



Value

Sustainability Summary 2014

shared

Investing in a sustainable future
for our business and society



“

The concept of shared value underpins our whole approach to sustainability. It is about investing in the future for our business and society.

Sustainability is not a choice or something that is 'nice to have' – it is crucial to securing the future of our company and for creating shared value for our consumers, our shareholders and our stakeholders.

It is not a recent priority either – as a major international business in a controversial sector, we have long been aware of our responsibilities and our ability to address issues on a global scale.

Indeed, in our long history of focusing on sustainability and corporate responsibility, we have made significant progress – our strong market performance is delivering value for our shareholders, while we have also embedded more effective sustainability practices into our day-to-day business. These have included strengthening our approach to human rights, advancing sustainable agricultural practices among our farmers, developing industry-wide security systems for our supply chain that help prevent tobacco trafficking, and achieving a 45% reduction in CO₂e emissions from baseline.

As a result, we have achieved inclusion in the Dow Jones Sustainability Index for the last 13 years, 12 of them as industry leader.

Given the serious health risks associated with smoking, I am particularly proud of the progress we have made in harm reduction. In just a few years, our aspirations for this important area are becoming a reality, with less risky nicotine products now on the market in the UK, plans to launch in further markets and a strong pipeline of innovations for the future.

The receipt of the relevant licences from the UK medicines regulator for Voke, our new nicotine inhalation product, is another big step towards making available a range of products across the risk continuum, enabling consumers to choose the ones that are right for them.

Yet we still have a long way to go, and as much as our business has changed so has the world around us – from evolving consumer demands and emerging opportunities in a new generation of products, to increasing expectations of the role of business in society.

So we have now sharpened our approach further with the development of a new sustainability agenda, focused on the most material issues for our business and our stakeholders in three key areas: harm reduction, sustainable agriculture and farmer livelihoods, and corporate behaviour.

These are not only where we face some of our biggest challenges, but also where I see the greatest opportunities.

Developing and promoting less risky products, supporting farmers' livelihoods and operating to the highest standards of corporate conduct and transparency are all absolutely the right thing to do. They can add value to society, as well as helping to ensure we deliver our Group strategy and BAT continues to grow and thrive in the long term."

Nicandro Durante

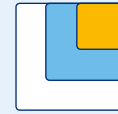
Nicandro Durante, Chief Executive
British American Tobacco
March 2015





A strategic approach

Through a detailed materiality process, including stakeholder dialogue and research, we have identified the three key areas that have the greatest significance to our business and our stakeholders. These form our new sustainability agenda as covered in this Report.



www.bat.com/materiality



Independent assurance

Ernst & Young LLP has been engaged by British American Tobacco to provide limited external assurance of this Report, as well as all performance information published at www.bat.com/sustainability/data.

Read the full statement, including the scope of work and conclusions, and BAT's response at

www.bat.com/assurance

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Harm reduction

p04

We are committed to researching, developing and promoting a range of innovative tobacco and nicotine products to enable adult consumers to have a choice of less risky alternatives to regular cigarettes.



Sustainable agriculture and farmer livelihoods

p08

We are committed to working to enable prosperous livelihoods for all farmers who supply our tobacco leaf, benefiting rural communities and the environment.



Corporate behaviour

p12

We are committed to operating to the highest standards of corporate conduct and transparency, benefiting governments, consumers, the environment and our people.

Our other business priorities

We continue to focus on other key business priorities, including retailer relationships, diversity, employee engagement, governance and stakeholder engagement. These are covered in our Annual Report and online at

www.bat.com/sustainability

More than **£480 million** invested in R&D into innovative tobacco and nicotine products over the last three years

Over **100 papers** on our research published in peer-reviewed journals over the last five years

We invest significant sums each year, and employ hundreds of scientists in many disciplines, in researching less risky tobacco and nicotine products

Research

Supply chain

More than **£65 million** invested each year and over 1,000 BAT leaf technicians directly supporting our farmers

Over **100,000 contracted farmers** worldwide, mainly in countries in Africa, Asia and Latin America

Over **170 million trees** planted in the last seven years

Over **400,000 tonnes of leaf** purchased each year from contracted farmers and third party suppliers worldwide

Over **70,000 non-leaf suppliers** in more than 80 countries

As a major international tobacco company, we are committed to addressing the negative impacts of our business...

More than **£30 million** invested each year in environment, health and safety

24% reduction in water use from 2007 baseline

45% reduction in CO₂e emissions from 2000 baseline

44 factories in 41 countries

Production

Marketing and consumers

More than £50 million invested each year in fighting tobacco trafficking

Over 2 million retailers reached by our youth smoking prevention activities

Over 200 brands and 667 billion cigarettes sold in 2014

1st tobacco company to have a nicotine product licensed as a medicine

1st international tobacco company to launch an e-cigarette

...while continuing to work on areas where we can create shared value for our business and society

Communities and economies

More than £60 million invested in community projects over the last five years

Around £30 billion paid to governments each year in excise and other taxes

Over 57,000 employees worldwide

Over £2.3 billion paid to employees each year in wages and benefits

Harm reduction

We are committed to researching, developing and promoting a range of innovative tobacco and nicotine products to enable adult consumers to have a choice of less risky alternatives to regular cigarettes.

Our approach

Investing in world-class research, being transparent about our science and actively contributing to the evidence-base for evaluating the risk profile of different products.

Developing a next generation of less risky products, including e-cigarettes, medicinal nicotine inhalers and tobacco heating products.

Promoting regulation that has high consumer safety and product quality standards, while encouraging innovation, growth and availability.

Responsible marketing of our products to existing adult smokers or consumers of other nicotine products.

‘I want a choice of less risky products’



External viewpoint

Health effects of long-term EC [*e-cigarette*] use are currently not known and a degree of risk may yet emerge. However, based on the data available regarding the toxicant content of EC [*e-cigarette*] liquid and aerosol, long-term use of EC [*e-cigarettes*], compared to smoking, is likely to be much less, if at all, harmful to users or bystanders.

[E-cigarette research study¹](#)

A pragmatic public health policy

The idea of harm reduction is well-established within public health. It is about minimising the impact of an activity that people know is risky, but without necessarily stopping it completely.

Tobacco harm reduction is about providing a choice of viable, less risky alternatives for the millions of smokers who find it difficult to, or do not wish to, stop using nicotine.

Alternative nicotine products such as e-cigarettes are not entirely without risk, but they are considered to “offer reductions in risk of 95% or more compared to cigarettes.”²

This is why there is growing support among scientists and health experts for these alternative products. They say these products should be part of public health policy on smoking, with smokers encouraged to switch to them as part of a programme of measures to help them cut down or quit. But most governments are currently unsure about actively supporting this approach.

The challenges

There are some public health organisations that have voiced concerns that not enough is known about the health risks of e-cigarettes. They also believe they could undermine efforts to denormalise tobacco use.

We understand that this is a contentious topic. However, there is a growing weight of peer-reviewed, independent evidence that suggests e-cigarettes are substantially less risky than conventional ones and that they can help people to reduce or quit smoking. On the other hand, there is currently little evidence that they are a gateway *into* smoking.^{1,3}

We do agree that more research is needed into the long-term effects of e-cigarette use. This is why we are already conducting our own research, submitting the results for peer-review and openly sharing our findings with scientists, regulators and other relevant bodies.

A progressive way forward

We want to work together with health experts, governments and regulators to make tobacco harm reduction part of a progressive approach to public health policy.

We hope that they will carefully consider the evidence and do not pass up the potential positive impact this new generation of products could have on society as alternatives to smoking.

Transparent and world-class science

We understand that some people are sceptical about research conducted and funded by the tobacco industry. That is why being transparent about our science is central to our approach.



We invest significant sums each year, and employ hundreds of scientists in many disciplines, in researching less risky tobacco and nicotine products.

We follow high standards and codes of conduct for scientific collaborations and funding and, in 2014, we openly published them at www.bat-science.com/standards.

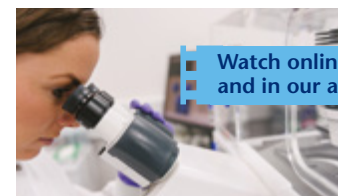


We publish details of our research programmes on our dedicated website, www.bat-science.com, and the results of our studies in peer-reviewed journals.



We open the doors of our research facilities to visiting regulators and scientists and now anyone can step inside our labs by watching our virtual video tour.

www.bat.com/labtour



Watch online and in our app



We present our research findings to regulators and at leading international conferences and events around the world.

¹ *Electronic cigarettes: review of use, content, safety, effects on smokers and potential for harm and benefit*, P Hajek et. al., *Addiction*, July 2014

² *The importance of dispassionate presentation and interpretation of evidence*, open letter to the World Health Organisation (WHO) signed by 53 leading scientists and public health experts, June 2014

³ (a) *Trends in electronic cigarette use in England, Smoking Toolkit Study*, University College London, June 2014; (b) *Use of electronic cigarettes in Great Britain*, *Action on Smoking and Health*, April 2014; (c) *Characteristics, Perceived Side Effects and Benefits of Electronic Cigarette Use: A Worldwide Survey of More than 19,000 Consumers*, K E Farsalinos et. al., *International Journal of Environmental Research and Public Health*, April 2014; (d) *E-cigarettes: Prevalence and attitudes in Great Britain*, M Dockrell et. al., *Nicotine & Tobacco Research*, July 2013; (e) *E-cigarette awareness, use, and harm perceptions in US adults*, J L Pearson et. al., *American Journal of Public Health*, September 2012

New products, enabling choices

We are committed to developing a range of next generation tobacco and nicotine products across the risk continuum. This will allow adult consumers to have a choice of less risky alternatives to regular cigarettes, which can ultimately benefit public health, while also supporting the future growth of our business.

We think we are best placed to deliver alternative products. We have a separate business focusing exclusively on nicotine products, we understand what consumers want, we have world-class research and development capabilities, and we have robust product and quality standards. We also have global reach and a clear commitment to market our products responsibly.

The risk continuum



“ We need to recognise that there is a continuum of nicotine delivery products. It is not the nicotine that kills half of all long-term smokers, it is the delivery mechanism. We have to recognise some of these realities and figure out how they can impact regulatory policies.

US Food & Drug Administration (FDA)⁴

Nicotine products

E-cigarettes

In 2013, we were the first international tobacco company to launch an e-cigarette, Vype, in the UK. In 2014, we have further increased our understanding of the needs of consumers and developed the range to better meet their expectations.

We will continue investing substantially in the research, development and commercialisation of a pipeline of products. We will also use the insights from our experience in the UK to support Vype's launch in further markets.

Upholding high standards

With all our e-cigarettes, we have voluntarily adopted appropriate warnings on all our packaging and a robust approach to manufacturing quality and product assessment, including for all ingredients and flavours.

All our e-cigarette marketing communications are required to:

- Only be directed at adults aged 18 or over, in terms of both the content and type of media in which they appear;
- Only be directed at existing smokers or existing consumers of other nicotine products; and
- Not be aimed at promoting the use of tobacco products.

Amid unclear advertising rules for e-cigarettes in the UK, we were one of a number of companies in 2014 to have one of our adverts challenged by the Advertising Standards Authority. We were therefore pleased when the UK Committees of Advertising Practice launched a consultation with a view to introducing clarity in this area, to which we responded. We support the final advertising rules which took effect in November 2014 and believe they provide a suitable framework for responsible e-cigarette marketing, and we encourage other countries to adopt a similar approach.

Medicinal nicotine products

We are also looking at nicotine products that are regulated as medicines, including a new nicotine inhalation product called Voke.

This innovative product does not require batteries or any other energy source and is activated simply by inhaling.

Following receipt of the relevant licences from the UK medicines regulator, we are the first tobacco company to have a nicotine product licensed as a medicine.

We plan to commercialise and launch Voke in the UK by the end of 2015.

⁴ Protecting Public Health: FDA Regulation of Tobacco Products, Director of the US FDA's Centre for Tobacco Products, Legacy Foundation Warner Series webinar, June 2014

Tobacco products

Tobacco heating products

Tobacco heating products heat the tobacco rather than burning it, so fewer smoke toxicants are produced than with conventional cigarettes, making them a potentially less risky option.

Our associate company Reynolds American developed its first product in this category in the 1980s. However, at the time, it did not prove popular.

Today there is much greater consumer interest in a new generation of alternative tobacco products. Technology has moved on too and we are currently working on products designed to have much wider consumer appeal for smokers.

By the end of 2015, we plan to begin extended consumer trials of an upgraded version of an existing product. We hope to have our first tobacco heating product in a test market in 2016.

We will also continue working on an innovations pipeline of consumer relevant tobacco heating products for the future.

Low-toxicant smokeless tobacco

Snus is a type of low-toxicant oral tobacco that we currently sell in Sweden and Norway. It is proven by independent health studies to be substantially less risky than smoking. As such, we are disappointed that, in the recent update of the EU Tobacco Products Directive (TPD), European regulators have not lifted the ban on the sale of snus in the EU outside Sweden.

On the other hand, the US FDA is currently reviewing some snus products and considering re-categorising them as modified risk tobacco. This process is expected to conclude in 2015. We hope other regulators will follow the FDA's example and recognise the important role snus can play in reducing the public health impact of tobacco use.

➔ What's next?

- Launch Voke, our innovative new nicotine inhaler licensed as a medicine, in the UK by end 2015.
- Continue to build Vype, our e-cigarette brand, in the UK and launch in further markets.
- Publish our marketing principles for nicotine products by end 2015.
- Continue to take a lead in advocating for regulation that has high product standards and appropriate commercial freedoms.
- Present the results of our scientific research into next generation tobacco and nicotine products to regulators and other relevant bodies.
- Work with scientists, public health professionals, regulators and governments around the world to build support for innovative, less risky products.

Progress against our previous goals:

All five are completed or on track.
For further details see

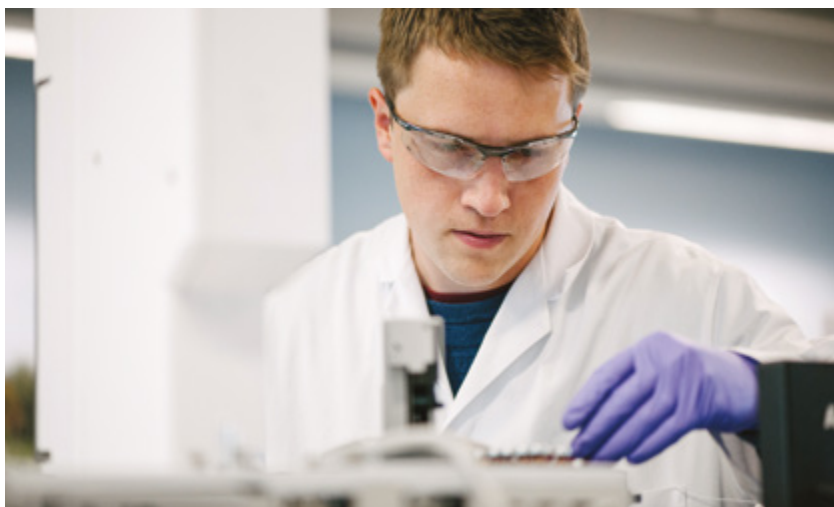
➔ www.bat.com/harmreductiongoals



Independent assurance

Comment from *Ernst & Young LLP*

During our interviews with senior management at Group-level, all expressed the strategic importance of next generation products to the business. We have seen evidence of BAT's engagement with a wide range of stakeholders on the possible benefits to public health and on the development of product quality standards. Continuing this type of dialogue will be critical as BAT seeks to develop and launch new products in markets beyond the UK.



Sustainable agriculture and farmer livelihoods

We are committed to working to enable prosperous livelihoods for all farmers who supply our tobacco leaf, benefiting rural communities and the environment.

Our approach

Working with our farmers to look after the environment, address child labour and other human rights issues, and build local infrastructure, resources and networks to support rural communities.

Providing on-the-ground advice and support for over 100,000 contracted farmers worldwide, helping them to build successful, profitable businesses.

Setting standards, advancing agricultural practices, developing new technologies and conducting cutting-edge research into more sustainable leaf varieties.

‘I choose to grow tobacco alongside my other crops’



Supporting farmers, sustaining communities

The farmers we work with are valued business partners and crucial to the success of our business – if they do well, we do well.

We are committed to a future where all our farmers have the resources they need to be successful and farming communities thrive.

If our farmers are prosperous, they can encourage future generations to continue to farm and support their local communities and the environment. For our business, this is a pragmatic and commercial approach that secures our supply chain and ensures the integrity and quality of our products to satisfy our consumers.

Read details of our approach to supporting farmers at

www.bat.com/farmers

Our approach to supporting farmers' livelihoods focuses on five key areas:

- **Farm income:** helping our farmers to have profitable businesses, with tobacco grown alongside a diverse range of other crops.
- **Natural resources:** preserving forests, water, soil health and biodiversity – all of which are essential for long-term agricultural productivity.
- **Infrastructure and resources:** helping ensure tobacco growing areas are viable places to live and work, by providing farmers with access to technology and investing in community projects.
- **Skills, knowledge and labour:** promoting human rights, tackling child labour, protecting the health of farm workers and providing advice and training for running successful businesses.
- **Community networks:** helping to build and strengthen farmer networks, by providing the support and opportunities farmers need to be able to share best practice and become more self-sufficient and resilient.

Farmer viewpoint
“ I get a fair price for the leaf I supply, the seeds are of good quality, and the training and technology I have accessed through Souza Cruz have helped me get the most out of my land – not just for tobacco, but for my maize crops too. That is why I have chosen to work with them for the last 13 years.

Sanges Alberto Klafke, Brazilian tobacco farmer supplying our subsidiary company, Souza Cruz

A global crop



Around 35% of all global jobs are in agriculture, many of which are in developing economies.

Tobacco is a major global cash crop, which farmers grow in rotation with, or alongside, other crops such as fruit, vegetables, wheat, maize or cotton.



Our agricultural supply chain

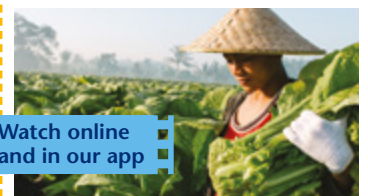
We do not own tobacco farms or directly employ farmers. More than 1,000 BAT leaf technicians worldwide support over 100,000 contracted farmers.



We invest over £65 million each year in supporting our farmers.

Watch our *They grow, we grow* video to see our partnerships with farmers in action in Lombok, Indonesia.

www.bat.com/farmervideo



Watch online and in our app

We buy over 400,000 tonnes of tobacco leaf each year from our contracted farmers and third party suppliers worldwide.



More than
170
million

trees planted in the last seven years through our afforestation programmes



Local agriculture, global challenges

The support we provide farmers is especially important given the serious pressures and challenges agriculture faces. These range from rural poverty and food security, to an increasing demand for land and natural resources. There are also issues over access to clean water and sanitation, child labour, urban migration and ageing farmer populations.

But these challenges are not related to any specific crops, they are issues that are common to agriculture as a whole.

Despite this, some organisations claim that tobacco has a more detrimental impact than other crops. They say this is particularly true when it comes to deforestation, poverty and the social inequality caused by bonded labour, poor working conditions and occupational health risks such as green tobacco sickness (GTS).

We agree that tobacco, like all crops, does have its impacts but our approach to agriculture and working with farmers is designed to mitigate and address them.

For example, wood is often used as a fuel in tobacco curing processes. So we are helping farmers to preserve natural forests through afforestation programmes, which provide a sustainable source of wood. We also work to find locally available alternative fuels, and are exploring ways to reduce wood fuel consumption by using innovative designs for curing barns. As a result, in 2014, 94.8% of the wood our farmers used for curing did not come from natural forest. Find full details of our farmers' wood fuel sources at www.bat.com/wooddata.



Independent assurance

Comment from *Ernst & Young LLP*

Agricultural supply chains face major economic, environmental and social challenges. During the course of our work, we have seen specific examples of how BAT is addressing these challenges and strengthening its approach. However, we consider that BAT should ensure that its good practices are more consistently applied across all leaf suppliers, including third parties.



Supporting human rights

In 2014, we published our new Human Rights Policy in our revised Standards of Business Conduct. It details our commitments to eliminating child labour, no exploitation of labour and respect for freedom of association.

The Policy is part of our continuing commitment to the UN Declaration of Human Rights.

We are now working to develop a strengthened, integrated and systematic management approach to human rights due diligence aligned to the UN Framework and Guiding Principles on Business and Human Rights.

Like any business with an agricultural supply chain, we sometimes face allegations of child labour. In recent years, these have related to tobacco growing in Malawi and the US⁵. We take these, and any allegations, very seriously and are committed to open dialogue to address any issues identified.

For example, in Malawi we have engaged with government and international agencies at a national conference on child labour and are supporting the Government's national action plan through our membership with the Eliminating Child Labour in Tobacco Growing (ECLT) Foundation. In the US, we have engaged with the relevant parties and continue to promote a multi-stakeholder approach involving all key US-based stakeholders.

Setting standards

All our tobacco leaf suppliers are reviewed through our Social Responsibility in Tobacco Production (SRTP) programme. Suppliers' annual self-assessments are independently validated by AB Sustain, which also completes on-site reviews. In 2014, AB Sustain conducted 12 on-site reviews in eight countries. We publish suppliers' self-assessment scores at www.bat.com/SRTPdata.

SRTP covers good agricultural practices and environmental management, such as soil and water conservation, sustainable wood sourcing and protecting biodiversity. It also includes criteria on occupational health and human rights, which are aligned to International Labour Organisation (ILO) conventions and cover labour standards and activities to prevent child labour.

The SRTP programme sets out the minimum requirements we expect of our suppliers. If they are not met, action plans are put in place. Failure to comply with these could result in them losing their position as a supplier to BAT.

⁵ *Tobacco's Hidden Children: Hazardous Child Labour in US Tobacco Farming*, Human Rights Watch, May 2014

Working together

The challenges facing agriculture cannot be – and should not be – addressed by one group working in isolation. This is why we look to work in multi-stakeholder partnerships and implement joint solutions.



We co-founded the ECLT Foundation and remain active members, along with others in the industry, the ILO and Save the Children. The ECLT focuses on best practice research and advocacy, working with governments to improve access to education and social services for children, and running long-term projects in tobacco growing communities to address the root causes of child labour with local stakeholders.



Since 2001, as part of the BAT Biodiversity Partnership, we have worked with three major international conservation NGOs – Earthwatch Institute, Fauna & Flora International and Tropical Biology Association. The Partnership has worked on projects to help protect and enhance biodiversity in tobacco growing areas.



We also run other projects around the world in partnership with local stakeholders, including governments, academic institutions, NGOs, industry associations and development agencies. These range from offering training and development opportunities to farmers and young people living in rural areas, to providing much needed local infrastructure and resources for communities, such as health services, clean water and electricity.



For example, in 2014, our company in Bangladesh continued its collaboration with the Government's Department of Agricultural Extension to establish farmer clubs to provide training in agricultural skills. More than 50 farmer clubs have so far been established. Souza Cruz, our Brazilian company, works with local partners, such as the Centre for Rural Youth Development (Cedejor) and the Union of Farmers' Associations Ituporanga (Uniagri), on a programme to help develop the next generation of farmers.



What's next?

- 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.
- Achieve less than 1% use of natural forest for contracted farmers' curing fuels by end 2015.
- Not to 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.
- Develop and publish a supplier code, aligned to the UN Framework and Guiding Principles on Business and Human Rights, by end 2015.
- In support of our ongoing commitment to the UN Declaration of Human Rights, develop a strengthened, integrated and systematic management approach to human rights due diligence aligned to the UN Framework by end 2015.
- In response to completed biodiversity risk and opportunity assessments, implement action and monitoring plans for all our leaf growing operations in 2015.

Progress against our previous goals:

Four are completed or on track and two have not been met, which we are committed to meeting in 2015. For further details see

www.bat.com/farmergoals

Evidence-based

Driven by market dynamics and based on sound research and scientific evidence.

Locally relevant

Considers local political, economic and environmental factors, gives precedence to local implications or priorities and finds practical, workable solutions.

Holistic

Adopts a broad approach, understands tobacco is part of a mixed agricultural system and acknowledges initiatives already underway to avoid duplication.

Our 5 core principles for guiding future policy

Inclusive

Allows the whole tobacco growing supply chain to participate in decision making, is consultative and does not restrict the tobacco industry's existing support for farming communities.

Respectful of livelihoods

Prioritises farmers and their communities, and ensures farmers continue to be free to choose which crops they grow.

Shaping the future

Bodies such as the World Health Organisation's Framework Convention on Tobacco Control (FCTC) are calling for tobacco farmers to be encouraged to switch to alternative crops.

We agree that, as with any commercial crop, governments should look at the impacts of tobacco growing. But we believe this should be done in an inclusive and evidence-based way that takes into consideration the wider agricultural context.

In 2014, we developed five core principles that we believe can help guide future policy decision making. We are using these as we actively engage with regulators and governments on this issue.

Corporate behaviour

We are committed to operating to the highest standards of corporate conduct and transparency, benefiting governments, consumers, the environment and our people.

Our approach

Responsible marketing of our products, as well as providing clear and meaningful information about their risk profiles.

Working with retailers around the world to prevent children from getting access to tobacco products.

Engaging openly on regulatory issues, offering constructive solutions and being transparent about our views on key regulatory issues.

Fighting tobacco trafficking through international cooperation, industry-wide systems to secure the supply chain and working alongside law enforcement agencies.

Reducing our environmental impacts and making our operations more efficient.

Looking after our people and working to get closer to our goal of zero accidents.

‘I think global companies can and should make a difference’



Raising standards, leading the industry

We understand that tobacco is a controversial industry and there remains mistrust towards it across society. Building trust is crucial, which is why we have adopted an open and responsible approach everywhere we operate, working with transparency and clarity and ensuring that our actions speak louder than our words.

As an international business, with brands sold in more than 200 markets worldwide, we can help to raise standards at a global scale. This supports our business sustainability and benefits governments and society as a whole.

Marketing our products responsibly

For a business like ours with a range of products, it is imperative that we provide clear and meaningful information on our websites about the different risk profiles to help consumers make informed choices.

Ensuring we market our products responsibly to adult consumers only is also key. So for tobacco products, which pose such serious health risks, our marketing is governed by our International Marketing Principles (IMP) wherever they are sold around the world, often going beyond local legal requirements.

We monitor compliance to our IMP through market audits and annual self-assessments. In 2014, we found three cases of non-adherence (2013: 8) and immediate actions were taken for each of these incidents as part of our commitment to 100% compliance.

For snus smokeless tobacco, which is proven to be substantially less risky than smoking, we have specific marketing standards consistent with the distinct product category. We plan to publish our new marketing principles for nicotine products by the end of the year.

Preventing youth smoking

We are committed to carry out youth smoking prevention activities in all our markets where feasible and permitted.

Sometimes we are unable to carry out this work, such as in countries where there is political instability, where we only operate through a distributor, or where we are prevented from doing so by local legislation.

In 2014, youth smoking prevention activities took place in 99% of our markets that were able to do so. These include lobbying for minimum age laws of 18 where none exist, and working with more than two million retailers worldwide by raising awareness of existing laws, providing training and advice on checking IDs, and supplying in-store posters and other materials.

A global marketplace

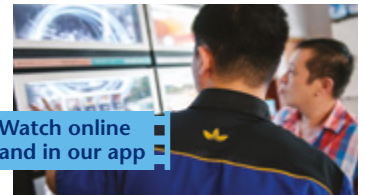


We have over 200 brands and, in 2014, sold 667 billion cigarettes.

Our five leading Global Drive Brands are Dunhill, Kent, Lucky Strike, Pall Mall and Rothmans.



Watch our *Integrity and Transparency* video showing our corporate behaviour in action at www.bat.com/corpvideo



Watch online and in our app

Our core marketing principles for tobacco products

Truthful

We will not mislead about the risks of smoking.



Targeted

We will only market our products to adult smokers.

Transparent

It should 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.



Trusted

We will not seek to influence the consumer's decision about whether or not to smoke, nor how much to smoke.



Independent assurance

Comment from *Ernst & Young LLP*

For many years, BAT has had International Marketing Principles for tobacco products. Given the challenges faced to date when marketing e-cigarettes in the UK, and with further nicotine products in the pipeline, we encourage BAT to expedite the development and implementation of International Marketing Principles for nicotine products before launching in further markets.

Open engagement on regulation

Our experience and expertise means that we have much to offer governments and regulators when it comes to helping develop policies around tobacco. We believe that when new regulations are being developed, decisions need to be based on thorough research and open consultation with those likely to be affected, including the tobacco industry.

We have long supported the Organisation for Economic Cooperation and Development's (OECD) Principles for Transparency and Integrity in Lobbying. In 2014, we published our Principles for Engagement, which provides clear guidance for our external engagement with regulators, politicians and other third parties.

We would like to see effective, evidence-based regulation that meets public health objectives but does not impede our ability to compete, respects our legal rights and does not damage livelihoods, such as those of farmers or retailers.

Some regulations can also have unwelcome and unexpected consequences. For example, sudden and significant hikes in excise rates can result in price disparities between neighbouring countries, increasing smuggling across borders.

We are transparent about what we think, supporting some new proposals but disagreeing with others. When we do not agree with proposed regulations, we try to be constructive and put forward alternatives that can still achieve government's regulatory aims and public health objectives.

Read our views on key regulatory issues at www.bat.com/regulation

In 2014, a key focus of our engagement was on regulation for the plain packaging of tobacco products. This was introduced in Australia in 2012 and is now being considered by several other governments around the world, including the UK and Ireland. You can read our views and reasons why we think plain packaging is a serious error of judgement, as well as our response to the UK Government's 2014 plain packaging consultation, at www.bat.com/plainpackaging.



E-cigarette regulation

Many governments are still unsure how to regulate e-cigarettes. This was a key topic under discussion at the sixth conference of parties of the World Health Organisation's Framework Convention on Tobacco Control (FCTC) in 2014. We welcome its decision to establish an independent expert group to look at the growing weight of scientific evidence regarding e-cigarettes.

We think overly restrictive regulation, such as bans or excise taxes similar to those for regular cigarettes, could be counterproductive. It stifles growth and innovation, and prevents smokers

becoming aware of and accessing them. Different products need to be regulated appropriately according to their risk profile.

We are advocating for regulation that has high consumer safety and product quality standards and restricts sales to over 18s, while enabling companies to freely innovate, and to distribute and market their products responsibly. For example, we are on the British Standards Institute's steering group for developing an industry code of practice for e-cigarettes, including safety and quality standards.

We think sound regulation should be...

...inclusive

Takes a consultative approach, is shaped in collaboration with all stakeholders, and respects legal rights and livelihoods.

...effective

Delivers its policy aims and recognises unintended consequences.

...evidence-based

Based on robust evidence and thorough research.

“ Employee viewpoint

Most of the regulators that I speak to are very surprised that we are not against regulation but rather we are for sensible, evidence-based regulations. We do our business in the open and not behind closed doors.

Ezmir Hazizi Bin Azhar, Regulatory Affairs Manager, BAT Malaysia



Fighting tobacco trafficking

Due to their high value, weak penalties and the relative ease with which they can be produced and moved without detection, cigarettes are among the most commonly traded products on the black market.

But it is an illegal trade that cheats governments out of some £30 billion each year in taxes. It also puts consumers at risk by flooding the market with unregulated and often sub-standard products, and criminals actively market and sell tobacco products to children. It is also a huge threat to legitimate businesses, such as BAT.

More than
£50 million

invested each year in the fight against the tobacco black market

Some
£30 billion

in worldwide government taxes estimated to be evaded each year due to illegal tobacco



Keeping our own house in order

- We support only legitimate trade in our products.
- We stop doing business with customers or suppliers who are found to be complicit in tobacco trafficking.
- We have 'Know Your Customer' guidelines and procedures, which require the volume of tobacco products we supply to be consistent with legitimate demand.



Working with others

- We engage with governments and international organisations, such as the World Customs Organisation and the OECD, to increase understanding and find ways to work together to address this global problem.
- We work with the European Commission and its member states, and are committed to providing funding of €134 million as part of our 20-year cooperation agreement, which includes training border staff in new security systems.
- We have agreements with governments and customs authorities in over 50 countries worldwide.



Implementing industry-wide supply chain security systems

- We have a proven, automated system for tracking and tracing products as they move through the supply chain, which we are implementing in our markets as part of our cooperation agreement with the European Commission.
- We are founding members of the Digital Coding and Tracking Association (DCTA), which promotes an agreed industry-wide approach to help governments ensure taxes and duties are paid, and help consumers and authorities validate a product's authenticity.



Fighting alongside law enforcement agencies

- We gather and share intelligence.
- We monitor the destruction of seized products and machinery.
- We authenticate seized products and carry out forensic analysis on illegal goods.



“ Independent Non-Executive Director viewpoint
 The Board CSR Committee are able to bring an impartial view, and make sure the business is living up to its principles and standards and are accountable for what they do.

I believe that BAT has the will, and the means, to tackle tough issues and the scale to make a difference. I have had the opportunity to see for myself the real progress being made.

Karen de Segundo, Chairman of the Board CSR Committee

Global reach, responsible actions

We are a successful, global business that makes a valuable contribution to economies around the world. While we face many issues that are specific to our industry, just like any other global business, we also have a responsibility to act with integrity, address our environmental impacts and look after our people.

We have clear policies and standards in place that set the standard for the way we do business and how we behave.

www.bat.com/principles

Reducing our environmental impacts

As a major multinational, we have a responsibility to minimise our impact on the environment. This is vital to ensuring our business, local communities and ecosystems have access to the natural resources needed for a sustainable future. It makes good economic sense for us to use raw materials, energy and water in a sustainable way and we recognise that we must maintain a clear strategic approach to managing our global footprint.


Using a mixture of performance management and risk assessments, we are constantly monitoring and reducing our direct environmental impacts, and developing new processes and procedures to make our operations more efficient. We put particular effort into minimising our energy consumption and carbon emissions.

Our long-term targets to cut carbon dioxide equivalent (CO₂e) emissions by 50% by 2030 and by 80% by 2050 from our year 2000 baseline are in line with UK Government targets. We have already made significant progress, having achieved a 45% CO₂e reduction from the baseline.


Water is an important resource for tobacco growing and manufacturing. We have set ourselves a target to reduce water use across our direct operations and are making good progress on this. However, we still have much to do in relation to wider supply chain impacts and longer term risk planning.

To support this, we are now working on assessments of our strategic operations that we have identified as 'high risk'. These will help us better understand our long-term water supply and demand requirements and inform action plans.

As of 2014 we have achieved...

 **45%**
 reduction in CO₂e emissions
from our 2000 baseline

 **13%**
 reduction in energy use
from our 2007 baseline

 **24%**
 reduction in water use
from our 2007 baseline

 **68%**
 reduction of waste sent to landfill
from our 2007 baseline

 **92.6%**
 of our waste recycled

Looking after our people

Worldwide, we employ over 57,000 people, of more than 130 different nationalities. They work in a diverse range of environments and conditions, from city offices to factories, from remote farms to spending long periods out on the road. Our goal of zero accidents reflects our commitment to keeping them all as safe as possible.

As a result of this continuing focus on safer working conditions and behaviour, we have been able to reduce total accidents across the Group – down by 19% in 2014, with 72% of our sites achieving zero accidents.

However, we have seen an increase in fatalities – from six in 2013 to eight in 2014 as a result of road traffic accidents and armed attacks on trade and distribution personnel. These all took place in some of the more challenging environments in which we operate, where there is political instability and high security risks, or roads and transport infrastructure are poor.

We deeply regret this loss of life and the suffering caused. We carry out detailed reviews of all accidents and fatalities to learn lessons and identify actions to reduce the chances of similar events happening again.

In 2014, we launched a new programme for our trade and distribution teams, which provides tangible tools, guidance and procedures for security and driver safety. We expect this to help address this high risk area of our business and lead to a reduction in fatalities.

We also have programmes around the world that protect and promote health and wellbeing for employees, their families and local communities. These include medical services and insurance, healthy lifestyle and fitness schemes and family-friendly policies and initiatives, such as flexible working and help with childcare.

In 2014, such programmes were in place in 95% of our reporting markets.

Find out about how we are building a diverse, rewarding and engaging culture in the Winning Organisation section of our Annual Report.

➔ www.bat.com/annualreport

➔ What's next?

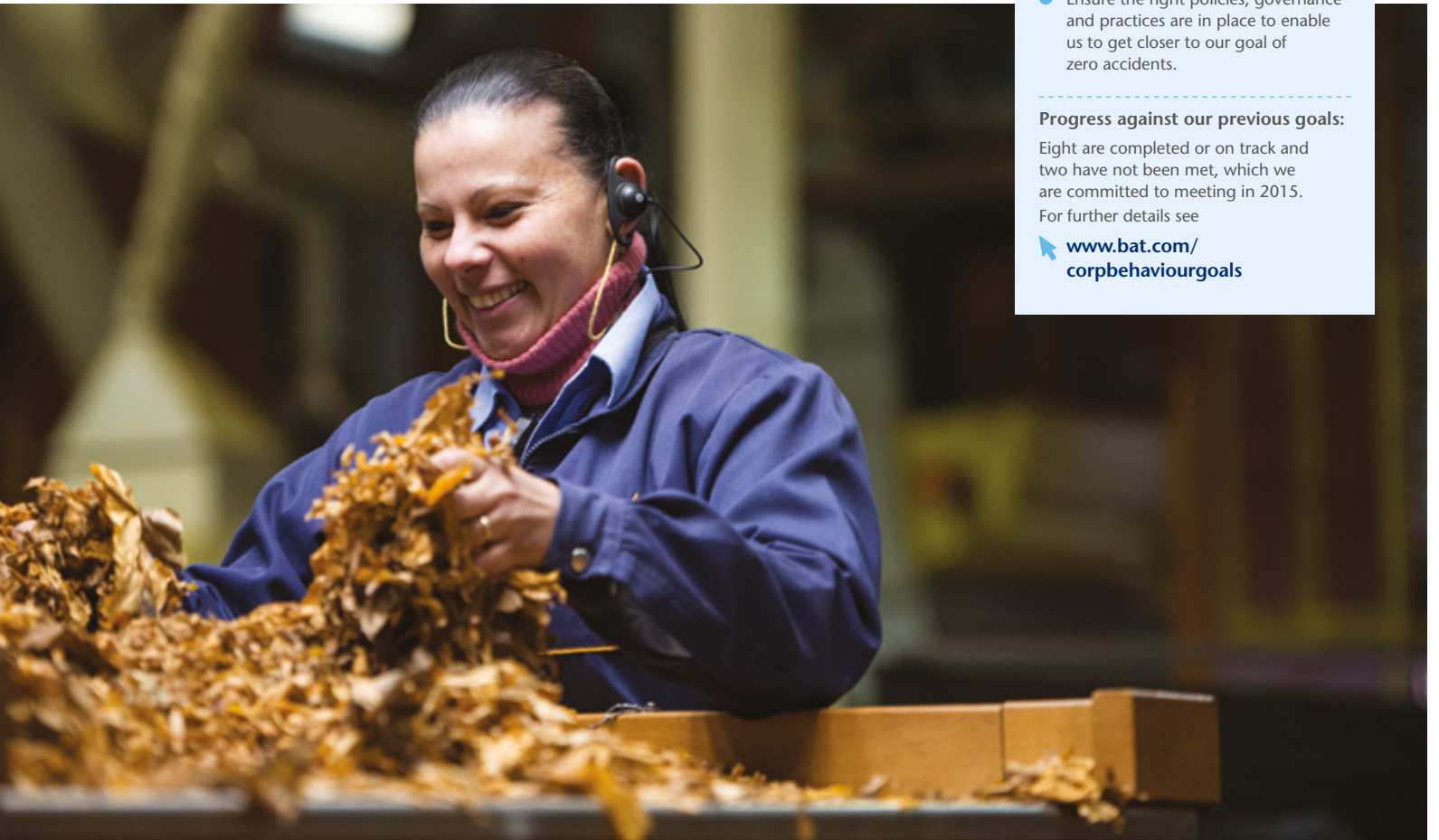
- 100% adherence to our International Marketing Principles by end 2015. If any cases of non-adherence are identified, ensure immediate actions are put in place.
- 100% adherence to our global approach to youth smoking prevention in all markets where feasible and allowed by end 2015.
- As part of our 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 CO₂e 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 energy use towards our 2017 target of 9.82 gigajoules per million cigarettes equivalent produced, 17% lower than our 2007 baseline.
- Reduce our water use towards our 2017 target of 3.6 cubic metres per million cigarettes equivalent produced, 26% 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.
- 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.

Progress against our previous goals:

Eight are completed or on track and two have not been met, which we are committed to meeting in 2015.

For further details see

➔ www.bat.com/corpbbehaviourgoals



www.bat.com/sustainability

More detailed information on our sustainability agenda, as well as other key areas, including governance, stakeholder engagement and materiality.



Performance centre

Progress against our goals, performance charts, Global Reporting Initiative (GRI) G4 reporting, independent assurance statement and our response to assurance.

www.bat.com/sustainability/data



Sustainability app

All our latest sustainability and focus reports in one place – read them any time, anywhere, including additional interactive content and embedded videos.

[Search for BAT Sustainability in the iTunes App Store \(iPad\) or Google Play Store \(Android tablets\)](#)



Focus reports

In-depth information on specific topics, including our two most recent reports on harm reduction and farmers' livelihoods.

www.bat.com/sustainabilityfocus



Annual Report

Our Group vision, strategy, business model, governance and financial reporting.

www.bat.com/annualreport



About this Report

This is the British American Tobacco p.l.c. Sustainability Summary 2014. It reports on the activities of British American Tobacco companies in the UK and internationally for the calendar year 2014. 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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