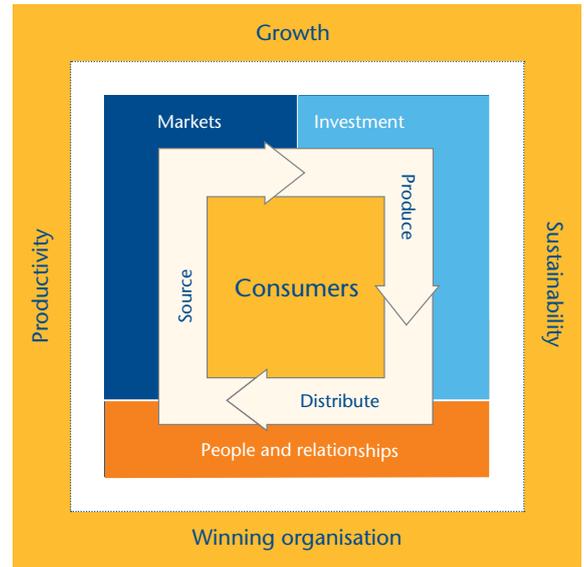


STRATEGIC MANAGEMENT

# Our business model

Our business model describes what we do and how we use our unique strengths and employ our resources and relationships to deliver sustainable value for our shareholders and stakeholders. It is built around meeting our consumers' evolving needs and is driven by our strategy (see pages 14 and 15) to ensure that we are delivering great results today and investing in our long-term future.



## What we do

We have been making and marketing cigarettes and other tobacco products for more than a century. More recently we have also started to develop and produce next-generation tobacco and nicotine products, such as e-cigarettes.

Our sustainable approach to sourcing, production and distribution helps us to create value for a wide group of stakeholders from crop to consumer. These include farmers and their communities, other suppliers, retail and wholesale trade partners, NGOs, governments and regulators.

### Source

We have a significant interest in tobacco growing and we have expert technicians out in the field who support over 100,000 directly contracted farmers. We manage our whole supply chain responsibly, including the sourcing of leaf and other materials, and work with suppliers to create a long-term shared understanding of our social, environmental and economic impacts.

**Working with farmers:** pages 22 and 26

Without tobacco leaf and other raw materials we would have no products. We aim to secure our long-term supply chain and bring real benefits to local communities, from promoting good agricultural practices to investing in community projects.

### Produce

Manufacturing tobacco products is a large-scale operation and we have state-of-the-art manufacturing facilities all over the world. We work to ensure that our costs are globally competitive and that we use our resources as effectively as possible. Our production facilities are designed to meet the needs of an agile and flexible supply chain – providing a world-class operational base that is fit for the future.

**Global scale:** page 22

Ensuring leaf and products are in the right place at the right time in our manufacturing process is a major logistical exercise. The nature of our business allows us to pool resources on a global scale and maximise efficiency.

### Distribute

Our well-developed distribution channels are critical enablers of our growth strategy, allowing us to roll out innovations on a global scale. We continuously review our route to market, including our relationships with wholesalers, distributors and logistics providers. Around half of our global volume is sold by retailers supplied through our direct distribution capability or exclusive distributors.

**Raising standards:** page 26

We are helping to raise standards by supporting effective and reasonable regulation of regular cigarettes and next-generation tobacco and nicotine products. It also means fighting the illegal tobacco market and supporting legitimate retailers and wholesalers.

### Consumers

We place consumers at the heart of our business. We invest in world-class research to understand changing consumer needs and buying behaviour. This drives our supply chain, product development, innovations, brands and trade activities. We aim to satisfy consumers while addressing expectations about how we should market our products.

**Developing solutions:** pages 19 and 20

We are developing innovative solutions to evolve our portfolio with more differentiated tobacco products as well as next-generation nicotine products. This supports our aim to champion consumer choice by providing a range of products across the risk continuum.

## What makes us different

Our business operates on a set of core strengths and qualities that makes us unique and ensures we can generate value over the long term. The quality of our people is a crucial factor in delivering this and our global presence enables us to leverage the value they create on a worldwide scale.

## Markets

### Brands

We have a successful brand marketing strategy based on sound consumer insights. It is driven by our Global Drive Brands – Dunhill, Kent, Lucky Strike, Pall Mall and Rothmans – which account for over 40% of the cigarettes we sell. Our portfolio of more than 200 international, regional and local brands meets a broad array of consumer preferences around the world. We have continually improved and developed Vype, our first e-cigarette brand, since launching it in 2013.

### Products

We offer adult consumers a range of products to choose from, including: cigarettes and cigars; Fine Cut tobacco, as used in roll-your-own and make-your-own cigarettes; Swedish-style snus; and e-cigarettes. Our range of high-quality products covers all segments, from value-for-money to premium. We are also developing other next-generation tobacco and nicotine products, a significant new growth opportunity.

### Global presence

With over 110 years of operating, today we are one of the world's leading tobacco groups. Our brands are sold in more than 200 markets and our geographic diversity and strong positions in emerging markets are key strengths and continue to provide opportunities for growth. We are market leaders in more than 60 countries.

## Investment

### Innovation

We make significant investment in research and development to deliver innovations that satisfy or anticipate consumer needs and generate growth for the business. This involves cigarette innovations such as capsule products, additive-free products, tube filters and Reloc, our resealable pack technology. We also look outside the traditional cigarette market and research, develop and test innovative products such as e-cigarettes and tobacco heating products.

### Selected investments

Strategically and financially attractive acquisitions and specific targeted investments in new ventures, research and development, projects, equipment and services all play a role in our short-term success and in the long-term development of our organisation. They support our strategic ambitions of achieving sustainable growth and working more productively by opening up new ways of working, helping to define new product areas and providing new opportunities for our people.

### World-class science

We have an extensive scientific research programme. We have spent more than £480 million on research and development over the past three years. We are transparent about our science and publish details of our research programmes on our dedicated website, [www.bat-science.com](http://www.bat-science.com), and the results of our studies in peer-reviewed journals.

## People and relationships

### Our people

We employ more than 57,000 people worldwide – from securing our leaf supply through production and distribution, to our efforts to develop new products. Our workforce is strongly multicultural and we have a devolved structure, with each local company having responsibility for its operations. We encourage a culture of personal ownership and value our employees' talents. Their diverse perspectives help us to succeed.

### Our suppliers

We provide on-the-ground support and advice to more than 100,000 tobacco farmers worldwide. We work to enable prosperous livelihoods for all farmers who supply our tobacco leaf, benefiting rural communities and the environment. Our Social Responsibility in Tobacco Production programme encourages continual improvement of the social and environmental performance of the suppliers we buy tobacco leaf from.

### Our wholesalers, distributors and retailers

Trade marketing is a large part of our activity and involves managing business-to-business relationships with the retailers our consumers buy from. We place a strong emphasis on being a high-quality supplier to the trade. We work to operate in the most efficient and effective ways so that retailers worldwide can offer the products our adult consumers wish to buy, where and when they want them.