STRATEGIC MANAGEMENT

Delivering our strategy

Growth

Our brands delivered further growth in 2014 as we continued to invest in opportunities in key markets and next-generation tobacco and nicotine products.

The Group grew revenue by 2.8% at constant rates of exchange, driven by a price mix of 4.2%. Strong pricing in a number of key markets was partly offset by increased competitive pricing activity and the growth of lower-priced segments in certain markets. At current rates of exchange, revenue decreased by 8.4%, reflecting the adverse impact of exchange rate movements.

We grew volume in a number of markets, including Bangladesh, Venezuela, China, Turkey, Ukraine, Pakistan and Iran.

However, volume was lower in Russia, Vietnam, Brazil and across Western Europe. Overall cigarette volume from subsidiaries was 667 billion, down by 1.4%, largely as a result of industry volume decline.

Total tobacco volume (including cigarettes and other tobacco products) was 1.3% lower than last year. Our Fine Cut tobacco business grew by 1.0%, driven by a good performance in Western Europe, where Fine Cut volume increased by 1.7%.

Our brands continued to perform well in 2014, with another strong contribution from our Global Drive Brands (GDBs) – Dunhill, Kent, Lucky Strike, Pall Mall and Rothmans. They drove our share growth of 10 basis points in key markets.

Another good year for our GDBs

Our continuing investment in our GDBs has seen their share of our global volume double to 42% since 2003.

GDB volume growth of 5.8% in 2014 was driven by Rothmans as well as the continued strong performance of our other GDBs. Our GDB market share grew by 90 basis points, with Rothmans and Pall Mall making particularly strong gains. GDB Fine Cut products performed well too, with volume increasing by 6.6% in 2014.

Innovations, such as capsules, re-sealable packaging, additive-free blends, new filter technologies and our more recent launch of tube filters, accounted for nearly one-quarter of our total cigarette volume in 2014.

Cigarettes with tube filters have been rolled out to 24 markets and have also established a presence in Global Travel Retail outlets.

We continue to be the market leader for capsule products, with a segment share of more than 40% in our key markets.

Dunhill

Dunhill delivered volume growth of 2.9% to 55 billion cigarettes in 2014. This result was driven by a very strong performance in Indonesia and growth in Brazil, partially offset by declines in Malaysia, South Korea and the Gulf Co-operation Council (GCC) countries.

Innovations accounted for 81% of Dunhill's 2014 volume, with 75% of all Dunhill cigarettes now sold in re-sealable packaging.

Kent

Kent volume in 2014 was 64 billion, down by 2.8% due to industry decline in Russia, Romania and Ukraine, partially offset by growth in Iran, Uzbekistan, Japan and Turkey. Innovations now account for 83% of the brand's global volume.

We continue to expand our offerings in the Kent HD range, featuring new tube technology which further enhances the brand and made up 36% of Kent volume in 2014.

Lucky Strike

Lucky Strike, our original American brand, saw volume growth of 0.8% to 31 billion cigarettes. The growth was driven by Mexico and an improved performance in Western European markets such as Spain, Belgium and France.

This was partially offset by volume decline in Chile, Poland and the Philippines. Innovations now account for 33% of Lucky Strike volume, including our additive-free offer which continues to grow strongly. Lucky Strike Fine Cut also had a successful year, with volume up by 12.7%, driven by gains in Luxembourg, Germany, France, Spain and Belgium.

Pall Mall

Pall Mall, our leading brand in terms of volume, grew by 5.6% in 2014, delivering a record volume of 92 billion cigarettes, as a result of increases in Pakistan, South Africa, Mexico and Chile. This was partially offset by lower volume in Italy, Russia, the UK and Belarus.

Innovations accounted for 20% of Pall Mall's cigarette volume, while Pall Mall Fine Cut volume was up by 5.4% in Western Europe, mainly driven by growth in Germany, Hungary, Belgium, the Netherlands and Luxembourg. Pall Mall remains the biggest Fine Cut brand in Western Europe.

Rothmans

Rothmans became part of our portfolio of GDBs at the start of 2014 recognising the brand's strategic value to the Group. The brand's volume was up by 39.8% in 2014 reaching a total of 36 billion cigarettes – adding 5.5 billion cigarettes in Russia alone, building on the brand's very successful launch there in 2012. Rothmans also achieved volume growth in Italy, Ukraine and the UK. Innovations accounted for 31% of Rothmans' cigarette volume, more than four times greater than in 2013, driven by successful launches in Eastern Europe.

Premium growth

The Group delivered a strong performance in the premium segment in 2014. Our share of this segment grew by 30 basis points, mainly driven by Dunhill in Indonesia, Romania and Brazil, State Express 555 and Kent in Vietnam, John Player Gold Leaf in Pakistan and Lucky Strike in Argentina. This more than offset the impact of declines elsewhere – Kent in Russia, Lucky Strike, Kent and Dunhill in Chile and Dunhill in the GCC.

STRATEGIC MANAGEMENT

Delivering our strategy continued

Growth continued

International brands

In addition to our GDBs, we continue to invest in a strong range of international brands that play an important role in many markets' portfolios.

Viceroy is the largest in volume terms. It experienced volume decline of 2.6% in 2014, due to market declines in Poland and Russia, partially offset by increases in Azerbaijan, Egypt and Turkey.

John Player Gold Leaf is a very important regional brand in Asia-Pacific and the Middle East. Its volume declined by 2.1% in 2014, due to decreases in Pakistan, Bangladesh and Sri Lanka partially offset by strong volume growth in the GCC.

Benson & Hedges grew in several markets, although overall volume fell slightly due to market declines in Bangladesh and Australia. Craven A was heavily impacted by market decline in Vietnam and in other markets in Asia-Pacific and EEMEA.

CTBAT International Ltd, our joint venture with subsidiaries of China National Tobacco Corporation, commenced operations in 2013. It owns and manages the worldwide international rights to State Express 555 as well as the rights outside China to the leading Chinese brand, Shuang Xi.

State Express 555 volume was up by 24.7% in 2014, driven by increases in China, Cambodia and Global Travel Retail, partially offset by decline in Vietnam. Shuang Xi has been successfully launched in Pakistan, Russia, Poland, Hong Kong and Macau.

We are committed to leading in next-generation products

The Group is committed to leading the market in next-generation tobacco and nicotine products.

We will complement our core tobacco business by offering adult consumers a wide choice of alternative products, including e-cigarettes, medicinal nicotine products and tobacco heating products.

The Group is investing significantly in this category because it will create long-term growth opportunities for the Group while meeting consumer demand for less risky alternatives to smoking.

We are well placed to deliver these new products. We understand the needs of smokers and we are investing substantially in the research, development and commercialisation of a pipeline of products.

Vype

In 2013, we were the first international tobacco company to launch an e-cigarette in the UK. Since then, we have further increased our understanding of the needs of consumers in this sector.

In 2014, we used these insights to develop the range. We launched two new innovative products to better meet consumer expectations – Vype eStick and Vype ePen.

We have also increased retail distribution and supported the brand with investment in responsible TV and cinema advertising aimed solely at adult smokers and users of other nicotine products.

We will use what we have learned in the UK market to support the launch of Vype in further markets.

Voke

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.

Tobacco heating products

Tobacco heating products heat tobacco rather than burning it, making them a potentially less risky option. We plan to begin consumer trials of a tobacco heating product by the end of 2015 and have our first product in a test market in 2016.

Regulation

We think overly restrictive regulation that treats products like e-cigarettes in the same way as traditional tobacco could be counterproductive. It could stifle innovation and the growth of the category and prevent smokers becoming aware of and accessing these new products. We support 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.

Standards

We uphold high standards for our products. We have a robust approach to quality and product testing for e-cigarettes. We voluntarily use appropriate warnings on packs and our marketing is directed at existing adult smokers or consumers of other nicotine products only.

Key performance indicators (KPIs)

Total shareholder return – annual %
(compound annual growth rate – CAGR)

11.4%

Definition: Total shareholder return (TSR) is measured according to the return index calculated by Datastream, on the basis of all companies' dividends being reinvested in their shares. The return is the percentage increase in each company's index over a three-year period.

Objective: The Group is focused on increasing shareholder value, which is measured using TSR compared to a fast-moving consumer goods (FMCG) peer group. The FMCG comparator group is reviewed annually to ensure it remains both relevant and representative.

Group share of key subsidiary markets*
(Increase in % share)

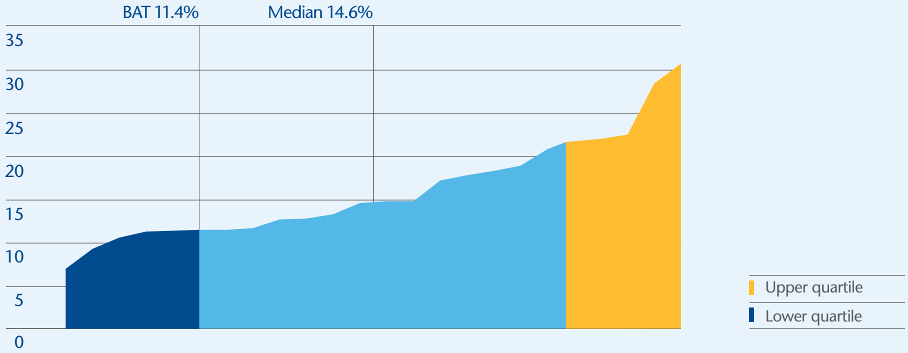
+10bpts

Definition: This is our retail market share in the Group's key markets, which cover around 80% of the volumes of subsidiaries.

Target: To continue to grow market share.

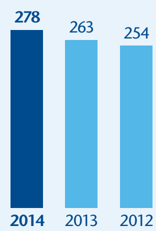
Note: *Share figures are rebased annually to reflect market and segment changes.

FMCG Group – 1 January 2012 to 31 December 2014
The FMCG Group comparison is based on three months' average values



Global Drive Brands' (GDBs) cigarette volume
(bn)

278bn
+5.8%

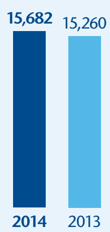


Definition: GDB volume is calculated as the total volumes of the five GDBs sold by our subsidiaries.

Target: To increase our GDBs' share faster than the rest of our portfolio. 2012 and 2013 figures have been re-stated to include Rothmans' volume.

Net turnover (NTO) at constant exchange rates

£15,682m
+2.8%



Definition: Gross turnover net of duty, excise and other taxes.

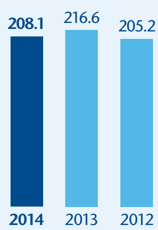
Target: To grow NTO by 2–5% per year.

New KPI introduced

In 2014, we reviewed our KPIs and how they support our strategic objectives. The TSR indicator was reduced by discontinuing a FTSE 100 Index comparator and focusing solely on a FMCG comparator group. We have introduced net turnover as an indicator of organic growth.

Adjusted diluted earnings per share at current rates
(pence)

-3.9%



Definition: This is our adjusted diluted earnings per share (EPS) – the detail of the calculation and adjustments are explained in Note 7 in the Financial Statements.

Target: To grow adjusted diluted EPS at the rate of high single figures per annum, on average, over the medium to long term.

STRATEGIC MANAGEMENT

Delivering our strategy continued

Productivity

We are becoming a more efficient and effective business, with global systems and ways of working, a responsive supply chain and a long-established approach to securing the highest quality leaf for our products.

By continually improving our productivity today, we are able to generate funds to invest in the growth of our business in the future.

In 2014, we continued to improve the Group's operating margin, with a 54 basis points increase to 38.7%. This is a good performance given that we absorbed significant increases in transactional costs caused by exchange rate movements.

It also demonstrates that we are becoming a more efficient, effective and globally aligned business, focused on reducing costs and complexity while making the best possible use of all of our resources.

We're becoming a faster and more effective business

In 2012 the Group began a programme to implement a new operating model, which includes standardised systems, data, structures and ways of working, underpinned by a global SAP system. These are being implemented in phases throughout the global organisation and were ongoing throughout 2014.

With consistent ways of working, better information and higher levels of automation, we expect that our markets will be able to operate faster and more effectively and move more services above market.

By January 2015, Asia-Pacific and Western Europe regions and a significant proportion of EEMEA region were using the new global SAP system – a total of 85 markets and Group entities, such as above-market shared services. The system is now supporting around 60% of both the Group's profit and volume.

Our new global operating model has been introduced in over half of the Group and six of our 10 most important markets. Twenty-five factories and around 15,000 of our employees are now working with the common systems and processes.

The programme – the Group's largest ever business transformation programme – will take a further two years to fully roll out worldwide. In 2015 the focus will be on Africa, the Middle East and the Americas.

As the roll-out progresses, we expect to see further improvements in the way our people and business units work as they become even more integrated.

We operate a globally integrated supply chain

The Group operates an integrated global supply chain focused on the effective and efficient delivery of market-leading products and innovations to our markets to satisfy consumers, drive share growth and create value for our business partners.

In 2014 this has seen the continued roll-out of capsules and an increased focus on introducing new cigarette tube filter innovations, which will continue in 2015.

The Group has continued to invest in new machinery and equipment in 2014 to support future growth, for example, by ensuring we can meet growing demand for cigarettes with tube filters and to support key markets such as Indonesia.

Our investment in global planning systems and processes supports our strategic focus on delivering products 'on time and in full' to ensure we can capitalise on growth opportunities in our diverse markets.

Having a clear global view of our plans means we can allocate resources in the right areas. It also improves our ability to react quickly in situations when speed to market will give us a competitive advantage.

Our leading factories supply multiple markets and produce a wide range of products across our brand portfolio. In recent years, we have reduced our manufacturing footprint by closing some factories and restructuring others.

We continued to optimise our manufacturing operations in 2014 and at the end of the year had 44 factories in 41 countries producing cigarettes and Other Tobacco Products. We recognise the impacts of these decisions on employees and work hard to mitigate the outcomes for them and the wider community.

We are continually looking to improve the efficiency of our supply chain. Last year we launched Integrated Work Systems, a new programme designed to maximise productivity in our factories while also ensuring we maintain high standards of product quality.

In 2014 we continued to drive cost savings in our supply chain in areas such as leaf and blends, wrapping materials, logistics, manufacturing and indirect procurement.

Savings such as these not only enhance our profitability, but also release funds that we can invest in activities that will deliver sustainable growth.

We work with farmers to secure access to high-quality leaf

Tobacco leaf is the most essential part of our products. It's crucial to our business to ensure we have secure and sustainable sources of high-quality leaf that supports the Group's strategic focus on delivering superior products to our consumers.

The Group doesn't own tobacco farms or directly employ farmers. Instead, we buy more than 400,000 tonnes of tobacco from over 100,000 contracted farmers and third-party suppliers, mainly in developing countries and emerging economies in Africa, Asia and Latin America.

Our Global Leaf Pool, which is responsible for buying and supplying all tobacco leaf to the Group, provides economies of scale across the leaf supply chain.

We invest more than £65 million each year to support farmers. We have more than 1,000 leaf technicians worldwide who provide on-the-ground advice and training for farmers, helping them run successful, profitable and high-yielding farms.

Our cutting-edge research into tobacco plants and in advancing agricultural practices is reflected annually in the higher quality of the tobacco used in our products and increased productivity levels on farms.

We also guarantee to buy a certain amount of tobacco from our farmers each year – this gives them a regular income which they can invest in their farms to build successful businesses.

This approach benefits farmers by helping them to have prosperous livelihoods and encourages future generations to continue to farm and support their local communities and the environment. It helps our leaf operations to remain efficient and secures our supply chain for the future, while also ensuring the integrity and quality of our products to satisfy our consumers.

We review all our leaf suppliers through our Social Responsibility in Tobacco Production (SRTP) programme and publish their scores on our website (www.bat.com/SRTPdata).

SRTP sets out the minimum requirements we expect of our leaf suppliers and covers good agricultural practices and environmental management, such as soil and water conservation, sustainable wood sourcing and protecting biodiversity.

We'll continue to focus on improving our productivity

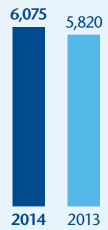
By continuing to improve our productivity in all areas of our supply chain, we can increase our profitability and continue to deliver returns to our shareholders.

But it's not just about today; it also underpins our future. The more efficient and effective we become, the more we are able to generate funds to invest in the things that will fuel future growth: our products, our innovations, our people, our markets and our next-generation products.

Key performance indicators (KPIs)

Adjusted profit from operations at constant exchange rates

£6,075m
+4.4%

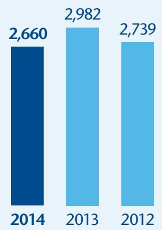


Definition: This is the adjusted profit from operations of the Group's subsidiaries – profit from operations at constant rates adjusted for the items shown as memorandum information on the Group Income Statement.

Target: The Group's medium- to long-term target is to grow adjusted profit from operations on average by 5–7% per year.

Cash generated from operations at current rates

£2,660m



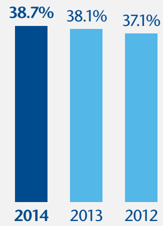
Definition: Cash generated from operations is defined as the free cash flow excluding restructuring costs and dividends and other appropriations from associates, per the alternative cash flow on page 42.

Target: A specific target is set each year for the cash flow from operations.

Business measures

Operating margin

38.7%
+54bpts

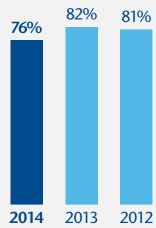


Definition: This is the percentage of adjusted profit from operations divided by revenue.

Objective: To increase operating margin by 50–100 basis points per annum.

Free cash flow as a percentage of adjusted earnings (excl. non-tobacco litigation)

76%



Definition: This measures our free cash flow per share as a ratio of the adjusted diluted earnings per share.

Target: To convert around 80% of our adjusted earnings per share to free cash flow.

STRATEGIC MANAGEMENT

Delivering our strategy continued

Winning organisation

A winning organisation is one with high-performing leaders inspiring diverse teams of committed and engaged people in a fulfilling, rewarding and responsible work environment.

The quality of our people is a major reason why the Group continues to perform well. They make us a winning organisation by using their expertise, experience and enterprise to respond to the challenges of the marketplace to deliver strong business results.

The way our people operate is embodied in our four Guiding Principles: Enterprising Spirit, Freedom Through Responsibility, Open Minded and Strength from Diversity. They underpin our culture and guide how we deliver our strategy (see page 15).

Our aim is to maintain a high-performing organisation that attracts, develops and retains talented people. We continue to invest in providing our people with a great place to work. So we are proud that in 2014 we were once again ranked as a top employer in many markets around the world, including Germany, Brazil and Southern Africa.

Leadership capabilities

We are committed to ensuring the Group continues to develop high-performing managers who will lead the delivery of our strategy both now and in the future.

In 2014 we launched new leadership capabilities that provide our people with clarity on what we believe defines good business and people management at British American Tobacco. The capabilities centre around the expectation that our leaders are 'passionate owners, inspiring people to deliver outstanding results'.

They are designed to guide all aspects of our talent development lifecycle, including the qualities we look for in people when we recruit, plus how we develop leaders' skills, assess their performance and manage succession planning.

To help our people embrace this approach, we have launched an online global talent resource, refreshed our leadership training and established partnerships with leading business schools.

We are keen to develop our leaders from within our business. We want to provide talented people with rewarding career progression and, in doing so, retain valuable expertise and knowledge.

This commitment was demonstrated in 2014 when more than 80% of our senior appointments were people from within our business.

We also continued to improve our retention of high-performing leaders and to focus on succession plans for our critical leadership roles.

Bring your Difference

When we do look to recruit, we seek to bring in people who will provide additional knowledge and skills that will strengthen our teams and ultimately make us a stronger business.

To do so, it is important that our Group stands out as an attractive employer in a highly competitive global recruitment market. So in 2014 we refreshed our employer brand, Bring your Difference.

We also launched a new-look global careers website (www.bat-careers.com) and established a stronger presence on social media, including LinkedIn, Facebook and Twitter.

A share in our success

We offer our UK employees the chance to share in our success via our Sharesave Scheme, Partnership Share Scheme and Share Reward Scheme.

We also operate several similar schemes for senior management in our Group companies.

We value diversity

Diversity matters to the Group because it makes good commercial sense – having a diverse workforce means we are better able to understand and meet the needs of consumers in more than 200 markets. It is also important to our reputation because of societal expectations around diversity.

Our specific diversity ambition is to achieve by 2020 a sustainable improvement in senior representation of women and nationalities that are key to our success.

The Group's broad geographic presence means we are well placed to attract talented people from many different countries and diverse nationalities are widely represented across the business, including at Board level.

Nationalities represented

	Total
Board level	7
Global headquarters	71
Management level globally	137

One of the ways that we are supporting women's progression into senior roles is through a programme called Women in Leadership, which provides training, mentoring and other types of career support for high potential female employees. We continue to establish women's networks in markets, including South Korea and Australia.

In 2014, the proportion of women in all management roles across the organisation was 32%.

The table below sets out the gender breakdown within the Group as at 31 December 2014, comparing numbers for all employees, our most senior managers and the Main Board. With 30% female representation on our Main Board, we exceeded a target recommended by the UK Government.

	Total	Male	Female	% Male	% Female
Main Board	10	7	3	70	30
Senior managers*	212	183	29	86	14
Total Group employees	57,478	43,577	13,901	76	24

* 'Senior managers' are defined here as the members of the Management Board (excluding the Executive Directors) and the Directors of the Group's principal subsidiary undertakings. The principal subsidiary undertakings, as set out in the financial statements, represented approximately 83% of the Group's employees and contributed around 80% of Group revenue and profit from operations in 2014.

In February 2015 three new Non-Executive Directors joined our Main Board, which now comprises four women and nine men.

We aim to provide equal opportunities to all employees. We do not discriminate when making decisions on hiring, promotion or retirement on the grounds of race, colour, gender, age, social class, religion, smoking habits, sexual orientation, politics or disability, subject to the inherent requirements of the role to be performed. We are committed to providing training and development for employees with disabilities.

Safe place to work

The Group's goal of zero accidents reflects our commitment to keeping our people as safe as possible at work. In 2014, accidents across the Group decreased by 19%, with 72% of our sites achieving zero accidents.

Sadly, the number of people who died increased from six in 2013, to eight in 2014 (includes employees and contractors). We deeply regret this loss of life and the suffering caused.

The fatalities occurred as a result of road traffic accidents and armed attacks on trade and distribution personnel in some challenging environments where there are security risks or poor transport infrastructure.

We review all accidents to identify actions to reduce the chances of similar events happening. We have launched a programme for our trade and distribution teams that provides tools, guidance and procedures for security and driver safety.

We also operate programmes to protect and promote the health and well being of employees and their families. These include medical services, healthy lifestyle and family-friendly initiatives, such as flexible working.

We set high standards

The Group has clear policies and standards covering everything from health and safety to anti-bribery measures. Our Standards of Business Conduct set out our commitment to good corporate behaviour for our employees.

In 2014 we updated them to reflect new policies: 'Respect in the workplace' reinforces our commitment to treat each other with respect and as equals, including promoting diversity, while 'Human rights and our operations' defines our role as a good corporate citizen, setting out, for example, our commitments to no child labour.

Employee engagement

We are committed to ensuring that our people are engaged with our business. We keep them informed about our strategy, performance and other developments via global communications cascades, face-to-face dialogue, presentations and our intranet.

Every two years we conduct a survey to measure employee engagement. Our most recent survey in 2014 had a response rate of 93% – 1 percentage point up on our last survey in 2012 and 11 percentage points higher than the average response rate for this type of survey.

We achieved an Employee Engagement Index score of 72% in the survey, ahead of a FMCG comparator norm of 69%. Broadly, this score combines employee satisfaction with their attitudes towards recommending us as a place to work, their desire to stay and their pride in working for us.

Our High Performance Index score rose three percentage points to 72%, indicating our continued focus on leadership and talent development is supporting our high-performance culture.

We will use feedback from the survey to address any areas of improvement in 2015, alongside our other initiatives to provide a workplace that will enable people to develop and contribute to the Group's success in the years ahead.

Business measure

Employee engagement index

72%

BAT	72%
FMCG Comparator Group	69%

Definition: Results from our biennial 'Your Voice' employee opinion survey, last carried out in 2014, enable us to calculate our employee engagement index – a measure that reflects employee satisfaction, advocacy and pride in the organisation.

Objective: To achieve a more positive score than the norm for 30-plus FMCG companies in our comparator benchmark group.

"The 'Your Voice' survey response rate was excellent. Clearly employees feel that the Group takes engagement very seriously as such a high participation level would not be possible without them seeing a real commitment from leadership to use the feedback."

IBM, the 'Your Voice' survey provider

STRATEGIC MANAGEMENT

Delivering our strategy continued

Sustainability

Sustainability has always been crucial to our business, but last year we sharpened our approach further to ensure we continue to generate long-term shared value for our consumers, our shareholders and our stakeholders.

In 2014, the Group developed a new sustainability agenda through a detailed materiality process. We identified three key areas of sustainability that are most significant to our business and stakeholders: harm reduction; sustainable agriculture and farmer livelihoods; and corporate behaviour.

Harm reduction

At the heart of our strategy is our vision to satisfy consumers in tobacco and beyond. We are demonstrating this in our commitment to researching, developing and promoting a range of innovative tobacco and nicotine products to offer adult consumers a choice of less risky alternatives to regular cigarettes. This can ultimately benefit public health, while also supporting the future growth for our business.

We think we are best placed to deliver these alternative products. We understand what consumers want and we have world-class research and development capabilities, robust quality standards and global reach.

The Group is making significant progress in the development of e-cigarettes, medicinal nicotine products and tobacco heating products. You can read more about these in the Growth section of this Strategic Report (page 20).

Sustainable agriculture

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

Like all crops, tobacco does have its impacts, but we work with farmers to mitigate them. For example, wood is often used as a fuel in tobacco-curing processes. So we're helping farmers to preserve natural forests through afforestation programmes, which provide a sustainable source of wood. As a result, 94.8% of the wood our farmers use for curing does not come from natural forest.

Exploitative child labour is a particularly important issue for any industry with an agricultural supply chain. Our Social Responsibility in Tobacco Production (SRTP) programme, against which all our leaf suppliers are reviewed, has a specific focus on child labour. We also co-founded the Eliminating Child Labour in Tobacco Growing (ECLT) Foundation and remain active members. The ECLT's activities include working with governments to improve access to education and social services for children.

Corporate behaviour

We are committed to operating to the highest standards of corporate conduct and transparency across our business, benefiting governments, consumers, the environment and our people. All our tobacco marketing is governed by legal requirements in markets and our **International Marketing Principles (IMP)**, which in many cases go far beyond local laws. We're committed to 100% IMP compliance and put immediate actions in place if any incidents of non-adherence are identified.

Our **youth smoking prevention** (YSP) activities around the world include lobbying for minimum age laws of 18 where none exist and working closely with retailers. In 2014, YSP activities took place in 99% of markets where these are feasible and allowed.

With our experience and expertise we have much to offer governments and regulators when it comes to developing policies around tobacco. We've long supported the Organisation for Economic Co-operation and Development's Principles for Transparency and Integrity in Lobbying. In 2014, we published our **Principles for Engagement,** which provide even clearer guidance for our external engagement.

Good environmental management is vital to ensuring our business and local communities maintain access to natural resources. Using a mixture of performance management and risk assessments, we constantly monitor and reduce our direct environmental impacts and develop new ways of making our operations more efficient. We are especially focused on minimising our energy consumption and carbon emissions.

We continue to make good progress towards our long-term target to cut carbon dioxide equivalent (CO_2e) emissions by 50% by 2030 and by 80% by 2050 from our year 2000 baseline.

We use the Greenhouse Gas Protocol Corporate Standard to guide our CO_2e reporting methodology, adopting an equity share approach to defining, consolidating and reporting our Scope 1, Scope 2 and Scope 3 CO_2e emissions. The table below sets out our emissions for 2014.

Emissions	2014	2013
Scope 1 CO_2e emissions (tonnes)	**342,385**	358,658
Scope 2 CO_2e emissions (tonnes)	**370,724**	390,242
Scope 3 CO_2e emissions (tonnes)	**212,018**	209,567
Total (tonnes)	**925,127**	958,467
Intensity (per million cigarettes equivalent)	**0.83**	0.84

The Group invests more than £50 million per year in **fighting the illicit trade in tobacco**. We are implementing supply chain security systems and engaging with governments and other international organisations to work together to address this global problem. We are working with the European Commission, providing funding of €134 million as part of a 20-year cooperation agreement to tackle illicit trade.

Our approach to **human rights** is based on our core belief that universally recognised fundamental human rights should be respected. In 2014, we strengthened our approach with a new Human Rights Policy in our revised Standards of Business Conduct (www.bat.com/sobc). The policy is aligned to the UN's Framework and Guiding Principles on Business and Human Rights and sets out our commitments to: eliminating child labour; no exploitation of labour; and freedom of association.

Our regional audit and CSR committees monitor the performance of our companies in managing human rights in the workplace and supply chain. This includes reviews of operations in countries of concern as identified by independent human rights risks analytics.

Our supplier reviews include human rights criteria. Our tobacco leaf suppliers are reviewed through our SRTP programme based on annual self-assessments which are independently validated by AB Sustain. In 2014, our suppliers scored 89% for activities to prevent child labour and AB Sustain conducted 12 on-site reviews in eight countries. Suppliers' SRTP scores are published on www.bat.com/SRTPdata. Our Business Enabler Survey Tool, which we use to review strategic suppliers of direct materials, also includes human rights criteria.

A sustainable future

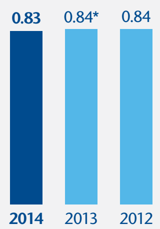
Our focus on sustainable practices has been recognised by our inclusion in the Dow Jones Sustainability Index for the past 13 years, 12 of them as industry leader. Our commitment to developing next-generation tobacco and nicotine products, sustainable agriculture and operating to the highest standards of corporate conduct are the right things to do. Delivering them will help to ensure that we have a sustainable future, one in which we can continue to generate value for our shareholders while also meeting the expectations of stakeholders in wider society.

Business measures

Carbon dioxide equivalent (CO_2e)
(tonnes CO_2e per million cigarettes equivalent produced)

0.83

45%
lower than 2000 baseline



Definition: We track Group CO_2e in tonnes per million cigarettes equivalent produced.

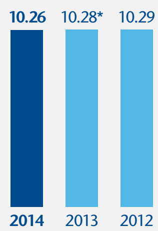
Target: To reduce Group CO_2e by 50% by 2030 from our 2000 baseline of 1.52 and by 80% by 2050.

Note: *The previously reported 2013 figure of 0.83 is re-stated to take into account an amendment to freight data for our business in Colombia and an amendment to production volume data for our business in Peru.

Group energy use
(gigajoules per million cigarettes equivalent produced)

10.26

13%
lower than 2007 baseline



Definition: We track Group energy use in gigajoules per million cigarettes equivalent produced.

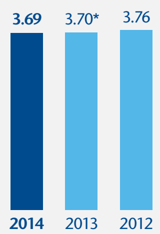
Target: To reduce energy use to 9.82 by 2017, 17% lower than our 2007 baseline.

Note: *The previously reported 2013 figure of 10.17 is re-stated to take into account an amendment to freight data for our business in Colombia and an amendment to production volume data for our business in Peru.

Water use
(cubic metres per million cigarettes equivalent produced)

3.69

24%
lower than 2007 baseline



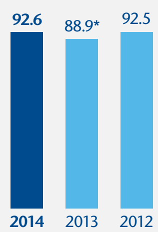
Definition: We track Group water use in cubic metres per million cigarettes equivalent produced.

Objective: To reduce water use to 3.6 by 2017, 26% lower than our 2007 baseline.

Note: *The previously reported 2013 figure of 3.65 is re-stated to take into account an amendment to production volume data for our business in Peru.

Recycling
(percentage of waste recycled)

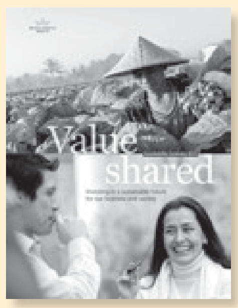
92.6%



Definition: We track the total percentage of Group waste re-used or recycled against total waste generated.

Objective: To recycle more than 85% of waste generated in each year.

Note: *The previously reported 2013 figure of 89.1% is re-stated to take into account an amendment to the recycling data for our business in Chile.



Sustainability Summary report 2014

Find out more about our focus on sustainability in our Sustainability Summary report 2014.

It is available on our corporate website **www.bat.com/sustainability**