

RESPONDING TO THE RECOMMENDATIONS FROM THE TASKFORCE ON CLIMATE RELATED FINANCIAL DISCLOSURE

As a growing number of stakeholders demand more information on how companies are addressing the effects of climate change, we recognise the importance of disclosing climate-related risks and opportunities.

We have reported on our approach to managing and mitigating climate related risks for a number of years, both within our Sustainability Reporting and CDP disclosures. Further information can be found in the Annual Report and Accounts and Sustainability section of our website.

We are committed to increasing our disclosure and implementing the recommendations from the Taskforce on Climate Related Financial Disclosure (TCFD) and are pleased to provide information aligned to the framework.

Governance

Our Board of Directors is responsible for the delivery of our strategies, activities and the financial performance of the company; together with the efficient use of resources, and social, environmental and ethical matters.

The Board delegates responsibility for developing and implementing strategies and for the day-to-day management to the Chief Executive, who is supported by the Operating Executive (OPEX); comprising of the Executive Board of Directors and members of our senior management team.

Executive oversight includes an annual review of the Sustainability strategy by the OPEX, followed by an annual review by the Board. The annual review includes environmental performance, an assessment of the risks and opportunities against the strategy; and a review of performance against targets.

The Group's formal approach to risk management includes an update to the Board on a quarterly basis. The Groups' Risk Register documents all Group risks and their control measures – including risks associated with climate change.

Strategy

Our Sustainability Strategy is integral to the long-term success of our business and underpins our drive to create shared value for our stakeholders. Our strategy is framed by our commitment to reduce our environmental impact, maintain high standards of governance and collaborate for positive societal impact.

We are committed to adapting our business to respond to changing consumer demands for our products as well as addressing the issue of a changing climate. We are in the process of developing a new environmental strategy that seeks to manage and mitigate our most significant environmental impacts across our value-chain, whilst ensuring we're taking the necessary steps to align our business in keeping global temperatures in line with the Paris Agreement's stated 2-degree limit and 1.5-degree aim.

Risk Management

Our Group Risk Management Framework is based on the three lines of defence model, which enables a culture that views risk management as the responsibility of all our people. Whilst the Board is ultimately accountable for risk management, it is the responsibility of all our people to manage the risks to which the Group is exposed.

The identification and assessment of both current and emerging risks is completed on both a formal and informal business-as-usual basis. Risk assessments are completed across the first- and second-lines of defence, providing both operational and strategic insights into the risks the business faces.

Senior management review the results of the risk assessments, providing effective top-down input from the OPEX and the Board; whilst all functions provide a 'bottom up' view enabling both strategic and operational perspectives. The risks are then ranked on a matrix against various risk criteria and reported to the Board Audit Committee. The third line of defence relies on an independent third-party assessment and analysis. Both processes then feed into an assessment of control measures performed by the OPEX and Board Audit Committee. Further information can be found in our Annual Report and Accounts.

Our Risk Management Framework focuses on the impact of climate change on our enterprise risks. This allows our second-line experts to analyse the impacts upon the risks they manage creating a more informed and business-as-usual focused assessment and mitigation on an ongoing basis.

Our risk analysis operates across various timeframes, in line with the nature of the specific risks being considered; varying for example from 18 months into the future to well-beyond a six-year horizon for tobacco leaf supply risks and associated mitigation activities.

Our management of opportunities is similar to our Risk Management processes. The Risk Committee annually reviews the material opportunities facing our business. Our Group Internal Audit function which reports to the Audit Committee systematically perform top-down and bottom-up opportunity assessments across the Company's global operational footprint. The Groups' Risk Committee and Group Governance function assist the OPEX and Board Audit Committee by identifying, assessing and ranking material opportunities and identifying and assessing the adequacy of the measures in place to manage, exploit and control them.

Risk Management continued

During 2018 we completed an initial assessment of our climate related risks and opportunities using the CDP framework aligned with the TCFD. We focused on both transitional and physical risks and opportunities, creating a shortlist of material issues which will be analysed further through scenario analysis in 2019.

Risks and opportunities will be ranked in terms of likelihood (short and long-term) and magnitude of the impact on the business. Further disclosure can be expected in 2019.

Priority risks include:

Risk	Driver	Financial Driver
Disruption to operations and supply from extreme weather	Increased disruption to operations (e.g. power outage and shortage of tobacco leaf in certain areas) resulting from extreme weather events such as cyclones and floods.	Reduced revenue from decreased production capacity e.g. transport difficulties and supply chain interruptions.
Compliance with climate legislation	Compliance obligations from new and existing climate legislation require monitoring and management activity.	Increased operating costs e.g. higher compliance costs and increased insurance premiums.
Energy security and resource security	Increased costs of energy and raw materials.	Increased production costs due to; changing input prices e.g. energy and water, and output requirements e.g. waste treatment; and abrupt and unexpected shifts in energy costs.

We consider ourselves well positioned to manage and mitigate the priority risks identified through our ongoing commitment to reducing our environmental impact; good environmental management systems; investment in measurement systems and processes; working with our suppliers and value chain; and developing a refocused climate and energy strategy that ensures we effectively manage our future environmental impacts.

Priority opportunities include:

Opportunity	Driver	Financial Driver
Waste and resource efficiency	Increased recycling rates and reusing of materials to reduce costs and Greenhouse Gas (GHG) pricing liabilities.	Reduced operating costs through efficiency gains and cost reductions.
Low carbon energy	Shift to low-carbon energy sources reduces GHG pricing liabilities and has potential to reduce energy costs.	Reduced exposure to future fossil fuel price increases.
Supply chain efficiency and resilience	Supply chain efficiency and resilience reduces costs and disruption to supply, manufacturing and distribution.	Cost stability, increased reliability of supply and ability to operate under various conditions.

Over the last ten years we have worked hard to maximise on the climate related opportunities we're presented with. Information on our energy savings programmes and our engagement with leaf suppliers through the Sustainable Tobacco Programme and our Leaf Partnership Projects are detailed on our website. Our refocused environmental strategy seeks to further optimise further on these opportunities, particularly as we move to a low-carbon economy.

Targets and Metrics

In 2018, we began a process of understanding in greater detail how we can best address global climate change by setting a more robust Science Based Target to significantly reduce our GHG emissions. Targets are being developed in line with the Science Based Targets initiative (SBTi) and are based on the Intergovernmental Panel on Climate Change (IPCC) Representative Concentration Pathway (RCP)2.6 scenario and allocated using an absolute emissions contraction approach.

We are committed to reducing our greenhouse gas emissions related to our direct operations and offices (Scope 1 and 2), for tobacco and next-generation products (NGP) activities, as well collaborating and partnering with our tobacco leaf, non-tobacco material and NGP suppliers to reduce in-direct emissions (Scope 3) within our supply chain.

Our previous climate and energy target reduction of 20% by 2020 was achieved ahead of our set deadline date. Data is reported within the Annual Report and Accounts and corporate website.

We will publish our new targets and environmental strategy later in 2019.

Next Steps

- Progress the development of our environmental strategy and long-term Science Based Targets.
- Work with relevant stakeholders to complete climate-related scenario analysis
- Develop an engagement plan to reduce our Scope 3 emissions