Chief Executive's review

"Following our acquisition of RAI, and the progress we are making with NGPs, we can now **accelerate our ambition to transform tobacco**"

Nicandro Durante
Chief Executive

Leading the industry

The Group delivered another set of strong financial results in 2017, despite a challenging trading environment. Following the transformational deal in July 2017, these results benefit from the acquisition of Reynolds American Inc. (RAI) while also demonstrating the strength of the organic business.

The Group has delivered outstanding returns to shareholders for many years. We recognise that the tobacco and nicotine industry has entered a dynamic period of change. Increased public health awareness, new societal attitudes and rapid developments in new technologies have all combined to create a unique opportunity to accelerate the delivery of our long-held ambition to provide our consumers with less risky tobacco and nicotine choices.

Since 2012, together with RAI, we have invested approximately US$2.5 billion in the growth of our Next Generation Product (NGP) business – comprising vapour and tobacco heating products (THPs). Following the acquisition of RAI, not only have we become the world's leading vapour company, we have also significantly increased the size of our existing oral tobacco and nicotine business with the addition of leading snus and moist snuff brands in the US. Collectively, we refer to these products as our potentially reduced-risk products.

Our investments are now coming to fruition and, recognising that not all consumers are the same, we now have an unrivalled range of exciting and innovative products across the potentially reduced-risk categories – including, vapour, THPs, oral tobacco, tobacco-free nicotine pouches and moist snuff. With the increased size and scale coming from RAI, we are clear leaders in the potentially reduced-risk product space and we are confident of leading the NGP category. This year we generated NGP revenue of £397 million. On a full year basis, including the contribution from RAI, this would have been approximately £500 million and we expect this to double in 2018 to £1 billion, rising to more than £5 billion in 2022.

New Strategic Portfolio of brands

In light of the evolution of the business, with the addition of leading brands in the US, as well as the growing importance and progress of our potentially reduced-risk products, we have taken the opportunity to establish a new portfolio of priority brands – which we will in future refer to as our Strategic Portfolio.

This Strategic Portfolio comprises our existing GDBs, combined with RAI's Strategic Brands (Camel, Newport and Natural American Spirit). Also included is our portfolio of potentially reduced-risk products, including our key oral tobacco brands and NGP brands in vapour and THP. Further details can be found on pages 16 and 17.

From 2018, the Group will introduce a new metric called Revenue Growth of our Strategic Portfolio, replacing the Global Drive Brand (GDB) & Key Strategic Brand (KSB) volume growth metric. To provide the comparator against which 2018 will be measured, Revenue of our Strategic Portfolio in 2017 would have been £16,711 million assuming we had consolidated RAI for a full 12 months and after recognising the impact of implementing the new accounting requirements of IFRS 15.

Strong results across our portfolio of products

Notwithstanding the good progress we are making with our potentially reduced-risk products, combustible cigarette products remain at the core of our business – delivering growth today and providing the funds required for investing in the future. I am therefore pleased that 2017 saw the Group yet again deliver another good performance.

The Group's cigarette market share in its Key Markets continued to grow strongly (up 40 bps). This was powered by another excellent performance by our GDBs, which grew 110 bps (ex US) and now account for more than 50% of Group cigarette and THP volume outside the US. Over the year, market share in the US also grew strongly and was up 20 bps, with the RAI Strategic Brands growing 40 bps.

Total Group cigarette and THP volume grew 3.2% to 686 billion, or on an organic basis fell 2.6%, outperforming the industry, which was estimated to have declined by around 3.5%.

In 2017, we also made excellent progress with our NGP business. Our flagship THP, glo, first launched in Japan in December 2016, reached 3.6% market share by the end of 2017 – having been rolled out nationally from October 2017. Since then, 50% of the overall category growth in Japan has been from glo – demonstrating its strong consumer appeal in a very short period. Good initial progress is also being made in our other launch markets of South Korea, Russia, Canada, Romania and Switzerland.

In the vapour category, Vype is now present in nine markets and we remain the market leader in the UK, with Vype and Ten Motives combined delivering around 40% share of measured retail in December 2017. We also lead the vapour category in Poland. In the US, the Vuse range of products continues to have a significant presence in the market. We see the rapidly developing vapour category, as a whole, contributing significantly to our long-term growth ambitions in NGPs.

The Group's financial performance was positively impacted by the accounting for the acquisition of RAI and the subsequent US tax reforms. These drove diluted earnings per share up by over 600% to 1,830.0p.

However, while trading conditions remain challenging in a number of markets, including ad hoc excise increases and increasing illicit consumption, 2017 again saw the Group deliver on its high single-digit earnings growth commitment on an adjusted basis, increasing adjusted diluted earnings per share by 14.9% to 284.4p, or 9.9% at constant rates of exchange.

Group structural changes

Having the right organisational structure will set us up for continued long-term success as a truly global multi-category business, with NGPs embedded at the core.

With the NGP business set for significant expansion and growth, we decided to integrate it into our existing geographic structure. This has enabled us to begin fully leveraging the scale and expertise of the whole Group to drive growth in an area that is fast becoming a key part of our core business.

In order to address the key opportunities and challenges we face going forward, we recognised the need to ensure the combustible business operates even more efficiently than ever before. To achieve this, we created three new regions – Americas and Sub-Saharan Africa; Europe and North Africa; and Asia-Pacific and Middle East – in place of the previous four. The creation of these three new regions has simplified the existing structure by rationalising the complexity and scale of existing direct reporting business units (DRBUs) and has pushed decision making further down the organisation by creating fewer, larger DRBUs. These changes took effect from 1 January 2018 and the revised regional structure will therefore form the basis of our reporting going forward.

To facilitate these changes, we created the new role of Chief Operating Officer for the International business – reporting directly to me and managing our global business outside the US. The President and CEO of RAI also reports directly to me and leads our business in the US – reflecting its scale and the importance of ensuring a smooth integration that does not impact ongoing business delivery.

Confidence in future growth

The Group's results in 2017 are testament to our commitment to delivering strong results for shareholders whilst at the same time investing substantially in the long-term future of the business. Following our acquisition of RAI, and the progress we are making with NGPs, we can now accelerate our ambition to transform tobacco. With the right people, products and strategy we are ideally positioned to deliver greater choice for our consumers, potential benefits for society as a whole and long-term sustainable value for shareholders.

Nicandro Durante
Chief Executive

Finance Director's overview

"These financial results illustrate the **ongoing strength** of the Group – delivering against the financial objectives whilst investing for the changing environment"

Ben Stevens
Finance Director

Another set of good financial results

The Group delivered another set of good financial results in 2017. Whilst the results are dominated by the inclusion of RAI as a wholly owned subsidiary since the acquisition date of 25 July 2017, the Group continued to perform well on an organic basis.

The Group's results continued to benefit from the weakness in sterling which, due to the Group's operating results being predominantly delivered in local currency and converted to sterling for reporting purposes, acted as a tailwind of 4%.

Increased revenue and profit from operations

Revenue grew by 37.6%, or by 2.9% excluding the impact of acquisitions and excise on bought-in goods, and on a constant currency basis. This was driven by pricing and the growth of NGPs, notably in Asia Pacific, more than offsetting a decline in organic volume.

Profit from operations was up 39.1%, as the inclusion of RAI and growth in revenue more than offset the marketing investment in NGPs, the amortisation of acquired brands and costs incurred as part of the Group's restructuring programme.

Adjusted profit from operations on a constant currency, organic basis was up 3.7%.

A full reconciliation of our results under IFRS to adjusted revenue and adjusted profit from operations is provided on pages 218 and 219.

All regions performed well (as described on pages 42 to 47) on a constant rate basis, in challenging conditions. Asia Pacific delivered an increase in adjusted profit from operations whilst supporting the roll-out of NGPs in Japan and South Korea.

In Americas, adjusted profit from operations was up as growth in Canada, Chile and Mexico more than offset the continued economic challenges in Brazil. Transactional foreign exchange headwinds and difficult trading in Russia, GCC and South Africa led to adjusted profit from operations in EEMEA being marginally lower than prior year. In Western Europe, adjusted profit from operations was up driven by Romania and Germany.

Operating margin increasing, with net finance costs and tax impacted by the RAI transaction

Our operating margin increased by 270 bps, driven by the performance of the organic business and by RAI, which had a positive mix effect on margin, and partly due to the US$70 million synergies achieved by the year end. Organic adjusted operating margin increased by 40 bps.

Net finance costs grew as the Group incurred an increase in borrowings to support the acquisition of RAI. Our banking facilities require a gross interest cover of at least 4.5 times. In 2017 this was 7.8 times (2016: 12.2 times).

Due to the change in reporting of RAI as a wholly owned subsidiary following the acquisition, the Group recognised a deemed gain of £23,288 million on the deemed disposal of RAI as an associate. Our other material associate, ITC, continued to perform well.

Due to the impact of the deferred tax credit (£9.6 billion) arising from the US tax reforms, our tax charge was a net credit of £8,113 million, being a tax rate of 27.4% (credit) compared to 22.5% (charge) in 2016. This is also affected the inclusion of associates post-tax income, in our pre-tax profits. On an underlying basis, excluding such impacts and the affect of adjusting items, the tax rate was a charge of 29.7%, a marginal decrease on 2016 (29.8%).

Continuing strength of cash flow generation

Net cash generated from operating activities grew by 16.0% to £5,347 million, largely due to the cash generated by RAI subsequent to the acquisition, the profit from operations earned in the period from the rest of the Group and a reduction in inventories. This more than offset an increase in receivables, reduction in trade and other payables, the payment of the 2017 liability related to the Master Settlement Agreement (MSA) in the United States and the final quarterly payments in relation to the Quebec Class Action.

@Adjusted cash generated from operations (as defined on page 222) was £3,282 million, an increase of 5.4%, or in line with 2016 on a constant rate basis. This increase was impacted by the timing of the early payment of the 2017 MSA liability, which is tax deductible at 2017 tax rates. Excluding the timing of this payment, adjusted cash generated from operations would have increased by over 45%.

Based upon net cash generated from operating activities, the Group's cash conversion ratio decreased from 99% in 2016 to 83% in 2017. @Operating cash flow conversion ratio (as defined on page 221) fell from 93% to 79%. Excluding the timing of the payment of the 2017 MSA liability, our operating cash flow conversion ratio would have been 96%, ahead of 2016 (93%) and reflecting the Group's ability to deliver cash from the operating performance of the business.

Delivering in a period of change

These financial results illustrate the ongoing strength of the Group – delivering against the financial objectives whilst investing for the changing environment and managing the various challenges that working in a global business bring.

Ben Stevens
Finance Director

@ denotes phrase, paragraph or similar that does not form part of BAT's Annual Report on Form 20-F as filed with the SEC.

Global market overview*

The advent and growth of potentially reduced-risk products, including Next Generation Products (NGPs) like vapour and tobacco heating products (THPs), combined with a mix of regulation and changing societal attitudes, has seen a gradual fall in the number of combustible cigarettes consumed over many years.

While more than one-fifth of the world's adult population smokes, and most of them smoke traditional cigarettes, the global NGP market is set to more than double between 2016 and 2021, with different products set to lead this growth in different markets.

Global combustible market

The most recent estimates for the global tobacco market (2016) indicate it is worth approximately US$760 billion (excluding China). More than US$680 billion of this comes from the sale of conventional cigarettes, with some 5,505 billion cigarettes consumed per year.

However, the Group estimates there has been a 3.5% fall in industry overall volume between 2017 and 2016. This is a trend which is predicted to continue as attitudes change; the sale of illicit cigarettes continues to rise; regulation increases further; and alternative, potentially reduced-risk tobacco and nicotine products continue to develop and become more consumer-acceptable.

Illicit tobacco – Cigarettes are a reliable source of tax revenue for governments worldwide. However, the increase in their price and broader macroeconomic pressures are leading to a growth in the illicit cigarette trade. The World Health Organization (WHO) estimates that 1 in every 10 cigarettes and tobacco products consumed globally is illicit, with the market supported by various players, ranging from individuals to organised criminal networks involved in arms and human trafficking.

It is generally accepted that there is a direct correlation between steep and ad hoc increases in tax and an increase in illicit sales. For example, the Australasia region is expected to see legal volumes decline substantially, following successive excise increases and illicit volumes increase.

However, the current relative punishments versus the profits for illegally selling tobacco products make them an appealing prospect for criminals.

Combustible regulation – Tobacco is one of the world's most regulated and most taxed industries. Manufacturers are expected to comply with a swathe of regulations that are highly varied across markets.

Over the past decades, legislation and subsequent regulation has focused on the introduction of plain packaging, product specific regulation, graphic health warnings on packs, tougher restrictions on smoking in enclosed public places and bans on shops displaying tobacco products at the point of sale.

Litigation – Legal and regulatory court proceedings continue in a number of forms against the tobacco industry, with the most common being third-party reimbursement cases, class actions and individual lawsuits.

Special factors that led to product liability litigation in the US and Canada are not typically replicated in other countries, which is why large volume and high-value litigation has not generally spread to other parts of the globe.

The industry has a proven track record of defending its rights and managing risks such as these.

Global potentially reduced-risk products market

The global tobacco and nicotine market is increasingly diversifying beyond traditional combustible tobacco with the growth of NGPs as well as the oral tobacco and nicotine market (e.g., snus and moist snuff).

The latest global figures (2016) suggest the NGP market is worth an estimated US$12.3 billion, a 34% increase on the previous year, while the oral tobacco and nicotine market is worth an estimated US$12.5 billion – demonstrating how quickly the nascent NGP category has progressed against a more mature category.

The global NGP market is predicted to more than double between 2016 and 2021, with growth coming from a diverse array of products.

The US remains one of the biggest NGP markets. However, the NGP market in Asia-Pacific is now growing at a rate of 65% thanks, in part, to the launch of a number of dynamic new products, with THPs emerging strongly in the region. For example, Japan has become the world's most important THP market, and the Group estimates that, in 2018, THPs will already account for more than 20% of tobacco consumption there.

Vapour products are predicted to dominate in two regions: Western Europe and the US. These markets have already seen a strong and growing appetite for e-cigarettes, despite a fall in popularity for 'cig-a-like' style products.

Oral tobacco sales are growing in both Scandinavia (snus) and the US (snus and moist snuff).

NGP regulation – The NGP market (comprising vapour and THPs) is relatively nascent, and therefore regulation is also in its early stages. Globally, there is a mix of attitudes between regulators who aim to encourage NGPs as products that are potentially lower risk for smokers and those who view them with greater scepticism – including some countries where they are banned.

The UK is an example of what can happen with the support of regulators and public health bodies. Public Health England's and the Royal College of Physicians' major reports on the reduced risk of e-cigarettes – combined with a more liberal approach to regulation – are potential contributing factors to an increase in product uptake.

In the US, the Food and Drug Administration (FDA) Commissioner Scott Gottlieb made clear, in July 2017, that he wanted the FDA to strike an appropriate balance between regulation and encouraging the development of innovative products that may be less dangerous than cigarettes – potentially paving the way for greater acceptance of vapour products and THPs in the US and beyond.

As the income from traditional cigarette taxation falls over the longer term, there is a clear risk of increased taxation on NGPs that does not take into account their relative risks when compared with traditional cigarettes.

see pages 48 to 54 to learn more about the Principal Group risk factors

*All data sources on this page are from Euromonitor International unless otherwise stated.

Our global business

British American Tobacco is a leading, multi-category consumer goods company that provides tobacco and nicotine products to millions of consumers around the world.

With market leadership in over 55 countries and cigarette factories in 42 we have genuine global reach. Our world-class portfolio of cigarette brands is complemented by our increasing range of potentially reduced-risk products. This includes our Next Generation Products, comprising our vapour and tobacco heating products, and our oral tobacco and nicotine products such as moist snuff and snus.

Following the acquisition of leading brands in the US, as well as the growing importance and progress of our potentially reduced-risk products, we have established a portfolio of priority brands – our Strategic Portfolio – to replace the Global Drive Brands (Dunhill, Kent, Lucky Strike, Pall Mall and Rothmans).

Our geographic diversity

BAT is a truly global consumer goods company with brands sold in over 200 markets. In 2017, we had strong market positions in each of our five regions*, outlined here.

We have one principal associate company – ITC Ltd in India – and we also have a joint operation, CTBAT, with China National Tobacco Corporation.

55+

countries where we are market leader

45

cigarette factories in 42 countries

- United States
- Americas
- Western Europe
- Eastern Europe, Middle East and Africa
- Asia-Pacific

* As of 1 January 2018, the Group's International regional structure (ex US) was reduced to three regions comprising: Americas and Sub-Saharan Africa; Europe and North Africa; and Asia-Pacific and Middle East.

Our Strategic Portfolio, as set out below, reflects our priority to provide consumers with a range of potentially reduced-risk products while recognising the important role that our combustible brands play in delivering ongoing value for shareholders and the funds required to invest further in our Next Generation Products.

We also have many international and local cigarette brands which, although not part of our Strategic Portfolio, play an important role in delivering the Group's strategy in a number of Key Markets.

Strategic Portfolio

Cigarette brands

Potentially reduced-risk product brands

Other international and local cigarette brands

Our business model

At the centre of our global business, operating in over 200 markets, is the manufacture and marketing of superior combustible tobacco products and potentially reduced-risk products – this includes our Next Generation Products (NGPs), comprising vapour and tobacco heating products (THPs), alongside oral tobacco and nicotine products such as moist snuff and snus.

Our sustainable approach to sourcing, production, distribution and marketing helps us to create value for a wide group of stakeholders, from farmers to consumers.

We use our unique strengths and employ our resources and relationships to deliver sustainable growth in earnings for our shareholders.

For more information on the structure of the Group, see page 216

Our people and relationships

We employ over 55,000 people worldwide, with a workforce that is diverse and multicultural.

We have a devolved structure, with each local company having responsibility for its operations.

The quality of our people is a major reason why the Group continues to perform well. In return, we commit to investing in our people as we do in our brands.

We encourage a culture of personal ownership and we value our employees' talents and abilities. Their diverse perspectives help us to succeed.

We also have excellent relationships with a range of stakeholders, including farmers, retailers and distributors.

We engage with regulators around the world to support regulation that is based on robust evidence and thorough research, that respects legal rights and livelihoods, and delivers on the intended policy aims while recognising unintended consequences.

You can learn more about our work in supporting farmers in our leaf supply chain at www.bat.com/farmervideo or www.youtube.com/welcometobat

see pages 25 to 32 for more information

Source

What we do

While the Group does not own tobacco farms or directly employ farmers, we buy more than 400,000 tonnes of tobacco each year for our combustible tobacco products, our oral tobacco products and our THPs.

What makes us different

- We provide on-the-ground support and advice to over 90,000 contracted farmers to help ensure consistency and quality of supply.
- We invest over £60 million each year in our Leaf Research & Development (R&D) and support farmers through our Extension Services.
- Our leaf operations are managed globally to ensure that the Group works with reliable, efficient and responsible farmers in our source countries.
- The e-liquids used in our vapour products are made from medical grade nicotine sourced internally or from high quality third-party manufacturers.

see pages 27 to 29 for more details

Market

What we do

We offer adult consumers a range of products, including cigarettes; Fine Cut tobacco; snus; moist snuff; vapour; and THPs in a number of markets around the world. Our range of high-quality products covers all segments, from value-for-money to premium.

What makes us different

- Our successful portfolio of international, regional and local cigarette brands continue to deliver significant value over the long term and meet a broad array of adult consumer preferences wherever we operate, based on sound consumer insights.
- Our international brand strategy focuses on our Global Drive Brands, which account for 50% of the cigarettes we sell and are a significant driver of growth.
- We offer the broadest choice of products to consumers seeking potentially lower risk alternatives to traditional cigarettes.
- Our development of, and investment in, our range of potentially reduced-risk products enables us to meet varied consumer preferences.

see pages 20 to 22 for more details

Consumers

We place consumers at the centre of our business. We invest in world-class research to understand changing consumer preferences and buying behaviour. This drives our leaf sourcing, product development, innovations, brands and trade activities.

We aim to satisfy consumers with a range of inspiring products across the risk spectrum and address expectations about how we should market them.

Produce

What we do

We manufacture high-quality products in manufacturing facilities all over the world. We also ensure that these products and the tobacco leaf we purchase are in the right place at the right time. Our NGPs are manufactured in a mix of our own and third-party factories. We work to ensure that our costs are globally competitive and that we use our resources as effectively as possible.

What makes us different

- In 2017, we had 45 cigarette factories across the globe. These strategically placed factories enable us to maximise efficiency and ensure products are where they need to be at the right time.
- Our production facilities producing cigarettes and the consumables for our THPs 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.
- For our NGPs, we expect our contract manufacturers to comply with the same high standards that exist on our own sites.

see pages 23 and 24 for more details

Distribute

What we do

We distribute our products around the globe effectively and efficiently using a variety of different distribution models suited to local circumstances and conditions. Around half of our global cigarette volume is sold by retailers, supplied through our direct distribution capability or exclusive distributors. We continuously review our route to market for combustible products, oral tobacco products and NGPs, including our relationships with wholesalers, distributors and logistics providers.

What makes us different

- Our relationships with, and efficient distribution to, retailers worldwide ensures we can offer the products our adult consumers wish to buy, where and when they want them.
- Our global footprint and direct distribution capability enables new product innovations to be distributed to markets quickly and efficiently.

see pages 23 and 24 for more details

Resources for success

Innovation

We make significant investments in research and development to deliver innovations that satisfy or anticipate consumer preferences and generate growth for the business across all categories.
The main focus of this investment is in our NGPs, such as vapour and THPs. Since 2012, together with Reynolds American, we have invested over US$2.5 billion in the development and commercialisation of potentially lower risk alternatives to smoking.
We also conduct R&D into our conventional cigarette innovations such as capsule products, additive-free products, slimmer products, tube filters and Reloc, our resealable pack technology.

World-class science

We have an extensive scientific research programme in a broad spectrum of scientific fields including molecular biology, toxicology and chemistry. We are transparent about our science and publish details of our research programmes on our dedicated website, www.bat-science.com, and the results of our studies in peer-reviewed journals.

You can take a video tour inside our state-of-the-art plant biotechnology labs and meet some of the scientists behind the science at www.bat.com/labtour or at www.youtube.com/welcometobat

see pages 21, 22 and 27 for more information

Delivering our strategy

Growth

Our multi-category portfolio of brands continued to deliver in 2017, driven by our Global Drive Brands and Next Generation Products.

Highlights during the year

- Group revenue grew by 37.6% at current rates of exchange.
- Group market share in Key Markets up by over 40 bps.
- Global Drive Brands' cigarette volume grew 10.0% (+7.6% organic).
- The Group established itself as the world's leading tobacco and Next Generation Products business by revenue and profit.

Business performance

Group revenue, at current rates of exchange, was 37.6% higher than 2016, driven by the acquisition and subsequent consolidation of Reynolds American, pricing, growth of the Next Generation Product (NGP) portfolio and the continued relative weakness of sterling. At constant rates of exchange, adjusted (excluding excise on goods bought-in from third parties), organic revenue was up 2.9%.

Group cigarette and THP volume from subsidiaries was 686 billion, an increase of 3.2% against the previous year and a decline of 2.6% on an organic basis as volume growth in Bangladesh, Bulgaria, Nigeria and GCC was offset by declines in Pakistan, Russia, Ukraine and Brazil.

The Group's cigarette and THP market share in its Key Markets continued to grow, up 40 basis points (bps). This was driven by another excellent performance by our Global Drive Brand (GDB) portfolio with volume up 7.6% on an organic basis and market share, outside the US, increasing 110 bps, driven by growth in Brazil, Pakistan, Turkey and Mexico. Volume growth of our GDBs, including Key Strategic Brands (together known as GDSBs) was up 17.2% or 7.5% on an organic basis.

The Group's NGP portfolio contributed £397 million of revenue, at current rates of exchange, which includes the contribution from RAI Companies' brands since the acquisition date. Including a full year's revenue from RAI, in 2017, revenue from NGPs was approximately £500 million.

In 2018, we expect to generate over £1 billion in revenue from our NGPs, rising to more than £5 billion in 2022.

We expect the NGP business to break even by end 2018 and to deliver substantial profit by 2022.

Global Drive Brands

Our five leading brands GDBs – are Dunhill, Kent, Lucky Strike, Pall Mall and Rothmans.

The Group's market share has grown consistently over the last seven years, powered by our GDBs. They play a key role in our growth strategy and now account for over 50% of all the cigarettes and THPs we sell (ex US).

Dunhill: Overall market share was down 10 bps with volume lower by 5.9%, driven by the economic slowdown impacting consumers' disposable income in Indonesia and continued down-trading in Malaysia and GCC, and industry contraction in South Korea.

Kent: Volume increased by 11.2%, with market share up 30 bps, driven by Japan, due to the success of glo, Turkey and Brazil, offsetting a decline in Iran.

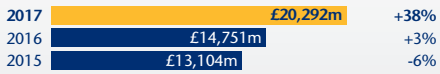
Lucky Strike: Market share and volume grew by 20 bps and 12.2% respectively, with growth in Indonesia and Spain more than offsetting reductions in Argentina and Egypt.

Pall Mall: Market share grew 20 bps, with volume up 14.8%, or 6.4% on an organic basis, as growth in GCC, Nigeria and Poland more than offset Chile and Russia.

Rothmans: Volume increased 14.3%, with market share up 40 bps, driven by Russia, Poland, Nigeria and Colombia, offsetting lower volume in Kazakhstan and Egypt.

Revenue (£m)

£20,292m
+37.6%

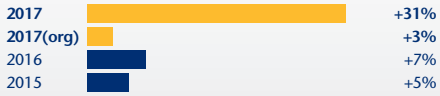


Definition: Revenue recognised, net of duty, excise and other taxes.

Change in adjusted revenue at constant rates (%)

+30.7%

KPI
Non-GAAP



Definition: Change in revenue before the impact of adjusting items and the impact of fluctuations in foreign exchange rates.

Global Drive Brands (GDBs) cigarette volume and THP volume

357bn
+10.0% (+7.6% organic)

2016: +7.5%
2015: +8.5%

Global Drive and Key Strategic Brands (GDSBs) total cigarettes and THP volume

405bn
+17.2% (+7.5% organic)

KPI

2016: +7.2%
2015: +8.0%

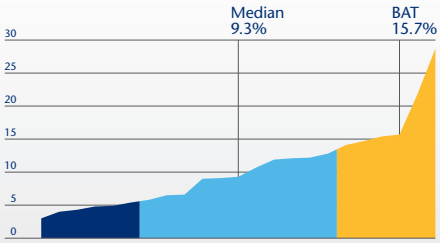
Group market share of key markets

+40 bps

KPI

2016: +50 bps
2015: +40 bps

Total shareholder return (TSR) of the FMCG group – 1 January 2015 to 31 December 2017 (%)
The FMCG group comparison is based on three months' average values



Upper quartile
Lower quartile

KPI

US cigarette brands

In the period since acquisition, RAI Companies' cigarette volume in the US was 36 billion, outperforming the industry with total cigarette market share at 34.7%, up 20 bps on 2016.

Newport and Natural American Spirit continued to grow market share driven by the investment into the trade and, together, they are the fastest growing premium brands on the market. Camel market share increased due to the performance of the menthol range. Pall Mall market share was lower due to price competition in the value for money category.

Local and international cigarette brands

We have many other international and local cigarette brands including Vogue, Viceroy, Kool, Peter Stuyvesant, Craven A, Benson & Hedges, John Player Gold Leaf, State Express 555 and Shuang Xi.

Although experiencing a slow overall decline, our local and international brands continue to play an important role in delivering the Group's Strategy in several Key Markets, including Brazil, South Africa, Vietnam, Pakistan, Bangladesh and Japan.

Other international brands declined by 13.4%, as growth in State Express 555 and B&H was more than offset by lower volume from Craven A, Viceroy, Peter Stuyvesant, John Player Gold Leaf and Vogue.

Combustible product Innovations[1]

In addition to innovations in our NGP portfolio, innovations in our combustible tobacco portfolio remain an important part of our strategy to provide consumers with a range of exciting and differentiated products from which to choose.

Innovations volume grew by 11.6%, driven by the continued growth of tube filters and capsules which now account for 37% of our cigarette volume.

Potentially reduced-risk products

Potentially reduced-risk products is the term we use to define our Next Generation Product (NGP) business, comprising vapour and THPs, and our oral tobacco and nicotine business, including products such as snus and moist snuff.

We are seeking leadership of the entire category and have a suite of products to cater for consumers' many and varying preferences.

In 2017, we further enhanced our range of potentially reduced-risk products with the acquisition of the e-cigarette brand ViP in the UK and Winnington, the maker of Epok, the market leading white snus product in Sweden.

Vapour products

Following the acquisition of Reynolds American we are now the world's leading vapour company.

Outside of the US, the Group has market leadership in Poland and the UK, with the latter driven by the two fastest growing vapour brands in the market, Vype and Ten Motives. Vype is now present in nine markets (and in duty free via our Global Travel Retail business) and, while still immaterial in the context of the Group, our European vapour business grew with revenue up strongly against the same period last year.

In the US, the R.J. Reynolds Vapor Company – a Reynolds American operating company – was formed in 2012 and started selling Vuse digital vapour products in Colorado in June 2013 before expanding nationally in 2014. The Vuse range of products continues to have a significant presence in the market.

The Group has a range of products covering open and closed vapour systems, all designed to meet the emerging preferences of consumers. We also have a strong product pipeline in place to cater for changing preferences in this category.

1. Defined as any Group-manufactured cigarette containing non-standard features such as slims, capsules, Reloc or tubes.

In addition to revenue and the other measures discussed in this Annual Report and Form 20-F, BAT management focuses on volume as a key measure to evaluate performance. Volume is an unaudited operating measure and is calculated as the total global cigarette and THP volume of the Group's brands sold by its subsidiaries. The Group believes that volume is a measure commonly used by analysts and investors in the industry. Accordingly, this information has been disclosed to permit a more complete analysis of the Group's operating performance.

The Group also uses market share to evaluate its performance. The Group evaluates changes in its retail market share, or market share, in its key markets for tobacco products, based on the latest available data from a number of internal and external sources. Key markets consist of approximately 40 territories across all geographical segments, and represent approximately 80% of the Group's global volume. Growth in these markets is largely driven by the Global Drive Brands. The Group also highlights drivers for change in specific markets (e.g., volume or market share). For Next Generation Products, the Group monitors its performance in select countries (e.g., UK, Germany, Italy) based upon category retail market share, based on the latest available data from a number of internal and external sources. In addition, the Group's performance is affected by global pricing, which is impacted by discounts, terms of credit with customers, excise taxes and other competitive, market-driven and regulatory factors. In certain markets, the Group has experienced increases or decreases in average prices resulting from changes in product mix, also referred to as price mix. The Group believes that pricing and market share are measures commonly used by analysts and investors in the industry.

Delivering our strategy continued

Tobacco heating products

Our tobacco heating product (THP), glo, is present in six markets – Japan, South Korea, Russia, Romania, Canada and Switzerland – with additional launches planned for 2018.

Following the initial launch of glo in the Japanese city of Sendai in December 2016, we rolled the product out nationally in October 2017. We are already at 3.6% market share in Japan and our research shows that, in Tokyo, three out of four new consumers in the category are choosing glo over other products on the market.

We launched glo in the South Korean city of Seoul in August 2017 and subsequently expanded into three more cities – Busan, Daegu and Daejeon – with continuous market share growth being captured at national level. Encouraging progress is also being made in the other markets where glo is present and we have a number of market and new product launches planned for 2018 and beyond.

To support our on-going glo expansion plans, and to meet the increasing demand, investment in Neostik (our glo consumables) production capacity has taken place in South Korea and Russia.

Oral tobacco and nicotine products

In the US, American Snuff Company, LLC's volume of moist snuff was 228 million cans in the period since the acquisition of Reynolds American. Total moist market share was up 100 bps on 2016 to 34.4%, primarily due to Grizzly, a leading US moist snuff brand, benefiting from its strength in the pouch and wintergreen categories, as well as the recent national expansion of its Dark Select style.

Change to performance measure

Revenue Growth from the Strategic Portfolio – effective 2018

The Group continuously assesses the performance metrics to ensure they remain relevant to reflect the Group's short- and long-term delivery in line with the strategic vision. To that end, from 2018, the Group will introduce a new measure called Revenue Growth from the Strategic Portfolio, as part of the short-term incentive scheme. This will have a 30% weighting, with the Strategic Portfolio reflecting the focus of the Group's investment activity, and defined as:

- The GDBs (Kent, Dunhill, Lucky Strike, Pall Mall and Rothmans);
- The three main brands from the US business (Camel, Newport and Natural American Spirit); and
- Key brands within our potentially reduced-risk products portfolio.

The new metric will replace the Global Drive Brand (GDB) & Key Strategic Brand (KSB) volume growth metric. The volume share metric of key markets is retained with a weighting reduced from 20% to 10%.

In 2017, while not part of the Group's KPIs, to provide the comparator against which 2018 will be measured, Revenue from the Strategic Portfolio was £16,711 million assuming we had owned RAI for the full 12 months and after the implementation of the new accounting requirements of IFRS 15.

Productivity

We have continued our drive towards a more effective and efficient globally integrated organisation by leveraging global systems and new ways of working. This global integration ensures the lowest possible overheads, the most cost-effective and responsive supply chain and that productivity opportunities are fully exploited.

Highlights during the year

- Record productivity savings delivered.
- Opening of the new Global Supply Chain Service centre in Southampton, UK, and further expanded shared services for Human Resources and Finance in Romania.
- Continued optimisation of leaf growing and manufacturing locations.

Globalising operations and improving efficiency

Global systems and ways of working across the Group are exploited to minimise our cost base and maximise expertise. Furthermore, by ensuring back-office activities are carried out most efficiently and effectively, the end markets are free to focus their efforts on sales activities. This drive to a globally integrated enterprise is most apparent in our Supply Chain, Human Resources, Finance, Procurement and Information Technology functions.

In line with this strategy, during 2017 the Group opened a new Global Supply Chain Service centre in Southampton, UK, and further expanded shared services for Human Resources and Finance in Romania. In all cases, these opportunities have been enabled by the Group's single global SAP system.

The successful completion of the migration of Croatia, Greece, Serbia and Indonesia to our single system at the start of the year has meant that during 2017 the Group has been able to focus on embedding expertise and rolling out initiatives to leverage the Group's global integration.

The drive towards above-market aggregation is not only reducing cost through less duplication, but also ensuring the best expertise is exploited throughout the Group. Doing so helps ensure resources are made available to establish more global activities across our combustible and Next Generation Product (NGP) businesses and that those activities are implemented efficiently and effectively.

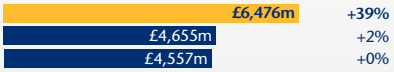
In Supply Chain, the Group is integrated globally such that the single view of future demand ensures resources and investments can be most effectively prioritised.

This includes machinery investment so that capital expenditure is targeted to the areas of the business with the greatest return on the investment. This global view also enhances our ability to react quickly in situations when speed to market gives us a competitive advantage.

Continued strategic investments in new machinery in 2017, supported by our global planning systems and integrated business model, have ensured we deliver 'on time and in full' in all our Key Markets at optimal cost, with speed and scale.

Profit from operations (£m)

£6,476m
+39.1%

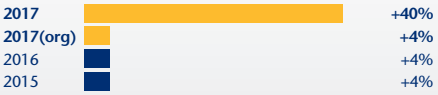


Definition: Profit for the year before the impact of net finance costs/income, share of post-tax results of associates and joint ventures and taxation on ordinary activities.

Change in adjusted profit from operations at constant rates (%)

+39.9%

KPI
Non-GAAP



Definition: Change in profit from operations before the impact of adjusting items and the impact of fluctuations in foreign exchange rates.

Operating cash flow conversion ratio (%)@

79%

KPI
Non-GAAP

Definition: Operating cash flow, as defined on page 221 as a percentage of adjusted profit from operations. Operating cash flow is not a measure defined by IFRS.

@ denotes phrase, paragraph or similar that does not form part of BAT's Annual Report on Form 20-F as filed with the SEC.

Delivering our strategy continued

Net cash generated from operating activities (£m)

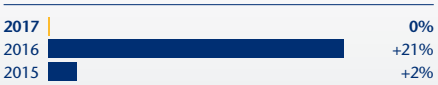
£5,347m
+16.0%

Definition: Movement in net cash and cash equivalents before the impact of net cash used in financing activities, net cash used in investing activities and differences on exchange.

Change in adjusted cash generated from operations at constant rates (%)@

+0.3%

KPI
Non-GAAP



Definition: Change in adjusted cash generated from operations, as defined on page 222, before the impact of fluctuations in foreign exchange rates.

Operating margin (%)

31.9%

Definition: Profit from operations as a percentage of revenue.

Adjusted operating margin (%)

39.9%

Non-GAAP

Definition: Adjusted profit from operations as a percentage of adjusted revenue.

Continued optimisation of manufacturing locations and leaf growing

In 2017, we continued to optimise our manufacturing footprint and at the end of the year had 45 cigarette factories in 42 countries. In addition, the acquisition of Reynolds American added a further six manufacturing facilities to the Group.

The Malaysia factory was closed this year and the German factory was refocused on OTP, Dry Ice Expanded Tobacco (DIET) and Casing/Flavours Manufacture – with the ending of cigarette manufacture planned for early 2018. This factory reduction is balanced against continued strategic acquisitions to support the Growth Agenda.

Factory expansions in Romania and South Korea to accommodate new opportunities in NGPs, specifically consumables production for glo, show how our sourcing is responsive to innovative growth demands while remaining cost effective. This complements substantial investment in device capacity, which is also taking place in response to increased consumer demand for glo.

We are continually looking to improve the efficiency of our entire supply chain with the opportunities to improve our manufacturing operations being a focus in 2017, continuing into 2018. We are realising the benefits of our Integrated Work Systems, a programme that is designed to maximise equipment efficiency while ensuring we maintain high standards of product quality.

The improved equipment efficiency is delivering real benefits through improved productivity and lower maintenance costs together with reduced waste. An additional positive by-product is the release of capital expenditure which can be used to invest in further innovation.

While the Group does not own tobacco farms or directly employ farmers, it sources over 400,000 tons of tobacco leaf each year directly from over 90,000 contracted farmers and through third-party suppliers mainly in developing countries and emerging markets in Africa, Asia and Latin America. The Group also purchases tobacco leaf from India where the tobacco is bought over an auction floor. The price of tobacco in US dollars varies from year-to-year driven by domestic inflationary pressures, supply, demand and quality. The Group believes there is an adequate supply of tobacco leaf in the world markets to satisfy its current and anticipated production requirements.

Record productivity savings

By operating globally, exploiting our systems and driving for results, the Group delivered record productivity savings in 2017. This has been reinforced by the acquisition of Reynolds American which will provide further opportunities for productivity savings.

These savings are returned to the business for re-investment and to increase shareholder return. The following examples show how the Group considers all opportunities in the supply chain, including Procurement, International logistics and Leaf operations:

Procurement – Global visibility of forward demand and product specifications in one system has delivered significant benefit with the tender at a global level of print materials and tow being notable examples. In addition to the benefits of lower product cost, the development of long-term supplier relationships with key suppliers has improved security of supply and enabled higher flexibility in the supply chain.

International logistics – Whether by road, air or sea, this is now organised and controlled centrally. This facilitates opportunities to negotiate globally with third-party providers for us to benefit from our scale. Furthermore, this maximises the use of return shipments and economic order quantities to ensure maximum efficiency while maintaining the flexibility for fast response to market opportunities.

Leaf operations – These are similarly managed globally to ensure that the Group works with reliable, efficient and responsible farmers in our source countries. Our Global Leaf Pool operation aggregates demand to meet supply across all internationally traded tobacco. This approach balances the lowest possible working capital investment while reducing any exposure to climatic impacts on our crops and guaranteeing the best quality leaf to meet consumer demands.

While transactional foreign exchange rates again negatively impacted on our cost base in 2017, by continuing to improve our productivity in all areas of our supply chain and elsewhere in the Group, we can increase our profitability and continue to deliver returns to our shareholders today and invest in the future.

@ denotes phrase, paragraph or similar that does not form part of BAT's Annual Report on Form 20-F as filed with the SEC.

Winning organisation

We enable growth by having a winning organisation: by investing in our people, by attracting the best, and by enhancing the high performing leaders who inspire diverse teams of committed and engaged people in a fulfilling, rewarding and responsible work environment.

Highlights during the year

- Accelerated talent development and attraction in growth markets and growth categories including the Next Generation Products business.
- Doubled our intake to the global graduate programme focused on developing the commercial acumen of our junior talent.
- Certified as a Top Employer in Europe, Africa and Asia-Pacific by the Top Employer Institute.
- Exceptionally strong employee engagement and culture of passion and commitment shown through the most recent employee opinion survey in 2017.

Investing in leaders

The quality of our people is a major reason why the Group continues to perform well. In return, we commit to investing in our people as we do in our brands.

The long-term culture of the Group has been about developing talent from within, stretching and supporting the high-performing managers who will lead the delivery of our strategy. This year, over 92% of our senior appointments were drawn from people already within the business – moves that have helped to deliver stronger and more diverse leadership teams and succession plans.

2017 saw the introduction of our new Global Graduate Academy: an intensive two-week programme focusing on accelerating the development of commercial leadership in our next generation of leaders. Over two cohorts during the year, 108 global graduates from 37 countries came together in London for a challenging and interactive learning experience supported by senior leaders from across the business.

We continually update our capability frameworks and learning portfolio to enable development of new capabilities to drive business performance. In 2017, we launched new programmes across Leadership, Marketing, Legal and External Affairs and R&D. These included a new leadership programme for junior managers integrated with leading edge digital content and programmes focusing on brand-building and Next Generation Products.

You can learn more about our Global Graduate Programme at www.bat-careers.com/graduates

Attracting the best talent

When we do recruit externally, we actively seek those who will provide additional knowledge and skills that will strengthen our teams and ultimately make us a stronger business. In 2017, we continued to enhance our internal capabilities to engage and recruit those people who will help us win in growth markets and growth categories including Next Generation Products.

We continued the digital growth of our employer brand – 'Bring your Difference' – across core social media channels. We have more than doubled our followership on Facebook and increased followership by 20% on LinkedIn. We are leading the industry in social media engagement and have moved ahead of several top FMCG companies.

As competition for talented employees intensifies, people increasingly want to work for businesses with a good corporate reputation, so we are proud to have been ranked among the top employers around the world and have been named as a Top Employer for Europe, Africa and Asia-Pacific by the Top Employer Institute, an independent global certification company. We also received similar accolades in many of the countries in which we operate.

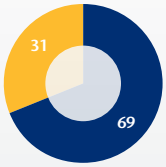
Growth through diversity

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 varied preferences of our global consumers. Our efforts to drive diversity are built on three pillars of driving ownership and accountability, building diverse talent pools and creating enablers; all of which are underpinned by an inclusive culture.

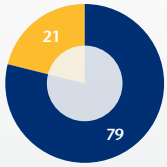
Group diversity

	Total	Male	Female
Main Board	**13**	9	4
Senior management	**740**	584	156
Total Group employees	**55,761**	42,452	13,309

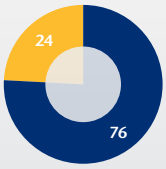
Main Board



Senior management



Total Group employees



% Male
% Female

Nationalities represented*

	Total
Main Board	**7**
Global headquarters	**77**
Management level globally	**143**

Employee engagement index

83%

FMCG comparator group 71%

Definition: Results from our 'Your Voice' employee opinion survey, carried out in 2017, 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 FMCG companies in our comparator benchmark group.

Senior managers: Companies Act 2006

For the purposes of disclosure under section 414C(8) of the Companies Act 2006, the Group had 203 male and 26 female senior managers. 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 70% of the Group's employees and contributed around 76% of Group revenue and profit from operations in 2017.

* Excluding data for RAI Companies as this was not tracked before the acquisition in July 2017.

Delivering our strategy continued

We are a diverse employer. There are 143 nationalities represented at management level within our Group, and 35 within our executive cadre*. We are pleased with the continuous progress we are making and the sustainable pipeline we are building in terms of nationality diversity.

We are also proud of the notable progress and achievements we made in 2017 in gender diversity. We achieved 31% female representation on our Board and increased the female representation in senior management to 21% in 2017, which was largely driven by internal promotions. We also have female executives on all our senior functional and geographical leadership teams. Over 50% of our graduate intake were females, ensuring a sustainable pipeline of women for senior management roles.

Several initiatives have been instrumental in the progress we have made. Our 'Women in Leadership' programme is designed to support and accelerate the development and career progression of female talent. In 2017, we trained 145 women across the Group – a number equal to those trained in the previous three years combined. Furthermore, two new diversity training modules, Inclusive Leadership and Cross-Cultural Awareness, have been developed and are being rolled-out to all management employees.

Providing women and other diverse groups an opportunity to connect, engage and share experiences is one of our key enablers; we have more than ten different affinity groups globally to support this. The newest of these affinity groups, Women in BAT UK, was launched in June 2017 and has already amassed more than 350 members.

Our regions and end markets also work to progress the global diversity strategy through on-the-ground initiatives relevant to local cultures and contexts.

In March 2018, we will be publishing data relating to UK Gender Pay in line with statutory requirements. We are confident that men and women are rewarded equally for similar roles, however, we do have a "gender pay gap" as defined by the UK legislation. This is largely a reflection of having more men than women in senior roles and is something we are committed to addressing through initiatives like those outlined above.

You can learn more about our published data relating to UK Gender Pay in line with statutory requirements at www.bat.com/genderpayreport

Safe place to work

We are committed to providing a safe working environment for all our employees and contractors, and have a Group-wide goal of zero accidents. Our approach is based on risk management and assessments, employee training and awareness, and specific initiatives for high-risk areas of our business.

The vast majority of all Group accidents are in Trade Marketing & Distribution (TM&D), where we have over 29,800 vehicles and motorcycles out on the road every day. Many of these are in challenging parts of the world with high levels of road traffic accidents and armed robberies.

Our driver safety and security programme continues to focus on addressing these risks, such as through the use of in-vehicle 'telematics' monitoring systems to analyse driver behaviour data, insights from which are used to tailor our training programmes to improve driving skills and hazard perception. Since 2014, all our vehicles are required to meet strict safety specifications, and we also continually assess threat levels to enhance security protocols and escorts in high-risk locations.

In 2017, accidents across the Group increased significantly, from 182 in 2016**, up to 217. Sadly, this included an increase in fatalities, with the death of a contracting electrician in our factory in Bangladesh from contact with electricity; two TM&D contractors who died in road traffic accidents in Brazil; and one TM&D employee and eight TM&D security contractors who died in violent attacks in Brazil and South Africa. Eleven members of the public also lost their lives in road traffic accidents involving BAT vehicles in eight countries.

We deeply regret this loss of life and the suffering caused to friends, family and colleagues. We liaise closely with the relevant authorities and conduct our own detailed investigations to determine the root cause of each accident, identify any lessons that can be learned and implement action plans, the outcomes of which are reviewed at Board-level.

Overall, our driver and vehicle safety programmes have led to a decline in road traffic accidents in 2017 involving cars or vans, but this was offset by a rise in accidents involving motorcycles, which we have increased the use of in markets where the high density of traffic means they are a more practical option. To address the increased risks, we have put in place motorcycle training programmes in all markets, where motorcycles have been recently introduced, to provide practical techniques for different road conditions and types of traffic, safe speeds and distances, and how to spot a potential problem and take action to deal with it safely.

Equal opportunities for all

We are committed to providing 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.

Leadership for change

The world is changing fast. The accelerated pace of transformation both in our industry and the organisation demands that our people are ambitious, courageous and resilient; that they learn quickly and are responsive to opportunities; and that they continue to drive and own results. As our organisation evolves, we continue to focus on these traits and on what has served the Group well through its history – having a culture of passionate owners and having people who lead and inspire each other for the journey ahead.

In 2017, we ran the Group's global employee survey. We received extraordinary results. The survey had a response rate of 95% – 10 percentage points higher than the average response rate for this type of survey – with the Engagement Index score of 83% being 12 percentage points higher than the FMCG comparator norm of 71% (see chart on page 25). This survey conveys the pride which many employees have in working for us and is demonstrable as we have continued to see employee turnover stay below comparator benchmarks.

Rewarding people

Reward is a key pillar in ensuring that we have the right people to drive the business forward. Reward is necessarily local and we strongly support this through global frameworks to ensure leading edge policies, processes and technology are available to all markets. Base pay rewards core competence relative to skills, experience and contribution to the Group, while annual bonuses, recognition schemes and ad hoc incentives provide the right mix to ensure that high performance is recognised and rewarded. The Long-Term Incentive Plan (LTIP) has been established to make annual awards of free shares to senior managers provided certain challenging long-term performance conditions are met. The LTIP is one element of senior executives' reward package aiming to align the interests of the Group's senior managers with those of shareholders. Further information on the Group's Remuneration Policy for the Executive Directors and the Non-Executive Directors can be found on pages 73 to 98.

We also offer our UK employees the chance to share in our success via our Sharesave Scheme, Partnership Share Scheme and Share Reward Scheme, and operate several similar schemes for senior management in our Group companies.

* Excluding data for RAI Companies as this was not tracked before the acquisition in July 2017.

** The 2016 figure has been updated to include reportable injuries from 2016 acquisitions. The previously reported figure was 175. Excluding data for RAI Companies as we continue the integration.

Sustainability

Sustainability is a key pillar of our Group strategy and plays a fundamental role in all aspects of our business.

Our sustainability agenda was developed through a detailed assessment process, which we refreshed in 2017, that identified the three key areas that have the greatest significance to our business and our stakeholders.

- Harm reduction: We are committed to working to reduce the public health impact of smoking, through offering adult consumers a range of potentially reduced-risk products.
- Sustainable agriculture and farmer livelihoods: We are committed to working to enable prosperous livelihoods for all farmers who supply our tobacco leaf.
- Corporate behaviour: We are committed to operating to the highest standards of corporate conduct and transparency.

Highlights during the year

- Implementation of our new operational standard on child labour prevention, which complements our long-standing 'Child Labour Policy'.
- Launch of the Group's new global compliance programme, known as 'Delivery with Integrity'.
- 46% reduction in carbon dioxide equivalent (CO_2e) emissions from our 2000 baseline.

Read more about how we identified these issues and detailed information on our performance in each area at www.bat.com/sustainabilityreport

Harm reduction

Tobacco harm reduction is about encouraging adult smokers, who wish to continue using tobacco or nicotine products, to switch to potentially lower risk sources of nicotine as compared to conventional cigarettes. Our focus on Next Generation Products (NGPs), comprising vapour and tobacco heating products (THPs), and oral tobacco products provides an opportunity to dramatically reduce the public health impact of smoking.

Read about our progress in potentially reduced-risk products on pages 21 and 22

Cutting-edge science

BAT and Reynolds American share a tradition of world-leading scientific research and, following the acquisition, we are at the forefront of developing a new generation of alternatives to cigarettes, as well as pioneering new scientific methods to evaluate their harm reduction potential.

We have developed a framework of scientific tests to assess the reduced-risk potential of NGPs relative to smoking cigarettes and, in 2017, published the results of a series of studies for both our Vype ePen and our glo THP.

In 2018, we are embarking on one of our most ambitious and large-scale clinical studies, following hundreds of consumers in the UK for a full year, to look at whether switching to a NGP is as good as quitting smoking, in terms of reducing toxicant exposure and the potential impact on health.

High standards and enabling responsible growth

Following high standards to ensure quality and consumer safety is at the heart of everything we do in the design, development and manufacturing of our products. We would like to see the same approach across the whole industry, so, in 2017, we continued to advocate for, and collaboratively contribute to the development of, consistent national and international standards and proportionate regulation for NGPs.

This is essential for giving consumers the assurances they need to support take-up by more smokers which can ultimately help to realise the potential benefits for public health.

Sustainable agriculture and farmer livelihoods

Tobacco leaf remains at the core of our products, even with the growth of NGPs, so the farmers who grow it are crucial to the continued success of our business.

We have traceability down to the farm level and centralised management of our tobacco leaf supply chain. This enables an agile, efficient and reliable supply of high-quality tobacco leaf to meet consumer demand, while also enhancing the sustainability of rural communities and agriculture.

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

0.82
46% lower than 2000 baseline

Definition: Group CO_2e in tonnes per million cigarettes equivalent (tCO_2e/MCE) produced.

Target: To reduce Group CO_2e in tCO_2e/MCE by 55% by 2025 and by 80% by 2050 against our 2000 baseline.

Group energy use*
(gigajoules per million cigarettes equivalent produced)

10.48
11% lower than 2007 baseline

Definition: Group energy use in gigajoules per million cigarettes equivalent (GJ/MCE) produced.

Target: To reduce our energy use to 9.17 GJ/MCE by 2025, 25% lower than our 2007 baseline.

Water use*
(cubic metres per million cigarettes equivalent produced)

3.27
33% lower than 2007 baseline

Definition: Group water use in cubic metres per million cigarettes equivalent (m^3/MCE) produced.

Objective: To reduce water use to 3.17 m^3/MCE by 2025, 35% lower than our 2007 baseline.

Recycling
(percentage of waste recycled)

93.2%

Definition: Total percentage of Group waste reused or recycled against total waste generated.

Objective: To recycle 95% or more by 2025 in each year.

Delivering our strategy continued

In 2017, the BAT Group purchased more than 400,000 tonnes of tobacco leaf:

– 66% from 17 BAT leaf operations, which source from over 90,000 farmers; and

– 34% from 20+ third-party suppliers, which source from over 260,000 farmers.

Find our more in our Sustainable Agriculture and Farmer Livelihoods Focus Report at www.bat.com/sustainabilityfocus

Supporting our farmers

Through our global leaf research and development, we develop new and innovative farming technologies and techniques, which are rolled out to farmers as part of comprehensive agri-support packages.

We have a network of expert field technicians who provide on-the-ground support, technical assistance and capacity building for all our 90,000+ directly contracted farmers, helping them to run successful and profitable farms. Our third-party suppliers provide their own support for all the 260,000+ farmers they source from.

By supporting farmers in this way, we can help them maximise the potential of their farms and enhance the livelihoods and resilience of rural communities. They and future generations are then more likely to feel motivated to remain in agriculture, look after the environment and see the value of growing tobacco as part of a diverse range of crops.

Setting standards and driving change

We use the industry-wide Sustainable Tobacco Programme (STP) to conduct assessments and independent on-site reviews for 100% of our tier one tobacco leaf suppliers, including our own leaf operations, to ensure alignment with international standards, such as for human rights and environmental protection.

STP was introduced in June 2016, replacing our previous Social Responsibility in Tobacco Production programme, which from 2000 until 2015 set the standard for all our leaf suppliers worldwide.

Since implementation, two rounds of self-assessment have been completed, and a total of 26 independent on-site reviews have been conducted in 19 countries, covering 50% of our total supply base. By the end of 2018, 100% will have been reviewed by AB Sustain, an independent supply chain management company.

Our 'Thrive' sustainable agriculture and farmer livelihoods programme takes a more holistic and collaborative approach to identifying and addressing root causes and long-term risks, such as rural poverty.

Thrive assessments have been completed in 2016 and 2017 for approximately 250,000+ farmers who supply all our own 17 leaf operations and six strategic third-party leaf suppliers (covering nearly 80% of our total tobacco leaf purchases). We are now using the results to inform our approach to selecting and developing new partnerships and community-based projects that will have a demonstrably positive impact for farmers and their communities.

Human rights in tobacco growing

Agricultural supply chains are particularly susceptible to the risks of child labour and, in 2000, as part of our long running commitment to end the practice within tobacco farming, we became a founding board member of the Eliminating Child Labour in Tobacco Growing (ECLT) Foundation. We remain active members today, alongside other major tobacco companies and leaf suppliers. ECLT helps to strengthen communities and bring together key stakeholders to develop and implement local and national approaches to tackle child labour.

We provide training and communications to farmers and rural community members to raise awareness of human rights issues, which reached over 67,000 beneficiaries in 2017. We also run on-the-ground projects in farming communities to address root causes, such as rural poverty, in collaboration with local partners.

In 2017, we developed a new operational standard on child labour prevention, with inputs from the ECLT and the International Labour Organization. This complements our long-standing Child Labour Policy and includes detailed standards, guidance and processes for our leaf operations to ensure it is effectively applied in a robust and globally consistent way.

Corporate behaviour

Our actions and behaviour impact all areas of our business – which is why corporate behaviour is such an important focus for our long-term sustainability strategy.

Our commitment to good corporate behaviour is underpinned by our Group Standards of Business Conduct (SoBC), or localised equivalent, which require all our staff worldwide to act with a high degree of business integrity, comply with applicable laws and regulations, and ensure that our standards are not compromised for the sake of results.

Delivery with integrity

In 2017, we introduced the Group's updated compliance programme, 'Delivery with Integrity', focused on strengthening and driving a globally consistent approach to compliance across the Group. The programme is led by our Business Conduct & Compliance department, reporting directly to the Group Legal and External Affairs Director.

Sustainability reporting

Find out more about our focus on sustainability in our Sustainability Report 2017.

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

'Delivery with Integrity' is about re-emphasising our commitment to transforming tobacco in line with the highest ethical values. This is an area in which we already have strong foundations, so while this is not new for us, we are further enhancing our compliance procedures.

The importance of sustaining a culture of integrity across the Group was a key theme for our annual Group Leadership Meeting. The 'Delivery with Integrity' programme was launched in a two-day workshop held in London with 120 leaders from our Legal and External Affairs Function worldwide, opened by our Chief Executive. This was followed by a global 'Delivery with Integrity' communications campaign to all employees worldwide.

A key focus area of the programme in 2017 has been to enhance the Group's long-standing procedures for the annual SoBC employee sign-off, with the introduction of a new online SoBC portal. The new portal is available to employees in multiple languages and provides tracking and performance reporting capabilities. Over 18,000 management-grade and office-based employees across the Group completed an online SoBC training course and assessment in the new portal in addition to their annual sign-off, and our remaining employees, who may not have easy online access, received face-to-face training.

Speak Up channels

To increase the accessibility of, and strengthen, our long-standing whistleblowing policy and procedures, in early 2018 we launched a new third-party managed *Speak Up* system, following a review of the Group's existing whistleblowing procedures undertaken in 2017.

The system includes a website available in multiple languages, and local language hotlines for our markets, and enables improved global oversight of all reported issues in real time.

Please refer to pages 69 and 70 for more information about the application of the SoBC in 2017, the Audit Committee's responsibility for oversight and monitoring of compliance with the SoBC and our reported compliance metrics.

Safeguarding human rights

With operations and supply chains in many different diverse and challenging environments around the world, human rights are particularly important for our business and an area we have long focused on addressing.

In recent years, we have been strengthening our approach to further align to the United Nations Guiding Principles on Business and Human Rights (UNGPs). This began with a review of our existing policies and approach to human rights management, informed by an independently-facilitated stakeholder dialogue.

As a result, in 2014, we incorporated our Human Rights Policy into our SoBC. In early 2016, we complemented this with the introduction of our Supplier Code of Conduct, which defines the minimum standards expected of all our suppliers worldwide, including the respect of human rights.

Having established a strong policy base, we have continued to focus in 2017 on enhancing due diligence across our business and supply chains. Arguably, the area of greatest risk is in our tobacco leaf agricultural supply chain, so we have extensive due diligence processes in place, as detailed on pages 27 and 28.

For our non-agricultural supply chain, we have long had due diligence processes in place for strategic direct product materials suppliers.

However, to more closely align with the UNGPs and to better manage supply chain risks and opportunities, we expanded the scope in 2016 to include all our direct materials suppliers, as well as strategic indirect suppliers.

All these suppliers are now assessed according to independent human rights indices and those with the highest risk exposure are prioritised for enhanced due diligence.

In 2017, independent on-site audits were conducted on 65 direct suppliers in 29 countries, representing 20% of our total direct procurement spend. For our indirect suppliers, 102 suppliers in 16 countries were identified as high risk and required to undergo a self-assessment in 2017.

With the majority of our employees working in business areas where we have robust oversight and control, human rights risks in our own operations are substantially avoided. The risks that do exist are also mitigated as a result of the suite of robust policies, practices, compliance and governance procedures that we have in place across all Group companies.

However, we recognise that we need to continually work to ensure these are effectively applied and that we carefully monitor the situation in high-risk countries. So, in 2017, we further strengthened our approach with enhanced monitoring for our operations in countries identified by independent indices as high-risk.

Further details of our approach to human rights and our Modern Slavery Act statement can be found at www.bat.com/humanrights

Marketing responsibly

We are committed to ensuring all our product marketing complies with local legislation and we have voluntary Marketing Principles in place for our different product categories to govern our approach to responsible marketing to adult consumers only.

In light of our shift to being a multi-category business, we are now developing, as part of NGP integration, a new set of consolidated Marketing Principles to cover all our product categories, including combustible cigarettes, smokeless oral tobacco and NGPs.

In 2017, we revised and strengthened our long-standing approach to youth smoking prevention with the launch of our new Youth Access Prevention (YAP) guidelines. This now covers all our different product categories – from conventional cigarettes to NGPs. We have also broadened the scope to include markets where our products are distributed through third parties, and strengthened the governance process for ensuring compliance.

Reducing our environmental impacts

Our approach to reducing the environmental impacts of our operations is long established. We have a comprehensive Environment, Health and Safety (EHS) management system that is based on international standards, including ISO 14001, and we monitor our Group-wide environmental performance for all BAT sites worldwide.

In 2017, we continued to work towards our long-term target of reducing CO_2e emissions by 80% by 2050 against our 2000 baseline and so far have achieved a 46% reduction. See the business measures on page 27 for more details. We use the Greenhouse Gas Protocol Corporate Standard to guide our CO_2e reporting methodology (see table below) for defining, consolidating and reporting our Scope 1, Scope 2 and Scope 3 CO_2e emissions.

Further details of our approach to our reporting methodology can be found at www.bat.com/corporatebehaviour/scope

Our focus in 2017 has been on continuing to reduce CO_2e emissions and energy use in our factories and in our fleet and logistics, including investing in energy-efficient technologies and switching to low-carbon or renewable energy sources. Our manufacturing processes do not use as much water as many other industries but, with the realities of water scarcity increasingly being felt in some parts of the world, in 2017 we expanded the scope of our water risk assessments to include all our factories and green leaf threshing sites worldwide.

For our tobacco leaf supply chain, environmental criteria form a central part of supplier assessments, as part of the Sustainable Tobacco Programme, and our expert field technicians provide farmers with technical assistance on areas such as sustainable soil, water, biodiversity, and forest and pest management. Our long-running efforts to address deforestation, by eliminating the use of unsustainable sources of wood as a fuel for tobacco curing, has also helped ensure that, in 2017, 99% of farmers' wood fuel came from sustainable sources.

Emissions*

	2017	2016
Scope 1 CO_2e emissions (tonnes)	**326,242**	311,561
Scope 2 CO_2e emissions (tonnes)	**357,645**	376,348
Scope 3 CO_2e emissions (tonnes)	**230,017**	208,013
Total (tonnes)	**913,904**	895,922
Intensity (per million cigarettes equivalent)	**0.82**	0.84

* The 2015 and 2016 data for CO_2e emissions and energy use, and 2016 data for water use have been updated. This is broadly due to expanding the scope of recent and historical data to include three sites in one country for completeness and correction of reported volume of MCEs in another site. Additionally, following the implementation of our new reporting system, we have taken steps to improve our calculation methodology, which has resulted in slight adjustments to overall historical data. For details of previously reported figures, see page 35 of our 2017 Sustainability Report, which can be found at www.bat.com/sustainabilityreport

Note: Data from RAI Companies is excluded from this section unless stated otherwise, as we continue the integration.

Stakeholder engagement

We work with, take into account and respond to the views and concerns of both internal and external stakeholders, adapting to emerging risks and striving to meet the expectations placed upon us as a multinational business.

Listening to our stakeholders helps us better understand their views and concerns, and enables us to respond to them appropriately. It gives us valuable inputs to, and feedback on, our strategic approach, as well as our policies, procedures and ways of working. This helps us to continually improve and strengthen them and ensure we are meeting the expectations of our stakeholders.

This section provides greater insight into our policies and procedures underpinning the Winning Organisation and Sustainability aspects of our strategy. It also outlines progress against our policy objectives, with a focus on our people and culture, environmental matters, community and social initiatives, respect for human rights, and anti-bribery and corruption, which we know are important considerations for our shareholders and wider stakeholders.

We have a number of Group policies and principles in place, including our Standards of Business Conduct (SoBC), that set out our commitments in these areas. These policies and procedures are endorsed by our Board and support the effective identification, management and mitigation of key risks and issues for our business in these and other areas. A summary of our SoBC and other policies in these areas is set out on page 31.

All Group companies have adopted the SoBC or localised equivalent. All staff working across the Group are required to complete training, and an annual sign-off, confirming their adherence to the SoBC.

Details of our Group Policies and Principles are available at www.bat.com/principles

Our *Speak Up* channels, available at www.bat.com/speakup, enable anyone working for, or with, our Group to raise concerns in their local language, in confidence and without fear of reprisal.

Our ongoing dialogue and engagement with stakeholders – including employees, suppliers, farmers, regulators, local communities and wider society – support our compliance with international standards and evolving regulations, and helps us to understand the issues and challenges our stakeholders face. This enables us to be better placed to co-develop solutions to address issues and challenges.

We engage with regulators around the world to support regulation that is based on robust evidence and thorough research, that respects legal rights and livelihoods, and delivers on intended policy aims, while recognising unintended consequences.

Transparency is crucial to our approach. We are open about what we think, and whether we are in favour of new proposals for regulation or not. Where we may not agree, we always try to be constructive and propose practical alternatives that can still support the achievement of regulatory aims and public health objectives.

We have long recognised the OECD Principles for Transparency and Integrity in Lobbying, and the views and positions that we advocate on key issues are available on our website at bat.com/regulation

We know that, as a responsible company, all engagement activities we undertake must be guided by high standards. These standards are set out in our Principles for Engagement. All Group companies and employees are required to act in accordance with our Principles for Engagement. We support third parties on policy issues of mutual interest, but we will never ask a third party to conduct itself in any way that contravenes these principles.

Our people and culture

We are committed to protecting the safety and wellbeing of our employees, and building a culture where they can develop and thrive. The principal risks for our business in this area relate to the risks of injury, illness or death in the workplace, discussed further as part of our principal Group risk factors on page 53. We also recognise that we must continue to attract and retain the best people, as competition for talented employees intensifies.

Overall responsibility for health and safety is held by the Director, Operations, and the Director, Group Human Resources has overall responsibility for all employee and human resources (HR) matters. Our Management Board oversees the development and management of talent within the Group's Regions and Functions, and monitors progress against our key objectives and performance indicators.

Our Employment Principles set out a common approach for our Group companies' policies and procedures, recognising that each Group company must take account of local labour law and practice, and the local political, economic and cultural context. In developing our Employment Principles, we have sought the views of a cross-section of internal and external stakeholders, and have consulted with employee representatives and (where relevant) with our works councils.

All Group companies have committed to our Employment Principles and, through our internal audit processes, are required to demonstrate how these are embedded into the workplace.

Health and safety

Our Health and Safety Policy recognises the importance of the health, safety and welfare of all employees and third party personnel in the conduct of our business operations. We are committed to the prevention of injury and ill-health, and strive for continual improvement in health and safety management and performance. This policy is supported by our Environmental, Health and Safety (EHS) management system, outlined on page 31.

We have a Group-wide goal of zero accidents and our approach to health and safety is based on risk management and assessments, staff training and awareness, and specific initiatives focused on higher risk areas of our business.

Our key performance indicators* in this area include:

- Lost Workday Case Incident Rate (LWCIR): In 2017, there was an increase in our LWCIR from 0.24 in 2016 to 0.28 in 2017.
- Lost workday cases (LWC): The number of work-related accidents (including assaults) resulting in injury to employees and to contractors under our direct supervision, causing absence of one shift or more, increased from 155 in 2016, to 181 in 2017.
- Serious injuries (SI) and fatalities: The total number of serious injuries and fatalities to employees and contractors increased from 56 in 2016 to 74 in 2017.

* The 2016 figures related to LWC and SI have been updated to include reportable injuries from 2016 acquisitions. For details of previously reported figures, see page 35 of our 2017 Sustainability Report, which can be found at www.bat.com/sustainabilityreport

Employee development and engagement

We have a comprehensive Group Talent Strategy in place, focused on attracting, retaining and developing the best talent. This is discussed further on pages 25 and 26.

We undertake a biennial global employee opinion survey ('Your Voice') across the Group, which increases employee engagement across the business and helps us continue to improve and update our work environment.

Policies / Principles**	Summary of areas covered	Key stakeholder groups
Standards of Business Conduct (SoBC)	Anti-bribery and corruption, conflicts of interest, and entertainment and gifts. Respect in the workplace, including promoting equality and diversity, preventing harassment and bullying, and safeguarding employee wellbeing. Respect for human rights, including prevention of child labour and exploitation of labour, and respect for freedom of association. Political contributions and charitable contributions. Financial integrity, accurate accounting and record-keeping, and information security. Anti-illicit trade, competition and anti-trust, and sanctions compliance. Whistleblowing.	Employees and contractors Governments and regulators Local communities and society
Health and Safety Policy	Health, safety and welfare of all employees, other members of our workforce and third party personnel.	Employees and contractors Suppliers, business partners, farmers Local communities and society
Environment Policy	Our commitments to carrying out our business in an environmentally responsible and sustainable way, including agricultural, manufacturing and distribution operations.	Employees and contractors Suppliers, business partners, farmers Local communities and society
Employment Principles	Employment practices, including commitments to diversity, reasonable working hours, family friendly policies, employee wellbeing, talent, performance and equal opportunities, and fair, clear and competitive remuneration and benefits.	Group employees
Principles for Engagement	Our internal standards guiding all engagement activities, underpinning our commitment to corporate transparency.	Employees and contractors Governments and regulators Local communities and society
Supplier Code of Conduct	Standards required of our suppliers worldwide, including business integrity, anti-bribery and corruption, environmental sustainability and respect for human rights (covering equal opportunities and fair treatment, health and safety, prevention of harassment and bullying, child labour, and exploitation of labour, and freedom of association).	Suppliers and business partners Employees and contractors Local communities and society
Strategic Framework for Corporate Social Investment	Sets out our Group corporate social investment strategy and a framework for our local operating companies to implement that strategy.	Local communities and society NGOs and development agencies

** Further details of our Group policies and principles can be found at www.bat.com/principles
Further details of our Strategic Framework for Corporate Social Investment can be found at www.bat.com/csi

Our key performance indicators in this area include:

– Employee retention: In 2017, total turnover of management-grade employees was 1,610, representing 14% of the total management population.

– Employee engagement: In our 2017 'Your Voice' employee opinion survey, our key Engagement Index score was 83%, 12 percentage points higher than the FMCG comparator norm of 71%.

– Diversity: Representation of women in senior management roles increased from 16% in 2016, up to 21% in 2017 (2017 data includes RAI Companies).

In addition to our long-standing Employment Principles, we have also adopted a Board Diversity Policy, discussed on page 62, which is specifically applicable to our Board and Management Board.

Environment

We are committed to reducing our environmental impact across our supply chain and operations and our Director, Operations, has overall responsibility for environmental management.

Our Environment Policy applies across all our activities including our supply chain.

The Policy is supported by our comprehensive Environmental, Health and Safety (EHS) management system, which has been in place for many years and is based on international standards, including ISO 14001.

Each of our Group companies has an EHS Steering Committee, with overall environmental responsibility held by the applicable General Manager or site manager. EHS is also a standing agenda item for management meetings and governance committees at area, regional and global levels. Our governance structures raise awareness of environmental risks across our business and our aim is to create a consistent approach across our Group to manage them.

The primary environmental focus areas for our business include energy use and carbon dioxide (CO_2) emissions, water use and availability, and waste and recycling. In our supply chain, the primary focus areas relate to the environmental impacts of tobacco farming.

Our approach to reducing the environmental impacts of our operations is long established and we have an internal reporting system in place for monitoring Group-wide environmental performance. Please refer to pages 27 to 29 for details of our approach to environmental management and progress against key performance indicators.

Community and social initiatives

As an international business, we play an important role in countries around the world and have built close ties with local communities. We encourage our employees to play an active role both in their local and business communities.

Our Charitable Contributions Policy in our SoBC is supported by the Group Strategic Framework for corporate and social initiatives (CSI), which sets out our Group CSI strategy and how we expect our local operating companies to develop, deliver and monitor community investment programmes within three themes:

– Sustainable Agriculture and Environment;

– Empowerment; and

– Civic Life.

Our Group Head of Sustainability has oversight of the Group CSI Strategy, and Board-level governance is managed through our Audit Committee, which reviews the strategy and an analysis of activities (including investment and alignment to the Group's priorities) at least once a year.

Our key performance indicator in this area relates to the total amount of money invested in charitable giving and CSI projects. Together with RAI Companies, in 2017 the Group invested a total of £18.7 million in cash, and a further £14.3 million in-kind charitable contributions and CSI projects, including £1.09 million given for charitable purposes in the UK. Much of this investment is delivered through partnerships with external stakeholders including communities, NGOs, governments, development agencies, academic institutions, industry associations and peer companies.

Stakeholder engagement continued

Respect for human rights

The Group has a long-standing commitment to respect fundamental human rights, as affirmed by the Universal Declaration of Human Rights.

The greatest risks for human rights abuses are in our tobacco leaf supply chain which, as with the wider agricultural sector, is recognised by the International Labour Organization to be particularly vulnerable to these risks due to the sheer scale and characteristics such as large numbers of casual and temporary workers, family labour in small-scale farming, and high levels of rural poverty. Human rights challenges in our non-agricultural supply chain depend on the nature of the sector, the type of goods and services supplied, and the country of operation.

With the majority of our employees working in business areas where we have robust oversight and control, human rights risks in our own operations are substantially avoided. The challenges that do exist are mitigated by the suite of robust policies, practices, and compliance and governance procedures that we have in place across all Group companies. However, we recognise that we need to continually work to ensure these are effectively applied and that we carefully monitor the situation, particularly in higher risk countries, such as where regulation or enforcement are weak, or there are high levels of corruption, criminality or unrest.

Our due diligence processes for our business operations and supply chains enable us to monitor the effectiveness of, and compliance with, our Human Rights Policy commitments and our Supplier Code of Conduct, and to identify, prevent and mitigate human rights risks, impacts and abuses. You can read more about these on pages 28 and 29.

In addition to our due diligence work, we developed a new human rights e-learning training package in 2017, targeted at our Procurement and Legal and External Affairs functions, which was completed by over 1,000 managers worldwide. In addition, we delivered training and communications on human rights issues for over 67,000 beneficiaries in rural communities.

Our key performance indicators in this area focus on the number, and results, of reviews and audits conducted as part of our due diligence processes for our suppliers and business operations. In 2017:

- Independent on-site reviews were conducted on 16 of our tobacco leaf suppliers in 14 countries.
- Independent audits were conducted on 65 direct materials suppliers in 29 countries.
- 102 indirect suppliers in 16 countries underwent a self-assessment in 2017.
- BAT business operations in 19 higher risk countries underwent enhanced due diligence to confirm compliance with applicable Group policies, standards and controls, and to provide details of any additional local measures in place to enhance human rights management.

Anti-bribery and corruption

Corrupt practices are illegal, cause distortion in markets and harm economic, social and political development, particularly in developing countries.

Our SoBC makes it clear that it is wholly unacceptable for Group companies, our employees or our business partners to be involved or implicated, in any way, in corrupt practices. Our SoBC is fully aligned with the provisions of the UK Bribery Act and is designed to meet the standards of the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

Our policies are continually kept under review and, on the acquisition of RAI in 2017, we updated our SoBC to reflect the requirements of the US Foreign and Corrupt Practices Act, and other relevant US law and regulation. In 2017, we also updated our SoBC to take account of the requirements of the UK Criminal Finances Act.

We also developed a new e-learning course on anti-bribery and corruption in 2017, targeted specifically at employees who conduct external engagement with key stakeholders, governments and regulators. This will be completed by over 3,000 employees in 2018. Alongside this, a new mobile app will be launched in 2018 to provide employees with 'on-the-go' guidance on how to act in specific situations.

Our *Speak Up* channels, discussed on pages 28 and 29, enable anyone working for, or with, our Group to raise any concerns in their local language, in confidence and without fear of reprisal.

Our 'Delivery with Integrity' programme discussed on page 28 focused in 2017 on ensuring our policies and training, particularly in relation to anti-bribery and corruption, remain at the forefront of best business practice, on increasing the accessibility of our whistleblowing procedures, and enhancing global oversight of reported issues.

The design of the programme was informed by extensive due diligence on current best practice, including in managing bribery and corruption risks. As part of the programme, we refreshed the Group's approach to managing potential issues for our business in this area, including:

- Regulatory engagement activities, guided by the Group's Principles for Engagement and supported by targeted training to highlight associated risks; and
- Engagement of third parties as suppliers and consultants to the Group, supported by the deployment of a revised third party due diligence procedure during 2018.

Please refer to pages 69 and 70 for more information about the application of the SoBC in 2017, the Audit Committee's responsibility for oversight and monitoring of compliance with the SoBC, and our reported compliance metrics.

Note: Data from RAI Companies is excluded from this section unless stated otherwise, as we continue the integration.