

RESPONSIBLE PERFORMANCE: PRINCIPLES, CRITERIA AND METHODOLOGIES

This document sets out Imperial Brands’ reporting approach, scope and criteria which underpins the PLC Board’s commitment to disclose our responsible performance, in the Sustainability section of the Annual Report and Accounts (AR&A) and on the corporate website.

WE AIM TO:

- Report our activities honestly and give a fair impression of business conduct;
- Provide key stakeholders with appropriate information, as guided by leading frameworks and standards such as the Global Reporting Initiative (GRI); and
- Inform relevant investor evaluations and indices.

COMMITMENT TO REPORTING

As a UK public company, we are required to disclose specific information in the AR&A, under the UK Companies Act. In addition, we provide information on how we manage our business responsibly, with key performance measures to demonstrate our progress. This helps to demonstrate that our Board of Directors is addressing their social, environmental and economic responsibilities towards key stakeholders; including employees, investors, suppliers, customers, consumers, communities, government and society.

We have a formal approach to Sustainability reporting which identifies important issues and performance indicators. Resulting information is used by Executive Management to set improvement objectives and targets, which are also endorsed by the PLC Board. Performance management is then driven and enabled at functional, market and site level.

We periodically undertake a materiality assessment, to review, identify and prioritise the most important sustainability issues for our business and external stakeholders more information can be found on our website <https://www.imperialbrandsplc.com/sustainability/>

We reference leading guidelines and indices, which include the GRI and the Carbon Disclosure Project (CDP). We also participate in relevant external forums and engage with our stakeholders. In May 2019 we convened an independently facilitated Stakeholder Panel to appraise our approach.

We make our own internal assessments by considering global sustainability issues and relevant social and environmental risks.

GENERAL REPORTING PRINCIPLES

In developing our reporting, we have been guided by good practice principles. We therefore seek to report information which is:

- Inclusive; relevant to our key stakeholders;
- Material; mutually important to us and our stakeholders;
- Responsive; action based on informed decisions;
- Impactful; effective action addressing mutually important issues; and
- Robust; timely, accurate and, where possible, subject to verification and assurance.

Where possible we provide year-on-year comparable data with explanations on our performance.

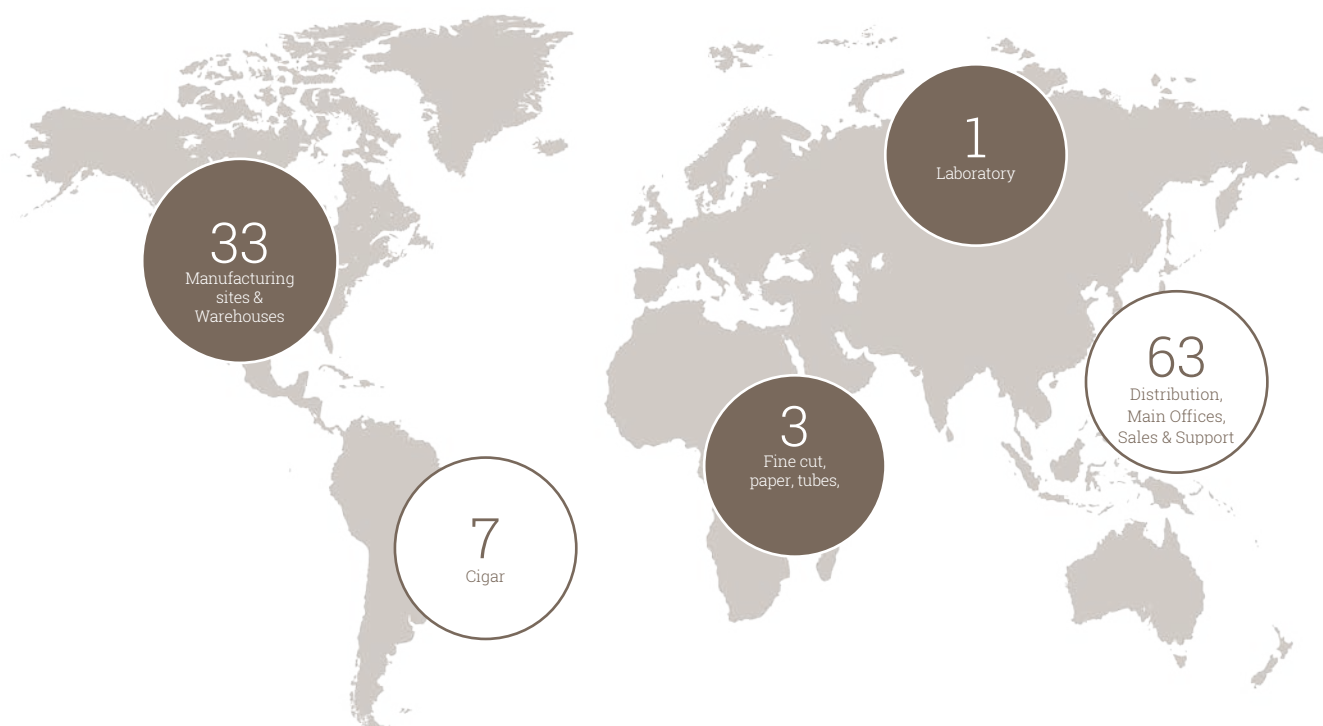
REPORTING BOUNDARIES AND SCOPE OF REPORTING

Our business is managed and reported on a functional basis. We therefore manage, gather and report data either as a whole or by function. We do not report on a legal entity basis.

OUR SUSTAINABILITY FRAMEWORK



REPORTING ENTITIES



Where appropriate, we differentiate manufacturing operations as these locations make a greater contribution to the data values for the majority of indicators. Unless stated otherwise, all manufacturing sites are in scope.

The logistics part of our Group business operates under the legal entity of Logista. Due to commercial sensitivities this entity is managed remotely and does not report wholly into Group non-financial data; this is specified in the scope of individual indicators. We report externally verified information provided by Logista in our Annual Report and Accounts. Logista has provided verified data since financial year (FY) 2014 for absolute Scope 1, 2 and 3 emissions. Further information on Logista can be found at <http://www.grupologista.com/>

Our relative indicators are expressed against tobacco net revenue, which comprises of tobacco and Fontem Ventures revenue less duty and similar items, excluding peripheral products. Units for absolute and relative measures can be found in the 'unit' section for each individual indicator.

INTRODUCING NEW SITES AND SITE CLOSURES

As our business continues to evolve, we introduce and remove entities to our reporting scope. Any changes in scope are clearly reported within this document and in particular the 'scope' section of each reported indicator. Our relative reported performance against tobacco net revenue helps to normalise any such changes in scope.

Occupational Health Safety and Environment (OHSE) data for new sites is included into the Group reporting scope once the data collection from sites has been validated in the Non-Financial Reporting (NFR) System. Where possible, historic data may be used to ensure we have a full reporting year worth of data before reporting, where this is not possible an estimate may be used.

Where we have sites that are closing, data will be included in our Group reporting until such time as is impractical to do so. For Occupational Health and Safety (OHS) data this can include data up until the last day of operational control and for Environmental (ENV) data this can include data related to decommissioning projects.

RESTATING THE GROUP BASELINE

When introducing new sites into our reporting scope, it may be necessary to restate our environmental baseline and reset reduction targets. A full year of independently verified environmental data for the new reporting site is added to the original baseline, all subsequent years and the reduction target.

IMPERIAL BRANDS NFR SYSTEM

The NFR system is the main reporting system for collecting OHSE data. The system is subject to administrative support provided by an external service provider – SustainIt.

Raw data, in line with NFR data definitions, is entered into the system at site level by Contributors, generally topic specialists in their area. Data is then validated on the system, by a senior manager, taking full accountability for timeliness and accuracy of the data.

The system calculates performance indicators from the data entered and can generate reports at any level of the organisation including at local, Regional, Functional and Group level to inform performance management processes.

OHSE campaigns are launched through the NFR System, on a monthly, quarterly or annual basis; further information on campaign frequency can be found in the 'Method' section of each individual indicator. Users are required to submit data against strict deadlines in order to meet internal and external reporting requirements.

Once deadlines have passed, campaigns are closed. Following investigation through the data checking process amendments can only be made once the system is unlocked by SustainIt. The data checking process provides a series of data quality checks assessing trends and anomalies.

Amendments may be made as part of the validation and correction process or following the end-of-year assurance. In the unlikely event amendments are significant, the figures will be restated in the subsequent annual reporting with a footnote in the public disclosures explaining the restatement.

During FY19 we introduced new environmental targets with a 2017 baseline year to bring us as close as possible to current year reporting. We moved from a year in arrears reporting to reporting for the period 1 July to 30 June. This 12 month period covers three months from the previous financial year and nine months of the current year, allowing us enough time for internal consolidation of data, checking and external verification. To reflect the new reporting period, we have restated our 2017 baseline and subsequent years. Net revenue indicators relate to full financial year 2019.

ASSURANCE

We engage an independent third party to provide assurance of selected publicly reported information. This is in line with good practice and to help build trust with our stakeholders.

The assurance exercise is scoped to test select quantitative indicators and whether reporting is accurate and reliable. The performance indicators that are selected for assurance are generally those that are most material to both us and to stakeholders. It enables the third party to provide a limited assurance opinion as to whether the reported information is complete and accurate in all material respects.

The assurance and verification involves data assessment and testing, sample site visits and a number of interviews with management and relevant personnel. Details of assurance activities including the assurance statement can be accessed on our website <http://www.imperialbrandsplc.com/sustainability>

INDICATOR

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INDICATORS FOR NON-FINANCIAL REPORTING – REPORTING SPECIFICS AND METHODOLOGY

This section details the methodology for all indicators we publicly disclose in the 2019 Annual Report and Accounts and Sustainability section of the corporate website. Not all have been subject to third party data verification. This is clearly stated within the criteria for each indicator.

PEOPLE

Lost time accident frequency rate

Definition	Lost time accidents are work-related incidents resulting in absence from one or more scheduled workdays or shifts. A workday or shift is the specified hours that the employee is required to do activity on behalf of the company within any 24-hour period. 'Work-related' means that the incident occurred in relation to the employees' activities executed on behalf of the company. This excludes situations such as travelling to and from work.
Scope	Data for this indicator is collected for all Sales and Marketing entities and all Manufacturing sites and offices. The scope excludes Logista. Lost time accident frequency rate relates to employees who are employed directly by the company whether they are full-time, part-time or on a specific length contract. It does not apply to contractors who are employed by a third party.
Reporting Period	1 October 2018 – 30 September 2019
Unit	Number of lost time accidents per 200,000 hours.
Method	Lost time accident and hours worked data is entered into the NFR system on a monthly basis by local personnel. The system then consolidates the data for the central Group OHSE team to review. The lost time accident frequency rate is calculated as follows: Total number of lost time accidents except while travelling to and from work/ (number of hours worked x 200,000 hours).
Third party data verification FY19	Yes

Operations with OHSAS 18001 at the time of reporting

Definition	We approach the improvement of OHS performance through risk management, employee training, performance reporting, audits and improvement planning. This is structured by the application of a local formal OHS management systems, which is subject to an annual independent audit by external certification companies to help drive continuous improvement. We have selected the international standard OHSAS 18001 as the most appropriate standard for guiding the development of our local OHS systems.
Scope	The scope covers manufacturing sites including cigarette, other tobacco products (OTP), tobacco leaf processing, paper and tube operations. It currently excludes cigar, laboratories, printing facilities, main offices, Logista, Sales and Marketing entities, distribution centres, leaf warehouses, farms and joint ventures.
Reporting Period	As of end of financial year 30 September 2019
Unit	Percentage
Method	Through the NFR system, information on the occurrence of OHSAS 18001 certifications is collated centrally on an annual basis. The central team calculates the percentage by dividing the number of certifications by the number of operating sites within the scope. NFR users at the sites are required to upload the current certificate.
Third party data verification FY19	No

Female Operating Executives

Definition	The Operating Executive comprises the Executive Directors and key members of our senior management team. The Operating Executive is responsible for supporting the Chief Executive with implementation of Group strategy, monitoring the detailed operational performance of all aspects of the business and ensuring the Group achieves its financial and non-financial targets.
Scope	The scope covers all Operating Executive members.
Reporting Period	As of end of financial year 30 September 2019
Unit	Percentage. Number of female OPEX members divided by number of OPEX members.
Method	Operating Executive member adjustments are announced to the Group by Corporate Communications and Company Secretariat.
Third party data verification FY19	Yes

Female PLC Board Members

Definition	The Imperial Brands Board manages overall control of Group affairs, including responsibility for: commercial strategy; approval of financial statements; major acquisitions and disposals; authority levels for expenditure; treasury and risk management policies; and succession plans for senior executives.
Scope	The scope covers all PLC Board members.
Reporting Period	As of end of financial year 30 September 2019
Unit	Percentage. Number of female Board members divided by number of PLC Board members.
Method	Board member adjustments are announced to the Group by Corporate Communications and Company Secretariat. Company Secretariat collate and report the end of year figure as of 30 September 2019.
Third party data verification FY19	Yes

Community Investment (Allocations)

Definition	On a voluntary basis we seek to support a number of communities in which we operate and from where we source tobacco. This is through community and sustainability related projects which provide benefits over and above those are brought by our normal commercial operations and transactions. The term 'community investment' covers funds which are allocated to not-for-profit partnerships, community and sustainability related projects and charitable donations.
Scope	<ul style="list-style-type: none"> - the Eliminating Child Labour in Tobacco Growing Foundation (ECLT) and Hope for Justice; - Leaf Partnerships, which predominately addresses farmer viability, rural incomes and environmental sustainability issues in prioritised tobacco-growing communities, - community partnerships, charitable donations and employee community-related activities in the UK and; - a reserve for ad hoc allocations and requirements, such as in response to a humanitarian disaster. The allocations are predominately facilitated by the UK Charities Aid Foundation (CAF), which provides banking facilities and verifies charitable organisations. The main exception in the use of CAF is for the Leaf Partnerships, where project costs with suppliers are charged directly against the cost of leaf. <p>We refer to allocations rather than actual spend, because the time at which funds are actually spent within a project may occur later than within the current financial year. The financial value of the Community Investment spend does not include employee time, in-kind contributions, management costs or other community support that may be provided by any budget holder within our Group, at a local level.</p>
Reporting Period	As of end of financial year 30 September 2019
Unit	Reported in UK Sterling Millions of Pounds (£m).
Method	The financial value for the Community Investment allocations made within the financial year is extracted from our financial reporting and accounting system by Group Finance. All allocations are to £m British Sterling and where applicable utilise the Group's defined average exchange rate for the period in question.
Third party data verification FY19	No

ENVIRONMENT

Operations with ISO 14001 at the time of reporting

Definition	We approach the improvement of environmental performance through risk management, employee training, performance reporting, audits and improvement planning. This is structured by application of formal environmental management systems which are subject to an annual independent audit by external certification companies, to help drive continuous improvement. We have selected the international standard ISO 14001 as the most appropriate standard for guiding the development of our environmental management systems.
Scope	The scope covers all manufacturing sites including cigarette, other tobacco products (OTP), tobacco leaf processing, paper and tube operations. It currently excludes laboratories, cigar, printing facilities, main offices, Logista, Sales and Marketing entities, distribution centres, leaf warehouses, farms and joint ventures.
Reporting Period	As of end of financial year 30 September 2019
Unit	Percentage
Method	Through the NFR system, information on the occurrence of ISO 14001 environmental management system certifications is collated centrally on an annual basis. The central team calculates the percentage by dividing the number of certifications by the number of operating sites within the scope. NFR users at the site are required to upload the current certificate.
Third party data verification FY19	No

Absolute and Relative Environmental Waste

Definition	A key element of our environmental approach is to minimise both total waste and the waste sent to landfill. This is also part of our focus on cost optimisation. In general, waste includes items such as tobacco, paper, packaging materials, glues, cellophane, filter tow and cardboard. Where possible we seek to reduce, re-use and recycle waste. A minority single digit percentage of waste is classified as hazardous. Hazardous waste is identified as being potentially harmful to the environment or to humans and its handling is guided by regulation such as the European Regulation on Classification, Labelling and Packaging (CLP Regulation). The handling of waste is dependent on the geographical location.
Scope	The scope covers waste originating from manufacturing sites and main offices. Waste related to Logista or Sales and Marketing entities is excluded. It does not include any material which is re-used.
Reporting Period	1 July 2018 – 30 June 2019
Unit for Absolute Waste	Tonnes
Unit for Relative Waste	Tonnes per £million tobacco net revenue.
Method	Waste data is entered into the NFR system on a quarterly basis and consolidated ready for the Group OHSE team to review.
Third party data verification FY19	Yes

Waste Recycled

Definition	Waste materials which have been reprocessed into products, materials or substances whether for the original or other purposes. This includes the reprocessing of organic material but does not include energy recovery and the reprocessing into materials that are to be used as fuels or for backfilling operations. For example: plastic, paper, carton board, cleaning solvents and pallets sent to third parties to be recycled.
Scope	The scope covers waste originating from manufacturing sites and main offices. Waste related to Logista or Sales and Marketing entities is excluded.
Reporting Period	1 July 2018 – 30 June 2019
Unit	Percentage/ tonnes
Method	Data is entered into the NFR system on a quarterly basis and consolidated ready for the Group OHSE team to review.
Third party data verification 2019	No

Absolute and Relative Environmental Waste to Landfill

Definition	A key element of our environmental approach is to minimise both total waste and the waste sent to landfill. Some factories have reduced the amount of waste they send to landfill by composting the tobacco waste. We are unable to use this disposal route in all countries. In some instances, the compost containing tobacco materials is prohibited for agricultural production. Waste sent to landfill is non-hazardous waste that we have been unable to recycle, reuse or incinerate.
Scope	The scope covers waste originating from manufacturing sites and main offices. Waste related to Logista or Sales and Marketing entities is excluded.
Reporting Period	1 July 2018 – 30 June 2019
Unit for Absolute Waste to Landfill	Tonnes
Unit for Relative Waste to Landfill	Tonnes per £million tobacco net revenue.
Method	Waste data is entered into the NFR system on a quarterly basis and consolidated ready for the Group OHSE team to review.
Third party data verification FY19	Yes

Absolute and Relative Energy Consumption

Definition	Our operations use energy to generate light, heat, power, cooling, refrigeration and steam, and to run compressors. The energy we use originates from a variety of sources including fossil fuels, nuclear and renewable sources. The energy we use is sourced from a combination of energy companies and our own direct-control generation.
Scope	The scope covers manufacturing sites and main offices producing cigarettes, fine-cut and cigar products. Energy relating to Logista and Sales and Marketing entities is excluded.
Reporting Period	1 July 2018 – 30 June 2019
Unit for Absolute Energy Consumption	GWh
Unit for Relative Energy Consumption	KWh per £million tobacco net revenue.
Method	Energy usage data is collated monthly at entity level and entered into the NFR System for an automated emissions calculation. Group OHSE collate and review the data centrally. Energy usage is entered from data sources such as invoices and where not available meter readings, stock-records and usage-records.
Third party data verification FY19	Yes

Absolute & Relative CO₂ Equivalent Emissions from Energy Consumed

Definition	As part of our commitment to tackle climate change, we monitor energy usage and calculate our carbon dioxide equivalent emissions with a view to target reductions. We use the GHG Protocol – GHG emissions from stationary combustion (www.ghgprotocol.org) and UK Government conversion factors managed by the Department for Business, Energy & Industrial Strategy (BEIS) to inform our carbon reporting. We keep in line with updates to these guidelines, including updates for conversion factors.
Scope	Our reported emissions include all main sources from manufacturing sites over which we have operational control and our main offices. Operations not included, as deemed de minimis or being outside of our current reporting scope, relate to the small sales offices, which collectively contribute no more than two per cent of our total Scope 1 (direct) and 2 (indirect) emissions. In compliance with UK Mandatory Greenhouse Gas (GHG) emissions reporting regulations, we report on GHG emissions resulting from our tobacco operations which fall within our consolidated financial statements using the operational control reporting approach. We report Scope 1 and Scope 2 CO ₂ emissions for which we are responsible using a methodology based on the GHG Protocol Corporate Accounting and Reporting Standard (revised edition). As such, we report on the seven main greenhouse gases and report in terms of tonnes of CO ₂ equivalents (CO ₂ e). Our Scope 1 emissions comprise of: emissions from stationary fuel combustion at our sites; emissions from mobile fuel combustion in our fleet of company vehicles; leakage of refrigerant gases; and process emissions from the Dry Ice Expanded Tobacco process at our tobacco expansion plant. Our Scope 2 emissions comprise of the indirect emissions resulting from the use of purchased electricity, heat and steam at our sites. We report according to the GHG Protocol Scope 2 Guidance (2015), using location-based emission factors.
Reporting Period	1 July 2018 – 30 June 2019
Unit for Absolute CO₂e Emissions from Energy Consumed	Tonnes
Unit for Relative CO₂e Emissions from Energy Consumed	Tonnes per £million tobacco net revenue.
Method	Energy usage data is collated monthly at entity level and entered into the NFR System for an automated emissions calculation. Group OHSE collate and review the data centrally. Energy usage is entered from data sources such as invoices and where not available meter readings, stock-records and usage-records.
Third party data verification FY19	Yes

Fleet Fuel

Definition	In line with mandatory greenhouse gas emissions reporting, we have included fleet fuel data as part of our overall energy consumption data. See the 'Absolute & Relative CO ₂ Equivalent Emissions from Energy Consumed' indicator for further information. We use the GHG Protocol emissions factors for combustion in mobile sources to calculate emissions associated with fleet fuel.
Scope	Fleet fuel data has been incorporated into the energy (kWh) and CO ₂ equivalent performance indicators. This indicator also includes scheme cars and executives' cars, although sales is the vast majority. In some markets, it was not possible to split the personal mileage from the business mileage, so the overall data includes a small element of personal mileage.
Reporting Period	1 October 2018 – 30 September 2019
Unit for Absolute Energy Consumed fleet fuel	Tonnes
Unit for Relative Energy Consumed fleet fuel	Tonnes per £million tobacco net revenue.
Unit for Absolute Scope 1 CO₂e Emissions from Energy Consumed fleet fuel	Tonnes
Unit for Relative Scope 1 CO₂e Emissions from Energy Consumed fleet fuel	Tonnes per £million tobacco net revenue
Method	Data is collected in the NFR system monthly.
Third party data verification FY19	Yes

Absolute and Relative Water Consumption

Definition	We monitor and measure our water consumption, both water provided by suppliers and water which we abstract from natural sources. Water conservation and protection is managed locally within ISO 14001 management systems, and waste water is controlled to meet local consent limits.
Scope	The scope covers manufacturing sites and main offices producing cigarettes, fine-cut and some cigar products. Logista and Sales and Marketing entities are excluded. Tobacco factories are where the majority of water is utilised as part of tobacco processing during the manufacturing processes. A small amount of water consumption from non-core business entities may be included in Group totals. In general, our factories use mains water from local suppliers. However, some have a well on the premises for the abstraction of groundwater, which, after filtering and treatment, can be used for production purposes. This is done in agreement with the permits issued by the local authority for the amount of water that can be abstracted. A minimal amount of water data may include consumption from non-core assets.
Reporting Period	1 July 2018 – 30 June 2019
Unit for Absolute Water Consumption	Cubic meters (m ³)
Unit for Relative Water Consumption	Cubic metre (m ³) per £million tobacco net revenue.
Method	Water usage information is collated monthly at entity level using meter readings, invoices, abstracted water measurements and usage records, as appropriate for the entity. Data is entered into the NFR System for central collation and review by Group OHSE.
Third party data verification FY19	Yes