

Value | shared

A tobacco company for
the 21st century



SUSTAINABILITY SUMMARY 2013



BRITISH AMERICAN
TOBACCO

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SUSTAINABILITY SUMMARY 2013

As our Company is evolving and changing so is our approach to sustainability. We have sharpened our business strategy, putting a much greater emphasis on sustainability. This Summary Report focuses on our three key areas of harm reduction, sustainable agriculture and corporate behaviour.

You can find our full sustainability reporting including 2013 performance data, governance, economic impact and GRI G4 reporting at

 www.bat.com/sustainability

Read this Report and watch our videos any time, anywhere by downloading our app for iPad or Android tablets.

 www.bat.com/sr2013



We are one of the world's **most international** businesses.

46 cigarette factories in **41** countries.



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Ernst & Young LLP has been engaged by British American Tobacco to provide limited external assurance of this Report, as well as GRI information and performance data at www.bat.com/sustainability/data. Summary observations are included throughout this Report. A full assurance statement, including the scope of work and conclusions, can be found at www.bat.com/assurance.

• More than **57,000** people employed worldwide.

• Supply over **200** markets with **676 billion** cigarettes.

Our Chief Executive

It's about creating shared value and making sure that what we do as a business doesn't just benefit our shareholders, but can also have a much wider, positive impact for society.



142 nationalities working in management globally.



27% female Main Board representation in 2013.



12 consecutive years in the Dow Jones Sustainability Index and industry leader in 2013.

The business has a renewed emphasis on sustainability – what will this mean?

It's about making sure we continue to get the basics right, such as providing consumers with the products they want, marketing them responsibly, and supporting the farmers and communities where we work.

It's about creating shared value and making sure that what we do as a business doesn't just benefit our shareholders, but can also have a much wider, positive impact for society.

You're now selling e-cigarettes. Do you really believe nicotine products can affect public health?

Yes, I do. It's been shown that tobacco smoke, not nicotine, causes most smoking-related diseases. So if you cut out the smoke, you can make a huge difference to public health.

Lots of smokers want alternatives to conventional cigarettes. They still enjoy nicotine and want an experience that's close to the 'real thing'. We're meeting that demand and urging regulators and public health experts to look at e-cigarettes and other less risky, alternative products with an open mind. I'm convinced that if we work together, we will all see that promoting harm reduction as a key public health policy objective makes good sense.

So how does BAT benefit?

Of course, emphasising harm reduction is the responsible thing to do, but if it helps us to meet genuine consumer demand, it also makes commercial sense. It's what any sustainable business would do.

Group strategy



We're on the move. New challenges and opportunities are never far away as people's attitudes, needs and priorities all change. So to remain successful, businesses need to be prepared to change, too.

Our enhanced Group strategy reflects this and our new vision is to be the world's best at satisfying consumer moments in tobacco and beyond. Consumers are at the core of everything we do, and our success depends on addressing their evolving concerns, needs and behaviours. And, while tobacco remains at the core of our business, we see emerging opportunities in nicotine products – as an area for business growth, as well as benefiting public health through offering smokers less risky alternatives.

Our strategy enables our business to deliver growth today, while ensuring we generate the funds to invest in our future. It helps us create long-term value for our shareholders and a wide group of stakeholders. It also guides our behaviours and activities, helping us to maintain a sustainable approach that will guarantee our future as a 21st century tobacco business.

This Group strategy, with sustainability as one of its key pillars, demonstrates our continued commitment to building shared value for our shareholders and society.

 www.bat.com/strategy

Where does this leave the company's traditional focus on tobacco?

First and foremost, we are a tobacco company, with more than 100 years' experience of producing and selling high-quality tobacco products. That's not going to change. But we can bring our specialist knowledge and scientific expertise into next-generation products, too.

Some consumers will continue to choose to smoke so we are committed to providing a quality product they will enjoy, while continuing our research into areas such as reduced toxicant cigarettes. That means tobacco leaf has a huge part to play, both in our traditional products and in some new, innovative ones. The farmers who supply our tobacco leaf are still the most important part of our supply chain. We want them to be successful, which is why supporting them and their communities remains a clear focus.

You say you're helping farmers, but should they even be growing tobacco?

A lot has been said about the negative environmental impacts of growing tobacco but our research has shown that it has no more impact on the environment than any other crop.

That's not to say we can't improve the way it's grown. For example, our specialist leaf technicians have shown that over-using pesticides and fertilisers is expensive and can harm the environment, so we're actively encouraging our farmers to use fewer chemicals on their land.

We're also showing them that they don't have to plant just tobacco. In fact, they can enjoy good yields even from small tobacco plots and use the rest of their land to grow food.

So don't your farmers have to make a commitment to you?

We don't force our farmers to do anything they don't want to do, but we do expect them to meet minimum requirements. These are laid out in our Social Responsibility in Tobacco Production programme*, which we're proud to see has been adopted as the industry standard.

It's often presumed that tobacco companies resist regulation by default – is that true of BAT?

Not at all; we think a properly regulated tobacco industry is crucial. What we don't agree with are regulations and laws being introduced without meaningful research or informed discussion with all relevant parties. And yes, we believe we should be one of those parties.

Thanks to the standards we work to, such as our International Marketing Principles, our own 'self-regulation' can be stricter than the national laws in some countries. That's especially true when it comes to youth smoking. Many of our companies have worked hard to convince governments that they should set age limits for the sale of tobacco products, and then enforce that law properly.

One area where there's certainly no room for discussion is exploitative child labour, and we continue to work with farmers to stamp out unethical business practices.

BAT takes a particularly hard line on tobacco trafficking – is it really such a big deal?

Criminals rob governments of around £30 billion in tax revenue annually, and deprive legitimate manufacturers and tobacco retailers of significant revenue, too. So yes, tobacco trafficking is a massive issue. It's not just governments and the industry that suffer, consumers can end up buying products without knowing what's in them or how they were made. Given some of the things our specialist testing units have found in fake cigarettes, it's a concerning prospect.

Last year, we invested over £50 million to try to beat these criminals and we're working with other tobacco companies and customs agencies to adopt new track and trace technology and digital coding more widely.

What does the future hold?

While we'll continue to explore the opportunities that innovative tobacco and nicotine products can bring to improve public health, we won't stop making sure we get the basics right, like being transparent and acting with integrity wherever we operate. I believe we're making real progress in delivering on our commitments to society. I hope you'll agree.

Nicandro Durante

Nicandro Durante, Chief Executive,
March 2014

* For more information, see www.bat.com/srtp.

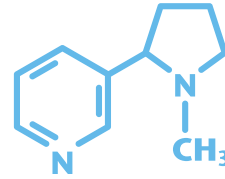
Building shared value...

For our future

As society changes, and people's priorities and needs shift, we need to be ready to meet new challenges and take advantage of opportunities.



To thrive as an organisation we need to embrace change; our next generation of risk-reduced products reflects this. We are proud to have launched our first e-cigarette, Vype, in 2013.



Harm reduction 

For our stakeholders

We are a major international business and with this status come responsibilities, from being open about the risks of our products, to supporting rural communities in the developing world.



Nicotine products do not expose users to smoke toxicants – making them substantially less risky. So by making available a new range of nicotine products, we can have a major, positive impact on public health.





Tobacco growing is one of the most significant parts of our supply chain. By working with over 100,000 farmers on sustainable farming practices, we can protect the long-term security of our leaf supply.



We see the trafficking of illegal tobacco as a major threat to our business. We're working with other international tobacco companies, governments and international organisations to tackle it. In 2013 alone we spent over £50 million in this fight.



Sustainable agriculture

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Corporate behaviour

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Through our relationships with farmers and the high standards we set, we are helping to improve the social and environmental impact tobacco growing can have.



We're helping to raise standards across the industry by supporting evidence-based regulation and following International Marketing Principles that often go above and beyond local laws.



Harm reduction



We're innovating

Developing a new range of innovative less risky tobacco and nicotine products, including e-cigarettes, heat-not-burn devices and reduced toxicant cigarettes, is part of our long-standing commitment to harm reduction while also being an area of future growth.

They're benefiting

Tobacco smoke, not nicotine, causes the overwhelming majority of smoking-related diseases. So making available a range of less risky nicotine products for smokers can make a major contribution to public health.

Our approach



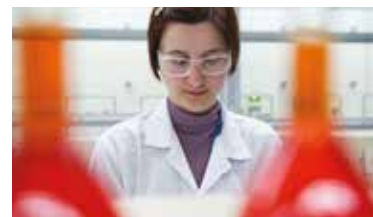
We invest

Despite the known risks, many people choose to continue to smoke. But some want alternatives, and as a leading tobacco company we are well placed to provide them. We invest over £160 million each year in R&D, including extensive scientific tests and trials into new less risky products.



We develop

We're at the forefront in developing a portfolio of less risky next-generation products, including e-cigarettes, new types of inhaled nicotine products and innovative heat-not-burn tobacco products. We're transparent about our research and actively contribute to the science base for evaluating the risk profile and harm reduction potential of new product categories.



We promote

We're working with scientists and regulators to promote this next generation of products and advocate a regulatory approach that puts consumer safety and product quality first, while encouraging the growth of new less risky nicotine products that could help smokers cut down or quit.

Developing 'safer' products

We know that smoking divides opinion but we also know that many people still choose to continue to smoke. We want to offer them alternatives to conventional cigarettes, that are significantly less risky.

We're recognised leaders when it comes to developing new products and, in 2013, through our Nicoventures business, we became the first tobacco company to launch an e-cigarette, Vype, in the UK.

E-cigarettes allow smokers to enjoy nicotine without the harmful smoke of regular cigarettes. What's exciting is that research shows e-cigarettes have the potential to provide a genuine alternative to satisfy smokers because they offer an experience that is close to the real thing – but without most of the risks associated with regular cigarettes.

As well as e-cigarettes, we're also developing other innovative nicotine inhalation devices. These products represent the first step towards creating a portfolio of nicotine alternatives,

to realise the long-term potential of our harm reduction approach and a sustainable future growth for our business.

The UK Department of Health has expressed its interest in encouraging manufacturers "to develop new types of nicotine products that are more affordable and that have increased acceptability for use in the longer term"*. We believe our new inhaled nicotine products will meet this challenge.

We're also continuing to develop innovative heat-not-burn tobacco products and carrying out ongoing studies into reduced toxicant prototype cigarettes.

We have sound business reasons for developing a new generation of products. As well as the moral imperative, it makes commercial sense for us to have a sustainable portfolio of products. That's why creating new, less risky tobacco and nicotine products is both a responsible decision and a commercial one, too.

“

We absolutely support the regulation of nicotine products, including e-cigarettes. It needs to be recognised though that they contain no tobacco and are substantially less risky than cigarettes, so to regulate them in the same way would be inappropriate. To me, it goes without saying that different products should be regulated differently based on their respective risk profiles.

So given this, we want to see a regulatory approach that puts consumer safety and product quality first, while allowing the appropriate level of innovation, marketing and distribution freedoms so as to encourage the growth of a product category that could help smokers cut down or quit.

Kingsley Wheaton
Group Corporate and Regulatory
Affairs Director



* *Healthy lives, healthy people: A tobacco control plan for England*, UK Department of Health, 2011.



The risk spectrum

Conventional cigarettes: as well as being the most common way of using tobacco, they're also the most harmful. Burning any plant material like tobacco turns thousands of plant-based compounds into thousands of new compounds, some of which are toxic. Inhaling the smoke that contains these toxicants causes the overwhelming majority of smoking-related diseases.

Reduced toxicant cigarettes: by finding new ways to cut out some of the toxicants from tobacco smoke, we are looking at whether we can reduce some of the health risks associated with smoking.

Heat-not-burn cigarette-like devices: heating the tobacco instead of burning it creates fewer smoke toxicants.

Low-toxicant smokeless tobacco: snus is a type of low-toxicant oral tobacco. It has been proven, through many decades of use in Sweden, to be substantially less risky than smoking.

Nicotine products: although nicotine is derived from tobacco, nicotine products, including e-cigarettes, don't expose users to the smoke produced by burning tobacco, making them substantially less risky.



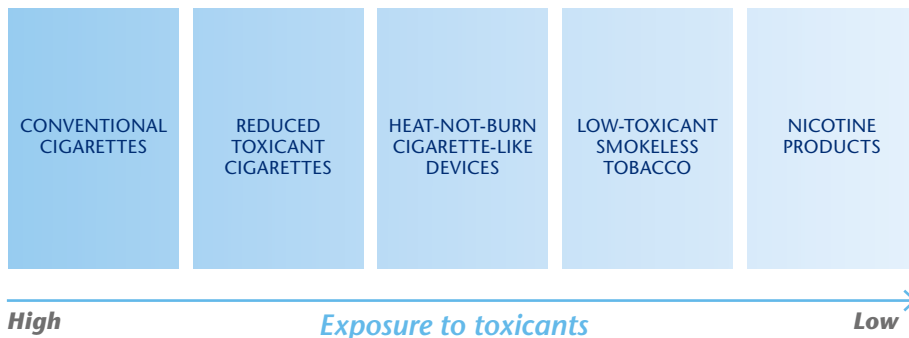
In 2013, we published a Harm Reduction Focus Report covering how we're working to address the public health impact of our products.

www.bat.com/sustainabilityfocus



ASSURANCE COMMENT FROM ERNST & YOUNG LLP

From our interviews with senior leaders in BAT, all expressed their strong commitment to the development of the nicotine business. Through these interviews they explained the strong commercial benefits and potential benefits to consumers of this business. It is clear that more research into the possible long-term effects of e-cigarettes is needed and we have been told that BAT has committed to scientific studies in this area.



The science

100+



Peer-reviewed research papers published in the last five years.

62



The number of PhD scientists we employ to develop and evaluate better and safer products.

We are ranked in the top 25% of EU companies for our investment into research and development.

28



The number of leading scientific conferences, workshops and events we contributed to in 2013.

Scientists agree that it's the toxicants in tobacco and tobacco smoke, not the nicotine, that cause the overwhelming majority of smoking-related diseases.

Nicotine occurs naturally in tobacco – it's not an additive. You even find it in significantly lower levels in other plants such as tomatoes, potatoes and aubergines (eggplant).

However, nicotine is addictive, and its effects are part of the smoking ritual people seek. What we are doing is offering smokers the option to switch from conventional cigarettes to alternatives such as e-cigarettes. This means they can keep on consuming nicotine but without the smoke. As the UK Royal College of Physicians states, "Nicotine itself is not especially hazardous ... if nicotine could be provided in a form that is acceptable and effective as a cigarette substitute, millions of lives could be saved."*

Our research

We're serious about science and over the last five years we've more than trebled our R&D budget – we now spend over £160 million a year, including innovation, development and assessment of a next generation of tobacco and nicotine products.

We've already completed clinical studies into reduced toxicant prototype cigarettes, and are developing heat-not-burn tobacco products. We're also researching exciting new ways to breed tobacco plants with lower toxicant levels.

And there's a lot more potentially groundbreaking research to come.

Take e-cigarettes. As with all our products, we have a strict approach to product stewardship, and our rigorous safety and quality standards apply to all our next-generation products. For instance, our e-liquids are all made in the UK to the cGMP (Current Good Manufacturing Practice) standard.

But at the same time, we realise they're new, so it's only natural that questions have been raised about the long-term effects of inhaling the substances we use in them. That's why we're committed to carrying out our own research.

We publish details of our scientific research programmes on our dedicated website, www.bat-science.com.

It's all part of our policy of openness and transparency. These aren't terms we simply pay lip service to. We believe in them, which is why we actively encourage regulators and other scientists to visit our research facility in the UK.

We're proud that over the last five years we've published more than 100 peer-reviewed papers on our scientific research. We've contributed to over 28 leading scientific conferences, workshops and events in 2013, and have contributed extensively to the work of the US Food and Drug Administration on tobacco and nicotine product regulation.

This activity is also vital in helping us to develop new partnerships and collaborations between scientists and the tobacco industry, which will lead to further breakthroughs in the science of tobacco harm reduction.



* Harm reduction in nicotine addiction, a report by the Tobacco Advisory Group of the UK Royal College of Physicians, 2007.

Sustainable agriculture



We're investing

Securing our future supply of tobacco is vital to our business and we believe the best way of doing this is by helping farmers to farm sustainably.

They're developing

Sustainable farming practices can help farmers to improve the quality and yield of their crops, making them more self-sufficient and prosperous.

Our approach



We research and develop

Our global agronomy centre develops commercial hybrid seeds and develops best practice guidance on agronomy, alternative fuels, irrigation and mechanisation, agrochemical use, integrated pest management and curing methods.

The centre also conducts studies on the development of leaf varieties that deliver greater yields, quality and disease resistance.



We support farmers

We value the relationship we have with farmers. Our leaf technicians work in the field with farmers, agreeing contracts, supplying seed and offering advice on propagation, the safe use of agrochemicals and integrated pest management. They provide farmers with access to farming methods and technologies that might otherwise be beyond their reach.



We set standards

Our Social Responsibility in Tobacco Production programme sets out the minimum standards we expect of our leaf suppliers. It covers good agricultural practices, occupational health and other social issues such as eliminating child labour, human rights and labour standards as well as the protection of biodiversity. It has proved so successful that it's now been adopted as the industry standard.



Working with farmers

We don't own tobacco farms, or directly employ farmers; instead, we work as partners with over 100,000 smallholder farmers worldwide.

We want all these farmers to prosper and to get a fair deal so that they can support their families. That's why we guarantee to buy a certain amount of tobacco from them each year – this makes them less vulnerable and more resilient to market forces and other challenges they may face.

But this isn't the only way we help.

Often farmers choose to grow tobacco because it's hardy, does well in poorer soils and can cope with volatile weather, and also because it gives them good returns on their

investment. But we don't want them to just grow tobacco.

To help farmers make better use of their land, we've built up a skilled network of local field technicians. They visit farmers and show them how to enjoy good tobacco yields from small plots, while using the rest of their land to grow other crops such as cereals, fruit and vegetables.

This provides important food crops alongside the cash they receive for growing tobacco.

Through our day-to-day contact with farmers, we often become involved in wider community projects, too. It's an exciting and important part of what we can do to support rural communities.

“

It's extremely satisfying to see the benefits of our leaf technicians' commitment and passion when I visit the farmers we contract with around the world. The practical guidance, technology and materials we provide make a difference to the farmer, ensuring they benefit from the optimal quality and yield, while guaranteeing the integrity and quality of our products.

BAT is an industry leader in this respect and the benefits are both tangible and mutual.

Brian Fleming
Head of Leaf Business Development



Tobacco growing and the environment

Over recent years, tobacco has often been criticised as having more of a negative impact on the environment than other commercial crops. It's not a viewpoint we agree with. Yes, tobacco, like all crops, does have impacts but our approach to agriculture, and the way we work with farmers, is designed to mitigate this.

We've commissioned independent research into tobacco farming, specifically looking for evidence that backs up reports suggesting there is a strong link between tobacco farming and poverty. The research found none. In fact, the research states that: "it (tobacco) is also seen to be an important and reliable income source that enhances food security rather than reducing it and has contributed to increasing farmers' welfare."¹ This is also why we're encouraging governments to undertake more independent research that looks at the impacts of all crops, not just tobacco in isolation.

We're also helping farmers to change some of the ways they do things and generally farm more sustainably by developing new methods that suit them and their environment.

Take agrochemicals. In the past, there's been a tendency to over-use them, but it's a habit we're helping farmers to break. We've shown them that in the long term, using pesticides and fertilisers is expensive for them and can prove costly for the environment, too.

Together, we've reduced the 'active ingredients' used on each hectare of land given over to tobacco to less than other major crops, such as strawberries and sugar cane.

Environmental issues are also covered by the screening we carry out as part of our Social Responsibility in Tobacco Production programme, with all farmers expected to meet minimum requirements if they want to continue working with us.

Preserving forests

We've worked hard to change the way farmers look at the forests around them, and help them to find alternatives to using wood from natural forests as a fuel to cure their tobacco. The farmers we work with have reduced their use of natural forest for curing fuels down to only 1.3% of total wood used. We aim to reduce this further.

To compensate for those trees that have been felled, we have planted over 170 million trees through our afforestation programmes over the last six years, covering an area the size of Belgium.

Protecting biodiversity

Since 2001, we have been working in the BAT Biodiversity Partnership with three major international conservation NGOs – Fauna & Flora International, the Earthwatch Institute and the Tropical Biology Association – to help protect biodiversity in the landscapes where we work.

Together, we've developed a biodiversity risk and opportunity assessment (BROA), which we use to identify potential issues and impacts in tobacco farming landscapes, before working with other stakeholders to find solutions.

For example, the BROA in Uganda identified risks to freshwater ecosystems and sustainable forest use in tobacco growing regions. As a result, the Partnership is working with local communities and the Government on risk mitigation actions, including improved management and monitoring of forest and freshwater ecosystems. This is assisting with future decision making and helping us to better understand our wider dependencies on ecosystem services.

By the end of 2014, all our leaf growing companies will have completed a BROA for a second time. The tool has been recognised by the UN Food and Agriculture Organisation² and World Business Council for Sustainable Development³, and as an approach that is comprehensive enough to be used by any organisation operating in an agricultural landscape. That's why in 2012 we made BROA publicly available to encourage it to be applied outside the tobacco sector and we're hoping to see the first non-tobacco examples of its use soon.



ASSURANCE COMMENT FROM ERNST & YOUNG LLP

Through our Group-level interviews and document review we have seen evidence of how BAT continues to work directly with farmers. This includes reducing the use of agrochemicals and natural forest for curing fuels. We have reviewed the calculations regarding the reduction of agrochemical and natural forest usage and, while we have found no errors in the calculations, we would suggest that BAT conducts a review to confirm the quality of the source data for agrochemical usage.

¹ *The Role of Tobacco Growing in Rural Livelihoods*, DD International, February 2012. This research was commissioned by BAT.

² *The Sustainability Assessment of Food and Agriculture Systems (SAFA) Guidelines Draft 4.0 – compact version*, Natural Resources Management and Environment Department, Food and Agriculture Organisation of the United Nations, January 2012.

³ *Eco4Biz: Ecosystem services and biodiversity tools to support business decision-making*, World Business Council for Sustainable Development, April 2013.



Tobacco growing and society

Child labour and occupational health

We've always been industry leaders when it comes to addressing exploitative child labour and we're continually looking at new ways to help our suppliers prevent unethical work practices from taking hold.

We first introduced a Child Labour Policy in 2000 and were also founding members of the Eliminating Child Labour in Tobacco Growing (ECLT) Foundation. We've kept tightening and refining our policies ever since, and in 2014 we will be strengthening them further with our revised Standards of Business Conduct, which will contain a new human rights policy.

This has been developed in consultation with stakeholders such as the International Labour Organisation (ILO).

Through our Social Responsibility in Tobacco Production programme, we screen all our suppliers of leaf on general labour standards aligned to ILO conventions, including child labour, and publish their scores as part of our commitment to transparency.

Our local field technicians work with farmers to help them protect the health of farm workers, giving them practical guidance on using chemicals safely, as well as ways to guard against green tobacco sickness (see below).

Green tobacco sickness

Green tobacco sickness (GTS) is a type of nicotine poisoning caused when nicotine is absorbed through the skin from wet tobacco leaves. It's a real risk to farmers and their workers if they harvest tobacco when it's wet.

Raising awareness of GTS has become a major priority for us and we've been working with farmers to explain some of the ways they can reduce the risk of developing GTS, such as only handling dry leaves.

We also encourage more farmers to make Personal Protective Equipment (PPE) available to their workers. PPE includes gloves, trousers and clothes made from impermeable cloth. In addition, we're also helping farmers to recognise the symptoms of GTS and how to treat it.

91%



Scored by our leaf suppliers in 2013 in the anti-child labour section of our Social Responsibility in Tobacco Production programme.



£25+ million

The amount we've invested in community projects focused on sustainable agriculture over the last six years.

170 million



The number of new trees planted over the last six years as part of our afforestation programmes.

“

There are credible reports of GTS being experienced by tobacco workers. However, there is no credible evidence to indicate that GTS can have long-term effects and appropriate farming practices, including the use of protective clothing and avoiding contact with the tobacco plant when it is wet, can effectively manage the risk.

The Role of Tobacco Growing in Rural Livelihoods, DD International, February 2012. This research was commissioned by BAT.

Corporate behaviour



We're responsible

We're a successful, global business, with a record of responsibility when it comes to the sale and marketing of tobacco products.

They're reassured

Our stance has raised standards across the industry, benefiting governments and consumers.

Our approach



We engage openly

We're committed to leading the way for our industry by engaging openly on regulatory issues and supporting sound, evidence-based regulation, while also working with global partners to fight tobacco trafficking.



We act with integrity

Given the risks associated with tobacco products, it is vital that the companies that make and market them operate to extremely high standards. That's why our approach is based around exemplary corporate conduct and transparency across the whole business.



We reduce our environmental impact

We work to address both our immediate environmental impacts and the likely environmental pressures on the business in the future. This involves risk assessments, performance management and making our operations more efficient.

Acting with integrity

While the tobacco industry is often not trusted, we take our responsibilities seriously within a well-regulated industry.

Without a legitimate, regulated industry that operates to high standards of corporate conduct, the world would face a sector dominated by the black market. This would also deny governments important revenue.

Our global business is an important source of income for governments all round the world. Indeed, in 2013 we enabled them to collect more than £33 billion in excise and other taxes – that's eight times our profit after tax.

The sustainability of our business and our corporate behaviour is monitored at all levels, right up to a Board CSR Committee. This structure is key in helping to make sure that sustainability is part of the fabric of what we do.

Transparency is important to us too. Our views on regulation are published openly for all to see. They are exactly the same as those we talk to regulators about.

Making deals behind closed doors? Saying one thing and doing another? That isn't us. We do business in the open, with transparency and clarity. That way we have nothing to hide.

“

In more than 14 years working for BAT, I've encountered many different regulatory frameworks around the world and seen how they work in practice.

In my experience, when new regulations are being developed, any decision making needs to be based on sound research and open conversation with those likely to be affected.

Flora Okereke
Head of Regulatory Policy





Talking to regulators

There's no doubt that our industry should be well-regulated, especially when it comes to driving awareness of the health risks of smoking through appropriately sized health warnings and restricting children's access to tobacco products.

We support sound regulation that:


- 1 **Is consultative and shaped in collaboration with all stakeholders, including the tobacco industry;**
- 2 **Is based on robust evidence and thorough research; and**
- 3 **Delivers its policy aims and recognises unintended consequences.**

We also think regulation should help eliminate the black market in unregulated tobacco products, support the economic viability of tobacco growers and give consumers confidence in new nicotine products with reduced health risks.

Transparency about our lobbying and regulatory engagement is crucial to our approach. We're open about what we think, whether we're in favour of new proposals and regulations or not. And where we don't agree, we always try to propose practical alternatives for delivering regulatory aims and public health objectives.

For example, we believe regulation on plain packaging, which we're strongly opposed to, has gone too far. We're concerned that plain packaging will actually make cigarettes more accessible to children and easier to counterfeit, fuelling the black market further, and believe there are better alternatives. Bans or restrictions on the use of ingredients in tobacco products are also an area under debate. While we don't agree with blanket bans, if the science proves that the addition of certain ingredients increases the risks of tobacco or nicotine products or encourages underage smoking, we support their restrictions.

Our experience and expertise can make a valuable contribution to the development of regulatory solutions.

Good regulatory practice requires input from all stakeholders, and we welcome the opportunity to collaborate transparently with governments to ensure the development of the best regulatory solutions. In support of this, in 2014, we will be publishing on  www.bat.com our consolidated policy on transparent lobbying.

Policies and standards

Like any other multinational organisation, we have clear policies in place that set the standard for the way we do business. They cover everything we do from employment to the environment, from health and safety to fighting child labour and tobacco trafficking.

We're constantly refining these policies too, and in 2014, we will publish our revised Standards of Business Conduct, which will include clearer statements on human rights and anti-child labour.

Fighting tobacco trafficking

The global black market in tobacco products is huge, involving some 660 billion cigarettes¹ every year, robbing governments of around £30 billion² in legitimate taxes. This illegal trade is also a huge competitor for the tobacco industry itself, and takes away a significant amount of legitimate business each year.

That's why, in 2013 alone, we've invested more than £50 million to fight this illegal trade.

Not that we're operating alone. We've teamed up with other international tobacco companies to introduce a range of cutting-edge initiatives across the whole supply chain that are designed to stop black marketers in their tracks. These include technological developments such as digital coding and tax verification, which help governments ensure taxes and duties are paid, and a track and trace system, which means we can monitor the movement of our products. In addition to our global travel retail business, we have implemented track and trace across five markets and four factories in three other countries.

We also work hand-in-hand with global and national police and customs agencies such as the International Chamber of Commerce, Interpol and the European Anti-Fraud Office. And we advocate gradual, predictable excise increases for governments, to prevent sharp price increases that may lead to consumers switching to cheaper, illegal cigarettes.

In addition to a 20-year, €134 million (£113.8 million) agreement with the European Commission and its member states, we are also helping to train border staff in new security systems and the acquisition of new detection technology.



Our lab team uses forensic analysis to identify where illegal products are being made – they even manage to pinpoint the individual machines being used inside the illicit factories. This information is absolutely key in helping law enforcement agencies to locate illegal factories, close them down and get successful prosecutions. I'm very proud of the work we do and the part we play in fighting this criminal trade.

Claire Spendlove

Anti-Illicit Trade Intelligence Unit
Laboratory Manager



£33+ billion

The amount governments around the world collected in excise and other taxes in 2013 – that's eight times the Group's profit after tax.



£50+ million

How much we invested in the fight against tobacco trafficking in 2013.



Download our Acting With Integrity Focus Report to find out more about our positions on specific regulatory issues, including the regulation we support at:

 www.bat.com/sustainabilityfocus



¹ Industry estimate given by the Digital Coding and Tracking Association.

² Based on estimates of US\$40–50 billion, *Illicit Trade in Tobacco Products 2012*, Euromonitor International.



Responsible marketing

Some of the most important policies guiding what we do are our International Marketing Principles. They're a set of standards that reflect current thinking in terms of marketing, technology, regulation and stakeholder expectations. They require that:

- 1 **Our marketing will not mislead about the risks of smoking;**
- 2 **We will only market our products to adult smokers;**
- 3 **We will not seek to influence the consumer's decision about whether or not to smoke, nor how much to smoke; and**
- 4 **It will always be clear to our consumers that our advertising originates from a tobacco company and that it is intended to promote the sale of our tobacco brands.**

They're standards that we place upon ourselves and often go far beyond what local laws require. It's not unusual for us to introduce tougher restrictions on marketing our products, especially around underage smoking, than we actually need to.

We monitor compliance through market audits and annual self-assessments. In 2013, there were eight cases where we failed to adhere to our International Marketing Principles (2012: 14). Immediate actions were put in place in every one of these cases and we are committed to 100% compliance.

Nicotine products

Our marketing of Vype, our current e-cigarette brand on the market, is aimed at adult consumers of nicotine products only. All our e-cigarette packs, inserts and e-liquid refills have appropriate warnings, and are clearly labelled as being for those aged 18 or over.

Youth smoking

Our programme to prevent youth smoking is one of our longest running. 98% of our markets required* to undertake youth smoking prevention have such activities in place, and we're committed to making this 100%.

We've worked with authorities, explaining why a minimum age law of 18 is so important, and also with retailers, to raise awareness of underage smoking and why simple things such as asking for proof of age can make such a difference.

* Youth smoking prevention programmes are not required in markets where political instability or regulation stops our activities, or where we only operate through a distributor. In 2013, this was the case for markets representing 15% of our total sales volumes.

Health and safety

✓ ASSURANCE COMMENT FROM ERNST & YOUNG LLP

BAT has long had Marketing Principles in place for tobacco products, however there is currently no equivalent for nicotine products, including e-cigarettes. We consider that BAT should accelerate the development and implementation of appropriate marketing principles for nicotine products and updates on their roll out should be communicated in future reports.

We're a diverse company, operating across a huge range of different environments, from city offices to remote farms. Our goal of zero accidents reflects our commitment to providing a safe place to work for all employees and contractors. We achieved zero accidents at 72% of our reporting sites in 2013, up from 60% in 2012.

In 2013, we achieved a 15% reduction in the number of injuries in our factory operations as a result of an ongoing focus on safer working conditions and behaviour.

However, there was an 11% increase in the total number of reported injuries across the Group, as a result of employing a higher number of sales and distribution personnel who are out on the road and so exposed to more risks.

Ongoing programmes to address the risks to our employees and contractors in the most challenging operating environments saw fatalities across our business reduced to six, from 12 in 2012.

We deeply regret this loss of life and the suffering caused to friends, family and colleagues as a result. We have carried out detailed reviews of each fatality to learn lessons and identify actions to make sure they don't happen again.

We are committed to keeping all our employees and contractors as safe as possible and will continue to work across our business to get closer to our goal of zero accidents.



Environment

We're a global company, which means we have a global footprint. Reducing the environmental impacts of what we do is a key priority, and something that involves every single person who works for us.

We have had a comprehensive Environmental, Health and Safety (EHS) management system for many years. We monitor and reduce our direct environmental impacts by making our operations more efficient. We also seek to address our indirect impacts by choosing suppliers with strong environmental credentials and encouraging our existing suppliers to improve their environmental performance.

We put particular effort into minimising our energy consumption and reducing our carbon footprint, and we're proud that a number of our sites in the UK, Italy, Poland, Germany and the Netherlands, now meet 100% of their electricity needs from renewable sources.

As of 2013, we've achieved:

45% reduction



in CO₂e emissions from our 2000 baseline.

14% reduction



in energy use from our 2007 baseline.

25% reduction



in water use from our 2007 baseline.

52% reduction



in the amount of waste sent to landfill from our 2007 baseline.

89%

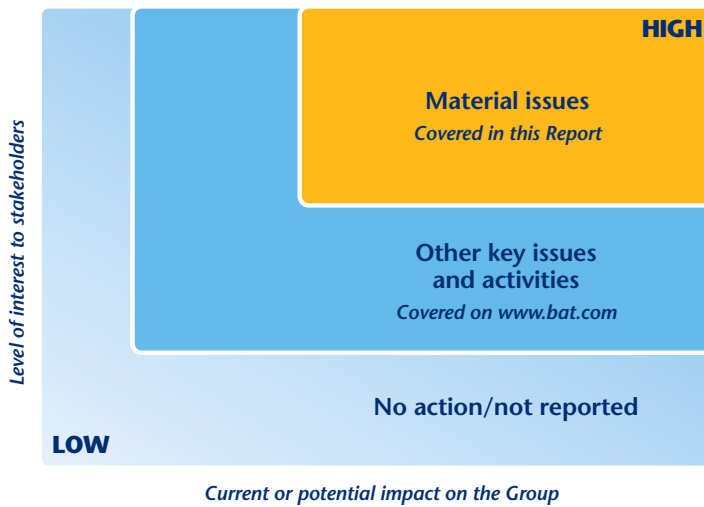


of our waste recycled.

View all data charts, commentary and scope at:

 www.bat.com/sustainability/data

Materiality



Material issues

Harm reduction

- 'Safer' cigarettes
- E-cigarettes
- Other nicotine inhalation devices
- Heat-not-burn
- Smokeless tobacco
- Scientific research

Sustainable agriculture

- Supporting farmers
- Environmental impacts of tobacco growing
- Human rights, labour standards and child labour

Corporate behaviour

- Good corporate conduct
- Regulatory engagement
- Marketing practices
- Youth smoking prevention
- Tobacco trafficking
- Environment, health and safety

Other key issues and activities

- Performance data
- Workplace human rights
- Non-leaf suppliers
- Attracting, developing and retaining talented people
- Diversity
- Workplace culture and employee engagement
- CSR governance
- Stakeholder engagement
- Corporate social investment

We decide which issues are most material, or most important to the business, by talking to our many different stakeholders, from shareholders and employees to consumers and suppliers. As well as regular, formal stakeholder dialogue, this also involves more informal conversations that are the result of long-term partnerships and business relationships.

The issues and concerns raised are then used to develop a list of the topics that are the most important to our stakeholders, and that also have the greatest potential to impact on the business.

Progress against our goals

Status key: On track Completed Not met

Harm reduction

2013 goals and commitments	Status	Overview of our 2013 performance	2014 goals and commitments
Through our Nicoventures business, launch our first nicotine inhalation product, subject to approval by the UK medicines regulator, in the UK.		Nicoventures is currently awaiting the licence for this product from the UK medicines regulator.	Through our Nicoventures business, launch our first nicotine inhalation product, subject to approval by the UK medicines regulator, in the UK.
Submit for publication the results of our clinical study of biomarkers of exposure to tobacco smoke toxicants and biomarkers of biological effect to a peer-reviewed journal by end 2013.		Initial results have been presented to the US Food and Drug Administration's (FDA) Risk Communication Advisory Committee and Tobacco Products Scientific Advisory Committee joint meeting. We have also submitted papers on the results to peer-reviewed journals.	Undertake scientific research into the characterisation of e-cigarettes and submit the results for publication to peer-reviewed journals by end 2014.
Present our scientific findings at international conferences and continue to improve the standard of our publications in peer-reviewed journals.		Our scientists have contributed to over 28 conferences, meetings and scientific workshops in 2013 including for the FDA, the American Chemical Society and the European Societies of Toxicology. 34 papers were submitted to peer-reviewed journals in 2013.	Undertake scientific research to assess the emissions from heat-not-burn products and submit the results for publication to peer-reviewed journals by end 2014.
			Publish our standards and codes of conduct for scientific collaborations and funding by end 2014.
			Present the results of our scientific research into next-generation tobacco and nicotine products to regulators and other relevant bodies.

Sustainable agriculture

2013 goals and commitments	Status	Overview of our 2013 performance	2014 goals and commitments
Complete the next round of biodiversity risk and opportunity assessments, using the updated tool, in all our tobacco leaf growing operations by end 2014.	➡	Biodiversity risk and opportunity assessments are under way in all our leaf growing operations.	Complete the next round of biodiversity risk and opportunity assessments, using the updated tool, in all our tobacco leaf growing operations by end 2014.
Conduct research to verify the apparent return of wildlife to trial areas of re-established natural forest in Sri Lanka by end 2013.	●	The research has now been completed and the results will be published in 2014.	Achieve less than 1% use of natural forest for directly contracted farmers' curing fuels by end 2015.
Aim for zero use of natural forest for directly contracted farmers' curing fuels by end 2015.	➡	We made progress towards this target, with a fall from 4% to 1.3%.	Aim for at least 70% of our spending on community investment activities in tobacco growing countries to be focused on sustainable agriculture by end 2015.
Engage with stakeholders, through facilitated dialogue, on the challenges of sustainable agriculture by end 2013.	●	In 2013, we held an independently facilitated stakeholder dialogue on sustainable agriculture in Nigeria. In the UK, we held an independently facilitated dialogue on our approach to human rights.	Do not exceed the Group's long-term standard for our leaf suppliers to use no more than an average of 1.5kg of active chemicals per hectare of tobacco per year.
Revise and update our approach to human rights, including the publication of a new version of our Child Labour Policy, by end 2013.	○	The update of our approach to human rights and the development of new policies to address human rights will be incorporated into our revised Standards of Business Conduct to be published in 2014.	Incorporate a new human rights policy into our Standards of Business Conduct by end 2014. Develop and publish a supplier code, aligned to the UN Guiding Principles for Human Rights by end 2015.

Corporate behaviour

2013 goals and commitments	Status	Overview of our 2013 performance	2014 goals and commitments
100% adherence to our International Marketing Principles by end 2013.	○	Eight cases of International Marketing Principles partial or non-adherence were identified in 2013 and immediate actions were put in place in every one of these cases.	Develop and publish on www.bat.com a consolidated policy on transparent lobbying by end 2014.
100% adherence to our global approach to youth smoking prevention in all markets where feasible and allowed by end 2013.	○	98% of our companies required to undertake youth smoking prevention activities reported adherence in 2013 to our global approach.	100% adherence to our International Marketing Principles by end 2014. If any cases of non-adherence are identified ensure immediate actions are put in place.
Implement our track and trace technology in 42 markets, as part of our cooperation agreement with the European Commission, by end 2016.	➡	In addition to our global travel retail business, we have implemented track and trace across five markets and four factories in three other countries.	100% adherence to our global approach to youth smoking prevention in all markets where feasible and allowed by end 2014.
Reduce our CO ₂ e emissions by 46% by 2017, 50% by 2030 and 80% by 2050 against our 2000 baseline of 1.52 tonnes per million cigarettes equivalent.	➡	CO ₂ e emissions were 0.83 tonnes per million cigarettes equivalent produced, 45% lower than our 2000 baseline.	As part of our cooperation agreement with the European Commission, implement track and trace technology in all markets covered by the agreement where we annually supply 25 million cigarettes or more to multiple customers, by end 2016.
Reduce our energy use towards our 2017 target of 9.82 gigajoules per million cigarettes equivalent produced, 17% lower than our 2007 baseline.	➡	Group energy use was 10.17 gigajoules per million cigarettes equivalent produced, 14% lower than our 2007 baseline.	Reduce our CO ₂ e emissions by 46% by 2017, 50% by 2030 and 80% by 2050 against our 2000 baseline of 1.52 tonnes per million cigarettes equivalent.
Reduce our water use towards our 2017 target of 3.6 cubic metres per million cigarettes equivalent produced, 26% lower than our 2007 baseline.	➡	Water use was 3.65 cubic metres per million cigarettes equivalent produced, 25% lower than our 2007 baseline.	Reduce our energy use towards our 2017 target of 9.82 gigajoules per million cigarettes equivalent produced, 17% lower than our 2007 baseline.
Sustain our waste to landfill at no more than 0.016 tonnes per million cigarettes equivalent produced, 36% lower than our 2007 baseline, and recycle at least 85% of our waste.	●	Waste to landfill use was 0.012 tonnes per million cigarettes equivalent produced, 52% lower than our 2007 baseline, and we recycled 89% of our waste.	Reduce our water use towards our 2017 target of 3.6 cubic metres per million cigarettes equivalent produced, 26% lower than our 2007 baseline.
Complete assessments of long-term water supply and demand requirements in 10 strategic operational sites identified as 'high-risk' by end 2015.	➡	A high-level risk mapping exercise of our strategic operational sites has been completed and an action plan for the first five assessments is now in place.	Sustain our waste to landfill at no more than 0.016 tonnes per million cigarettes equivalent produced, 36% lower than our 2007 baseline, and recycle at least 85% of our waste.
Work with our functions, regions and markets to devise improvement plans in response to the results of our employee opinion survey by end 2013.	●	Improvement plans in response to the results of our employee opinion survey have been developed in our functions, regions and markets.	Complete assessments of long-term water supply and demand requirements in 10 strategic operational sites identified as 'high-risk' by end 2015.
Ensure the right policies, governance and practices are in place to enable us to get closer to our goal of zero accidents.	○	Our LW CIR was 0.29, a deterioration from the 2012 rate of 0.23. The number of reported lost workday cases also increased from 164 to 197. 72% of our reporting sites (60% in 2012) achieved the zero accident goal. Sadly, there were six fatalities in 2013 to one employee and five contractors.	Ensure the right policies, governance and practices are in place to enable us to get closer to our goal of zero accidents.

Performance highlights



Find our performance data and GRIs online

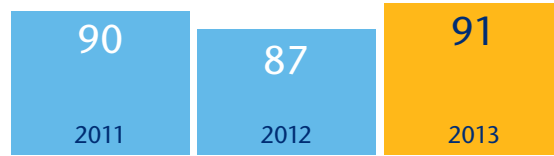
www.bat.com/sustainability/data



Wood fuel sources

Improved

Percentage of wood for curing that did not come from natural forest as reported by our contracted farmers (against a target of zero use of natural forest by 2015)



Preventing child labour in our Social Responsibility in Tobacco Production programme

Improved

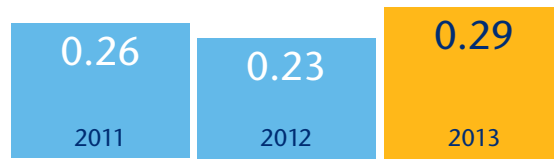
Average percentage of leaf suppliers' self-assessment scores



Youth smoking prevention

No change

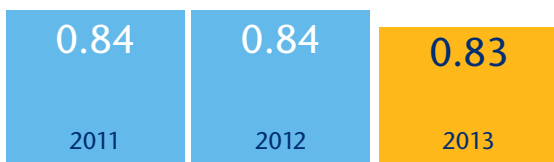
Percentage of markets required* to undertake youth smoking prevention activities that reported adherence to our global approach



Lost Workday Case Incident Rate

Deteriorated

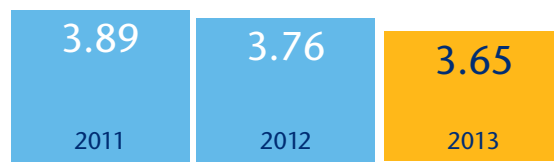
Number of lost workday cases through injury x 200,000 divided by total hours worked



Carbon dioxide

Improved

Tonnes CO₂e per million cigarettes equivalent produced



Water use

Improved

Cubic metres per million cigarettes equivalent produced

* Youth smoking prevention programmes are not required in markets where political instability or regulation stops our activities, or where we only operate through a distributor. In 2013, this was the case for markets representing 15% of our total sales volumes.

About this Report

This is the British American Tobacco p.l.c. Sustainability Summary 2013. It reports on the activities of British American Tobacco companies in the UK and internationally for the calendar year 2013. Associate companies are excluded. References to 'British American Tobacco', 'BAT', 'we', 'us' and 'our' when denoting opinion refer to British American Tobacco p.l.c. (the Company), and when denoting tobacco business activity refer to Group operating companies, collectively or individually as the case may be. This Report contains forward-looking statements that are subject to risk factors associated with, among other things, the economic and business circumstances occurring in the countries 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 that could cause actual results to differ materially from those currently anticipated.



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