

JTI UK Modern Slavery Statement

1 January 2017 – 31 December 2017

1. This statement is published by Gallaher Limited (“**JTI UK**”) in accordance with Section 54, Part 6 of the Modern Slavery Act 2015 and has been approved by our board of directors in the UK. It outlines the steps that JTI UK has taken to prevent, detect and respond to forced labour, slavery, servitude and human trafficking (referred to herein as “**modern slavery**”) in JTI UK’s business operations and supply chain.
2. JTI UK strongly opposes modern slavery and is committed to take a consistent, sustainable and continuous improvement approach to ensure that modern slavery does not occur in our operations and supply chain. In doing so, we aim to demonstrate our unreserved support for the elimination of modern slavery from 21st century commercial enterprise.

Organisational structure: business and supply chains

3. JTI is a leading international tobacco company and is a major player in the e-cigarette and heated tobacco categories, with offices and factories in more than 70 countries and products sold in more than 130 countries. JTI employs over 40,000 people globally and owns over 30 factories.
4. JTI UK is a member of the JTI group of companies and is an indirect subsidiary of Japan Tobacco Inc. (“**JTI**”), which is listed on the Tokyo Stock Exchange (TSE: 2914). JTI UK has its head office in Weybridge, Surrey, and employs around 700 people.
5. JTI UK acts as the sole distributor of tobacco and e-cigarette products in the UK for JTI. The tobacco products which JTI UK distributes are manufactured in JTI owned factories including those in Romania and Poland. The e-cigarette devices and ancillary products which JTI UK distributes are manufactured in China; the liquids to be used with the devices are manufactured in Europe (nicotine containing) and in Japan (containing zero nicotine).
6. JTI UK’s supply chain forms part of and leverages the global JTI supply chain network. Further information about JTI’s tobacco leaf supply, processing and manufacturing, as well as our approach to human rights and labour practices in our business, can be found on the “[Our Tobacco Products](#)”, “[Our Reduced-Risk Products](#)” and “[Sustainability](#)” pages of jti.com.

Our policies and procedures

7. JTI UK is committed to maintaining consistently high business and ethical standards, and respecting all human rights. As such, freedom from modern slavery is an integral part of the way we conduct our business. These standards, and our commitment to human rights, are laid out in policies which apply to every individual working for or on behalf of JTI UK, as well as all other companies within the JTI group. Our policies are regularly reviewed and updated to ensure they continue to meet the high expectations we have for our business.

8. Our current policies and procedures, all of which are publically available on jti.com, include:
- (a) The [JTI Code of Conduct](#), which not only provides guidance to employees to uphold a culture of integrity in all that we do, but also represents our public commitment to a shared and consistent ethical culture throughout our business as endorsed by JTI's President and CEO, Eddy Pirard. This commitment is reinforced by the fact that all employees, regardless of their seniority, are required to complete a training related to key subjects covered by the Code of Conduct to ensure that they understand the standards of conduct required of them. It is also expected that all our business partners meet the same standards of ethical conduct as outlined in our Code;
 - (b) The [JTI Supplier Standards](#), which define the responsibilities of suppliers that provide services or goods to JTI. Suppliers are required to comply with these standards, as well as ensure that any of their own suppliers who are involved in providing goods and services to us comply with them too. We encourage all of our suppliers (and their suppliers) to have policies, employee communications, due diligence processes and control systems to implement these standards within their business operations and supply chains; and
 - (c) The [JTI Agricultural Labor Practices Programme](#) ("**ALP**"), which sets farm labour standards and enables us to identify labour challenges on tobacco farms, so that we can develop targeted improvement measures. We implement ALP everywhere we source tobacco leaf both with directly contracted growers and our third party leaf suppliers.
9. We also have an established grievance procedure in the UK to reflect the ACAS Code of Practice, and an additional grievance mechanism called "*Your Voice*" which is available globally to all our employees in order that they can raise concerns directly with our HQ Compliance department. Your Voice encourages everyone to report alleged violations of law, the JTI Code of Conduct, company policies and procedures, and operating guidelines confidentially, without fear of retaliation. We launch annual global communication campaigns to encourage employees to speak up and to increase the awareness of the Your Voice reporting channel. Full details about both the grievance procedure and Your Voice are published on the JTI intranet for easy access by our employees and workers. Business Partners have other available channels where they can raise concerns with JTI such as via jti.com or a dedicated email account of JTI's Compliance department.

The JT Group Human Rights Policy

10. The [JT Group Human Rights Policy](#) was launched in September 2016. The policy follows the UN Guiding Principles on Business and Human Rights and was developed in consultation with internal and external stakeholders, including through experts' roundtables in Tokyo (March 2016) and London (September 2015). This consultation exercise helped in broadening our understanding of where human rights risks might lie across our business and supply chain globally, and to determine how they could be prevented and mitigated.
11. The policy strengthens and formalises JT Group's commitment to respect human rights across our global operations – including those of JTI UK – as expressed in the International Bill of Human Rights and the International Labour Organization's ("**ILO**") Declaration on

Fundamental Principles and Rights at Work. It also complements our pre-established policies and procedures, setting the foundation for our due diligence efforts and identifying further steps in preventing and addressing human rights issues in our value chain.

12. The policy and latest JT Group Sustainability Report can be found [here](#).

Due diligence and managing risks

13. Identification and mitigation of sustainability risks is embedded in our corporate policies and procedures. Specific policies and programmes focus on assessing and addressing impacts of human rights-related risks, both in our operations and supply chain.
14. JTI's ALP, as mentioned above, defines the standards expected of our farmers on issues such as the prevention of child labour, respecting workers' rights and maintaining adequate health and safety conditions. This is the main tool we use to assess and address labour risks associated with tobacco farming, and the ALP standards are an integral part of our contracts with growers and leaf suppliers. For that reason, we conduct regular training with our farming experts on ALP so that they can adequately identify labour practices and recognise any issues during farm visits. This information ensures that we invest in relevant and effective social programmes such as ARISE – a joint initiative of the ILO, JTI and Winrock International, which delivers regular training and awareness sessions to our tobacco growers and communities on child labour and ensures that children of school going age attend school. We also receive regular reports from our third party leaf suppliers, engage with them both globally and on the ground, and provide support where necessary to drive further improvement process with indirectly contracted farmers.
15. Suppliers of non-tobacco materials and services are expected to comply with the JTI Supplier Standards. These standards address a broad spectrum of issues including working conditions, fair remuneration, working hours, child labour, non-discrimination and health and safety, right to freedom of associations, collective bargaining as well as freedom from forced labour and human trafficking.
16. In addition to these activities, the JT Group Human Rights Policy, mentioned above, commits us to undertake a systematic due diligence process to identify and assess actual and potential human rights risks, including modern slavery, across our value chain.

Effectiveness

17. We assess the effectiveness of the steps we are taking to address modern slavery through a number of performance indicators including:
 - (a) The number of people trained (refer to point 20(a) below); and
 - (b) The number of reported instances of concerns about possible modern slavery/trafficking issues.
18. We have put in place systems that give transparency across our supply chain and enable us to identify and mitigate risks, as well as drive a continual cycle of improvement and dialogue:

- (a) Our newly established Supplier Lifecycle Management (“**SLC**”) tool, launched in July 2017, manages suppliers who provide non-tobacco materials or other products and services to our international tobacco business. SLC enables us to screen these suppliers and, where integrity is a concern, or when suppliers do not adhere to our JTI Supplier Standards, we offer collaboration and support around the steps required to make necessary improvements. (For information on JTI Supplier Standards, refer to point 15); and
- (b) Our primary target with ALP is to cover the entire sourcing base, and to be able to identify labour challenges, including forced labour on tobacco farms everywhere we operate. We are fully on track to meet this objective. We track progress through reports from our operations and third party leaf suppliers. For example, in 2017, 90% of our directly contracted leaf growers were observed by farming experts against the ALP standard and currently 82.2% of our suppliers report on ALP.

As we speak we are working on the methods as to how to measure the impact of our programmes, including the ALP. There are a few ways to measure the change: by monitoring the trend in the number of issues observed on a year-to-year basis, and through an impact assessment exercise involving input from multiple stakeholders.

In 2017, we identified that there were inconsistencies in how extreme breaches such as forced labour, systematic abuse, human trafficking etc. were being identified and dealt with across our leaf supply chain on farm level. Hence, we have prepared a guide for our operations and suppliers across our entire leaf supply chain, setting out an “extreme breaches” management process to ensure consistent response to any indicators of an extreme breach observed. This follows several principals: (1) consideration of the protection of the victim and the leaf technician, (2) the steps to capture and protect evidence, including additional questions that can be used; (3) the reporting of the observation on a certain timescale; (4) a clear escalation route and remediation plan and, where applicable, (5) access to specialist support.

In India, we have conducted baseline assessments of farm working conditions in villages in two out of three tobacco-growing areas. These assessments, conducted by reputable consultants with local knowledge and languages, engaging with local stakeholders as well as farmers and workers were undertaken with the permission of the Indian Tobacco Board. Their findings were consistent with the observations made by our supplier, and have led to improvement action being taken on the topics discovered. Through these studies, we have a significantly improved understanding of the workers involved in tobacco growing in these villages and the labour dynamics. The findings did not point to forced labour being present in these villages. Our supplier continues to monitor labour practices in these villages and we are exploring how to scale this activity through dialogue with our suppliers. (For more information on ALP, refer to point 14 above).

Looking ahead

- 19. Our programme to identify and eradicate modern slavery is a continuing, collaborative and evolving process, and one, which we are committed to achieve.
- 20. Our current priorities include:

- (a) In 2017, we launched a Human Rights e-learning module in English and in 24 other languages, which all employees are required to complete. In 2018, training for employees without computer access will take place to ensure we deepen awareness of the JT Group Human Rights Policy;
 - (b) Conducting ongoing risk analysis and mapping in relation to the supply chain of our portfolio of e-cigarette and e-liquid products;
 - (c) Continue with periodic reviews of our existing reporting mechanisms to ensure they remain effective in swiftly resolving employee and worker complaints; and
 - (d) Reviewing and, where required, updating our existing control systems to ensure that they are effective in seeking to eradicate modern slavery from our business and supply chains.
21. As these programmes and initiatives advance, we will share our progress in future annual statements.

This statement has been approved by the board of directors of JTI UK.



Daniel Sciamma, Managing Director,
for and on behalf of JTI UK