



PHILIP MORRIS
LIMITED

Modern Slavery Act Transparency Statement For The Financial Year Ending 31 December 2017

This statement has been published in accordance with the Modern Slavery Act 2015. It sets out the steps taken by Philip Morris Limited during year ending 31 December 2017 to prevent modern slavery and human trafficking in its business and supply chains.

Introduction

Philip Morris Limited is the UK trading subsidiary of Philip Morris International Inc. ("PMI"). It is responsible for the sale and merchandising of PMI brands in the UK and Ireland. These brands include *Marlboro*, *Chesterfield*, *L&M*, *IQOS*, *HEETS* as well as the *Nicocig*, *Vivid* and *IQOS MESH* e-cigarette brands. Philip Morris Limited employs approximately 300 people throughout the UK and Ireland.

PMI is a leading international tobacco company, with a diverse workforce of around 80,600 people who hail from every corner of the globe. PMI operates 46 production facilities globally. Six of the world's top international 15 brands, spanning more than 180 markets, are PMI brands, including *Marlboro*, the world's number one. PMI is also commercializing smoke-free products that are alternatives to cigarette smoking.

When setting out in this statement steps we have taken to prevent slavery and human trafficking in our business and supply chains, we refer to steps taken by PMI as a wider group. By taking this global approach, this statement can set out properly the risks and priorities we are addressing across our supply chain. We have also built upon the content in our 2016 Statement, by referring to the previous Statement where PML has continued to progress with the same steps to prevent modern slavery, and providing updates and further information where PMI has implemented new policies and practices in 2017.



You can find out more about PMI at: www.pmi.com/who-we-are

Our value chain



Raw materials and other supplies

Leaf



+350,000

Farmers contracted by PMI and our suppliers in 28 countries

90%

Of the tobacco we purchase is through direct contracts (by our leaf operations or our tobacco suppliers)

2,800

Field technicians providing support to contracted tobacco farmers for GAP implementation

Other



50,000

Suppliers worldwide

13

Number of languages in which PMI's Responsible Sourcing Principles are available



2

Research facilities

+400

World-class scientists, engineers and technicians hired to support our best-in-class R&D capability since 2008

74%

Of our total R&D expenditure is dedicated to our smoke-free vision

+2,900

Patents granted worldwide related to our smoke-free products

The policies and practices driving operational excellence across our value chain

- Engagement Principles
- Conflict minerals
- Animal welfare
- Anti-diversion practices and tools
- Good Agricultural Practices (GAP) & Agricultural Labor Practices (ALP)
- Marketing Principles Good Conversion Practices
- Guidebook for Success (PMI Code of Conduct)
- Responsible Sourcing Principles
- Human Rights Commitment



80,600

Employees worldwide

46

Manufacturing facilities globally

34.4%

Of our employees at managerial level are women

31%

CO₂e scope 1+2 reduction since 2010

67%

Employees covered by collective labor agreements

4.9%

Employee voluntary turnover



Consumers

\$6bn

Net earnings

\$72bn

Excise taxes on PMI products



150m

Consumers of PMI combustible products

+4.7m

Adult consumers who have stopped smoking cigarettes and made the change to IQOS

+180

Markets where PMI products are sold

10,000

Smokers switching every day to IQOS



Retail



5.9m

Retailers selling PMI products

1.01

Fleet collision rate (vehicle collisions per million km driven)

77,000

Distributors and wholesalers

100%

Tracking and tracing (master case level)

226

CO₂e emissions from vehicles (g CO₂e per km driven)

Policies and Contractual Controls

As mentioned in our 2016 Statement, PMI became a signatory to the United Nations Global Compact (UNGC) in 2015. We participated in many of the UNGC Local Networks to learn, contribute and share our experiences, talents and resources on joint initiatives in the areas of Human Rights, Labor Rights, Environmental Responsibility and Anti-Corruption. Unfortunately in September 2017, the UNGC made a decision to exclude all tobacco companies from its membership.

Nevertheless, PMI remains committed to implementing the Global Compact's 10 Principles as part of our strategy and day-to-day work, including the elimination of all forms of forced and compulsory labour. We are also committed to the UN Sustainable Development Goals, and in particular are working to ensure that under Goal 8, we ensure good working conditions for all employees and play a role in promoting good working conditions for workers throughout our supply chain.

Human Rights Commitment

In 2017 we published PMI's Human Rights Commitment which is the basis of our Human Rights program. We have developed a range of policies and programs that address our value chain from supplier to customer and specific groups such as tobacco workers and children. Amongst those are our Responsible Sourcing Principles and our Agricultural Labor Practices as discussed further below.

We have also released our first Human Rights Roadmap, which presents the practical steps we're taking to implement our Commitment to Human Rights across our global operations and value chain from supplier to customer.

The research process and data-gathering included document review, interviews with managers and senior level employees from across the central organization, cross-functional workshops, and consultation with external stakeholders with expertise in labor and human rights. This gave us a basic understanding of human rights risks in our operating context. Drawing on this analysis, each function developed a human rights action plan focused on the most salient risks to rights-holders. This Roadmap consolidates the action plans from each of the functions at PMI to provide an overview of the activities we are undertaking to respect human rights in our business practices and across our supply chain, and to identify PMI's key areas of focus until the end of 2020.

The Roadmap is geared towards four broad ends:

- Embedding a culture of respect for human rights throughout PMI, our affiliates, and our business partners;
- Building a durable process for ongoing human rights due diligence across our operations and value chain from supplier to customer;
- Improving our grievance mechanisms; and
- Disclosing and reporting on our progress in line with the United Nations Guiding Principles on Business and Human Rights.

The following graphic illustrates our approach and we will update this Roadmap as we learn more about our gaps and areas for improvement.



Guidebook for Success

As mentioned in our 2016 Statement, our Code of Conduct, known as our Guidebook for Success, describes the fundamental beliefs that guide us in working for PMI. The Guidebook is available in 45 languages and is complemented by 18 Compliance policies, known as Principles and Practices. The Guidebook can be found [here](#).

We are now working on our internal Principles and Practices to address process gaps, and ensure human rights risks can be properly identified and addressed. This will include incorporating the Commitment to Human Rights into the Guidebook for Success, and revising the relevant Principles and Practices and supporting guidelines to fill substantive and procedural gaps practically and efficiently.

The ALP Code

In our 2016 Statement, we mentioned our commitment to respect human rights and the Agricultural Labor Practices (ALP) Code which we launched in 2011. The ALP Code defines the labor practices, principles and standards we expect to be met by all tobacco farmers with which PMI or PMI's suppliers have contracts to grow tobacco. The ALP program aims to progressively eliminate child labor and other labor abuses and to achieve safe and fair working conditions on all farms where our tobacco is sourced (see **Due diligence and assessment of suppliers** on the next page for further details).

Responsible Sourcing Principles

In 2017 we set the foundations for a more comprehensive and systematic approach to addressing supply chain sustainability through the development of a set of Responsible Sourcing Principles (RSP) and Implementation Guidance. Developed in consultation with external experts on human rights and key suppliers, the RSP apply to all suppliers doing business with PMI (except for tobacco farmers, who must follow our ALP program) and establish our expectations in the areas of human rights and labor rights, the environment, and business integrity.

Our next steps are:

- Developing and rolling out a comprehensive training program for our procurement and supply chain organizations using a two-fold approach: (i) compulsory e-learning tools for procurement staff and managers responsible for supplier management, and (ii) workshops on responsible sourcing to reinforce understanding of PMI's RSP by key procurement personnel;
- Communicating the RSP and Implementation Guidance to individual suppliers with the goal to reach at least 90% of suppliers by spend;
- Integrating sustainability criteria into the selection process of new suppliers, together with training on how to apply these criteria;
- Implementing a system to support global supplier engagement, assessment and communication;
- Developing a tiered due diligence process to assess supplier compliance based on KPI. These will include desk review, self-assessment, stakeholder feedback and onsite assessment; and
- Identifying third parties to conduct and pilot the assessment process with a select group of suppliers.

Modern slavery training

We train our employees and our suppliers in both the overarching principles of the Guidebook for Success and the detail of the ALP Code where relevant to the work they do for us. In addition to classroom and online training, we engage with employees through town halls, leadership communications and team discussions. In 2017, we provided around 186,000 Ethics & Compliance-related training sessions through different channels to employees and relevant third parties. Approximately half of the training was live and half was online. Three-quarters was given to employees and one quarter to third parties.

As part of our Human Rights Commitment, we aim to implement ongoing training on business and human

rights to our employees and business partners, including practical case studies, an awareness-raising campaign on sustainability and ongoing communication and engagement with suppliers to build their understanding of PMI's RSP and Implementation Guidance. In 2017, we developed a Human Rights e-learning module, available to all our employees. In addition, we are developing tailored functional training sessions to ensure a more in-depth understanding of what human rights mean for individual functions, as well as concrete steps and actions expected from them. We plan to roll out the e-learning in 2018 to various target groups worldwide. Our objective is to train procurement personnel as well as other relevant functions within our company.

Due diligence and assessments of suppliers

Human Rights Due Diligence

Due diligence is the cornerstone of our Human Rights program. We continue to develop industry-leading due diligence processes for labor rights in our tobacco supply chain, environment, health, safety and security risks throughout our operations, and integrity risks across our value chain from supplier to customer.

Our ambition is to scale up these processes in the years to come and develop new ones as needed to integrate due diligence processes covering all human rights risks across our value chain from supplier to customer. We will review our overall Integrated Risk Assessment to identify human rights risks and update Compliance Risk Briefs with a new section dedicated to this topic, for use by management teams worldwide to anticipate compliance risks in PMI's core risk areas.



At the heart of our Commitment is a structured process for ongoing human rights due diligence.



³https://www.pmi.com/resources/docs/default-source/pmi-sustainability/pmi_sustainability_report_2016.pdf?sfvrsn=143382b5_2

We intend to conduct a pilot human rights impact assessment (HRIA) in collaboration with experts and in consultation with stakeholders. Through our HRIA we expect to gain higher awareness and a better understanding of the actual and potential human rights impacts at site level. The results will inform our approach moving forward as well as our program design and implementation.

Our People and Culture team will also apply a human rights lens to the work being done to nurture an inclusive, safe and professional workplace by:

- reviewing our People & Culture related Principles and Practices for alignment with our Human Rights Commitment and due diligence process;
- raising awareness and communicating to employees to enhance their understanding of human rights in the workplace;
- reviewing the existing Labor Relations Toolkit to incorporate human rights indicators; and
- continuing to engage with local and global unions to ensure open and constructive dialogue about labor-related matters.

Managing risks in supply chain

In our 2016 Statement, we reported on the detailed assessment we conducted for one of our electronics manufacturing services (EMS) suppliers which supplies us with electronic components for our smoke-free products.

The purpose of the assessment was to identify strengths and gaps in the supplier's systems and to understand the living and working conditions of workers, particularly migrant workers, who make up a significant percentage of the supplier's labor force. During 2017, PMI and Verité worked together with the EMS supplier to address the gaps that had been identified.

In addition, we started to map out our IQOS supply chain to identify human rights risks down to third-tier suppliers.

We also took steps to integrate sustainability criteria into the assessment of new EMS suppliers for PMI. To select PMI's second EMS supplier, we established specific qualifying criteria (e.g. a preference for suppliers contracting and managing workers directly) and conducted a one-day assessment with an on-site visit and management interviews for each of the three finalists in the bidding process. Subsequently, we also conducted a full sustainability review, led by Verité, of the selected supplier to gain an in-depth understanding of its status and seek alignment with our RSP early on.

Our focus is now to:

- Conduct risk-based due diligence in our electronics supply chain with Verité's support;
- Continue working with a key supplier on an action plan following a comprehensive assessment of their labor and environmental management systems;
- Follow-up on the audit conducted with a second supplier based on our RSP and industry standards;
- Develop a heat-map of the supply chain for IQOS, our signature smoke-free product, to identify human rights risk down to fourth-tier suppliers;
- Establish a monitoring and audit system for specific groups of suppliers, including manufacturers and suppliers of IQOS accessories; and
- Continue to conduct conflict minerals due diligence.

Measuring effectiveness in preventing modern slavery

Systematic monitoring of farms implementing the ALP program involves the collection of individual farm profile data and visits from field technicians to evaluate how well labor practices align with the ALP Code principles. When they identify issues requiring immediate intervention, called “Prompt Actions”, they immediately address them with the farmer and together develop an individual improvement plan against which progress is monitored. Contracts are either terminated or not renewed in cases where farmers resist making the required changes, and 36 contracts were terminated in the 2016/2017 season.

In 2017 we assessed performance of the ALP program, establishing a baseline for future analysis. Approximately 13,000 Prompt Actions were recorded by field technicians. Almost two-thirds related to unsafe work environment, mainly linked to inadequate Crop Protection Agents (CPA) storage practices and application of CPA without appropriate personal protective equipment. Approximately one-third of Prompt Actions related to hazardous tasks performed by children below 18 years old. The most common hazardous work performed relates to the contact with fresh tobacco leaves and the associated risk of exposure to nicotine, mainly during harvesting, and during the preparation of strings of tobacco leaves for curing. The remaining 1.9% of Prompt Actions, representing 245 cases, were related to the following topics: income and work hours, fair treatment, or situations that could be related to forced labor.

Now that we have established a comprehensive and systematic way of evaluating the effectiveness of our ALP program, we will review and update the program as necessary in 2018, focusing on four critical areas:

- Children under 18 involved in hazardous work;
- Safe working conditions, including the availability of Personal Protective Equipment to prevent exposure to CPA and Green Tobacco Sickness;
- Accommodation for workers; and
- Minimum wage for workers.

This statement was approved by the Board of Directors of Philip Morris Limited.



Peter Nixon
Managing Director, Philip Morris Limited

June 2018