



PHILIP MORRIS
LIMITED

Modern Slavery and Human Trafficking Statement 2018

This statement has been published in accordance with the Modern Slavery Act 2015. It sets out the steps taken by Philip Morris International as a wider group and its UK subsidiary, Philip Morris Limited, to prevent modern slavery and human trafficking in its business and supply chains.

In our 2017 Statement, we shared the steps we had taken at a global level to tackle this complex issue. This statement shows the progress we have made in the 12 months to 31st December 2018.

Introduction

Philip Morris Limited (“PML”) is the UK trading subsidiary of Philip Morris International Inc. (“PMI”).

PMI is a leading international tobacco company engaged in the manufacture and sale of smoke-free products and accessories, as well as cigarettes.

We are building a future based on smoke-free products that, while not risk-free, are a much better choice than continuing to smoke. Our ambition is to replace cigarettes with smoke-free products, to the benefit of consumers, society, the company, and our shareholders.

Our smoke-free product portfolio, IQOS, consists of heated tobacco and nicotine-containing vapour products.

PML is responsible for the sale and merchandising of PMI brands in the UK and Ireland. These brands include our range of smoke free products including IQOS (electronic heated tobacco product), HEETS (tobacco sticks used in IQOS), IQOS MESH (e-cigarette) and VEEV (e-liquid capsules used in MESH). They also include our combustible cigarette brands of Marlboro and Chesterfield.

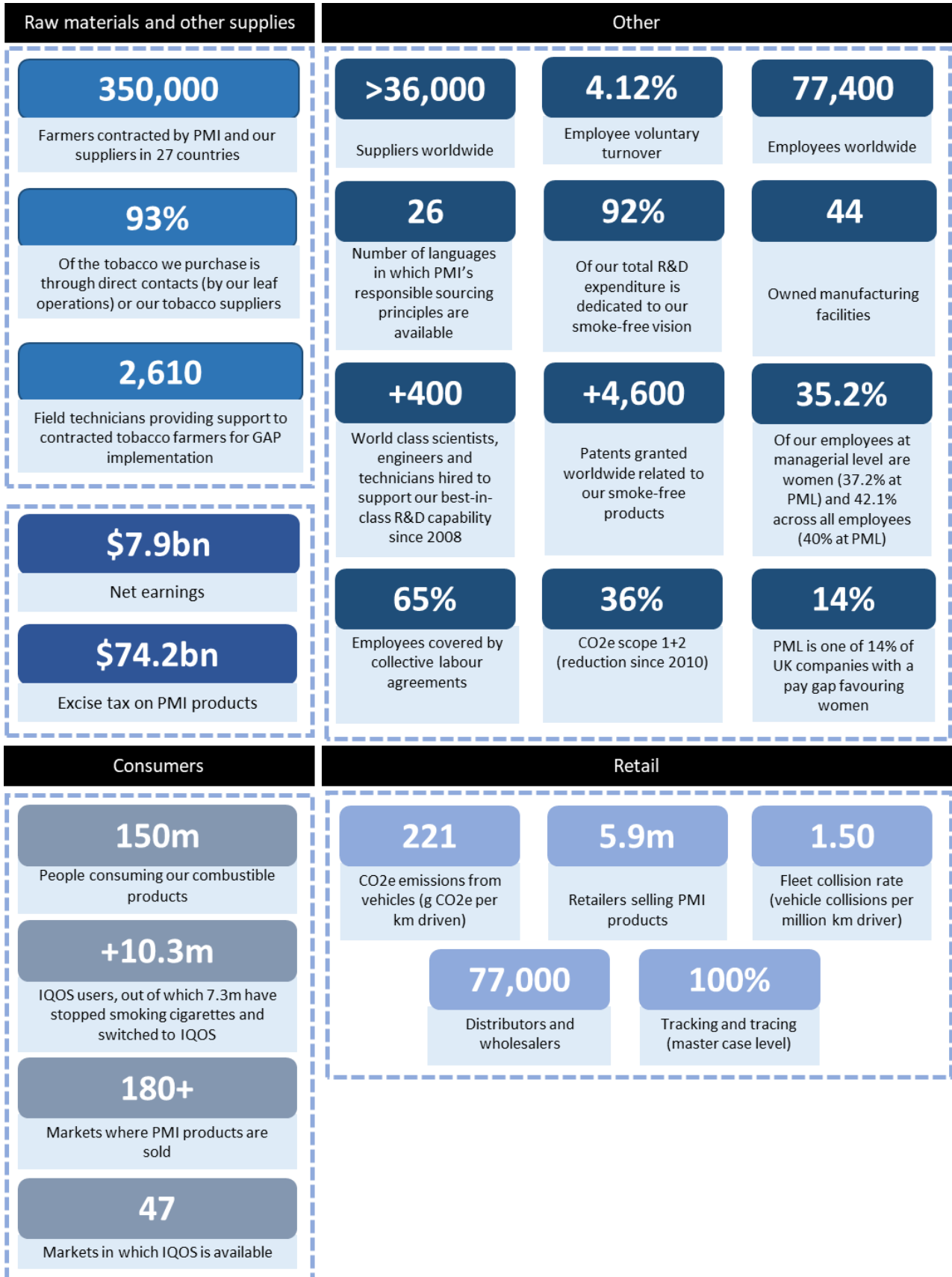
PMI has a diverse workforce of around 77,400 people globally. PML employ 322 people in the UK and Ireland.

We operate 44 production facilities globally of which 7 are fully dedicated to the production of our smoke-free products.



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

Our Organisation & Supply Chain



Our Policy Framework

Respecting human rights is fundamental to operating a sustainable global business. At PMI, we embed respect in our culture and it governs the way we work with employees, suppliers, consumers, and the communities where we operate.

We use a strong policy framework to achieve this, comprising of: our Human Rights Commitment, our Guidebook for Success, our Agricultural Labour Practices (“ALP”) Code, and our Responsible Sourcing Principles (“RSP”).

The framework aligns with our core values, and commits us to managing our impact on human rights in a systematic way and in accordance with the United Nations Guiding Principles on Business and Human Rights (UNGPs).

We continuously strive to improve our practices, identifying risks to “rights-holders” and strengthening our due diligence to help drive continuous improvement and raise standards across our value chain, from suppliers to customers through to specific groups such as tobacco workers.

We are also committed to the UN Sustainable Development Goals, in particular working to ensure that under Goal 8 (Decent Work and Economic Growth), we have good working conditions for all employees and promote good working conditions in our manufacturing facilities and supply chain.

Our Human Rights Commitment

In 2017, we published PMI's Human Rights Commitment as the basis of our human rights programme. It states that we consider forced or trafficked labour unacceptable. It also states that we are committed to identifying any form of modern slavery in our operations and value chain. We will act against practices that force workers to pay recruitment fees, confiscate their personal papers, or deceive workers during recruitment, as and when they are identified.

Human Rights Roadmap

We have published our Human Rights Roadmap which presents the practical steps we are taking to implement our Human Rights Commitment across our global operations and value chain.

Through research and data-gathering, we gained an understanding of human rights risks in our operations, allowing each PMI function to develop a human rights action plan focused on the most salient risks to rights-holders.

The Roadmap consolidates the action plans from each function, providing an overview of the activities we are undertaking to respect human rights, and identifying PMI's key areas of focus through to the end of 2020.

Raising Awareness on Human Rights

In our 2017 Statement, we committed to providing tailored human rights training to our corporate auditors and regional security personnel, and specific training on modern slavery and human trafficking for relevant supply chain employees.

In 2018, we fulfilled this commitment and also started raising awareness on the foundations of human rights (including modern slavery) for new employees in our External Affairs departments around the world and at our Operations Centre in Lausanne, Switzerland.

In 2018, we also developed and implemented a comprehensive training programme for our procurement and supply chain organisations. This built their understanding of PMI's Responsible Sourcing Principles (see later section). A mandatory e-learning tool for procurement staff and managers responsible for supplier management was also introduced.

In addition, we have started benchmarking and reviewing key Principles and Practices to include, where relevant, human rights considerations. This started with the PMI Marketing Code and policies on anti-bribery. We also devised a new security policy and guidelines on human rights to reinforce the due diligence process for our security service suppliers, especially for those who carry weapons to fulfil their duty; both documents will be rolled out in 2019.

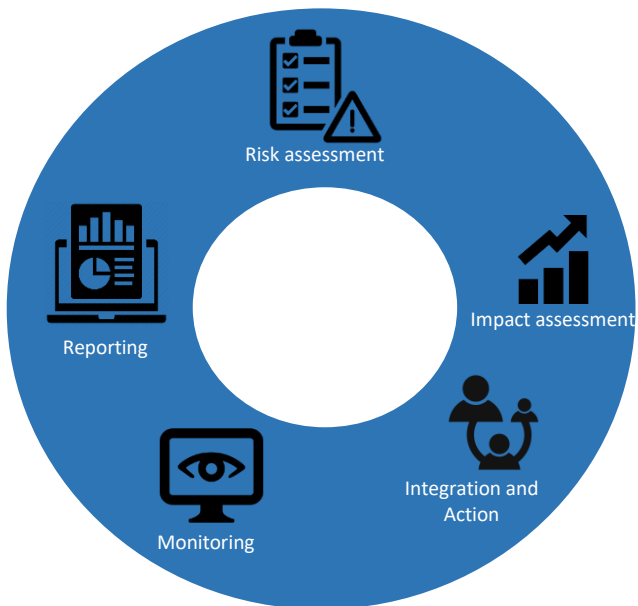
Our next steps are to integrate sustainability criteria into the selection process of new suppliers; deliver training on how to apply these criteria; and implement a system to support global supplier engagement, assessment and communication.

Human Rights Due Diligence

Due Diligence is the cornerstone of our human rights programme. We continue to develop industry-leading due diligence processes for labour rights across our tobacco supply chain and operations.

We continue to do this in line with the UNGPs, to identify, prevent, and mitigate adverse impacts on human rights in our global operations and supply chain. In 2018, we performed a corporate human rights risk assessment to identify potential risks at a global level, and to confirm that we are focusing on the right issues in line with our Human Rights Roadmap.

As per our commitment in the 2017 Statement, we integrated sustainability and consideration of human rights into our ethics and compliance risk briefs that are included in PMI's integrated risk assessment.



Human Rights Impact Assessment

In accordance with the commitment in our 2017 Sustainability Report, in 2018 we conducted a pilot Human Rights Impact Assessment in Mexico. The scope covered our manufacturing operations, non-tobacco leaf supply chain, security operators, and communities impacted by our operations in the country. Our pilot assessment comprised five steps:

1. Preparation: reviewing PMI policies, procedures, and controls.
2. Methodology and research: defining the method and scope of the assessment – identifying the “rights-holders” to interview, PMI facilities to visit, and external stakeholders to engage with.
3. Assessment in country: completing interviews and visits with “rights-holders,” such as factory workers, contracted employees, trade union representatives, suppliers, third-party staff, as well as external stakeholders, such as non-governmental organizations (NGOs), local authorities, trade associations, and international human rights organizations.
4. Integration: developing recommendations and an action plan, timeline and accountability programme to implement these recommendations.
5. Reporting: updating on progress and learnings.

Following the pilot assessment in Mexico, we will implement the findings and conduct a second Human Rights Impact Assessment in 2019 in another country. Further information about the pilot is available in PMI's 2018 [Sustainability Report](#).

Guidebook for Success

Our Code of Conduct, known as our Guidebook for Success, describes the fundamental beliefs that guide us in working for PMI. Honesty, respect and fairness are the core values that embody our commitment to society. We strive to maintain a strong ethics and compliance culture through a combination of:

- Principles and Practices which provide specific guidance on key topics;
- Training and communications which build understanding and commitment; and
- A diligent and fair investigation process for suspected misconduct combined with proportionate disciplinary action.

Together these reinforce a culture of speaking-up and give confidence in organisational justice.

Our Guidebook for Success, together with its supporting Principles and Practices, covers the following core risk areas including: workplace and labour practices, anti-competitive behaviour; marketing and sales; conflicts of interest; environment; health, safety and security; trade; and information security.

It also covers risks including: prohibiting bribery and corruption; regulating gifts and entertainment; prohibiting facilitating payments; and regulating political contributions and advocacy activities.

The Guidebook is available in 45 languages on the PMI website and employees can access it at all times on their company mobile devices. The Guidebook can be found [here](#).

In 2018, 86.9% of employees participated in training sessions relating to our Guidebook for Success, while 193,000 training sessions were completed across PMI to help employees and third parties build awareness about risks to the business, good ethical judgement, and how to speak up.

The Agricultural Labour Practices (ALP) Code

Since 2011, PMI has implemented the Agricultural Labour Practices programme to eliminate child labour and other labour abuses, to achieve safe and fair working conditions and offer a decent livelihood for all farmers in our tobacco leaf supply chain.

The Agricultural Labour Practices programme comprises five elements:

1. The ALP Code. This was revised in 2018 to also include human trafficking risks;
2. Training for PMI's Leaf Sustainable Agriculture teams, suppliers, farmers, and workers about the Code, and how to address any gaps when applying it;
3. Internal monitoring by over 2,600 field technicians, solving problems and communicating PMI's expectations during their regular visits to farms;
4. External country-specific assessments by Control Union, a specialist supply chain auditor, to independently evaluate the implementation of the ALP programme; and
5. Collaboration with civil society organizations, governments, and the private sector on initiatives to address systemic issues and to empower communities through new participatory processes, such as local ALP Committees.

The ALP Code defines the labour practices, principles and standards we expect to be met by all 350,000 tobacco farmers which PMI or PMI's suppliers have contracts with to grow tobacco. It is based on International Labour Organization (ILO) conventions, with seven principles and 33 measurable standards. The seven principles of the Code are:

1. No forced labour or human trafficking;
2. No child labour;
3. Fair treatment;
4. Safe work environment;
5. Fair income and work hours;
6. Freedom of association; and
7. Terms of employment

Systematic monitoring of farms by field technicians implementing the ALP programme involves collecting individual farm profile data and site visits to evaluate how well labour practices align with the principles of the ALP Code. When issues are identified that require immediate intervention, called "Prompt Actions", the field technicians address them with the farmer and together they develop an improvement plan against which progress is monitored. Contracts are either terminated or not renewed in cases where farmers resist making the required changes, and 50 contracts were terminated in the 2017/2018 season.

In 2018, we expanded the farm-by-farm ALP monitoring as well as updating and implementing our Prompt Action (PA) Guidelines. Globally, the geographic coverage of our monitoring rose from 77% in 2017 to 88% in 2018.

In 2018, a total of 18,543 prompt actions were recorded by field technicians. We resolved 13,687 issues raised through prompt actions, representing 74% of the total number raised by field technicians. Further information is available in PMI's 2018 [Sustainability Report](#).

In 2018, we deployed a "step change" approach to achieve significant improvements in areas with intensive and targeted needs. As a result, from 2018 to 2022, we will give additional focus to our work in Argentina, Indonesia, Malawi, Mozambique, South Africa, and Turkey.

Areas of focus will differ in each country but could include elimination of child labour, payment of at least a minimum wage, ensuring access to appropriate Personal Protective Equipment, and ensuring that where accommodation is provided to workers, that this is appropriate.

Responsible Sourcing Principles

In 2017, we set the foundations for a more comprehensive and systematic approach to addressing supply chain sustainability (including beyond the tobacco leaf supply chain) by developing a set of Responsible Sourcing Principles (RSP) and Implementation Guidance – available [here](#).

Developed with human rights experts and key suppliers, the RSP applies to all suppliers doing business with PMI (except for tobacco farmers, who must follow our ALP programme). The RSP establish our expectations of human rights and labour rights, the environment, and business integrity.

The Responsible Sourcing Principles require suppliers to:

- Not engage in, or condone, the use of forced or trafficked labour;
- To be diligent to identify and address any form of modern slavery in operations and the supply chain, including prison, bonded, enslaved or any other form of forced labour;
- Arrange loans or salary advancements based on fair terms, clearly explained to the worker and mutually agreed;
- Not retain or confiscate the personal papers of any worker including their passports;
- Not allow workers to pay recruitment, processing or placement fees; and
- Agree with all workers on the terms of their employment in writing at the point of recruitment.

In 2018, we communicated the RSP and Implementation Guidance to individual suppliers reaching (as per our objective) at least 90% of suppliers by spend. In addition, our RSP was signed by 100% of our tobacco leaf suppliers.

Managing risks in the supply chain

In 2018, we designed a Supplier Due Diligence Framework to evaluate the status of our suppliers' social, environmental, and business integrity compliance. To support the continuous improvement of our suppliers, we are setting up an online supplier platform which will collect information to help us deliver the Framework.

This will help us to identify suppliers who need to be more closely monitored and assessed, including through on-site audits, allowing them to align their practices with PMI's requirements and improving the overall working and living conditions in our supply chain.

In 2019, we will invite the first wave of suppliers to join the platform as the core part of their assessment against our RSP. Our target is to assess 100% of global suppliers of direct materials and devices using the platform. Suppliers of technical and indirect materials will be the next target group.

Sustainability in smoke-free products

To promote sustainability in the supply chain of our smoke-free products, in 2018 we launched initiatives with tier 1 and tier 2 electronic component suppliers. These included:

- Receiving written commitments to the RSP by all tier 1 and tier 2 suppliers directly managed by PMI;
- Completing audits with Verité, our supply chain assessment partner, of the key tier 1 suppliers in Asia;
- Launching a pilot project to promote better recruitment and employment practices for foreign workers in Asia; and
- Reviewing of tier 2 electronics suppliers directly managed by PMI, including visits and preliminary risk mapping.

In our 2017 Statement, we reported on the detailed assessment we conducted for one of our electronics manufacturing services (EMS) suppliers. In 2018, we completed a follow-up audit, including interviews with 40 workers, management and third-party service providers. We cross-checked our findings against the supplier's policies, procedures and our RSP and established an ambitious action plan requiring the supplier to close the major gaps swiftly. A full case study is available in PMI's 2018 [Sustainability Report](#).

Our focus will continue to be on:

- Conducting risk-based due diligence in our electronics supply chain with Verité's support;
- Working with suppliers on action plans following comprehensive assessments of their labour and environmental management systems; and

Conducting due diligence on conflict minerals.

Grievance Mechanisms

Providing access to effective grievance mechanisms in our operations and across our supply chain enables people to raise concerns (including incidence of forced labour) and is a core element of our due diligence approach. We have clear policies, run regular training and ensure robust processes are in place to encourage employees to speak up if things don't seem right or can be improved.

The same applies to our supply chain. In our RSP, we specifically ask suppliers to provide workers with easily accessible ways to raise concerns, free from any retaliation. An effective grievance mechanism is a strong element of due diligence and remediation.

In our tobacco supply chain, our ALP Code states that "Workers should have access to a fair, transparent and anonymous grievance mechanism." The most common mechanisms used are a free helpline, supported by working with local authorities, professional agents, and NGOs. Concerns can also be raised with field technicians at any time.

As we move forward, we will continue efforts to provide better access to grievance mechanisms throughout our operations and supply chain.

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

PETER NIXON

Managing Director, Philip Morris Limited

24th June 2019