

MODERN SLAVERY STATEMENT



BRITISH AMERICAN
TOBACCO

MODERN SLAVERY ACT¹ STATEMENT 2016

British American Tobacco (BAT) has a long-standing commitment to respect fundamental human rights, as affirmed by the Universal Declaration of Human Rights. This includes always conducting our operations in ways that respect the human rights of our employees, the people we work with and the communities in which we operate.

We are aware of slavery in the world today and consequently take a zero tolerance approach to it in all forms. This encompasses slavery, servitude, forced and compulsory labour and human trafficking², affecting some of the world's most vulnerable individuals and groups, often through exploitation by criminal gangs.

The International Labour Organisation (ILO) estimates that almost 21 million people are, currently, victims of forced labour, of whom almost 19 million are exploited by private individuals or enterprises³. All businesses run the risk of being exposed to modern slavery, either within their own operations or those of their extended supply chain.

This statement outlines the steps taken by the BAT Group between 1 January and 31 December 2016, to prevent slavery and human trafficking occurring within our business and supply chain, and is written in accordance with the requirements of the UK Modern Slavery Act 2015, covering BAT p.l.c. and subsidiary Group companies⁴. This activity takes place within our broader human rights strategy, more details of which can be found in our [Sustainability Report 2016](#).



OUR BUSINESS AND SUPPLY CHAINS

BAT is one of the world's leading multinational companies, employing around 50,000 people, with a 2016 turnover of over £14 billion.

We produce and sell a range of tobacco and nicotine products for adult consumers, including: cigarettes, Fine Cut tobacco, Swedish-style snus and Next Generation Products (Vapour Products, or e-cigarettes, and Tobacco Heating Products).

In 2016, we sold 665 billion cigarettes in more than 200 markets worldwide, which are made in 44 BAT factories in 42 countries. Our Vapour and Tobacco Heating Products are manufactured in third-party factories and are currently available in 12 markets.

Our supply chain consists of two discrete elements:

Tobacco leaf agricultural supply chain

Tobacco remains the most essential part of our product and the farmers who grow it are absolutely crucial to the success of our business.

We buy more than 400,000 tonnes of tobacco leaf each year from suppliers located in 33 countries, which are managed centrally by our Group Leaf Function, and include:

- BAT-owned companies, which directly contract and support over 90,000 farmers; and
- Third-party suppliers, which contract with their own farmers.

We also purchase a small amount of tobacco leaf sourced from auction floors.

The farms in our supply chain vary in size and complexity. The majority are smallholder family farms of a hectare or less, as well as some larger farms which employ hired labour to tend and harvest the tobacco leaf.

Non-agricultural supply chain

In addition to tobacco leaf, the other direct materials we buy to make our products, such as paper and filters and the components that go into our Next Generation Products, represent our highest value strategic supply chain. In 2016, we had over 6,000 direct materials suppliers, managed by our global, regional and local Procurement teams.

In addition, we have over 65,000 suppliers of other goods and services, such as machinery, IT and consultancy.

400,000+ TONNES

of tobacco leaf purchased each year from suppliers located in

33 COUNTRIES

¹ The *Modern Slavery Act* was passed by the UK Government in March 2015.

² *UK Government Modern Slavery Strategy*, November 2014, page 9.

³ *Forced labour, modern slavery and human trafficking*, International Labour Organisation (accessed in March 2017).

⁴ This includes British American Tobacco p.l.c. and subsidiary Group companies worldwide, including all relevant BAT companies according to the requirements of the UK Modern Slavery Act: British American Shared Services (GSD) Limited, British American Tobacco Taiwan Logistics Limited, B.A.T. China Limited, B.A.T. Services Limited, British-American Tobacco (Holdings) Limited, Dunhill Tobacco of London Limited, British American Tobacco (Investments) Limited, British American Tobacco (GLP) Limited, British American Tobacco UK Limited, British American Tobacco Western Europe Commercial Trading Limited, and B.A.T. (U.K. and Export) Limited.

OUR POLICIES, PRINCIPLES AND STANDARDS

Our approach is underpinned by clear policies, principles and standards that detail the way we do business and how we behave. They include:

Our [Statement of Business Principles](#) which sets out our beliefs and values as an organisation. It includes our long-standing commitment to respect fundamental human rights, as affirmed by the Universal Declaration of Human Rights.

Our [Standards of Business Conduct](#) (SoBC) which apply those values and principles to specific situations, which may arise in our day-to-day business life, and cover our Policy commitments. These Standards were updated in 2014 to include our Human Rights Policy, outlining our commitment to conduct our operations in a way that respects the human rights of our employees, the people we work with, and the communities in which we operate. Specifically, this states that *we do not condone forced, bonded or involuntary labour, or the exploitation or unlawful use of immigrant labour.*

Every Group company and every employee worldwide is expected to live up to the Standards. Compliance is monitored through a formal process which requires all staff working across the Group to complete an annual sign-off to confirm their commitment and adherence and to re-declare any personal conflicts of interest. Continuous information on compliance is also gathered at a global level and reported through the year to our Regional Audit and CSR committees, and quarterly to the Main Board Audit Committee.

Our Whistleblowing Policy also sits within the SoBC. Robust procedures are in place throughout the Group to provide additional guidance and support to staff, and to enable them to report grievances and issues of concern in confidence, without fear of reprisal, and in their local language.

We have always expected our suppliers to follow the same high standards, but to clarify this further and to complement the SoBC, in 2016, we introduced our [Supplier Code of Conduct](#). This defines the minimum standards required of all our suppliers, including the respect of human rights, and is incorporated into our contractual arrangements with suppliers. Specifically, the Code requires that all suppliers ensure their operations are *free from forced, bonded, involuntary, trafficked or unlawful migrant labour.*

Find details of these, and all our other policies, principles and standards, at

 WWW.BAT.COM/PRINCIPLES

SUPPLIER CODE OF CONDUCT

requires all suppliers to ensure their operations are **FREE FROM** forced, bonded, involuntary, trafficked or unlawful migrant labour

OUR APPROACH TO HUMAN RIGHTS DUE DILIGENCE

Our long-standing due diligence processes enable us to monitor the effectiveness of, and compliance with, our Policy commitments, as well as to identify, prevent and mitigate human rights risks and impacts. Our Main Board of Directors has overall responsibility for these issues.

Reporting mechanisms ensure that any instances of non-compliance with our Standards of Business Conduct are brought to the attention of the Main Board Audit Committee.

Agricultural supply chains are particularly vulnerable to a range of challenges, including climate change and water scarcity, increasing demand for land and natural resources, rural poverty and social inequality, child labour and ageing farmer populations. Tobacco is no exception.

Based on careful assessment and the insights developed over many years, we believe that the greatest risk of modern slavery is in our tobacco leaf supply chain. At the same time, we acknowledge the potential – albeit lower – risk of modern slavery in our non-agricultural supply chain.

Tobacco leaf agricultural supply chain

We conduct due diligence on our tobacco leaf supply chain through the Sustainable Tobacco Programme (STP), which assesses and monitors suppliers' performance in meeting industry-wide standards.

The programme assesses the first-tier suppliers we buy tobacco leaf from, some of which are BAT-owned companies. It checks if they have the appropriate systems, governance and procedures in place to ensure high environmental and human rights standards on the farms they source from, and provide the best quality tobacco leaf.

STP was developed in 2015 in collaboration with five other tobacco manufacturers to bring together best practice from across the industry. Implementation began in June 2016, replacing our Social Responsibility in Tobacco Production programme, which ran for more than 15 years (for which aggregated supplier scores were published annually at www.bat.com/srtpdata).

The programme is aligned to important external standards, such as those of the ILO, and includes strengthened processes and more frequent on-site reviews. It is managed by [AB Sustain](#), an independent supply chain management company, which is responsible for coordinating the annual self-assessments from suppliers across the industry, and also for conducting the on-site reviews, which each supplier undergoes on a three-year rolling basis.

The programme has 178 criteria under the key areas of: crop, environment, people and facilities. Suppliers must also show that they have good governance underpinning all four areas and are required to assess, identify and mitigate any significant risks which may affect their ability to meet the criteria.

The criteria include a number relating specifically to forced labour, covering prevention of bond, debt and threat, freedom to leave employment, withholding of payments, retention of identity documents and valuables, and prison and compulsory labour.

Suppliers (including those supplying several tobacco companies) complete a comprehensive annual self-assessment. Independent on-site reviews will also be carried out every three years by AB Sustain, including in-depth analyses of suppliers' policies, processes and practices and visits to the tobacco farms they source from.

We will use the results of the self-assessments and the on-site reviews to work collaboratively with suppliers to drive corrective action and improvements. In the event of any serious and/or persistent issues, or where suppliers fail to demonstrate a willingness to improve performance, we reserve the right to terminate the business relationship.





MODERN SLAVERY RISK AND MANAGEMENT

The risks of slavery and human trafficking in our own business operations are substantially avoided and mitigated as a result of the suite of robust policies, practices, compliance procedures and governance oversight that we have in place across all Group companies.

As stated above, we consider the greatest risk of slavery and human trafficking to be in our tobacco leaf agricultural supply chain.

In 2016, other than those detailed below, no incidents of modern slavery or forced labour were identified through our due diligence processes, and no incidents, grievances or concerns relating to modern slavery or forced labour were reported or identified through our whistleblowing procedures or grievance mechanisms.

Tobacco leaf agricultural supply chain

In June 2016 [Swedwatch](#), a non-governmental organisation, published a report entitled *'Smokescreens in the supply chain: The impacts of the tobacco industry on human rights and the environment in Bangladesh'*⁵. Among its findings, the report alleged that many tobacco farmers in Bangladesh risk being trapped in a cycle of over-indebtedness, and that this "raises the risk of the farmers being in a situation equivalent to that of bonded labour"⁶.

As a result, we conducted our own internal review in Bangladesh and remain of the view that the report as a whole is not representative of the reality on the ground. However, we recognise the serious nature of the allegations and so have commissioned an independent assessment of the human rights related impacts of tobacco growing in the country and will use the results to address any issues that may be identified.

In addition, there have been ongoing allegations of human rights abuses on unspecified tobacco farms in our United States (US) supply chain, including concerns raised regarding migrant workers' awareness of their rights for freedom of association and unionisation.

We prioritised an independent on-site review of our US supply chain in 2015, along with a separate independent report to examine the specific allegations – neither of which uncovered any evidence of wrongdoing. However, we continue to engage with the relevant stakeholders and work with our associate company, Reynolds American Inc (RAI) – including RAI's subsidiary RJ Reynolds Tobacco Company – to address these concerns. This includes RJ Reynolds' participation in the Farm Labor Practices Group (FLPG), a US-based multi-stakeholder forum established to directly promote compliance with the laws protecting worker rights in the US tobacco supply chain.

Our approach to working directly with our contracted farmers and supporting rural communities can help to address rural poverty, which is recognised as one of the root causes of modern slavery in agriculture.

Our recently launched Sustainable Agriculture and Farmer Livelihoods (SAFL) programme – which builds on the work our agricultural Extension Services and field technicians have undertaken with farmers over many years – aims to enhance farmer livelihoods and, in doing so, minimise the risk that they resort to the use of forced or bonded labour. More information on SAFL can be found in our [Sustainability Report 2016](#).

Non-agricultural supply chain

In 2016, we worked to build upon and strengthen our existing supplier assessment programme for strategic direct materials suppliers, to be better aligned to the UN Guiding Principles and extending it to cover all of our 70,000+ non-agricultural first-tier suppliers worldwide.

This included working with experts from [Verisk Maplecroft](#), a respected independent consultancy, to develop a systematic, integrated supply chain due diligence (SCDD) process.

The starting point for SCDD is to assess each supplier's inherent human rights risk based on the type of supplier and the country where it operates. To do this, we use a series of Verisk Maplecroft's human rights indices, including the Modern Slavery Index. We then prioritise those suppliers identified as being exposed to the highest risks and ask them to complete a self-assessment questionnaire.

The latter is structured around the key areas of our Supplier Code of Conduct and provides us with information on the policies, procedures and practices the supplier has in place to effectively manage these risks.

Where the results of the self-assessment highlight minor areas for improvement, we work with the supplier to develop corrective actions and agree a timescale for material progress towards compliance.

Where the results reveal more significant issues, an on-site audit will be conducted by our independent auditor, [Intertek](#). This includes criteria on labour standards – with a specific section focusing on forced labour – as well as child labour, wages and hours, health and safety, environment and management systems.

Should the audit identify areas of concern, we agree an action plan with the supplier that includes clear timescales for improvements to be made. In the event of serious and/or persistent non-compliance, or where suppliers fail to demonstrate a willingness to improve performance, we reserve the right to terminate the business relationship.

Having successfully tested the process in 2016, we are now conducting a phased roll out to all our non-agricultural suppliers worldwide.

In addition to audits triggered by the SCDD process, all of our strategic direct materials suppliers, as part of our existing supplier assessment programme, have to undergo the same audit, also conducted by Intertek, in order to be appointed as a new supplier to BAT. They are then re-audited every three to four years.

⁵ *Smokescreens in the supply chain: The impacts of the tobacco industry on human rights and the environment in Bangladesh*, Swedwatch, June 2016.

⁶ *Ibid*, page 4.

We are acutely aware that different farm settings face different challenges, which may affect the likelihood of modern slavery occurring. In addition to the formal reviews as part of the Sustainable Tobacco Programme, our expert field technicians around the world regularly visit more than 90,000 farmers in our tobacco leaf supply chain. These visits give our staff the opportunity to check conditions on the ground and provide a further safeguard against forced or bonded labour being used within our supply chain.

90,000+ FARMERS WORLDWIDE

are regularly visited by our expert field technicians

Non-agricultural supply chain

In 2016, an Intertek audit of a direct materials supplier in Thailand identified one incident relating to forced labour. This related to the supplier's non-compliance with local laws concerning the amount of notice employees need to give prior to terminating their employment.

We are now working with the supplier to implement a corrective action plan to address this issue.

MODERN SLAVERY TRAINING

In 2016, we delivered the following training that included specific content on human rights and modern slavery:

- Training webinars for our Legal and External Affairs employees on our Standards of Business Conduct and Supplier Code of Conduct;
- A global roll out of new training and communications materials for all employees worldwide on our Standards of Business Conduct, clarifying what they should do if they discover actions that conflict with our Standards;
- A series of workshops with our BAT-owned and third-party tobacco leaf suppliers across the globe to introduce the Sustainable Tobacco Programme (STP) and its specific criteria on human rights and forced labour. They then delivered training to their teams and farmers; and
- Through our agricultural Extension Services, we provided training and capacity building on human rights issues for our farmers and members of local communities, attended by over 60,000 beneficiaries.

In 2017, we will develop and roll out a new human rights e-learning package to colleagues working within our Procurement and Legal and External Affairs functions.

MEASURING THE EFFECTIVENESS OF OUR PROGRAMME

With the exception of the cases detailed above, no incidents of modern slavery were identified during 2016.

Notwithstanding this evidence of the effectiveness of our approach, we have devoted considerable effort throughout the year to improving the robustness of our systems and, in particular, extending our due diligence to include all of our non-agricultural first-tier direct and indirect suppliers.

In 2017, these enhancements, as well as the implementation of the industry-wide Sustainable Tobacco Programme (STP) and our own Sustainable Agriculture and Farmer Livelihoods (SAFL) programme, will strengthen our management and public reporting of the risks associated with modern slavery. Specifically, we will:

- Following the first full year of implementation, publish our suppliers' aggregated STP scores from 2018;
- Report on how our SAFL programme is contributing to improvements in farmers' incomes and, in doing so, helping to address one of the root causes of forced and bonded labour;
- Publish the summary findings of the independent report on the human rights related impacts of tobacco growing in Bangladesh;
- Strengthen and increase the accessibility of our whistleblowing procedures and grievance mechanisms, through implementing a new third-party managed *Speak Up* hotline and website by end 2017; and
- Continue to publish aggregated details of all whistleblowing reports, including those relating to human rights, in our [Sustainability Performance Centre](#).

Nicandro Durante

CHIEF EXECUTIVE, MARCH 2017

This statement has been approved by the Main Board of Directors of BAT p.l.c. and the Board of Directors of all relevant Group subsidiary companies listed in footnote 4 on page 1.

www.bat.com/humanrights

More detailed information on our broader management of human rights.



PERFORMANCE CENTRE

Performance charts against our key metrics and our reporting against the Global Reporting Initiative (GRI) G4 indicators, including those relating to human rights.

 www.bat.com/sustainability/data



GET IN TOUCH

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SUSTAINABILITY REPORT

Our sustainability strategy and the three key areas of Harm Reduction, Sustainable Agriculture and Farmer Livelihoods, and Corporate Behaviour.

 www.bat.com/sustainabilityreport



ANNUAL REPORT

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

 www.bat.com/annualreport



References in this statement to 'British American Tobacco', 'BAT', 'we', 'us' and 'our' when denoting opinion refer to British American Tobacco p.l.c. and when denoting tobacco business activity refer to British American Tobacco Group operating companies, collectively or individually as the case may be.

The statement contains forward-looking statements that are subject to risk factors associated with, among other things, the economic and business circumstances occurring from time to time in the countries and markets in which the Group operates. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a wide range of variables that could cause actual results to differ materially from those currently anticipated.