IMPERIAL BRANDS

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.

We are committed to increasing our disclosure and implementing the recommendations from the Taskforce on Climate-related Financial Disclosures (TCFD) and are pleased to provide information aligned to the framework. As we continue to improve our integrated sustainability reporting, we will provide further information within the Annual Report and Accounts.

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.

To ensure we continue to maintain adequate executive level oversight of our sustainability agenda, we are in the process of developing a new Environmental, Social, Governance (ESG) Steering Committee. Chaired by a non-executive director, the Committee's remit on the behalf of the Board will be to oversee the management of our material ESG responsibilities, risks and opportunities to ensure the successful delivery of our sustainability strategy. Further information will be reported in 2020.

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 environmental, social and governance (ESG) by; reducing our environmental impact; collaborating for positive societal impact and; maintaining high standards of governance.

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 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. We have also introduced new environmental targets for waste, water, energy and carbon and were delighted that our carbon reduction targets received external validation from the **Science-Based Targets initiative**.

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 on Risk Management 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. We have leading and lagging key risk indicators (KRIs) which measure our exposure to risk and support alignment with risk management and internal control systems.

We have leading and lagging indicators for our OHS and environmental issues which are embedded within our regular reporting to the Audit Committee, together with explanations of variances against agreed thresholds and mitigating actions being undertaken to ensure risks remain within risk appetite.

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 Audit 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 Audit Committee assist the OPEX and Board by identifying and ranking material opportunities and assessing the adequacy of the measures in place to manage, exploit and control them.

We continue to assess how risks and opportunities will be ranked in terms of likelihood (short and long-term) and magnitude of the impact on the business.

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

We assessed the vulnerability of our value chain to the physical impacts of climate change. Our scenario modelling was based on IPCC RCP 2.6, which is consistent with ambitious reduction of GHG emissions. We drew on modelled projections for key climate parameters (e.g. precipitation change) across a 30-year period which were then compared to baseline data on climate exposure provided by the ND-GAIN Country Index and World Resource Institute (WRI) Aqueduct Water Risk Atlas.

Headline findings confirmed that increasing temperatures, changes in the amount and distribution of rainfall, and increased droughts pose significant risk to the agricultural sector in general. As well as this water shortages are likely to be exacerbated by population growth, increased production of water-intensive crops, increased pollution, and poor spatial planning. Where necessary we have incorporated these findings into our enterprise risk around the security of supply. We have also considered these findings within the ongoing development of our Sustainable Tobacco Programme (STP) 2.0.

Our shortlist of transitional risks and opportunities were assessed against two hypothetical future worlds, constructed through the lenses of the International Energy Agency's (IEA) Energy Technology Perspectives (2017) 2°C Scenario (2DS) and Beyond 2°C Scenario (B2DS) scenarios.

Our analysis indicated that projected emissions reductions along our value chain are on track to meet the requirements under the IEA scenarios. However, we are committed to promote continued reductions in our direct operations and supply chain to mitigate against the risk of increased operational costs.

Priority risks include:

Opportunity	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 environmental 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 on these opportunities, particularly as we move to a low-carbon economy.

TARGETS AND METRICS

During the year we developed carbon reduction targets in line with the recommendations from the Science Based Targets initiative (SBTi) and based on the Intergovernmental Panel on Climate Change (IPCC) Representative Concentration Pathway (RCP) 2.6 scenario 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 as collaborating and partnering with our tobacco leaf, non-tobacco material and NGP suppliers to reduce in-direct emissions (Scope 3) within our supply chain.

By 2030, from a 2017 baseline year, we are committed to:

- reduce absolute scope 1 and 2 GHG emissions by 25%
- reduce absolute scope 3 GHG emissions by 20%
- encourage 50% of our suppliers by spend covering purchased goods and services, to set science-based targets by 2023
- reduce energy consumption by 25%
- reduce waste generated by 20%
- reduce waste to landfill by 50%
- increase recycling by 75%
- reduce water consumption by 15%

Performance data is reported within the **Annual Report and Accounts** and **corporate website**.

NEXT STEPS

- Undertake a life-cycle analysis of the *my*blu device to understand its wider environmental impact
- Further explore energy saving opportunities within our manufacturing sites and main offices
- Explore how renewable energy can support the delivery of our new environmental strategy
- Further develop our integrated Sustainability Reporting