INTRODUCTION

Imperial’s Sustainability Strategy focuses on the areas that have the greatest significance to its business and stakeholders. These are:

- REDUCED HARM NEXT GENERATION PRODUCTS (NGP): developing alternative products that are less harmful to health
- A SUSTAINABLE TOBACCO SUPPLY: maintaining sustainable agricultural practices to ensure a consistent, quality supply of tobacco
- RESPONSIBLE OPERATIONS AND PEOPLE: behaving responsibly at all times and providing a safe and rewarding work environment for employees

These three pillars of Imperial’s strategy, designed to enable growth and create value, define the approach the Company takes to addressing its environmental, social and governance (ESG) responsibilities.

DURING THE YEAR IMPERIAL CONVENED AN INDEPENDENTLY FACILITATED PANEL OF STAKEHOLDERS TO REVIEW THESE RESPONSIBILITIES TO HELP SHAPE THE WAY ESG ISSUES ARE PRIORITISED AND MANAGED.

THIS STATEMENT CAPTURES THE KEY FEEDBACK FROM THE PANEL AND HAS BEEN APPROVED BY ALL STAKEHOLDERS WHO TOOK PART.

Expert facilitators, People Development Specialists, designed and facilitated the panel meeting, which took place on 30 May 2019. The panel was attended by 14 well-informed representatives from the following stakeholder groups: retailers, banks, tobacco and vaping consumers, customers, employees, investors, media, non-governmental organisation, tobacco and NGP supplier, non-tobacco material supplier and two experts representing the environment and age-gating certification schemes.

This was the fifth stakeholder panel meeting that Imperial has held as part of its rolling programme of stakeholder engagement.

THE PANEL WAS ASKED TO SHARE PERSPECTIVES ON THREE KEY AREAS:
- Imperial’s Sustainability Strategy and the ESG issues it is addressing
- The actions being undertaken to deliver against the United Nations Sustainable Development Goals
- Imperial’s sustainability communications
Imperial has identified a number of ESG issues that represent the biggest risks or opportunities for its business: adult choice, business conduct, climate and energy, consumer health, farmer livelihoods and welfare, forestry, health and safety, human rights, illicit trade, recruitment and development, regulation, waste and water.

The panel provided feedback on these issues and considered the following as priority ESG responsibilities:

1. **CONSUMER HEALTH**
   This was considered the most important issue and pivotal to the sustainability of Imperial as a successful commercial business. It was agreed that every effort must be taken to produce products that are safer or less harmful to health.

2. **CLIMATE AND ENERGY**
   Given the growing global concern for climate change and Imperial’s global reach and influence, the panel felt that climate and energy impacted Imperial across its value chain, from crop production to manufacturing and distribution.

3. **FARMER LIVELIHOODS AND WELFARE**
   The panel agreed that farmer livelihoods and welfare was of paramount importance to tobacco production and that the work being done to support farmer livelihoods was vital for providing farming communities with better incomes and higher standards of living, thereby reducing the risk of poverty and child labour.

4. **HUMAN RIGHTS**
   Given the global scale of the business, it was recognised that Imperial has the potential to impact on the communities in which it operates. Tackling child labour in tobacco growing and addressing instances of modern slavery were seen as key priorities.

5. **WASTE**
   This was considered to have a huge environmental impact and the panel challenged Imperial to explore how it can better support consumers to recycle by reducing packaging, particularly in relation to NGPs. Imperial’s ambition should be to produce NGPs that consist entirely of recyclable components.

6. **ADULT CHOICE**
   Due to two significantly differing interpretations, this was rated as both one of the most and least important issues. Some panel members felt ‘adult choice’ meant youth access prevention, which was considered of high importance, whilst others interpreted it as meaning communication with adult smokers on reduced harm product choices. For Imperial the term relates to youth access prevention to both tobacco and NGP and the panel concluded that the heading therefore needed to change to avoid confusion. The panel also discussed responsible marketing and questioned whether NGP packaging should have more overt messages to protect children from potential harm.
Whilst all issues were deemed as important, the following were perceived as ‘business as usual’ activities which Imperial should continue to manage as tier two or secondary priority issues.

• RECRUITMENT AND DEVELOPMENT
This was perceived as an administration issue, which was important in ensuring Imperial has the right capabilities to deliver its commercial ambitions.

• ILLICIT TRADE
It was recognised that as tobacco products get less affordable, this will encourage some consumers to turn to the illicit market and therefore important that Imperial continue to manage the issue.

• REGULATION
This was considered as something that is imposed upon the business. The panel felt there was little Imperial could do to stop regulation and so saw this as more of a compliance issue.

The panel also shared views on the ESG issues they felt Imperial could do more to address. The general consensus was that Imperial had identified the right ESG issues expected of them, however it was felt two in particular required additional management or disclosure:

1. MATERIAL SOURCING
It was felt that Imperial could take more responsibility for the environmental impacts of its NGP materials and reiterated the recycling points made in ‘waste’ on page 4.

2. SUPPLY CHAIN RESILIENCE
The panel felt Imperial could do more to explain the action it is taking to address supply chain issues, such as ensuring farmers are adopting good agriculture practices, and reiterated the importance of supporting farming communities to improve their incomes and standards of living.
Imperial has identified four of the 17 United Nations (UN) Sustainable Development Goals (SDGs) that it believes align with its most important ESG issues.

These goals are:

- **3 Good Health and Well-being**
- **6 Clean Water and Sanitation**
- **8 Decent Work and Economic Growth**
- **13 Climate Action**

The panel was unanimously in agreement with the four goals that Imperial selected and felt that they addressed the core issues discussed in the previous section. Many were encouraged that the ones selected also supported many of the other 13 SDGs.

There was surprise and a very positive response that Imperial had selected Good Health and Wellbeing as a goal; this decision was described as 'essential' and 'courageous'. As a company that sells harmful products, Imperial’s commitment to transition smokers to less harmful products was complemented. It was also noted that Imperial would have to work hard to transition significant numbers of consumers to less harmful products.

Imperial provided insights into the various actions it has committed to, to ensure it delivers against the four UN goals identified.

Imperial’s commitment to transition smokers to less harmful products was complemented. It was also noted that Imperial would have to work hard to transition significant numbers of consumers to less harmful products.
Panel members also gave feedback on which of the remaining 13 goals are important to them.

It was noted how interdependent the SDGs are; for example, ‘quality education and partnerships’ can both have a positive impact on achieving ‘no poverty’. In turn, achieving no poverty leads to ‘sustainable cities and communities’. The SDGs are more of a ‘web’ than a single standalone goal as each feeds into others, therefore the panel could understand the importance of all the goals and the difficulty in selecting the goals where Imperial could make the biggest impact.

**TWO FURTHER SDGS STOOD OUT AS IMPORTANT TO THE PANEL:**

**GOAL 1 – NO POVERTY**

There were three strands to discussions:

- Ensuring a fair price is paid to tobacco farmers.
- That education and empowerment (also interdependent) are critical in the farming communities.
- Those who are on lower income are often consumers of tobacco, which could increase poverty.

The panel felt that Imperial has considerable impact within its supply chain and should positively support this goal.

**GOAL 12 – RESPONSIBLE CONSUMPTION AND PRODUCTION**

The panel felt this goal was just as relevant as Goal 13 on climate action. As Imperial manufacture and sell products, it is already significantly contributing to this goal. The panel had discussions around waste management, responsible adult-only sales and the safe consumption and disposal of products, all of which the panel felt Imperial was addressing but could do more to disclose its efforts.
Three actions were considered significantly more important to the panel. These align with the priority ESG issues identified by the panel on pages 4 and 5.

1. **INVESTING IN LEADING EDGE SCIENCE** to develop next generation products with lower health risks (this links to Consumer Health). Imperial should continue to develop reduced harm alternatives to its tobacco products to promote consumer health and build business resilience.

2. **RAISING AWARENESS AND IMPROVING PROCESSES FOR IDENTIFYING MODERN SLAVERY IN THE BUSINESS AND SUPPLY CHAIN** through the partnership with Slave Free Alliance (this links to Human Rights) The panel was keen to have more information on what Imperial does to ensure it is following the UN Guiding Principles for Business and Human Rights and felt there was an opportunity for Imperial to be more proactive and transparent in its approach and findings.

3. **REDUCING IMPERIAL’S OPERATIONAL CARBON FOOTPRINT BY 25% BY 2030** (this links to Climate and energy). The impact of climate change will become more important, so this action was seen as both positive and necessary. Imperial was challenged as to whether 25% was ambitious enough.
SUSTAINABILITY COMMUNICATIONS

The panel members were asked where they seek information on Imperial’s ESG responsibilities. The responses were diverse and included: the website, media, social media, contacting the Company direct and the annual report.

This indicates Imperial should continue to communicate via a range of channels, although the two most prominent sources of information according to the panel were the website and annual report.

The website generally meets the needs of the panel as a whole by including a clear vision and strategy, as well as detailed reports. If stakeholders knew what they were looking for, the website was considered to be easy to navigate and well signposted.

However, the panel felt that the layout assumed user knowledge of what they were looking for and some felt that too many ‘clicks’ made it hard to follow a coherent story. The panel also felt it would be worth exploring how to improve the website functionality on a mobile device.

The website case studies received a particularly favourable response. Case studies on core ESG issues were appreciated, helping to bring the ‘action to life’, and Imperial was commended for its transparent narrative in some case studies, demonstrating the ‘real’ issues being faced on the ground. Although stakeholders felt encouraged that Imperial had raised these and felt reassured that the issues were being managed, there were some concerns that in other case studies there was too much focus on promoting good news. The panel encouraged Imperial to be more open and transparent and said its communication would be seen as more credible and authentic if it also highlighted some of the challenges they are facing.

In terms of the annual report, this was seen as providing a good overview of Imperial’s Sustainability Strategy and it was noted that steps had been taken to integrate sustainability into the strategic section of last year’s report.

However, there was clear feedback that this integration needed to be improved. Stakeholders want to see an annual report where ESG considerations are fully integrated into the corporate narrative. They also said this approach should be adopted throughout Imperial’s communications.

Consistent with website feedback, the panel would like to see a more balanced articulation of how Imperial is managing ESG issues in the annual report. Highlighting the challenges Imperial and the wider industry are facing would further strengthen stakeholder confidence.
CONCLUSION

Overall the panel felt Imperial is making strong progress in addressing its ESG responsibilities. Imperial is focused on the ESG issues that are most relevant to its business and has ensured strategic alignment with the UN SDGs. This was commended and Imperial was encouraged to develop ambitious activities in support of these goals.

Imperial received favourable feedback in relation to the way it communicates the progress it is making against its Sustainability Strategy. However, there was a clear desire to see stronger integrated financial and ESG communications, and whilst it was recognised Imperial has taken steps to address this, the panel felt there is still considerable room for improvement.

Panel members thanked Imperial for inviting them to share their views and welcomed ongoing dialogue.

Lucy Brownsdon,
Independent Facilitator, People Development Specialists, on behalf of the 2019 Stakeholder Panel
We are grateful to everyone who took part in the 2019 Stakeholder Panel – thank you for your time, thoughtful discussions and candid feedback. Your comments will help strengthen the way we address and communicate on our ESG issues and we are pleased to have already actioned some of the points made.

We have prioritised our ESG issues to reflect the panel feedback on page 5 and are committed to making a positive impact on our priority issues. Going forward, our sustainability reporting will include more information on how we are fulfilling our responsibilities to consumer health, climate and energy, farmer livelihoods and welfare and human rights.

We have also noted the confusion around the meaning of the term ‘adult choice’ and have replaced this with ‘youth access prevention’.

We welcomed the request to provide more information on material sourcing and supplier resilience. Our future reporting will provide details of the work being undertaken to improve recycling of the packaging and components of our NGP portfolio. This will include the results of an independently commissioned lifecycle assessment of our blu vapour device, which examines all stages of the product’s life from raw materials to production, distribution, use and disposal, enabling us to better understand and manage the environmental impact of NGP.

The panel specifically mentioned the importance of ensuring tobacco farmers are adopting good agriculture practices. This is a core component of both the industry-wide Sustainable Tobacco Programme and our own Leaf Partnership projects. We’re proud of our ongoing efforts to improve supply chain standards including, for example, in Madagascar, where we source tobacco leaf direct from farmers and provide on the ground specialist support and training to educate farming communities about soil and water conservation, irrigation techniques, crop rotation and energy efficient tobacco curing.

As well as mitigating the effect of climate change, these initiatives secure future tobacco supplies and, as the panel rightly highlighted, are essential for providing farmers with a better income and higher standards of living. We acknowledge the need to be more transparent about the work we are undertaking to ensure supply chain resilience and will improve the way we communicate in this area.
“We agree with the panel’s request for better integration of ESG information within our communications. We are committed to addressing this, initially by ensuring our 2019 annual report tells a more integrated and transparent ESG story.”

We are pleased that the panel approved of the way we have aligned our ESG issues with the UN SDGs. Whilst we acknowledge the challenge we face in transitioning adult smokers to less harmful products, we are making good progress and are committed to materially delivering against our purpose of creating something better for the world’s smokers.

We have also considered the panel’s views on SDG Goals 1 (No poverty) and 12 (Responsible consumption and production) and have decided to incorporate Goal 12 as a further focus area for the business, recognising its strong alignment with our most important ESG issues. We also recognise the importance the panel placed on Goal 1 and in future we will more clearly signpost where we contribute to the drive to reduce poverty.

The panel questioned whether our carbon reduction targets were ambitious enough. We have developed targets based on approved methodology by the Science Based Target initiative (SBTi) and since the panel met our carbon targets for Scope 1, 2 and 3 (supply chain) have been approved and validated by the SBTi. Setting carbon targets for both our direct operations and our supply chain, where we have the biggest carbon impact, is described as ‘ambitious’ by the SBTi and we are pleased to have this validation.

We agree with the panel’s request for better integration of ESG information within our communications. We are committed to addressing this, initially by ensuring our 2019 annual report tells a more integrated and transparent ESG story.

Stakeholder engagement is an incredibly important ongoing process and we would once again like to thank panel members for their valuable contribution.

**IMPERIAL HAS COMMITTED TO:**
- reduce absolute Scope 1 and 2 GHG emissions by 25% by 2030 from a 2017 base year
- reduce absolute Scope 3 GHG emissions by 20% by 2030 from a 2017 base year
- 50% of its suppliers, by spend covering purchased goods and services, will set science-based targets by 2023