



BRITISH AMERICAN TOBACCO
SUSTAINABILITY REPORT 2009



www.bat.com/sustainability

Group profile



You can read more about our Group strategy at www.bat.com/strategy.

We are the world's second largest quoted tobacco group by market share, with brands sold in more than 180 markets.

We have four global drive brands – Dunhill, Kent, Lucky Strike and Pall Mall – and over 250 local brands in our portfolio. We hold robust market positions in each of our regions and are the leading tobacco company in more than 50 markets. We employ more than 60,000 people worldwide and have 50 cigarette factories based in 41 countries. In 2009, we sold some 724 billion cigarettes.

Our Group vision



Our Group vision is to achieve leadership of the global tobacco industry in order to create shareholder value. This includes leading our industry as the preferred partner of key stakeholders and demonstrating responsibility.

Our strategy to deliver our vision is based on:

- Growth, both organic and through mergers and acquisitions;
- Productivity, through effective and efficient deployment of our global resources;
- Responsibility, by building a sustainable business that meets stakeholder expectations; and
- Developing a winning organisation.

Our sustainability agenda is an integral part of delivering this strategy and comprises five goals. We will:

- Strive to bring commercially viable, consumer acceptable reduced-risk products to market;
- Take a lead in upholding high standards of corporate conduct within our marketplace;
- Work for positive social, environmental and economic impacts in our supply chain;
- Actively address the impacts of our business on the natural environment; and
- Work to ensure we have the right people and culture to meet our goals.

Our global presence

Since our business was founded in 1902, we have become one of the world's most internationally diverse tobacco groups, in terms of our locations and our multicultural workforce. The Group is organised into five regions: Africa and Middle East; Americas; Asia-Pacific; Eastern Europe and Western Europe.

We welcome your feedback about our sustainability agenda and any aspect of this Report. You can email your comments to sustainability@bat.com.



Dow Jones Sustainability Indexes
Member 2009/10

Dow Jones Sustainability Indexes

In 2009, we were, for the eighth year running, the only tobacco company included in the Dow Jones Sustainability World Index. This index tracks the economic, environmental and social performance of leading companies based on how well they integrate sustainability into their businesses. In 2009, our overall score decreased from 84 per cent to 81 per cent. We are working to understand and address the reasons for this decrease.



Business in the Community

In 2009, British American Tobacco was included in the Platinum sector of the UK's Business in the Community 2008 Corporate Responsibility Index, with a score of 96.5 per cent. We are the first tobacco company to achieve Platinum status.

Progress against goals

 Progressing on track
  Completed
  Not met

Harm reduction

2009 goals and commitments	Status	Page	2010 goals and commitments	Deadline
Conduct our first clinical study of a combustible prototype product that in smoking machine tests produces lower levels of certain smoke toxicants compared to conventional cigarettes.		11	Analyse and submit for publication the results of our first clinical study of a range of combustible prototype products, the smoke of which may have lower levels of toxicants compared to conventional cigarettes.	End 2010
Develop and validate scientifically meaningful measurements for exposure to tobacco smoke toxicants and investigate how we might measure potential harm.		10	Develop and validate scientifically meaningful measurements for exposure to tobacco smoke toxicants and investigate how we might measure potential harm.	Ongoing
			Invigorate our biotechnology programme in our search for new technologies to reduce tobacco smoke toxicant levels.	Ongoing
			Engage with regulators in an effort to reach common ground on tobacco harm reduction.	Ongoing
Work with the External Scientific Panel, who continue to help inform our scientific research programme.		12	Work with the External Scientific Panel, who continue to help inform our scientific research programme.	Ongoing
Present our scientific research at key international conferences and maintain the number of our publications in peer-reviewed journals.		12	Present our scientific research at key international conferences and maintain the number of our publications in peer-reviewed journals.	Ongoing
			Engage with the wider scientific media on the issue of tobacco harm reduction.	Ongoing
Develop and update our scientific website, www.bat-science.com .		12	Further update www.bat-science.com .	End 2010
Learn from our existing snus test markets and aim to expand into a new market by end 2010.		13	Learn from our existing snus test markets and aim to expand into a new market. (The deadline for this goal has changed from 2010 to 2011.)	End 2011
			Submit for publication the results of our progress in developing biological and chemical testing methods for snus.	End 2010
Engage widely on the role a regulated form of snus could play in a harm reduction strategy to reduce the public health impact of smoking.		13	Engage widely on the role a regulated form of snus could play in a harm reduction strategy to reduce the public health impact of smoking.	Ongoing

Marketplace

2009 goals and commitments	Status	Page	2010 goals and commitments	Deadline
Engage with governments to put forward our views for effective, evidence-based regulation, including matters arising from their implementation of any World Health Organisation's Framework Convention on Tobacco Control obligations.		18–19	Engage with governments to put forward our views for effective, evidence-based regulation, including matters arising from their implementation of any World Health Organisation's Framework Convention on Tobacco Control obligations.	Ongoing
Ensure the views and positions we advocate to regulators are reflected on www.bat.com .		19	Ensure the views and positions we advocate to regulators are reflected on www.bat.com .	Ongoing
Address any failures by our companies in adhering to our International Marketing Standards as identified in our 2008 internal review of adherence by end 2009. (Two actions are outstanding, which are expected to be complete by mid-2010.)		20		
100 per cent adherence to our International Marketing Standards by end 2009.		20	100 per cent adherence to our International Marketing Standards.	Ongoing
Build on our companies' local youth smoking prevention campaigns and evaluate the practicality of adopting a global approach to these campaigns.		20	Roll out our global approach to youth smoking prevention. We expect all our companies to be fully aligned with the global approach by year end.	End 2010
Support the introduction of minimum age laws of 18 for the sale of tobacco products where no such laws currently exist.		20	Support the introduction of minimum age laws of 18 for the sale of tobacco products where no such laws currently exist.	Ongoing
Increase awareness among our retailers of minimum age laws for tobacco sales where such laws exist.		20	Increase awareness among our retailers of minimum age laws for tobacco sales in countries where such laws do exist.	Ongoing
Work with others to find cooperative ways to address the problem of illicit trade in tobacco products. (This is part of our continuing approach to tackling illicit trade and in the future will not be listed as a specific goal.)		21		
Work to raise awareness of the role some Free Trade Zones play in illicit trade of tobacco products and lobby for governments to apply strong laws and penalties to criminals operating in these zones.		21	Work to further raise awareness of the role that some Free Trade Zones play in the illicit trade of tobacco products and lobby for governments to apply strong laws and penalties to criminals operating in these zones.	Ongoing
Test our pilot track and trace project in our factory in Poland.		21	Work with our stakeholders to build support for our approach to track and trace and digital verification.	Ongoing

Supply chain

2009 goals and commitments	Status	Page	2010 goals and commitments	Deadline
Identify opportunities to pilot sustainable product design practice.		28	Develop an integrated sustainable supply chain strategy, including a review of our current measures.	End 2010
Introduce our Sustainable Packaging Charter for our global drive brands' packaging design.		28	Investigate the feasibility of a common approach to carbon accounting within our supply chain.	End 2010
Use a decision-making checklist to ensure we take into account social, economic and environmental criteria in the product design process.		28	Consider the feasibility of establishing an advisory panel of stakeholders to provide guidance and challenge on supply chain sustainability issues.	End 2010
Use life cycle analysis to develop a greater understanding of water use in our extended supply chain.		28 and 34	Carry out a water footprint analysis to better understand the risks and opportunities that changes in water availability could present for us.	End 2011
Aim to establish a joint sustainability project with DHL through our Memorandum of Cooperation.		29	Further integrate sustainability principles into the selection criteria for our direct materials and machinery suppliers.	End 2011

Make the details and review criteria of our Social Responsibility in Tobacco Production programme transparent and available to all via www.leaftc.com		31	Endeavour to incorporate longer time horizons into our leaf supply chain sustainability planning, addressing long term impacts and dependencies identified through risk assessments.	Ongoing
Build the global support capacity of our centre of excellence in agronomy.		27	Build the global support capacity of our centre of excellence in agronomy.	End 2010
Implement sustainability impact studies to assist our decision making for any major sourcing changes.		28	Implement sustainability impact studies to assist our decision making for any major sourcing changes.	Ongoing
Develop tools and processes to enable us to use life cycle analysis to guide product specification.		28	Develop tools and processes to enable us to use life cycle analysis to guide product specification.	End 2010
Carry out joint life cycle analysis studies with at least eight of our supply chain partners.		28	Complete joint life cycle analysis studies with at least eight of our supply chain partners.	End 2010
Investigate the use of alternative fuels and how to increase furnace efficiency to help us in our aim of farmers using less than 3 per cent of wood fuel from natural forests.		27		
Aim for less than 3 per cent of directly contracted farmers' curing fuels to come from natural forest.		29	Aim for less than 3 per cent of directly contracted farmers' curing fuels to come from natural forest.	End 2015

Environment

2009 goals and commitments	Status	Page	2010 goals and commitments	Deadline
Aim to reduce our energy use towards our 2012 target of 11.03 gigajoules per million cigarettes equivalent produced, 6.7 per cent lower than our 2007 baseline.		34	Aim to reduce our energy use towards our 2012 target of 11.03 gigajoules per million cigarettes equivalent produced, 6.7 per cent lower than our 2007 baseline.	End 2012
Aim to reduce our water use towards our 2012 target of 4.2 cubic metres per million cigarettes equivalent produced, 13.4 per cent lower than our 2007 baseline.		35	Aim to reduce our water use towards our 2012 target of 4.2 cubic metres per million cigarettes equivalent produced, 13.4 per cent lower than our 2007 baseline.	End 2012
Aim to reduce our waste to landfill towards our 2012 target of 0.022 tonnes per million cigarettes equivalent produced, 12 per cent lower than our 2007 baseline, and to recycle at least 75 per cent of our waste each year.		35	Aim to reduce our waste to landfill towards our 2012 target of 0.022 tonnes per million cigarettes equivalent produced, 12 per cent lower than our 2007 baseline, and to recycle at least 75 per cent of our waste each year.	End 2012
Aim to reduce our CO ₂ equivalent by 50 per cent by 2030 and 80 per cent by 2050 against our 2000 baseline of 1.38 tonnes per million cigarettes equivalent produced.		34	Aim to reduce our CO ₂ equivalent by 50 per cent by 2030 and 80 per cent by 2050 against our 2000 baseline of 1.38 tonnes per million cigarettes equivalent produced.	2030/2050
Develop and implement a pilot programme to encourage employees to reduce their own carbon footprint at home and at work.		36	In selected markets, roll out our programme encouraging employees to reduce their carbon footprint at home, as well as extending the pilot to cover reductions at work.	End 2010
Pilot our full-site energy assessment approach.		35	Develop a global energy reduction plan.	End 2010
Develop a plan for improving energy efficiency in our vehicle fleets used by our Trade Marketing & Distribution teams.		35	Roll out the first phase of our plan to improve fuel efficiency in our Trade Marketing & Distribution teams.	End 2010
Carry out biodiversity risk and opportunity assessments in all the countries where tobacco leaf is grown for us.		37	Carry out biodiversity risk and opportunity assessments in all the countries where tobacco leaf is grown for us.	End 2010
Focus on putting systems in place to gather information on our key biodiversity measures and track local biodiversity indicators resulting from risk assessments.		37		
Launch a training programme aimed at our leaf managers and a learning module for all employees.		37	Further raise awareness of biodiversity issues through training workshops, engagement with farmers and our leaf managers, and through our online biodiversity learning module.	Ongoing
Develop and trial replicable models of forest regeneration and native forest management.		GRI EN13	Develop and trial replicable models of forest regeneration and native forest management.	End 2010

People and culture

2009 goals and commitments	Status	Page	2010 goals and commitments	Deadline
Start to roll out our employer proposition in priority markets during 2009 and track awareness and perceptions of British American Tobacco as an employer in these markets.		42	Continue to roll out our employer proposition to other countries.	End 2010
			Introduce globally aligned standards for recruitment.	End 2010
Aim to have succession pools at business unit level that meet the 1:1:2 objective.		42–43	Aim to have succession pools at business unit level that meet the 1:1:2 objective.	Ongoing
Aim to have a 70:30 ratio of local to expatriate senior management team members at business unit level.		42–43	Aim to have a 70:30 ratio of local to expatriate senior management team members at business unit level.	Ongoing
			Carry out a full review of our learning and development programme for managers at global, regional and local levels.	End 2010
Actively manage the career progress of senior female managers.		43	Actively manage the career progress of our senior female managers.	Ongoing
Work with employees to devise action plans for improvement in response to results from our global employee opinion survey.		44	Develop plans to help our employees remain engaged and motivated during periods of organisational change.	Ongoing
Aim to have a global Lost Workday Case Incident Rate in the range of 0.1–0.2. The specific local target set for all our companies is zero accidents.		44	Aim to have a global Lost Workday Case Incident Rate in the range of 0.1–0.2. The specific local target set for all our companies is zero accidents.	Ongoing
Develop a plan to focus our efforts on reducing vehicle-related injuries in our Trade Marketing & Distribution teams.		44	Implement our plan to reduce vehicle-related injuries in our Trade Marketing & Distribution teams.	End 2011
Develop provisions incorporating human rights considerations for inclusion in our Standard Terms and Conditions for contracts with suppliers.		46	Encourage our companies to develop a more consistent approach to addressing human rights and other sustainability issues in their agreements with local suppliers and business partners.	Ongoing
Publish a paper, summarising our approach to human rights and how we manage human rights in our workplace and supply chain.		46		

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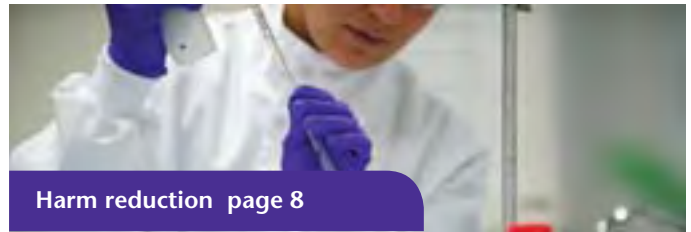
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Statements and assurance

This Report contains forward-looking statements which are subject to risk factors associated with, among other things, the economic and business circumstances occurring from time to time in the countries and markets in which the Group operates.

It is believed that the expectations reflected in these statements are reasonable, but they may be affected by a wide range of variables which could cause actual results to differ materially from those currently anticipated.

Ernst & Young LLP has been engaged by British American Tobacco to provide external assurance of this Report. Ernst & Young LLP reviewed all commitments and statements of progress, data, GRI information, text and, specifically, performance-related information for the period 1 January 2009 to 31 December 2009.

Contact us

Registered office

Globe House, 4 Temple Place, London WC2R 2PG

T: +44 (0)20 7845 1000
F: +44 (0)20 7240 0555

Incorporated in England and Wales No. 3407696

Sustainability

Enquiries should be directed to Michael Nightingale or Jennie Galbraith

T: +44 (0)20 7845 1206

E: sustainability@bat.com

Chief Executive's overview



“Our sustainability goals are not just an ‘add-on’. We see them as intrinsic to our strategy and a cornerstone of building sustainable value.”

How can you be responsible when you need to sell tobacco products and compete?

We believe we can run our business responsibly – and that we must. Because tobacco products are legal and used by millions of adults, but also controversial, we have a particular responsibility to work hard at doing the right things in every way that we run our business. No business can be sustainable if it doesn't compete and prosper. We aim to build long term sustainable value for our shareholders, and our sustainability goals are not just an 'add-on'. We see them as intrinsic to our strategy and a cornerstone of building sustainable value.

2009 was a year of global recession and it's been said that businesses might cut back on sustainability initiatives. Did you?

No, we didn't. We believe that our business strategy is robust for both good times and bad, and 2009 certainly seemed to bear that out. It was one of the toughest years for all businesses that most of us can remember. However, we not only delivered sound returns to our shareholders, but also continued steadily pursuing our sustainability agenda.

What progress did you make on your sustainability agenda?

As you'll see in the Report, examples include our clinical studies towards potentially lower risk products and the roll out of our new global campaign to help retailers block cigarette sales to the underage. We also continued to drive for 100 per cent adherence by our own companies to our International Marketing Standards, with action plans to close any gaps.

We kept up the pressure for action against the problem of the illicit tobacco trade and continued to help enforcement authorities to crack down on it. As part of keeping our own supply chain

secure, we successfully trialled our enhanced 'track and trace' system, so that it can track every carton and case a factory produces and will give open access to customs authorities.

It was another year of strong environmental progress, we began presenting our business more compellingly to potential employees, and we brought clearer focus to monitoring any of our businesses in countries that cause human rights concern to stakeholders. Our reporting now also includes more about the sustainability activities of our larger companies around the world. We hope this provides a more representative account of our business.

Last year you said you would pursue innovative ways to work with stakeholders on key issues. Did you?

Yes; we trialled a new form of dialogue, involving over 60 stakeholders in a 'workshop' approach to co-developing plans for our leaf and materials supply chain. This has contributed to a global sustainable supply chain strategy, now being developed. It was refreshing and uplifting to develop initiatives together with stakeholders and we would like to do more of it.

Unfortunately, engagement with the stakeholders most critical of our industry remains a challenge. They are reluctant to engage and some refuse point-blank. However, where we have at times been able to engage with stakeholders who are very critical of us, some have expressed surprise at the openness of the discussions. Our door remains open.

How do you measure success?

We hope stakeholders will judge us by our actions. So it's important that we make commitments we can truly work to meet, to meet them to the best of our ability and, if we don't, to explain why.

We are also greatly encouraged to have been selected for the eighth year running as the only tobacco company in the Dow Jones Sustainability World Index, and to have become the first tobacco business in the top 'Platinum' rank of Business in the Community's Corporate Responsibility Index.

We don't take these assessments for granted – they spur us to work harder. We know that we still have much to do and our sustainability goals are largely about steady steps, not overnight results. But as I look ahead, I believe our values and commitment to sustainability will help us to hold a steady course and prosper in future.

Paul Adams

April 2010

The way we run our business

A central part of being a sustainable business is operating with integrity and responsibility. We set out the behaviour we expect from our employees across all operations.

Statement of Business Principles

This forms the basis on which we expect our businesses to be run in terms of responsibility and comprises three principles – Mutual Benefit, Responsible Product Stewardship and Good Corporate Conduct – and 18 Core Beliefs which explain in more detail what each principle means for us.

Standards of Business Conduct

Together with our Business Principles, they underpin our commitment to high standards of corporate responsibility and include specific provisions on anti-bribery and corruption. We report annually on the number of instances of suspected improper business conduct contrary to our Standards of Business Conduct (excluding employee fraud and theft against companies) that were reported to the Board Audit Committee.

Other policies, principles and procedures

We have several other policies, principles and procedures to guide our business conduct in areas including Supplier Relationships, Environment, Health & Safety, Child Labour, Employment Principles and Biodiversity.

Effective governance is critical in ensuring not only that we live up to our principles and standards but also that we achieve our sustainability agenda. Our sustainability governance includes:

A Board CSR Committee and combined audit and CSR committees

Combined audit and CSR committees are in place at regional and local levels to monitor sustainability performance (with the exception of a small number of local audit and CSR committees which have remained separate).

Framework for Corporate Social Responsibility

This takes each of our Core Beliefs and sets out how we see our role in each area – where we should take the lead, where we should work with others and where we think others should lead.



You can read about our Standards of Business Conduct in Nigeria in our online Report at www.bat.com/sustainability/nigeria.



Further details on the way we run our business can be found in our online Report at www.bat.com/sustainability/governance.



Karen de Segundo, Chairman of the Board CSR Committee

In 2008, the Group's CSR governance was revised to improve the alignment of our CSR management processes with our internal audit procedures. The CSR Committee also agreed to meet more often. I believe that these changes have served us well.

Throughout the year, we followed a clear and structured agenda, with sufficient time for in-depth review, debate and briefing by business managers on any topics that have been important for us to explore. This has given us a good line of sight into how the Group is pursuing its sustainability agenda and addressing important issues.

Many large multinational businesses face some controversy, but a large multinational tobacco business faces more than most. It is vital for a tobacco Group to give high priority to addressing social, environmental and reputational issues.

I believe that British American Tobacco has both the will and the means to tackle tough issues and that it continues to improve transparency. I am confident that the Group is making steady progress towards its sustainability goals. The CSR Committee will continue to be vigilant in ensuring that the business identifies, addresses and mitigates sustainability risks.

"I am confident that the Group is making steady progress towards its sustainability goals."



We are always keen to hear stakeholders' views on our Reports or on how we could improve our reporting. You are welcome to email us at sustainability@bat.com.

Our approach to sustainability

Our approach to sustainability is evolving. We established our vision for business sustainability in 2007, then in 2008 addressed some of the challenges it raised. In 2009, our focus was on embedding sustainability in our business and driving progress.

In 2007 we set out our vision for sustainability and identified five goals as key to the long term sustainability of British American Tobacco (see page 7). In 2008, through dialogue and our Sustainability Report 2008, we addressed two key challenges that had been raised concerning our vision:

- Given the nature of our products, should we even attempt to build a sustainable business?
- The difficulties of stakeholder engagement when those most critical of the tobacco industry will not engage with us.

Although stakeholder dialogue with some of our critics remains an unresolved challenge, we continue to be committed to constructive engagement with any and all stakeholders. Those who did meet with us raised some challenges but supported our overall approach and reaffirmed our belief that it is appropriate for a tobacco business to pursue sustainability.

During 2009, our focus shifted to addressing how we can best embed the concept of sustainability and sustainable value creation in the business and to driving progress. This includes advancing our plans in the five areas of our sustainability agenda and further developing our approach to stakeholder dialogue.

Working to embed sustainability in the business

To make significant progress against our sustainability agenda, we need robust, commercial sustainability plans. We also need to ensure that our people throughout the business understand that sustainability benefits, rather than compromises, commercial success.

We aim to achieve this in four ways:

1. Adapting our approach to dialogue to enable us to develop our sustainability plans jointly with stakeholders.
2. Working with our companies in our largest markets to develop plans that are relevant to our different operating environments and that can be rolled out to embed sustainability across the Group.
3. Enhancing our senior managers' understanding of the concept of sustainability and the value it can deliver.
4. Establishing centres of expertise to support our companies in pursuing our sustainability agenda.

We started our work in these areas during 2009 and will make further progress in 2010, as described below.

Adapting our approach to dialogue

Dialogue has been instrumental in changing the way we think about our business over the past 10 years. In common with many other organisations, it has helped us to take stakeholder views into account and has enabled us to make better business decisions.

We are exploring how we might adapt our approach and build on our experience to move from listening to stakeholders' concerns and comments, to the joint development of plans to drive our sustainability agenda goals. We aim to incorporate a number of elements into our approach to achieve this:

- Engagement with a wider range of stakeholders, in order to make sure that we are considering everything we should. We will continue to invite those who are more critical of us and those who will be directly impacted by the outcomes. This will mean fewer sessions but each dialogue will include larger numbers of stakeholders.
- Greater involvement from a wider range of our own senior managers in the dialogue process to enhance commitment and understanding within the business.
- A shift in focus from gathering expectations or feedback on existing proposals to generating new plans, ideas and activities.

These elements have already influenced our approach and you can see on page 26 how they have shaped our recent dialogue session around our supply chain goal.

Working with our companies

In the past, sustainability initiatives have largely been driven by our central teams. In future, we will be encouraging greater local ownership of projects and the sharing of expertise among our companies. We aim to work with our companies in our largest markets to drive sustainability in our business, evolving best practice that can then be adopted across other markets. We believe this will create a more globally integrated approach to the development of our sustainability agenda.

Building a Group-wide understanding of sustainability

We run a week-long sustainability-focused senior managers' training programme and we are looking to embed sustainability into other functional programmes. Feedback from the participants has been very positive and indicates that attitudes towards sustainability are changing as a result of the training.

In our revised approach to dialogue, we aim to involve a much larger number of our managers to enhance their understanding of sustainability issues and to enable us to incorporate their expertise in developing our sustainability agenda.

As well as raising sustainability awareness among senior management, we aim to increase understanding among all employees in the Group. Our communications at both Group-wide and local levels are intended to provide our people with the right tools to make more sustainable decisions.

Establishing centres of expertise

We have created centres of expertise to enable global alignment and to support our local operations in delivering our business goals. These centres of expertise include sustainability, regulation, scientific affairs, and marketing and supply chain practices. They aim to drive consistency across markets and provide clarity on implementation.



You can read about the way we conduct our stakeholder dialogue and about the dialogues our companies carried out in 2009 in our online Report at www.bat.com/sustainability/engagement.

Our approach to reporting

A key element in our approach to sustainability over the past 10 years has been the production of Social Reports by many of our local companies. To date, our businesses in more than 40 markets have produced Social Reports and stakeholder dialogue is a key business practice for our companies around the world. However, as British American Tobacco's reporting has evolved and we are seeing greater alignment throughout the Group, this approach is no longer the most appropriate. We have therefore decided to produce one Sustainability Report for the Group.

This Sustainability Report, together with our communications on www.bat.com, aims to provide comprehensive coverage of the Group's sustainability effort globally. This is why, for the first time, our online Report includes balanced scorecards and examples of sustainability activities for our businesses in nine of our largest markets. The nine countries included are:

Australia | Brazil | Canada | Germany | Malaysia | Nigeria | Russia | South Africa | South Korea

You can view this information in our online Report at www.bat.com/sustainability/companies.

This decision has also caused us to review our materiality test, first carried out in 2007, to make sure we are covering those local issues that are of wider interest, such as HIV/AIDS and Broad-Based Black Economic Empowerment. You can read more about our materiality test on pages 50–51.

We believe that this Report, together with the online Report, creates a more wide-reaching and detailed account of our global activities for our stakeholders. We are keen to hear if you agree or how we could improve on our reporting. You can email your comments to sustainability@bat.com.

Not producing local reports will free up time and resources to concentrate on the implementation of sustainability initiatives. Performance will continue to be monitored and reported through our audit and CSR committees. Similarly, dialogue, transparency and accountability remain central to our approach. Our local companies will continue to engage with their stakeholders to help shape their local sustainability plans and initiatives.



Comment from Ernst & Young LLP



British American Tobacco further refined its approach to Sustainability Reporting in 2009 to include in this Report increased coverage of activities by local companies within the Group. Examples of local sustainability activities and balanced scorecards for companies in nine large markets are now included. In future Reports, it will be important that these examples show a balanced picture of successes, as well as challenges faced with regard to sustainability in these companies.



You can read about the way we conduct our stakeholder dialogue and about the dialogues our companies carried out in 2009 in our online Report at www.bat.com/sustainability/engagement.

Developing our sustainability agenda

In 2009, we developed plans and activities across the five areas identified by our materiality test as the most significant for our sustainability agenda.



Marketplace – see pages 16–23

We will take a lead in upholding high standards of corporate conduct within our marketplace.

We seek to uphold high standards of responsible behaviour in the sale and marketing of our products. We have established centres of expertise covering regulation and other marketplace practices to coordinate our efforts and to support a consistent approach across all markets. Our new global youth smoking prevention campaign was launched and we have implemented action plans to close any gaps in adherence to our International Marketing Standards identified in our 2008 Group-wide review. We also successfully trialled a track and trace system to support our efforts to reduce the illicit trade in our cigarettes.



Environment – see pages 32–39

We will actively address the impacts of our business on the natural environment.

We have strengthened our governance of environmental performance processes and have incorporated our key environmental measures – energy use, water use, waste to landfill and recycling – into our global Operations scorecard. We continue to work hard to reduce our energy use, including pilot energy reduction projects in Germany, South Africa and the UK. The British American Tobacco Biodiversity Partnership has enabled us to make good progress in understanding our impacts on biodiversity and we have developed measures of success to monitor our progress in this area.



Harm reduction – see pages 8–15

We will strive to bring commercially viable, consumer acceptable reduced-risk products to market.

We aspire to reduce the harm caused by smoking and have made real progress in our scientific research into harm reduction. We have published more scientific papers than in any other year to date and we are starting to analyse and publish results from our clinical studies. Engagement with stakeholders on scientific issues is also improving and our External Scientific Panel continues to help to inform our scientific research programme.



Supply chain – see pages 24–31

We will work for positive social, environmental and economic impacts in our supply chain.

Our sustainability agenda extends beyond our own operations; we also want to see social, environmental and economic improvements in our supply chain. Stakeholder dialogue has helped us in the development of a sustainable supply chain strategy that will build on existing good practices across the Group. We have continued to assess suppliers' sustainability performance and support them in implementing improvements. We have also introduced a Sustainable Business Assessment Tool and continued our life cycle analysis research.



People and culture – see pages 40–49

We will work to ensure we have the right people and culture to meet our goals.

To meet our goals, we need to attract, develop and retain the right people and provide a supportive company culture. We have worked to describe British American Tobacco in a more compelling way to potential employees, and this is being implemented globally. We have taken action to address some of the shortcomings highlighted in our most recent employee survey and we have also reviewed our approach to human rights, which includes closely monitoring any of our businesses that operate in countries that are of concern to stakeholders.

Harm reduction

We will strive to bring commercially viable, consumer acceptable reduced-risk products to market.

Materiality



In this Report

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Covered on www.bat.com

- Information on the health risks of smoking
- Second-hand smoke
- Cigarette ingredients



Not reported

- We do not cover topics that:
- Have already been addressed and are no longer raised by stakeholders;
- We cannot influence; and
- Do not significantly impact the business.

For details of our materiality test, see pages 50-51.



Read more

For information on what tobacco harm reduction is, why it's important and our approach, see page 14.

Why haven't you launched a 'safer' cigarette?

The science needed to demonstrate that any new products pose reduced risks to health does not yet exist, nor is there any agreed science-based regulatory framework for evaluating such products. It will be some time before any tobacco business will be able to launch a 'safer' cigarette product which has been demonstrated to present lower risks, but we believe we are making progress.

2009 progress in brief

We aspire to reduce the harm caused by smoking by evolving our products to a portfolio of commercially successful lower risk products that meet consumer and societal expectations.

We recognise that we will only be able to succeed if others support this aspiration.

We have made real progress in our scientific research into harm reduction. We have published more scientific papers than in any other year to date and we are starting to analyse and publish results from our clinical studies. Engagement with stakeholders on scientific issues is also improving and our External Scientific Panel continues to help inform our scientific research programme.



For more information on our research programme go to our scientific website www.bat-science.com.

Addressing the scientific challenges around combustible 'PREPs'

In 2009

We have progressed our understanding of how to measure exposure to smoke toxicants. We have shown good correlation between exposure measured using cigarette filter analysis and the levels of biomarkers (metabolites of toxicants) in smokers' body fluids. Filter analysis techniques should, therefore, be useful for studying exposure in large populations.

We have begun a study to determine whether this is the case by using the filter analysis techniques to observe smoking behaviour and exposure to some tobacco smoke toxicants in large numbers of smokers (1,000) over a number of years (up to five).

Short term changes in smoking behaviour, as a result of switching between products with different ISO tar yields, have been studied previously by others. However, our study is different because it is the first study, to our knowledge, to observe smoking behaviour at regular intervals in a large smoker population that is free to switch products or to quit smoking at any time over a number of years. This means that in addition to providing more data, the study situation is closer to real life as the smokers are free to choose if and when to switch or to quit.

The study subjects are smokers of the same conventional 10mg ISO tar yield product for more than six months who regularly smoke eight or more cigarettes daily. Over the study period, a reasonable number of subjects are expected to decide to switch to another conventional product, either of the same or lower ISO tar yield (10mg ISO tar yield is the maximum permitted by regulation in the European Union). By using filter analysis techniques, and by measuring certain biomarkers of exposure in smokers' urine, it should be possible to determine how switching or quitting affects the levels of biomarkers in smokers' urine, and therefore to determine the smokers' levels of exposure to some smoke toxicants.

For more information on this study, please see the Current Controlled Trials website, where the study is registered, at www.controlled-trials.com/ISRCTN95019245.

We are also developing a range of in vitro models of disease, which seek to mimic in the laboratory, parts of the disease process for the smoking-related diseases of cancer, cardiovascular disease and chronic obstructive pulmonary disease. Once validated, we will use these models to see if there are differences in the response of cells between exposure to the smoke of conventional cigarettes and the smoke of prototype products with reduced toxicant levels. We are also investigating biomarkers of exposure and of biological effect with a view to generating a baseline biomarker signature for smokers, former smokers and never-smokers, which might then be used in a clinical study for assessing prototype combustible products. In 2009, we undertook our first clinical study of prototype products to determine whether the reduced levels of toxicants in the smoke, as observed using machine smoking, equate to reduced levels of exposure in the smoker (see opposite).



Addressing scientific challenges: what's next? We will analyse and submit for publication the results of our scientific research, including our first clinical study of a range of modified combustible prototype products. We will also continue to look for new and innovative ways of reducing tobacco smoke toxicant exposure levels from our products, and will develop and validate new methods for studying how people smoke, what they are exposed to in terms of smoke toxicants and how this relates to the development of disease.

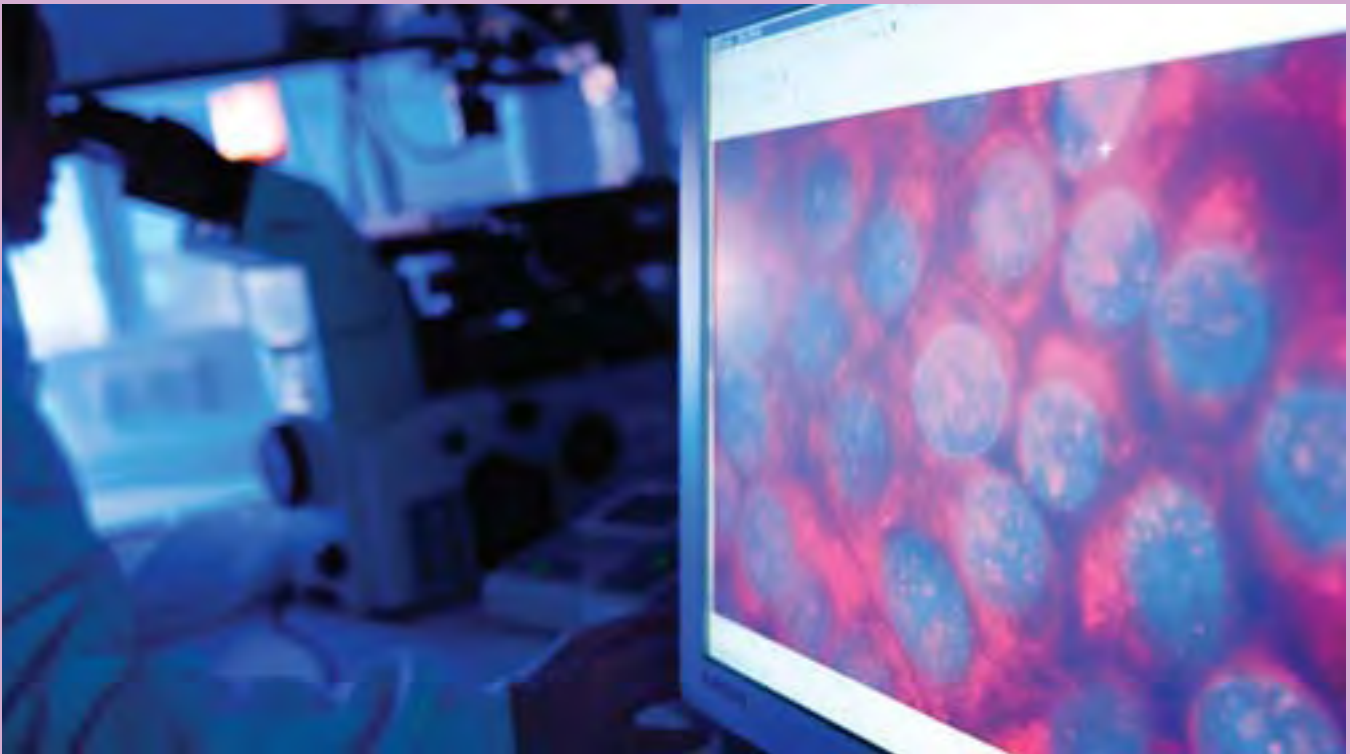


PREP The term 'potential reduced-exposure product' (PREP) was introduced by the US Institute of Medicine (IOM) in its 2001 report 'Clearing the Smoke: Assessing the Science Base for Tobacco Harm Reduction'. In this report, the authors called for research to develop tests to assess the effect of different types of products in reducing tobacco-related exposure and to determine biological markers of effect that could be used for product evaluation. The report also recommends approaches to informing the public about PREPs that include utilising scientific research, market surveillance and regulation.



'Metabolites of toxicants' refer to the substances produced in the body when smoke toxicants are broken down by the metabolic process. These metabolites can be measured in blood, urine and saliva. In some cases, the measurements obtained can be used to provide an indication of what an individual has been exposed to in terms of smoke toxicants.

Spotlight on science



Clinical study

Study title: "To compare the exposure levels of selected smoke constituents as determined by biomarkers of exposure, filter analysis, sensory perception and other parameters when smokers using commercial cigarettes are switched to novel cigarettes."

For more information, please see the Current Controlled Trials website, where the study is registered, at www.controlled-trials.com/ISRCTN72157335.

The purpose of the study was to determine whether the reduced levels of toxicants in the tobacco smoke, as observed using machine smoking, would result in reduced exposure to those toxicants in smokers. A variety of approaches were used to reduce the smoke toxicants across the three prototypes being tested. These included tobacco treated to reduce the plant constituents that give rise to some toxicants, tobacco processed to include glycerol, which dilutes the smoke, and materials in the filter that trap volatile toxicants. This was the first clinical study in which we had tested these technologies.

One of the technical challenges we face will be to improve the tobacco treatment processes in order to produce sufficient amounts for use in larger studies.

The study involved 300 people of which 250 were smokers and 50 were non-smokers. The non-smokers acted as a control group so we could assess background levels of biomarkers in those not exposed to tobacco smoke. All attended a clinic where medical histories, smoking histories, and physiological measurements, such as blood pressure and lung function, were taken as well as samples of blood, urine and saliva.

The smokers were divided into two groups, one of which smoked 6mg ISO tar yielding conventional cigarettes and one of which smoked 1mg ISO tar yielding conventional cigarettes.

During the study, some smokers were asked to switch to one of three prototype products being tested. Others continued with their regular cigarettes. The aim was to determine whether the smokers who switched to a prototype product had lower levels of biomarkers of exposure for certain smoke toxicants in their biological fluids than those who continued to smoke their regular cigarettes.

We expect to complete the data analysis in 2010 and to submit the results for publication in a peer-reviewed journal.

Sustained engagement

In 2009

External Scientific Panel

During 2009, we progressed our work with the External Scientific Panel of leading experts convened to give their perspectives and to help inform our scientific research programme. They have expertise in smoke chemistry, toxicology, physiologically based pharmacokinetic modelling, genetics, molecular techniques, lung cancer, respiratory and cardiovascular diseases, epidemiology and smokeless tobacco products.

Regulation

In 2009, the Food and Drug Administration (FDA) in the USA was given authority under new legislation to regulate tobacco products in the USA including the evaluation of submissions on candidate 'modified risk tobacco products'. It is currently the only regulator which has specific legislative authority to do this. The general requests for public comments on aspects of this new legislation gave us an opportunity to describe our scientific research programme to the FDA. We support tobacco regulation which is based on sound science, and we hope that this new US tobacco legislative model, which includes establishing a Tobacco Products Scientific Advisory Committee, may be of interest to other regulators.

Our scientific website

In 2009, we continued to update www.bat-science.com, our dedicated science website. Additional site content included information on our biotechnology research and in vitro testing and on smoking machines, smoking behaviour and the biological and chemical characterisation of snus. We also undertook a substantial review of visitors' opinions and a benchmarking study of the website and we plan to use this to further develop the site's content and usability.

Publishing and presenting

We attended and presented at several key conferences in 2009. We had four poster presentations at the annual meeting of the Society for Research on Nicotine and Tobacco in Dublin. We also made presentations on tobacco harm reduction at the annual conference of the International Harm Reduction Association in Bangkok, the Frontiers in Cancer Diagnosis, Treatment and Prevention conference in Allahabad, India and the Tabinfo meeting in Bangkok.

We have published more scientific papers in peer-reviewed journals than in any other year to date, increasing from just a handful a few years ago to 32 in 2009. We have also encouraged debate on the issue of tobacco harm reduction in the wider scientific media, resulting in articles in high-profile publications such as the Financial Times and New Scientist.



Sustained engagement: what's next?

We will continue:

- Working to improve openness and transparency of our scientific research activities;
- To engage with regulators and the public health community in an effort to reach common ground on tobacco harm reduction;
- To work with the External Scientific Panel to help inform our scientific research programme, to submit our research results for publication in peer-reviewed journals and to present our research at key international conferences;
- To engage with the wider scientific media on the issue of tobacco harm reduction; and
- To update www.bat-science.com.

Smokeless tobacco

In 2009

The research, development and test marketing of smokeless tobacco products, including snus, a type of smokeless tobacco, is an important part of our approach to tobacco harm reduction.

Smokeless tobacco science

In 2009, we presented several posters on smokeless tobacco product science at international conferences, including the annual meeting of the Society for Research on Nicotine and Tobacco. These papers covered, among other things, the chemical composition of smokeless tobacco products, the transfer of snus constituents, including toxicants, during its use by consumers and a model system for assessing snus extracts. This model measures what is released from the snus product in the laboratory, which may be an indication of what happens in human use.

We also published a paper updating scientific information on how people use pouch and loose snus, which is important in the development of risk assessment models for snus and its ingredients.

We have a product development facility at our Group Research & Development centre in Southampton. To help further our understanding of smokeless tobacco, we have established a second product development facility in Malmö, Sweden.

We helped drive the establishment of the Smokeless Tobacco Task Force by CORESTA, an organisation that promotes international cooperation in tobacco science. This task force will look to encourage the development of a reference snus product. Reference products are used to allow better comparison of one study against another.

Test marketing

We hope that our test marketing of snus will continue to produce valuable insights into consumer preferences and acceptance. However, our aim to expand into a new test market in 2010 has been delayed until 2011 to allow us more time to thoroughly prepare for this new test market.



Snus is a heat-treated, finely ground, moist tobacco sold either loose or in pouches that are placed under the upper lip.

Spotlight on snus

South Africa and Canada test markets

We started test marketing snus in 2005. In South Africa, we trialled snus under our Peter Stuyvesant and Lucky Strike brands. The original 240 Johannesburg retail outlets have been extended to 800, including outlets in Pretoria and East Rand, and Cape Town.

Two key issues remain problematic in South Africa: awareness by consumers of this new category and their understanding of the product. Our research suggests that few adult smokers see snus as potentially less harmful than cigarette smoking and many believe that it could even be more harmful. However, insights gained from the test market have enabled us to develop our snus product offerings to better meet consumer preferences.

The test market established in 2007 in Edmonton, Canada, was expanded in 2008 to Ottawa. It has been difficult to obtain consumer insights in this market as retail display bans and other tobacco control regulations have meant low levels of consumer awareness and trial of the snus products.

Snus in the Nordics

We continue to see market share growth in Norway and Sweden, where snus is an existing category and where we sell snus under the Granit, Mocca and Lucky Strike brands. Our market share at the end of 2009 was 10 per cent in Sweden and 4 per cent in Norway. Lucky Strike market share more than doubled with the launch of a new snus, Lucky Strike Bold.



Smokeless tobacco: what's next? We hope that our test marketing of snus will continue to provide valuable insights into consumer preferences and we are continuing to develop techniques to expand our research into smokeless tobacco products. We will strive to engage with regulators on the role that a regulated form of snus could play in a harm reduction strategy to reduce the public health impact of smoking.

What's tobacco harm reduction and why is it important?

The only way to avoid the health risks associated with tobacco products is not to use them at all. Public health policies are therefore intended to discourage people from smoking in the first place and to quit if they already do. However, in addition to cessation and prevention efforts, tobacco harm reduction is also increasingly being considered.

The term 'tobacco harm reduction' does not have a single meaning that is accepted by all. The US Institute of Medicine defines it as "minimising harms and decreasing total morbidity and mortality without completely eliminating tobacco and nicotine use".

 A more detailed description of our approach to harm reduction is set out in our 2008 Report, which can be found at www.bat.com/sustainability2008.

Our approach to harm reduction

In 2009, we evolved our approach to tobacco harm reduction. We aspire to reduce the harm caused by smoking by evolving our products to a portfolio of commercially successful lower risk products that meet consumer and societal expectations. We recognise that we will only be able to succeed if others support this aspiration.

Our approach is to pursue the research, development and test marketing of innovative tobacco products that will have consumer acceptability and will be recognised by scientific and public health communities and regulators as posing reduced risks to health.

A scientific framework must be developed, agreed and used to assess novel products and their potential to reduce the risks.

1. Addressing the scientific challenges around a combustible 'PREP'

There is no recognised assessment framework for combustible PREPs (potential reduced-exposure products), but we are working to develop one that will be acceptable to regulators and public health stakeholders. We are proposing a framework that includes tests to assess smoke yield, namely how much overall smoke and specific toxicants people take from a product; and dose, the amount of smoke toxicants absorbed into the body. These tests could help determine whether prototype products are sufficiently different from conventional products to result in lower toxicant exposure in smokers.





2. Engaging with regulators and the scientific community

We believe that tobacco regulation must have a foundation in sound science. With over 50 years of research experience, we can make an important contribution to that science base. However, we face significant challenges, such as maintaining our ability to engage with the wider scientific community. There are continued attempts to denormalise the industry and by implication to discredit industry research; funding restrictions and, in some cases, misinterpretation of the guidelines for implementation of the World Health Organisation's Framework Convention on Tobacco Control relating to industry participation (see page 19). These have made scientists and others wary about the prospect of engaging with a tobacco business. There is also insufficient public health debate around the issue of tobacco harm reduction.

For this reason, our scientific research programme is supported by an approach that seeks to build relationships with external scientists and regulators, to increase awareness of our harm reduction approach and to address the concerns of the scientific and regulatory communities.

3. Researching and test marketing smokeless tobacco products

We are actively researching novel smokeless tobacco products and have two product development facilities. We are also currently test marketing snus to develop our understanding of consumer preferences and gauge consumer acceptance.

There is increasing consensus that snus presents substantially lower overall health risks than cigarettes, such as far lower risks of lung cancer and chronic obstructive pulmonary disease. However, smokeless does not mean harmless. Research on snus and heart disease is less clear and some public health bodies have concluded that snus is a cause of pancreatic cancer and other diseases.

The sale of snus is currently banned in the European Union, except in Sweden. Sales of loose snus only are allowed in Denmark.

Our 2010 goals

For addressing the scientific challenges

- Analyse and submit for publication the results of our first clinical study of a range of combustible prototype products, the smoke of which may have lower levels of toxicants compared to conventional cigarettes;
- Develop and validate scientifically meaningful measurements for exposure to tobacco smoke toxicants and investigate how we might measure potential harm; and
- Invigorate our biotechnology programme in our search for new technologies to reduce tobacco smoke toxicant levels.

For sustained engagement

- Engage with regulators in an effort to reach common ground on tobacco harm reduction;
- Work with the External Scientific Panel, who continue to help inform our scientific research programme;
- Present our scientific research at key international conferences and maintain the number of our publications in peer-reviewed journals;
- Engage with the wider scientific media on the issue of tobacco harm reduction; and
- Further update www.bat-science.com in 2010.

For smokeless tobacco

- Learn from our existing snus test markets and aim to expand into a new market in 2011;
- In 2010, submit for publication the results of our progress in developing methods for use in the biological and chemical testing methods for snus; and
- Engage widely on the role a regulated form of snus could play in a harm reduction strategy to reduce the public health impact of smoking.

Marketplace

We will take a lead in upholding high standards of corporate conduct within our marketplace.

Materiality



In this Report

p18 Regulation
p20 Marketing practices
p21 Tackling illicit trade



Covered on www.bat.com

Public place smoking
Litigation
Cigarette butt litter



Not reported

We do not cover topics that:
Have already been addressed and are no longer raised by stakeholders;
We cannot influence; and
Do not significantly impact the business.

For details of our materiality test, see pages 50-51.



Read more

For information on marketplace issues and how we manage them, see page 22.

Can you be responsible when you need to compete?

We believe we can. We must compete to be sustainable and we believe that marketing our products in accordance with our International Marketing Standards ensures that we do so responsibly. Not all our competitors follow similar standards and we would like to see a level competitive playing field, so we lobby governments where local laws are not as strict as our Standards.

2009 progress in brief

We have established centres of expertise covering regulation and other marketplace practices to coordinate our efforts and to support a consistent approach across all markets. Our new global youth smoking prevention campaign was launched and we have implemented action plans to close any gaps in adherence to our International Marketing Standards identified in our 2008 Group-wide review. We also successfully trialled a track and trace system to support our efforts to reduce the illicit trade in our cigarettes.

Tobacco regulation and engagement

In 2009

We continued to engage with governments on the development of tobacco regulation, including regulation relating to the implementation into local laws of obligations under the World Health Organisation's Framework Convention on Tobacco Control (FCTC). The views and positions we advocate to regulators are reflected on www.bat.com.

2009 saw further development of the World Health Organisation's FCTC global tobacco control agenda. Since FCTC guidelines on packaging and labelling, advertising, promotion and sponsorship and industry participation were published in late 2008, regulation of these areas has increased around the world.

In response to increased regulation, our focus in 2009 has been to seek greater consistency across our markets and regions in engagement on key regulatory issues.

We believe that views advocated in policy formation should be communicated transparently, whether from businesses, NGOs or any other parties. The views our companies advocate include:

Packaging and labelling

We support the inclusion of appropriate health warnings on packs and other primary packaging. However, we are strongly opposed to plain packaging, the trend towards oversized product labelling requirements and the gradual removal of pack elements. There is no evidence to support the claims that plain packaging would achieve public health objectives and indeed it may even undermine them. Counterfeit would become easier to produce and branded illicit products that do not comply with the regulation could become more attractive to consumers.

Public place smoking

We support regulation to restrict smoking in enclosed public places and indoor work places that accommodates the interests of smokers and non-smokers alike, and limits non-smokers' involuntary exposure to environmental tobacco smoke. We believe that smoking should be permitted in outdoor areas. We support ways to improve consumer education about cigarette butt littering.

Retail display of products

We oppose bans on tobacco displays in the retail environment as there is no evidence to suggest that bans lower smoking rates or reduce underage smoking. Bans could lead to an increase in illicit trade by driving the sale of the product underground and could also obstruct and distort competition.

Excise

Many national governments use tobacco taxation as a key instrument to reduce rates of smoking, while also raising significant excise revenue. However, sudden increases in excise rates can result in consumers switching to cheaper

Spotlight on Nigeria

International Marketing Standards

Current Nigerian law on selling tobacco products is not comprehensive and for British American Tobacco Nigeria, implementation of the Group's International Marketing Standards (IMS) has strengthened the company's approach to responsible marketplace practices.

IMS implementation includes raising awareness with retailers and supporting law enforcement in the wider retailer universe. The company's marketing materials are also reviewed three months ahead of planned implementation to help ensure that they comply with both local laws and our IMS, as well as taking into account any concerns raised by distributors and retailers.



You can read more about this in our online Report at www.bat.com/sustainability/nigeria.

illicit products. We support gradual and predictable increases in excise that enable tax revenues to be increased and public health policy to be supported, without exacerbating the risk of illicit trade.

Product guidelines

As part of the FCTC, the World Health Organisation is developing product guidelines that will provide direction on testing, measuring, disclosing and regulating the contents and emissions of tobacco products. It is our view that these guidelines should contain proportionate and evidence-based recommendations, supported by published and peer-reviewed scientific research, and guided by a clear public health rationale.

Alternative crops

The focus of one of the FCTC working groups is to decrease tobacco production and promote alternative livelihood programmes for farmers. We work closely with farmers to support the sustainable production of tobacco leaf for our business and believe that any assessment of alternative livelihoods should be evidence-based and developed in consultation with growers, merchants and manufacturers.

Comment from Ernst & Young LLP



During our review of data reported through the CSR survey we noted a significant decrease in the number of youth smoking prevention (YSP) programmes reported compared to 2008. However, British American Tobacco is expecting an increase in activity going forward with the introduction of the new global approach to YSP (see page 20). This embodies a minimum level of YSP activity expected of local companies.

Industry participation

One of the FCTC guidelines that has been adopted recommends the implementation into local law of measures to limit the interaction of the tobacco industry with governments. Like any other large business, we seek to be part of the debate that shapes the regulatory environment in which we operate. Truly effective regulation needs cooperation between governments and industry and we have experience and expertise to contribute, particularly in areas such as illicit trade, product information and the development of potentially reduced-risk products.

We support best-practice principles on the development of regulation, including those of the Organisation for Economic Co-operation and Development and the UK Better Regulation Executive. These principles currently state that any regulation should be:

- Transparent;
- Accountable;
- Proportionate;
- Consistent; and
- Targeted only at cases where action is needed.

For transparency we will continue to ensure the views we advocate are reflected on www.bat.com.

Throughout 2009, our companies engaged with various regulators and other interested parties on the issues outlined here and others, including with:

- Australian regulators on the practical issues facing retailers seeking to implement retail display ban legislation in four states and on the introduction of a lower ignition propensity standard;
- United Kingdom regulators, politicians and retailers on proposals for a retail display ban and suggestions about plain packaging during the passage of the Health Bill (England) through Parliament;
- Regulators, politicians and retailers in Ireland on proposals for a retail display ban;
- Regulators from the European Union Member States on a potential reference to plain packaging in the Council Recommendation on Smoke-free Environments; and
- Ministers, committees, media and other interested stakeholders in Canada to challenge the evidential basis for an ingredients ban proposed in a Bill to amend the Tobacco Sales Act.



Tobacco regulation and engagement: what's next? We will continue to be transparent in our regulatory engagement and to welcome discussion with all interested parties. Our regulatory centre of expertise established in 2009 will work to ensure that our engagement with governments is carried out in a consistent way.

**Comment from
Ernst & Young LLP**


A self-assessment of adherence with the updated International Marketing Standards was conducted in 2008 (see page 20). We have seen evidence that action plans have been developed to address instances of non-adherence identified through this process and guidelines have been issued to support the understanding of the Standards. British American Tobacco should consider conducting formal in-depth reviews of adherence to its International Marketing Standards across the Group on an annual basis.



The World Health Organisation's Framework Convention on Tobacco Control (FCTC) contains provisions aimed at reducing both the supply of, and demand for, tobacco products. The FCTC came into force in 2005, and by the end of 2009, some 167 governments had ratified the Convention. The FCTC provisions include public place smoking bans; comprehensive advertising bans; packaging and labelling requirements; ingredients and emissions testing and disclosure; promotion of economically viable alternative crops for tobacco farmers and the development of a Protocol to address illicit trade in tobacco products. The governments which have ratified the Convention must consider how, and to what extent, they will implement its provisions into national law.

How we market our products

In 2009

Adherence to our International Marketing Standards Progress on actions from our 2008 review

In 2008, we reviewed how our companies were applying our International Marketing Standards (IMS) which had been updated with further requirements to be met in 2008. The assessment reported an adherence rate of 97 per cent but also highlighted some inconsistencies in the interpretation of the Standards. We spent 2009 addressing these issues, with progress monitored by our regional audit and CSR committees and updates reported to our Board CSR Committee. Examples of actions taken include:

- Our Africa and Middle East region banning the distribution to retailers of single cigarette display pots of any kind. The region also issued guidance stating that any price for single cigarettes displayed by retailers should only be in black and white, unbranded and together with the price of a whole pack.
- Internal webinars to provide clarity on IMS interpretation in key areas, such as consumer engagement and retail display.
- Internal guidance to clarify the sanctions that can be applied to retailers who sell tobacco products to underage consumers and the circumstances in which such sanctions might be imposed.

At the end of 2009 all actions to address issues identified in the 2008 review had been completed in all but two markets. Both are expected to be complete by mid-2010.

Adherence in 2009

In 2009, 12 companies reported a total of 15 instances of non-adherence to our IMS. Action plans were in place by the year end, with the aim of achieving full adherence in 2010.

In addition, the marketing activities of the business that we acquired in Indonesia in mid-2009, and where we took control in January 2010, do not adhere to our IMS. Indonesia is not currently a signatory to the FCTC and the market is very lightly regulated. Our plans to introduce IMS have been overtaken by proposed regulations from the Ministry of Health. However, we are committed to bringing our operations in Indonesia in line with our IMS as soon as is practical and will, of course, comply with any new regulations.

IMS and local law

Where our IMS are stricter than local law, we aim to encourage our companies to lobby governments for stricter laws and embodying standards similar to our own to create a level competitive playing field and to raise industry standards more widely.

In 2009, we again asked our companies to report on how the IMS compared to local law. Information was reported for 158 markets, representing 97 per cent of our sales volume.

This showed that over 37 per cent of our global volume was being sold in countries where our IMS are generally stricter than local marketing regulations. Across 34 countries, covering 29 per cent of our global sales volume, our companies reported engaging with governments to promote standards similar to our IMS or advocating their incorporation into local regulation.

Youth smoking prevention

Our primary responsibility in the area of youth smoking prevention (YSP) is to ensure that our marketing is not aimed at the underage. In 2009, our companies also reported that they ran 62 YSP programmes, in 52 countries, covering 58 per cent of our sales volume, and spending a total of £4.4 million. More than 80 per cent of the total effort was focused on retail access prevention.

Most countries now have laws for a minimum age of at least 18 for tobacco sales. However, in 2009, our companies reported that in 47 countries where we do business, covering 18 per cent of our global sales volume, minimum age laws were either less than 18 or non-existent. In 23 of these countries our companies reported engaging with governments to advocate a minimum age of 18 for tobacco sales.

During 2009, based on a review of our current approach to YSP and the results of stakeholder dialogue, we reinforced our global approach, which is for our companies to:

- Engage with governments and third parties to encourage laws for a minimum age of 18 for tobacco sales;
- Raise retailers' awareness of minimum age laws, for example through training; and
- Measure the reach and coverage of their YSP activities, and, wherever possible, measure their effectiveness.

Twelve companies in our largest markets will also run point of sale YSP campaigns consistent with our new global approach, and, wherever possible, measure their effectiveness. None of the consumer-facing materials should have company branding, except where required by law or third parties. Where our local companies are already involved in industry campaigns, we will encourage them to advocate a similar strategy.

The goal is for all our companies to be fully aligned with our global approach by the end of 2010. Companies that do not achieve this will be required to give their reasons to our regional audit and CSR committees and develop plans to move to the new approach where possible in the future.

Tackling illicit trade

In 2009

Supply chain security

We support the development of the FCTC Protocol on Illicit Trade, which includes provisions on track and trace in relation to supply chain security. During 2009, we completed our track and trace pilot project in our factory in Poland, monitoring the movement of our products through the supply chain with over 99 per cent accuracy. This system can now be implemented by governments to help meet the FCTC track and trace obligations from 2011 onwards. In addition to track and trace, we are also focusing on digital tax verification and product authentication. Digital tax verification means confirming the volume of products manufactured to determine the excise tax payable, and we are working with other tobacco companies and governments to establish a digital verification pilot project. Product authentication involves distinguishing genuine products from counterfeit ones. During 2009, we updated our authentication devices to take account of recent innovations in technology.

Internal awareness

In 2009, we worked to build employees' knowledge and understanding of the illicit trade issue. This included launching a global anti-illicit trade (AIT) intranet site providing AIT information to our employees.

Enforcement and international cooperation

Our AIT Intelligence Unit plays a key role in identifying and investigating criminal activity in illicit tobacco products. It works with law enforcement bodies and is often called upon to cooperate with them, including assessing the authenticity of seized products or carrying out forensic analysis of illicit products.

In 2009, we provided training to government investigators, revenue authorities, prosecutors, members of the judiciary and our own AIT managers to help build capability to combat illicit traders.

External engagement and advocacy

We continued to give our views to governments taking part in the development of the FCTC Protocol on Illicit Trade and we are pleased that the important issue of addressing Free Trade Zones is now expected to be included in the Protocol, as some Free Trade Zones have been used as safe havens for organised crime.

We have participated in international conferences on illicit trade hosted by bodies such as the World Customs Organisation and the Global Congress on Combating Counterfeiting and Piracy, and co-funded a conference attended by 27 governments. We have also engaged with the media and other stakeholders to raise awareness of the issue of illicit trade.

Emerging issues

In some markets, a significant proportion of illicit trade is low priced product manufactured by small, independent traders, and in Canada the problem is heavily concentrated in manufacturing on First Nations' reservations. These cigarettes are then smuggled or sold without taxes being paid, which invariably undercuts the prices of legitimate brands. Sold at low prices through unofficial vendors, these cigarettes are more easily accessible to the underage. Indeed, in Quebec, where the illegal market is over 40 per cent, underage smoking is rising. We will continue to monitor the situation and provide assistance to law enforcement agencies.



How we market our products: what's next? We will continue to lobby for minimum age laws of 18 where none are in place and raise awareness of them where they are. 2010 will see the continued roll out of our new YSP campaign. Adherence to our IMS will continue to be a priority and we will endeavour to achieve 100 per cent adherence in 2010.



Tackling illicit trade: what's next? We will continue to focus on engagement and advocacy to raise various issues driving illicit trade, including the role of some Free Trade Zones. We will also work with our stakeholders to build support for our approach to track and trace and digital verification.

Marketplace issues and how we manage them

Globally, over a billion adults consume tobacco products. We do not seek to increase the number of smokers in the world but to increase the size and value of our market share among adult tobacco consumers, to deliver value to our shareholders.

Given the health impacts of tobacco consumption, we agree that the manufacture, distribution, marketing and sale of tobacco products should be regulated appropriately. We recognise the need to demonstrate high standards of corporate conduct and to act in a responsible way within our marketplace.

Acting responsibly means addressing a number of areas including:

How our industry is regulated and engaging with regulators

We support effective, evidence-based regulation which helps reduce the public health impacts of tobacco consumption. We seek to be part of the debate that shapes the regulatory environment in which we operate, and to contribute our experience and expertise, particularly in areas such as illicit trade, product information and potentially reduced-risk products.

How our products are sold, our marketing practices and preventing underage access

While we agree that the tobacco industry should be regulated, we want to be able to communicate with adult tobacco consumers about our products in a responsible way. This means ensuring that our marketing is targeted at adult consumers and is not misleading about the health risks. One of the ways we address this is through our International Marketing Standards (IMS), which provide our companies with a framework for responsible tobacco marketing practices. They were developed in 2001, building on our previous Advertising Principles, and updated in 2007.

Tackling illicit trade in tobacco products

When cigarettes are smuggled across borders or counterfeited, governments and legitimate operators miss out on revenue and the market is destabilised. Since this trade is unregulated, cigarettes are also more easily available to the underage. Some stakeholders believe we encourage smuggling. We do not. It harms our business and we are committed to doing everything we reasonably can to tackle both smuggling and counterfeiting. The principal driver of illicit trade is economic – cheap cigarettes for consumers and profits for organised crime. Other contributory factors include weak border controls and ineffective sanctions. By providing information, intelligence and training, we believe we can support governments in establishing appropriate tax policies, strong regulation and effective enforcement to address these issues.

We have numerous policies and processes in place to help ensure we are meeting our stakeholders' expectations of a responsible tobacco business. These include:

- Ensuring that our engagement with regulators is consistent and transparent;
- Adherence to our IMS, or local law if this is stricter;
- Engaging with governments to encourage tobacco marketing standards at least as high as those in our IMS;
- Youth smoking prevention campaigns; and
- Supporting the introduction of minimum age laws of 18 for sales of tobacco products where no such laws currently exist.

Our approach to tackling illicit trade focuses on:

- Effective internal governance;
- Gathering commercial and business information relating to illicit trade;
- Working with enforcement authorities to ensure that appropriate action is taken;
- External stakeholder engagement;
- Informing regulators about the impacts of illicit trade; and
- Internal awareness raising.

It is Group policy that our companies and employees support only legitimate trade in our products. Our 'Know your Customer' guidelines and procedures are aimed at ensuring our companies' supplies to markets are consistent with legitimate demand. We have provisions for ceasing to do business with customers or suppliers believed to have been complicit in illicit trade.



You can read more about our approach to managing marketplace issues at www.bat.com/consumers.



The cost of illicit trade Illicit trade in cigarettes is a huge global problem, which is expected to grow as future excise increases encourage consumers to switch to cheaper products. It also provides greater rewards for criminals.

It is estimated that some 330 to 660 billion cigarettes consumed a year are illicit – either smuggled, counterfeit or locally tax-evaded. This is about 6 to 12 per cent of world consumption, losing governments some US\$20–40 billion a year in tobacco taxes and losing legitimate tobacco companies some US\$5–10 billion a year in revenue. Illicit product also poses greater health risks as cigarettes may be contaminated. They are also more easily accessible to the underage.

Spotlight on South Korea

Youth smoking prevention (YSP)

Youth smoking is a major issue in South Korea; it is on the rise despite adult smoking falling. British American Tobacco Korea provides YSP training for its sales force and has an external programme for retailers, delivered in collaboration with other tobacco companies and focusing on age verification.

This campaign is unusual because, while the industry has provided guidelines and support, it is the retailers who have ownership of the programme and who provide the momentum to make it a success.



You can read more about this in our online Report at www.bat.com/sustainability/korea.

Spotlight on Russia



Anti-illicit trade

Within Russia, there are overall low levels of illicit trade; the share of contraband and counterfeit cigarettes is around 0.5 per cent of total consumption, which places Russia among the countries with the lowest levels of illegal tobacco products.

However, because of a significant price gap between Russian tobacco products and those sold in the European Union (EU), the smuggling of Russian-made cigarettes into EU countries has become a serious problem.

As a result, British American Tobacco Russia's anti-illicit trade programme focuses on two distinct areas:

- Raising with the Government the issues of illegal tobacco outflow from Russia to the EU, to promote anti-smuggling activities; and
- Providing support to law enforcement authorities to further restrict the low level of illicit trade within Russia.



You can read more about this in our online Report at www.bat.com/sustainability/russia.

Our 2010 goals

For regulatory engagement

- Engage with governments to put forward our views for effective, evidence-based regulation, including matters arising from their implementation of any Framework Convention on Tobacco Control obligations; and
- Ensure the views and positions we advocate to regulators are reflected on www.bat.com.

For our marketing practices

- 100 per cent adherence to our International Marketing Standards;
- Roll out our global approach to youth smoking prevention. We expect all our companies to be fully aligned with the global approach by the end of 2010;
- Support the introduction of minimum age laws of 18 for the sale of tobacco products where no such laws currently exist; and
- Increase awareness among our retailers of minimum age laws for tobacco sales in countries where such laws do exist.

For tackling illicit trade

- Work to further raise awareness of the role that some Free Trade Zones play in the illicit trade of tobacco products and lobby for governments to apply strong laws and penalties to criminals operating in these zones; and
- Work with our stakeholders to build support for our approach to track and trace and digital verification.

Supply chain

We will work for positive social, environmental and economic impacts in our supply chain.

Materiality



In this Report

- p26 Supply chain strategy
- p27 Supplier programmes
- p28 Sustainable decision making
- p29 Partnerships with stakeholders



Covered on www.bat.com

- Tobacco curing
- Manufacturing



Not reported

- We do not cover topics that:
- Have already been addressed and are no longer raised by stakeholders;
 - We cannot influence; and
 - Do not significantly impact the business.

For details of our materiality test, see pages 50-51.



[Read more](#)

For information on the importance of a sustainable supply chain and how we manage our supply chain, see page 30.

Don't you just exploit farmers so you can make as much profit as possible?

No; if they do well, we do well. Providing farmers with agronomy support and an assessment programme aimed at continual improvement underpins the security of a supply of high quality leaf. Exploiting farmers for short term profit would be very bad for our business.

2009 progress in brief

Stakeholder dialogue has helped us in the development of a sustainable supply chain strategy that will build on existing good practices across the Group. We have continued to assess suppliers' sustainability performance and to support them in implementing improvements. We have also introduced a Sustainable Business Assessment Tool and continued our life cycle analysis research.

Developing a supply chain sustainability strategy

In 2009

In 2009, we began the development of an integrated supply chain sustainability strategy, building on the many good practices already existing in various areas of our business and endeavouring to encompass all aspects of our global operations. To do this, we invited employees, suppliers, business partners and other relevant stakeholders to a day-long dialogue session on our major supply chain impacts.

The group of around 65 people was asked to identify issues and aspects of the supply chain where we should concentrate our resources to improve our performance. Once these had been established, the group suggested projects that would deliver environmental, social and economic benefits.

The discussions were wide-ranging and characterised by a willingness to share information – both in terms of strategic approaches and at a more practical level. Over the course of the day, the participants highlighted a number of themes running through our supply chain work:

- The need for a greater degree of joined-up thinking, both among our own employees in our supply chain and between our employees and our supply chain partners;
- Their desire for us to consider joint initiatives with other companies in our sector;
- A need for both the concept and the practice of sustainability to be more firmly embedded into our corporate culture;
- Our lack of specific expertise on some emerging issues such as water scarcity;
- The need for longer time horizons in our business planning and decision making if sustainability issues are to be adequately addressed;
- Concern that we are not currently measuring all the appropriate indicators required to assess supply chain performance against the Group's objectives; and
- The importance of testing existing models and approaches through scenario planning focused on environmental change and the issues arising from it.

Comment from Ernst & Young LLP



During 2009, British American Tobacco revised its approach to stakeholder dialogue to involve stakeholders more directly in the development of sustainability plans and activities. This has meant inviting a wider range of stakeholders to dialogue and greater involvement of senior management. We saw evidence of the new approach being used at the stakeholder dialogue session held on the supply chain sustainability strategy in London.

There was widespread support for continued stakeholder involvement in the development of the strategy. The dialogue was immensely useful to us and has helped to develop our thinking around supply chain sustainability. The large number of suggestions arising from the dialogue makes it impractical to implement them all, but we are committed to implementing some and investigating the feasibility of others. As a result, we will:

- Develop a strategy to address sustainability in our supply chain in a more joined-up way;
- Investigate the feasibility of a common approach to carbon accounting within our supply chain;
- Consider the feasibility of establishing an advisory panel of stakeholders to provide guidance and challenge on supply chain sustainability issues;
- Carry out a water footprint analysis to better understand the risks and opportunities that changes in water availability could present for us;
- Further integrate sustainability principles into the selection criteria for our direct materials and machinery suppliers; and
- Endeavour to incorporate longer time horizons into our leaf supply chain sustainability planning, addressing long term impacts and dependencies identified through risk assessments.

We acknowledge that we do not have all the answers. In addressing the challenges that were highlighted we need to involve our suppliers and business partners, many of whom have already started to develop solutions.



Supply chain strategy: what's next?

We will take the output from the dialogue into developing our strategy and will report back in next year's Sustainability Report. The strategy will build on the many approaches we already have in place. These have continued to deliver benefits in managing social and environmental impacts in our supply chain in 2009.



You can read about the way we conduct our stakeholder dialogue and about the dialogues our companies carried out in 2009 in our online Report at www.bat.com/sustainability/engagement.

Our supplier programmes

In 2009

In addition to our well established supplier programmes, SRTP and BEST, we have endeavoured to identify and develop 'win win' solutions to support our suppliers, reduce our impacts and drive sustainability throughout our operations.

Social Responsibility in Tobacco Production (SRTP)

In 2009, there were 22 SRTP reviews of tobacco leaf suppliers in 14 countries and, by the year end, 96 per cent of suppliers had been reviewed at least once. Our leaf suppliers' average scores are outlined in the charts on page 28 and they are generally very encouraging, although we have seen a decrease in 2009. This was largely due to more stringent assessment criteria introduced in 2009.

As part of our commitment to SRTP, we have worked to increase the overall fuel efficiency of curing and have investigated the use of alternative fuels and the viability of 'live' curing barns to further reduce growers' reliance on natural forest.

Through our leaf extension services in the Democratic Republic of Congo and Uganda, we have introduced a furnace design that has significantly reduced fuel consumption rates. We hope to see further improvements as a result of similar changes to curing barn design.

The development of alternative fuels for curing is a focus for our Leaf Research and Technology Centre. Investigations are currently being carried out into biofuels, solar-assisted curing and the re-use of waste products.

The use of 'live' burley barns, where living trees are used to provide the main structure, is being evaluated by our leaf extension services in Uganda. It is thought that the trees will provide a natural defence against ants and termites, prolonging the life of the barn and reducing the need to harvest wood for barn construction.



Global centre of excellence in agronomy

In 2009, we continued expanding our Leaf Research and Technology Centre and plant breeding facility in Brazil in order to establish them as a global centre of excellence in agronomy. The Centre provides farmers with technological assistance and initiatives to support the sustainability of their business and our efforts to become farmers' preferred leaf purchaser.

The Centre's focus is on providing basic but effective methods of agronomy that are realistic and proven to increase both the yield and quality of farmers' crops. This means farmers can maximise their profits while we can secure our leaf supply at the quality we expect. The Centre also provides advice on complementary crop rotations that enhance soil fertility and water holding capacity. This enables farms to operate on a multi-crop, multi-income basis rather than relying on a single crop, while also delivering leaf quality.

Tobacco crop insurance scheme

Working with an independent insurer, our company in Kenya has trialled an insurance scheme with some of the farmers in vulnerable areas, to cover crops and farmers' livelihoods against natural disasters. This provides security for farmers and offers them an additional benefit in working with us as a business partner.

Business Enabler Survey Tool (BEST)

BEST establishes the standards we expect from our suppliers of materials other than leaf. During 2009, we carried out 22 BEST reviews and re-reviews of 13 global, and nine regional goods and machinery suppliers. Of these, seven gained the minimum Approved status, 10 gained Qualified status and four gained the highest Certified status. One potential supplier failed to gain Approved status and will not be used until it is able to gain this status. It is currently developing an action plan to help it achieve this.



Our supplier programmes: what's next? We will continue to focus on building our capacity to support farmers by developing our global centre of excellence in agronomy. Twenty-two SRTP reviews across 10 countries are planned for 2010. We also aim to continue developing innovative ways to address challenges in the leaf supply chain.

Our supplier programmes

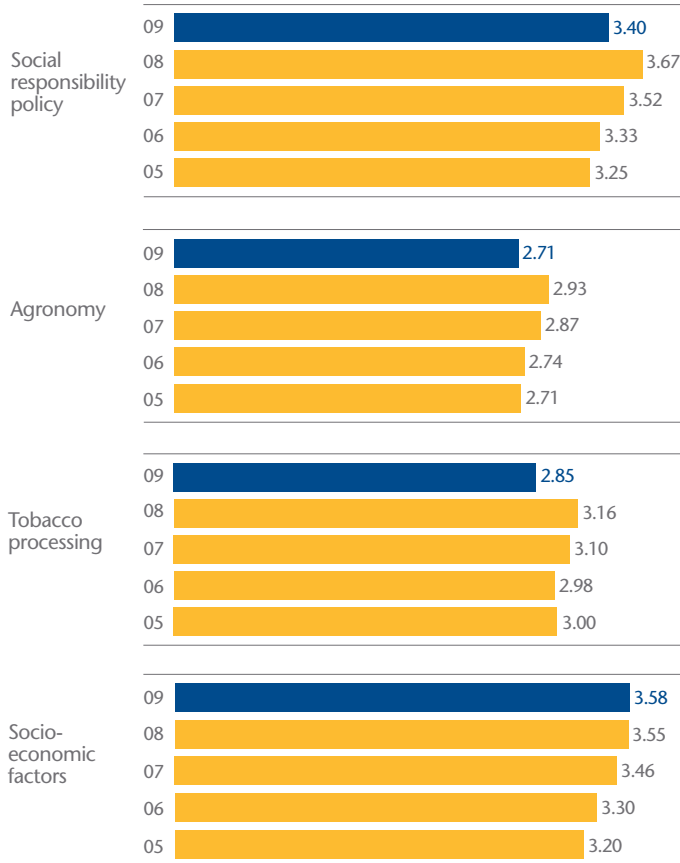
Sustainable decision making

In 2009

Leaf suppliers' SRTP self-assessment scores 2005–2009

The decrease in the 2009 scores was largely due to more stringent assessment criteria introduced in 2009.

Average scores (out of a maximum of 4):



To make balanced decisions about our products and our supply chain, we need to better understand the full sustainability impacts of product design, manufacturing and supply. We are developing a range of tools to support this work.

Life cycle analysis

We are using life cycle analysis to support our sustainable decision making and continue to work with suppliers to carry out joint studies. Our knowledge and expertise around life cycle analysis is still expanding and we are making good progress in integrating it into our tools and approaches.

Sustainable Business Assessment Tool

In 2009, we launched our Sustainable Business Assessment Tool. It is a checklist that encourages the consideration of environmental and economic implications at every stage of product design.

Sustainable sourcing impact studies

In 2009, we continued to conduct sustainability impact studies to assist our decision making in major sourcing changes. This included taking environmental data into consideration when determining alternative sources of supply to two factories that were closed in Western Europe.

We have also been using life cycle analysis and the Sustainable Business Assessment Tool to assist decision making in our sourcing plans. For example, in a pilot project, a range of sourcing scenarios has been developed, including comparison of the CO₂ emissions relating to each. We intend to build on this pilot, integrating life cycle analysis into our strategic sourcing guidelines by the end of 2010.

Cigarette formats

We are working on developing our product portfolio to introduce new cigarette formats which have consumer appeal and improve our overall environmental footprint. An example of this is Kent Nanotek, a superslim cigarette which uses up to 50 per cent less tobacco and over 40 per cent less non-tobacco cigarette materials than a regular cigarette. Packaging materials are reduced by approximately 25 per cent.

Comment from Ernst & Young LLP

We have reviewed documentation and interviewed managers responsible for initiatives such as life cycle analysis and the Sustainable Business Assessment Tool that can help drive sustainable improvements through British American Tobacco's supply chain. The challenge will be in moving these beyond 'initiatives' to 'business as usual' decision making interventions embedded within the business.



Sustainable decision making: what's next? In 2010, we will continue working with our suppliers on our life cycle analysis studies, while also developing the tools needed for us to use life cycle analysis to guide product specification and any major sourcing changes.

Partnerships with stakeholders

In 2009

Working with supply chain partners, we can pool expertise and resources, maximising the opportunity to tackle sustainability challenges. The many examples of this across our business include:

Our Memorandum of Cooperation with DHL

As part of this, we have established an innovation and sustainability workstream, through which we have collaborated on the development of an aerodynamic haulage trailer. It is expected this will result in around a 10 per cent reduction in fuel consumption and vehicle emissions. Our Operations function is also trialling new ways of loading our vehicles that will result in an overall reduction in journeys.

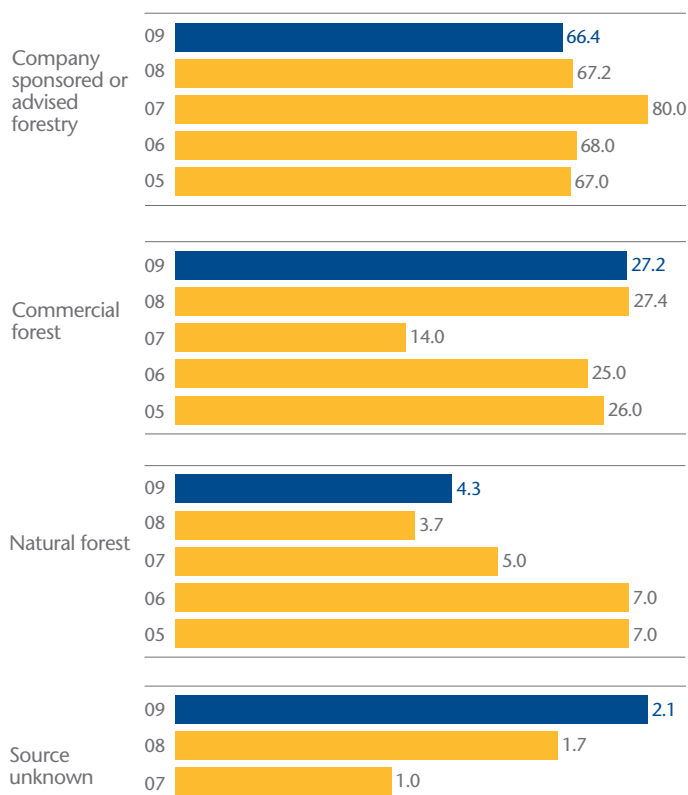
Wood fuel sources

Company sponsored or advised forestry includes trees grown by farmers and cooperatives covered by our direct agronomy services as well as trees planted or sponsored by our companies.

Unknown sources are those where the type of forestry cannot be clearly established. We began including these in our reporting in 2007.

In 2009, 4.3 per cent of curing fuels were reported to be sourced from natural forest by farmers directly contracted to us. This is a small increase from our 2008 figure of 3.7 per cent, largely due to more detailed measurement and categorisation of wood fuel sources.

Percentage sources of wood used in growing programmes:



Our framework agreement with Cranfield University School of Management

This provides us with access to leading-edge research and thorough assessment of our supply chain strategies. We also have access to post-graduate specialists in the field of global supply chains and we, in turn, can support their development.

Working with tobacco farmers to encourage the use of sustainable wood sourcing

In some countries, farmers burn wood as a fuel for tobacco curing or use it for building curing barns. We encourage the 160,000 farmers directly contracted to us to use wood from sustainable sources for fuel supply purposes and to plant trees to meet their own needs. In 2009, 4.3 per cent of wood fuel for curing our tobacco was reported to be sourced from natural forest (see chart below left). Among thousands of farmers, wood sources are difficult to monitor. In 2009, an assessment was completed by Energy for Sustainable Development, with input from the British American Tobacco Biodiversity Partnership, on how we measure and categorise these wood sources. This will enable us to calculate the carbon impacts in our supply chain and support our aim of directly contracted farmers relying on natural forests for less than 3 per cent of their curing fuel needs by 2015.

Agrega

This is the joint venture for the purchase of indirect materials that we have established with international brewer AB InBev. It identifies areas where joint purchases can be made on behalf of ourselves and AB InBev, in order to achieve economies of scale. In 2009, we built on existing local joint purchase initiatives to enable Agrega to operate more effectively. Our plans will result in Agrega being responsible for buying over 60 per cent of our indirect materials by 2012.



Partnerships with stakeholders: what's next? We will continue to develop our relationships with our stakeholders and to build mutually beneficial solutions to some of the challenges in our supply chain. We know that by working with our stakeholders we can create better outcomes than if we worked on our own.



You can read about our afforestation programmes at www.bat.com/afforestation.

Why a sustainable supply chain is important to us

We supply over 180 markets and our 50 cigarette factories are based in 41 countries. In 2009, we sold some 724 billion cigarettes. Our Group purchased approximately 400,000 tonnes of tobacco leaf in 2009 grown by around 250,000 farmers. Around 80 per cent of the leaf by volume is purchased from farmers and suppliers in emerging economies. As well as tobacco leaf, we purchase significant quantities of other raw materials to make our products, such as packaging, cigarette paper, filter materials, glues and inks.

Our stakeholders expect us to manage our supply chain responsibly and we engage with our suppliers to understand and help address their social, environmental and economic impacts. This engagement creates greater transparency in our supply chain, enabling us to make better decisions and develop more creative solutions. This in turn results in better aligned processes and activities, generates efficiencies and facilitates better identification and management of risks.



Two thirds of the leaf we buy is purchased through direct contracts with some 160,000 growers. Our companies provide these growers with direct agronomy support, working alongside them in the field to provide quality seed and guidance on crop management, soil and water protection and environmental best practice. The other one third of our leaf is purchased on the general market from suppliers who, at our request, have adopted Social Responsibility in Tobacco Production.

Spotlight on Australia

Sustainable business partner initiative

In response to stakeholders' expectations and our efforts to address human rights in the supply chain, British American Tobacco Australia developed the Sustainable Business Partner initiative, a tool that:

- Communicates our values and principles with regard to sustainability;
- Assesses suppliers' social and environmental practices;
- Facilitates simple completion and scoring; and
- Can be easily integrated into existing procurement systems.

The initiative assesses major suppliers appointed locally, and therefore not covered by the Group's BEST programme, to a defined standard of social and environmental responsibility.



You can read more about this in our online Report at www.bat.com/sustainability/australia.

Spotlight on Brazil



Leaf research and technology

Our Leaf Research and Technology team based in Brazil works with our plant breeding facility to provide tobacco farmers with the latest recommendations on agronomy practices, alternative fuels, irrigation and mechanisation, agrochemical use, integrated pest management and curing methods.

The team's research in 2009 included using solar heat collectors in flue curing barns to reduce firewood requirements by over 15 per cent. It has also studied drip irrigation systems which reduce water use by over 30 per cent compared to overhead systems, and result in increased yields.



You can read more about this in our online Report at www.bat.com/sustainability/brazil.

How we manage our supply chain

Our supply chain – from leaf growing and product development, through materials procurement and manufacturing, to delivery and service to markets – is managed through our global supply chain service centre which includes the following elements:

Product development: Assures consistent and standardised products and balances local, regional and global priorities and resources.

Leaf: Leaf managers in our companies work alongside farmers to provide agronomy support to improve crop yields and quality.

Procurement: As well as tobacco leaf, we purchase significant quantities of other raw materials to make our products, such as packaging, cigarette paper, filter materials, glues and inks.

Manufacturing: Manufacturing tobacco products is a large-scale global operation and we have factories all over the world. We work to ensure that our costs are globally competitive while also managing our sustainability impacts.

Logistics: Provides strategic direction and coordination to benefit from economies of scale when moving our product through the supply chain.

With such a diverse and wide-reaching supply chain, we have a number of well established and effective approaches in place to help us minimise our environmental and social impacts while optimising economic benefits. These are designed to be used in collaboration with our supply chain partners, drawing on their experience and expertise. They include:

Social Responsibility in Tobacco Production (SRTP)

Our primary tool in the area of leaf growing is SRTP. This is focused on driving improvement in the social and environmental performance of all our leaf suppliers. The process involves annual self-assessment and, where necessary, developing plans for improvement. These are then reviewed and assured by an independent company. We have shared SRTP with the rest of the industry and it has been adopted by a number of other manufacturers. You can read more about SRTP at www.bat.com/SRTP and the details of the review criteria are available via the website of our independent reviewer: www.leafc.com.

Business Enabler Survey Tool (BEST)

BEST is our tool for establishing the standards we expect from our suppliers of materials other than leaf, and it provides a framework to continually improve their sustainability performance. We assess suppliers using an international pool of trained reviewers. Suppliers must obtain Approved, Qualified or Certified status in order to be retained by British American Tobacco. You can read more about BEST at www.bat.com/BEST.

Life cycle analysis

This is used to assess opportunities to reduce key supply chain impacts, such as energy use, water use and carbon dioxide equivalent.

Our 2010 goals

For developing a supply chain sustainable strategy

- Develop an integrated sustainable supply chain strategy, including a review of our current measures by end 2010;
- Investigate the feasibility of a common approach to carbon accounting within our supply chain by end 2010;
- Consider the feasibility of establishing an advisory panel of stakeholders to provide guidance and challenge on sustainability issues by end 2010;
- Carry out a water footprint analysis to better understand the risks and opportunities that changes in water availability could present for us by end 2011;
- Further integrate sustainability principles into the selection criteria for our direct materials and machinery suppliers by end 2011; and
- Endeavour to incorporate longer time horizons into our leaf supply chain sustainability planning, addressing long term impacts and dependencies identified through risk assessments.

For our supplier programmes

- Build the global support capacity of our centre of excellence in agronomy, which we expect to be fully functioning by the end of 2010.

For sustainable decision making

- Implement sustainability impact studies to assist our decision making for any major sourcing changes;
- Develop tools and processes to enable us to use life cycle analysis to guide product specification by the end of 2010; and
- Complete joint life cycle analysis studies with at least eight of our supply chain partners by end 2010.

For partnerships with stakeholders

- Aim for less than 3 per cent of directly contracted farmers' curing fuels to come from natural forest by 2015.



Environment

We will actively address the impacts of our business on the natural environment.

Materiality



In this Report

- p34 Environmental performance
- p35 Climate change
- p37 Biodiversity



Covered on www.bat.com

- Soil conservation and improvement
- Our position on genetically modified leaf
- Cigarette butt litter
- Afforestation



Not reported

- We do not cover topics that:
- Have already been addressed and are no longer raised by stakeholders;
- We cannot influence; and
- Do not significantly impact the business.

For details of our materiality test, see pages 50-51.



[Read more](#)

For information about our environmental issues and how we manage our environmental impacts, see page 38.

Aren't you responsible for destroying natural forests to provide fuel to cure tobacco?

Some farmers do use wood as fuel to cure tobacco leaf but we encourage them, wherever possible, to cultivate their own sustainable sources of wood. We also sponsor the growing of trees for fuel. We have a target for directly contracted farmers within our supply chain to be sourcing only 3 per cent of their wood fuels from natural forests by 2015. In 2009, this was reported to be 4.3 per cent.

2009 progress in brief

We have strengthened our environmental governance processes and have incorporated our key environmental measures – energy use, water use, waste to landfill and recycling – into our global Operations scorecard. We continue to work hard to reduce our energy use, including pilot energy reduction projects in Germany, South Africa and the UK. The British American Tobacco Biodiversity Partnership has enabled us to make good progress in understanding our impacts on biodiversity and we have developed measures of success to monitor our progress in this area.

Environmental performance

In 2009

We have a comprehensive environment, health & safety (EHS) management system. However, we recognise that to address increasing global challenges, our EHS strategy must evolve and drive greater global consistency. During 2009, we strengthened our environmental governance with formal senior review bodies at all levels, incorporating EHS as a standing agenda item. This has raised understanding of the EHS risks associated with our business.

Managing performance

In 2009, we conducted a review of our performance indicators. As part of the review, we incorporated our key environmental measures – energy use, water use, waste to landfill and recycling – into our global Operations scorecard. This provided greater visibility of performance, which in turn allows us to take corrective actions more rapidly and better manage our impacts.

Online learning

Knowledgeable employees are key to realising our environmental objectives. In 2009, we developed online training, providing employees with more consistent information about our EHS management systems, strategy and tools around the world.

EHS Excellence Awards

Our EHS Excellence Awards bring recognition to employees for good EHS performance. In 2009, we introduced an award for excellence in carbon reduction to emphasise our focus in this area. The good practice highlighted by the awards is shared across the Group.

Environmental performance

The key environmental measures for our operations are energy use, carbon dioxide (CO₂) equivalent, waste and water use.

In 2009, we saw an improvement in our environmental measures (see charts opposite). This is largely due to more detailed measurement of both consumption and output at unit level, which also allowed for more targeted efficiency improvements. We are continually improving the scope and accuracy of our measurements and therefore our influence on environmental performance. For example, there is currently no internationally definitive process for calculating a company's water footprint. To better understand our water use, we have introduced it as one of the impact criteria in our life cycle analysis studies. The understanding gained from this work, along with related studies on the use of water in primary processing and comparison of water use in leaf growing in Brazil and Indonesia, has enabled us to identify water-saving opportunities and better prepare ourselves for potential water shortages in the future. We have discussed with our suppliers the need for them to take as much care with water as they already do with energy use and CO₂ equivalent.



Environmental performance: what's next? We will continue to drive improvement in our EHS strategy and its implementation, including specific focus on sharing best practices and drawing on performance data to inform our management processes. We will also continue the development of online learning and our life cycle analysis work.

Group energy use

Our global target is to reduce our energy use by 6.7 per cent to 11.03 gigajoules per million cigarettes equivalent produced by 2012, from our 2007 baseline of 11.82 gigajoules per million cigarettes equivalent produced.

Group energy use was down in 2009 by 7.95 per cent from 2008, to 11.12 gigajoules per million cigarettes equivalent produced. An increase in freight was offset by reduced business travel, and the overall increase in energy efficiency was largely due to more detailed measurement of both energy consumption and output at unit level, which also allowed for more targeted efficiency improvements.

Gigajoules per million cigarettes equivalent produced*



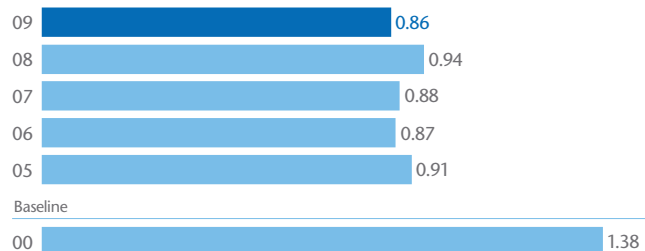
Carbon dioxide

Group CO₂ equivalent includes the WBCSD Scopes 1, 2 and 3. These cover CO₂ equivalent from all energy sources controlled by the Group, from purchased energy, from business travel and freight and from incineration and landfill.

Our global targets are to reduce our CO₂ equivalent by 50 per cent by 2030 and 80 per cent by 2050 from our year 2000 baseline of 1.38 tonnes per million cigarettes equivalent produced.

Group CO₂ equivalent was down in 2009 by 8.5 per cent from 2008 to 0.86 tonnes per million cigarettes equivalent, produced primarily for the same reasons as those affecting energy use.

Tonnes CO₂ per million cigarettes equivalent produced*



Addressing concerns around climate change

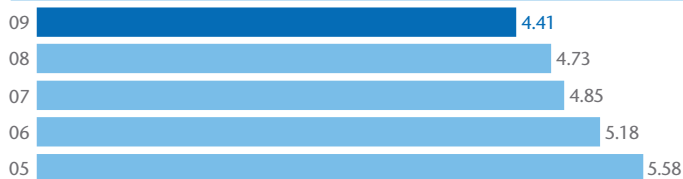
In 2009

Water use

We have set a global target to reduce our water use by 13.4 per cent to 4.2 cubic metres per million cigarettes equivalent produced by 2012 from our 2007 baseline of 4.85 cubic metres per million cigarettes equivalent produced.

Group water use in 2009 was down by 6.8 per cent from 2008, at 4.41 cubic metres per million cigarettes equivalent produced. Total water use was 4.8 million cubic metres. The increase in water efficiency was largely due to more detailed measurement of consumption and output at unit level, which also allowed for more targeted efficiency improvements.

Cubic metres per million cigarettes equivalent produced*

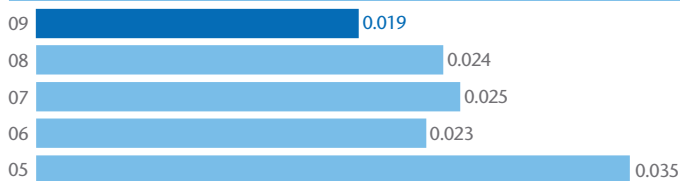


Waste to landfill

We have set a global target to reduce our waste to landfill by 12 per cent to 0.022 tonnes per million cigarettes equivalent produced by 2012 from our 2007 baseline of 0.025 tonnes per million cigarettes equivalent produced.

Group waste to landfill decreased in 2009 by 21 per cent to 0.019 tonnes per million cigarettes equivalent produced, largely due to an increase in recycling and more detailed measurement at unit level.

Tonnes per million cigarettes equivalent produced*

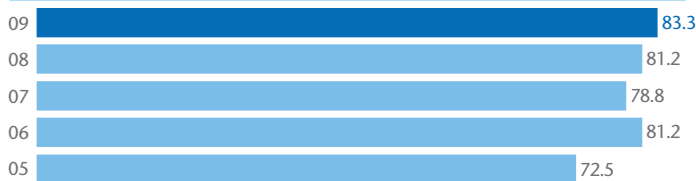


Recycling

We have set a global target to recycle more than 75 per cent of waste generated in each year.

Group recycling increased in 2009 by 2.1 per cent to 83.3 per cent of waste generated.

Percentage of waste recycled



* We track Group efficiency performance using the normalised output figure 'cigarettes equivalent produced'. This includes manufacturing of tobacco products and materials and green leaf threshing.

Climate change remains a feature of the global political agenda and a major concern to many of our stakeholders. We believe it is prudent to reduce our carbon footprint by reducing our energy use, our waste to landfill and our travel.

Our CO₂ equivalent includes other greenhouse gases, such as methane from landfill. We have set CO₂ reduction targets of 50 per cent by 2030 and 80 per cent by 2050 from our baseline of 1.38 tonnes per million cigarettes equivalent produced in 2000.

Energy review programme

In 2009, we began to establish a global energy reduction strategy. We started by reviewing attitudes to energy as well as current energy saving practices across the Group, in order to compare ourselves with other large organisations. From this we established our current position and are developing a programme aligned with good practice.

Within this review, we collaborated with an energy consultancy to complete two pilots of our energy assessment approach at our manufacturing sites in Germany and South Africa. We plan to carry out full-site energy assessments in three further sites during 2010 and to extend the assessment programme to our Trade Marketing & Distribution teams and Operations function. We will develop a global energy reduction plan for our manufacturing sites in 2010, to be delivered in phases across the business. It will incorporate regular milestones towards our long term CO₂ reduction targets.

Comment from Ernst & Young LLP



Through our environmental data review we have observed British American Tobacco's efforts to build a more detailed understanding of environmental performance at a unit level. This, along with the more focused supply chain strategy, should assist British American Tobacco in identifying and monitoring environmental performance improvements in the future. There continue to be areas for improvement in relation to the completeness of documentation to support unit level reporting and the review of environmental data at headquarters level.

Addressing concerns around climate change

Employee engagement

We see the commitment and dedication of our employees as the key driver in reducing our carbon footprint and other environmental impacts. In our 2008 Sustainability Report, we committed to developing and implementing a pilot programme to encourage employees to reduce their own carbon footprint at home.

In 2009, the first phase of the pilot was run in our headquarters in the UK. We intend to build on this phase, extending the focus from the home to include reductions at work. This will take place in 2010, with the programme then being rolled out across the Group in stages over the next few years.

We have also identified a number of employees across our Operations function who act as ambassadors to champion sustainable decision making.

Vehicle fuel consumption

We are developing a programme aimed at reducing vehicle fuel consumption. We will establish a baseline of information and identify current examples of good practice within the Group. This will then be used to determine the scale of potential savings, both financial and environmental, to shape the development of the programme.



Concerns around climate change: what's next? 2010 will see the development of a global energy reduction plan to achieve the gradual milestones required to hit our targets to reduce our CO₂ equivalent by 50 per cent by 2030 and 80 per cent by 2050 against 2000 levels. We will also roll out in selected markets our programme encouraging employees to reduce their carbon footprint at home, as well as extending the pilot to cover reductions at work.

Spotlight on Germany



Employee sustainability initiative in Germany

British American Tobacco Germany launched its internal company sustainability week in Hamburg. Information on sustainability was displayed throughout the building and an exhibition included information, such as on a new environmentally friendly fleet of cars for trade marketing teams, on energy saving initiatives and on the number of business flights taken. Employees were given the opportunity to determine their own personal 'sustainability footprint' and during the week the employee restaurant offered only local and organic food.

As part of the week, employees were asked to put forward suggestions for responsible and environmentally friendly behaviour in everyday life. This was a huge success: 356 ideas were submitted and many of the ideas were included in the brochure '50 Tips for Everyday Heroes'. This was published as a follow-up to the sustainability week and shows how people can contribute to sustainability by making small changes in their professional and personal lives.



You can read more about this in our online Report at www.bat.com/sustainability/germany.

Managing biodiversity

In 2009

We aim to understand, manage and mitigate our impacts on biodiversity as far as possible – not only because we have a duty as a responsible business, but also because we depend on the natural world for our raw materials. During 2009, we focused on biodiversity training workshops and carrying out biodiversity risk and opportunity assessments in tobacco leaf growing locations.

The agronomy support we provide to farmers enables them to minimise the negative biodiversity impacts caused by growing commercial crops. Our Social Responsibility in Tobacco Production (SRTP) programme includes soil and water conservation and integrated pest management, as well as many elements that mitigate farmers' impact on biodiversity. You can read more about this in the supply chain section on page 27 and at www.bat.com/SRTP.

The British American Tobacco Biodiversity Partnership

Working in partnership with three NGOs – Fauna & Flora International, The Tropical Biology Association and the Earthwatch Institute – we continue to develop our management of biodiversity issues, measuring our impacts, setting targets for tackling them and reporting on progress. These include targets to undertake biodiversity risk and opportunity assessments in all our leaf growing operations and produce corrective action plans by 2010; to provide biodiversity training for our key leaf and senior staff; and for directly contracted farmers in our supply chain to source less than 3 per cent of curing wood from natural forest by 2015.

During 2009, the Partnership provided biodiversity training at three regional biodiversity workshops. The aim of the workshops was to enable employees to identify and, where necessary, mitigate possible biodiversity risks associated with our operations. Following the workshops, individual businesses were tasked with conducting biodiversity risk and opportunity assessments and developing action plans to address any identified risks.

In 2008, the Partnership produced a report on global biodiversity risk mapping, identifying locations where risks to biodiversity are high, medium or low. The results have now been shared with our companies to assist them in preparing their own biodiversity risk and opportunity assessments and associated action plans, which are expected to be completed by the end of 2010.

In February 2009, we launched an online biodiversity learning module. It is available to all employees with intranet access across the Group and, by the end of 2009, 1,305 people had completed the module. We will continue to monitor uptake with a view to assessing the module's effectiveness and updating the content.

Spotlight on waste

Innovations in waste management

Recycling

British American Tobacco Malaysia has recently made excellent progress in increasing its recycling rates. Since 2006, the company has introduced innovative measures including the conversion of waste into fuel. These measures resulted in a significant increase from 16.6 per cent of waste recycled in 2005 to 95.9 per cent in 2009. British American Tobacco Nigeria has also driven recycling rates up from 29 per cent to 57.5 per cent in just two years. Initiatives have included converting waste filters into head support pillows and processing tobacco waste into compost.

FIBEX – Sustainability assessment

FIBEX is a British American Tobacco patented technology for converting tobacco of a previously unworkable particle size into a useable product similar to ordinary tobacco. It involves crushing, extruding and reconstituting tobacco materials to create a product that is directly blended with the usual tobacco. We conducted a life cycle analysis which covered energy use, greenhouse gases and water impacts. Overall, the benefits of local reuse of waste and reducing transportation outweigh the increases in energy required to run the FIBEX process. The detailed analysis not only confirms that our new technology is beneficial, it also provides a baseline from which to plan for further reductions.



You can read more about this in our online Report at www.bat.com/sustainability/waste.



Managing biodiversity: what's next?
Through 2010, our focus will be to assess the implementation of local corrective actions resulting from risk assessments. We also aim to further raise awareness of biodiversity issues through training workshops, engagement with farmers and our leaf managers, and through our online biodiversity learning module.



You can read about British American Tobacco Uganda's trial of the biodiversity risk and opportunity assessment in our online Report at www.bat.com/sustainability/uganda.

Our environmental issues and how we manage our environmental impacts

The creation, distribution and consumption of our products, from leaf growing to the disposal of used products and packaging, all have an impact on the natural environment.

We are committed to following high standards of environmental protection and adhering to the principles of sustainable development. We work to address the impacts of our business on the natural environment, to measure, to monitor and reduce these impacts and to report on our performance.

Changes in the environment, such as extreme weather or crop diseases, have an immediate impact on our business, as they can affect not only the tobacco for our products but also, for example, the wood used to make cigarette papers and packaging. We therefore see good environmental practices as fundamental to our business.

We recognise that we need to maintain a clear strategic approach to managing our environmental footprint. It not only makes good economic and environmental sense for us to use raw materials, energy and water in a sustainable manner, but it is also our responsibility.

Our key performance measures are energy use, CO₂ equivalent, water use, waste to landfill and recycling. We also focus on minimising our impacts on biodiversity.

Our Group Operations Director has overall responsibility for environmental management. Responsibility for our Environment, Health & Safety (EHS) Policy lies with the Management Board. The policy sets requirements for all our companies. It applies to our own activities and to our approach to managing our supply chain.

Our environment, health & safety management system is based on international standards, including ISO 14001. We also have an online reporting system that enables us to monitor and measure Group-wide performance consistently on our key environmental measures.

Within each business unit, environmental responsibility is held by the General Manager (or organisational equivalent), assisted by another member of the senior management team. All companies are required to assess their performance using the 'EHS Road Map'. Where performance is weak, the Road Map requires action to be taken.

Full reporting against the Global Reporting Initiative's key performance indicators are at www.bat.com/sustainability/GRI.

Biodiversity

Our Group Biodiversity Statement reflects our aim to embed biodiversity conservation across our businesses worldwide. Our companies assess their biodiversity impacts and dependencies then devise action plans to avoid, minimise and mitigate these impacts.

Since 2001, we have worked with three NGOs in the British American Tobacco Biodiversity Partnership – Fauna & Flora International, The Tropical Biology Association and the Earthwatch Institute.

We donated £1 million a year to the Partnership in its first five years and committed £1.5 million a year for five years from 2006. Through the Partnership, we are involved in more than 30 biodiversity projects worldwide. These fall into two categories:

- Projects designed to embed biodiversity management in our own operations; and
- External conservation projects selected and managed by our NGO partners.



You can read more about the Biodiversity Partnership at www.batbiodiversity.org.

Our 2010 goals

For environmental management

- Aim to reduce our energy use towards our 2012 target of 11.03 gigajoules per million cigarettes equivalent produced, 6.7 per cent lower than our 2007 baseline;
- Aim to reduce our water use towards our 2012 target of 4.2 cubic metres per million cigarettes equivalent produced, 13.4 per cent lower than our 2007 baseline; and
- Aim to reduce our waste to landfill towards our 2012 target of 0.022 tonnes per million cigarettes equivalent produced, 12 per cent lower than our 2007 baseline, and to recycle at least 75 per cent of our waste each year.

For addressing concerns around climate change

- Aim to reduce our CO₂ equivalent by 50 per cent by 2030 and 80 per cent by 2050 against our 2000 baseline of 1.38 tonnes per million cigarettes equivalent produced;
- In selected markets, roll out our programme encouraging employees to reduce their carbon footprint at home, as well as extending the pilot to cover reductions at work by end 2010;

- Develop a global energy reduction plan by end 2010; and
- Roll out the first phase of our plan to improve fuel efficiency in our Trade Marketing & Distribution vehicle fleets by end 2010.

For managing biodiversity

- Carry out biodiversity risk and opportunity assessments in all the countries where tobacco leaf is grown for us by end 2010;
- Further raise awareness of biodiversity issues through training workshops, engagement with farmers and our leaf managers, and through our online biodiversity learning module; and
- Develop and trial replicable models of forest regeneration and native forest management by end 2010.



People and culture

We will work to ensure we have the right people and culture to meet our goals.

Materiality



In this Report

- p42 Attracting, developing and retaining the right people
- p44 Creating the right environment
- p46 Human rights



Covered on www.bat.com

- Corporate social investment
- Occupational health management



Not reported

- We do not cover topics that:
- Have already been addressed and are no longer raised by stakeholders;
 - We cannot influence; and
 - Do not significantly impact the business.

For details of our materiality test, see pages 50-51.



Read more

For information on our people and culture issues and how we manage them, see page 48.

Who would want to work for a tobacco company anyway?

We recruit people who enjoy working in a challenging environment and a culturally diverse organisation. We also work hard to provide a workplace culture in which people can thrive and reach their potential.

2009 progress in brief

We have worked to describe British American Tobacco in a more compelling way to potential employees, and this is being implemented globally. We have taken action to address some of the shortcomings that were highlighted in our most recent employee survey and we have also reviewed our approach to human rights which includes closely monitoring our businesses that operate in countries that are of concern to stakeholders.

Attracting, developing and retaining the right people

In 2009

Our reputation as an employer

Our employer proposition describes British American Tobacco as an employer to current and prospective employees. In 2009, we rolled out the proposition in selected countries. It was communicated internally first, building a sense of advocacy among employees. Some have become ambassadors, a part-time role involving representing British American Tobacco internally and externally at recruitment events.

While the current economic climate may be a factor, in our Asia-Pacific region, where the roll out is more advanced, the number of management trainee applications has increased significantly. For example, comparing the full-year figures for 2008 to the first six months of 2009, applications increased from 304 to 877 in Australia, from 488 to 880 in Pakistan and from 935 to 1,517 in Taiwan.

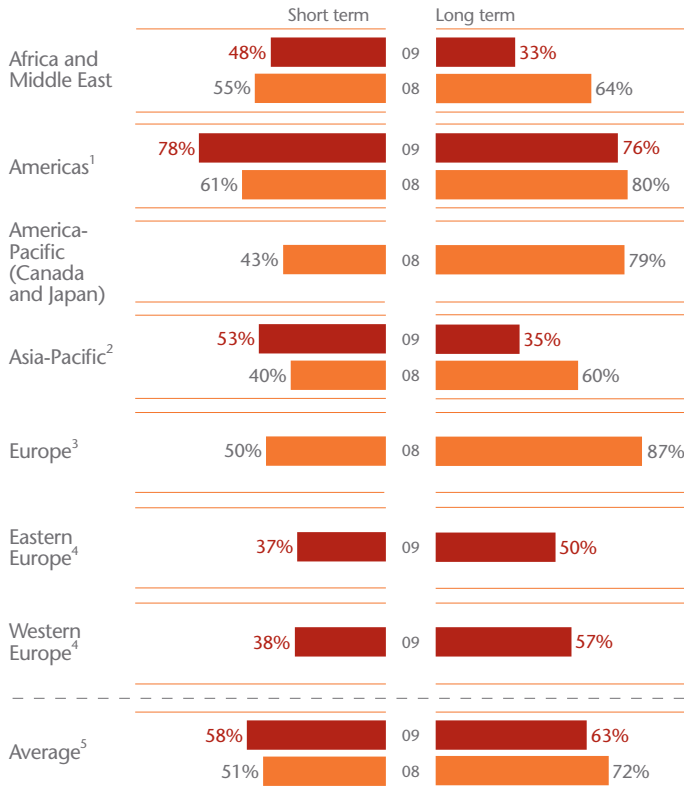
Recruitment and induction

The quality of our recruitment and induction has also been identified as an area for improvement if we are to continue recruiting and retaining the best hires and ensuring they perform well as early as possible.

During 2009, our Asia-Pacific region reviewed its processes, highlighting areas for improvement, such as a mismatch between expectations and actual job experience. A new process was developed for new joiners, including a standard 90-day induction plan. The effectiveness of the programme will be monitored and, along with global standards for recruitment, this approach will be adopted, subject to results, throughout the Group during 2010.

Local succession coverage – 1:1:2 at business unit level

Percentage of business units with at least one local successor in the short term and two local successors in the long term for each senior position.



1 The 2008 Americas data excludes Canada.

2 The 2008 Asia-Pacific data excludes Japan.

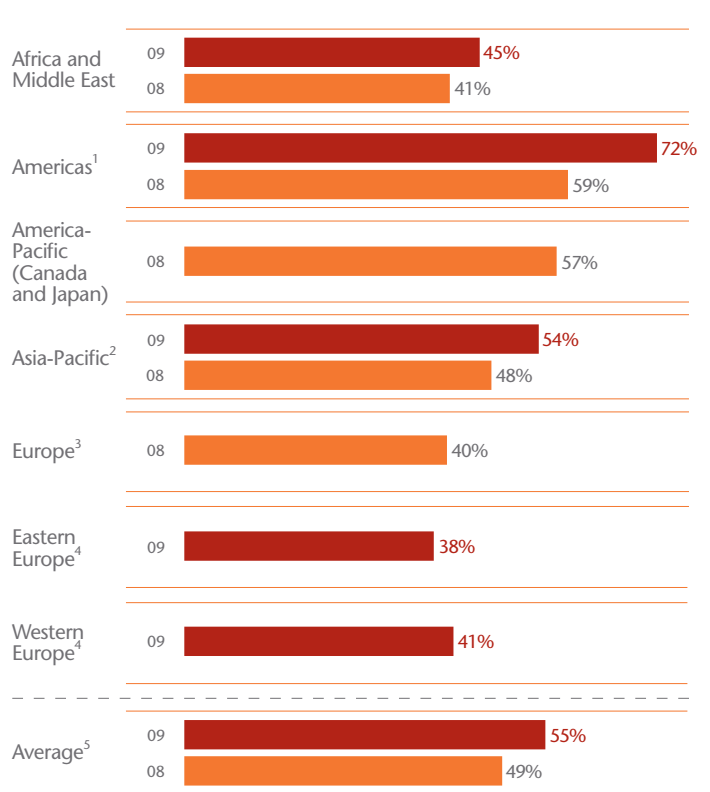
3 Only 2008 data. The region was then split into East and West.

4 This is a new region for 2009.

5 The 2008 average excludes Canada and Japan.

Local top teams – 70:30 at business unit level

Percentage of local representation on business unit senior management teams.



1 The 2008 Americas data excludes Canada.

2 The 2008 Asia-Pacific data excludes Japan.

3 Only 2008 data. The region was then split into East and West.

4 This is a new region for 2009.

5 The 2008 average excludes Canada and Japan.

Attracting, developing and retaining the right people

Succession management

We have a long term aim to have succession plans for every senior role with at least one local successor ready in the short term and two local successors identified for long term development. We also have a long term aspiration for a 70:30 ratio of local to expatriate senior managers in each business unit.

Significant reorganisations in 2008 and 2009 put high demand on our talent pipeline, impacting on both these objectives. Our succession coverage remained largely stable overall but was stretched in the regions most affected by the reorganisations. However, we were able to fill many roles with internal candidates, due to improved fast-tracking of talented employees. Where redundancies were necessary, we treated employees fairly and with respect, providing severance pay and outplacement support as appropriate and in accordance with our Employment Principles.

Global integration

We are experiencing a period of organisational change as the Group becomes a more globally integrated organisation. It is clear that as our business changes, what we need from our employees also changes. We see it as a priority to support our employees through reorganisations by helping them to understand the capabilities that will be required of them in the future and how their career paths can be shaped.

During 2009, we updated our leadership capabilities to reflect new commercial skills that are becoming increasingly important attributes in our people. The leadership capabilities are those core competences required by our employees to deliver business results and they are used to help evaluate skill gaps and plan career development.

In 2010, we will carry out a full review of our learning and development programme for managers at global, regional and local levels. The aim is to align the programme to current and future business needs and to ensure that learning opportunities are made accessible to as many employees as possible through the use of both face-to-face and online learning approaches.

We will support our employees in developing the capabilities needed in our future organisation by:

- Developing a standardised, integrated approach to learning and development for leadership and management across international, regional and local programmes;
- Increasing our use of online learning and using it in combination with face-to-face training to speed it up and ensure coverage throughout the organisation; and
- Implementing a single online platform to deliver and track learning and make it more accessible to our employees.

Gender diversity

We continue to support the career development of our talented female managers, with a view to increasing the proportion of women in senior management positions.

In addition to tracking development plans for our senior women, we also assign mentors to them and encourage the recruitment consultancies we use to draw up gender-balanced shortlists of candidates, wherever possible, when we recruit externally. Metrics for women in senior roles are tracked at our Management Board Talent Review meetings.

We recognise that progress in this area will take time and the proportion of women at all grades has remained broadly the same in 2009 compared to 2008.

Percentage breakdown for women in management and governance bodies

% by level	2009	2008	2007
Management trainees	48	48	45
Management grade 34	33	33	32
Management grade 35	32	31	29
Management grade 36	28	26	25
Management grade 37	23	22	18
Management grade 38	13	12	9
Management grade 39	9	11	10
Management grade 40	4	3	1
Management Board	0	0	0
Non-Executive Directors	38	38	33

At 31 December 2009, the Management Board had 13 members and the Board of British American Tobacco p.l.c. had 11 members, comprising three Executive Directors and eight Non-Executive Directors, including the Chairman.



Attracting, developing and retaining the right people: what's next?

Our focus is on our recruitment capability and a key priority for 2010 will be building on our ability to recruit people with high potential. Another priority will be helping our employees understand the skills, knowledge and behaviour that will be required of them in our future business. We aim to support our employees' learning and development and to ensure they can see how future career ambitions can be achieved.

Creating the right environment

In 2009

We are experiencing a period of organisational change across British American Tobacco. Our most recent 'Your Voice' employee opinion survey, carried out across the Group in 2008, showed that in all 11 categories, employee opinion of British American Tobacco was statistically more positive than the norm for FMCG businesses benchmarked by Towers Watson. The high level results can be viewed at www.bat.com/yourvoice. However, we also heard that:

- Many people were struggling to cope with change in the organisation;
- Some people were unhappy with what feels like continuous reorganisation; and
- Many were being challenged to work in new ways for which they did not yet feel suitably equipped, including working in virtual teams, cross-functionally, or at a distance with fewer face-to-face meetings.

We recognise the need to provide extra support to our employees during this time of change. In 2009, therefore, we strengthened our approaches to employee engagement and delivered against the action plans that had been designed to address the issues highlighted by the survey.

Progress on 'Your Voice' action plans

Throughout the Group, we have shared survey results with employees and sought further input at focus group sessions. Based on this, we have created global, regional and area action plans to address areas of concern. You can view examples of some of these actions in this section of our online Report at www.bat.com/sustainability.

Spotlight on South Africa

HIV and AIDS

In 2006, British American Tobacco South Africa broadened its HIV/AIDS programme into an integrated well-being programme. This shift helped position HIV/AIDS as a serious and chronic but manageable disease, as opposed to a stigmatised one, and helped employees and their families to understand that by being part of the programme, they would be better able to manage their risk.

The programme has to date been a success and, in 2009, 80 per cent of employees participated in the Wellbeing Campaign with around 70 per cent of all employees voluntarily testing for HIV. There has been an increase in employees registering on the company HIV treatment and care programme and the Global Business Coalition on HIV/AIDS, Tuberculosis and Malaria has commended the company on its work.



You can read more about this in our online Report at www.bat.com/sustainability/southafrica.

Employee health and safety

The Group's Lost Workday Case Incident Rate (LWCIR) in 2009 was 0.37, an improvement on 0.40 in 2008, largely due to initiatives to reduce injuries in both our European regions. The highest proportions of injuries were vehicle-related at 25 per cent (17.3 per cent in 2008), slips and trips at 22 per cent (26.6 per cent in 2008) and manual activity at 20 per cent (21 per cent in 2008). Entrapment accidents increased to 12 per cent compared to 9.8 per cent in 2008.

There were 28 cases of serious injury or fatality in 2009, involving 22 employees and six contractors. Of the 28 incidents, three were fatalities (all employees), compared to three fatal incidents in 2008 (one employee and two contractors). Of the 2009 fatalities, one was the result of an attack during a robbery and two others resulted from vehicle accidents. We greatly regret this loss of life. We systematically review every major incident to identify any action that can be taken to improve the health and safety of our people and those we work with.

Over recent years, we have seen an increase in vehicle-related injuries and, in 2009, we began development of a programme aimed at reducing these injuries in our Trade Marketing & Distribution teams. We have established an agreed approach which will assess current performance and provide a baseline for future work.

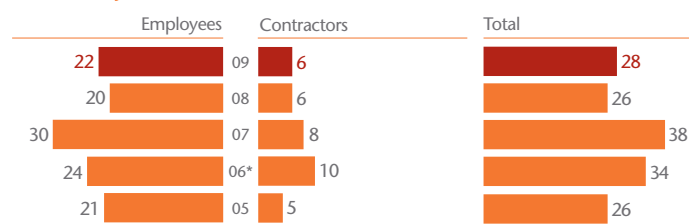
Lost Workday Case Incident Rate (LWCIR)

LWCIR = Number of lost workday cases through injury x 200,000 divided by total hours worked



* From 2006, the figure includes cases of assault as well as accidents.

Serious injuries and fatalities



* From 2006, the figures include cases of assault as well as accidents.

Spotlight on South Africa



Broad-Based Black Economic Empowerment

In 2003, the South African Government released a strategy for Broad-Based Black Economic Empowerment (B-BBEE). The B-BBEE Codes of Good Practice are binding for all public departments, but they are not binding for companies. However, British American Tobacco South Africa aims to comply with the Codes as part of its commitment to the South African economy.

In 2008, British American Tobacco South Africa set a target for 2009 to achieve Level 8 B-BBEE status during its first audit by a B-BBEE verification agency and to reach the higher Level 4 by 2014. However, the company exceeded its target and managed to reach Level 7 in 2009.



You can read more about this in our online Report at www.bat.com/sustainability/southafrica.

Spotlight on Turkey

Promoting safety at the Samsun factory

Since we acquired the cigarette assets of Tekel in 2008, including the Samsun cigarette factory, the local management has implemented the Group's Environment, Health & Safety (EHS) Policy, bringing in significant changes to the working environment at the factory. A proactive approach to safety has been adopted and each individual has been encouraged to take personal responsibility for contributing to the company's goal of zero accidents. However, Volkan Oruk, manager of the Samsun factory, acknowledges that the transformation to our standards was challenging: "We have been through some hard times. In one year, however, we've achieved unbelievable success."

The integration of safety as part of employees' daily duties has had knock-on effects across the factory. Ismail Katacya, one of the machinery technicians, points out that: "Quality changed and so did working conditions, workplace cleanliness and tidiness."

The ultimate goal is zero accidents and each month without an incident is recognised as a milestone. When accidents do occur, root cause analysis is carried out immediately and corrective actions are put in place to prevent similar incidents occurring in the future. EHS is now a key agenda item in the bi-weekly management meetings.



Creating the right environment: what's next? We will conduct the next global employee opinion survey in 2010. In the meantime, we will continue to address the issues identified in the 2008 survey and we will be formulating plans to help employees to deal successfully with change. Health and safety will continue to be a priority and we will focus on reducing vehicle-related injuries.

Managing human rights in our business

In 2009

The issue of human rights cuts across many aspects of our business, from workplace rights to child labour in tobacco farming. We revised our approach to human rights in 2008, partly in response to a dedicated stakeholder dialogue session that year, and we made further refinements in 2009:

- We now use three respected external sources to identify countries for review from a human rights perspective.
- Our Board CSR Committee has a standing agenda item to discuss the situation in countries under review.
- Our regional audit and CSR committees, which meet three times a year, receive updates on countries that our external sources identify as being of potential concern to stakeholders. The committees also conduct detailed reviews of other countries in their regions, as appropriate.
- In response to stakeholder requests, we published a short paper on www.bat.com, further summarising our approach to human rights and how we manage them within the business and in our supply chain.

In 2009, our Board CSR Committee conducted in-depth reviews of our management of human rights issues in six countries. These included assessments of whether our companies in these countries could operate to the standards that we expect across the Group and the Committee was satisfied that they could.

Our internal audit checklist requires all our companies to have systems to demonstrate that human rights are managed effectively in the workplace and supply chain. In practice this means that, for example, our Employment Principles and Statement of Business Principles have been communicated and embedded and that our supply chain management tools (BEST and SRTP – see page 27) have been applied where appropriate.

In 2009, there were no instances of non-compliance reported and only four of our companies reported instances of partial compliance, none of which reflected any systematic shortcomings in the management of human rights.

Human rights and our suppliers

In 2009, we developed an approach that addresses human rights along with other sustainability issues. This will be incorporated into UK supplier contracts for use in 2010 and will also be offered to our local companies for inclusion in their supplier documentation. We are currently looking into building similar considerations into our framework agreements with global suppliers.

Tackling child labour in tobacco growing

Child labour continues to be a key human rights issue for any industry that incorporates an agricultural supply chain and tobacco growing is no exception.

In our tobacco leaf supply chain, we address the issue through our Social Responsibility in Tobacco Production (SRTP) programme (see page 27). This is applied to all our suppliers of tobacco leaf. It has also been adopted by almost all the major tobacco manufacturers. The child labour section of the review criteria was revised in 2009, following a 2008 consultation with other manufacturers that use SRTP and the board of the Eliminating Child Labour in Tobacco Growing Foundation.

Since 2006, the average self-assessment scores for the child labour section of SRTP have steadily improved (see chart opposite) although we have seen a decrease in 2009. This was largely due to more stringent assessment criteria introduced in 2009. Scores over 3.00 indicate international best practice and/or minimised risk of child labour.

While our suppliers' average scores are high, we recognise that there are still pockets of poor performance in some countries. Suppliers are required to develop action plans, which are then assessed by our independent reviewer, LeafTc.



The Eliminating Child Labour in Tobacco Growing (ECLT) Foundation

British American Tobacco helped to establish the ECLT Foundation in 2001. Since then the Foundation has undertaken research and developed community-based initiatives that tobacco companies can join or replicate elsewhere. Projects may, for example, raise awareness of child labour issues, improve children's access to education or provide a microfinance scheme so that tobacco farmers can purchase machinery to reduce their reliance on child labour. Projects have been established in seven countries: Malawi, Zambia, Tanzania, Mozambique, Kyrgyzstan, the Philippines and Uganda. The Foundation uses a multi-stakeholder approach at both local and board levels. Members of the board include representatives of all the major manufacturers and leaf suppliers, tobacco growers, trades unions, and the International Labour Organisation.

In 2009, the Foundation reviewed how best to build on its achievements and set course for the future. It decided to:

- Build an information base (for example, data on the extent of child labour) to help decide on where best the Foundation can intervene with the greatest impact and to help set realistic targets;
- Adopt a consistent and robust method for measuring project impacts;
- Establish a standard model for community projects, building on lessons learned to date and setting out key elements for each project, including objectives and evaluation tools; and
- Improve its engagement and advocacy to help promote best practice, raise the profile of child labour issues, and support local partners in tackling the issue.

To improve its ability to deliver this new strategy, the Foundation also revised its governance and ways of working in 2009.

Plan International's report on child labour on tobacco farms in Malawi

In August 2009, Plan International, a well-known development organisation that works to address child poverty in the developing world, published a report on child labour in tobacco growing in Malawi, one of the world's major exporters of tobacco leaf.

Although British American Tobacco was not mentioned in it, the report has generated concerns among our stakeholders. We buy only around 5 per cent of Malawi's annual tobacco crop, but our stakeholders' concerns naturally extend to the welfare of children in tobacco growing areas of other developing countries.

The report, titled 'Hard work, long hours and little pay – research with children working on tobacco farms in Malawi', included the findings from a series of workshops with children who worked full-time on tobacco farms in the 2007–2008 season. The aim was to see how the children themselves experienced the work they did and to develop recommendations to address some of the problems they identified. Issues identified included long hours, health and safety issues, lack of education opportunity and abuse by supervisors.

Neither the ECLT Foundation nor its local partners, including the Ministry of Labour, trades unions and leaf growers, were contacted during Plan International's research. When the report was published, the Foundation's Director offered to share with Plan International the Foundation's experience of community-based projects in Malawi, which are designed to tackle many of the issues identified in the report. As yet, Plan International has not responded to the offer.

The ECLT's projects in Malawi cover over 200 villages and have improved educational and health services, school attendance, food security, sanitation and the awareness of child labour issues among local farmers and other stakeholders. More information on the Foundation's projects, as well as its response to the Plan International report, can be found at www.eclt.org.

Leaf suppliers' average self-assessment scores in the child labour section of SRTP 2006–2009

The decrease in the 2009 scores was largely due to more stringent assessment criteria introduced in 2009. Scores above 3.00 indicate international best practice and/or minimised risk of child labour.

Average scores (out of a maximum of 4):

2006	2007	2008	2009
3.48	3.65	3.72	3.41



Human rights: what's next? We will continue to embed human rights practices in 2010. Human rights will also be considered in the further development of our supply chain management systems and we will continue to work with the ECLT Foundation to tackle child labour issues.



You can read more about the ECLT Foundation on its website www.eclt.org.

Our people and culture issues and how we manage them

Our employees come from diverse cultures and backgrounds, and our business benefits from the breadth of ideas and experiences they bring. We aim to recognise individuality and encourage people to perform at their best.

Attracting, developing and retaining talent is key to our strategy of being a winning organisation. Given that recruitment can be more challenging for a tobacco business, having a strong and clearly differentiated reputation as an employer is critical to our long term business sustainability.

We are also experiencing a period of organisational change as the Group becomes a more globally integrated organisation. We know that we must support our people in developing the new capabilities required to work within different organisational structures.

In this context of change, our key priorities remain the same but the requirement to achieve them is even greater:

- Ensuring we have a sustainable talent pipeline by attracting, developing and retaining outstanding people;
- Creating a great place to work where people are recognised for the difference they bring and the contribution they make; and
- Working to protect the human rights of our employees and those within our sphere of influence.

We are committed to providing equal opportunities to each prospective and current employee. Our Group Employment Principles state that we will not discriminate in hiring, promotion or retirement decisions on the grounds of candidates' or employees' race, colour, gender, age, social class, religion, smoking habits, sexual orientation, politics or disability. Rather we match the requirements of the job to the ability and potential of the individual.

Our companies are required to operate according to the Group Employment Principles, with flexibility to customise their management of employee and development issues in the ways that are most appropriate to their local business environments.

We aim for our benefits to be in line with the upper quartile of FMCG companies and we track employee satisfaction. Our tools include a biennial employee opinion survey and tracking of gender diversity and the talent pipeline.



We are committed to providing a safe working environment for all our employees. We monitor performance using the Lost Workday Case Incident Rate (LWCIR), along with the number of serious injuries and fatalities for both employees and contractors (see page 44).

Human rights considerations are incorporated into both our Statement of Business Principles and our Employment Principles. Together these cover a wide range of workplace-related human rights, including discrimination, freedom of association, forced labour and child labour. We monitor human rights issues and identify related risks primarily through our risk management processes and internal audit controls and committees.

Human rights considerations are also incorporated into our major supply chain management programmes including our Business Enabler Survey Tool and Social Responsibility in Tobacco Production (see pages 27 and 31).

While we endeavour to maintain high standards in upholding human rights in our business and our supply chain, we also acknowledge the limits of our influence: human rights issues need to be primarily addressed by governments rather than by business.

Our 2010 goals

For attracting, developing and retaining the right people

- Continue to roll out our employer proposition to other countries during 2010;
- Introduce globally aligned standards for recruitment by end 2010;
- In each of our business units, we aim to have at least one local successor ready in the short term for each senior position and two local successors ready in the long term (this goal is expressed as 1:1:2);
- Aim to have a 70:30 ratio of local to expatriate senior managers at business unit level;
- Carry out a full review of our learning and development programme for managers at global, regional and local levels by end 2010; and
- Actively manage the career progress of our senior female managers.

For creating the right environment

- Develop plans to help our employees remain engaged and motivated during periods of organisational change;
- Our aim is to have a global Lost Workday Case Incident Rate in the range of 0.1–0.2. The specific local target set for all our companies is zero accidents; and
- Implement our plan to reduce vehicle-related injuries in our Trade Marketing & Distribution teams by end 2011.

For human rights

- Encourage our companies to develop a more consistent approach to addressing human rights and other sustainability issues in their agreements with local suppliers and business partners.

Materiality

In 2007, we decided to focus our sustainability reporting on those issues that are most material to our business and our stakeholders. To identify potential issues, we reviewed the topics that had been raised in dialogue with our companies internationally since 2001. A total of 76 issues were identified, which we grouped into 14 categories. In order to establish the most significant, we carried out a three-stage process.

In stage one, the issues were mapped onto a matrix, with each one positioned according to its level of concern to stakeholders and its current or potential impact on the Group.

Stage two involved refining this mapping process through internal consultation with regional teams and senior functional managers in relevant areas, such as our Head of Environment, Health & Safety, as well as the Management Board and the Board CSR Committee. From this, we generated a reduced list of issues.

In the third stage of the process, this reduced list was presented for comment at a dialogue session with sustainability opinion leaders, NGOs and our senior management. The result was the identification of our five most material areas of impact: harm reduction, marketplace, supply chain, environment, and people and culture. The goals in these five areas comprise our sustainability agenda (see page 7).

Within each area of our sustainability agenda, we report on topics of high interest to stakeholders and high current or potential impact on the business. On the first page of each section in this Report, we list what is covered in the section and what related information can be found online.

The information on www.bat.com covers topics of high interest to some stakeholder groups but partial impact on the business, or vice versa. Examples include:

- Reporting on the Global Reporting Initiative's G3 indicators;
- Corporate social investment;
- Litigation;
- Public place smoking; and
- Cigarette butt litter.

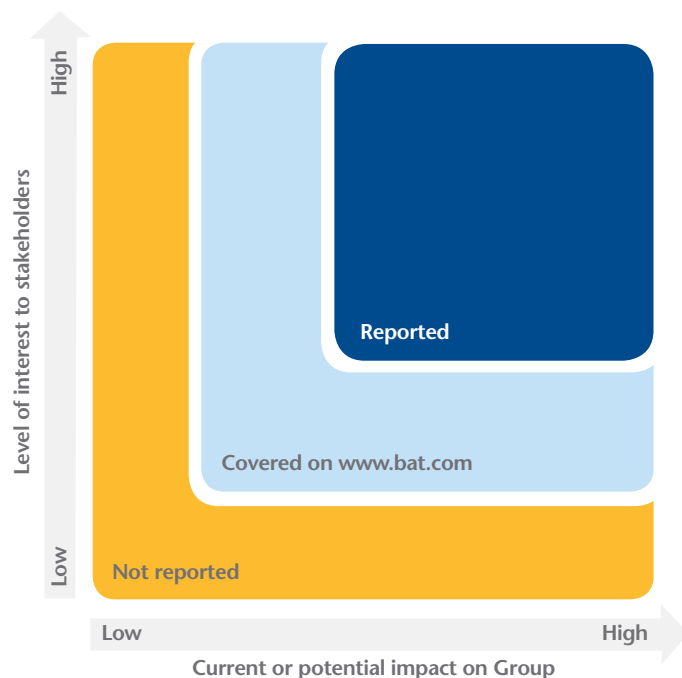
We do not cover topics that:

- Have already been addressed and are no longer raised by stakeholders;
- We cannot influence; and
- Do not significantly impact the business.





You can read about the way we conduct our stakeholder dialogue and about the dialogues our companies carried out in 2009 in our online Report at www.bat.com/sustainability/engagement.



1 Reported

In this Report, we cover topics of high interest to stakeholders and high current or potential impact on the business. These are covered by the five goals of our sustainability agenda.



2 Covered online

www.bat.com includes topics of high interest to some stakeholder groups but with partial impact on the business, or of partial interest to stakeholder groups but with potentially high impact on the business.



3 Not reported

We do not cover topics that:

- Have already been addressed and are no longer raised by stakeholders;
- We cannot influence; and
- Do not significantly impact the business.

2009 materiality review

In 2009, we reviewed the results of our materiality test, particularly in view of our shift from local reporting to a single Sustainability Report for the Group (see page 6). The process comprised two assessments.

Firstly, to identify any new issues for consideration, we reviewed the Group Risk Register, along with minutes from the 2009 regional audit and CSR committee meetings and from stakeholder dialogue held during 2008–2009.

Secondly, we mapped the new issues onto our materiality matrix according to their current or potential impact on the Group and their level of interest to stakeholders.

The review of the Group Risk Register and the minutes from the committees' meetings highlighted no sustainability related risks that are not currently captured within our sustainability agenda.

The review of the minutes from dialogue revealed a number of issues which in some cases had been reported online, but were not currently reported explicitly within the Sustainability Report. We then used the services of the member organisation Business for Social Responsibility to review our conclusions. As a result, we now cover HIV/AIDS and Broad-Based Black Economic Empowerment in this Report. You will find links to public place smoking, cigarette butt litter and community investment in our online Report.

Assurance

Independent assurance statement to British American Tobacco management

The British American Tobacco p.l.c. Sustainability Report 2009 (the Report)¹ has been prepared by the management of British American Tobacco, which is responsible for the collection and presentation of the information it contains, and reviewed by the Board CSR Committee. Our responsibility, in accordance with the management's instructions, is to carry out the following assurance activities:

- Provide a 'limited level' assurance opinion on the Report's content with respect to the AA1000AS (2008) assurance principles of Inclusivity, Materiality and Responsiveness.
- Provide a 'limited level' assurance opinion on the completeness and accuracy of the claims and performance data presented in the Report.
- Provide a 'reasonable level' assurance opinion on the information presented in the Report on the London based supply chain stakeholder dialogue session.

Our responsibility in performing our assurance activities is to the management of British American Tobacco only and in accordance with the terms of reference agreed with them. We do not accept or assume any responsibility for any other purpose or to any other person or organisation. Any reliance any such third party may place on the Report is entirely at its own risk.

What we did to form our conclusions

Our assurance engagement has been planned and performed in accordance with ISAE 3000² and to meet the requirements of a Type 2 assurance engagement as defined by AA1000AS (2008)³. The AA1000AS (2008) assurance principles of Inclusivity, Materiality and Responsiveness have been used as criteria against which to evaluate the Report.

In order to form our conclusions we undertook the steps outlined below:

1. **Interviewed a selection of executives and senior managers** at British American Tobacco's headquarters in London to understand the current status of social, ethical, environmental and health and safety activities, and progress made during the reporting period.
2. **Reviewed British American Tobacco's approach to stakeholder engagement** through interviews with employees at headquarters, regional and local company level, and reviewed selected associated documentation.
3. **Reviewed a selection of external media reports and conducted a high-level benchmarking exercise** of the material issues and areas of performance covered in the environmental and social reports of British American Tobacco's peers, to test the coverage of topics within the Report.
4. **Reviewed selected headquarters documents** relating to social, ethical, environmental and health and safety aspects of British American Tobacco's performance, to understand progress made across the organisation and to test the coverage of topics within the Report.
5. **Reviewed information or explanations about the Report's data, statements and assertions** regarding British American Tobacco's sustainability performance.
6. **Reviewed data samples and processes** relating to environmental, health & safety (EHS), the corporate social responsibility (CSR) survey, the 'Your Voice' employee opinion survey, machinery destroyed, the Business Enabler Survey Tool (BEST), Social Responsibility in Tobacco Production (SRTP) and local succession coverage and leadership diversity to test whether they had been collected, consolidated and reported appropriately at headquarters level.
7. **Reviewed disaggregated data reported on balanced scorecards for five regions and nine markets** to assess whether the data had been collected, consolidated and reported accurately.
8. **Reviewed and challenged supporting evidence from local companies** for a selection of data points, covering EHS and the CSR survey.

1 This includes the printed and online Reports, including the case studies and balanced scorecards for nine key markets, and selected sustainability web content on www.bat.com, marked with the Ernst & Young footnote.

2 ISAE 3000 – International Federation of the Accountants' International Standard for Assurance Engagements Other Than Audits or Reviews of Historical Financial Information.

3 AA1000AS (2008) – The second edition of the AA1000 assurance standard from the Institute of Social and Ethical Accountability.

9. Reviewed British American Tobacco's processes for determining material issues to be included in the Report.

In order to form our conclusions on the information regarding the supply chain stakeholder dialogue, we:

10. Attended the independently facilitated stakeholder dialogue session held in London.
11. Reviewed the independent facilitator's minutes of the dialogue to form conclusions that they provided a fair representation of the issues raised and British American Tobacco's response.
12. Reviewed the section in the Report relating to the London-based stakeholder engagement session, as described on page 26, to form conclusions that it is an accurate and balanced summary.

Level of assurance

The extent of evidence gathering procedures for a 'limited level' of assurance is less than that of a 'reasonable' assurance engagement (such as a financial audit) and therefore a lower level of assurance is provided for the full Report than the section relating to the London-held stakeholder dialogue session.

The limitations of our review

With the exception of selected telephone interviews with regional and local staff and the review of selected local documentation, our work was limited to headquarters activities. We did not visit any local companies.

Our conclusions

Based on the scope of our review our conclusions are outlined below:

Inclusivity

Has British American Tobacco been engaging with stakeholders across the business to develop its approach to sustainability?

- We are not aware of any key stakeholder groups which have been excluded from engagement. However, we are aware of stakeholder groups who are most critical of the tobacco industry and who have not accepted invitations to engage.
- We are not aware of any matters that would lead us to conclude that British American Tobacco has not applied the inclusivity principle in developing its approach to sustainability.

Materiality

Has British American Tobacco provided a balanced representation of material issues concerning its sustainability performance?

- With the exception of the subject areas listed below, we are not aware of any material aspects concerning British American Tobacco's sustainability performance which have been excluded from the Report.

- We consider that British American Tobacco could have covered the following subject areas in more depth in the Report:
 - British American Tobacco's economic impacts in countries of operation.
 - More detailed explanations of reasons why the target on full adherence to the IMS by 2009 had not been met.
- Nothing has come to our attention that causes us to believe that British American Tobacco management has not applied its processes for determining material issues to be included in the Report, as described on pages 50–51.

Responsiveness

How has British American Tobacco responded to stakeholder concerns?

- With the exception of the issues highlighted in relation to Materiality, we are not aware of any additional issues of stakeholder interest that are not currently included in the Report's scope and content.

Completeness and accuracy of Performance Information

How plausible are the statements and claims within the Report?

- We have reviewed information or explanations on the statements on British American Tobacco's sustainability activities presented in the Report and we are not aware of any misstatements in the assertions made.

How complete and accurate is data on EHS, the CSR survey, the 'Your Voice' employee opinion survey, machinery destroyed, BEST, SRTP, local succession coverage and leadership diversity in the Report?

- We are not aware of any material reporting units that have been excluded from the headquarters level data relating to the topics above.
- Nothing has come to our attention that causes us to believe that the data relating to the above topics has not been collated properly at headquarters or regional levels.
- We are not aware of any errors that would materially affect the data as presented in the Report.

Has British American Tobacco provided a fair representation of the issues raised and response to the London held stakeholder engagement session?

- Text in the Report regarding the independently facilitated stakeholder dialogue session held in London provides a fair summary of the engagement at this session and the actions agreed by British American Tobacco.

Independent assurance statement to British American Tobacco management

Observations and areas for improvement

Our observations and areas for improvement will be raised in a report to British American Tobacco management. Selected observations are provided below. Additional specific observations regarding progress made and areas for improvement can be found in appropriate sections of the printed and online Reports. These observations do not affect our conclusions on the Report set out above.

- As well as interviewing stakeholder engagement staff at headquarters and regional level, we reviewed the outputs of stakeholder engagement activities in four locations. During interviews we discussed how stakeholder dialogue had been used to inform decision making. For example, we saw evidence that British American Tobacco has entered into dialogue with key stakeholders on the subject of anti-illicit trade to help its activities in this area.
- Through our environmental data review we have observed British American Tobacco's efforts to build a more detailed understanding of environmental performance at a unit level. This, along with the new supply chain sustainability strategy, should assist British American Tobacco in identifying and monitoring environmental performance improvements in the future. There continue to be areas for improvement in relation to the completeness of documentation to support unit level reporting and the review of environment data at headquarters level.
- The Report includes coverage on sustainability performance in key markets which has given British American Tobacco the opportunity to discuss particular local issues that are of interest to stakeholders such as community social investment activities and HIV/AIDS. However, in future Reports it will be important that these examples show a balanced picture of successes, as well as challenges faced with regard to sustainability in these markets.

- We noted improvements to the automated collation system for the Group 2009 CSR survey. For example, help text to assist data providers has been made clearer and the requirement to upload supporting evidence has been extended to cover additional entries. However, we found that the quality and coverage of evidence provided remains an area for improvement, particularly in relation to youth smoking prevention programmes. In addition, there is scope for improving the quality of review activities over the CSR survey data. In particular, systematic comparisons to previous years' data are needed in order to enable early identification of material movements in performance and irregular variances.

Our independence

This is the third year that Ernst & Young LLP has provided independent assurance services in relation to British American Tobacco p.l.c.'s Sustainability Report. We have provided no other services relating to British American Tobacco's approach to sustainability reporting.

Our assurance team

Our assurance team has been drawn from our global environment and sustainability network, which undertakes engagements similar to this with a number of significant UK and international businesses. The work has been led and reviewed by Lead Sustainability Assurance Practitioners.

Ernst & Young LLP
London
April 2010

 **ERNST & YOUNG**
Quality In Everything We Do

Learning from the assurance process

British American Tobacco's response to the 2009 assurance statement

An independent review of our approach is essential to support our commitment to continuous improvement. Ernst & Young LLP carried out an independent review of our Sustainability Report and of how it is aligned with the AA1000 Assurance Standard (2008). This highlighted a number of strengths in our reporting process, as well as where improvements could be made.

Materiality

In 2007, we carried out a three-stage materiality test to identify which issues we should include in our Sustainability Reports. In 2009 we reviewed the Group Risk Register, along with minutes from the 2009 regional audit and CSR committee meetings and from stakeholder dialogue held during 2008–2009, in order to identify any additional issues that should be included in view of ceasing local sustainability reporting. We used the services of the member organisation Business for Social Responsibility to assess the validity of our conclusions. As a result, we now cover HIV/AIDS and Broad-Based Black Economic Empowerment in this Report, with links throughout to other areas of interest such as public place smoking and corporate social investment.

Although not raised by our own internal materiality test, we accept that our reporting of economic impacts is not as detailed as we would like. In some of our companies, research has been carried out to quantify the economic impact of tobacco growing in particular areas. While providing useful information at a local level, we have found that varying methodologies have meant that this information cannot be aggregated to provide a meaningful global picture of economic impact.

Ernst and Young LLP concluded that we could provide a more detailed explanation of the reasons why the target on full adherence to our IMS had not been met. The 15 non-adherences all related to the size of voluntary health warnings applied to:

- Certain point of sale materials in a small number of markets;
- In two instances, to outer packaging on cartons of 200; and
- In one instance to brand promotional materials.

In all cases, action plans have been put in place to address these issues.

Actions for us

- Engage with stakeholders to ensure the continued relevance of our sustainability agenda;
- Continue to ensure that the process for identifying risk within the Group allows for adequate consideration of sustainability-related risks; and
- Consider how we can better report on the economic impact of the business.

Responsiveness

Ernst & Young LLP attended our London-based stakeholder dialogue event described in the supply chain section of this Report. This meeting was independently facilitated and was attended by senior management from British American Tobacco and Ernst & Young LLP. Ernst & Young LLP concluded that there were no issues raised at dialogue that are not covered in this Report.

During 2009, we have developed our approach to dialogue to involve stakeholders more directly in the development of sustainability plans and initiatives and we reviewed and updated our stakeholder mapping process. In addition to our London based dialogue, we also provide a summary of dialogue that has been undertaken by our companies globally.

Actions for us

- Focus our stakeholder engagement programme on developing plans to address our most material issues; and
- Make better use of the outputs from dialogue across the Group.

Inclusivity

Ernst & Young LLP concluded that we have been inclusive in our engagement with stakeholders across the business. However, they also shared our observation that some stakeholders often refuse point-blank to engage with us because of the nature of our products. We hope that the changes we are making to our approach to dialogue will encourage wider participation.

Actions for us





































































- Continue to try to engage with our critics; and
- Develop our approach to dialogue to include wider participation from different stakeholder groups.

“Helpfully the company addresses controversial issues with a high degree of transparency . . . Limits are clearly established, but within these British American Tobacco openly discusses issues: like where stakeholders hold differing opinions or where they see opportunity to improve the impacts of their product.”







































































Radley Yeldar,
How does it stack up? CR reports in 2009

GRI index

Issue code	Issue area	Response
EC1	Economic value generated and distributed	 
EC2	Financial implications due to climate change	 
EC3	Defined benefit plan obligations	 AR Pages 137–138
EC4	Significant financial assistance from government	 G
EC5	Entry level wage ratios compared to local minimum	 G
EC6	Local supplier policy and spend	 
EC7	Local hiring	 SR Pages 42–43
EC8	Infrastructure investments	 G
EC9	Indirect economic impacts	 
EN1	Materials used	 
EN2	Materials recycled	 
EN3	Direct energy consumption	 
EN4	Indirect energy consumption	 
EN5	Energy saved	 
EN6	Energy-efficient products and services	 G
EN7	Energy reduction initiatives	 
EN8	Water withdrawal	 
EN9	Water sources affected by withdrawal of water	 G
EN10	Water recycled and reused	 
EN11	Land in areas of high biodiversity	 
EN12	Impacts on biodiversity	 
EN13	Habitats protected or restored	 
EN14	Plans for managing impacts on biodiversity	 
EN15	Areas with IUCN Red List species	 
EN16	Direct and indirect greenhouse gas emissions	 
EN17	Indirect greenhouse gas emissions	 
EN18	Initiatives to reduce greenhouse gas emissions	 SR Page 35 
EN19	Ozone-depleting substances	 B
EN20	NO _x , SO _x	 B
EN21	Water discharge	 
EN22	Waste	 
EN23	Significant spills	 
EN24	Hazardous waste	 B
EN25	Biodiversity – water habitats	 
EN26	Environmental impacts of product	 
EN27	Packaging materials reclaimed	 
EN28	Non-compliance with environmental laws and regulations	 
EN29	Impact of transport	 
EN30	Environmental expenditures	 

-  Full reporting.
-  Partial reporting.
-  Information reported in Sustainability Report 2009.
-  Information reported in Annual Report 2009.

-  Information reported online at www.bat.com/sustainability/GRI.
-  Information not reported (not considered material to business operation).
-  Information not reported (this information is more relevant locally and we do not collate global data on it).

Issue code	Issue area	Response
LA1	Total workforce by employment type	
LA2	Employee turnover	 
LA3	Benefits provided to employees	
LA4	Collective bargaining	
LA5	Minimum notice period	 
LA6	Management-worker health and safety committees	
LA7	Health and safety	 Page 44 
LA8	Occupational health	
LA9	Health and safety agreements with trade unions	
LA10	Training	
LA11	Lifelong learning	 
LA12	Career development reviews	 
LA13	Diversity	 Page 43 
LA14	Salary ratio of men to women	
HR1	Human rights – investment	
HR2	Human rights – suppliers	 Pages 46–47 
HR3	Human rights – employee training	
HR4	Total number of incidents of discrimination and actions taken	 
HR5	Freedom of association	
HR6	Child labour	 Pages 46–47 
HR7	Forced or compulsory labour	
HR8	Human rights – security personnel	
HR9	Indigenous people	
SO1	Impacts on communities	
SO2	Corruption	 
SO3	Anti-corruption policies	 
SO4	Response to incidents of corruption	 
SO5	Public policy and lobbying	 Pages 18–19 
SO6	Contributions to political parties	 
SO7	Anti-competitive behaviour	 
SO8	Non-compliance with laws and regulations	 
PR1	Health and safety – product impact	 
PR2	Health and safety of products – non-compliance	 
PR3	Product and service information	 
PR4	Product and service information – non-compliance	 
PR5	Customer satisfaction	 
PR6	Marketing communications	 Page 20 
PR7	Marketing communications – non-compliance	 Page 20 
PR8	Customer privacy	 
PR9	Products and services – non-compliance	 



www.bat.com/sustainability



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About this Report

This is the British American Tobacco p.l.c. Sustainability Report 2009. It reports on activities of British American Tobacco companies in the UK and internationally and covers the calendar year 2009. Associate companies are excluded. References to 'British American Tobacco', 'we', 'us' and 'our' when denoting opinion refer to British American Tobacco p.l.c. and when denoting tobacco business activity refer to Group operating companies, collectively or individually as the case may be.