



IMPERIAL
BRANDS

MODERN SLAVERY STATEMENT

2018

This statement has been published in accordance with the UK Modern Slavery Act 2015. It sets out the steps taken by Imperial Brands PLC and its subsidiaries, during the year ending 30 September 2018, to understand all potential modern slavery risks related to its business and to prevent modern slavery and human trafficking in its business and supply chains.

In 2018, no incidents of modern slavery or forced labour were identified through our own due diligence processes and no incidents, grievances or concerns relating to modern slavery or forced labour were reported or identified through our whistleblowing procedures or grievance mechanisms.

We recognise that whilst no incidents were identified this does not mean issues do not potentially exist, especially further away from our direct sphere of influence. We therefore remain committed to further enhancing our approach and understanding, as detailed within this Statement.

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For more on our Sustainability Strategy and detailed approach to Human Rights please visit:
www.imperialbrandsplc.com/sustainability

INTRODUCTION

Modern slavery is the biggest human rights abuse of our time. According to the International Labour Organization (ILO), more than 40 million people around the world are trapped in slavery.

At Imperial Brands PLC, we have a zero-tolerance approach to modern slavery. We recognise that modern slavery can include: forced and child labour; bonded labour (work provided to repay a debt); slavery and servitude (a person exercising power of ownership over another); and human trafficking.

We published our first Modern Slavery Statement in 2016 and since then have worked to improve our processes for managing modern slavery as well as improve our reporting of human rights issues in general.

Like all businesses, we run the risk of being exposed to modern slavery either within our direct operations or indirectly through our supply chain. We are fully committed to preventing slavery and human trafficking, recognising that the greatest risk of slavery lies within our supply chains; where we undertake procurement activities and where operational and managerial oversight are out of our direct control.

As an international business we recognise the importance, influence and duty we have in promoting respect for human rights and detail our approach to this on our **corporate website**. Our commitment to human rights, including forced labour, extends through several Group policies, including our **Code of Conduct, Supplier Code** and **Human Rights Policy**. These documents set out the foundations to our approach to human rights, which all our employees, suppliers and business partners are required to adhere to.

OUR BUSINESS STRUCTURE AND SUPPLY CHAINS

We are a dynamic fast-moving consumer goods company borne out of a strong tobacco heritage, headquartered in Bristol, UK. Our purpose is to create something better for the world's smokers with a portfolio of high quality next generation and tobacco products.

In 2018, we employed around 33,300 people worldwide. We have a diverse portfolio of products including traditional

cigarettes, oral smokeless tobacco, next generation products (NGP) like e-vapour products and heated tobacco products and in 2018 our products generated a net revenue of £7.7 billion.

Our PLC name reflects the breadth of our brands focus across five distinct entities: Imperial Tobacco, Tabacalera, ITG Brands, Fontem Ventures and Logista.



Our Imperial Tobacco subsidiaries manufacture and market a range of cigarettes, fine cut and smokeless tobacco products, mass market cigars, and tobacco accessories such as papers and tubes.



Tabacalera is our international premium cigar business headquartered in Madrid, Spain. It is responsible for the marketing of our Cuban hand-made cigars, overseeing our cigar businesses in the US as well as the sales of our cigar products in other markets such as Spain and France.



Our business in the USA, ITG Brands, combines our former Commonwealth-Altadis operations with assets acquired from Reynolds American in 2015. The business is headquartered in Greensboro, North Carolina and offers a broad portfolio of well-known cigarette and mass market cigar brands.



Fontem Ventures is a leader in Next Generation Product technology. Headquartered in Amsterdam, and with a research and development centre in Liverpool, Fontem Ventures' purpose is to develop exceptional next generation products for consumers around the world.



Logista is one of the largest distribution businesses in Europe, serving 300,000 outlets across Spain, France, Italy, Portugal and Poland. Imperial Brands holds a majority share of the business through its subsidiary Altadis S.A.U.

IN 2018



WE EMPLOYED

33,300

PEOPLE WORLDWIDE



WE SELL OUR PRODUCTS IN

160

MARKETS



OUR PRODUCTS GENERATED NET REVENUE OF

£7.7bn

OUR SUPPLY CHAINS

OUR VALUE CHAIN



We establish a relationship of trust and integrity with all our suppliers and we are committed to working with our suppliers and business partners to improve supply chain standards. We have two distinct supply chains consisting of tobacco leaf supply and non-tobacco material (NTM) supply, which includes our NGP supply.

TOBACCO LEAF SUPPLY

We take a responsible approach to sourcing tobacco which is integral to our tobacco-containing products. We work with suppliers and farmers to address economic, social and environmental issues. All our tobacco suppliers are required to participate in our **Sustainable Tobacco Programme (STP)** which is one of our key platforms to ensure our minimum standards are met in the growing and processing of tobacco.

The tobacco supply chain varies from country to country with supply generated by smallholder and commercial farms. Despite these differences, STP is applied globally and standards are expected to be implemented throughout the various geographies and situational contexts.

We source tobacco from all around the world including Brazil, India, China and Sub-Saharan Africa. Approximately 97% of our tobacco is sourced from third party suppliers with the balance coming from our own vertical operations in Madagascar and Laos.

In 2018, we purchased more than 178,000 tonnes of tobacco leaf from 36 countries around the world. In the last five years or so we have rationalised our supplier base and consider it to be very stable. We purchase approximately 70-80% of all tobacco leaf from two global suppliers, Universal and Alliance One. We have had this relationship with both for more than 20 years.

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PARTY SUPPLIERS

IN 2018 WE PURCHASED
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LEAF FROM 36
COUNTRIES

NON-TOBACCO MATERIALS AND NGP COMPONENTS SUPPLY

The non-tobacco materials (NTM) we directly buy include paper, filters, glue and ingredients for cigarette products and the components that go into making NGP; these are supplied by our first-tier (direct) suppliers, those with whom we have a direct relationship.

We also have indirect suppliers who provide goods and services such as machinery, IT and professional services.

We expect our suppliers to conduct their business in an ethical and responsible manner and comply with all applicable laws and regulations. Our Supplier Code, based on our Code of Conduct, sets out the behaviours we expect our suppliers to demonstrate.

All our key strategic direct and indirect suppliers are managed by our global procurement team and smaller suppliers are managed by our local procurement teams.

In 2018, we had some 434 direct material suppliers, 80 of which are managed centrally by our global procurement team and 354 managed by our local procurement teams. Of our direct material supplier base, approximately 80% of our main spend is with 22 suppliers.

There was a total of 19,000 suppliers on our Approved Supplier List which includes both direct and indirect suppliers.

In 2018 we consolidated our direct supply base by 16% and our on-going review of our key direct material supplier's performance showed a further 1% improvement versus the previous year in the relevant quality, service and price performance indicators.

IN 2018 WE HAD
434
DIRECT MATERIAL
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We have many different policies in place to mitigate the risk of human rights abuses and the risk of slavery or human trafficking occurring in our business or our supply chains. Our commitment to human rights is a fundamental part of our Code of Conduct and Supplier Code. These documents set out the foundations to our approach to human rights, which all our employees, suppliers and business partners are required to adhere to.

Following the recommendation made in the Human Rights Impact Assessment (HRIA) we conducted in 2016, we formalised a **Human Rights Policy** which is available on our website. We consulted with multiple internal stakeholders including Human Resources, Procurement, Internal Audit and Risk Management to collaboratively develop a policy which has been approved and endorsed by our CEO, Alison Cooper. This policy will be reviewed on an annual basis to ensure it remains current and fit for purpose.

Our Human Rights Policy is designed to respect and support the dignity, wellbeing and human rights of our employees, the workers in our supply chain and the communities in which we operate. We are committed to conducting our business in a responsible and sustainable way, ensuring we continue to manage and mitigate the risks of human rights abuses both within our direct and indirect operations. The policy applies to all Imperial Brands companies and to any joint venture where Imperial Brands has management control. It applies to all employees, directors and officers of Imperial Brands companies, including temporary and contract staff.

We require all joint venture partners where we do not have management control to adopt similar standards to those set out in our Supplier Code, which is fully aligned with our Human Rights Policy. All third-party distributors, customers and suppliers are also required to adhere to the Supplier Code.

Through our procurement processes, suppliers are required to sign up to the spirit of our Supplier Code. We only select and do business with suppliers who can demonstrate that they operate in a manner consistent with our standards and Code. We also expect our suppliers to ensure that their own business partners meet similar standards.

Whilst we operate in several countries where human rights are of concern, our global governance is the same. We comply with all human rights law and where local law is less stringent, our Human Rights Policy takes precedent.

We respect the need and, as appropriate, facilitate individuals in having access to remedies should human rights be potentially breached. Mechanisms include grievance management and Speaking Up (whistleblowing).

OUR POLICIES TO PROTECT HUMAN RIGHTS

- Code of Conduct
- Supplier Code
- Human Rights Policy
- Anti-Bribery and Corruption Policy
- Employment Policy
- Fairness at Work Policy
- Global Procurement Policy
- Health Protection and Wellbeing Policy
- Occupational Health, Safety and the Environment Policy

SPEAKING UP (WHISTLEBLOWING)

All our employees and business partners are expected to act with a respect of others and to uphold business practices that respect international human rights.

This means

- Acting with due diligence to avoid infringing on the rights of others;
- Addressing any adverse impacts across our global operations;
- Speaking up when human rights abuses are found or suspected

There are many ways for our employees to raise concerns, including via their people manager, local human resources team, Company Secretary or Group Human Resources Director.

Employees and third parties can also raise a concern anonymously or independently through the Expolink External Hotline service which is available in the local languages for the countries where we operate:

www.expolink.co.uk.

Please also see our **Whistleblowing Policy**.

Information on compliance with policies and incidents reported via our Speaking-Up process, is gathered throughout the year and any material issues are reported quarterly to the Audit Committee and the Board.

TRAINING

Our Code of Conduct sets out the responsible behaviours we expect from employees in their dealings with colleagues, customers, consumers, suppliers, agents, intermediaries, advisers, governments and competitors. All employees and business partners are expected to act with integrity in accordance with the standards of behaviour set out in the Code. Our Code of Conduct is available in over 30 languages and is published in full on our corporate website. We updated our Code of Conduct in 2018 and published a new Supplier Code which is currently available in 19 languages. All our employees are required to undertake Code of Conduct training either via an e-learning module or 'face-to-face' training. Code of Conduct training continues to be rolled out to all new employees.

In 2017 we commissioned a third-party specialist to provide training against the International Standard for Social Accountability (SA8000) to key internal personnel

from Internal Audit, Risk Management, Human Resources, Procurement, Governance and Sustainability teams. This workshop was designed to review and appraise our approach to addressing the issue of human rights considering the findings of the HRIA conducted in 2016.

During 2018, we developed a modern slavery e-learning course to support employees and key suppliers in understanding the issue and explaining how to raise concerns on suspected or actual human rights abuses. The course is mandatory for all employees to complete. In 2019 we will make the course available in our nine core languages (German, Spanish, French, Dutch, Greek, Polish, Russian, Ukrainian and Chinese) to ensure maximum coverage of our operations and suppliers that are identified as being at a higher risk of potential human rights abuses.

RISK ASSESSMENT

In 2016 we commissioned a HRIA that looked at the potential human rights risks connected to growing and manufacturing tobacco products. This assessment was informed by the United Nations Guiding Principles (UNGPs) on Business and Human Rights, with the aim of helping us identify areas for improvement and action within our direct operations, leaf supply chain, and tier-one NTM suppliers, those with whom we have a direct relationship. Around 940 locations globally were included in the scope of the assessment.

Four stakeholder groups were assessed during the HRIA; consumers, suppliers, community and workers. The potential for slavery, servitude or forced labour was identified as a medium risk for one stakeholder group – suppliers. The due-diligence phase of the assessment subsequently rated our policies, practices and due diligence in this area as 'good practice', suggesting some enhancements in the areas of monitoring and reporting performance which we are committed to improving.

LOCATIONS IDENTIFIED AS BEING HIGH RISK

Based on geographic location, our operational sites in Mali, Côte d'Ivoire, Chad, Madagascar, and the Congo and a supplier location in India were identified as being at higher risk of human rights abuses. A comprehensive multi-lingual review was undertaken to assess whether these sites had received any actual human rights allegations. No allegations were discovered relating to modern slavery.

One allegation was discovered relating to consumers. The allegation was against our site in Côte d'Ivoire in relation to product safety and consumer health information (this corresponds to human rights issue: the right to life), citing alleged numbers of smoking-related deaths. We acknowledge that smoking is a cause of serious disease and we do not challenge the public health messages related to smoking.

We recognise that a lack of allegations, doesn't necessarily mean that there are no breaches. We have since directed our internal audits and supplier assessments to increase their focus on risks related to human rights.

NGP SUPPLIERS

In 2018, we took initial steps in understanding the human rights impacts related to NGP suppliers. We conducted a risk assessment for our key strategic NGP suppliers based on their location. NGP supplier countries included China, Greece, United States, Hong Kong, Switzerland, Germany and the United Kingdom.

All but one of the 13 NGP suppliers assessed, received a medium-risk score based on the likelihood and potential impact of a human rights breach. This rating was attributed to the fact that the countries in which these suppliers are located regulate and protect human rights effectively. The supplier located in China received a higher rating based on the country of operation having lower regulation and legal protection. We plan to audit the site in China in 2019.

Both the tobacco and NGP risk assessments were conducted by global risk consultancy, Verisk Maplecroft and further details are available on our [website](#). We will periodically review and update our HRIA based on operational and business footprint changes.

MONITORING AND AUDITING

Our direct operations are regularly monitored and audited on a cyclic programme. A standard internal audit includes assessment of labour practices, health and safety procedures in place and training received for the Code of Conduct.

Following the 2016 HRIA, some of our direct operations were identified as being at a higher risk of human rights breaches based on their geographic location. Subsequently we have directed our internal audits to these sites and in 2017 audits were conducted at our sites in Côte d'Ivoire and Mali. In 2018 we conducted an audit of our site in Chad and in 2019 we plan to audit our sites in Madagascar.

Audits included assessing local employee awareness of and training in the following: Imperial's Code of Conduct; International Marketing Standards; Whistleblowing Policy; and Grievance Policy. One minor recommendation was raised in Côte d'Ivoire concerning evidence of employee training which has since been actioned.

NTM AND NGP SUPPLY DUE DILIGENCE

The Supplier Qualification Programme is the first screening process for all new suppliers. This involves suppliers completing a self-assessment which includes questions on business conduct, environmental management, and labour practices including discrimination, child and forced labour, freedom of association, remuneration, working hours and health and safety.

Once on board, the Internal Audit team undertake a phased cycle of onsite supplier validation audits using a risk based approach.

Internal Audit follow a detailed Supplier Audit Risk and Control Matrix which includes the supplier providing evidence for the following:

- The supplier has a Code of Conduct which is in alignment with Imperial's and that this has been communicated across all its operations;
- The supplier formally audits against a set of Corporate Responsibility criteria, this includes the procedures the supplier has in place for employees to raise concerns and grievances; the procedures in place to protect against the risk of bribery and corruption; and that adequate health and safety procedures are in place that meet all legal requirements to protect worker safety. Evidence of audit programmes and outcomes are requested along with confirmation of any zero tolerance actions.

Suppliers are scored through our Vendor Rating System. A maximum of 40% of the total score can be achieved if suppliers have good work practices in place. Included in the criteria is having in place: a Code of Conduct, a Health and Safety Policy, good labour practices and a process for their supplier selection and evaluation.

All new suppliers or supplier sites are subject to a mandatory audit. This applies to both centrally managed and locally managed suppliers. All our suppliers are required to sign-up to our Code of Conduct.

We have at least two to three face-to-face meetings per year with all our centrally managed suppliers and any concerns can be raised during these meetings. We will cease our relationship with a supplier if they continually fail to meet our requirements.

TOBACCO LEAF SUPPLY DUE DILIGENCE

As with other agricultural commodities, there is a risk of child labour in our tobacco growing supply chain. In its worst form, child labour resulting in 'hazardous' work can damage children's health and development and becomes a form of human rights abuse.

The risk of modern slavery and child labour are managed in our tobacco leaf supply chain through the industry-wide Sustainable Tobacco Programme (STP) details of which are available on our [website](#). All our tobacco suppliers are required to participate in the STP.

The following aspects of the STP directly relate to modern slavery and child labour:

- The STP guiding principles are aligned with ILO core conventions;
- Guidance is provided to help suppliers prevent child labour and other forms of illegal, unfair or unsafe work;
- Employment of children on farms is covered in the guidance with reference to the types of hazardous work not permitted; and it is made clear that active recruitment of children is not tolerated;
- Guidance is provided on forced labour, human trafficking and that workers on farms must not work under bond, debt or threat; and
- Guidance is provided on freedom of movement and on imprisonment and compulsory labour.

Suppliers complete a detailed self-assessment questionnaire on an annual basis. The completed questionnaire is then assessed and scored by a third-party service provider. The scores obtained by each supplier are assessed and if required improvement plans are developed for areas of underperformance detailing how improvements will be made within a specified timescale.

Suppliers are subject to a formal third-party review at least once every three years. This provides an understanding of the reliability of their self-assessment and is complementary to the more frequent supplier reviews and visits undertaken by our own Leaf Sustainability Managers. An onsite supplier audit is usually a four-day review, further details on the audit as well as the issues covered in the STP are available on our [website](#).

Through the STP, we have determined a baseline performance which is our minimum acceptable standard. If a supplier fails to meet the minimum performance requirements, our preference is to work with them to understand when and how the supplier will reach the standards. However, as we are committed to purchase tobacco from socially and environmentally responsible suppliers, we will cease to purchase from any suppliers who persistently fail to meet our minimum standards.

MONITORING AND AUDITING continued

During a routine supplier audit conducted as part of the STP, of a farm belonging to one of our leaf suppliers in Nicaragua, six cases of child labour were discovered.

We do not accept or want child labour in our supply chain and we address the issue through three main avenues:

- The Sustainable Tobacco Programme (STP), which all our leaf suppliers are expected to participate in.
- Our Leaf Partnership Projects where we directly work with our suppliers to fund projects in tobacco growing communities to help tackle child labour.
- Our active support of the **Eliminating Child Labour in Tobacco Growing Foundation**, which aims to tackle the root causes of child labour by improving access to education and providing alternatives to childhood working.

ILLCIT TRADE DUE DILIGENCE

It is feasible that criminals involved in the illicit trade of our products may also be involved with slavery and human trafficking. We have open lines of communication with international law enforcement agencies and are well placed to pass any information we discover during our investigations into the illegal trade in tobacco.

We have strict Know Your Customer processes in place, which means we will only trade with customers whom we are satisfied operate with honesty and integrity and are reputable. We have a robust governance and controls environment which provides for the vetting of all new customers and suppliers and a review process for our existing third parties. Any irregularities with a company or individual are thoroughly investigated and where necessary we will end any commercial arrangement.



INCIDENT OF CHILD LABOUR IN NICARAGUA

In June 2017 our leaf personnel discovered six cases of child labour at a farm belonging to one of our leaf suppliers in Nicaragua. The disappointing discovery was made during a supplier audit conducted as part of the Sustainable Tobacco Programme (STP).

The issue was immediately raised with the cooperative members and the supplier company representatives on site that day, and discussed with the general manager of the supplier company the following day. The cooperative was instructed to remove the underage workers from the farm and not to re-employ them, and a correction plan was immediately put in place.

In March 2018 a return visit to the site was made by our leaf personnel to monitor the progress of the corrective actions, and included in the findings were:

- Implementation of a record for the hours completed and the age of each worker validated by a formal identity document. This farm was verifying workers' ages through valid IDs and a system had been put in place to appropriately monitor work hours
- Provision of work requirements and policies to each field worker prior to starting work. This had been completed.
- Conduct weekly and unannounced inspections and/or monitoring visits. These were being done, but documentation of the visits was lacking on some points.

A further visit scheduled for May 2018 could not be made due to ongoing civil unrest in Nicaragua, however we were able to visit in November 2018 and will visit again in March 2019.

In each visit after June 2017, no further incidences of child labour were found.

COLLABORATION AND STAKEHOLDER ENGAGEMENT

Since 2014, we have supported the international charity, Hope for Justice in pursuing its vision of a world free from slavery. In that time, Hope for Justice has rescued over 350 victims of modern slavery in the UK and have been supporting survivors of sex trafficking at their aftercare facilities in the UK, USA, Cambodia and Norway. You can find out more about Hope for Justice on their [website](#).

In December 2018 we were pleased to become a founding member of the **Slave-Free Alliance**; an arm of the Hope for Justice charity. The alliance is a global movement working towards slave-free supply chains. This partnership will help ensure we have the right processes in place to prevent human rights abuses in our operations and supply chains.

We continue to engage with NGOs including Human Rights Watch (HRW) on a broad range of human rights issues including child labour and health and safety. In 2018 we

provided detailed information on our limited sourcing activities in Zimbabwe, following the HRW 'Bitter Harvest' Report. Later in the year, we met a senior researcher from their Children's Rights Division and had a very constructive discussion around our Sustainable Tobacco Programme and areas for further disclosure on our human rights issues.

We welcome continued dialogue and are working collaboratively with many stakeholders to improve industry standards within our supply chain.






SLAVE-FREE ALLIANCE

Working Towards a Slave-free Supply Chain

Founding Member

▾ ACTIONS TAKEN TO REDUCE RISK OF MODERN SLAVERY AND NEXT STEPS

Progress against our 2017 commitments	Status	Comment
Provide further specific guidance to our employees on their responsibilities and Group expectations including those in relation to forced labour through the formalisation of a Human Rights Policy.	✓	 See our Human Rights Policy published on our website .
Introduce a new e-learning module directed to all employees to further strengthen operational practice and individual behaviours in the respect of human rights and in relation to forced labour.	✓	 The English version of this course was launched in 2018. In 2019 the course will be translated into our nine core languages to cover the majority of our employee population.
Launch a new Supplier Code, to better communicate our expectations of our suppliers, including their obligation to respect human rights, avoid forced labour and raise any concerns with us.	✓	 See our Supplier Code published on our website.

NEXT STEPS IN 2019

We remain committed to strengthening our approach to addressing Modern Slavery through several initiatives, including:

-  Partner with Slave-Free Alliance to review our approach to addressing human rights and modern slavery and identify areas for improvement.
-  Continue to assess our human rights reporting increasing transparency where we can.
-  Further integrate human rights issues into internal audit processes.
-  Continue to raise employee awareness of human rights and modern slavery by enhanced communication and training offered.



We are pleased no specific incidents were identified in 2018, however we remain vigilant and committed to the improvements cited.

This statement was approved by the Board of Imperial Brands PLC in February 2019.

ALISON COOPER
Chief Executive

Imperial Brands PLC

February 2019