

MODERN SLAVERY ACT STATEMENT 2017



SLAVERY AND HUMAN TRAFFICKING ARE ABUSES OF A PERSON'S FREEDOMS AND RIGHTS. WE ARE TOTALLY OPPOSED TO SUCH ABUSES AND SEEK TO PREVENT THEM OCCURRING IN OUR OPERATIONS AND SUPPLY CHAINS.

This statement is prepared and published on behalf of Imperial Brands PLC and its subsidiaries, pursuant to the obligation under section 54(1) of the Modern Slavery Act 2015 (the Act). References in this statement to 'us', 'our' or 'we' are to Imperial Brands PLC and its subsidiaries.

This statement identifies the various risk management and mitigation measures, which we have undertaken in our business and supply chains, in relation to slavery and human trafficking during the year ending 30 September 2017. This Statement was approved by the Board of Imperial Brands PLC on 7 February 2018.

MODERN SLAVERY AND HUMAN TRAFFICKING

We understand slavery and human trafficking as defined in the Act, the UN Universal Declaration of Human Rights and the conventions of the International Labour Organisation (ILO), particularly relating to forced or compulsory labour.

We recognise that forced labour is a form of slavery and includes debt bondage and the restriction of a person's freedom of movement whether that be physical or non-physical.

In 2017, the ILO reported that around 25 million people in 2016 were forced into labour, and that these people were being forced to work under threat or coercion as domestic workers, on construction sites, in clandestine factories, on farms and fishing boats, in other sectors, and in the sex industry. We recognise that all businesses are exposed to the risk of modern slavery, within their direct operations and their supply chain.

OUR BUSINESS AND SUPPLY CHAINS

We are a leading multinational company headquartered in Bristol, United Kingdom. Our brands and products are available in over 160 countries worldwide and in 2017 we achieved a tobacco net revenue of some £7.8 billion.

Our operations are predominately factories and sales and support offices.

Our business is built around five corporate brands: Imperial Tobacco, home to most of our tobacco subsidiaries around the world, manufacturing a range of cigarettes, fine cut and smokeless tobacco products, mass market cigars and papers and tubes;

Tabacalera, our international premium cigar business; ITG Brands, the third largest tobacco company in the USA; Fontem Ventures, focused on developing a portfolio of next generation products including the blu e-vapour franchise; and Logista, which is one of the largest logistics businesses in Europe.

We have two main elements to our supply chain: (i) the agricultural supply of tobacco leaf; and (ii) non-tobacco materials including papers, filters, inks and adhesives as well as the components that are required for our developing next generation products, primarily e-vapour.

WE EMPLOY APPROXIMATELY

33,800
people

OUR PEOPLE ARE IN MORE THAN

60
countries globally

WE HAVE

40
manufacturing sites



OUR VALUE CHAIN



Tobacco Leaf Supply

We purchase the majority of our tobacco leaf from third party suppliers, mainly through leading international leaf supplying companies. Our tobacco is sourced from various origins including Brazil, China, India, EU Member States and Africa. A small amount of our tobacco is purchased through direct involvement in the cultivation of tobacco leaf, principally in Madagascar, Morocco and Laos.

In 2017, we purchased over 128,000 tonnes of tobacco from some 38 different countries and 30 suppliers. The leaf supply chain varies in complexity ranging from suppliers with large commercial farms to suppliers with contracts with smallholder farmers, of which there are hundreds of thousands in Sub-Saharan Africa alone.

Non-Tobacco Materials Supply

We have a Global Procurement Team that oversees and manages a strategic approach to the sourcing of product making materials, packaging materials, capital goods, machinery and spare parts, travel and fleet, services, utilities and information systems.

In 2017, we had some 520 direct material suppliers, of which 90 are centrally managed, and a total of 21,000 on our approved supplier list for direct and indirect suppliers. Of our direct material supplier base some 80 per cent of our main spend is with 22 key suppliers.

Approved supplier list

21,000

direct/indirect
suppliers

Key suppliers

22

account for 80%
of our main spend

OUR POLICIES AND BUSINESS CONDUCT

Our respect for human rights extends throughout our operations and supply chain and is embedded in our **Code of Conduct** which all of our employees, suppliers and business partners are required to adhere to.

Our **Code of Conduct** specifically states that respecting human rights is important for our people, our external reputation, our supply chain sustainability and our licence to operate. We respect the most fundamental of human rights including no child labour, no forced labour and the freedom of association.

Our Governance Team provides guidance, training and tools to enable all employees to operate within the law and within our Code of Conduct and Group policies and standards.

The requirements of the Code of Conduct are communicated and monitored by our e-learning and compliance system as well as 'face to face' trainings and cascades. Our Code of Conduct is available in over 30 different languages and published in full on our corporate website.

Operational management are held accountable for the compliance of their business units to Group policies and standards through the completion of our Group Control Matrix assessment process, and certification of compliance to Group policies and standards. Our Internal Audit function provides an independent challenge to the Group's activities, as required by the Audit Committee and management.

We require our suppliers to uphold equivalent standards of business conduct to our own including respect for human rights. Compliance with our Code of Conduct is included within our procurement process.

In keeping with our commitment to act with integrity in all our business dealings, we have further policies which are relevant to mitigating the risk of slavery or human trafficking occurring in our business or our supply chains. We have identified these policies that are particularly relevant to this Statement on the basis of our understanding of Modern Slavery risk.

Where it is appropriate or necessary, compliance with relevant elements of our Code is directly incorporated into our contractual arrangements with suppliers.

We provide more detailed information on our wider respect of Human Rights within the Responsibility section of our corporate website.



See our Responsibility section here:
www.imperialbrandsplc.com/responsibility

Speaking Up (Whistleblowing)

We expect all our employees and business partners to act with integrity in accordance with the standards of behaviour described in our Code of Conduct. Concerns can be raised independently by employees or our Business Partners using our Speaking Up service.



The Expolink Hotline operates 24 hours a day, 7 days a week (except 25 December). Each country has its own dedicated number – details can be found on the www.expolink.co.uk website as well as on our corporate website www.imperialbrandsplc.com

The relevant policies applicable to all Imperial Brands entities include:

- Code of Conduct
- Anti-Bribery and Corruption Policy
- Corporate Development Policy
- Employment Policy
- Fairness at Work Policy
- Global Procurement Policy
- Health Protection and Wellbeing Policy
- Occupational Health, Safety and the Environment Policy
- Product Supply Compliance
- Sanctions Compliance Policy
- Speaking Up (Whistleblowing) Policy
- Supply Chain and Premises Security Policy

HUMAN RIGHTS RISK ASSESSMENT AND DUE DILIGENCE

During 2016 we undertook a high-level Human Rights Impact Assessment (HRIA) across our global operations and our supply chains, working with the independent expert consultancy Verisk Maplecroft. This was guided by a six-stage due-diligence process, based on the UN Guiding Principle on Business and Human Rights.

This included:

-  **1** An assessment of policy
-  **2** The steps taken to assess risk
-  **3** Identification of risk mitigation actions
-  **4** The monitoring of performance
-  **5** The reporting of performance
-  **6** The approach to remediation

The HRIA was driven to help us systematically assess, evaluate and prioritise areas in our global operations and in our leaf and non-tobacco material (tier one suppliers) supply chains.

The HRIA identified eight priority risk issues for the four stakeholder groups of Consumers, Workers, Suppliers and Communities. The right not to be subjected to slavery, forced labour or servitude was identified as a priority in relation to suppliers. We provide further detail on the HRIA and the follow-up actions and progress in the **Responsibility section** of our corporate website.

As part of our ongoing operational approach we assess risk based on a number of factors including geographical risk indices pertaining to human rights, the level of supply chain control, external governance factors and levels of political stability. This informs our focus for raising awareness and undertaking more detailed assessments particularly in relation to the management of our supplier programmes and our supplier base.

Based on our risk assessments, experience and as highlighted by the HRIA we understand that the greatest risk of slavery and human trafficking is in our supply chain where we undertake procurement activities and where operations and managerial oversight are out of our direct control.

Our main approach to due diligence is focused on setting the required policies and standards and monitoring the effectiveness and compliance with these requirements. Our PLC Board of Directors has overall responsibility, with any major concerns or non-conformances being reported into the Audit Committee, as required by our governance framework and approach.

For the manufacture and sale of our products we procure leaf tobacco, manufacturing materials and promotional items. In addition to the training and awareness provided under our Code of Conduct, we also have supplier standards and specific supplier programmes. This is in line with our Global Procurement Policy. Our supplier standards address a broad spectrum of potential human rights issues including working conditions, fair remuneration, working hours, child labour, respect, non-discrimination and health and safety, as well as freedom from forced labour.

Our geographical risk assessments, using data from expert service provider Verisk Maplecroft, has identified operations in Africa, Eastern Europe, Caribbean, Latin America and the Far East as being in a higher context of country risk for the prevalence of forced labour. Understanding risk helps to inform our audit schedules. We apply the same standards and expectations globally.



DUE DILIGENCE IN TOBACCO SOURCING

Our responsible leaf sourcing programme, known as the **Sustainable Tobacco Programme (STP)**, enables the required social, environmental and economic standards in our tobacco supply, from farms through to the leaf-processing facilities that produce the finished agricultural products ready for shipping. STP facilitates continuous improvement through a measurement framework involving a combination of self-assessment, third-party review and our own engagement with suppliers. This single supplier programme is enabled and administered by third-party expert service providers AB Sustain.

STP is structured around four pillars: (i) governance, (ii) environment, (iii) people and (iv) crop or facilities management, as appropriate. The people pillar is the most important in relation to the respect of human rights and stipulates that there must be no forced labour including: prevention of bond, debt, threat, freedom to leave employment, no withholding of payments, no retention of identity documents nor the restriction of movement.

We require that all our leaf suppliers participate in STP. They are subject to a phased cycle of onsite audits to check against the supplier's self-assessment and provide independent review by our appointed external service providers AB Sustain. This is to ensure that our requirements are clearly understood and if required action plans implemented. More detailed information on STP is provided on our corporate website. STP performance is reported in our **2017 Sustainability Report** also available on our website. Our leaf suppliers' leaf technicians also have an important role in directly communicating expectations for labour practices and the respect of human rights at the farm level.



DUE DILIGENCE IN NON-TOBACCO MATERIALS SOURCING

The main non-tobacco materials (NTMs) we use include paper and board, filters and filter tow, foils and films, printed materials and glues. Our NTM Supplier Qualification Programme includes social and environmental aspects. Suppliers must complete a supplier compliance check. This incorporates business conduct, environmental management, and issues relating to labour practices including discrimination, child and forced labour, freedom of association, remuneration, working hours and health and safety.

We also review whether our suppliers evaluate their own suppliers and sub-contractors against our requirements. In this way we seek to extend influence within our supply chains. Suppliers that do not meet the required performance scores are required to develop and action an improvement plan, which is subject to a new audit and if any required improvement plans are not implemented they are delisted as an approved supplier.

In both tobacco and non-tobacco materials sourcing we use the results of supplier information and

monitoring to inform supplier scores and to formulate improvement actions. In the instance of a severe non-conformance or the unwillingness to pursue improvement we will consider terminating any business relationship.

Our Global Procurement Strategy is further helping to enhance supplier standards. The strategy has rationalised our supplier base. Having fewer and stronger supplier partnerships has enabled us to better understand our business partners and provides leverage to demand higher standards if required.

In 2017 we consolidated our supply base by 10 per cent and our ongoing review of our direct material suppliers performance showed a further 2.3 per cent improvement compared to the previous year in the relevant quality, service and price performance parameters.

We also implemented compliance monitoring as a standard 'Source to Contract' element for all direct materials whether managed centrally or locally. Following this all new contracts for our direct material supplier base have been subject to compliance monitoring in terms of our requirements for supplier standards, including the employment practice element.

DUE DILIGENCE IN RELATION TO ILLICIT-TRADE

We recognise that there could be a risk of human trafficking in the distribution and logistics activities that are connected with our business. It is also feasible that criminals involved in the illicit trade of our products may also be involved with slavery and human trafficking. We seek to mitigate such risks by the controls we have in place in our supply chain that are driven primarily in relation to the threat of illicit trade.

As part of our anti-illicit trade (AIT) work, we have strict controls in place, including a 'Know Your

Customer' (KYC) process that requires formal due diligence and on-going reviews. The KYC process is in line with our Product Supply Compliance Policy and is governed by our EU AIT Cooperation Agreement, which was enacted in 2010. This Agreement is specifically with the 28 EU Member States but also applies to our operations globally. It specifies requirements for the tracking and tracing of our products, the vetting of customers and contractors, restricting supply to be commensurate with demand and for financial arrangements and liabilities. In addition we have a Supply Chain and Premises Security Policy to help direct activities that will better protect our business and mitigate risk.

MODERN SLAVERY TRAINING AND AWARENESS

In 2017 we held a cross-functional workshop run by expert service providers SGS for employees on business and human rights, which specifically included a focus on forced labour in terms of what to look for and potential issues. This two-day workshop was attended by representatives of Global Procurement, Leaf Procurement, Group Security, Human Resources, Corporate Responsibility, Internal Audit, Risk Management, Fontem Ventures, Corporate Affairs and Governance. This was in addition to the on-going training and awareness with employees and suppliers in relation to our **Code of Conduct** and supplier standards.

Our **Code of Conduct** provides additional training and guidance to the wider organisation on the standards of behaviour we expect, particularly in relation to business decisions and the reporting of concerns. In 2017, the **Code of Conduct** was reported as having reached over 83 per cent of employees through inductions, face-to-face training and our e-learning and compliance monitoring system.

We have a select number of employees specifically trained in relation to Human Rights and the International Standard for Social Accountability SA8000. The training includes some of the specific nuances relating to the circumstances that would raise concerns relating to Modern Slavery and Human Trafficking.

In improving our awareness and understanding of Modern Slavery we have the opportunity to learn from others. We attended the 'Global Modern Day Slavery and Supply Chain Summit' held in London on 24th February 2017. We also continued our charitable partnership with Hope for Justice, which we have been supporting since 2014. Hope for Justice is an international charity which aims to end human trafficking and modern slavery by rescuing victims and restoring lives.



EFFECTIVENESS AND PERFORMANCE REVIEW

In the mitigation of slavery or human trafficking risk we have a number of internal performance measures and controls that are periodically reviewed.

These include:

- **Numbers of employees who have completed Code of Conduct compliance training**
- **Issues raised through Speaking Up (Whistleblowing) arrangements**
- **Grievances**
- **Supplier audit results**
- **NTM Supplier Qualification Programme results**
- **Supplier rating scores**
- **Scores from the STP Leaf Supplier Programme**
- **Compliance with Product Supply Compliance Policy standards**
- **Number of security incidents and their root causes**



In addition, our Internal Audit Function reviews the effectiveness of the typical controls the Group and its subsidiaries have in place, such as policy compliance, which helps to mitigate the risks of slavery and human trafficking being present in our business activities.

We are aware of some criticisms against the tobacco industry as raised by Human Rights Watch in relation to small-scale farmers and hired workers in terms of contractual arrangements, working hours and wage payments, particularly in the African region. We welcome continued dialogue with Human Rights Watch and are working collaboratively to improve industry standards within the STP framework and to

progress a partnership approach with our tobacco leaf suppliers.

In 2017, no incidents of modern slavery or forced labour were identified through our own due diligence processes and no incidents, grievances or concerns relating to modern slavery or forced labour were reported or identified through our whistleblowing procedures or grievance mechanisms. We recognise that whilst no incidents were identified this does not mean issues do not potentially exist, especially further away from our direct sphere of influence. We therefore remain committed to further enhancing our approach and understanding as explained in the section below.

FURTHER STEPS

IN 2018 WE PLAN TO FURTHER DEVELOP OUR APPROACH TO ADDRESSING MODERN SLAVERY AND HUMAN TRAFFICKING THROUGH A NUMBER OF INITIATIVES INCLUDING:

- Enhancing our Human Rights policy approach to provide further specific guidance to our employees on their responsibilities and Group expectations including those in relation to forced labour;
- Introducing a new e-learning module targeted to relevant employees to further strengthen operational practice and individual behaviours in the respect of human rights and in relation to forced labour;
- Launching a new Supplier Code, in order to better communicate our expectations of our suppliers, including their obligation to respect human rights, avoid forced labour and raise any concerns with us.

We continue to work to respect human rights and seek to mitigate the risk of Modern Slavery and Human Trafficking in our supply chain. We are pleased no specific incidents were identified in 2017, however we remain vigilant and committed to the improvements cited.



ALISON COOPER, CEO

Chief Executive
Imperial Brands PLC

7 February 2018