



PHILIP MORRIS  
LIMITED

# Modern Slavery and Human Trafficking Statement for 2019

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 2018 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 31<sup>st</sup> December 2019.

## 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 over 73,500 people globally. PML employ 336 people in the UK and Ireland.

We operate 38 production facilities globally of which 8 are fully dedicated to the production of our smoke-free products.



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

# Our Organisation & Supply Chain

## Creating value at PMI

Our value creation model describes what we do and how we allocate our resources to deliver long-term value for both our company and our stakeholders.

### Our mission

Accelerate the end of smoking

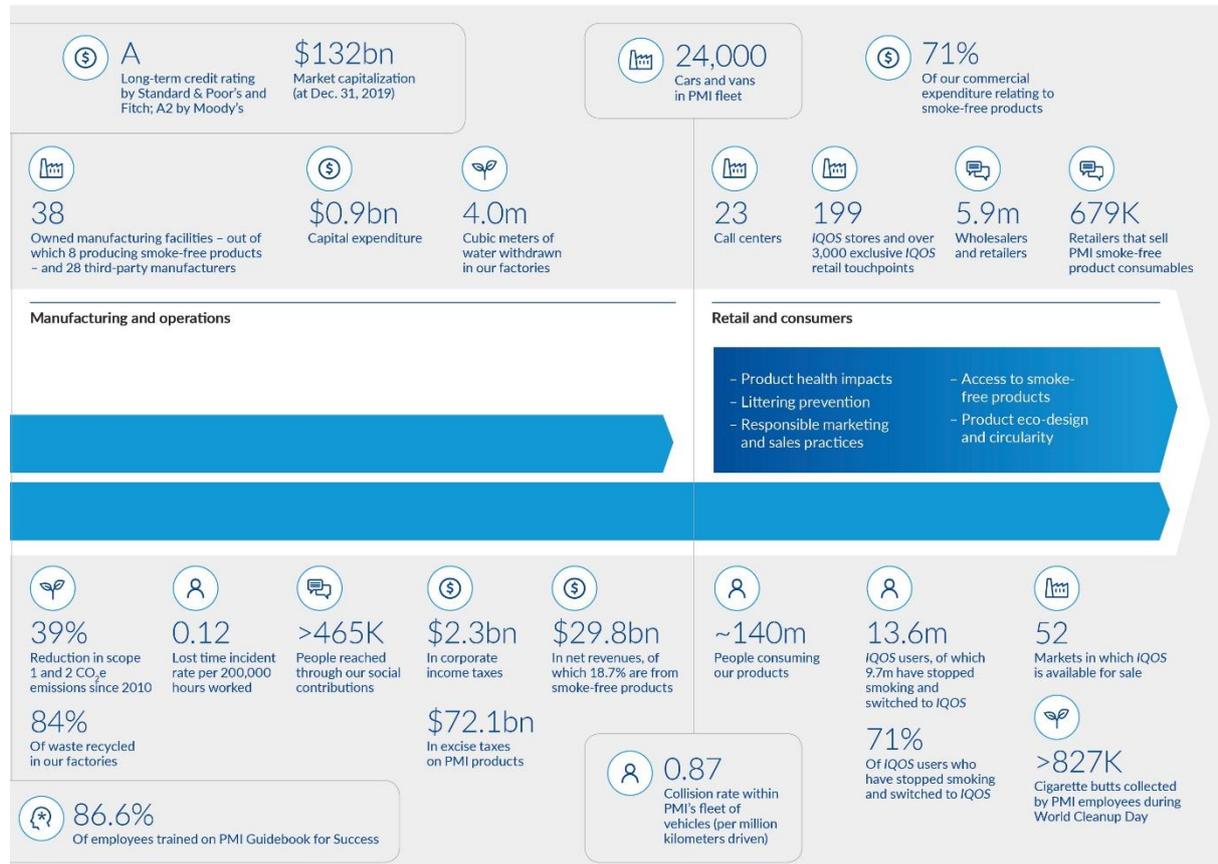
### What we do

Replace cigarettes with less harmful tobacco and nicotine products for the benefit of adults who would otherwise continue to smoke

### Capitals

- Human
- Intellectual
- Manufactured
- Natural
- Financial
- Social

We use the Integrated Reporting Framework, published by the IIRC (International Integrated Reporting Council), as the basis for this.



# 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*

Embedding an ethos of respect for human rights in corporate culture starts with awareness-raising and training.

We have provided tailored human rights training to the Law department and to regional and market teams within the Security function. In 2019, we also delivered specific training sessions on human rights policies and procedures to 25 percent of PMI's security personnel.

In 2019, we revamped our human rights e-learning, informed by our most salient risks. The training provides an overview of human rights and key insights into specific rights. This includes forced labour and modern slavery, child labour, freedom of association, and environmental stewardship. The tool will be rolled out in 2020, and we will give an update on implementation in our next report.

Human rights topics are also covered by other corporate training including our Guidebook for Success, employment policy, and health, safety, and environment policies.

### *Human Rights Due Diligence*

We aim to address our adverse impacts and maximise our opportunities to drive positive change for people across our value chain. While this can be challenging given the scope and complexity of the issues and the breadth of our operations, we believe that human rights are an absolute and universal requirement – and one that we are committed to upholding.

In this respect, due diligence is the cornerstone of our human rights programme. Our actions are guided by our 2018 global risk assessment, which revealed our most salient risks: those with the greatest potential to negatively impact people as a consequence of our activities. These include risks of child labour, forced labour, poor working conditions, and the safety of farmers in our agricultural supply chain. In our operations, they relate to personal safety and freedom of association. In the markets where our products are sold, they include risks related to the use of our products by youth.

Guided by our 2018 assessment, we decided to expand our work by conducting human rights impact assessments (HRIA) in the 10 highest risk countries in which we operate by 2025. These countries are determined based on PMI's footprint (e.g. presence of manufacturing operations, type of supply chain, etc.), as well as a country's human rights risk profile based on internationally recognised indicators.

### *Human Rights Impact Assessment (HRIA)*

In accordance with the commitment in our 2017 Sustainability Report, and building on the learnings from the pilot HRIA in Mexico in 2019, we conducted a second HRIA in the Philippines in 2019. The exercise covered our head office, two factories (Batangas and Marikina), one sales office (Marikina), suppliers, and surrounding communities. The scope of the HRIA was broadened to also include our tobacco supply chain and our marketing practices, better reflecting the operating context and issues at stake across our value chain.

A HRIA comprises 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 organisations (NGOs), local authorities, trade associations, and international human rights organisations.
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 assessment in the Philippines, we will implement the findings and conduct additional assessments in 2020 in other geographies.

# PMI's 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 2019, 86.6 percent of our employees received training related to topics in the Guidebook for Success (2018: 86.9 percent). This was done via a total of 253,763 completed trainings (2018: 193,063). Topics covered included marketing principles, workplace integrity, speaking up, privacy, and anti-corruption.

# Responsible Sourcing Principles

Our supply chain accounts for a significant part of our social and environmental footprint. With an increasingly integrated and globalised value chain, balancing the security of our supplies with cost efficiency and high quality, environmental, and social standards is a major priority and challenge.

With over 33,200 suppliers across more than 180 markets, our spend amounts to approximately USD 11.4 billion. Thirty-three percent of our total supply chain spend is on direct materials (such as cellulose acetate tow for filters and paperboard for packaging) and smoke-free product devices, 13 percent is on tobacco leaf, and 6 percent on manufacturing equipment.

The way we work is grounded in our Responsible Sourcing Principles (RSP), available [here](#). The RSP are aligned with the UN Guiding Principles on Business and Human Rights, the UN Global Compact, and the International Labour Organisation (ILO) Conventions. The RSP, together with the implementation guidance, set process and performance standards for our suppliers.

The RSP 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.

Sustainability work in our tobacco supply chains is managed at farm level through our Good Agricultural Practices and our Agricultural Labour Practices (ALP) programmes (see page 10 for more information).

## *Managing risks in the supply chain*

To monitor the adherence of our suppliers to the RSP, GAP (Good Agricultural Practices), and ALP requirements, we have set up several processes and systems.

STEP (Sustainable Transformation Enables Performance) is the supplier due diligence and performance programme to achieve supplier compliance with our RSP. It serves as the backbone for sustainably managing our first-tier suppliers. In some cases, second-tier suppliers are also included.

In addition to STEP, we also engage with suppliers on more specific sustainability issues, train and empower suppliers, and conduct assessments and audits through third parties as required. STEP is based on the risk management approach that guides our supply chain due diligence framework.

Through STEP, our suppliers' potential ESG (environmental, social and corporate governance) risks are determined based on the type of material or service supplied, as well as the country in which the material is produced or the service is delivered.

This inherent risk profile tailors the subsequent evaluation of the suppliers' performance in addressing the relevant sustainability risks. Suppliers identified as low risk are asked to complete a basic questionnaire, while those characterised as medium or high risk complete a full questionnaire. In addition, high-risk suppliers undergo a desktop audit.

Depending on the results of the questionnaire and, as applicable, the desktop audit, the supplier risk profile may be re-evaluated and require further due diligence. For instance, a medium-risk supplier that did not achieve the minimum acceptable RSP compliance will be required to undergo a desktop and/or an on-site audit.

*Managing risks in the supply chain (continued)*

In 2019, we focused STEP deployment on critical suppliers identified by our risk-based criteria. We started to formally on-board suppliers in July. This first wave focused mainly on suppliers of direct materials and electronics.

In 2020, our target is to assess the suppliers representing 90 percent of our direct materials and electronics spend through the STEP platform. We are also on-boarding key tier 2 suppliers for these two categories.

Out of the first wave of assessments, we have experienced a good level of engagement from our suppliers in terms of both response time and completion rate. We attribute this strong uptake to training and communication, webcasts, face-to-face engagement, and strong support from procurement category managers.

*Focus on our electronics supply chain*

Responsible sourcing at PMI goes further than our STEP process, as we look at risks inherent to specific supply chains. For our electronics supply chain, for instance – which is key to our transformation toward a smoke-free future – we looked at risk exposure with an eye to tackling any potential issues involving our new electronic manufacturing supply base in Asia. On top of our STEP programme and regular engagement, which incorporates supplier on-boarding and the inclusion of sustainability clauses in supplier contracts, we strengthened our monitoring through specific sustainability scorecards and key performance indicators (KPIs) for our key suppliers and also undertook some preliminary evaluation of conflict minerals usage beyond tin, tantalum, tungsten and gold (3TG).

We scaled up our capacity-building efforts through face-to-face and online training, focused on topics such as women's empowerment in our supply chain, and expanded our Carbon Disclosure Project (CDP) supplier work.

To ensure our upstream supply chain fulfils PMI's RSP, we worked closely with one of our tier 1 suppliers to identify the moderate and high-risk tier 2 suppliers. Our tier 1 supplier then conducted self-assessment questionnaires and on-site audits. We regularly reviewed the process throughout. In all, a total of 37 tier 2 suppliers were audited and reported their improvement plans.

Also in 2019, working with the Responsible Labour Initiative and Responsible Business Alliance Foundation, we reviewed management approaches to forced-labour risk, recruitment surveys, labour relations, training for migrants before they leave home, awareness of labour rights, and other third-party support for migrant workers through the Responsible Workplace Programme (RWP). We put a spotlight on recruitment practices and human rights, following the lessons from our pilot project. The aim was to transform the recruitment process given the sector's reliance on migrant labour. A "new workers' helpline" was installed at our pilot study supplier as part of efforts to improve the grievance mechanism there.

*Addressing impacts in our electronics supply chain:**Progress update*

In our last report, we detailed our work with a key electronics supplier in Asia. The progress made one year on is testimony to a robust process of due diligence, strong relationships, and expert support from Verité, a leading NGO in supply chain sustainability.

The potential risks to which PMI was exposed from this supplier relationship centred on migrant worker practices, working conditions, accommodation, and safety, and oversight of external recruiters.

A second audit in 2019 yielded good news. Interviews with workers revealed a favourable response to our supplier as a result of the due diligence process; they now see that they have a voice and that the management is acting on their concerns.

Our team in Asia is also working to monitor and engage with suppliers and help improve safety, productivity, and labour conditions.

Furthermore, in 2019, electronics suppliers accounting for 80 percent of our procurement spend attended our capability-building programme. We piloted KPIs to better understand working hours in our supply chain. We focused on 19 key suppliers and asked them to submit monthly data about weekly working hours and labour composition.

This helped us understand the pattern of working hours and to discuss the root causes of excessive hours based on the data. We also integrated working-hour criteria into our scorecard programme.

Moreover, we introduced a new supplier on-boarding process through self-assessment questionnaires, on-site management review, and our STEP programme. This illustrates how we work with tier 1 and tier 2 suppliers to constructively resolve gaps in performance and deliver positive social outcomes.

# Agricultural Labour Practices Programme

Since 2011, PMI has implemented the Agricultural Labour Practices (ALP) 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 based on International Labour Organisation (ILO) convention;
2. Awareness-raising and training for suppliers, farmers, workers, and PMI's Sustainable Agriculture teams about applying the code and addressing any shortcomings in the process;
3. Internal farm-by-farm monitoring by 2,875 field technicians employed by PMI and our tobacco leaf suppliers. These are the people at the frontline of communicating PMI's expectations, visiting farms, and working with farmers to resolve ongoing challenges;
4. External country-specific assessments and verifications by Control Union, a specialist supply chain auditor, to independently evaluate the implementation of the ALP programme; and
5. Collaboration with civil society organisations, governments, and the private sector on initiatives to address systemic issues and to empower communities and to empower communities through participatory processes and grievance mechanisms.

The ALP Code defines the labour practices, principles and standards we expect to be met by all 335,000 tobacco farmers which PMI or PMI's suppliers have contracts with to grow tobacco. It is based on International Labour Organisation (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.

In 2019, field technicians contracted by PMI and by our leaf suppliers monitored 92 percent of all contracted farms (an increase from 88 percent in 2018), and we are committed to continually strengthening our monitoring, to improve our visibility of issues – taking a more risk-based approach, and to also be more effective in addressing identified issues. In 2019, for instance, we also piloted our overall ALP programme in China, covering close to 23,000 farms.

In 2019, a total of 14,440 prompt actions were recorded by field technicians and over 8,000 of those were resolved.

In 2018, we started a “Step Change” approach to our ALP programme, focusing on resolving the root causes of the most persistent issues in priority countries – which we assess periodically, and is run in collaboration with our partner Verité.

In this respect, we introduced the following set of targets to improve the socio-economic wellbeing of tobacco-farming communities:

- 100 percent of contracted farmers supplying tobacco to PMI make a living income by 2025;
- Zero child labour in our tobacco supply chain by 2025;
- 100 percent of tobacco farmworkers paid at least the minimum legal wage by 2022;
- 100 percent of tobacco farmworkers provided with safe and adequate accommodation by the end of 2020; and
- 100 percent of farmers and workers having access to personal protective equipment (PPE) for the application of crop protection agents (CPA) and prevention of green tobacco sickness (GTS) by the end of 2020.

The “step change” approach aims to achieve significant improvements in above areas. As a result, from 2018 to 2022, we will give additional focus to our work in Argentina, Indonesia, Malawi, Mozambique, South Africa, and Turkey.

# 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.

## Next Steps

We are progressing with the delivery of our Human Rights Roadmap. The rollout of our key diagnostic tool – the HRIA – will continue in 2020 in two geographies. We plan to conduct a fully-fledged HRIA in a selected high-risk country, which will deliver in-depth analysis and robust action plans.

To increase our overall impact on society, we are participating in industry-wide projects. We plan to conduct a focused impact assessment of our tobacco supply chain in Mozambique, which will cover ALP implementation and its effectiveness in addressing risks and impacts. This work will be carried out by a human rights consultant with other industry peers, working in collaboration with our common supplier in Mozambique.

Regarding our supply chain management, we plan to further expand our STEP programme across all the spend categories in our supply chain and all geographic areas. In 2020, we will build on our 2019 desktop and on-site audit pilots, and we are planning to deploy STEP to also cover nonstrategic suppliers, defined by spend thresholds.

In parallel, we will look to identify and possibly select additional digital due diligence tools with which to deploy our compliance programme to our tail spend. Additionally, we will expand our benchmarking activities to leverage other industry standards and possibly collaborate with individual companies on supply chain due diligence programmes.

For our tobacco supply chain, we will continue to strengthen our monitoring of the implementation of our ALP programme, and improve the effectiveness and consistency of how we respond to identified issues. We will analyse the impact of our initiatives using indicators developed with our expert partner Verité. This will allow us to further refine our work on child labour, safe working environments, and minimum wages. We will use the results of the external verification undertaken in 2019 to improve the effectiveness of our overall programme.

For more information about how PMI is showing leadership in environmental, social, and governance (ESG) issues, please see our Integrated Report, available [here](#).

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

**PETER NIXON**

**Managing Director**

**Philip Morris Limited UK & Ireland**

30.6.2020