



**PHILIP MORRIS LIMITED**

## **MODERN SLAVERY ACT TRANSPARENCY STATEMENT**

**FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2016**

---

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 2016 to prevent modern slavery and human trafficking in its business and supply chains.

---

### **Introduction**

Philip Morris Limited, together with Nicocigs Limited, are the UK trading subsidiaries of Philip Morris International Inc. (“PMI”).

Philip Morris Limited, PMI’s affiliate in the United Kingdom and Ireland, is responsible for the sale and merchandising of PMI brands, including Marlboro, Chesterfield, L&M, IQOS and HEETS. Philip Morris Limited employs approximately 300 people throughout the UK and Ireland. In June 2014, PMI acquired Nicocigs Limited, a company that was formed in 2008. Today, it is one of the leading e-cigarette businesses in the UK and has a portfolio of brands including Nicocig, Vivid, and MESH.

Philip Morris International is the world’s leading international tobacco company, with a diverse workforce of around 80,000 people who hail from every corner of the globe. PMI operates 48 production facilities in 32 different countries. 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 a much better choice than 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.

You can find out more about PMI at [www.pmi.com/who-we-are](http://www.pmi.com/who-we-are)

## About PMI



**Over 400**  
scientists,  
engineers and  
technicians

### Research & Product Development

We have over **400** dedicated scientists, engineers and technicians working on the development and assessment of Reduced Risk Products across our two research and development sites in Neuchâtel, Switzerland and Singapore.



**180 countries**  
worldwide

### Sales & Marketing & Retail

Our products are available to adult consumers in more than **180** countries, through **many millions of third-party retail outlets**.



**25,000**  
vehicles  
worldwide

### Distribution & Logistics

We operate a fleet of around **25,000** vehicles as well as engaging with specialized logistics partners to distribute our products within our markets.

## Policies and contractual controls

In 2015 PMI became a signatory to the United Nations Global Compact (the “**UNGC**”), a voluntary public-private partnership aimed at advancing global sustainability goals in the areas of Human Rights, Labour Rights, Environmental Responsibility, and Anti-Corruption measures. As part of this, we have committed to incorporate the Global Compact’s Ten Principles as part of our strategy and day-to-day work, including the elimination of all forms of forced and compulsory labour (Principle 4). PMI’s Communication on Progress against the UNGC principles is available [here](#). To achieve alignment with the UNGC Principles and advance our work in this area, we have set up a Working Group of subject-matter experts from our business functions. This Group is supported by the functional leaders who report to our CEO and is coordinated by a Sustainability Team reporting directly to our Senior Vice President for Corporate Affairs.

### Guidebook for Success

Our Compliance systems underpin the way we work and how we uphold our commitments.

The related tools and processes help us consistently do business in a manner that reflects what the law and society expect from us, especially given the nature of our products. Specifically, our Code of Conduct, known as our Guidebook for Success, describes the fundamental beliefs that unite and guide us in working for PMI. It describes our Core Principles – practical and clear direction about how we work. 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](#).

The Guidebook for Success contains a specific section covering Supply Chain Responsibility, stating unambiguously:

“We are sensitive to and work to address concerns regarding child and forced labor. These actions improve our business results and improve the lives of people in the communities where we operate.”

## The ALP Code

A good example of our commitment to respect human rights is the Agricultural Labor Practices (ALP) Code, which we launched in 2011 in the wake of stakeholder concerns about risks to rights-holders in tobacco-growing. 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. It is organized around seven principles relating to fundamental human rights and particularly notable risks to rights-holders, and is based on the Standards of the International Labor Organization (ILO) Declaration on Fundamental Principles and Rights at Work and other relevant ILO conventions.

Farmers and suppliers are expected to apply the ALP Code in a diligent and transparent manner, and to work with us on continuously improving practices. We recognize that labor abuse can often have underlying systemic causes that require the serious and lasting commitment from all actors in the supply chain as well as government and other stakeholders.

We have put in place measurable standards to support our expectations under the ALP programme. Amongst other things, these expectations include:

- All farm labour must be voluntary and that farmers must not rely on forced labour.
- The income earned by farm workers during a pay period or growing season is enough to meet workers’ basic needs and shall be of sufficient level to enable the generation of discretionary income. Workers shall not be made to work excessive or illegal work hours.
- Farmers ensure fair treatment of workers. There shall be no harassment, discrimination, physical or mental punishment, or any other forms of abuse.

## 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.

We use training and communication to build the necessary understanding and motivation, with employees completing around 200,000 compliance trainings each year. In addition to classroom and online training, we engage with employees through town halls, leadership communications and team discussions. For example, 48,000 employees participated in supervisor-led discussions, using real-life work situations, as part of the roll-out of our Guidebook for Success.

We have clear policies, regular training and robust processes to motivate employees to speak up if things don't seem right. Compliance concerns can be raised with supervisors, other leaders, directly to our Compliance Department or through a third-party operated Compliance Helpline available all day, every day in all languages spoken at PMI.

## Due diligence and auditing of suppliers and supply chain

We have implemented the ALP Code across our 450,000 farmers in close to 30 countries around the world. We are indebted to Verité, an internationally renowned labor rights NGO, for their invaluable support in helping us to design and implement a program to address issues and improve conditions for an estimated 2.5 million people living or working on tobacco farms from the United States to Brazil to Kazakhstan. Our approach to ALP due diligence is built on four pillars: training and operational support; monitoring; assessment; and reporting.

With respect to suppliers in general, we follow a risk-based approach.

Depending on the country and sector in question, we include specific contractual clauses to mandate standards relating to, amongst others, child labor, forced labor, income, work hours and safe working conditions. In addition, we have retained specialized external auditors to carry out risk based assessments - we follow up and take action on findings. We also contractually require all third parties—including business partners and contractors—who carry out tasks at our factories, or on behalf of PMI, to comply with our Environmental,

Health, Safety and Security requirements.

These approaches will be further developed and integrated in a comprehensive set of Responsible Sourcing Principles (RSP). They reflect our commitment to the United Nations Global Compact's Ten Principles and the United Nations Guiding Principles on Business and Human Rights.

The RSP will set clear expectations for our suppliers regarding human rights, the environment and business integrity. Based on internal engagement, we are preparing a preliminary version of the RSP which we used to gather feedback from external stakeholders and key business partners to ensure that our expectations are legitimate and credible. We intend to roll out the RSP to suppliers in 2017 and began preparations for this in 2016.

We also continuously audit suppliers in our non-tobacco supply chains using third-party experts. In 2015, we assessed 37 higher risk supplier locations. Three of those assessments identified severe issues, resulting in a red-flag audit. As one of those was a new supplier location, we did not enter into a business relationship with that site. The other two red-flag audits referred to health and safety and compensation issues, based on which we suspended our business relationship with those suppliers. We afforded each of those suppliers one year to remedy the identified issues and improve their social compliance performance. After that time, we will re-audit each supplier to evaluate if the identified audit findings have been remedied and whether to re-start the business relationship.

## Find out more

More detail is available on pages 18-23 of our 2015 UNGC [report](#).

Detailed information about all the ongoing initiatives, progress and challenges with the implementation of our ALP programme can be found in the latest progress report covering the period 2014-2015 available on our [website](#).

## Managing risks in our supply chain

In particular, in 2016 we made a detailed assessment of one of our suppliers in Malaysia which supplies us with electronic components for our smoke-free products. The purpose of the assessment was to understand the living and working conditions of the supplier staff. This was a starting point to work with the supplier to create and implement an action plan for improvements.

## Measuring effectiveness in preventing modern slavery

Around the world, we're tackling complex labor issues in our tobacco-growing supply chain. Meaningful results require the long-term commitment of all stakeholders. We believe that disclosing our progress and challenges is an important step in addressing the issues of child labor and other labor-related abuses. With this in mind, PMI has worked with Verité to commission Control Union Certifications to do third-party assessments of our ALP program as a whole, including its provisions pertaining to modern slavery. The assessments evaluate the current status of farm-labor practices and risk areas, and include comprehensive plans to improve conditions on farms in light of the findings.

The results of these third-party assessments are publicly available online [here](#), under "Third Party Assessment Reports".

More widely, sustainability program results are included in the assessment of our annual company-wide performance that is reviewed by the Compensation and Leadership Development Committee of the Board of Directors. Accordingly, these results are included in our overall performance rating which determines the cash and stock bonus pool for Senior Management and other eligible employees.

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



**Peter Nixon**

**Managing Director, Philip Morris Limited**

**May 2017**