

### Slide 1 - Imperial Brands ESG Webinar

### Slide 2 – Agenda

**Peter Durman:** Good afternoon everyone and thank you for joining us. I'm Peter Durman, Director of Investor Relations. This event is being recorded and the slides and transcript will be made available on our website.

The presentation will last about half an hour and be followed by a Q&A session.

Investors, and other stakeholders, are increasingly scrutinising the way corporates manage their environmental, social and governance responsibilities. It provides them with additional insights into a company's purpose, strategy and future growth potential.

For us, managing our ESG agenda is not just a 'nice to do'; it's a business imperative inextricably linked to our commercial growth strategy. ESG factors are not just a matter of ethics – they have a clear impact on the financial performance of the business.

In a moment I'll hand over to Chief Executive Alison Cooper to explain our sustainability strategy and the approach we take to addressing our ESG responsibilities.

This will include an overview of our top five ESG focus areas before a deep dive into one of them – Farmer Livelihoods and Welfare.

This section will be hosted by Alex Parsons, Director of Group Communications. Group Sustainability is part of Alex's team and he'll be joined by Surinder Sond, Group Head of Sustainability, and Warwick Evans, Senior Manager of Leaf Agronomy and Sustainability.

All three were recently in Africa for an update on the work we're doing to support farming communities.

Farmer Livelihoods and Welfare and the issue of children working on farms is the most common ESG topic we're asked about, which is why we've chosen to address it today.

In defining child labour, we're guided by the International Labour Organization, which describes it as work that is:

- mentally, physically, socially or morally dangerous and harmful to children; and
- interferes with their schooling by depriving them of the opportunity to attend school; obliging them to leave school prematurely; or requiring them to attempt to combine school attendance with excessively long and heavy work.

Maintaining a sustainable supply of tobacco is vital for our combustible business, as well as our NGP operations as all the nicotine we use in NGP is sourced from tobacco.

To give you some perspective, tobacco leaf represents about a third of the cost of producing a cigarette and so is an important part of our cost base.

The four other ESG priorities for Imperial are consumer health, climate and energy, waste.....and human rights; we plan to cover each of these topics in detail in future webinars.

### **Slide 3 – Disclaimer**

That concludes my introduction; after quickly drawing your attention to the disclaimer on slide 2, I'll now hand over to Alison....

**Slide 4 – Our Group Strategy**

**Alison Cooper:** Thank you Peter.

Our Group strategy is about generating long-term growth and maximising sustainable returns to shareholders.

It's aligned to our purpose of creating something better for the world's smokers and focuses on three key areas: tobacco, NGP and cost and cash.

We recognise the public health consequences of smoking and are focused on providing adult smokers with potentially less harmful alternatives to cigarettes.

We understand the ongoing debate around investing in tobacco and welcome this opportunity to provide a closer look at what we're doing with our sustainability agenda.

We are serious about sustainability. The tobacco products we sell may be controversial but the way we run our business is not. As you can see from the slide, our sustainability strategy is central to our growth aspirations. It's fully aligned with our commercial ambitions and supports the business by enabling growth and creating value.

**Slide 5 – UN Sustainable Development Goals and TCFD**

The strategy is also aligned with the UN Sustainable Development Goals and the Task Force on Climate-related Financial Disclosure... or TCFD.

The UN's 17 goals aim to positively transform the world over the next decade.

The five you see on the slide are the most relevant goals for Imperial and I will show how they are addressed by our ESG focus areas later.

In terms of the TCFD, we recognise this is an organisation that is of growing importance to investors and other stakeholders.

We already provide detailed climate and energy information on our website, to complement what's disclosed in our annual report and within our CDP climate submission..... and we're committed to increasing disclosure and implementing the recommendations of the TCFD.

We're very pleased with our 2019 CDP submission; it captures the good progress we're making, and we look forward to the publication of the CDP scores next week.

Let's now take a more detailed look at our sustainability strategy...

### **Slide 6 – Our Sustainability Strategy**

The strategy focuses on three key areas:

- a sustainable tobacco supply: maintaining sustainable agricultural practices to ensure a consistent, quality supply of tobacco;
- reduced harm Next Generation Products, which is about developing alternative products that are potentially less harmful to health;
- and responsible operations and people: this means behaving responsibly at all times, and providing a safe and rewarding work environment for our employees.

These three pillars define the approach we take to managing our ESG responsibilities.

### **Slide 7 – Governance and Employees**

We take these responsibilities seriously and ensure that ESG considerations are integrated into business decisions. We are also more effectively embedding ESG matters into our risk management framework.

From a governance perspective, the implementation of our sustainability strategy is overseen by the Board, the Operating Executive and a recently established cross-functional ESG Steering Committee, chaired by Imperial's Chairman Therese Esperdy.

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At a Group level, we have a central team that works with the Board and other key stakeholders to set strategy and support its implementation by the business.

The team is also responsible for monitoring and reporting on performance, which involves regular engagement with designated contacts in all main functions.

And we communicate regularly with employees to ensure they are kept updated on the development of our sustainability strategy and our core ESG focus areas.

Our people are actively engaged, and I'm continually impressed by the contribution they make; they're passionate about doing things the right way and take great pride in supporting local sustainability initiatives.

### **Slide 8 – ESG Mapping**

This slide shows our material ESG focus areas mapped across the three pillars.

These have been identified by Imperial and our stakeholders as being the most important for us to manage and represent the biggest risks or opportunities for the business.

As you can see, some are specific to particular areas of our operations, such as deforestation, which just sits under the tobacco pillar.

Others, like climate and energy, health and safety and human rights, extend across all three pillars.

### **Slide 9 – Stakeholder Panel**

Last year we convened an independently facilitated panel of stakeholders to discuss the approach we take to managing our ESG responsibilities.

The panel included 14 stakeholder representatives from investors, employees, consumers, media, retailers and suppliers.

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The report you see on the slide is available on our website and provides an overview of the panel's feedback on the key discussion points, which were:

- our sustainability strategy and ESG focus areas;
- the actions we're taking to support the UN Sustainable Development Goals;
- and the effectiveness of our sustainability communications.

Overall, the panel felt that we are making good progress and didn't identify any additional ESG topics we should be addressing.

However, the panel did suggest removing three from the original list presented to them: regulation, illicit trade and recruitment and development. Although important, these were seen as initiatives that didn't need to be explicitly managed within our ESG framework.

Removing them supports a greater focus on our top five ESG priorities to reflect the panel's feedback and, going forward, we will provide more information on how we are fulfilling our responsibilities in each area.

### **Slide 10 – Priority ESG Focus Areas**

These are the five focus areas, and here you can see we've mapped them to the specific UN goals they support.

First is Consumer Health: This was considered critical to the sustainability of Imperial as a successful commercial business.....and the panel felt every effort must be made to produce products that are potentially less harmful to health than combustible tobacco.

We fully endorse this and are focused on delivering against our purpose by investing in R&D and science to develop a portfolio of high-quality Next Generation Products.

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As you know, we've adopted a multi-category approach with vapour, heated tobacco and modern oral products, and we have clear plans to deliver a stronger performance in 2020.

Climate and Energy was something the panel felt impacted Imperial across its value chain, from crop production to manufacturing and distribution.

At the time of the panel session, we were finalising new long-term environmental targets for the next 10-30 years.

These have since been disclosed on our website and in our recently published annual report, with our carbon reduction targets validated and approved by the Science Based Targets initiative.

We'll come onto Farmer Livelihoods and Welfare shortly.

In terms of Human Rights, tackling child labour and strengthening our processes for mitigating modern slavery were seen as the key priorities.

We're proud to be a founding member of the Slave Free Alliance, or SFA. The SFA is part of the anti-slavery charity Hope for Justice and works with businesses to help them achieve slave-free supply chains.

Following the panel's feedback, we invited the SFA to review all the policies that underpin our Modern Slavery Statement; the SFA endorsed the good practices within our supply chain and also highlighted opportunities for improvement, which are being actioned in 2020.

For example, facilities management, which can include security work and cleaning staff, was identified as an area where the potential for modern slavery is high.

So, with the SFA's support, we're currently reviewing our procurement processes to ensure a consistent approach is taken to procuring facilities management globally.

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This will be supported by ongoing due diligence through a modern slavery audit module that we're developing this year.

And finally, Waste: with the rise of NGP, this was seen as an issue of growing importance.

The panel challenged Imperial to explore ways of reducing packaging and to encourage consumers to recycle, particularly in relation to NGP.

With that in mind we have commissioned an independent lifecycle assessment of our vapour product, *myblu*, which will examine all stages of the device's life, from raw materials to production, distribution, use and disposal. The results will help us better understand and manage the environmental impact of NGP.

In conclusion, we have a clear and compelling sustainability strategy that's aligned with our commercial ambitions and is embraced by the business.

It's integral to the long-term success of Imperial and underpins our drive to create shared value for our stakeholders.

I'll now hand over to Alex to host the session on Farmer Livelihoods and Welfare.

**Alex Parsons:** Thanks Alison.

As Peter said, this is an important ESG topic we're asked about and it was a key focus area for discussion at the stakeholder panel session.

There was unanimous agreement that farmer livelihoods and welfare were of paramount importance to sustainable tobacco production.

The work being done to support farmers was, in the panel's view, vital for providing local communities with better incomes and higher standards of living, thereby reducing the risk of poverty and child labour.

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At this point I'd like to bring in Surinder and Warwick.

**Slide 11 – Farmer Livelihoods and Welfare**

As our Group Head of Sustainability, Surinder has played an instrumental role in developing our sustainability strategy and she leads the team that monitors and reports on our performance.

Warwick is our Senior Manager of Leaf Agronomy and Sustainability, based in Durban in South Africa.

Warwick is a former tobacco farmer himself and spends the bulk of his time travelling the globe meeting suppliers and farmers, with a particular focus on Africa.

We'll be concentrating on Africa today but it's important to stress that the approach we take to supporting farmers is consistently applied around the world.

Welcome both; good to have you here.

Warwick, let's go to you first and perhaps you could start by giving us an overview of Imperial's tobacco sourcing?

**Slide 12 – Tobacco Sourcing**

**Warwick Evans:** Sure. We have a global sourcing footprint, which covers Africa, Americas, Asia and Europe. Of these, our major tobacco sourcing countries include Mozambique, Brazil, India and Spain.

The vast majority of our tobacco – 97% – is sourced from third party suppliers, with the balance coming from our own small vertical operations in Madagascar and Laos.

Most supplier-sourced tobacco comes from two international suppliers: Universal and Alliance One, with whom we have long-standing relationships built very much on a partnership approach.

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So, our relationship with farmers is largely through our major suppliers, who we regularly visit.

These visits include field trips to meet and greet farmers and to observe their practices and operating environment, as well as to catch up with them in a transparent, open manner to discuss successes they're having and challenges they're facing.

We also recognise our role in working with suppliers to improve the livelihoods and welfare of our farmers.

**Alex:** OK Warwick, so we buy very little tobacco direct from farmers. That lack of vertical integration must create issues on the ground, specifically for example when it comes to ensuring fair pay for farmers? How do you know farmers are not being exploited?

**Slide 13 – Fair Pay for Farmers**

**Warwick:** As I've said, Imperial's relationship with suppliers is very much a partnership and that extends to the farmers they have contracts with. We're committed to ensuring fair pay and working conditions that prevent exploitation.

Farmers are businessmen and women in their own right, and I think that sometimes gets overlooked; they employ people, provide housing for their workers, negotiate with suppliers, and so on.

They are running a business and as a result, the contracted farmers clearly understand their cost of production and the potential yields of crops and prices they're going to be paid; based on that, they make decisions on whether to grow or not and realise what they can achieve.

Tobacco production is technically and physically demanding but compared to many other cash crops – for example cotton – tobacco is one of the most attractive crops for farmers to grow.

If tobacco was not worthwhile from a viability and profitability perspective, I'm not sure the farmer would be motivated to grow.

Suppliers and contracted farmers, with the support of local relevant national tobacco authorities, agree a price matrix by grade for leaf to be purchased before setting out the crop for that season.

We ensure we are aware of the farmer's cost of production and the logic behind setting prices by grade, so we can make sure the prices we're paying contribute to fair returns and margins.

Farmers are then paid as per the agreed matrix by determination of the grades they deliver to the supplier for sale, with all grades and prices subject to arbitration.

**Alex:** As I understand it, there's also an Integrated Production System, IPS, to support contracted farmers in maximising their yields. Tell us a bit more about that....

**Warwick:** The IPS supports contracted farmers with inputs and technical advice to give them every opportunity to carry out sustainable agricultural practises, not only to ensure financial viability but also to husband and protect the environment for future crops and generations.

Every farmer in an IPS environment has a contract and they are also required to have contracts with each of their workers.

Our suppliers also have leaf technicians who work with farmers to encourage good agricultural practices, improve yields and quality, and ensure ESG compliance.

And I should add that the leaf technicians' advice and support is not only limited to contracted farmers. Training is often carried out in groups so uncontracted farmers in the area can also take part; they're encouraged to attend these sessions to enhance their understanding of good agricultural practices and compliance.

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**Alex:** Surinder, one of the big issues facing these farmers is their ability to run a sustainable business against a backdrop of declining tobacco consumption. What are we doing to help this situation?

**Slide 14 – Alternative Crop Farming**

**Surinder:** For many years now, we've worked with our suppliers to support tobacco farmers to grow alternative crops.

Some of these crops include vegetables, sunflowers, nuts, maize, honey and beans. We saw some of the peanut and bee-keeping operations on farms in Africa last summer – truly wonderful tasting honey, I should add!

In almost all regions farmers will not monocrop, which means that tobacco will not be the only crop they grow.

Farmers will grow other food or cash crops alongside or in rotation with tobacco, which are often agriculturally complementary to each other.

These crops are either consumed by the farmer and his family or the local community or sold for extra income.

Our suppliers support the farmers and their crops through various purchasing agreements, offering a route to market which supplements their income as tobacco volumes decline.

**Alex:** OK, thanks. Let's move on now and talk about child labour. Critics say tobacco companies don't care about the plight of children working on these farms. What do you say to that?

**Surinder:** Nothing could be further from the truth and in fact I think you would be hard pushed to find any agricultural industry – be that cotton, cocoa or tobacco – where child labour is accepted.

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We are totally opposed to child labour. As Alison said, human rights is one of our five ESG focus areas. Our respect for human rights extends throughout our operations and tackling child labour is a key priority.

**Alex:** So, what are we doing about it then? Give us some examples.

**Surinder:** Child labour is an incredibly complex issue with deep rooted systemic issues such as poverty, inability to access infrastructure and labour requirements.

It is not an issue we can solve in isolation and as such we have three main avenues we use to address child labour.

### **Slide 15 – Addressing Child Labour**

Firstly, we have the industry-wide Sustainable Tobacco Programme or STP; here, we insist on high supply chain standards and require all of our tobacco suppliers and associated farmers to participate in this programme.

Secondly, there's our Leaf Partnership investments; here, we seek to understand some of the root causes that can lead to child labour and invest in programmes that positively support farmer livelihoods.

And thirdly, there's our funding and participation in the Eliminating Child Labour in Tobacco Growing foundation, or the ECLT.

**Alex:** Ok, so let's get into a bit more detail on each of these, starting with the STP. What specific areas does this programme look at?

### **Slide 16 – Sustainable Tobacco Programme**

**Surinder:** The STP aims to drive consistently high agricultural practices in a number of areas, such as environmental management, governance, labour practices and human rights issues – including, of course, child labour.

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The labour practice pillar is based on the International Labour Organization Declaration on Fundamental Principles and Rights at work, as well as other relevant ILO conventions.

The STP is an industry-wide framework for continuous improvement and involves self-assessment questionnaires, improvement plans and independent reviews.

We use the information provided through STP to inform our supplier ratings, focus interventions and support dialogue with suppliers. If a supplier fails to meet the minimum performance requirements, our preference is to work with them to raise supply chain standards.

**Alex:** Can you give us an example of where supplier standards have fallen and the action that Imperial has subsequently taken?

**Surinder:** Sure, in 2017 during an STP audit, we were disappointed to find instances of child labour at a farm belonging to one of our premium cigar leaf suppliers in Nicaragua.

Since then, we've been working with the supplier company to improve processes through corrective action plans. This has included things like introducing contracts for temporary staff, better signage around the farms to make it clear that child labour is not acceptable and maintaining better documentation of farm workers.

Our Leaf Sustainability team revisited the supplier in 2018 and 2019, and we're pleased that no repeat signs of child labour have been found and, importantly, that the supplier continues to enact all areas of the corrective action plan.

**Alex:** Great. The STP's been in place for some time now and while it's been a very effective tool, are there areas where it could be improved?

**Surinder:** Absolutely, we're currently working with others in the industry to redefine our requirements for the STP framework.

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STP 2.0 is being developed to focus on material sustainability aspects within tobacco growing. Using a risk-based approach, the industry-wide steering committee is working with subject matter experts as well as our suppliers to ensure positive impact and continuous improvement on the ground.

Through these developments, our aim is to further enhance the transparency and reporting of our sustainability impacts....and we'll be working hard through the industry steering committee to make the necessary improvements in 2020.

**Alex:** So that's STP. Let's now move on to talk about the Leaf Partnership Programme; what sort of projects does this programme support?

**Slide 17 – Leaf Partnership Programme**

**Surinder:** Working with our suppliers, these investments are typically allocated to farming communities identified as having the most need.

Here, we seek to enhance farmer livelihoods by addressing some of the root causes affecting farming communities, including those associated with child labour.

To give you an example, in recent years we've been working with our suppliers to provide tobacco farming communities with access to clean water and water storage facilities.

Through the construction of boreholes, dams, weirs and ponds in water-scarce regions, we're providing tobacco farming communities with access to water all year round, regardless of droughts and other climate-related impacts.

This means farmers are able to produce healthy seedlings, have food security – as they can water vegetables during the dry season – and continue to supplement their income.

Local biodiversity is also encouraged and very importantly it means that we're reducing labour requirements as children are often involved in the fetching of water.

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**Alex:** These projects are having a really positive impact on local communities. Warwick, you've been involved in many of them, can you give us an example of the Leaf Partnership Programme in action?

**Slide 18 – Leaf Partnership Programme: Borehole Project**

**Warwick:** Yes, I can think of a recent one in Malawi. These investments are largely focused on farmer viability and welfare.....and in my experience in rural communities I see nothing as more important than clean drinking water and water sources supporting agriculture production.

We identify the communities and the need, and in this case the village we visited in Malawi had no access to clean drinking water.

Fortunately, underground water was found in the village and we financed the drilling and dressing of the borehole.

The borehole was then handed over to the community who are required to take responsibility and manage it on behalf of the village.

Generally, small committees are formed to do this and our continual monitoring of the investments through our suppliers demonstrate they appreciate the value and take good care of the installation.

And to reiterate Surinder's point: this not only secured the village a constant supply of clean, fresh water – it also means their children now don't have to walk four miles, twice a day to fetch it, therefore reducing child labour and enabling the children to go to school.

**Alex:** So, that's STP and Leaf Partnership; there's also the ECLT – the Eliminating Child Labour in Tobacco Growing Foundation. Surinder, Imperial's a long-standing member of this organisation, we continue to fund it.....is it money well spent?



**Slide 19 – ECLT**

**Surinder:** In a word, yes, it is money well spent.

As well as projects on the ground, the ECLT plays an important role in convening broader stakeholders – including governments, the wider industry, farm workers, and the International Labour Organization – to come together to ensure sustainable solutions to address child labour.

As I've stressed before, child labour is a complex issue that no one single player is going to solve in isolation. Advocacy and stakeholder engagement are key here and this is something the ECLT team do well.

It's an important organisation that's going through an interesting transition, building on their vision to – and I quote – 'combat the root causes of child labour in tobacco-growing communities', they also recognise their broader remit in creating – and again, I'm quoting the ECLT directly – 'thriving agricultural communities where tobacco is grown'.

This links back to my earlier point on alternative crops; these farming communities don't just grow tobacco, and child labour isn't just found on tobacco farms.

We see this as a positive development and it further evidences ECLT wanting to broaden its remit to generate wider debate and action on the issue of child labour. This issue is not unique to the tobacco industry.

**Alex:** Warwick it's clear we're totally against child labour and there's a lot going on to address it; but the stark reality is it's still happening. What action does Imperial take when children are discovered working on farms?

**Warwick:** You're right to call that out, Alex – child labour is a reality of life within rural farming communities, no matter what the crop.

In Africa, the average family size is seven – Mum, Dad and five children – and some of those children will inevitably end up working on the farm to support the family business.

The key question is: how do we deal with it?

Through STP and other programmes, suppliers monitor contracted farmers to educate them on labour practices and the need to avoid child labour.

If incidences of any non-conforming practice are observed they are immediately reported.

The technician and the supplier then work with the farmer to put in place remedial action to prevent any further incidences, with the whole exercise driven by awareness and education.

**Alex:** So, Imperial or its suppliers wouldn't automatically cease trading with a farmer who allowed children to work on his farm?

**Warwick:** No; we think education and understanding are better approaches. We try to find solutions together with our suppliers to help the farmer avoid relying on children.

But after that, if there are further incidences of child labour then yes, we would then have to consider our position – but, as I said, our preference is always to work with the farmers to find remedial actions and solutions.

**Alex:** Thanks, Warwick.

Surinder, let's cover one more topic before going to Q&A: how do we keep farmers safe.....and by that, I mean safe from the chemicals used for pesticides and safe from the potential exposure to green tobacco sickness?

**Slide 20 – Safe chemical use**

**Surinder:** Through the Sustainable Tobacco Programme, we promote a safe working environment for suppliers and farmers.

Crop protection agents, or CPAs, are chemicals needed to ensure healthy crops and minimise the risk of spreading pests. Our suppliers provide a small amount of CPAs to farmers, based on the size and type of crop they're growing.

Farmers are then supported with training on how to apply CPA, how to safely store the little they have been provided, and then how to safely dispose of it.

In fact, farmers producing tobacco for our cigarettes only use the very essential chemicals and the crops purchased from our suppliers have very few and low chemical residue levels.

In terms of green-tobacco sickness – our suppliers ensure that workers understand this risk and apply measures to prevent it.

This can include communication and training on safe working practices on farm, staying hydrated and using the provided protective wear.

Through engagement with suppliers and the STP we influence the high supply chain standards we expect and take the welfare of farmers very seriously.

**Alex:** What does this engagement look like? How do we ensure that effectively communicate these important topics to farmers?

**Surinder:** In our experience, farmers are very receptive to working with us and our suppliers.

One example I've seen working really well is the use of drama groups to help communicate the importance of adult-only labour and safe farm working.

This involves actors using humour and interaction to bring these topics to life and help support educating farmers.

Engaging farmers in this way overcomes any language or literacy barriers that may exist.....and is essential in ensuring that key messages around health and safety and labour practices are understood and can be effectively implemented.

Ultimately health and safety is incredibly important to us: it's not an optional extra, it's an absolute business imperative. The success of the tobacco farmer is integral to the long-term sustainability of our business.

**Alex:** Surinder, Warwick – thanks very much.

### **Slide 21 – Our Sustainability Strategy**

As you've heard today, our sustainability strategy is central to our growth aspirations. It's fully aligned with our commercial ambitions and supports the business by enabling growth and creating value.

I hope this has been a useful insight into the work we're doing to support Farmer Livelihoods and Welfare; there's further information on our corporate website if you'd like to find out more.

I'll now hand back to Peter to chair the Q&A.

**Peter:** Thanks Alex. We will be happy to take questions. I will hand back to the operator to facilitate.

**Q&A**

**Nico von Stackelberg (Liberum):** Thanks for your time. I'm not sure if this is the place to be asking about waste and consumer health, but I just want to ask a quick one on extended producer responsibility schemes in Europe and single-use plastics issues relating to regulation in Europe.

It could be affecting some of your main markets like Germany. Could you help quantify the rough financial impact of these sorts of bits of legislation? And maybe could you just take a step back as well and tell us how we got here in terms of extended producer responsibility schemes being imposed on the business? And then I have a second one as well, thanks.

**Surinder:** Sure. So, if I begin with the EPR schemes currently in Europe. You may be aware that many of our markets are already subject to EPR schemes around packaging and that's something we've done for a number of years. In terms of the single-use plastics directive that's coming in and then particularly the EPR schemes related to that, of course we can't quantify that measure yet as we're still waiting on guidance from the EU Commission on what that will look like, but this is a topic that we're following closely and as more information is available to us, of course, we'll be communicating on that.

**Nico von Stackelberg:** Okay. And the next one's one consumer health and offering something better to smokers. I'm quite interested in the modern oral category and you have a wonderful brand there with Skruf, and I was wondering, do you expect to file PMTA for Skruf in the US? And if not, why not?

**Peter:** Clearly, modern oral is an area where we've had some very successful launches over the past year or so. It's an area that we're looking at. I can't comment specifically on future plans for market launches today. We're not likely to comment on those until we do them. So I won't comment specifically on that one.

We haven't submitted the PMTA process at the moment in the US, as you'll be aware, but clearly we are looking at that space more broadly and as you know, as we said earlier in the presentation, we've adopted a multi-category approach and modern oral is part of that portfolio of products. So I think that's all I can comment on that today, I'm afraid.

**Nico von Stackelberg:** Okay. And I guess just a final one, from my notes here. In terms of contributing and staying on top of the Imperial brand stakeholder panel statement, I know you included some banks, I imagine you didn't include all of the banks that were included in the engagement. What's the best way to stay tuned to this in the future?

**Peter:** Well, we had a couple of banks that came along to the stakeholder panel session. I think the easiest thing is to take this offline and have a conversation to make sure we properly understand your requirements and make sure that we can meet those. Very happy to do that.

**Nico von Stackelberg:** Excellent. Thank you.

**Thomas Grillenberger (Allianz):** Good afternoon. Thanks for taking my questions. I have two on the supply chain, on the topic of this webcast. I'm wondering if you're planning to disclose specifics about the discovered child labour incidents, probably via the data you get from the STP? And if so, by when? And related to this question would be whether we can expect some more specific targets, actually how you want to reduce child labour or the failure to provide PPE, for example, and so that we can track, actually, how you proceed with regard to achieving these targets?

**Surinder:** Sure. So if I begin with STP more broadly. The development that we're currently undertaking through 2.0, that's absolutely the ambition to be able to be more transparent in terms of some of the impacts we're seeing on the ground. And of course, child labour will be one of those issues. But that is work in development. We're hoping to have that towards the end of 2020.

Of course, once the data is in, we'll have to take a view on whether that falls into this year's reporting or next but it's absolutely something we're working to. Warwick, do you want to add something on the KPIs?

**Warwick:** I think you covered it really well, but obviously an outcome of the new STP 2.0 will be the KPIs that we're going to set.

**Thomas Grillenberger:** Okay. Thank you.

**Blaine Abraham (Allianz):** Hi there team. Thanks for having this webinar. One thing I wanted to build on was what other metrics do you measure as part of these schemes that you do and will you release these sort of numbers in a broader sense, not just child labour incidences but all of the metrics that you look at?

**Surinder:** If we're talking broader KPIs in terms of our ESG agenda, yes, we're absolutely looking at that at the moment. We've got our five focus ESG priority areas that Alison mentioned in that presentation today and absolutely the ambition is to have meaningful KPIs behind all of them. In terms of environmental KPIs, you'll see that we've reported many of those for a number of years. So, absolutely that's work in progress.

**Blaine Abraham:** Do those kind of KPIs include recidivist rates? So, for example, if you know of child labour and then you intervene, whether they repeat those offences in the future?

**Surinder:** Well, the metrics that we're developing, that's something that we do look at. Of course, we track where we've had incidences of child labour and obviously the corrective actions plans we've done. And as I mentioned in that example of Nicaragua, once we're going back to a supplier to see that the corrective action plan has been implemented, of course that metric then demonstrates that, whether they are a repeat offender or not.

And of course, because that then features into our purchasing agreement, if that supplier continually fails to meet the requirements, as Warwick mentioned, obviously it then has an impact on whether we choose to purchase with them or not.

So yes, the KPIs do look at that but again that's something that we use internally. What we're trying to do with STP moving forward is really look at KPIs that we can be more transparent with publicly.

**Alex:** Warwick, perhaps is it worth you talking a little bit about what actually happens on the ground, you know, with the technicians out in the field, when they see evidence, what the process is for managing that?

**Warwick:** Yeah, a big part of a technicians' role is not only supporting the farmer technically but actually ensuring the farmer meets the compliance requirements that the supplier expects and that we expect from the supplier. So, when a technician visits a farmer, he looks at everything like, for example, child labour, like water, what the farmer's practices are, for example, the constructions he's using to cure the tobacco.

But I'll give an example, if you're talking specifically about child labour, there's a number of observations that a technician will make. For example, if there's a child walking home from school and he happens to be walking through the field of tobacco, the technician will note this as a non-conformance and then he will go onto the farm and if the child is, perhaps, carrying some tobacco or perhaps helping out or something, then he will also note this as well. And those will be, if you want to use the word, graded, and then you will determine, okay, so there may well be 15 or 16 or 20 notifications from that visit.

But if you consider – so then what the technician will do is that he will get his agronomy support to come to the field and they will look at the notifications and if you consider, yes, the child was just walking home from school, I mean, really a child walking home from school through a field of tobacco is not child labour.

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But if he is involved in any of the production, they will make the notification, they will affect a prompt action which will be immediately discussing with the farmer what they've seen and what to do about it and what's allowed or not allowed. Because also what we need to keep in mind is the technicians and the farmers are also aware of what work the children of certain ages are allowed to do. So that also needs to be taken into account when you are investigating this.

So it's not just a case of looking and seeing a child of a certain age either walking through the field or doing something in the field, it's taking everything into account. What was that actual child doing there, how old is the child and what is going on in the field? So, it's a very thorough investigation. You can determine, yes, this is something that we needn't be concerned about or yes, this is something we should really be concerned about and there's something we need to do about it.

**Peter:** And if they were repeat offenders in that case, you would take – obviously take action, potentially.

**Warwick:** Yeah, you would, but our suppliers are really good at not only taking prompt action but to follow it up. And like I said in the conversation that we had before the Q&A, it really is the best opportunity to work with the farm to find a solution. You know, for me, I wouldn't – and I do encourage with our suppliers, last resort is taking contracts away from these farmers. If they are serial offenders, then quite frankly you have to make a call. But what we are finding is that the farmers are generally receptive to being approached, educated and being made aware of these non-conformances.

**Blaine Abraham:** I understand. So there's quite a qualitative aspect to it as well. Knowing all of that, how many farmers or suppliers have you dropped in the last, say, three years?

**Warwick:** I can tell you that we have rationalised our supplier footprint. Off the top of my head, a number, I'm afraid I can't give that right now.

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**Peter:** We can come back with that, Blaine.

**Blaine Abraham:** Okay. Thanks.

**Warwick:** But I would also like to follow that up that we have also taken on suppliers.

**Blaine Abraham:** Understood.

**Peter Silver (Aberdeen Standard):** Hi, I just wanted to know, how does this sustainability strategy tie back directly to your executive remuneration?

**Alex:** Well that's something that we're actually looking at, at the moment, actively. There are discussions going on within the business. So that's not in play at the moment but we are actively working towards it being in play.

**Peter Silver:** Are you able to give an idea of which kind of areas you'll be focusing on at all?

**Alex:** I think it would be premature to go into detail on this call but as I say, it is actively being looked at. The whole NGP piece is already – which links with consumer health in terms of our ESG focus areas – that's already part of the KPI structure. And as I say, we're looking at it and as soon as we're able to give more information on it, we will.

**Peter Silver:** Okay, thanks.

**Thomas Grillenberger:** I would like to get back to the STP for a moment. I've read that on average the visit or the audits take place every three years and that sounds quite low to me. First of all, I was wondering whether these visits are actually unannounced and secondly whether you think that this level of frequency is sufficient to really discover the prevalence of child labour on the farms.

**Warwick:** You are correct. And just to give you a full picture of the STP, we are reviewing it now but what has been the case in the past three years was that every year, each supplier was required to do a self-assessment and then there was a three year cycle of reviews. So you're correct there. And a lot of these – most of the review was desk based but if the auditors went to visit farmers, the visits were unannounced. One of the reasons why we are reviewing the STP programme is that we want to improve the impact and the frequency of the reviews. So actually, to make it less important about the self-assessment but more important how we use the information from the self-assessment, assess the risk on the ground, do the audits and then define the impact we can effect.

**Operator:** There are no more questions at this time. Please continue.

**Peter:** Okay, well I'd like to thank everyone for joining today and the time that today's presenters have given. Please do not hesitate to contact us if you have any follow-up questions. We do plan, as we said earlier, to cover other aspects of our ESG agenda in future webinars and will keep you posted on these and to help us with that, we will be sending out a brief survey after this webinar concludes. So if you could state your feedback on that and what are the particular areas you'd like us to explore in future. Thanks to everyone for their time today and look forward to catching up again soon. Thank you. Goodbye.