

# Board activities in 2017

## Growth

Growth remains our key strategic focus. Continued investment in, and development of, our strategic focus areas is central to the Board's annual agenda.

### Activities in 2017

#### Reviewing:

- NGP strategy and updates on the Group's NGP performance, including the acquisition of ViP e-cigarette company in the UK; the launch of glo in Japan; and the Group's approach to, and future plans in respect of, the NGP portfolio;
- the Group's acquisition of RAI;
- the RAI business strategy and performance following its acquisition by the Group;
- acquisition opportunities, including the acquisition of Winnington, the maker of the market leading white snus product, Epok, in Sweden;
- the acquisition of certain tobacco assets from Bulgartabac Holding AD;
- operating performance and the continued significant impact of foreign exchange rates on the Group's financial performance, including measures taken by management to mitigate foreign exchange risks;
- the quarterly financial performance of the associates of the Group; and
- the Group's results and current outlook throughout the year.

### Strategy review highlights: Growth

**NGPs:** The Board received regular updates on the Group's approach to its NGP business during 2017 from senior management, covering the evolution of the Group's NGP business, current NGP performance highlights, NGP strategy and objectives in the short and long term, and challenges, together with an overview of the competitor landscape in the sector.

**Acquisition of RAI:** The Board convened five additional Board meetings to oversee all material matters relating to the acquisition of RAI, which constituted a Class I transaction for the Company for the purposes of the UK Listing Rules. The key conditions to completing the transaction were obtaining the approval of the shareholders of the Company and RAI; obtaining anti-trust approvals in the US and Japan; registration of the Company's shares with the Securities and Exchange Commission (SEC) in the US; approval of the Company's shares for listing on the UK London Stock Exchange; and approval of the Company's American Depositary Shares for listing on the New York Stock Exchange. The Board also approved the creation of a sub-committee of the Board to ensure ongoing oversight of all matters relating to the transaction between full meetings of the Board.

## Productivity

The Board pays close attention to the Group's operational efficiency and our programmes are aimed at delivering a globally integrated enterprise with cost and capital effectiveness.

### Activities in 2017

#### Reviewing:

- organisational design changes following the successful completion of the acquisition of RAI, including proposals to simplify the Group's regional structure to fully integrate the NGP business into the core operations of the Group;
- business transformation programmes to implement operational efficiencies;
- proposed changes to the Group's delegated authorities framework to reflect organisational changes;
- the operating performance of the Group;
- proposals to issue multiple series of guaranteed bonds in the US; and
- Group liquidity, confirming that the Company was conforming with its financing principles and noting planned refinancing activities for the year ahead.

### Strategy review highlights: Productivity

**Oversight of operating model changes:** During 2017, the Group established a Global Business Services (GBS) organisation which will deliver all transactional activities, efficiently manage non-core transactional activity, and deliver value-adding analytics services to the Group. The establishment of GBS is a natural next step to maximise the benefits from the Group's TaO programme.

**Organisational design changes:** Following the successful completion of the acquisition of RAI, the Board approved organisational design changes to simplify the Group's regional structure and to fully integrate the NGPs business into the core operations of the Group, reflecting the outstanding growth of this part of the business to date and its long-term importance to the Group's future. Three new regions have been created, effective 1 January 2018: Americas and Sub-Saharan Africa, Europe and North Africa and Asia-Pacific and Middle East. These replace the previous four-region structure.

## Sustainability

The Board places considerable emphasis on the need for our business to be sustainable for the long term, to meet the expectations of our stakeholders and inform our commitments to society.

### Activities in 2017

#### Reviewing:

- the Group's Global Product Stewardship Policy Framework in light of the new product stewardship challenges for the Group arising from its NGP activities;
- the status of the Group's litigation proceedings, including updates on the class actions in Quebec, Canada, against the Group's subsidiary Imperial Tobacco Canada and two other Canadian manufacturers; the Sequana dividend trial; the trial in Georgia brought by Tbilisi Tobacco; and key RAI litigation matters;
- updates on compliance matters including allegations of misconduct and the activities of the newly created Business Conduct and Compliance department;
- approving changes to the Group's Standards of Business Conduct to reflect US legislative and regulatory requirements following the acquisition of RAI;
- Environment, Health and Safety performance and long-term targets;
- the Group's Risk Register, considering the Group's risk appetite and determining the Group's viability for Financial Reporting Council reporting purposes, taking account of the Company's current position and principal risks; and
- the Group's director and officer insurance cover and agreeing revised provisions to take into account the change in requirements in this area following the acquisition of RAI.

### Strategy review highlights: Sustainability

During its strategy meeting in the US, the Board received a comprehensive briefing on the FDA regulation of Tobacco Products and the strategies which have been adopted to minimise the impact on RAI's operating performance. The evolution of the FDA's role and the key regulatory risks and challenges, including the numerous types of submissions and time frames, were explained in some detail. RAI's mitigation strategies were also discussed, together with recent developments from the FDA and their likely impact on the US market.

In 2017, the Group launched a new compliance programme, known as 'Delivery with Integrity'. See page 28 for details of this programme.

## Winning organisation

Setting the 'tone from the top' is an important part of the Board's role, helping to foster a culture centred on our Guiding Principles and which harnesses diversity.

### Activities in 2017

#### Reviewing:

- succession planning at Board level, including Executive Director and Management Board succession planning and monitoring the progress of Management Board development plans;
- the performance of Executive Directors and Management Board members;
- Non-Executive Director appointments in light of requirements following the acquisition of RAI, including approving the appointment of three new Non-Executive Directors from the RAI board of directors as proposed by the Nominations Committee;
- the composition of Board Committees and approving changes to the Committees;
- proposed changes to the roles and responsibilities of the Management Board and approving changes including the creation of the roles of Chief Operating Officer and Chief Marketing Officer; and
- RAI integration plans, including proposals for ensuring integration and retention of talent in the enlarged Group.

### Strategy review highlights: Winning organisation

**Talent development:** The approach to talent development and attraction was comprehensively reviewed to ensure it remains fit for purpose, particularly in the areas of brand-building and NGPs. A number of new initiatives were implemented, including the introduction of a new Global Graduate Academy, together with revised functional leadership programmes. See page 25 for further details.

**Your Voice survey:** The Group's global employee survey 'Your Voice' achieved exceptional results with a key Engagement Index score of 83%. See pages 25 and 26 for more details.

**Diversity:** Initiatives during 2017 included the development of two new diversity training modules, Inclusive Leadership and Cross-Cultural Awareness, the continued roll-out of the Group's 'Women in Leadership' programme, and the confirmation of the diversity principles applicable to the Board and Management Board in a Board Diversity Policy. See pages 25, 26 and 62 for further details.

## Directors: information and advice

### Information: Board and Committees

- Directors receive papers for review in good time ahead of each meeting;
- the Company Secretary ensures good information flow within the Board and its Committees, and between the Non-Executive Directors and senior management; and
- the Company Secretary, in conjunction with external advisers where appropriate, advises the Board on all governance matters.

### Advice

- all Directors have access to the advice and services of the Company Secretary;
- a procedure is in place for all Directors to take independent professional advice at the Company's expense if required; and
- each of the three principal Committees of the Board may obtain independent legal or other professional advice, at the Company's expense, and secure attendance at meetings of outsiders if needed.