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Deltafina srl
First Sustainability Report 2017,
with the kind partnership of the auditing company
Ernst & Young SPA and of the Deltafina Departments

Graphic design and printing:
Grafica Di Marcotullio sas, Roma
www.graficadimarcotullio.com
Letter to stakeholder

Dear Readers,

We are proud to present to you the first Sustainability Report of Deltafina. It is an important resource used to explain our sustainability goals and efforts, which are part of our everyday business. We are a first-stage tobacco-processing Company with the primary goals of collaborating with our suppliers to produce sustainable, traceable and quality tobacco to satisfy our customers, and to act with responsibility and integrity towards all of our people, the local community where we live and work, and all of our Stakeholders.

Every day, we strive to address the economic, social and environmental interests of our industry in a balanced way. We believe that sustainable development is determined by three factors: economic growth, social progress and environment protection. In 2017, we have achieved positive results, despite the continuing fiscal and normative reorganization of the tobacco sector at the national and European level, and notwithstanding the occurrence of persistent, unfavorable economic conditions. We continue our success thanks to the devotion and passion that our large Deltafina family puts into the business daily, thanks to an organizational culture based on sustainability, respect for people and integrity. Also thanks to our dedicated employees and a healthy succession plan, we have a determined and united management group of women and men that continues to manage with sound principles and an eye to the future. Over the years, we have given ever larger consideration to our Stakeholder requirements, and we have engaged ourselves to provide concrete actions for each one of them. We have invested in a significant manner on health and safety at work and on environmental protection, culminating in the certification of our integrated quality, environmental and safety management system. We have also placed increasing importance on regional relationships and continued our devoted support to the tobacco sector, and we do this to achieve more satisfactory results for us and for those who believe in us. Each day, we work to be better prepared to face a new tobacco consumption market; to fully satisfy the highest standard of our customers; and to plan the future while learning from our past and all the good that has been achieved from our actions.

Happy reading!

Engagement, integrity and sustainability are our priorities for all of our Stakeholders. We work with tradition and passion, collaborating with our suppliers and constantly innovating in order to provide our customers with sustainable, traceable and high-quality tobacco. . . Deltafina exemplifies all of this and more!

Domenico Cardinale
President

Domenico Cardinale
President
Highlights

> 100
Million Euros Turnover

335
Personnel average

> 55%
Female employees

51.4%
Italian tobacco purchased

2
Factories: Assisi e Francolise

> 1,000
hours of health and safety at work training

> 650
Producers

96%
Recycled waste

3
Agronomy Department research projects

Constant training courses
On Good Agricultural Practices

3 Certifications:
ISO 9001 - ISO 14001 - OHSAS 18001
Identity and governance

Who we are

Delafina is an Italian Company that buys raw, quality tobacco and processes it to sell to tobacco product manufacturers, according to their required standards. The Company is located in Italy with factories in Francolise (CE) and Assisi – Bastia Umbra (PG). Also located at the Assisi plant is our “Blended Strip Operation” (BSO), dedicated to the blending of different varieties and origins of tobacco. Our locations and processes provide our organization with technical and organizational flexibility that can meet our customers’ requirements. Delafina is owned by the American multinational Universal Leaf Tobacco Company.

The Company has the authorization of the “Agenzia per le Erogazioni in Agricoltura” (AGEA), where the Producer Group contracts are registered, and is associated with “Associazione Professionale Trasformatori Tabacchi Italiani” (APTI) which promotes associated interests in technical, economic and union aspects.

Mission and quality policy

Since its incorporation on May 24, 1948, Delafina’s mission is to perform exacting raw material processing in order to produce the best tobacco blends for sale to tobacco product manufacturers, according to their specifications. At Delafina the raw, cured tobacco leaf coming from the farm is selected and processed into tobacco blends to sell to manufacturers for consumer product manufacturing. The work at Delafina is performed according to fundamental values and targets:

- maintaining integrity in business conduct;
- granting constant support to the tobacco supply chain and to its affiliates, promoting sustainability in social, environmental and economic aspects;
- safeguarding the tobacco sector by being an active participant and member of industry associations;
- and achieving the requirements and expectations of Stakeholders.

In order to commercialize processed tobacco to a high standard that satisfies the customer, Delafina is engaged in the entire tobacco supply chain to promote the principles of sustainable tobacco production with the farmers and all sector participants. The Company assists farmers to achieve successful and profitable production of the varieties needed and, at the same time, monitor and promote social and environmental protections.
Deltafina is constantly engaged in monitoring quality, environmental and safety management processes inside the organization. The Board of Directors is committed to incorporate, maintain and continuously improve integrated management systems respecting the international standards ISO 9001:2015, ISO 14001:2015, and NS OHSAS 18001:2007.

Deltafina’s vision is based on:

- **Focus on the interested parties**, to proactively manage the interests of the tobacco industry and supply chain. For this reason, Deltafina is engaged to guide farmers through the changing market situation; to promote good agricultural practices; to process the tobacco according to the highest industry standards; to provide its customers with a compliant product respecting qualitative requirements; to ensure all processes have a positive socio-economic impact; and to support the industry and supply chain improvement.

- **Applicable legal requirements and business ethics concerns including** conformance to applicable laws and regulations and to the Universal Code of Conduct regarding business integrity, the environment, health and safety and related topics.

- **Pollution prevention** and environmental preservation through the identification and monitoring of environmental impacts related to our activities and implementing operational controls, including research and development of new methods and technologies, to pollution sources.

- **Prevention of accidents and work-related illnesses** through optimization of the work environment and continual monitoring of risk factors that can influence health and safety conditions.

- **Employee personal and professional development** through training and knowledge transfer of individual roles to integrate personal targets in the Company’s global objectives.

- **Supplier relationships** that value collaboration and information sharing that contribute to mutual benefit and product improvement. In particular, Deltafina cooperates with Tobacco Producer Groups to transfer skills and promote the production of compliant, traceable tobacco through Good Agricultural Practices.

- **Social responsibility** in the communities where Deltafina operates. In addition to respecting environmental laws and safety and human resources regulations, Deltafina promotes a sustainability vision in the relationship between business and Stakeholder interests.

- **Development of a culture of constant improvement** to satisfy customer requirements; to reduce the environmental impacts; and to bring health and safety to a level “corresponding to the practicable economic application of the best available technology.”

Deltafina’s Board of Directors is engaged in following this policy, by defining proper targets for the organization. The policy is distributed at all organization levels and to Stakeholders. The present policy is periodically checked and updated in order to maintain its validity.
Business model and Deltafina’s positioning in the tobacco sector

Deltafina performs the purchase, initial processing, storage and shipping of tobacco to tobacco product manufacturers. The Company mainly processes flue-cured and light air-cured (burley) varieties, as well as some dark air-cured and dark fire-cured varieties. The tobacco supply chain begins with our relationships with farmers and tobacco producer groups. Deltafina contracts with growers, provides technical training and assistance and finances the grower groups during field production. In addition, Deltafina performs research activities to guide improvements to agricultural practices, improve grower success and aid in sustainability efforts.

Deltafina also performs processing for third parties, as part of its pluri-annual agreements signed with tobacco product manufacturers.

Based on the agricultural nature of tobacco production, Deltafina’s activities are seasonal, with purchasing beginning in September, processing occurring from October through March, and shipping into the summer months alongside the growth of the new crop.
Tobacco varieties purchased and processed

Deltafina buys different tobacco varieties already cured in leaf form:

- **Flue-cured**: Virginia Bright tobacco that is cured in barns using circulated heat that is temperature and humidity regulated;

- **Light air-cured**: Burley, Maryland and Badischer Burley tobaccos that are cured by regulation of air circulation, in natural atmospheric conditions inside of tented curing structures;

- **Dark air-cured**: Havanna, Beneventano, Badischer Geudertheimer and Nostrano del Brenta varieties that are cured in the open, similar to light air-cured tobaccos, but darker in nature;
Dark fire-cured: Kentucky tobacco that is cured by fire and heat in barns and develops a particular flavor as a result of the smoke which slowly penetrates into the tobacco leaves.

Inside the factories, tobacco is subjected to different physical processes necessary for initial processing including:

- **Picking**, to select leaves according to morphological peculiarities and remove non-tobacco related materials;
- **Threshing**, to remove lamina from stem;
- **Drying**, to remove excess moisture for packing and preservation.

Processing produces a main product constituted of lamina fragments, or strips, with dimensions corresponding to fixed measures and two by-product groups constituted by stems and small lamina fragments known as small lamina or scrap.

Tobacco purchased by Deltafina is divided into lots with specific qualities and characteristics including crop year (crop), tobacco type, grade\(^2\), form and moisture level. Tobacco strip, stem and small lamina are then delivered to tobacco manufacturers by lot or are stored for later delivery or additional blending according to the customer requirements in the Blended Strip Operation (BSO).

\(^2\) Tobacco grade is determined by leaf characteristics including: stalk position, dimension, color, ripeness, consistency and elasticity.
Our Stakeholders

By the term Stakeholders Deltafina identifies all people, organizations, cooperatives and institutions which interact or are impacted by our business activities. Developing positive relationships with all Stakeholders based on shared interests and mutual trust is of central importance to Deltafina. This is critical in order to operate in a sustainable way and to offer our customers quality tobacco. All activities performed by Deltafina are performed with thorough attention, collaboration and open dialogue with all Stakeholders.

Picture 5 - Delafina’s Stakeholders
### Table 1 - Stakeholder expectations

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Involvement</th>
<th>Stakeholder expectations</th>
</tr>
</thead>
</table>
| **Universal Group**                      | Deltafina is owned by the American multinational Universal Leaf Tobacco Company, which is part of Universal Corporation. The Company complies with the Universal Code of Conduct and all Universal policies. | • Respect of Universal policies, programs and guidelines  
• Compliance with applicable laws  
• Attention to direct and indirect environmental impacts  
• Cost containment and productivity improvement  
• Human resources development and employee well-being  
• Corruption prevention                                                                 |
| ** Suppliers**                           | Supplier management targets sustainable and quality tobacco production. Deltafina, with particular reference to suppliers (cured leaves), contributes to keep relationships based on loyalty and mutual trust and trains tobacco farmers to apply good agricultural practices. | • Respect of the contract and payment terms  
• Long-term supply relationships  
• Good agricultural practices training  
• Technical support for sustainable tobacco growing  
• Clear and on-time communications                                                                 |
| ** Environment**                         | Deltafina pays extreme attention to the environmental aspects of our business, especially during crop production and processing. The Company promotes and trains growers on good agricultural practices, many of which address the environmental impact of crop production. | • Compliance with environmental laws and regulations  
• Attention to direct and indirect environmental impacts                                                                 |
| ** Regulatory Organizations and Institutions** | Deltafina believes in the importance of building long-term and quality relationships with all regulatory bodies, in order to achieve long-term, growing and sustainable development targets within local communities. The Company engages with representatives to find the proper balance between business, market trends and local community needs. | • Compliance with applicable laws  
• Respect of agreements  
• Illicit behavior prevention  
• Support of local communities                                                                 |
| ** Unions**                              | Union relationships are positive and constructive, and are oriented to share information about respect for workers’ rights and other relevant subjects important for the Company and employees. | • Cooperation regarding negotiations about «CCNL» (national contract) renewal  
• Respect for workers’ rights                                                                 |
| ** Local Communities**                   | Deltafina respects regions and local communities where we operate and maximizes the positive socio-economic and environmental impacts. | • Maximizing positive impacts  
• Minimizing negative impacts  
• Clear and transparent communication  
• Relationships based on trust                                                                 |
| ** Tobacco Product Manufacturers**       | Tobacco product manufacturer relationships to target the commercialization of sustainable and quality tobacco; Deltafina engages customers to discuss the volumes and qualities required in order to organize its work with growers during the crop cycle. | • Compliance to standards and requirements  
• Production cost control  
• Supply chain monitoring and improvement  
• Clear and transparent communication                                                                 |
| ** Employees**                           | People are the center of all activities performed by Deltafina, from the technicians helping the farmers implement sustainable tobacco production to processing operators preparing lots for sale to customers. Thanks to their engagement and devotion, Deltafina best realizes its mission to sell tobacco. | • Job protection  
• Respect of workers’ rights  
• Health and safety protection  
• Ability to listen  
• Skills training and development                                                                 |
Our factories: Assisi and Francolise

In addition to its corporate office located in Rome, Deltafina has two tobacco processing factories: one in Francolise (Caserta) – which primarily buys and processes burley tobacco – and one in Assisi/Ospedalicchio di Bastia Umbra (Perugia) – which primarily buys and processes flue-cured tobacco as well as hosts the Company’s administrative offices. Near this factory is the Blended Strip Operation (BSO) which was established in 1995 to blend various tobaccos and other components according to customer-agreed qualitative and quantitative characteristics. The close proximity of the processing facility and the BSO facility in Assisi allows synergies and efficiencies with reference to management, employment and operations.

Assisi Factory

Deltafina’s history dates back to the Bastia Umbra plant construction between 1936 and 1939 by Sir Francesco Giontella. A cigar tobacco variety (Kentucky) was produced in the factory at that time. The factory suffered damages during World War II and was rebuilt and enlarged in 1946-1947. In 1961, the plant was sold to the Dutch company ‘Deli Maatschappij’, and afterwards sold again, in 1964, to the American ‘Universal Leaf Tobacco Company’ with the name of Deltafina. In the following years, investments were made in research and new tobacco-processing systems. These innovations were transferred to the new factory in Ospedalicchio (in place since 1982), and it is considered since then one of the biggest and most modern in Europe.

- Factory of 32,000 square meters
- Processing about 11,000 kilograms of tobacco per hour
- Technologically advanced
- NTRM removal devices in the processing line

Main tobacco type processed
- Virginia

Certifications
- Quality Management System according to UNI EN 150 9001 rule
- Quality Environmental Management according to UNI EN ISO 14001 rule
- Health and Safety at Work Management System according to B5 OHSAS 18001 rule
At the end of the 1960s, Deltafina invested in the Campania region, opening a factory in Presenzano (CE). Following the increase of tobacco cultivation in the area, the Presenzano plant was no longer sufficient, and in 1971 the company decided to invest in the municipality of Caserta in Francolise. Until 1974, the factory performed basic tobacco processing, consisting of blending, drying and packing. From 1974, a threshing line was incorporated to provide complete processing services.

- Factory of 24,000 square meters
- Processing about 8,500 kilograms of tobacco per hour
- First factory in Europe to have avant-garde technological systems
- Strategic positioning with respect to Burley production area and main ports
- NTRM removal devices and customized projects to eliminate them

Main tobacco type processed

- Burley

Certifications

- Quality Management System according to UNI EN ISO 9000 rule
- Quality Environmental Management according to UNI EN ISO 14001 rule
- Health and Safety at Work Management System according to BS OHSAS 18001 rule
Market presence and national agriculture production support

In recent years, the tobacco sector has been majorly reformed in Europe, as agricultural subsidies have been reduced throughout Europe. This has caused the tobacco sector to undergo a major reorganization; however, tobacco farming has continued thanks to complementary actions implemented by local institutions and agreements signed between tobacco producer groups and processing and manufacturing companies, which targeted providing farmers an average return by volume aligned with previous years.

Despite tobacco production decreases in the last decade in all major tobacco-producing regions\(^3\), Italy remains the largest European raw tobacco producer\(^4\) with total volumes of 48,5 million kgs\(^5\) according to national data.

In the Italian market, Deltafina is the main processor of raw tobacco. The Company supports the national agricultural production by buying in all production regions a total percentage of about 15%-35% each year.

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\(^1\) Even though tobacco growing is common today in 9 regions, from North to South of the peninsula, 97% of the tobacco is grown in just 4 regions: Campania, Umbria, Veneto and Toscana.

\(^2\) In Italy, all tobacco varieties are grown, except for oriental tobaccos, which are produced mainly in Bulgaria, Greece, Macedonia and Turkey.

\(^3\) Source: "Tobacco market situation - Civil Dialog Group Arable Crops" of April 5, 2017, with reference to 2015 production data.
This positive trend, despite a reduction in sector consumption, has been possible as a result of strict attention to efficiency and sustainability, strong relations with Stakeholders and a positive relationship with tobacco product manufacturers.

Deltafina has confirmed its role as the leading tobacco processor, with moderate to good results both for third-party processing and for direct tobacco sales.

In order to maintain our strategic position, Deltafina has established the following major goals: solidifying tobacco sales volumes; improving penetration into emerging tobacco markets such as shisha and narghile; continuing sustainability programs; and preserving processing volumes for third parties through renewing processing agreements.

**Economic Sustainability**

Economic sustainability remains a primary goal to ensure long-term stability and, at the same time, support the continued development of the tobacco supply chain. Deltafina’s generated value is shared with the communities operating in the territory (the Perugia and Caserta districts), contributing by creating local employment, using local suppliers and generating investments.

A sustainable Company generates economic value not only for itself, but also for all its Stakeholders, including employees, service providers, suppliers and capital suppliers, public administration and the entire community. The following graph presents the economic value generated by Deltafina as of March 31, 2017, with percentages of payments to goods and services suppliers (operational costs); payments to employees (salaries and benefits); payments to capital suppliers, to public administration (e.g., taxes) and to local associations (other payments).

Almost all operational costs (86.26%) are related to the procurement of raw materials and services, which represents a significant impact in the region where Deltafina operates. This impact demonstrates the strong link with tobacco growers and other suppliers of goods and services. This aspect is an important element for Deltafina which remains committed to maintaining labor and added value in Italy.
Governance and Universal Corporation Group

Deltafina is managed by a Board of Directors (BoD) composed of two to five members according to the Ordinary Assembly. The directors are elected among non-members as well, and remain in place until revocation or resignation, or for another term established by the Assembly. Directors constitute the legal representation of Deltafina, while the powers of attorney belong to the BoD President. The current Board of Directors includes:

<table>
<thead>
<tr>
<th>Position</th>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>President</td>
<td>Domenico Cardinali</td>
</tr>
<tr>
<td>Vice President</td>
<td>Enrique Del Campo Ros</td>
</tr>
<tr>
<td>Member</td>
<td>Giorgio Marchetti</td>
</tr>
<tr>
<td>Member</td>
<td>Donatella Pontarollo</td>
</tr>
</tbody>
</table>

The Board of Auditors, which conducts the controlling activity, is composed of five auditors—three permanent members and two substitutes—named by the Assembly according to law. One of the legal audit positions is committed to the auditing Company EY S.p.A., as determined by the Ordinary Assembly.

Deltafina is owned by the American multinational Universal Leaf Tobacco Company, which is owned by Universal Corporation, a worldwide leader in tobacco processing and commercialization founded in 1918 and located in Richmond, Virginia, USA. On February 25, 2016, Deltafina became a limited liability Company by the denomination “Deltafina srl,” maintaining the registered office at the Orvieto municipality, its mission and its Company structure.

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6 According to art. 19 of the Statute, Deltafina can be managed alternatively by a unique administrator, by a number of variable administrators from 2 to 5 with jointly or disjoined signature, or by a Board of Directors composed of two to five members. This last modality is the one actually adopted by Deltafina, as established by the Assembly.

7 The Universal Corporation structure maintains strong regional and local management; therefore Deltafina is responsible for the definition of its commercial policies (both buying and selling) and in most aspects of management. Universal Corporation management is periodically updated regarding the economic and financial forecasts, operating results, and approves the Deltafina investment plans.

8 Previously Deltafina was a “società per azioni.”
Deltafina’s organization chart below indicates the organizational structure as of March 31, 2017, indicating the departments directly reporting to the Company President:

Business integrity

Since its founding, integrity, ethics and transparency have been the core values of Deltafina and are an integral part of its commercial activities at every level. Tobacco is therefore bought and processed in accordance with applicable local, national and European laws, with respect to the strictest procedures and policies of the Company and of the Universal group of companies. Tobacco production is subject to socio-economic, environmental and safety standards reinforced by Deltafina through quality and sustainability goals managed and endorsed by management. Employee compliance with Company rules is of essential importance and, to this end, the Company trains its personnel and supports its suppliers and collaborators so that these rules are respected.

The Company maintains high ethical standards with responsible behavior towards its Stakeholders, respecting the adopted policies and procedures of Universal Corporation and of Universal Leaf Tobacco Company. Deltafina also integrates the Company rules system with other essential policies including **Fair Labor Practice, Environmental, Climate Change, Health and Safety and Social Responsibility**. Deltafina is constantly engaged in the observance of current legislation, of applicable international agreements and of structured Company rules at all levels, and the Company works to engage its suppliers and collaborators with the same.

In the years of reference (2016 and 2017) there has been no registration of employee reports in conflict with Deltafina’s declarations concerning compliance and Company rules.
**Code of Conduct** The Code of Conduct outlines all the ethical responsibilities that Universal workers have to respect while working: 1) working with integrity (no discrimination or harassment; following health, safety, environment and social responsibility policies); 2) business integrity (maintaining loyalty in relationships; rejecting all forms of corruption; following guidelines regarding gifts and entertainment expenses; 3) managing corporate information with integrity (no insider trading; avoiding conflicts of interest; protecting information and Company assets; managing book keeping, accounting records and controls with integrity).

**Good Agricultural Practice Policy** Under the fair labor practices and health and safety codes, tobacco growers are to respect seven principles: 1) child labor prevention; 2) fair wages and working time; 3) fair treatment; 4) no forced labor; 5) work environment safety; 6) freedom of association; and 7) legal compliance.

**Anti-corruption Policy** Deltalina behaves in accordance to all laws and to Universal policies concerning corruption; the Company also trains its personnel regarding the importance of behaving with integrity.
Sustainability and Supply Chain Integrity Policy  The Company is strongly engaged in sustainability and respects applicable laws all along the supply chain (from suppliers to tobacco farmers to customers); in particular, Deltafina is engaged in the seven areas of “good practices” of the Universal group: good agricultural practices; good manufacturing practices; environmental protection; health and safety; tobacco integrity and traceability; fair labor; and social responsibility.

Social Equity at Work Policy  Deltafina strives to have effective environmental defense programs, workers’ health and safety programs, and regional and local community support programs. The Company also recommends that tobacco farmers follow good agricultural practices — advising on tobacco soil maintenance, on tobacco selection varieties and on manure and pesticides usage — in order to contribute to the conservation of natural resources and to the production of sustainable, high-quality tobacco.

Environmental Policy  Compliance with environmental laws is extremely important to Deltafina, and the Company is constantly assessing environmental impacts—both directly and indirectly through its suppliers—and monitoring and working to limit greenhouse gas emissions.

Health and Safety Policy  The health and safety of Deltafina’s employees is of paramount importance, and the Company works to ensure that all employees observe the rules. The Company also works to raise awareness and educate employees regarding incidents, corrective practices and preventive actions. Deltafina also encourages employees to report any intimidation or threats of violence, as these are not tolerated.

Counterfeit Policy  Anyone who collaborates with Deltafina is not to provide tobacco to companies or to persons participating in the manufacture, distribution or sale of counterfeit tobacco products; this is extremely important to Deltafina, even if the Company does not sell its goods directly to final consumers. Deltafina has established a program called “Know Your Customer,” to obtain information on potential customers before trading tobacco.

Fair Labor Practices Policy  With respect to the current legislation and to the international agreements of the International Labor Organization, Deltafina does not allow child labor or forced labor. The Company constantly works to grant equal treatment and equal opportunities to women and men, as well as to respect freedom of association; these principles are respected with concerns to all personnel and collaborators, and also with regard to growers. As much as possible, Deltafina encourages its tobacco suppliers to adopt the same principles in order to have a safe and respectful working environment for all.
Sustainability engagement

At Universal, we are committed to our fellow employees and the communities in which we work. Inside our offices and facilities, we ensure that our people have safe and respectful working environments, free from discrimination and harassment. Outside our locations, we care about the communities that support us, and we strive to be good stewards and socially responsible. Safety and protecting the environment are more important than operational efficiency or expediency. Our dedication to our people and our communities makes us a stronger Company, and serves as the backbone to working with integrity.

Universal Corporation Code of Conduct

The supplier relationship and regional development support

Deltafina’s suppliers

Deltafina considers its suppliers as important Stakeholders to reach success in commercializing sustainable and quality tobacco. For this reason, the Company is engaged with its external collaborators in a number of ways. Deltafina shares with its growers Good Agricultural Practices and guidance related to sustainability, supply chain integrity, labor practices, health and safety, and environmental protection. In order to work with Deltafina, growers must agree to work with the shared values of business integrity, fair trading and transparency. Reliability of the grower base along with an environment of mutual trust allowed Deltafina to continue close relations with more than 650 tobacco growers in 2017.

Deltafina maintains associations with tobacco producer groups whose relations of mutual trust have been consolidated over the years. In 2017, Deltafina’s more than 650 suppliers were all considered proven, reliable farmers.

An analysis of Deltafina’s spending with tobacco, goods and services suppliers indicates great support to local communities. Additionally, Deltafina maintains constant attention to growers through its technical support of tobacco production.

Table 2 - Expenditure Percentage on suppliers

<table>
<thead>
<tr>
<th></th>
<th>Costo (€)</th>
<th>Fornitori</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of tobacco supplying cost 9</td>
<td>65.898.498</td>
<td>Italy</td>
<td>51,36%</td>
<td>73,01%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Foreign Countries</td>
<td>48,64%</td>
<td>26,99%</td>
</tr>
<tr>
<td>% services supplying costs (maintenance, logistics, etc.)</td>
<td>10.918.982</td>
<td>Locals (Regions of Campania, Lazio and Umbria)</td>
<td>58,83%</td>
<td>51,43%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Non locals</td>
<td>41,17%</td>
<td>48,57%</td>
</tr>
</tbody>
</table>

9 The value also includes purchased but not processed tobacco (trade only) at factories.
Tobacco supplier relationships are positive in nature and go beyond a simple business contract. Deltafina is an important link between the world tobacco market, individual farmers and tobacco producer groups. This contributes to better stability for farmers and the supply chain as a whole. Trust is also maintained through Deltafina’s provision of technical support, focus on good practices and attention to important environmental and social issues such as water resource optimization and farm workers’ rights. The qualifying points of this partnership include:

- Constant quality-quantity data feedback and performance evaluation;
- Constant analysis and technical support among parties, with the goals of process improvement and the pursuit of agreed standards;
- Program implementation of Good Agricultural Practices to improve tobacco quality, sustainability and working conditions.

The socio-economic regional development

The importance of tobacco production undertaken by Deltafina can be fully evaluated by an analysis which not only considers the revenues generated by the suppliers, but also the social and occupational implications produced in the local communities. Most activities of tobacco production cannot be easily mechanized so employment opportunities remain throughout the supply chain, from 200 to 1,200 hours per hectare.

For this reason, tobacco production represents a strategic resource for many farmers and for entire rural communities. The absence of tobacco would have a severe negative impact for these rural communities, with their survival threatened by unavoidable rural exodus. Furthermore, tobacco production provides stability to farmers who maintain the same selling quantity and have guaranteed income from Deltafina every year, in addition to the constant technical support during the various crop production stages which has improved tobacco yield and quality over time.

The most important result is the direct tobacco contribution evaluation to municipalities’ economic development — often rural communities. In fact, the spending capacity of a single person and families coming from cash flows (rent of lands, salaries, pays, tax, etc.) related to tobacco, contributes in a determinant way to supply the demand of other goods and services — locally private and public ones. In this logic, the study shows that tobacco production has been able to create inter-sectors links that are also extra-agricultural, and the more strict these links, the more important the propulsive role of this cultivation in the local economy.

The socio-economic value in the European Union by Nomisma (2014)

Considering this, the maintenance of tobacco growing is an essential target for Deltafina, which supports employment and allows the distribution of economic value to local communities, improving or

---

10 In addition to paying tobacco suppliers according to agreement, Deltafina sometimes finances growers through advanced payments, to support them from a financial point of view.
maintaining socio-economic living conditions. In order to keep this engagement, the Company has the following targets in the short-term and medium-term:

- Maintaining third-party processing volumes through pluri-annual agreements with tobacco product manufacturers;
- Consolidating relationships with customers through a strong Company culture of inclusion, quality, innovation and sustainability;
- The research of new and emerging tobacco markets to improve volume requirements and maintain stability and profitability for the grower.

### Respect for People

#### Personnel and human resources development

The activities and services offered by Deltafina are possible thanks to the engagement and the devotion of our employees.

As in prior years, Deltafina maintained an efficient organizational structure composed of permanent personnel (17%) and seasonal personnel (83%), related to processing necessities and the seasonal nature of our business. Employment is concentrated from October until a maximum peak at the end of our fiscal year on March 31. Because our buying and processing activities cease after March, our employment levels also decrease. On March 31, 2017, the permanent personnel consisted of 73 employees with open-ended contracts, while the total personnel including the seasonal personnel equaled 441. As far

<table>
<thead>
<tr>
<th>Deltafina Personnel as of March 31</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Permanent employees</td>
<td>73</td>
<td>72</td>
<td>68</td>
</tr>
<tr>
<td>Seasonal employees</td>
<td>368</td>
<td>380</td>
<td>395</td>
</tr>
<tr>
<td>Total employees</td>
<td>441</td>
<td>452</td>
<td>463</td>
</tr>
</tbody>
</table>

**Employee average during the year**

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>335</td>
<td>319</td>
<td>316</td>
</tr>
</tbody>
</table>

*Picture 12 - Employment breakdown as of March 2017*
as the average employment during the year, there was an increase of 5% compared with 2016 and of 6% with respect to 2015.

With reference to seasonal personnel, the workforce is characterized by the high percentage of women, contributing to an increase of jobs in areas where the female labor index is lower than average.

Deltafina focuses on its personnel and strongly believes that continuous skill training represents a strategic investment for the success and sustainability of our business. The Company engages employees constantly to facilitate knowledge transfer and to manage training activities. All personnel have the same opportunities to develop within the Company. Senior managers routinely engage in mentoring activities with our young employees to ensure that our deep knowledge in tobacco agronomy, purchasing and processing is passed to the new generation of employees.

Engagement to respect workers’ rights and well-being

Deltafina performs according to high ethical standards with responsibility towards all people contributing to the Company’s activities. The main targets of this program include the well-being of people, the fight to prevent child and forced labor, equitable treatment and attention to health and safety. This concern extends to the farm and the tobacco supply chain, where Deltafina has implemented an Agricultural Labor Practices (ALP) program. Deltafina works with farmers and tobacco producer groups to understand, monitor and implement these standards.
The most important goal of the ALP program is respect for labor laws and the improvement of working conditions in the fields. These aspects are particularly important for agriculture where seasonal labor is prevalent related to the growing cycle. This engagement represents best practice at a national level and international level related to both the agricultural sector and the tobacco industry. Deltafina routinely presents ALP to farmers and tobacco producer groups in meetings and training sessions. Deltafina leaf technicians are charged to monitor the compliance to and application of ALP principles during farm visits. The information gathered by our leaf technicians, through reports and our MobiLeaf11 program, allows timely reporting to Deltafina management and our customers.

### AGRICULTURAL LABOR PRACTICES: 7 PRINCIPLES AND 31 MEASURABLE STANDARDS

#### Child Labor
1. There is no employment or recruitment of child labor (under 16 years of age).
2. No person below 18 is involved in any type of hazardous work.
3. On family farms, minors between 14 and 16 years of age are only permitted to perform light work.

#### Income and Work Hours
1. Wages of all workers meet minimum, national legal standards or agricultural benchmark standards.
2. Wages of all workers are paid regularly, at a minimum, in accordance with the country’s laws.
3. Work hours are in compliance with the country’s laws.
4. Overtime work hours are voluntary.
5. Workers provided with benefits, holidays and leave according to law.

#### Fair Treatment
1. No physical abuse or threat of physical abuse.
2. No sexual abuse or harassment.
3. No verbal abuse or harassment.
4. No discrimination.
5. Workers have access to a fair, transparent and anonymous grievance mechanism.

#### Forced Labor
1. Workers do not work under bond, debt or threat and must receive wages directly from the employer.
2. Workers are free to leave their employment at any time with reasonable notice.
3. Workers are not required to make financial deposits with employers.
4. Wages or income from crops and work done are not withheld beyond the legal and agreed payment conditions.
5. Farmers do not retain the original identity documents of any worker.
6. The farmer does not employ prison or compulsory labor.

#### Safe Environment
1. The farmer provides a safe and sanitary working environment.
2. Worker have been trained on avoidance of green tobacco sickness.
3. No worker is permitted to use, handle or apply crop protection agents (CPA) or other hazardous substances without adequate training and without required personal protection equipment.
4. Workers do not enter a field where CPA have been applied unless and until it is safe to do so.
5. Workers have access to clean drinking and washing water close to where they work and live.
6. Accommodation, where provided, is clean, safe, meets the basic needs of workers, and conforms to the country’s laws.

#### Freedom of Association
1. The farmer does not interfere with workers’ right to freedom of association.
2. Workers are free to join or form organizations and unions of their own choosing and to bargain collectively.
3. Worker representatives are not discriminated against and have access to carry out their representative functions in the workplace.

#### Compliance with the Law
1. All workers are informed of their legal rights and the conditions of their employment when they start to work.
2. Farmers and workers have entered into written employment contracts when required by a country’s laws and workers receive a copy of the contract.
3. Terms and conditions of employment contracts do not contravene the country’s laws.
Health and safety at work

Tobacco production, even with the use of mechanization technologies in farming, remains a manual process, in both the harvesting and curing phase and also in tobacco processing. For this reason, Deltafina pays close attention to the health and safety of employees and workers both in the farmers’ associations and the ones working directly in the fields. Health and safety aspects are an important part of good agricultural practices, so Deltafina not only trains farmers, tobacco producer groups and employees on these aspects, but seeks to reduce risks and also provides personal protection equipment (PPE).

As for the adequacy of its infrastructure and environmental working conditions, Deltafina has named a Responsible for Protection and Prevention (RSPP) and it has implemented the necessary measures for worker safety including: risk assessments, prevention and accomplishment of safety measures, employee training regarding risks and risk mitigation, maintenance, and verification of safe working conditions.

With particular attention to training on health and safety at work, Deltafina remains compliant with legal requirements and routinely engages employees with general and specific training. This training exceeded 1,000 hours as of March 31, 2017. Deltafina stocks first aid supplies and has automated external defibrillators (AEDs) available in its facilities. Personnel have been trained on the procedures for use of this equipment.

In 2017, seven health and safety incidents were reported within our facilities during close to 490,000 working hours. None of the incidents resulted in severe injury. This represents a slight decrease from the prior year.

PREVENTION DURING TOBACCO MANIPULATION

Deltafina sensitizes and informs farmers and tobacco producer groups about green, wet or fresh tobacco handling, including the risk of nicotine absorption and the development of Green Tobacco Sickness. The symptoms of this condition include: nausea, vomiting, malaise, vertigo, stomach cramps, breathing difficulties, pallor, excessive transpiration, headaches and high blood pressure. The precautions to minimize the risk are:

- Use personal protective clothing and equipment to reduce direct contact with tobacco leaves;
- Wash the hands with soap and water after tobacco handling;
- Change clothes if they are wet or collect tobacco residues;
- Take regular work breaks and limit harvesting activities to 7 hours;
- Avoid working when it is extremely hot, and go to shelter in case of illness;
- Call the doctor in case of illness.

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11 For further information about the program, please see the paragraph “Farm monitoring and traceability: the MobiLeaf project.”
The social dialogue and Union relations

Deltafina belongs to the tobacco leaf supplier sector, and uses a participatory model of industrial relations, so that it is oriented to share information with respect to workers’ rights and the most relevant subjects that affect the Company and its workers. To carry out this model, there is a commission called “RSU” composed of elected representatives of the workers. The Company grants permits to any of them with full respect of the law and of operational and organizational requirements of the Company.

Union relations are characterized by full respect, good relations and a proactive approach to shared interests. Routine meetings are organized between Deltafina, RSU and the main industry Unions (Fai Cisl, Flai Cgil e Uila Uil) on all important subjects regarding the Company and the workers—equal opportunities for women and men, medical funds, salary negotiations, rights and duties of workers, health and safety at work, collective agreements, etc. In 2017, these meetings resulted in an agreement on the work organization12 and contributed to the signing of a new contract for the tobacco processing sector on May 8, 2017. In particular, the new contract has important changes for employees, i.e.: pay increases; workers’ inclusion to a medical fund, important services to support income; collective contract bargaining; better parental protection (providing parent leave for children up to 14 years old versus the previous 10-year-old age in cases of child illness); possibility for migrant workers to accumulate matured holidays and remunerated permits to permit family reunifications; and occupational support measures, including generational turnover.

Environmental sustainability in tobacco cultivation and processing

Training and technical assistance to farmers promoting sustainable cultivation

For Deltafina, it is extremely important to share agricultural practices with farmers in order to produce sustainable and quality tobacco. The collaboration among technicians and farmers is the foundation of tobacco production and is structured throughout the crop cycle. In particular, every year there are training sessions between the farmers and technicians to share Good Agricultural Practices (GAP) and other information regarding the sector. GAP includes all tobacco production aspects including the use of certified seed, protection of soil fertility, responsible water usage, use of plant protection products and avoidance of non-tobacco related materials.

12 The agreement names some organizational aspects linked to re-engagement, to equal distribution of working days among all workers according to their qualification and to work uniforms and personal protective equipment.
The choice of quality seed
The choice of tobacco varieties to produce the best crop is evaluated by the Deltafina Agronomy Department and the tobacco producer groups, so that high-quality, certified seed can be provided to farmers both from an agronomic and phytosanitary point of view. In particular, acceptable seeds need to have particular characteristics, including:

- Listed on the National Variety Register and certified according to applicable laws;
- Tested and free of genetic modification;
- Low Converter (in order to prevent nitrosamine\(^{13}\) formation);
- Having proper technical form including properly labelled with the following information: variety, lot identification, germination rate (%), producing farm, quantity and pureness (%).

Soil fertility protection and management
All soil cultivation must be performed with respect for the environment, conservation and protection of natural resources in order to reduce physical, chemical and microbiological risks linked to soil degradation and low fertility. Deltafina's Agronomy Department encourages farmers and association technicians to undertake soil analyses and activities on the ground, including:

- Soil analysis every 3 years at minimum, according to official chemistry soil analysis methods published by the Italian Society of Soil Science (S.I.S.S.);
- Soil nutrient management using appropriate types and amounts of manure and fertilizers, according to soil analysis results with attention to water pollution risk;
- Respect for the current laws and the use of a soil and water preservation plan, implemented by Deltafina to give farmers a further tool of analysis for tobacco growing.

Soil preparation and tobacco transplanting
After the most suitable varieties are selected and grown in seedbeds, farmers transplant the tobacco plants in well-prepared soil in order to maximize plant growth and uniform cultivation. The optimization of all subsequent cultivation interventions minimizes plant susceptibility to pests and diseases with a consequent reduction in the need for chemical usage for plant protection.

\(^{13}\) For further information, please see the paragraph “Quality control.”
Responsible water usage in tobacco growing
Water is a critical natural resource necessary for crop growth, but it is not available in unlimited quantities, and it has to be efficiently utilized. Incorrect water usage in the irrigation phase can cause soil and water pollution. Good Agricultural Practices include important guidance for irrigation control and soil management in order to maximize plant growth, while reducing excessive water use and potential waste.

The choice of irrigation method has to take into account important evaluations regarding water resource availability and precipitation trends. This balances water resource availability with plant needs and improves plant yields and quality. The preferred irrigation system in FCV cultivation is typically the drop system which:

- reduces water usage to only when needed;
- reduces water pollution risk;
- targets the distribution of nutritional elements reducing overall fertilizer use;
- saves energy and reduces environmental impacts.

The correct usage of plant protection products
The right choice of cultivation practices is selected with continuous collaboration between Deltafina, the tobacco producer groups and farmers. This process is important to avoid incorrect usage of plant protection products. Deltafina’s efforts are guided by continuous research within the Agronomy Department and constant communication with growers. This interaction ensures compliance with applicable laws and reduces the use of agrochemicals. Reduced usage of agrochemicals plays an important role in environmental protection and health and safety. More specifically, these actions improve alignment with national guidelines related to biodiversity\(^\text{14}\) and to operator health\(^\text{15}\). All growers are required to use only agrochemical products registered in Italy for tobacco and must strictly follow the product label. When agrochemicals are necessary, growers are encouraged to adopt the use of those with the lowest toxicology class and declared not harmful for beneficial insects such as bees or ladybugs. All operators handling agrochemical products must have a license issued by competent regional offices and utilize the proper personal protection equipment (PPE)\(^\text{16}\) provided by Deltafina and available on the farm. Finally, the plant protection products must be stored in a suitable and dedicated environment with access only for authorized personnel. Products must be kept in their containers with intact product labels. Waste products from usage are designated special waste and must be disposed of according to regulations.

Deltafina respects the law regarding maximum residue limits (MRLs) of plant protection products and tests residue levels to ensure that the tobacco complies with the laws.

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14 The “Guide Lines for conservation and the characterization of the vegetable, animal and microbial bio-diversity, of interest for agriculture” (2014), a tool to preserve and characterize local species and varieties recommending operational guidelines for animal and vegetable biodiversity protection, as well as microbial protection for food and soil.
16 Examples of necessary PPE depending on the product include full masks, partial masks with filters, overalls, rubber boots, eye protection and waterproof, chemical resistant gloves.
Environmental protection and pollution prevention at Deltafina facilities

Deltafina monitors and controls its industrial activities that impact the environment including factory emissions, soil and subsoil safeguards, proper waste disposal and the responsible use of natural resources. To this end, the Company implemented and accredited an environmental management system according to the ISO 14001 standard within our two factories. This management system is a voluntary tool for continuous improvement of environmental services and is a core part of our engagement for environmental protection and pollution prevention.

The engagement to address climate change and reduce atmospheric emissions
Deltafina constantly monitors its environmental services, with targets to improve results. This activity addresses our legal compliance and our concern to minimize environmental impacts and reduce greenhouse gas emissions. Direct\(^{17}\) and indirect\(^{18}\) CO2 emissions totaled 7 thousand tons in 2017, up from 2016. This increase is due to higher processing volume of tobacco in fiscal year 2017, which however produced a reduction in CO2 emissions per processed ton.

<table>
<thead>
<tr>
<th>Emissions</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Assisi</td>
<td>Fracolise</td>
</tr>
<tr>
<td>Direct Emissions (Scope 1)</td>
<td>2.274</td>
<td>1.260</td>
</tr>
<tr>
<td>Indirect Emissions (Scope 2)</td>
<td>2.251</td>
<td>1.339</td>
</tr>
<tr>
<td>Total</td>
<td>4.525</td>
<td>2.599</td>
</tr>
</tbody>
</table>

Waste management in the factories
The Assisi and Francolise factory management teams are responsible for containing waste and disposing of it, with priority given to recovering and recycling waste when possible. The Company developed a plan to control and manage the waste coming from all productive and ancillary activities.

The plan’s targets include:

- ensuring legal compliance;
- controlling environmental impacts;
- verifying authorizations of transport and waste disposal service providers;
- governing the operational and administrative aspects of the environmental policy.

The waste is classified according to the European Waste Catalogue (C.E.R.) and is stored in temporary deposit locations to await transport. Before releasing the waste to the transporter, Deltafina verifies that the transporter and destination have valid licenses to handle the waste.

\(^{17}\) Direct emissions result from activities directly undertaken and controlled by Deltafina (Scope 1).

\(^{18}\) Indirect emissions result from emissions sources controlled by third parties, but benefit Deltafina’s business activities (Scope 2).
In 2017, 2,525 tons of waste was produced, 96% of which was recycled, which is in-line with the prior year. The majority of waste is recyclable because the largest categories are paper and tobacco residues, which are natural materials that are easily recovered for composting.

Responsible water usage in the factories
In 2017, water consumption was about 37 million liters, an increase of 24.4% from the prior year. The increase was mainly related to an increase in volume processed in 2017 compared with 2016. Water is extracted by wells and transformed to steam and water vapor in order to re-moisturize the tobacco leaves during processing activities.

<table>
<thead>
<tr>
<th>Produced Waste (tons)</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tobacco residues and dust</td>
<td>1.492</td>
<td>1.172</td>
</tr>
<tr>
<td>Paper</td>
<td>933</td>
<td>1.036</td>
</tr>
<tr>
<td>Other materials</td>
<td>100</td>
<td>99</td>
</tr>
<tr>
<td>Total</td>
<td>2.525</td>
<td>2.307</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Water Consumption (liters)</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assisi</td>
<td>25,326,000</td>
<td>17,284,000</td>
</tr>
<tr>
<td>Francolise</td>
<td>11,850,000</td>
<td>12,597,000</td>
</tr>
<tr>
<td>Total</td>
<td>37,176,000</td>
<td>29,881,000</td>
</tr>
</tbody>
</table>

Product quality and innovation
In order to satisfy the requests of tobacco product manufacturers and to ensure the supply of sustainable and quality tobacco, Deltafina verifies compliance with requirements throughout the tobacco supply chain. During crop production, compliance is verified by our field technicians, and during factory processing, it is verified by our supervisor, employees and quality control laboratories. Deltafina field technicians train farmers and tobacco producer groups on good agricultural practices for all stages of crop production, with special attention given to topping19, harvesting20, curing21, packaging and storage22, which have critical roles in tobacco quality and sustainability. In our factories, our supervisors and employees deploy our quality management system accredited to the ISO 9001 standard with associated processes and procedures that target processing quality. The outcome is verified by sample analysis in quality control laboratories checking physical and chemical characteristics of our lots to ensure customer requirements are met.

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19 This operation is fundamental, as it influences the physical and chemical tobacco nature, and it is indispensable to obtain a balance of the nicotine, flavor and starch content that is transformed into sugar in the curing phase.
20 In order to produce high-quality tobacco, it is crucial to gather uniformly ripe leaves and subdivide them by stalk position.
21 The curing represents the first tobacco-processing phase. Each phase plays a critical role in satisfying manufacturers’ requirements.
22 Before being transported to Deltafina, the cured tobacco must be stored properly, so that the humidity rate is maintained and the risk of deterioration is avoided. From the first harvest, the tobacco has to be packed according to producer groups’ instructions, utilizing only material provided by the Company (for example, cartons and straps/vegetable threads).
Farm monitoring and traceability: the MobiLeaf™ project

Considering the importance for Deltafina to ensure the supply of sustainable and quality tobacco to manufacturers, the Company decided to implement the MobiLeaf Project (developed by Universal Leaf Tobacco Company) in 2015 with the support of our field technicians. MobiLeaf is a farmer management system designed to collect, analyze and report important tobacco production data in real-time. This system electronically monitors critical areas to follow the agronomic production trends, helping farmers and leaf technicians.

The MobiLeaf system traces data including:

- **General farmer information**, production area, tobacco quantities and yields;
- **Agronomy information**, seedling, production, curing and conditioning and workforce;
- **Company, customer and industry agronomy program information** related to the Sustainable Tobacco Production (STP) program, Good Agricultural Practices (GAP) program and Agricultural Labor Practices (ALP) program.

With the help of the MobiLeaf system, field technicians are able to monitor, record and analyze key information related to field production activities. Primary monitoring and recording activities occur during regular visits to the grower. Comparisons to good practices at each stage of production can be viewed in the system, which provides leaf technicians tools to better advise the grower. The system can also generate action plans for issues requiring more attention and feedback. Field technicians are also able to produce grower-specific, traceable labels for farm bales offered for sale. These labels include information such as: name of the association, farmer code (assigned by Deltafina), crop year, allotment name, variety and grade. This data is fundamental to allow full traceability of the bale through factory production.
Quality control

In order to verify product quality, Deltafina constantly monitors tobacco inside its factories. Quality control is performed during the season by field technicians using MobiLeaf and during processing by the quality control laboratory. The Company’s main quality control goals include:

- **Verification of the absence of foreign matter** (NTRM) in order to provide manufacturers with a clean product. Deltafina implemented and shared with farmers and producer groups a specific program which identifies the risk areas and possible contamination sources on the farm, as well as good agricultural practices including proper machinery maintenance and utilization; separation of smoking and eating from tobacco handling areas; and removal of foreign matter. After verification by a technician, each farm bale receives a “Passport on foreign matter” attesting to the compliance of the tobacco.

- **Use of integrated pest management principles and the use of proper crop protection agents** when growing tobacco and the crop protection products agent analysis (CPAs) for cured leaves. Deltafina adopted a strategy that provides training and technical support to farmers for sharing growing techniques and ways to manage and limit crop protection agent usage. Deltafina also collaborates in various industry projects, including one to monitor Peronospora (*Blue Mold Info Service*) and one to monitor and update the crop protection agent database (*CPA Working Group of AERET Association*).
nitrosamine content verification: Deltafina performs constant research during the crop production and processing stages, sharing with its Stakeholders the activities to reduce nitrosamines. The following aspects have to be considered: varieties utilized, fertilization types and dosage and tobacco moisture levels before and after packing. Deltafina also conducts moisture analysis of tobaccos to ensure that contracted tobacco moisture levels are respected.

In 2017, the Deltafina Agronomy Department has been engaged in three primary research projects:

Variety Tests: Certain varieties have been tested for agronomic behaviors in quality and yield terms, in both the harvesting and curing phases.

Chemistry Tests: Certain agrochemicals have been tested, in both greenhouses and fields in order to find plant protection products with low environmental impact (for example, in consideration of the waiting timing for fields and for tobacco). Tests have been conducted under the strict observation and collaboration of the chemical product manufacturers and technicians, as well as the researchers who develop new products.

New Machinery Planning and Implementation: Testing is being conducted in order to improve the agronomy phases; for example, testing the harvesting machine usage for burley tobacco.

Moisture levels higher than the maximum tolerances set (16% for flue-cured Virginia, 18% for burley and 20% for dark air-cured) together with favorable temperatures for microbial activity, can increase the nitrosamine content.
Methodological Note

Beginning this year, as part of our adopted and published sustainability policy, Deltafina S.r.l. has decided to publish the Sustainability Report to share with our Stakeholders the main activities and results achieved during the fiscal year 2017 (1 April 2016 – 31 March 2017). The timeframe is the same as the 2017 financial statements and includes economic, social and environmental data of the three business premises in Italy (the administrative offices and the processing factories). Limitations are clearly indicated inside the document where applicable. The Sustainability Report is an annual report and approved by the Board of Directors before external publication.

The Sustainability Report has been prepared according to “Sustainability Reporting Standards” of the Global Reporting Initiative (GRI Standards) instituted in 1997 with the aim of developing and promoting a methodology, applicable at a global level, to create a document describing the economic, environmental and social impacts that a Company generates by its activities. The document has been edited considering the principles of: sustainability analysis, Stakeholder inclusion, materiality and completeness of the information, as required by the GRI Standards.

Using the GRI materiality identification process, Deltafina identified its material topics that are listed in the linkage table with the GRI Standards. The contents of this initial Sustainability Report have been gathered with the collaboration of all Deltafina personnel, who provided information and necessary data.

The 2017 Sustainability Report is composed of a section related to the Deltafina S.r.l. profile in which the Company identity and governance is described. This section also includes a description of the Company strategies and policies, followed by a second section dedicated to a description of the Company’s sustainability engagements that promote a strong dialogue with Stakeholders for the commercialization of sustainable and quality tobacco.

Further information and questions about the subjects of this document can be requested by e-mail: deltafina@deltafina.com
Materiality analysis

The 2017 Sustainability Report has been structured according to material subjects identified by Deltafina. These subjects represent Deltafina’s most significant aspects regarding the economic/governance, environmental and social topics, and they substantially influence the evaluations and decisions of Deltafina and its Stakeholders. In order to define materiality, Deltafina adopted a process articulated in three interconnected phases that provides for:

To identify relevant topics, a mapping process was utilized along with an analysis of the industry and relevant tobacco industry research, with preference given to:

- The national and international news media over the past two years;
- Relevant aspects of the GRI documents, included the G4 “Sector Disclosure – Food processing” that also comprises the tobacco sector;
- Information from a benchmark analysis on sustainability communications of a national and international panel of industry members.

At the end of the materiality identification process, the identified topics have been grouped into 6 macro-topics, subsequently presented as priorities for the attribution phase. This activity is based on Stakeholder materiality and is inclusive of the principles application. It has been divided in two parts: one finalized to evaluate the aspects according to Deltafina’s influence on Stakeholder evaluations and decisions (evaluating relevant aspects with impact according to their diversity, perceptions and expectations), and the other to evaluate the significance of these aligned with the economic/governance, environmental and social performance of the Company (evaluating: probability and severity of the impact; risks or opportunities linked probabilities; impact criticalities for long-term performance; growth opportunity; actual and future financial and non-financial implications; impacts on strategies; policies and processes; and Company engagements and the advantages competition impacts).
According to Deltafina’s internal and external priority results, a matrix has been created to assign priorities to the topics. This representation has been validated by Deltafina’s President and Vice President.

In the prudential principle respect, it has been decided to treat all topics in the document as material—even those with low scoring in the priority attribution phase.

<table>
<thead>
<tr>
<th>Deltafina Materiality Topics</th>
<th>Standard GRI Titles Linked</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance and economic management</td>
<td>GRI 102: General Disclosures 2016</td>
</tr>
<tr>
<td>Support to regional socio-economic development</td>
<td>GRI 204: Supplying practices 2016</td>
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<tr>
<td></td>
<td>GRI 401: Employment 2016</td>
</tr>
<tr>
<td>Workers’ rights respect</td>
<td>GRI 403: Health and safety at work 2016</td>
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<td></td>
<td>GRI 404: Training and Education 2016</td>
</tr>
<tr>
<td>Tobacco growing sustainability</td>
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<tr>
<td>Environmental reduction impact</td>
<td>GRI 303: Water 2016</td>
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<tr>
<td></td>
<td>GRI 305: Emissions 2016</td>
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<td>GRI 306: Dumping and Waste 2016</td>
</tr>
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<td></td>
<td>GRI 307: Environmental Compliance 2016</td>
</tr>
<tr>
<td>Product quality and innovation</td>
<td>–</td>
</tr>
</tbody>
</table>
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<th>Disclosure GRI</th>
<th>References and notes</th>
<th>Page</th>
<th>Omissions</th>
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<td><strong>GRI 101: Foundation 2016</strong></td>
<td><strong>General Disclosures</strong></td>
<td></td>
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<td><strong>Organizational profile</strong></td>
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<tr>
<td>102-1 Name of the organization</td>
<td>• &quot;Who we are&quot;</td>
<td>5</td>
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</table>
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| 102-3 Location of headquarters | • "Our factories: Assisi and Francolise" | 12 | – |
| 102-4 Location of operations | • "Our factories: Assisi and Francolise" | 12 | – |
| 102-5 Ownership and legal form | • "Governance and Universal Corporation Group" | 16 | – |
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### Governance

<table>
<thead>
<tr>
<th>GRI 102: General Disclosures 2016</th>
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