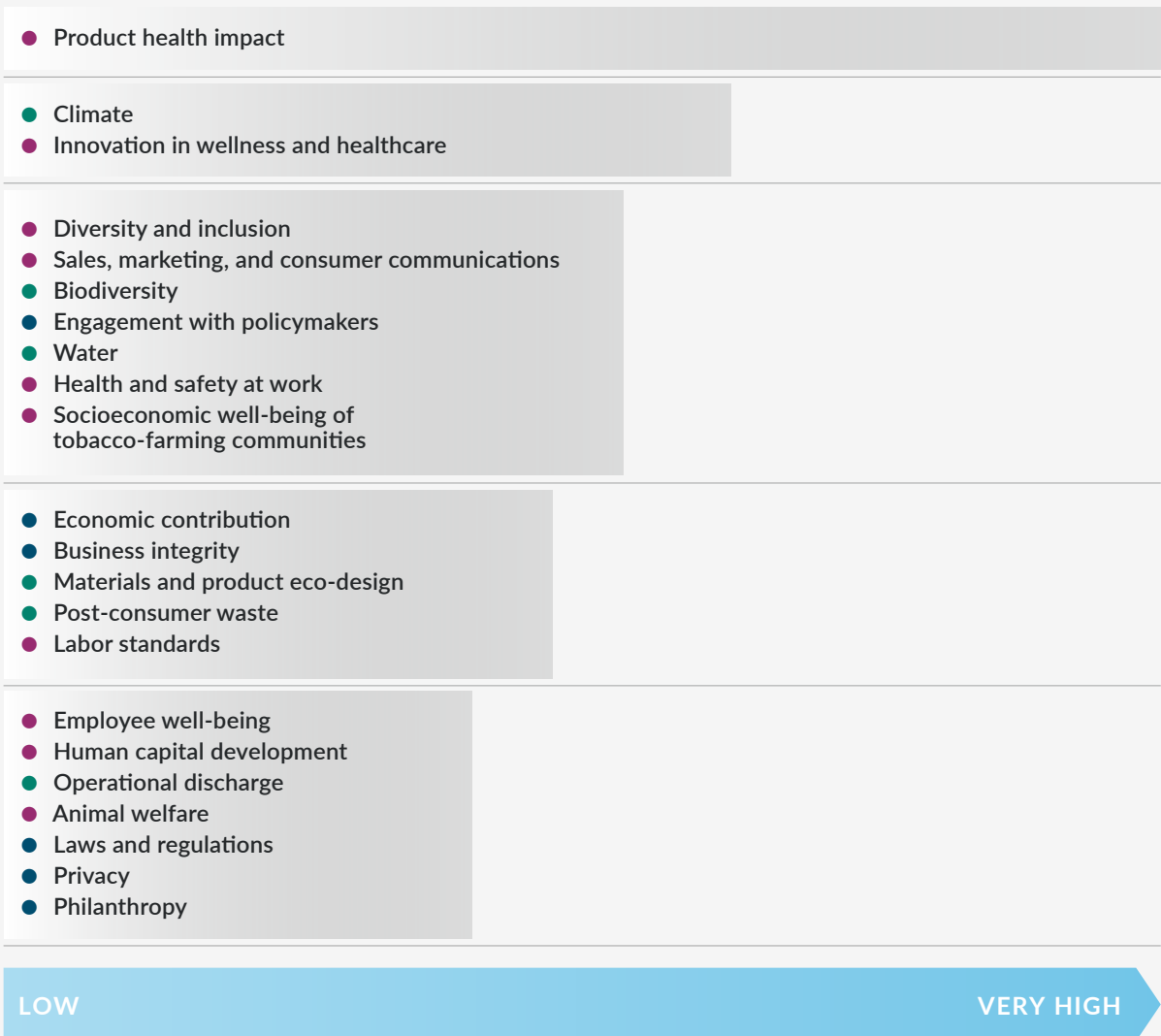


Based on their severity, scope, likelihood, irremediable character, and PMI’s leverage, the following topics were attributed a high outward impact: “climate”; “innovation in wellness and healthcare”; “diversity and inclusion”; “sales, marketing, and consumer communications”; “biodiversity”; “engagement with policymakers”; and “water”.

Overall, among the highest ranked sustainability topics, there was a balanced mix of ESG issues.

The ranking below presents the level of relevance of each topic according to our assessment and is reflected in the “X” axis of our sustainability materiality matrix.

### Categorizing outward impacts







# Assessing inward impacts

As a fourth step, in line with the principles of double materiality, we also assessed the potential impact of sustainability topics on PMI's performance and business overall, in terms of risks and opportunities which could have an impact on our ability to create value.

Our consultant conducted the assessment, leveraging on ESG ratings, frameworks, and investor communications. They also accounted for international policy and related regulatory developments on sustainability, media controversies, and sector risks analytics. Further, the results of PMI's most recent integrated risk assessment were used as a source, along with qualitative insights gathered through the interviews with internal and external stakeholders. Finally, subject matter experts from PMI were consulted during the assessment process.

Both the risks and opportunities were evaluated for each ESG topic of our long list, attributing them a score ranging from low to very high.





## Results overview

As a result of the assessment, the topic of “product health impact” was deemed the one carrying both the biggest risks and the greatest opportunities linked to reputation, regulation, and revenue growth.

In addition, the topics of “climate,” “sales, marketing, and consumer communications,” “business integrity,” and “innovation in wellness and healthcare” were attributed a high inward impact, with risks and opportunities tending to balance each other. Meanwhile, more traditional ESG topics, like “labor standards,” “post-consumer waste”, and “biodiversity” were perceived as areas with higher risks than opportunities, based on the sources used for this assessment.

The results of the inward impact assessment informed the “Y” axis of our sustainability materiality matrix.

## Categorizing inwards impacts



LOW

VERY HIGH



# Identifying our most material ESG topics

Our sustainability materiality matrix was generated using all inputs gathered through the materiality assessment.

We applied the results of the inward impact assessment – displaying those topics that carry the most significant risks and opportunities for PMI’s value creation – to inform the “Y” axis of the matrix. We used the insights of the outward impact assessment – highlighting where PMI can have the most significant impact on the planet and society – to build the “X” axis of the matrix. Finally, we reflected the perspectives of our stakeholders by assigning different sizes to each topic bubble, depending on the importance attributed by the respondents to our survey and our interviewees.

The topic “product health impact” ranked significantly higher than all other ESG topics on both the outward and inward impact assessments. We therefore slightly adjusted its placement to bring it closer to other topics on the matrix chart for readability purposes. We identified the six topics located on the top-right part of the matrix (as those cumulatively having received the highest score in both the inward and the outward impact assessments) as the most material, as well as three additional topics that were of very high importance according to our stakeholders but of medium importance according to the inward and outward impact assessments.

Finally, we identified three topics that were not included in the list of most material topics, but that we expect to gain momentum in the future: “human capital development”, “biodiversity”, and “water”. Their selection relied on the identification of major trends in the sustainability arena, coupled with insights gathered throughout the various steps of the materiality process. Results of the materiality assessment were presented to our executive-level Sustainability Committee. The Committee requested that the topic originally named “Innovation beyond nicotine” be renamed “Innovation in wellness and healthcare” to best describe the direction of our company. This more specific nomenclature reflects the evolution and sophistication of our strategy, including the products and categories in adjacent avenues of growth that our company plans to explore. The Committee also formally approved the outcomes of the assessment, which were subsequently presented to PMI’s Board of Directors at the end of 2021.

## Understanding the assessment results

We want our corporate strategy to remain at the forefront of evolving trends. For this reason, we consider both our most material topics and those emerging topics to be our top priority.

Those topics pertaining to the social impacts generated by our products – including “product health impacts,” “sales, marketing, and consumer communications” and “innovation in wellness and healthcare” – are a clear priority for our company and represent those areas with the greatest transformative potential for us. Further, the results of our sustainability materiality assessment also highlight the importance of our products’ environmental impact, with “materials and product eco-design” and “post-consumer waste” included in our most material topics.

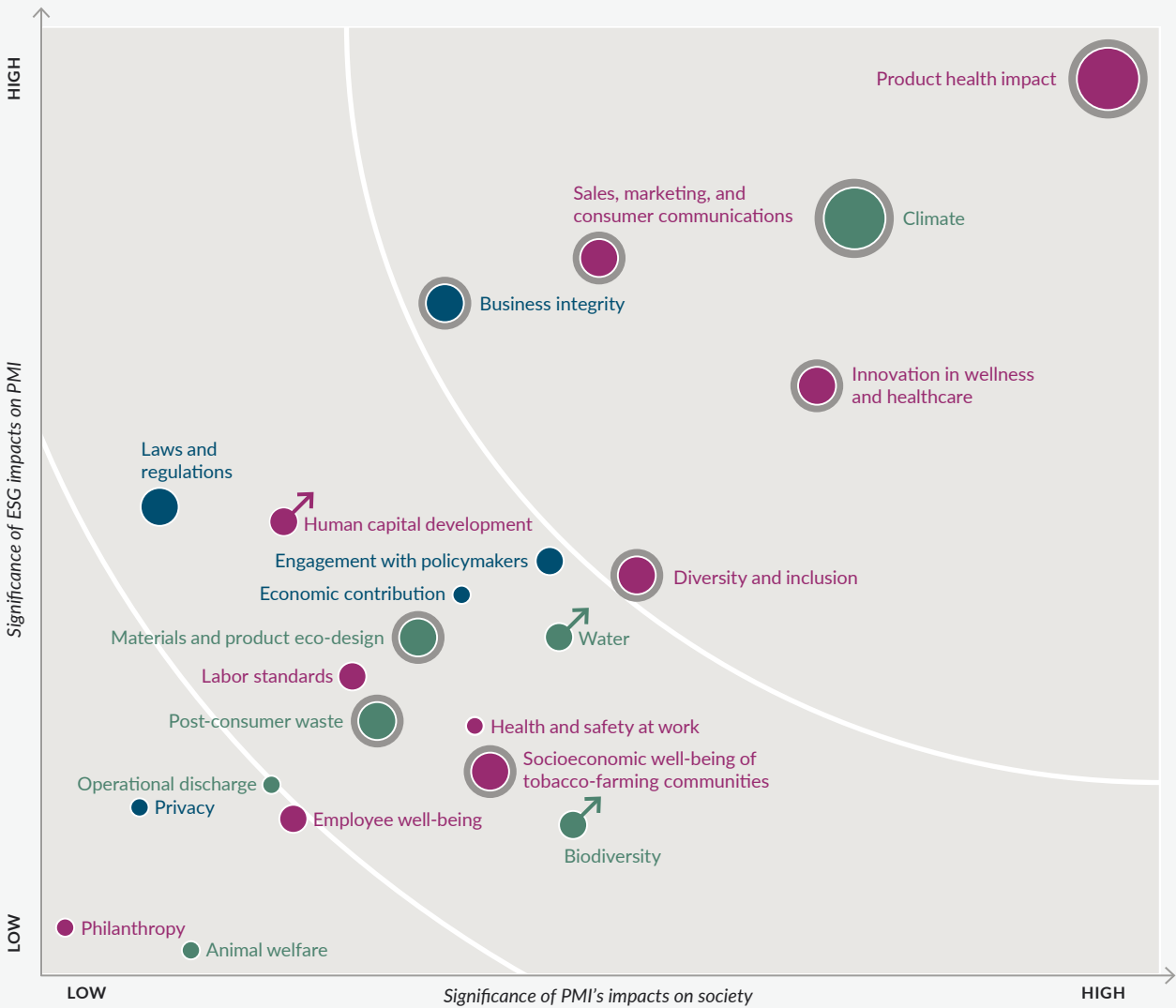
Meanwhile, we acknowledge the prerequisite for our company to drive excellence in the way it operates. In particular, the materiality assessment results showcase the importance for us to focus on our climate, biodiversity, and water actions from an environmental standpoint, and advance the agenda on human capital development and socioeconomic well-being of tobacco-farming communities from a social standpoint.

Furthermore, our sustainability materiality assessment demonstrates the need for our company to drive business integrity in everything we do. When analyzing ESG topics, the importance of governance-related topics cannot be overlooked, as those factors indicate our company’s existing rules and procedures that showcase our preparedness and ability to address environmental and social issues that are or may become material in the future.

Our materiality assessment also further demonstrates that sustainability topics do not exist in a vacuum. They are often linked to one another, and their interdependencies – including the direction of causality and magnitude – must be considered as we craft appropriate solutions. A robust sustainability materiality assessment helps guide our work, identify synergies, and anticipate potential trade-offs.



## Sustainability materiality matrix



| Key                      | Relevance to our stakeholders |
|--------------------------|-------------------------------|
| <b>E</b> ENVIRONMENTAL   | Very high                     |
| <b>S</b> SOCIAL          | High                          |
| <b>G</b> GOVERNANCE      | Medium                        |
| Our most material topics | Low                           |
| Emerging topics          |                               |

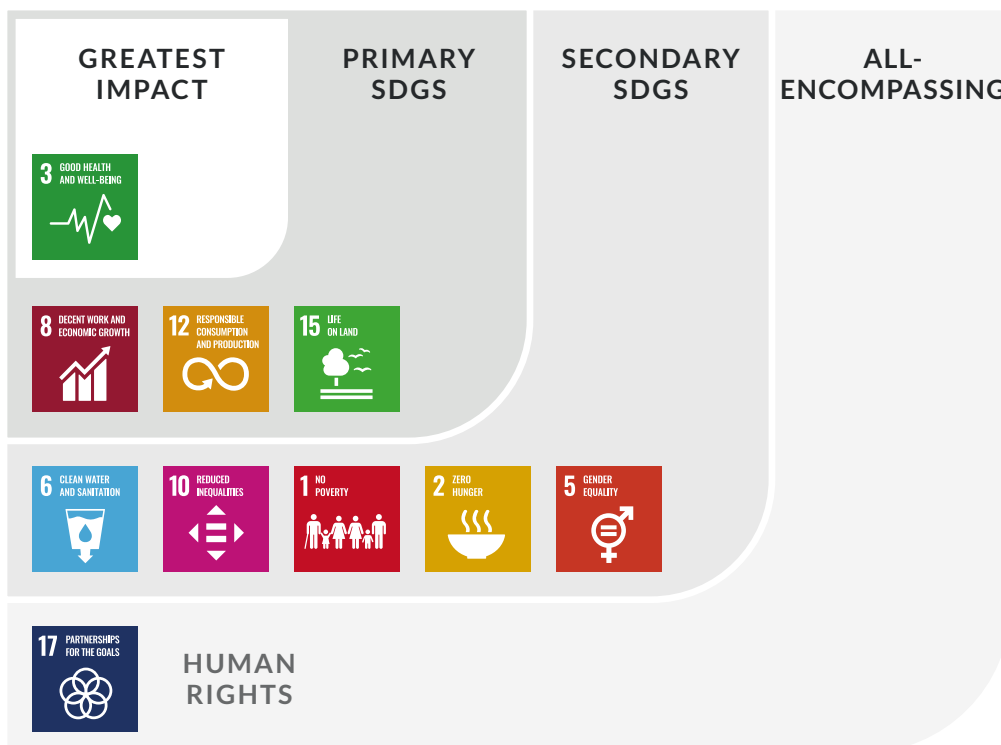
# Mapping our most material topics to the UN SDGs

The 2030 Agenda for Sustainable Development is a universal call for action to address global challenges.

We accounted for the SDGs at the very first step of our sustainability materiality assessment, considering them when building our long list of topics and sub-topics. At the end of the assessment, we reconnected our most material topics with the potential contribution we could have as a company in helping society reach the SDG targets. We did that through an extensive mapping of all the 169 SDG targets, and attributed the highest potential contribution of PMI to those targets connected with our most material topics where a significant potential outward impact was identified.

Considering interdependencies between different ESG topics and their connection to multiple SDG targets, we distinguished between “primary SDGs” directly linked to a significant outward impact connected with an ESG topic, and “secondary SDGs” with a more limited impact.

The SDG with the greatest impact directly relating to our most material topic – “product health impact” – is SDG 3: Good health and well-being. Primary SDGs directly related to our other material topics include SDG 8: Decent work and economic growth, SDG 12: Responsible consumption and production, SDG 13: Climate action, and SDG 15: Life on land. Five other SDGs directly related to one material topic each. We also found that SDG 17: Partnerships for the Goals enables progress against the broader agenda.



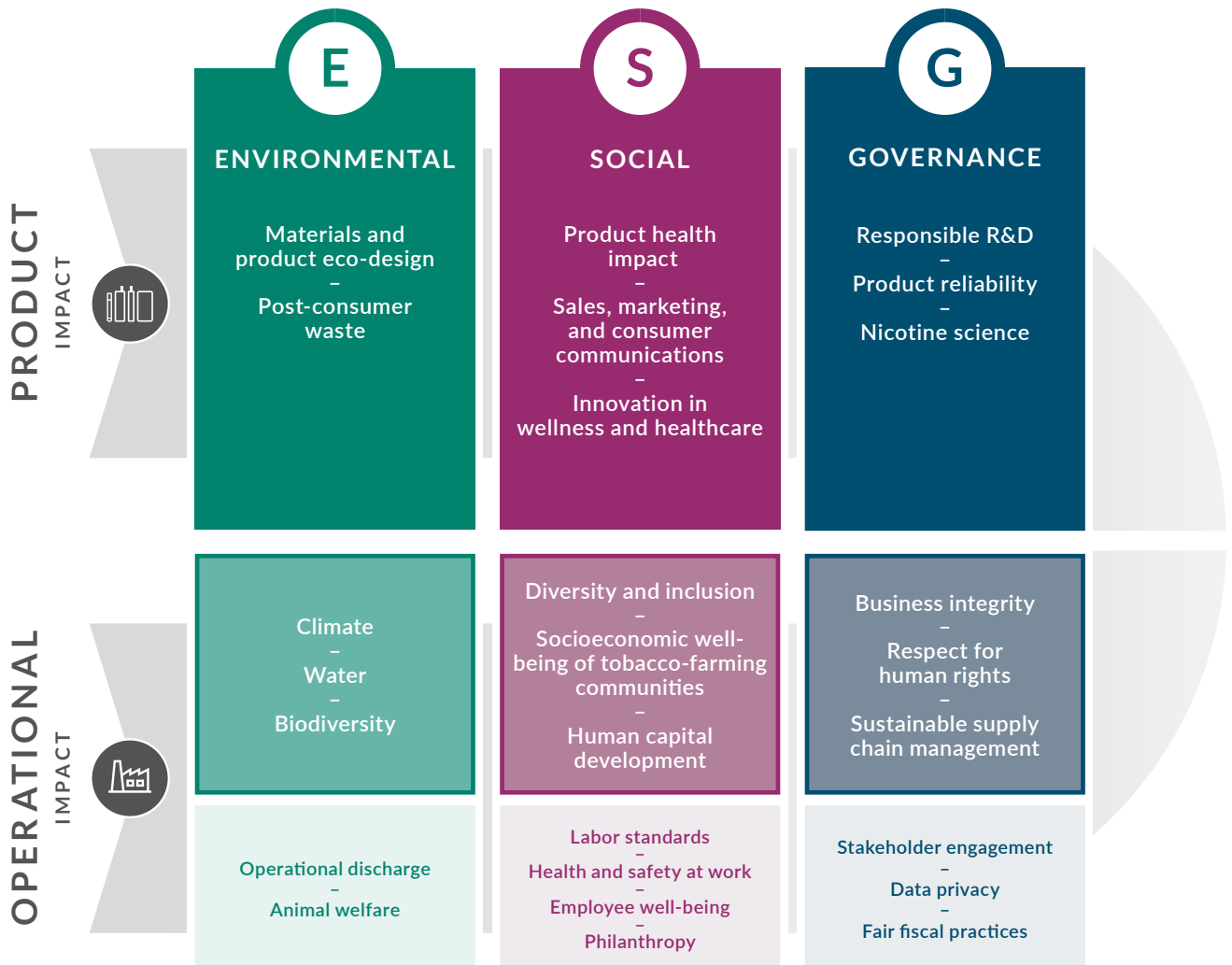
# Revamping our strategic framework

The results of the 2021 materiality assessment provided the basis for the definition of PMI’s revamped strategic framework for sustainability.

Our sustainability materiality matrix clearly shows two distinct forms of social and environmental impacts: those that derive from our products (or from what we produce) and those that derive from our business activities (or from how we operate). Accordingly, our new strategic framework separates these two kinds of impacts and highlights their corresponding ESG factors. While they are clearly connected and interdependent, framing these different impacts and their origin in this way crystallizes both our inputs and desired outcomes, and brings clarity to our organization in terms of how best to allocate resources and incorporate sustainability into our ways of working. It also brings clarity to our

external stakeholders, who can better understand our approach to sustainability from an impact perspective.

In line with this new framing, we expanded governance factors when including them in our revamped framework. We tied the topics of “responsible R&D,” “product reliability,” and “nicotine science” (which were considered under the broader topic of “product health impact” in our long list of topics) to the impacts created by our products from a governance perspective, as we see them as fundamental prerequisites to making progress on both social and environmental aspects. We also included the topic of “sustainable supply chain management” in our governance factors linked to the impacts created by our business activities because we consider it a catalyst for progress on various environmental and social factors. Moreover, given its universal importance across all we do, we elevated the umbrella topic of “respect for human rights” as a key topic with impacts along our value chain.





## Next steps

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We plan to conduct a comprehensive sustainability materiality assessment every three to four years.



This allows an adequate timeframe for topics to evolve and provides us with a sufficient period over which to implement actions based on the results identified. Between these comprehensive assessments, we plan to conduct reviews in the form of a 'light update,' as needed. To complement our global sustainability materiality assessment, we will continue conducting local assessments across various markets and will embed findings in our global assessment updates. We will also continue to strengthen the integration of ESG-related risks into our annual integrated enterprise risk assessment, to further embed sustainability into corporate strategy.

**Jennifer Motles**  
PMI Chief Sustainability Officer

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Note: The below list of potentially relevant topics, sub-topics, and their description is broadly derived from external sources (e.g., sustainability standards and frameworks). The descriptions aim to define the topics, and do not reflect PMI's activities or aspirations.

# Appendix I: List of ESG topics

| Environment                             | Subtopics  | Descriptions   |
|---|--|--|
| <b>Climate</b>                          | <ul style="list-style-type: none"> <li>Greenhouse gas emissions</li> <li>Climate change</li> <li>Energy use</li> <li>Energy efficiency</li> <li>Renewable energy</li> </ul>  | The emission of greenhouse gases (GHG) such as carbon dioxide or methane caused by human-related activities leads to an increase in the natural "greenhouse effect" of the atmosphere. This causes temperatures on earth to rise, resulting in global warming causing in turn climate disasters and environmental impacts such as floods, droughts, storms, etc. with significant damage and costs to societies and economies. Energy accounts for over two-thirds of global GHG emissions. A green energy strategy and the sourcing of own renewable energy greatly contributes to a reduction in GHG emissions.  |
| <b>Water</b>                            | <ul style="list-style-type: none"> <li>Water withdrawal and usage</li> <li>Water scarcity</li> <li>Groundwater level</li> </ul>  | Availability and good water quality are essential to human health, social and economic development, and the ecosystem. Water is withdrawn through industrial use, but also in agriculture, which can have a particularly strong impact in areas with high water stress. Water should be carefully managed during every part of the water cycle: from freshwater abstraction, use and post-treatment, to the use of treated wastewater and its ultimate return to the environment.  |
| <b>Operational discharge</b>            | <ul style="list-style-type: none"> <li>Waste reduction</li> <li>Hazardous waste</li> <li>Waste treatment and disposal</li> <li>Wastewater treatments</li> <li>Water discharge</li> <li>Water pollution</li> <li>Air pollution</li> <li>Non-GHG emissions</li> </ul>  | Operational discharge includes all materials generated as by-products of production and other operational activities, which require treatment, repurposing, or disposal, and can cause environmental pollution. It includes both hazardous and non-hazardous manufacturing materials, as well as non-production waste (e.g., generated in office settings). Pollutants in the wastewater can accumulate in soils and enter groundwater or be taken up by plants and become as a result a hazard to the environment and human health. Air emissions other than greenhouse gas (such as NOX, SOX, particulate matter, VOCs, or ozone-depleting substances) arise, among others, from the combustion of fossil fuels (transport, production processes) as part of the production processes. |
| <b>Post-consumer waste</b>              | <ul style="list-style-type: none"> <li>Waste reduction</li> <li>Waste treatment and disposal</li> <li>Littering</li> <li>Recycling</li> </ul>  | Post-consumer waste is generated by products and their packaging at the end of their lifecycle. Its treatment and disposal can be a cause of environmental pollution, for instance if products are littered on the ground or in marine environments. Appropriate consumer and end-of-life waste management (e.g., recovery, recycling, refurbishment, etc.) can contribute to reducing environmental impacts and resource use.   |
| <b>Biodiversity</b>                     | <ul style="list-style-type: none"> <li>Forest conservation</li> <li>Land use</li> <li>Endangered species</li> <li>Monocultures</li> <li>Pesticides</li> <li>Ecosystems</li> </ul>  | Biodiversity includes the diversity of ecosystems, species within ecosystems, and genetic diversity. Biodiversity provides the existential basis for humans: the diversity of plants, fungi and microorganisms is necessary for the preservation of fertile soils, clean water, pleasant climate, and fresh air. Land use involves the management and modification of the natural environment, for instance through the use of soils, trees, plants, etc. Activities of organizations and their supply chain, especially in the agricultural sector, can lead to land use changes associated with deforestation, biodiversity loss, and land degradation.  |
| <b>Materials and product eco-design</b> | <ul style="list-style-type: none"> <li>Selection of materials and resources</li> <li>Renewable materials</li> <li>Non-renewable materials</li> <li>Material and resource efficiency</li> <li>Conflict minerals</li> <li>Plastic</li> <li>Recyclability</li> <li>Circularity</li> <li>Traceability</li> </ul> | The materials used in the manufacture of products and their packaging have an impact on the environment. Renewable materials are derived from plentiful resources that are quickly replenished by ecological cycles and agricultural processes and come from forestry and agriculture as well as animal husbandry and fisheries. Non-renewable natural resources are non-regenerative and are only available in a constant total stock on earth. These include fossil resources, sand, metals, and minerals. Eco-considerations in product design (e.g., materials minimization, choice of materials, design for easy disassembly and recycling, use of recycled content, etc.) can minimize the negative environmental impact.  |
| <b>Animal welfare</b>                   | <ul style="list-style-type: none"> <li>Animal testing</li> <li>Use of animal resources</li> </ul>  | Animal testing in scientific research should be restricted to situations where no alternatives are available, and animals should be treated humanely and responsibly. Animal resources may be used by organizations in the manufacturing of products, for instance in materials such as glue or leather, in which case living and slaughter conditions of animals should be upheld.  |


## Appendix I: List of ESG topics continued

| Social   | Subtopics  | Descriptions   |
|--|--|--|
| <b>Health and safety at work</b>                               | <ul style="list-style-type: none"> <li>• Workplace accidents and injuries</li> <li>• Noise exposure</li> <li>• Physical integrity</li> <li>• Security</li> </ul>   | Safety in the workplace covers protection from factors that cause harm and refers to the right to be safe at work. It entails ensuring that as few accidents as possible occur in the workplace and that the health of employees is not impaired. Some hazards cannot be completely eliminated, in which case every precaution should be taken to reduce the chances of injury. This also refers to the fundamental right of physical integrity.   |
| <b>Diversity and inclusion</b>                                 | <ul style="list-style-type: none"> <li>• Anti-discrimination and harassment</li> <li>• Equal opportunities</li> <li>• Equality and equity</li> <li>• Minorities</li> <li>• Fairness</li> <li>• Freedom of thought and expression</li> </ul>  | For all people to be able to develop and participate in society in the best possible way, an appreciative and prejudice-free environment is essential - regardless of gender, nationality, religion, ethnic origin, age, ideology, disability, sexual orientation, and identity. Inclusion, equality, a culture of open dialogue, and equal opportunities promote diversity among employees.   |
| <b>Product health impact</b>                                   | <ul style="list-style-type: none"> <li>• Smoking-related diseases</li> <li>• Scientifically substantiated alternatives to smoking</li> <li>• Risk reduction of smoke-free products</li> <li>• Nicotine</li> <li>• Tobacco and nicotine product innovation</li> <li>• Product reliability and quality</li> </ul>  | Cigarette smoking is the most dangerous form of tobacco use; it is the leading cause of some preventable diseases (i.e., cardiovascular disease, lung cancer, and chronic obstructive pulmonary disease). The best way to avoid the harm of smoking is never to start, or for those who do smoke, to quit. In complement to efforts aimed at encouraging cessation and discouraging initiation, product innovation can enable adult smokers who wouldn't otherwise quit smoking to switch to less harmful alternatives. To benefit adult smokers and have a positive impact on public health, the risk reduction profile of these alternatives (also referred to as "reduced-risk products" or "smoke-free products") should be scientifically substantiated, adult smokers who wouldn't otherwise quit smoking should have access to them, and these alternatives should ultimately replace cigarettes. |
| <b>Employee well-being</b>                                     | <ul style="list-style-type: none"> <li>• Employee engagement</li> <li>• Mental health and well-being</li> <li>• Company culture</li> <li>• Job satisfaction</li> </ul>   | Employee well-being includes protecting and improving the physical and mental health levels of employees. Beyond physical and mental health issues, employee well-being extends into happiness as well as job satisfaction.  |
| <b>Human capital development</b>                               | <ul style="list-style-type: none"> <li>• Employee development</li> <li>• Employability and future of work</li> <li>• Talent attraction and retention</li> <li>• Continuous education</li> </ul>  | The quality of employees that companies are able to attract and retain is an important source of competitive advantage. Investments in employee development and training lead to increased productivity, quality, and employee retention and satisfaction. Furthermore, in the backdrop of digitization, a technological leap is expected that will place new demands on the skills and abilities of employees, and companies are expected to promote and develop the skills of their employees.   |
| <b>Labor standards</b>   | <ul style="list-style-type: none"> <li>• Working hours</li> <li>• Wages and benefits</li> <li>• Living income</li> <li>• Social security</li> <li>• Freedom of association and collective bargaining</li> <li>• Legal and physical protection</li> <li>• Working conditions in the supply chain</li> <li>• Forced labor and modern forms of slavery</li> </ul>                                     | Labor conditions refer to the working environment and aspects of employee's terms and conditions of employment. Working time (i.e., hours of work, rest periods, and work schedule), remuneration (i.e., wages and benefits), job security, social security, and dismissals are important factors in providing responsible and fair working conditions.  |
| <b>Socioeconomic well-being of tobacco-farming communities</b> | <ul style="list-style-type: none"> <li>• Child labor</li> <li>• Land rights of smallholder farmers</li> <li>• Forced labor, human trafficking, and modern forms of slavery</li> <li>• Housing/accommodation</li> <li>• Access to water, hygiene and sanitation and health (WASH) services</li> <li>• Food security</li> <li>• Migrant workers</li> <li>• Local communities' development</li> </ul> | Tobacco is cultivated in many regions of the world, including low- and medium-income countries, where it is typically grown on smallholder farms of less than two hectares. The socioeconomic well-being of tobacco-farming communities depends on many factors, including the working conditions, nation's socioeconomic development, health and educational services, political stability, resilience to climate shocks, access to markets, and public infrastructure, as well as regulatory frameworks and their enforcement. Poverty prevents farming communities from achieving acceptable levels of socioeconomic well-being and hinders their economic development. It leads to labor abuses and exacerbates the risk of child labor on tobacco farms.  |

## Appendix I: List of ESG topics continued

| Social   | Subtopics   | Descriptions  |
|--|---|---|
| <b>Philanthropy</b>                                  | <ul style="list-style-type: none"> <li>• Donations</li> <li>• Charitable giving</li> <li>• Volunteering</li> <li>• Corporate citizenship</li> </ul>   | Philanthropy refers to additional contributions (usually outside of the general business context) to society. These can include charitable donations, social engagement, or corporate volunteering for example. Examples range from individual employee engagement to broadly organized social company engagement.  |
| <b>Economic contribution</b>                         | <ul style="list-style-type: none"> <li>• Contribution to GDP</li> <li>• Tax contribution</li> <li>• Employment (direct and indirect)</li> <li>• Social prosperity</li> <li>• Local economic growth</li> <li>• Illicit tobacco trade prevention</li> </ul>   | The economic contribution of companies to governments, communities, business partners and employees is important for building and maintaining a sustainable infrastructure, economic system, and society. This includes the local value added by the group and local business locations, benefits to employees, business partners and suppliers, tax compliance, proper payment of import and export duties, and prevention of smuggling. A company's economic effects in a certain area can have a large local impact due to infrastructure improvements.                |
| <b>Sales, marketing, and consumer communications</b> | <ul style="list-style-type: none"> <li>• Youth access prevention</li> <li>• Consumer information/labeling</li> <li>• Brand equity</li> <li>• Consumer behavior</li> <li>• Product-related regulation</li> </ul>   | Principles of ethical customer communication are observed, for example, through fact-based and non-misleading information about the product or service (including information about risks), efforts to minimize the reach of marketing activities to sensitive target groups (e.g., children and young people), responsible use of personal information for marketing activities, consideration of controversial topics in marketing activities (e.g., ideals of beauty, images of women), and raising consumers' awareness of conscious consumption.                     |
| <b>Innovation in wellness and healthcare</b>         | <ul style="list-style-type: none"> <li>• Growth beyond nicotine products</li> <li>• Adjacent areas (e.g., self-care wellness, inhaled therapeutics)</li> <li>• Repurposed capabilities</li> </ul>   | This pertains to business model innovation beyond nicotine products, reflecting a change in how the company can deliver value to its customers. Leveraging capabilities in life sciences, product innovation, and clinical expertise allows the organization to expand its value proposition to scientifically substantiated products and solutions that go beyond nicotine and can contribute positively to people's lives. It includes the development of net-positive strategies related to opportunities in adjacent areas, e.g., wellness and healthcare operations. |
| Governance   | Subtopics   | Descriptions  |
| <b>Privacy</b>                                       | <ul style="list-style-type: none"> <li>• Data security</li> <li>• Data management</li> <li>• Cybersecurity</li> </ul>   | This includes safeguarding the data protection and privacy rights of employees, customers, and other third parties, e.g., obtaining data in a lawful and fair manner, protecting employees, customers and third parties' personal data through appropriate information security measures, responsible handling of data in consideration of new technologies and security risks/ liability, cybersecurity.   |
| <b>Engagement with policymakers</b>                  | <ul style="list-style-type: none"> <li>• Transparent advocacy</li> <li>• Responsible engagement</li> <li>• Donations</li> <li>• Representation of interests</li> <li>• Memberships</li> <li>• Anti-bribery</li> </ul>   | While an organization may engage with the legislative and regulatory process to promote the development of policies, create new business opportunities, and improve the regulatory landscape that benefit society as a whole, this may also be associated with risks related to corruption, bribery, undue influence, and others. Responsible advocacy is about conducting engagement in a way that respects the law, observes professional standards and ethical principles, and is consistent with a company's vision and internal policies.                            |
| <b>Business integrity</b>                            | <ul style="list-style-type: none"> <li>• Governance and management structures</li> <li>• Board effectiveness</li> <li>• Policies and guidelines</li> <li>• Risk management</li> <li>• Stakeholder engagement</li> <li>• Business relations and partnerships</li> <li>• Conflicts of interest</li> <li>• Code of business conduct</li> <li>• Grievance mechanisms</li> </ul> | A well and responsibly managed corporate organization is of central importance to almost all internal and external stakeholders and is ultimately geared to their interests. It ensures rule-based decisions, clear checks and balances, and goals that are aligned with the social, regulatory, and market environment. Further, organization's behavior is expected to abide to certain values and principles, ensuring they act consistently with respect and integrity.   |
| <b>Laws and regulations</b>                          | <ul style="list-style-type: none"> <li>• Compliance with laws and regulations</li> <li>• Anti-corruption</li> <li>• Competitive behavior</li> </ul>   | Compliance with legal and regulatory requirements is expected. This includes all laws and regulations at local, national, and international level (public and private law). Corruption includes operations such as bribery, accelerated payments, fraud, extortion, collusion, and money laundering. Anti-competitive behavior includes actions by an organization or its employees that may result in fraudulent collusion with potential competitors, with the intent to limit market competition.  |

# Appendix II: SDG Mapping

| Environment   | Primary SDGs  | Secondary SDGs  | All-encompassing  |
|---|---|---|---|
| Materials and product eco-design                        |       |    |    |
| Post-consumer waste                                     |    |     |    |
| Climate   |       |     |    |
| Water   |    |      |    |
| Biodiversity  |   |     |   |
| Social  | Primary SDGs  | Secondary SDGs  | All-encompassing  |
| Product health impact                                   |    |   |  |
| Sales, marketing, and consumer communications           |    |    |  |
| Innovation in wellness and healthcare                   |   |    |  |
| Diversity and inclusion                                 |   |     |  |
| Socioeconomic well-being of tobacco-farming communities |   |     |  |
| Human capital development                               |   |   |  |
| Governance  | Primary SDGs  | Secondary SDGs  | All-encompassing  |
| Business integrity                                      |   |    |  |



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