Introduction

British American Tobacco (BAT) is one of the world's leading consumer goods companies, with brands sold around the globe.

As a key strategic focus area, sustainability is crucial to the delivery of our Group strategy and is integrated across all areas of our business.

Our Sustainability Agenda was developed through a detailed materiality process, which we refreshed in 2017. It has identified three key areas that have the greatest significance to our business and our stakeholders:

• Harm Reduction;
• Sustainable Agriculture and Farmer Livelihoods; and
• Corporate Behaviour.

These are underpinned by our ongoing focus to reduce the environmental impact of our operations, and to build a diverse and engaging culture for our people.

This Report details our sustainability performance and how we are shaping the future and transforming tobacco to create shared value for our consumers, our shareholders and stakeholders across our value chain. All Group data and information relates to the calendar year 2017. Data from Reynolds American Inc., our US business that we acquired in July 2017, is excluded from the Report unless stated otherwise.

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We are BAT

Our product portfolio

- Combustible tobacco
- Tobacco heating products
- Smokeless oral tobacco
- Vapour products (e-cigarettes)
- Potentially reduced-risk products

FTSE top 5 company with Group revenue in 2017 of £20+ billion

Global supply chains
400,000+ tonnes of tobacco leaf each year from 350,000+ farmers in 34 countries
Non-agricultural direct product materials from nearly 1,500 suppliers in 77 countries
Indirect goods and services from 30,000+ suppliers in over 150 countries

We are a global business with brands sold in 200+ markets

A global business

Market leader in 55+ countries and largest vapour company in the world

Europe and North Africa
14 cigarette factories
19,500+ employees

Asia-Pacific and Middle East
16 cigarette factories
14,500+ employees

United States
2 cigarette factories
5,200+ employees

Americas and Sub-Saharan Africa
13 cigarette factories
16,300+ employees

Proud heritage
BAT was founded in 1902 and first listed in 1912

Proud heritage

55,000+ employees
including 14,000+ in management roles and 29,000+ in our Trade Marketing and Distribution workforce

45 cigarette factories in 42 countries

Indirect goods and services from 30,000+ suppliers in over 150 countries

Global

supply chains

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Letter from our CEO

I’ve been working at BAT for more than 30 years and have never been more excited about the future. Changing consumer demands and a greater awareness of how innovative new technology can contribute to harm reduction have combined to herald a new era for the industry. We want to lead and shape this future – we call this Transforming Tobacco.

For me, Transforming Tobacco is all about having a sustainable business for the long term – one that continues to deliver shared value for our shareholders, our consumers and wider society. At the heart of this is our long-held ambition to reduce the public health impact of our products.

This ambition was first articulated in our Group strategy in 2012, when we relaunched our new vision to be the world’s best at satisfying consumer moments in tobacco and beyond. What’s changed in 2017? Firstly, our acquisition of Reynolds American has made us a stronger and truly global company – giving us the muscle to really lead the industry. Secondly, the reason that I am so optimistic, is that all the investment we’ve put behind potentially reduced-risk products is now coming to fruition.

Our Next Generation Products (NGPs) are available to consumers in 16 markets worldwide, and we plan to significantly increase our global reach in 2018. With our acquisition of Reynolds American, we have also significantly increased the size of our existing smokeless oral tobacco business.

This transformation is larger than just BAT. Lasting change will only be achieved by a combination of the commitment and product investment from companies like BAT, and the support of regulators through the establishment of sensible regulation promoting a spectrum of potentially reduced-risk products. We also need the objective and balanced support of public health bodies, politicians, media and academics in driving informed choice and consumer trust.

If we can all work successfully together, we can drive a triple win scenario. Our consumers will have a range of potentially safer choices; our shareholders will own an even more sustainable and profitable business; and society could benefit from real progress in tobacco harm reduction.

Transforming Tobacco isn’t just about harm reduction, though. To respond to evolving challenges and opportunities, we need to continue to focus on the other key areas of our Sustainability Agenda. These are fundamental imperatives that set the foundations for our business for years to come.

Sustainable Agriculture and Farmer Livelihoods
Even with the growth of our NGPs and progress in harm reduction, tobacco leaf remains at the core of our products, so our agricultural supply chain is central to the future of our business. We understand that there are many challenges in this area, so our ongoing work to support farmers and collaborate with others as part of wider, multi-stakeholder projects is helping to enhance livelihoods, protect human rights and lessen the environmental impacts of tobacco farming.

Close to my own heart is the fact that this year marks the 100-year anniversary of our integrated approach to working with tobacco farmers in my home country of Brazil. Souza Cruz, our Brazilian business, has pioneered the development of this approach, focused on increasing the prosperity of family farming and protecting the natural environment.

Indeed, our global Leaf Research and Development Centre was first formed in Rio de Janeiro in 1914, and today it’s developing innovative farming technologies and techniques for 90,000+ farmers worldwide – helping to advance sustainable agriculture and enable farming communities to thrive.

Corporate Behaviour
Over the last year, we’ve made enormous progress in building on, and reinforcing, our strong foundations. Our new Delivery with Integrity global compliance programme is providing our people with support, training and tools to act responsibly in everything they do, and to speak up if something doesn’t seem right.

The standards and ethical values that guide us, including the ways in which we respect human rights and always market our products responsibly, are all key to the role we want to play in Transforming Tobacco.

We’ve also made great strides in our ongoing work to further align our human rights management to the UN Guiding Principles, with strengthened due diligence processes helping to identify risks, drive continuous improvement and raise standards.

Reducing our environmental impacts and valuing our people
I personally feel very passionate about supporting our people and building a culture where they can develop and thrive – after all, they’re our greatest asset. Keeping all our people safe is central to this and it goes without saying that any loss of life is unacceptable. So, it deeply saddens me that one of our employees and eleven contractors working for us lost their lives in 2017. Continuing our efforts to respond to the increasing security and road safety risks our people face will be a top priority for 2018.

Although tobacco and nicotine product manufacturing isn’t traditionally considered to be a heavily polluting industry, any business, especially one with the size and scale of BAT, needs to manage its environmental impact. We’re continuing to make steady progress against our operational environmental targets, and have already achieved a 46% reduction in CO2e emissions from our year 2000 baseline.

Future outlook
The tangible progress we’ve made to date gives us confidence to set clear ambitions for our future: by the end of 2018, our objective is to generate over £1 billion in revenue from NGPs, and, by 2022, to have increased that figure fivefold to £5 billion. Taken together with the growing revenue from our oral tobacco business we fully expect that by 2030 a significant percentage of Group revenue will be generated by our portfolio of potentially reduced-risk products.

Transforming Tobacco is a journey we have been on for a long time. It is one we’re committed to lead.

Nicandro Durante
Chief Executive, March 2018
Our business and value chain

At the centre of our business is the manufacturing and marketing of high-quality combustible tobacco products and potentially reduced-risk products – comprising Next Generation Products (NGPs), like vapour products and tobacco heating products (THPs), alongside oral tobacco products like snus and moist snuff.

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.

Our long-standing focus on sustainability and commitment to high standards has received notable independent recognition, including:

Source

While the Group does not own tobacco farms, we buy more than 400,000 tonnes of tobacco leaf each year, grown by over 350,000 farmers in 34 countries, for our combustible tobacco products, our oral tobacco products and THPs.

The other materials used to make our products, such as cigarette paper and filters and NGP components and e-liquids, are sourced from nearly 1,500 direct materials suppliers. We also source other goods and services from over 30,000 indirect suppliers.

How we create value

• We invested over £60 million each year in our Llal R&D & Development (R&D) and in supporting over 90,000 farmers through our Extension Services of expert field technicians.

• The e-liquids used in our vapour products are made from medical grade nicotine sourced internally or from high-quality third-party manufacturers.

• Our Supplier Code of Conduct defines the minimum standards we expect, such as in relation to human rights, helping to raise standards across our supply chain, especially where our own standards exceed legal requirements.

Product

We manufacture high-quality tobacco products in manufacturing facilities all over the world. We also ensure 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 continue to work to ensure that we use natural resources as efficiently as possible, to reduce our environmental impacts.

How we create value

• In 2017, we had 45 factories across the globe producing cigarettes. Environmental factors are a key consideration in the design of new factories and in making our existing factories more efficient, with a focus on CO2 emissions, energy, water and waste.

• For our NGPs, we expect our contract manufacturers to comply with the same high standards that exist on our own sites.

Consumers

We place adult consumers at the heart of our business. We invest in world-class research to understand changing consumer preferences and behaviour trends. 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.

Distribute

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 all our product categories, including our relationships with wholesalers, distributors and logistics providers.

How we create value

• Our global footprint and direct distribution capability enables our products and new innovations to be distributed to markets quickly and efficiently.

• Our driver safety and security programmes continue to focus on safeguarding the health and safety of our Trade Marketing and Distribution fleet.

• We’re working to address the environmental impact of our fleet through standards for fuel efficiency, engine size and emissions, as well as optimising load capacity to reduce the number of journeys.

Resources for success

Innovation

We make significant investments in R&D 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 products and THPs.

Since 2012, we have invested approximately US$2.5 billion* in the development and commercialisation of potentially reduced-risk alternatives to smoking. We also continue to develop innovations for our conventional cigarettes, such as capsule products, additive-free products and resealable pack technology.

World-class science

We have an extensive scientific research programme in a broad spectrum of scientific fields and we actively engage with a wide range of scientific and public health stakeholders.

We’re transparent about our science and publish details of our research programmes on our dedicated website, bat-science.com, and the results of our studies in peer-reviewed journals, as well as presenting widely at international scientific conferences.

We follow high standards and codes of conduct for all our research, collaborations, funding and clinical studies, detailed at bat-science.com/standards.

We welcome debate and scrutiny.

The doors to our R&D centre are always open, and we regularly host scientists, officials and journalists from across the world. You can also take a video tour inside our state-of-the-art labs and meet some of our scientists at bat.com/labour.

Our people and relationships

We employ over 55,000 people worldwide, to whom we paid over £2.6 billion in wages and benefits in 2017*.

Our workforce is diverse and multicultural, with 143 nationalities represented across the Group. We also have 31% female representation on our Board of Directors and 21% of our senior management positions are filled by women*.

Our business also supports thousands of people across our value chain, including farmers, suppliers, contractors, distributors and retailers, with whom we have excellent relationships as valued business partners.

Our companies have built close ties with the local communities where they operate and support a wide range of Corporate Social Investment (CSI) projects, often in partnership with external stakeholders including NGOs, governments, industry associations and peer companies. In 2017, we invested a total of £178.2 million in cash and a further £134.3 million in in-kind charitable contributions and CSI projects*.

We engage with a wide variety of stakeholders at local, regional and global levels, to understand their views and concerns, gain valuable feedback and respond appropriately. We also actively share our experience and expertise, and collaborate with others to develop joint solutions to common challenges. Recognising that all the engagement activities we undertake must be guided by high standards, all Group companies and employees are required to act in accordance with our Principles for Engagement.

Market

We offer adult consumers a range of products including cigarettes, fine cut tobacco, moist snuff, THPs and vapour products and potentially reduced-risk products, in a number of markets around the world.

How we create value

• By providing our consumers with a range of potentially reduced-risk products, we believe many millions of smokers will increasingly choose to switch and society could benefit from real progress in tobacco harm reduction.

• Our marketing is aimed at adult consumers only and we work with retailers to prevent underage access.

• We provide clear and meaningful information about the risk profiles of our different product categories, enabling consumers to make an informed choice.

• In 2017, the total tax contribution of the Group was £3.747 billion, including tobacco excise, employee taxes, VAT and other sales taxes paid.

For the second consecutive year, the Thomson Reuters Diversity & Inclusion Index ranked BAT as one of the most diverse and inclusive companies to work for.

For the second time in a row, BAT was named as one of the companies to feature in both the Europe Index and the prestigious World Index.

We were the tobacco industry leader in the 2017 Dow Jones Sustainability Index (DJSI) and the only tobacco company to feature in both the Europe Index and the prestigious World Index.

We are pleased to be ranked highly in the DJSI index and continue to work with our partners to improve our performance. Our company and our people are the lifeblood of our business and we are committed to building a diverse and inclusive culture.

For our NGPs, we expect our contract manufacturers to comply with the same high standards that exist on our own sites.

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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.

What are the issues and why are they important?

The key issue for our business is the real and serious health risks of smoking. So harm reduction is about providing adults, who continue to smoke, with a choice of less risky sources of nicotine.

The advent of new and better consumer technologies has enabled the development of alternative Next Generation Products (NGPs) such as vapour products and tobacco heating products. In order to fully realise their harm reduction potential, sensible regulation is needed to enable growth and accessibility, as well as the objective and balanced support of public health bodies, politicians, media and academics in driving informed choice and consumer trust.

If we can all work successfully together, we can drive a triple-win scenario where our consumers will have a range of potentially safer choices; our shareholders will own an even more sustainable profitable business; and society could benefit from real progress in tobacco harm reduction.

Our strategic approach

We’re responding to these issues with a strategy focused on transforming tobacco by offering adult consumers a choice of products with potentially reduced risk.

Leading innovation

Page 8

Conducting scientific research to build the evidence needed to demonstrate the reduced-risk potential of our products

Page 9

Engaging for, and collaborating on, the establishment of sensible regulation which promotes the growth of all types of reduced-risk products

Page 10

Enabling responsible growth

Page 12

The most important issues for our business and stakeholders

• Health impacts of our products
• Consumer information on product health risks, including the reduced-risk potential of NGPs
• Consumer accessibility to potentially reduced-risk products
• Ethics/credibility of industry scientific research

Find out how we identified these issues on page 36.

Andrew Gray, Chief Marketing Officer

At BAT, we have been clear for many years that our business needs to be built on outstanding products, informed consumer choice and a drive towards a reduced-risk portfolio. More choice, more innovation, less risk.

Today we are entering the most dynamic period of change our industry has ever encountered. An unprecedented confluence of technology, societal change and public health awareness has created a unique opportunity: to make a quantum leap forward in our long-held ambition to provide our consumers with lower risk tobacco and nicotine choices.

We are fully committed to leading this transformation.

Understanding the relative risks of our products

It is widely accepted that most of the harm associated with smoking is caused by inhaling the smoke produced by burning tobacco. Our products that involve no combustion release far fewer and lower levels of toxicants compared to conventional cigarettes and have the potential to be significantly less harmful to health. That is why we are dedicated to the development and sale of products that provide the enjoyment of smoking without burning tobacco.

Level of toxicants

Conventional cigarettes are classified as very high (HIGH), with nicotine products rated lower (LOW) at different positions on a continuum that includes oral tobacco (Smokeless) and vapour (Nicotine replacement therapy).

The positioning of products on this continuum is not intended to provide an indication of the respective levels of harmful toxicants present in cigarette smoke, which the World Health Organization recommends to reduce. With the exception of nicotine replacement therapy products, which are widely accepted as being less harmful than conventional cigarettes, the reported positions of the product categories on the continuum is not intended to signify, and does not necessarily mean, that the relevant product is less harmful to health than another product on the continuum.

We continue to push the boundaries of innovation with our Next Generation Products, based on sound science and leading technology.

Our Transforming Tobacco journey reflects our commitment to harm reduction and to offer consumers a choice of potentially less harmful tobacco and nicotine products.

3 UN Sustainable Development Goals (SDGs)

We see a clear alignment between the SDGs and our own harm reduction priorities, specifically:

We can only achieve real transformation through working together, and with the support of governments, public health bodies and other stakeholders.

Find our goals and performance indicators on page 34.

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Growing our market reach
Simply developing potentially reduced-risk products isn’t enough to realise our harm reduction objectives – we need to make them available to adult smokers in as many markets as possible, including emerging economies. By the end of 2017, in addition to our oral smokeless products in Sweden, Norway and the US, our NGPs were available in 16 markets worldwide, as well as airport duty-free shops. We plan to significantly increase our global reach in 2018. We are launching as fast and as sensibly as we can, and have prioritised markets with the right regulatory environments and where consumer awareness and demand are greatest.

To enable this, we’re engaging with stakeholders around the world – from governments, regulators and public health bodies to consumers and the media – to help create appropriate regulatory and market conditions for the successful introduction of NGPs.

For example, to prepare for the launch of our glo tobacco heating product in South Korea in 2017, we worked to raise consumer and public health awareness through a wide range of channels. This included an interview with Dr Chuan Liu, one of BAT’s leading scientists from our R&D in the UK, in a daily Korean newspaper to explain the results of our scientific research into glo; as well as features on a popular podcast channel, and engagement with regulators, journalists and key opinion leaders.

Growing our market reach means a lot of practicalities to work on too, such as establishing flagship stores, educating and training our existing retailers on the new products, and setting up websites for online sales with robust age verification in place to meet our digital marketing standards. We are also expanding some of our factories for NCP manufacturing, including the 2017 construction of two new facilities at our Sacheon factory in South Korea to manufacture Neostiks – the specially designed tobacco sticks for glo.

By the end of 2017, our potentially reduced-risk products were available in:

- US
- Canada
- South Korea
- Norway
- Sweden
- Denmark
- Switzerland
- France
- Italy
- Japan
- Spain
- Germany
- China
- Russia
- Poland
- Romania
- South Africa
- USA
- Colombia
- Guatemala
- Panama
- Peru
- Mexico
- Brazil
- Taiwan

In 2018, our aim is to double our NGP revenue to £1bn and, by 2022, to have increased it to £5bn.

If BAT is serious about harm reduction and transforming tobacco, why don’t you stop selling cigarettes?
It is clear that conventional cigarettes will remain a key part of our business for many years to come and will continue to provide a vital source of investment in our NGPs. We don’t believe that stopping cigarette sales now would be commercially sensible or practical. The ongoing consumer demand for these products would either transfer straight to our competitors or, more worryingly, the black market; and, in many markets, there are still real regulatory obstacles to launching NGPs.

This is why, alongside our commitment to the transformation of our business, we also remain committed to our combustible tobacco business during this transformation.
Independent evidence

There have been strongly held views and much debate on the potential risks and benefits regarding these products, alongside a growing body of independent scientific evidence, much of which supports the findings of our own research.

Smokeless oral tobacco

Having been in use for decades, there is well-established epidemiological evidence to determine the long-term health risks associated with using smokeless tobacco. A number of independent health studies have shown Swedish-style snus to be significantly less harmful than smoking, which demonstrates reduced risk compared to smoking, but can have a wider potential range of toxicant emissions compared to snus.

Vapour products

These products haven’t been in use long enough to generate long-term epidemiological evidence, but there is a growing body of independent body of studies and reports by public health bodies that agree the evidence to date indicates a significant risk reduction in comparison to continued tobacco smoking. However, there continue to be concerns about long-term health risks, as well as the potential for alternative products to be a gateway into smoking, especially for young people. Below you will find extracts from a selection of highly respected studies and reports that begin to examine these concerns, including:

The question of whether vapour products are safer, better to switch to or total risk free, you shouldn’t use them. But the principle of harm reduction is that, compared to continued cigarette smoking, it is better to switch to a reduced-risk alternative. We think a consistent approach to evaluating new products is essential to demonstrating better to switch to a reduced-risk alternative. We think a consistent approach to evaluating new products is essential to demonstrating

Cutting-edge science

We are using this framework to evaluate our NGPs, and have so far completed studies for both our Vype epen and our glo tobacco heating product (THP). Our series of scientific papers for Vype epen, published in 2017, is the most comprehensive published dossier of scientific data on a single tobacco product to date. The results reveal the relatively simple composition of the vapour compared to cigarette smoke, with fewer and lower levels of toxicants. This vapour has little or no adverse impact on human cells in certain lab-based tests, and effectively delivers nicotine to consumers, indicating that it’s a viable alternative to smoking.

Our studies on glo demonstrate similar results to Vype epen and, in 2017, we also completed a short-term clinical study on glo in Japan, involving 180 participants. The results reveal that when smokers switch from cigarettes to glo, their exposure to smoke toxicants is significantly reduced and, in some cases, to levels comparable to those seen in people who quit smoking completely. We have submitted these results to a peer-reviewed journal and expect the article to be published in 2018.

While the results of our research are very encouraging, more is needed to understand the longer-term impact of using NGPs. That’s why we’re now 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 an NGP is as good as quitting smoking, in terms of reducing toxicant exposure and the potential impact on health.

Best practice standards for our scientific research

- All our clinical studies are approved by the relevant independent ethics committees before initiation.
- The majority of our product testing is through independent scientific laboratories and public health organizations.
- We submit the results of our research to peer-reviewed scientific journals, irrespective of the findings, which includes an assessment by independent experts to determine whether it is of sufficient quality to be published.

For more information see bat-science.org/standards

In understanding if they can help smokers to quit

- A study by the University of California found that a substantial increase in vapour product use among US adult smokers was associated with a statistically significant increase in the smoking cessation rate.
- A study by University College London, that followed over 170,000 individuals in England, found that vapour products can increase success rates for smokers who are attempting to quit.

To establish if they can be a gateway into smoking

The NASEM report raised the possibility that “e-cigarettes might cause youth who use them to transition to use of combustible tobacco products”. The issue of youth tobacco and nicotine use is concerning and something we take very seriously. The NASEM conclusion is at odds with the research results of other highly respected studies, as detailed below. We do believe, however, that more research is needed in this area.

- A UK-based study led by Professor Linda Bauld at the University of Stirling, which analysed surveys involving thousands of teenagers, concluded that “most e-cigarette experimentation does not turn into regular use, and levels of regular use in young people who have never smoked remain very low”.
- A systematic review by the University of Victoria in Canada found “e-cigarette experimentation of any gateway effect whereby youths who experiment with vapour devices are, as a result, more likely to take up tobacco use”.

- The UK Royal College of Physicians has stated: “All the UK evidence, and almost all the international evidence, on the use of e-cigarettes by children and young people to date indicates that concerns about e-cigarettes helping to recruit a new generation of tobacco smokers through a gateway effect are, at least to date, unfounded”.

Tobacco heating products

So far, the majority of research into THPs has been conducted by the industry. We encourage independent research into this area and so welcome the publication of a new independent study commissioned by the UK Department of Health, which found that people using these products are exposed to around 50–90% less of the harmful and potentially harmful compounds compared with conventional cigarettes. The NASEM report was consistent with our own independent research, which supports the findings that toxicant levels in glo emissions are around 90% less than cigarette smoke.

The 2018 PHE report also examined the existing peer-reviewed evidence on THPs and, while acknowledging the need for more research, found that: “Compared with cigarettes, heated tobacco products are less likely to expose users and bystanders to lower levels of particulate matter and harmful and potentially harmful compounds. The extent of the reduction found varies between studies”.

Science evaluation of risk reduction

No tobacco or nicotine product is 100% safe and, if you want to be totally risk free, you shouldn’t use them. But the principle of harm reduction is that, compared to continued cigarette smoking, it is better to switch to a reduced-risk alternative. We think a consistent approach to evaluating new products is essential to demonstrating better to switch to a reduced-risk alternative. We think a consistent approach to evaluating new products is essential to demonstrating

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Enabling responsible growth

This transformation is larger than BAT. Lasting change can only be achieved by a combination of the commitment and product investment from companies like BAT, and the support of regulators through the establishment of regulation that promotes a spectrum of potentially reduced-risk products. We also need the objective and balanced support of public health bodies, politicians, media and academics in driving informed choice and consumer trust.

Supporting regulation

The Next Generation Products (NGPs) market is relatively new and regulation is still in its early stages. Globally, there is a mix of attitudes between those regulators who aim to encourage products that are potentially safer for smokers, and some regulators 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. Major reports on the reduced-risk of vapour products by the likes of Public Health England and the Royal College of Physicians, combined with a progressive approach to regulation, have helped the UK become the largest vaping market in Europe, as well as having the second-lowest rate of smoking.

There are many stakeholders involved in this area, and only by working together can regulations be developed that have clear aims and don’t inadver tensely create new problems once they’re introduced.

Taxation is one such potential problem. Increased excise can lead to reductions in demand for legal vapour products, with punitive, higher taxes artificially driving up prices, and discouraging smokers to switch.

We are not against regulation. In fact, we believe it is critical for creating a fertile ground for the responsible growth of potentially reduced-risk products, and encouraging their take-up by more smokers. But while we can offer alternatives to conventional cigarettes, it is down to governments and regulators to ‘open the door’ and support their successful introduction into new markets.

This is why we continue to actively engage with stakeholders around the world to advocate for proportionate regulation, which takes account of the relative risks but doesn’t treat these products in the same way as conventional cigarettes.

We also contribute to the wider harm reduction debate and growing evidence base for NGPs, through openly sharing and communicating our scientific research with governments, the media, and the scientific and public health communities. For example, in 2017, we presented at over 20 international conferences, including those of the Society of Research in Nicotine and Tobacco, National Academy of Sciences and Society of Toxicology.

As with any emerging area, views are evolving constantly. In July 2017, the US Food and Drug Administration (FDA) released its tobacco and nicotine plan which, for the first time, acknowledged the risk continuum. This was a significant milestone in suggesting that NGPs could play a role in harm reduction policies in a cigarette market as large as the US.

We must acknowledge that there’s a continuum of risk for nicotine delivery... and we must recognise the potential for innovation to lead to less harmful products. We need to envision a world where less harmful alternative forms, efficiently delivering satisfying levels of nicotine, are available for those adults who need or want them.”

Scott Gottlieb, US FDA Commissioner

However, despite this, some markets still have restricted availability of NGPs. For example, in Australia and Japan vapour products containing nicotine are only available via a medicinal route which means they are not readily available to smokers. Today, this is also the case in Canada, but the Canadian Government is in the midst of putting together a new regulatory framework for vaping products.

To inform this, we have been advocating our views on an effective regulatory framework, as described in the adjacent graphic.

This is a fast-moving area and setting regulations in such a dynamic market is not easy. That’s why engagement with industry, public health bodies and consumers is so important for helping to ensure the regulations work and benefit public health.

Leading the way on global standards

Ensuring high quality and consumer safety is at the heart of how we design, develop and manufacture our products. We would like to see these high standards become the benchmark for the industry and future regulation. It is only with such consistent, universal standards for NGPs that consumers and regulators will get the assurances they need.

That’s why we’ve been openly sharing our approach, contributing our expertise and participating as part of multi-stakeholder groups and consultations in the development of robust, industry-wide quality and safety standards for NGPs. We are also actively encouraging the industry, vapers and public health communities to collaborate in this process. We do this through our work with taskforces, such as those of the Cooperation Centre for Scientific Research Relative to Tobacco (CORBETA), and our presentations on the global implications of product standards at conferences, such as those of the Food and Drug Law Institute, and the Global Tobacco and Nicotine Forum.

National

From 2014, we worked alongside a multi-stakeholder group with the British Standards Institute, as well as its French counterpart AFNOR, on the development of the first national standards for vapour products in the UK and France, that were published in 2015 and 2016, respectively. In 2017, we contributed to the publication of the world’s first industry standard for tobacco heating products in Russia.

Regional

Since 2016, we have shared our technical and regulatory expertise in the EU Standards body (CEN) technical committee. This is a platform of 13 European national standards bodies working with vapers, regulators, industry and public health organisations to publish the first European standards on vapour products in 2018.

International

Building on our contribution to CEN’s work at a regional level, we are also engaging with the International Organization for Standardization (ISO), alongside CEN and CORBETA, to introduce the first international technical standards on vapour products in 2018.
Sustainable Agriculture and Farmer Livelihoods

We are committed to working to enable prosperous livelihoods for all farmers who supply our tobacco leaf.

What are the issues and why are they important?

Tobacco leaf remains at the core of our products, even with the growth of our Next Generation Products (NGPs), so the farmers who grow it are crucial to the continued success of our business. Agricultural supply chains are particularly vulnerable to a range of different risks and tobacco growing is no exception.

Understanding the challenges, finding solutions and mitigating these risks are central to BAT’s approach to sourcing tobacco leaf. Not doing so could affect the livelihoods of the farmers we work with around the world and the security of our long-term supply of tobacco leaf. These issues also affect agriculture more broadly and pose a threat to current farming practices being able to meet the demands of the world’s growing population.

The most important issues for our business and stakeholders are:

- Farmer livelihoods, rural poverty and food security
- Child labour and forced labour
- Health and safety, and labour rights
- Ageing farmer populations
- Environmental and climate change impacts, including deforestation, soil degradation and water scarcity

Find out how we identified these issues on page 36.

Our strategic approach

We’re responding to these issues with a strategy that helps us manage the risks and challenges they present, as well as embracing new opportunities to ensure a sustainable future for farmers and their communities.

Advancing sustainable agriculture and supporting our farmers

Supporting our farmers — Page 16

Managing and monitoring supply chain risks and opportunities

Setting standards, driving change — Page 18

Working in partnership to solve complex problems

Part of a bigger solution — Page 20

This approach is underpinned by well-established policies, standards and procedures:

- Supplier Code of Conduct — bat.com/principles
- Policies, standards, guidelines and due diligence for leaf operations, third-party suppliers and contracted farmers — bat.com/farmers
- Group Strategic Framework for Corporate Social Investment — bat.com/csi
- Environmental management — bat.com/environment

UN Sustainable Development Goals (SDGs)

We see a clear alignment between the SDGs and our sustainable agriculture priorities, specifically:

- We work together with our farmers and suppliers on enhancing farmer livelihoods.
- We encourage our farmers to have diversified farms and crops, with over 90% of those we work with growing other crops alongside, or in rotation with, tobacco.
- We’re helping to improve farm working conditions, and to tackle child labour and forced labour.
- We’re working to protect and restore natural resources in farming communities.

Implementing long-term multi-stakeholder partnerships is central to our approach.

Alan Davy, Group Operations Director

“BAT’s commitment to leading and accelerating the transformation of the tobacco industry is demonstrated by the changes taking place across all areas of our business.

In our agricultural supply chain, this can be seen in how we’re continually evolving our approach to respond to new challenges and opportunities, and building upon our experiences from over a century of working directly with farmers around the world.

Our investment in leaf research and development, our network of expert field technicians providing support to farmers, and our key programmes like Thrive help our farmers maximise the potential of their farms, and enhance the livelihoods and resilience of rural communities.”

Our tobacco leaf supply chain

Traceability down to the farm level and centralised management of our tobacco leaf supply chain

400,000+ tonnes of tobacco leaf purchased each year

66% from 17 BAT leaf operations Tier 1

34% from 20+ third-party suppliers

90,000+ farmers Tier 2

260,000+ farmers

Reynolds American is included in the data as a third-party supplier for 2017 and will be integrated as a BAT leaf operation in 2018.

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

— Find our goals and performance indicators on page 34.
Supporting our farmers

We have a long and proud 100-year history in agriculture, working directly with farmers around the world to advance sustainable practices. While this undoubtedly brings benefits to our business in terms of securing our source of high-quality tobacco leaf, it also plays a significant role in protecting the environment and enhancing farmer livelihoods.

We invest over £60 million each year in our Leaf Research & Development (R&D) and supporting farmers through our Extension Services.

Leaf R&D and the science of agriculture

Through our global Leaf R&D, we develop new and innovative farming technologies and techniques which are rolled out to farmers as part of comprehensive agri-support packages. For instance, by adapting and developing solutions and curing technologies to help farmers scale up production, we can help increase their income, while at the same time reducing manual labour and minimising health and safety risks. This also helps to make farming more attractive to a younger generation, which is key for the long-term sustainability of agriculture. This is also true of our work to develop new varieties of tobacco seeds, that offer greater yields and higher quality, as well as resistance to diseases. Currently, over 60% of tobacco leaf grown by our farmers is from these varieties, contributing to an increase in yields of up to 20% compared to traditional strains. Increasingly, much of our work relates to wider, longer-term issues, particularly in relation to the effects of climate change, such as water scarcity or extreme weather events. We’ve had success – in Mexico, for example – introducing technologies such as drip irrigation, which has shown to increase water usage efficiency by up to 90%, as well as reducing soil erosion and salinization, and ultimately boosting yields. Deforestation, caused by farmers using virgin forest as a source of wood for fuel, not only releases carbon into the atmosphere but also contributes to increased water usage. For instance, in Brazil, our Sustainable Farm programme provides business training focused on environmental, social and financial management. In Pakistan, our Farmer Loyalty programme is designed to support the strong relationship we have together and provide training on the latest thinking on good agricultural practices. But this doesn’t just apply to the 90,000 farmers we contract directly with. Our third-party suppliers use a similar model to provide guidance, technical assistance and capacity building for all our 90,000+ directly contracted farmers. This initiative is a great example of collaborative working with local partners in order to find innovative and practical ways to protect the environment and make life easier for our farmers, as well as reduce their cost of production. It’s something I feel very proud to have been involved with.

Extension Services and capacity building

We have a network of expert field technicians who provide on-the-ground Extension Services support, technical assistance and capacity building for all our 90,000+ directly contracted farmers. They visit farms at each stage of the growing cycle, building trusted relationships and gaining unique insights into the challenges our farmers face, as well as the wider sustainability issues affecting the local community and landscape. This enables us to tailor our Extension Services to meet practical needs. The services range from agreeing contracts at the beginning of each growing season, which mean a guaranteed income for farmers, to providing guidance and support around soil preparation, growing seedlings and cultivating other crops. Throughout the year we also run regular farmer training programmes focused on issues such as human rights, health and safety, soil and water management, and business and financial management skills. For example, in Brazil, our Sustainable Farm programme provides business training focused on environmental, social and financial management. In Pakistan, our Farmer Loyalty programme is designed to support the strong relationship we have together and provide training on the latest thinking on good agricultural practices. But this doesn’t just apply to the 90,000 farmers we contract directly with. Our third-party suppliers use a similar model to provide guidance, technical assistance and capacity building for the 260,000+ farmers they contract with. Supporting farmers in this way helps to enhance their livelihoods and increase their resilience to the impacts of climate change, as well as other economic and social challenges.

An efficient extension service system can reach smallholders with targeted, adopted advice that takes into account local environmental conditions, production practices and market access to help in decision-making and risk reduction. Extension service systems need to be locally relevant, need to be able to respond to local needs and build on farmer knowledge and exchange.”

International Fund for Agricultural Development

Leaf & Marketing, Lead Area Manager

Our relationship with farming communities in Sri Lanka extends over a century and we currently source tobacco leaf from over 15 small-scale family farmers. Here in Sri Lanka, deforestation has long been a serious environmental issue. Wood was once used as a fuel for curing tobacco, so in the early 90s we launched an initiative to find a sustainable alternative. The solution was rice paddy husks, which are readily available as a by-product from the rice industry. We worked with local rice mills to secure a regular supply of husks, and provided training and demonstrations for farmers, successfully transitioning 100% to using husks, instead of wood, by 1997. However, despite the environmental benefits of switching to the husks, the curing process itself for farmers was still very time-consuming and labour-intensive. So, since 2013, we have been working with farmers to upgrade their curing barns to an automated system, which, today, is used by over 70% of our farmers. It’s been great to see the positive benefits this has had for them: the barns are quicker and more efficient, reducing the amount of husks needed to cure 1kg of tobacco from 5.9kg to 4.4kg. We’re currently working with the University of Moratuwa to research whether we can achieve even further efficiencies.

One issue with the barns is the amount of ash emissions they produce. In 2014, we established a partnership with a local inventor to develop a technology to trap the ash before it’s released into the air. We worked with him on a prototype, which we tested with one of our farmers and then modified further with the addition of an advanced sprinkler system which uses 50% recycled water. A pilot project has now been established, and initial testing has demonstrated a significant reduction in emission levels. Further testing and a validation study is now underway with the support of the Government’s National Building Research Organisation, a leading R&D institute in Sri Lanka. This initiative is a great example of collaborative working with local partners in order to find innovative and practical ways to protect the environment and make life easier for our farmers, as well as reduce their cost of production. It’s something I feel very proud to have been involved with.

Sustainable fuels for curing in Sri Lanka

Before we had barn automation, it was difficult and time-consuming to carry out curing with paddy husks. The new system saves money and, because I have less hassle with the process, I’m more confident about the final outcome too.”

DP Wickramasinghe, BAT contracted tobacco farmer, Sri Lanka

76,000+ farmers and rural community members benefited from our training and communications on human rights, child labour- and forced labour-related issues in 2017.

67,000+ farmers and rural community members benefited from our training and communications on human rights, child labour- and forced labour-related issues in 2017.
Setting standards, driving change

Our tobacco leaf supply chain covers 34 different countries, involving 17 BAT leaf operations and more than 20 third-party suppliers. Together, they source from more than 350,000 farmers. It is a truly global operation and as such, with our crops, faces certain economic, environmental and social challenges. We use two key programmes to ensure we effectively manage these risks, drive change and enhance farmer livelihoods.

Sustainable Tobacco Programme

We use the industry-wide Sustainable Tobacco Programme (STP) to conduct assessments and independent on-site reviews for all of our first tier tobacco leaf suppliers, including all our own leaf operations. STP was introduced in June 2016 to unify the industry under a single programme. It replaced our previous Social Responsibility in Tobacco Production programme, which from 2000 until 2015 set the standard for all our leaf suppliers worldwide. STP criteria are aligned to international standards, such as those of the International Labour Organization (ILO) and the UN Guiding Principles on Business and Human Rights. All our leaf operations and tier one suppliers complete a comprehensive annual self-assessment around four key pillars: crop, environment, people and facilities, which cover issues such as sustainable water, soil, biodiversity and forest management, safe working conditions, and preventing child and forced labour. They must also show that they have good governance underpinning all four pillars and must agree to assess, identify and mitigate any significant risks that arise.

Ali Baki, Senior Leaf Director of our supplier in Turkey, TLT Tutun Sanayi ve Dış Ticaret A.S.

“As a smaller, family-run company, we have found that STP has made a big difference for us in now having one comprehensive programme for the whole industry. It helps us to better understand our customers’ expectations, and provides a straightforward system with definitive criteria and tools to manage the long-term sustainability of our operations.”

AB Sustain, a supply chain management company, independently reviews the self-assessments each year, and conducts independent on-site reviews every three years. These include visits to tobacco farms and in-depth analyses of suppliers’ policies, processes and practices. By the end of 2018, 100% of our leaf operations and suppliers will have had on-site reviews by AB Sustain.

While supplier due diligence and assessments, as part of STP, are an important part of ensuring high standards and driving continuous improvement at supplier and farm level, we recognise that some of the challenges faced by farming communities are best addressed by a longer-term, collaborative approach.

Building on our history of working in multi-stakeholder partnerships, we have developed Thrive, a global programme which takes a more holistic approach to identifying and addressing root causes and long-term risks, such as rural poverty.

Thrive is based on the internationally recognised ‘five capitals’ framework, which works on the premise that to be sustainable, farming communities must be ‘in credit’ across five types of ‘capital’: financial, natural, social, human and physical. Strength in all five creates resilience and enables farmers and rural communities to prosper.

We have defined a set of 14 indicators to measure strength in each capital (see adjacent graph), against which assessments have been completed for approximately 250,000 farmers, covering around 80% of our total tobacco leaf purchases.

Taking action

The results of STP and Thrive assessments, together with insights gathered by our Extension Services through regular visits and farm monitoring, help us form a comprehensive picture of any immediate issues relating to our standards and performance, as well as longer-term challenges and opportunities affecting the sustainability of farming communities.

In response, each of our leaf operations, with support from our Leaf R&D and global experts, develops an overarching action plan.

Key insights from our Thrive assessments

• Tobacco is grown on an average of 40% of farmers’ land, generating around 60% of their total farm income.
• 90% of our farmers grow other crops, including fruit, vegetables, wheat, maize, cotton and soy bean.
• Average farmer age is 43 years.
• Majority are small-scale family farms of one hectare or less.
• Approximately 130,000 school-age children live on the family farms.

Farm monitoring

Farm monitoring is an important way of checking conditions on farms to ensure they’re meeting our standards, as well as to gather data needed for STP and Thrive assessments. In the past, different methodologies have been used in different countries, so in 2017 we started piloting a new, more robust digital farm monitoring system.

This provides greater oversight and enables faster and more accurate reporting, so any issues can be quickly flagged up and addressed.

Once the pilot is completed, we will review opportunities to roll out the system to our other leaf operations.

As a smaller, family-run company, we have found that STP has made a big difference for us in now having one comprehensive programme for the whole industry. It helps us to better understand our customers’ expectations, and provides a straightforward system with definitive criteria and tools to manage the long-term sustainability of our operations.”

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Ali Baki, Senior Leaf Director of our supplier in Turkey, TTL Tutun Sanayi ve Dış Ticaret A.S.
We recognise that we are not experts in all areas and many of the wider, deep-rooted issues affecting the sustainability of farming can only be successfully addressed through collaborative, cross-sector solutions, involving all the community’s stakeholders and covering the whole landscape.

For example, rural poverty and lack of easy access to basic services, such as clean water, electricity, schools and healthcare can lead to young people moving away from rural areas to find jobs in the cities. This could ultimately impact on the future of agriculture and, in turn, our supply chain, if fewer people choose farming as a career. But these are not issues which one company can address in isolation.

We already have a long history of working in partnerships and now our Thrive programme is helping to identify the most complex issues and inform the development of new long-term community-based, multi-stakeholder projects.

Local projects and partnerships

In 2017, we supported 121 community projects to promote sustainable agriculture and farmer livelihoods in 29 countries, including the US, through Reynolds American. These projects were focused on a range of issues such as child labour, deforestation, rural poverty, food security, clean water and sanitation.

For example, since 2001, our company in Mexico has partnered with the Government, the Rural Association of Collective Interest and local NGOs to prevent around 15,000 children of migrant farm labourers from being exposed to the risk of child labour. Our afforestation programme in Kenya, in partnership with tobacco farmers, tree farmers and local government, has seen over 380,000 trees planted. We’re also partnering with the County Government of Migori on a project to rehabilitate 42 hectares of the Agongo Hills, through planting 230,000 tree seedlings from a mixture of species.

In Pakistan, in partnership with provincial governments, we have provided over 6,000 people in remote rural villages with access to solar energy, and have also installed a new water irrigation system for farmers. Together with the local organisation Green Medical Services, our mobile doctor units provide free healthcare to over 70,000 rural people each year.

"I find it very encouraging to see how much more the industry is now working together, with such a strong focus on social, environmental, human rights and economic issues for farmers. We can’t fix everything by working together, continuous, incremental improvements can be achieved over time."

Clive Stewart, Head Agronomy Manager for our supplier, Mozambique Leaf Tobacco Ltd

A multi-stakeholder approach to encouraging the next generation of Brazilian farmers

Brazil is one of the largest tobacco growing countries in the world and around 30% of the total tobacco leaf purchased by the Group is from Souza Cruz, our Brazilian subsidiary, which directly contracts around 27,000 farmers. Souza Cruz has a long history of working in partnership with the industry, government, farmer associations and local NGOs, with a focus on increasing the prosperity of family farming and protecting the natural environment.

One such example is the Growing Up Right Institute, which was founded in 1998 as a partnership between the Interstate Tobacco Industry Union and associates, including Souza Cruz.

Alongside combatting child labour, the Institute set out to address the issue of ageing farmer populations, by offering training and development opportunities to young people from rural areas.

In May 2016, it launched its Rural Professional Learning Programme, a year-long course delivered through partnerships with local municipalities, and certified by the Ministry of Labour.

Children from tobacco farms, aged between 14 and 18, take part as ‘rural apprentices’, and are selected on criteria based on social vulnerability and their risk of becoming involved in child labour. Regular school attendance is a prerequisite of the programme and apprentices are paid for a 20-hour week.

The programme is delivered locally in schools and on farms, with a focus on entrepreneurship and what it takes to run a farm sustainably. Alongside classroom studies, there are also seminars, which often involve apprentices’ families and community partners too, and visits to other agro-industries, which give them the chance to see different types of agricultural enterprises and sustainable production models.

In 2016–17, the programme’s pilot year, 100 young rural apprentices took part and are now acting as ambassadors in their farming communities.

"I’d heard a lot about child labour and it was something that worried me," explains apprentice Maira Carolina Petry. "But now, thanks to the Institute, I feel much more confident that I can go on and enjoy a successful career in agriculture."

Anelise Tomquisi, another young apprentice, agrees. "Before the course, I wanted to leave the countryside and move to the city – staying on the farm just didn’t seem like a realistic option."

"However, the course has shown me that I do have a future on the farm. I know it’s going to be hard work, but it’s an exciting challenge and I’m just so pleased I’ve got the opportunity to stay and work on the land where I was brought up."

Eliminating Child Labour in Tobacco Growing (ECLT) Foundation

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 ECLT Foundation.

We remain active members today, alongside other major tobacco companies, leaf suppliers and the International Tobacco Growers’ Association. The International Labour Organization (ILO) serves as an advisor to ECLT’s Board.

ECLT’s independent status means it can call upon governments to take action, improve policies and advance research into child labour. It also carries out important work helping to strengthen communities and brings together key stakeholders to develop and implement local and national approaches to tackle child labour.

For example, in 2017 our company in Indonesia continued its work with ECLT on a multi-stakeholder project to address child labour in tobacco growing. This included developing a new collective strategy, involving national and local governments, farmers’ associations, tobacco companies, civil society, international organisations and development agencies.

For more information visit eclt.org

Operational standard on child labour prevention

In 2017, we developed a new operational standard on child labour prevention, with important contributions from the ECLT Foundation and the ILO.

It is set to be rolled out across all our leaf operations in 2018 and will bring more consistency and effectiveness to the way in which our long-standing Child Labour Policy is implemented.

For example, it provides clear guidelines and procedures for regular training and capacity building, farm monitoring and spot checks, and immediate reporting of any incidents of child labour. It also includes clearly defined steps for developing and implementing actions to prevent or remediate child labour, and to improve the situation of affected children and their communities.

"As issues such as water scarcity, child labour, biodiversity and rural development are not specific to a particular company, there is a huge potential to collaborate and align strategies to support the Sustainable Development Goals. The more competitors work together to address these challenges, the more can be achieved at a larger scale, for the mutual benefit of the companies and family farmers around the world."

Professor Dr Heiko Hosomi Spitzeck, Director of the Center for Sustainability at Fundação Dom Cabral, Brazil
Corporate Behaviour

We are committed to operating to the highest standards of corporate conduct and transparency.

What are the issues and why are they important?

The actions and behaviour of any business are key to its long-term sustainability.
Businesses are expected to play a role in protecting human rights throughout their supply chains. For BAT, a major multinational operating in many diverse and challenging countries around the world, it is even more crucial to ensure we uphold high standards whenever we do business.

Through leveraging our global reach and influence, we can help to raise standards and create shared value for people across our value chain.

The most important issues for our business and stakeholders

- Regulatory environment and policy influence
- Anti-bribery and corruption
- Human rights impacts
- Marketing practices and preventing underage access for all product categories
- Illegal tobacco trade
- Corporate tax

Find out how we identified these issues on page 36.

Our Principles and Standards

Our Guiding Principles define the values that guide our behaviour, including freedom through responsibility and strength through diversity.

Our Standards of Business Conduct (SoBC) applies these values to our daily business lives and expresses the high standards of integrity we are committed to upholding. It includes our core policies for areas such as whistleblowing, bribery and corruption, illicit trade, respect in the workplace, human rights, and political and charitable contributions.

This is complemented by our Supplier Code of Conduct, Principles for Engagement and International Marketing Principles.

Our strategic approach

We’re responding to these issues with a strategy focused on upholding the highest standards of corporate conduct in all that we do.

- Ensuring we never compromise our high standards of integrity for the sake of business results
- Delivery with Integrity

- Respecting the rights of people across our business operations and supply chains
- Protecting human rights

- Directing our marketing at adult consumers only and preventing youth access to our products
- Marketing responsibly

- This approach is underpinned by well-established policies, standards and procedures:
  - Standards of Business Conduct – bat.com/sobc
  - Supplier Code of Conduct – bat.com/principles
  - Regulatory environment and Principles for Engagement – bat.com/regulation
  - Marketing Principles – bat.com/imp
  - Youth Access Prevention Guidelines – bat.com/yap
  - Corporate governance – bat.com/governance
  - Guiding Principles – bat.com/guidingprinciples
  - Anti-illicit trade – bat.com/alt
  - Corporate tax strategy – bat.com/annualreport

UN Sustainable Development Goals (SDGs)

We see clear alignment between the SDGs and our own corporate behaviour priorities, specifically:

- Our economic contribution stretches from a global to local level and we’ve long focused on respecting human rights.

- We do not tolerate corruption anywhere in our business and we work to tackle the criminal black market in illegal tobacco.

- We work in partnership with suppliers, retailers, governments, the industry and other stakeholders.

Jerry Abelman, Group Legal and External Affairs Director

At BAT, we take great pride in our long tradition and culture of responsible corporate behaviour, which we express in our Guiding Principles and our Standards of Business Conduct.

These ethical values are even more relevant in the complex and challenging times we’re all facing in today’s world: from political changes and economic instability to increasing external expectations and legislation.

To successfully lead the transformation of the tobacco industry, we need to continually step up to respond to new challenges and embrace new opportunities – ultimately building an even more responsible, successful and sustainable business for the long term.”

Key audit controls

All business units worldwide complete an annual self-assessment against our key audit controls, in which they confirm they have adequate procedures in place to support SoBC compliance.

Annual training and sign-off

All staff working across the Group are required to complete training and an annual sign-off, confirming their commitment and adherence to the SoBC, and re-declare any personal conflicts of interest.

Speak Up channels

Anyone working for, or with, the Group can raise concerns or grievances in their local language, in confidence and without fear of reprisal, through our Speak Up hotlines and websites. We investigate all reported incidents and allegations and strong action is taken where required.

Find our goals and performance indicators on page 34.
Anti-bribery and corruption
Our Anti-Bribery and Corruption Policy, as part of our SoBC, makes it clear that it is wholly unacceptable for Group companies, 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 2010 and we’re also confident it meets 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 in July 2017, following our acquisition of Reynolds American, we updated the SoBC to reflect the requirements of the US Foreign and Corrupt Practices Act.

We’ve also developed a new e-learning course on anti-bribery and corruption targeted specifically at employees who conduct external engagement with key stakeholders, governments and regulators. This will be completed by over 1,000 employees in 2018.

Alongside this, a new mobile app will provide employees with ‘on-the-go’ guidance on how they should act in specific situations.

B&T is investigating, through external legal advisors, allegations of misconduct and have been liaising with the UK’s Serious Fraud Office (SFO) and other relevant authorities. It was announced in August 2017 that the SFO had opened an investigation in relation to the Company, its subsidiaries and associated persons.

We are cooperating with the SFO’s investigation. A sub-committee of the Board has oversight of these matters, providing support for the investigation between Board meetings.

Speak Up channels
To ensure 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, including a website available in multiple languages and local language hotlines in each country where we operate. The system enables global oversight of all reported issues in real time.

In 2017, 183 suspected violations of our SoBC were reported (2016: 174). In 73 cases, an investigation found no wrongdoing and in 30 cases the investigation continued at year-end. A total of 78 cases were established as breaches (2016: 77) and the appropriate action was taken, including dismissal, disciplinary measures and strengthening of our internal controls.

A culture of compliance
In 2017, we introduced our Delivery with Integrity programme focused on strengthening and driving a globally consistent approach to compliance across B&T, led by our newly established Business Conduct and Compliance department.

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

The programme was launched in a two-day workshop held with 120 leaders from our Legal and External Affairs function and was opened by our Chief Executive. This was followed by a global communications campaign to all employees worldwide.

A key focus area of the programme has been to strengthen our long-standing procedures for the annual employee SoBC sign-off. A requirement for managers and office-based employees to undertake a new SoBC e-learning and assessment was introduced in 2017. This was completed by over 12,000 managers and an additional 30,000 on- and off-management employees worldwide. Remaining employees, who may not have easy online access, received face-to-face training.

The programme also 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, as well as increasing the accessibility of our whistleblowing and Speak Up channels.
Protecting human rights

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

In recent years, we have been strengthening our approach to further align to the UN Guiding Principles on Business and Human Rights (UNGPs). This began in 2012, 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 Standards of Business Conduct (SoBC) – the core policy document that every Group employee must confirm compliance with. 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 continued to focus in 2017 on enhancing due diligence across our business and supply chains.

Our supply chains

Arguably, the area of greatest risk for human rights abuses is in our tobacco leaf agricultural supply chain. We have extensive due diligence in place for all our tobacco leaf operations and third-party suppliers, including the industry-wide Sustainable Tobacco Programme, which you can read about on pages 18–19.

We have also long had due diligence processes in place for strategic suppliers of direct product materials, such as major suppliers of cigarette filters, paper and packaging. But to closer align with the UNGPs, and to better manage supply chain risks and opportunities, we extended the scope in 2016 to include all our direct materials suppliers worldwide, as well as strategic suppliers of indirect goods and professional services. 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, on-site audits were conducted on a total of 63 direct suppliers in 29 countries, representing 29% of our total direct Procurement spend. The audits are conducted by Intertek – a highly respected global auditing company – and include criteria on forced labour, child labour, wages and hours, health and safety, environment and management systems. If any issues are identified, suppliers are required to implement corrective actions. Intertek verifies they have done so either through a desktop review, for moderate issues, or a follow-up audit for more serious issues.

For our indirect suppliers, 102 suppliers in 16 countries were identified as high risk and required to undergo a self-assessment in 2017. This provided us with information on the policies, procedures and practices the supplier has in place to effectively manage human rights risks. Where the assessments highlighted areas for improvement, we worked with the supplier to develop corrective actions.

In the event of serious and/or persistent non-compliance, or where suppliers fail to demonstrate a willingness to improve performance, we reserve the right to terminate the business relationship.

In 2018, we plan to extend the scope of our Intertek supplier audits to include tier two and three Next Generation Products (NGPs) material suppliers, and high-risk indirect suppliers of point-of-sale marketing materials and lighters.

Supporting our suppliers in driving
continuous improvement

Ensuring the long-term sustainability of our non-agricultural direct supply chain is an essential part of my role. It’s a pretty big remit, with around 1,500 direct tier suppliers globally – covering everything from cigarette filters, paper and packaging, to batteries and components for our NGPs. Many are family businesses operating in countries where standards, such as for human rights and health and safety, aren’t well developed. We’ve always expected our suppliers to align to international human rights standards, but in the last few years I’ve seen how the UNGPs are really helping to provide greater clarity for businesses. We’ve also seen a lot of changes internally with the growth of our NGPs, where we now have an electronics supply chain which has brought a whole raft of new risks and challenges.

I strongly believe we can make a positive impact by supporting our suppliers and not just walking away if issues happen. We need to work collaboratively together, leveraging our resources to change practices, increase awareness and capacity, and drive continuous improvement.

For example, last year we audited all our suppliers in Bangladesh, some of which performed below our expectations on health and safety criteria. The local team worked tirelessly in 2017 to support the suppliers’ corrective action plans, and provide specialist training and advice. We also organised Intertek training for both our own and suppliers’ employees.

I was reassured to see that when the suppliers were re-audited by Intertek, they achieved significant improvements in their audit scores, with one increasing from just 46% to 100%. Ultimately, this not only improved the working conditions for our suppliers’ employees, but also made sound business sense in enabling us to maintain our existing supply base in the country and contribute to the local economy.

Now that we’ve increased the robustness and scope of our supplier audits, inevitably more issues are being identified. I look at this positively, though – knowing where the risks are helps us to focus our actions and raise standards across our supply chain.
We are committed to aiming for 100% compliance with our ENVIRONMENT and are applied even when they are stricter than local laws. This is not the case. These Principles are our minimum standards where regulation is less strict or the market is more challenging. Some critics have suggested that we take the easy option and ignore our Marketing Principles in developing countries, or robust age verification.

A global approach

We are committed to ensuring all our product marketing complies with local legislation and, since 2001, all our cigarette marketing, wherever these are sold, has been governed by our voluntary International Marketing Principles (IMP).

With our shift to a multicategory portfolio of different tobacco and nicotine products, we have subsequently introduced Snus Marketing Standards and Vapour Product Marketing Principles, and, in 2017, we developed our new principles for tobacco heating products. Alongside these, we have a digital marketing toolkit in place that includes in-depth guidance to help our markets apply our Marketing Principles online, covering content standards, use of social media and search engines, and ensuring robust age verification.

Some critics have suggested that we take the easy option and ignore our Marketing Principles in developing countries, or where regulation is less strict or the market is more challenging. This is not the case. These Principles are our minimum standards and are applied even when they are stricter than local laws.

Upholding our Marketing Principles in Nigeria

I'm responsible for executing our marketing activities across the South-West region in Nigeria, working with our trade partners and retail customers, distributing point-of-sale marketing communications, and managing stock, inventory and quality control of our products. Ensuring adherence to local laws and our IMP, as well as preventing youth access, is central to how we conduct our marketing activities.

It's an incredibly challenging environment with a highly fragmented marketplace that has many small traders and mobile street vendors, and some local competitors don't follow the same high standards. It's also still culturally acceptable for children to be sent to buy cigarettes on behalf of adults. As trade reps, we're in the front line every day, and I find our IMP and global guidelines really helpful in giving us a clear direction on how to act and overcome some of these challenges.

We engage with our trade partners and retail customers on the standards we expect of them, and regularly conduct spot checks. Monthly IMP audits are now also conducted by our Marketing team.

Regular training on the importance of compliance with our IMP is provided for all trade reps. These sessions are also a great opportunity to help us develop initiatives to ensure compliance. One such initiative has been introducing rewards for compliance to our Retail Loyalty Programme – so far this only reaches 50% of our retail base, but we hope to expand it over time.

We've also been running youth smoking prevention campaigns since 2011, focused on raising awareness among retailers and training them on how to check IDs, as well as reinforcing our requirement to not split packs and sell single cigarettes.

So, when the Tobacco Control Act was passed in 2015, which introduced a minimum age of 18 requirement for tobacco sales and also prohibited the sale of single cigarettes, our retailers were well-prepared to align with its requirements. Although the Act went a long way to strengthen local laws in Nigeria, we're still working in a challenging environment and need to continually work in partnership with our trade partners and retail customers to ensure standards are upheld.

It's certainly no easy task, but this responsible approach is very much engrained into the culture of BAT – as well as being the right thing to do, anything less would be simply bad for business in the long term.

We are committed to aiming for 100% compliance with our global Marketing Principles worldwide. All our marketing materials have to be formally reviewed and approved by our Legal and External Affairs function and we provide training to our marketing employees and trade representatives, as well as any external agencies we work with, to ensure they are effectively applied.

In 2018, as part of the integration of Next Generation Products (NGPs) into our core business, we plan to develop a new set of consolidated Marketing Principles to cover all our product categories, including combustible cigarettes, smokeless tobacco and NGPs.

Youth access prevention

To proactively support our strict requirement to only direct the marketing of our products at adult consumers, we have long expected our markets to work with retailers to prevent underage access, by supporting proof-of-age schemes, and providing training and awareness raising to shop staff. We also engage with governments to establish a minimum age law of 18 where none exist, or to enforce tougher penalties for those that breach existing laws.

In 2017, we revised and strengthened our approach with the launch of our new Youth Access Prevention (YAP) Guidelines, which now cover all our different product categories – from conventional cigarettes to vapour and tobacco heating products. 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.

In 2017, we conducted youth smoking prevention activities based on our previous guidelines in all markets where we were able to do so. The YAP Guidelines came into effect in January 2018, and we will report our activities and adherence in our next Report.
Our environmental impact

A greener way of working

We are committed to reducing our environmental impact across our supply chain and operations. Evolving risks and opportunities around sustainable agriculture make the environmental impact of farming practices a key part of our approach to Sustainable Agriculture and Farmer Livelihoods (see pages 14–21). Reducing our operational environmental impact continues to be an important topic for our business, and is addressed separately in this section.

Our approach

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.

We operate in diverse locations around the world, where environmental legislation, infrastructure, the availability of renewable energy technologies and levels of water scarcity can all vary significantly. Our approach is therefore to understand our impact in these environments, and then put plans in place to minimise it.

We have 45 cigarette factories and a further 16 green-leaf threshing sites worldwide which, along with a large distribution fleet, account for more than 60% of our direct impacts, so this is where we focus many of our initiatives.

In 2016, we developed a new set of environmental targets for 2025, as well as continuing to focus on our long-term goal to cut carbon dioxide equivalent (CO₂e) emissions by 80% by 2050 from our year 2000 baseline. Our focus in 2017 has been to identify opportunities for each of our business functions to play a role in achieving these targets, as well as adapting to changes in our business.

For instance, although the impact of the production and sales of our Next Generation Products (NGPs) still account for a small portion of our direct environmental impact, we have expanded the scope of our environmental reporting to include this, in light of our ambitious growth plan for our NGPs.

Reducing our carbon emissions and energy use

Our efforts to reduce our carbon footprint across our operations includes investing in energy-efficient technologies, switching to low-carbon or renewable energy sources, and optimising our logistics and fleet with new standards for fuel efficiency, engine size and emissions. We have also optimised load capacity to reduce the number of journeys we need to make.

Having previously achieved significant reductions from baselines for our CO₂e and energy intensity metrics, performance in 2017 has remained relatively steady. This was primarily due to a fall in production volumes and the integration of new sites from 2016 acquisitions. We believe our new focus on increasing the ratio of renewable energy will help contribute towards achieving further reductions against our targets.

In 2018, we will be integrating data from our 2017 Reynolds American acquisition. We also plan to review the measurement and reporting of our Scope 3 emissions, and to conduct environmental life-cycle assessments across our products.

Reducing water consumption

While our manufacturing processes are less water intensive than many industries, we understand the reality of increasing water scarcity in some parts of the world and this has led us to expand the scope of our water risk assessments. Previously only conducted at our strategic, high-risk sites, these assessments were completed by all our factories and green-leaf threshing sites in 2017.

Compared to the previous year, we have achieved a 5% decrease in water intensity, and we expect this to improve further, following the implementation of action plans resulting from the assessments.

Reducing our waste impact

We recycle or reuse waste within our business, wherever possible. In 2017, we were pleased to achieve an 8% reduction in the amount of waste sent to landfill per million cigarettes equivalent, compared to 2016. We also recycled 93.2% of our waste in 2017.

Additionally, we have almost 25% of our manufacturing sites on zero waste to landfill status, and action plans in place to achieve this at 20 additional sites that already recycle over 90% of their waste.

Our focus on renewables

We have committed to increase use of renewable energy across our operational sites to 25% by 2025. This may not seem like a stretching target, but the diverse geographies in which we operate present challenges, such as renewables infrastructure simply not being available in many of our markets. In 2017, we achieved a slight increase in our Group’s energy use from renewable sources, now at 8.5%.

Historically, Western Europe has been one of our regions with the highest emissions, with many countries highly dependent on fossil fuels. However, in recent years, this region has seen a huge growth in renewables. We have actively looked to harness green electricity with Guarantees of Origin, where possible, as well as identifying opportunities for on-site renewables generation, to improve the energy mix across our operations. As a result, 45% of our manufacturing sites in the region now source green energy.

Worldwide, we have 14 sites that currently source electricity exclusively from renewable sources, including Augustów in Poland, Groningen in the Netherlands and Kastoria in Croatia, as well as our global headquarters in London.

We are now reviewing other renewable energy opportunities across the Group to drive progress towards our target.

Reduced carbon emissions and energy use

<table>
<thead>
<tr>
<th>Reduction in</th>
<th>Reduction in</th>
<th>68% reduction in waste sent to landfill from our 2007 baseline</th>
</tr>
</thead>
<tbody>
<tr>
<td>CO₂e from</td>
<td>water use</td>
<td>bat.com/sustainability/data</td>
</tr>
<tr>
<td>our 2000 baseline</td>
<td>our 2007 baseline</td>
<td></td>
</tr>
</tbody>
</table>

Leading water efficiency in Chile

Chile is a country where water can be scarce, so our efforts to use it efficiently are all part of being a responsible business. We were one of the first operations across BAT to have conducted a water risk assessment, which helped identify opportunities to improve water efficiency.

At our Casablanca factory, we installed an online control system that monitors our water use, and this provides us with detailed data about where we can make savings. Take our vacuum pump, for instance, which is one of the main consumers of water. In late 2016, we developed a way to re-circulate the water it uses rather than discharging it to the on-site water treatment plant. This has enabled us to achieve a 17% reduction in water usage in the first year. We have a five-year reduction plan where we will implement similar saving initiatives to other high-water-consuming processes in our factory. The treatment plant provides huge benefits too, and this means we can reuse 46% of our water.

We’ve also implemented our Golden Rules initiative, an employee communication campaign on reducing water and energy consumption. Over the last year, this has helped us raise awareness about water efficiency, as well as other environmental topics, such as the importance of reporting spillages and leaks.

Here in Chile, our people have embraced saving water, and it’s heart-warming to know that we’re helping to create a better environment, both for our employees and the local communities that we’re part of.”

Leading water efficiency in Chile

Carlos Salve, Environment, Health & Safety Manager for the Southern Cone Area cluster

Sustainability Report 2017
Safeguarding the health and safety of our workforce

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. As the conditions in which we operate change, and new potential risks arise, our procedures evolve too.

We have well-established health and safety procedures in our manufacturing sites, and accidents in this area are comparably lower than those in Trade Marketing and Distribution (TM&D). With over 29,800 vehicles and motorcycles out on the road every day, TM&D is an area where the vast majority of accidents occur. 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.

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 are increasingly used 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.

Performance in 2017

In 2017, accidents to employees and contractors 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 investigation 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.

For example, following the road traffic accidents, we reviewed telematics data to help identify the circumstances and cause of the accidents, as well as to refresh and reinforce our driver training programmes, and improve our route planning. When the investigation found our driver to be at fault, we also took appropriate disciplinary action.

Responding to violent attacks on our people

These are happening in countries where the economic environment makes our trade reps particularly vulnerable to attacks from criminal gangs who want to steal their stock or to sell on the black market. We have well-established security measures that have helped towards a steady downward trend in these types of incidents over recent years, so the rise in 2017 was of great concern to us.

The fatalities in Brazil and South Africa were concentrated in the first few months of the year and appeared to be planned and coordinated attacks involving high-grade weaponry – the scale of which we had not seen before. We immediately established comprehensive reviews and action plans in response, led by a cross-functional team involving Group Security, TM&D and EHS.

One issue identified was the high visibility of the security escorts, which drew a lot more attention, so we revised our approach. We reduced the amount of stock the reps carry to make it less valuable, and implemented extra security to our route planning and vehicle tracking systems to ensure the details couldn’t be monitored by the gangs to plan attacks. These measures appeared to pay off, as we saw a significant reduction in armed robberies in the following months.

Unfortunately, though, at the very end of the year, one of our employees in Brazil got caught in a random shooting while driving, in which he lost his life. This makes the role of our ongoing training and awareness programmes even more important, to make sure our reps stick to an approved routes and fully understand the changing risk environment.

I’ve seen for myself the level of BAT’s commitment to keep all our people safe – right down from the Board level to the work of our teams on the ground. With a distribution network as large as BAT’s, carrying high-value products in some of the most volatile countries in the world, I think we’ve unfortunately always going to encounter these types of incidents, but we’re working tirelessly to prevent any future loss of life and making every effort to get closer to our goal of zero accidents.”

A diverse and engaging culture

The quality of our people is a major reason why the Group continues to perform well and, as our business evolves and transforms, attracting and retaining a diverse talent base is even more important.

We focus on having a winning organisation by investing in our people, building and inspiring diverse teams, and creating a fulfilling, rewarding and responsible work environment.

Strength through diversity

This has long been one of our Guiding Principles, and it not only means a fulfilling workplace where we respect and value each other’s differences, but also makes good commercial sense – having a diverse workforce enables us to better understand and meet the varied needs of our global consumers.

Operating in more than 200 markets, we already have a very diverse workforce in terms of nationality. In 2017, we had 143 nationalities working in management globally, and 20% of our senior management roles were filled by people from our focus nationalities.

Over the last few years, we have made significant progress with female representation at senior level. When we revised our focus on diversity in 2011, we started with a low base of 11% female representation in senior roles, due to the historical industry characteristics. In the last six years we’ve grown this significantly and now have 21% female representation at senior level.

This progress has been driven by a range of initiatives, including our highly regarded Women in Leadership programme, which supported 145 delegates on their development and career progression. Our regions and markets also work to progress the global diversity strategy through on-the-ground initiatives relevant to local custom and culture.

We’ve made good progress, but are not yet satisfied and will continue to press hard to improve our representation of senior women across the Group.

Strong employee engagement

In 2017, we ran the Group’s global employee survey, known as “Your Voice”. The survey had a response rate of 95% – 10 percentage points higher than the average for this type of survey. An 83% score was achieved in the Engagement Index, which measures employee satisfaction – 12 percentage points higher than the FMCG comparator norm of 71%. This conveys the pride which many employees have in working for us and is demonstrated by our employee turnover continuing to stay below competitor benchmark mark.

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

Find more detailed information in our Gender Pay Report

bat.com/genderpayreport

90% of the world’s fatalities on the roads occur in low- and middle-income countries, even though these countries have approximately 54% of the world’s vehicles.14

Paul Golder, Head of Environment, Health and Safety (EHS)

Performance summary

In response to our Stakeholder Panel’s feedback from last year, we have introduced this section to present all our goals and accompanying performance in one consolidated table. Performance against all our previously published goals and commitments can be found online on our Sustainability Performance Centre where you can also find five-year data charts and commentary for our key performance indicators.

Find out more at bat.com/sustainability/data

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**GOAL**

**INDICATOR**

**PERFORMANCE**

<table>
<thead>
<tr>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>TREND</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ENVIRONMENT</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduce our CO₂ emissions by 55% to 0.68 tonnes per million cigarettes equivalent (MCE) produced by 2025, and by 80% to 0.30 tonnes per MCE by 2050 (against year 2000 baseline)</td>
<td>0.80</td>
<td>0.84</td>
<td>0.82</td>
</tr>
<tr>
<td>Total % reduction from baseline</td>
<td>47%</td>
<td>45%</td>
<td>46%</td>
</tr>
<tr>
<td>Reduce our energy use by 29% to 9.17 gigajoules/MCE by 2025 (against year 2007 baseline)</td>
<td>9.98</td>
<td>10.41</td>
<td>10.48</td>
</tr>
<tr>
<td>Total % reduction from baseline</td>
<td>16%</td>
<td>12%</td>
<td>11%</td>
</tr>
<tr>
<td>Increase the amount of renewable energy we source to 25% by 2025</td>
<td>–</td>
<td>8.2%</td>
<td>8.5%</td>
</tr>
<tr>
<td>Reduce the total amount of water withdrawn by 35% to 3.17 cubic metres/MCE by 2025 (against year 2007 baseline)</td>
<td>3.36</td>
<td>3.44</td>
<td>3.27</td>
</tr>
<tr>
<td>Total % reduction from baseline</td>
<td>27%</td>
<td>29%</td>
<td>31%</td>
</tr>
<tr>
<td>Increase the total amount of water we recycle to 13% by 2025 (against year 2007 baseline)</td>
<td>9%</td>
<td>11%</td>
<td>11%</td>
</tr>
<tr>
<td>Reduce our waste to landfill by 80% to 0.002 tonnes/MCE by 2025 (against year 2007 baseline)</td>
<td>0.0080</td>
<td>0.0084</td>
<td>0.0077</td>
</tr>
<tr>
<td>Total % reduction from baseline</td>
<td>68%</td>
<td>66%</td>
<td>68%</td>
</tr>
<tr>
<td>Reduce the total volume of waste generated by 10% by 2025 (against year 2007 baseline)</td>
<td>131</td>
<td>131</td>
<td>132</td>
</tr>
<tr>
<td>Total % reduction from baseline</td>
<td>3%</td>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td>Recycle at least 95% of our total waste generated each year</td>
<td>92.8%</td>
<td>92.6%</td>
<td>93.2%</td>
</tr>
<tr>
<td><strong>CORPORATE BEHAVIOUR</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>100% adherence to our Standards of Business Conduct (SoBC)</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Number of established breaches</td>
<td>29</td>
<td>77</td>
<td>78</td>
</tr>
<tr>
<td>% of employees who completed SoBC formal sign-offs</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>100% of non-agricultural suppliers covered by our human rights supply chain due diligence (SCDD) programme</td>
<td>–</td>
<td>28%</td>
<td>46%</td>
</tr>
<tr>
<td>Suppliers assessed for human rights risks, as a % of total procurement spend</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of independent supplier audits conducted</td>
<td>–</td>
<td>23</td>
<td>65</td>
</tr>
<tr>
<td>100% adherence to our Marketing Principles</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Number of established breaches</td>
<td>2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>100% adherence to our global Youth Access Prevention (YAP) Guidelines</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Number of established breaches</td>
<td>22</td>
<td>22</td>
<td>22</td>
</tr>
<tr>
<td>Tonnes of total waste generated ('000)</td>
<td>131</td>
<td>131</td>
<td>132</td>
</tr>
<tr>
<td>Number of fatalities to members of the public involving BAT vehicles</td>
<td>6</td>
<td>2</td>
<td>11</td>
</tr>
</tbody>
</table>

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We have updated the following previously reported figures. CO₂ per MCE of 0.79 in 2015 and 0.81 in 2016. CO₂ % reductions from baselines of 48% in 2015 and 47% in 2016, energy use per MCE in 2015 of 17.5 in 2015 and 1.93 in 2016, energy use % reduction from baseline of 17.5% in 2015 and 16% in 2016, women per MCE of 141 in 2015 and the reduction from baseline of 29% in 2016. This is mostly due to expanding the scope of reports and historical data to include 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. Performance against this metric in 2016 is therefore not comparable to 2015 or previous years.

We have been measuring performance against this metric in 2017, so data is not available for previous years.

We began implementing the SCDD programme in 2016, so data is not available for previous years.

We began measuring performance against this metric in 2017, so data is not available for previous years. The figure includes data from Reynolds American on a full-year basis. Excluding Reynolds American, the 2017 figure includes data from Reynolds American.

We have updated the following previously reported figures. We began measuring performance against this metric in 2017, so data is not available for previous years. The figure includes data from Reynolds American on a full-year basis. Excluding Reynolds American, the 2017 figure includes data from Reynolds American.

We have updated the following previously reported figures. % of farmers’ wood fuel from sustainable sources of 95% in 2016 and 99% in 2017. The 2017 figure includes data from Reynolds American, to ensure alignment with our gender diversity reporting in our 2017 Annual Report.

We have updated the following previously reported figures. % of employees who completed SoBC formal sign-offs of 100% in 2016 and 100% in 2017. The 2017 figure includes data from Reynolds American, to ensure alignment with our gender diversity reporting in our 2017 Annual Report.

We have updated the following previously reported figures. % of farmers’ wood fuel from sustainable sources of 95% in 2016 and 99% in 2017. The 2017 figure includes data from Reynolds American, to ensure alignment with our gender diversity reporting in our 2017 Annual Report.

We have updated the following previously reported figures. % of farmers’ wood fuel from sustainable sources of 95% in 2016 and 99% in 2017. The 2017 figure includes data from Reynolds American, to ensure alignment with our gender diversity reporting in our 2017 Annual Report.
Materiality: identifying our sustainability priorities

The issues covered in our Group Sustainability Agenda are identified through a detailed materiality assessment as those which matter most to our stakeholders and our business.

We’ve been conducting materiality assessments since 2007, which we review on an annual basis and refresh through an in-depth process every three years. This enables us to evolve our strategy and report on it effectively. In 2017, we worked with Carnstone Partners, a highly respected sustainability consultancy, to conduct a new in-depth assessment, based on the following three-stage process:

**Stage 1**

**Identifying a ‘long list’ of issues**

A wide variety of stakeholder inputs were used to identify an initial long-list of issues. These included issues raised at our stakeholder engagement activities, at both a Group and local market level, with shareholders, investors, suppliers, farmers, local communities, employees, governments, non-governmental organisations (NGOs) and other key stakeholders.

In addition, we commissioned Kantar Media to conduct a global media review, and identified the key issues covered by industry and FMCG peer companies; relevant national and international regulation, international standards and frameworks, such as the UN Sustainable Development Goals; external reports and allegations regarding BAT or the tobacco industry; and risk monitoring and outlook reports, such as those of the World Economic Forum. The external insights were complemented by internal BAT inputs, including Group and functional strategies, Group Risk Register; Main Board and regional meetings and committees; and Group policies, principles and standards.

**Stage 2**

**Prioritising and refining**

The issues were grouped under common themes and prioritised by mapping them onto the adjacent materiality matrix. This matrix used a defined scoring methodology, developed by Carnstone, to assess the level of importance to our stakeholders and the current or potential impact on the BAT Group. Carnstone then carried out a series of interviews with BAT senior management, including our Group Legal and External Affairs Director, to gain feedback and refine the issues further.

**Stage 3**

**Validation**

Our independent Stakeholder Panel of key opinion leaders (see page 38) reviewed the list of issues identified and details of each stage of the assessment, including the stakeholder inputs, scoring methodology and feedback from internal interviews. They then had the opportunity, via an independently facilitated meeting, to ask detailed questions and provide feedback. Overall, the Panel supported the process followed and confirmed that the most material issues identified were aligned with their expectations.

Final results

The issues which have the highest level of importance to our stakeholders, and the greatest impact on the BAT Group, form our Sustainability Agenda under the three strategic areas of: Harm Reduction, Sustainable Agriculture and Farmer Livelihoods, and Corporate Behaviour (with the specific issues listed at stage two in each section in this Report). These are underpinned by our ongoing focus on issues relating to the environmental impacts of our operations, and building a diverse and engaging culture for our people.

We also continue to focus on important internal business priorities as well as to monitor emerging issues of high importance to our stakeholders.

Stakeholder engagement

We engage with a wide range of stakeholders at local, regional and global levels on the key sustainability issues covered in this Report.

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

For example, the development of our Human Rights Policy and approach to human rights management has been informed by an independently facilitated stakeholder dialogue session and subsequent work with external consultancies with expertise in this area. Our new operational standard on child labour prevention was also developed with important contributions from the Eliminating Child Labour in Tobacco Growing (ECLTG) Foundation and the International Labour Organization (ILO).

We also participate in a wide range of multi-stakeholder partnerships and collaborations to develop joint solutions to common challenges. For example, to tackle the illegal tobacco trade, we work with industry groups and have cooperation agreements with governments, customs and law enforcement agencies. Our research and development (R&D) also has partnerships with highly respected academic and research institutions, which focus on scientific studies into the reduced-risk potential of next generation tobacco and nicotine products.

We continue to share the results of our peer-reviewed scientific research and developments with regulators, public health bodies, the media and other key stakeholders to help inform the harm reduction debate and contribute to the evidence base.

We also actively share our experience and expertise with others, which can help to raise standards across the industry and make a valuable contribution to wider society. For example, openly sharing our scientific research and approach to product stewardship is helping to inform the development of industry-wide quality and safety standards for ‘vapour and tobacco heating products.

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.

Transparency is crucial to our approach. We’re open about what we think, whether we’re in favour of new proposals and regulations or not. And where we don’t agree, we always try to be constructive and propose practical alternatives that can still achieve governments’ regulatory aims and public health objectives.

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

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

Our ongoing dialogue and engagement with our business partners – including suppliers, farmers and retail customers – provides them with valuable support, such as in meeting international standards or new regulations, as well as helping us to understand the issues and challenges they face. We can then co-develop solutions to address them.

Around the world, our companies have also built close ties with the communities in which they operate and invest in Corporate Social Investment programmes, in partnership with local stakeholders, to support them.

How we engage with regulators

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. Transparency is crucial to our approach. We’re open about what we think, whether we’re in favour of new proposals and regulations or not. And where we don’t agree, we always try to be constructive and propose practical alternatives that can still achieve governments’ regulatory aims and public health objectives.

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Independent assurance

An independent review of our sustainability reporting is an important element of helping stakeholders place trust in our processes and in what we report, and supports our commitment to openness and transparency.

In 2017, we continued to engage Ernst & Young LLP to provide limited assurance of selected sustainability data. In addition, building on our long history of open engagement with our stakeholders, this is the second year we invited Our Independent Stakeholder Panel, formed of key opinion leaders, to offer comment on the materiality of our Sustainability Report and a collective opinion on BAT’s performance.

The Stakeholder Panel’s independent statement

Panel members
Philippa Foster Back CBE, Director of the Institute of Business Ethics (Panel chair) – an education charity whose purpose is to promote high standards of business behaviour based on ethical values.
Scott Ballin, Health Policy Adviser – Scott has spent more than 40 years involved in issues related to tobacco and health and is a key opinion leader on tobacco harm reduction.
Prof John Boardman, Emeritus Fellow, Environmental Change Institute, University of Oxford – John has published over 150 papers primarily focused on soil management and land degradation.
Peder Michael Pruzan-Jorgensen, Senior VP of Business for Social Responsibility – a global nonprofit organisation that works with its network of more than 250 member companies and other partners to build a just and sustainable world.

Process
This is the second year of the Panel’s existence. Its aim is to understand the context BAT’s business operates within, identify how it is meeting the various sustainability challenges, and offer comment on the materiality of the Report and a collective opinion on reporting performance. The Panel is independent of BAT and the comments which follow are based on the professional expertise and experiences of its members.

In this reporting cycle, the Panel held three meetings with BAT. The first, in October 2017, considered the process and outputs from the Company’s materiality assessment (see page 36). The second meeting, in November 2017, was specifically requested by the Panel following its review of the 2016 Sustainability Report, to provide an opportunity to engage earlier in the reporting process. The meeting included a presentation from BAT on key business developments in 2017 and a discussion on the proposed structure and content of the Report.

The third meeting, in February 2018, centred on a detailed scrutiny of a draft of the Report, for which:
• The Panel reviewed a draft in advance of the meeting;
• BAT presented details on how the Company had responded to the Panel’s recommendations and feedback made in its statement in the 2016 Report, as well as those made during its November meeting;
• The Panel privately discussed the Report as a group to formulate their views and identify questions to ask BAT;
• The Panel met with senior BAT representatives to ask questions and provide initial feedback on the Report, including with Jerry Abelman, Group Legal and External Affairs Director, as well as senior experts from key areas of the business;
• The Panel made suggestions as to how the Report could be improved to best serve the needs of BAT’s stakeholders – a number of these comments were addressed in the Report prior to publication; and
• Drafted this statement independently of BAT and presented it to the Company’s representatives.

Throughout the three meetings, the Panel appreciated BAT’s willingness to share information and discuss the issues and challenges it faces as a business openly and constructively. The Panel’s comments on the Report, together with recommendations as to how future reports could be improved, are summarised below. The Panel acknowledges the progress made from last year’s Report which reflects many of the recommendations made by the Panel. The specific details of how these recommendations have been addressed are included below.

Materiality and performance
As in previous years, the BAT Sustainability Report 2017 reads well, covers the Group’s most material issues in a meaningful and balanced way, and strikes a good balance between narrative reporting and performance reporting, not least when read in context of the rich information – qualitative and quantitative – accessible on BAT’s websites and in other, thematically more focused reports.

The Company’s commitment to reporting is underpinned by the annual materiality refresh and a more thorough review every three years. Nonetheless, and surprisingly, we call out the opportunity for defining meaningful and measurable objectives, including long-term targets for Harm Reduction and Sustainable Agriculture and Farmer Livelihoods. As mentioned in last year’s Statement, we believe that it would be useful to define outcome indicators for the most material issues noting, as a positive development, that the recently commenced Thrive programme may yield a stronger evidence base for outcomes related to Sustainable Agriculture and Farmer Livelihoods.

In line with our recommendation for improved clarity on objectives and targets in key performance areas, the Report would benefit from greater clarity on what the Company considers the priorities for transforming tobacco, including milestones and key performance indicators for successful transformation.

Moreover, as the BAT business model evolves with greater focus on Next Generation Products (NGPs), we expect that the broader sustainability profile of BAT will evolve, including what constitutes material issues, something we would expect to see covered in future reporting.

Harm Reduction
BAT continues to show progress in advancing its NGP portfolio and harm reduction strategies on multiple fronts. It responded to a number of the Panel’s recommendations made in last year’s Statement, including providing more detail on what a regulatory framework for NGPs might entail. The Panel notes that BAT recognises the serious harm caused by the use of cigarettes and the need to provide smokers with consumer acceptable, affordable alternative products, something that the Panel believes should be given the highest of priorities.

Even as BAT continues its efforts in the NGP area, we strongly encourage it to step-up efforts to provide existing, more affordable harm reduction products (such as snus, vapour and other nicotine products) to the one billion smokers living in low- to middle-income countries. The existing ‘smoking’ marketplace, made up of many of BAT’s consumers, provides the Company with significant opportunities to demonstrate its commitment to harm reduction as part of its Transforming Tobacco strategy.

The Panel also encourages BAT to continue to expand its efforts to engage with regulators, the scientific and research community, policy makers, public health NGOs, consumers and the media, and to participate in meetings and conferences where productive engagement between stakeholders can be achieved. Transparency remains a key element in the transformation of the tobacco and nicotine space.

Finally, in this area as elsewhere, the Panel hopes that BAT will in future reports provide more measurable, detailed and articulated performance objectives. We note that this year’s draft Report was critically lacking in this area, even when compared to the 2016 Report. It was noted, for example, that BAT has invested US$2.5 billion since 2012 on NGPs, but how does that compare to other activities of BAT including its annual revenue? One way to highlight and provide these details would be through one of its prominently featured websites, such as bat-science.com.
Sustainable Agriculture and Farmer Livelihoods

The Panel notes not seeing data on BAT’s Extension Services to farmers and information on how the Thrive programme is developing. We look forward to seeing more output next year in this area.

We acknowledge that the informal economy operates in many locations, the use of short-term casual labour is common, and scale of the farm. In many locations, the use of short-term casual labour is common, with workers hired for one or two days’ work at a time. This is reflective of engagement between key stakeholders. If we can all work successfully together, we believe the alignment in testing tobacco harm reduction can be achieved.

Sustainable Agriculture and Farmer Livelihoods

We appreciate the Panel’s recognition of our progress in this area and how we’ve responded to their recommendations. We understand their concerns regarding the availability of affordable alternative products for smokers in low- to middle-income countries. However, in many of these countries, there are still real regulatory and marketplace obstacles to launching alternative products, so we welcome the Panel’s recommendation to continue to expand our efforts for productive engagement with key stakeholders. If we can all work successfully together, we believe real progress in tobacco harm reduction can be achieved.

Our response to the Panel’s statement

The Panel’s insights, challenge and constructive feedback are invaluable in helping to ensure our reporting meets the needs of our stakeholders. They have highlighted both strengths in our reporting and where improvements could be made, and we are committed to openly responding to their feedback.

Process

This year, we welcomed the opportunity to engage with the Panel earlier and more frequently in the reporting process. The initial drafting of the Report benefited greatly from the Panel’s input and we were able to apply many of their suggestions prior to publication. We’re also carefully considering further recommendations for future reports.

MATERIALITY AND PERFORMANCE

We’re pleased the Panel found our material issues are reported in a meaningful and balanced way. We will use the need to deliver more measurable long-term targets, particularly for Harm Reduction and Sustainable Agriculture and Farmer Livelihoods.

We have published our new target to generate over £5 billion in annual revenue from our next generation products and believe this financial metric demonstrates our commitment to harm reduction and the transformation of our business. As this area develops, we will work to define further targets and indicators to support this.

We agree with the Panel’s observation that the development of our Transformation programme will help us to better quantify outcomes and impacts for our farmers and rural communities, and are committed to reporting on this in the future.

Harm Reduction

We appreciate the Panel’s recognition of our progress in this area and how we’ve responded to their recommendations. We understand their concerns regarding the availability of affordable alternative products for smokers in low- to middle-income countries. However, in many of these countries, there are still real regulatory and marketplace obstacles to launching alternative products, so we welcome the Panel’s recommendation to continue to expand our efforts for productive engagement with key stakeholders. If we can all work successfully together, we believe real progress in tobacco harm reduction can be achieved.

Sustainable Agriculture and Farmer Livelihoods

We appreciate the Panel’s recommendation for more information on the use of short-term hired labour by our contracted farmers. The extent to which hired labour is used differs according to location and scale of the farm. In many locations, the use of short-term casual labour is common, with workers hired for one or two days’ work at a time. This is reflective of engagement between key stakeholders. If we can all work successfully together, we believe real progress in tobacco harm reduction can be achieved.

Our contracted farmers to upload with their own hired workers and monitor practices via our farm monitoring and the industry’s Sustainable Tobacco Programme, both of which include specific criteria relating to the use of hired labour. We will consider how we can better reflect this important part of our supply chain in future reports.

We’re also carefully considering the Panel’s suggestion to conduct a new analysis on climate change impacts in tobacco growing, and to provide more detail in future reports on how we’re working to understand, mitigate and increase farmers’ resilience to these impacts.

Corporate Behaviour

We’re pleased the Panel found our reporting in this area to be clear and that the use of case studies to demonstrate how we’re delivering tangible benefits was a useful addition. We’re also grateful to the Panel for highlighting the gap regarding the role of our Guiding Principles and Standards of Business Conduct – which we were able to address prior to publication (see page 23). In addition, we’re committed to including data from our (peak) channels in future reports.

We recognise the importance of clearly explaining how our global approach to Business Conduct is applied particularly in the context of different local circumstances. We adhere to our policies, principles and standards even when they are stricter than local laws, and prioritise countries with a higher risk exposure for enhanced monitoring, such as where regulation or enforcement is weak, or there are high levels of corruption, criminality or unrest. We will work to further clarify our reporting on this in the future.

Other observations

We share the Panel’s concerns regarding our health and safety performance in 2017, but are pleased they were reassured by the high level of attention this is given, including regular monitoring and oversight by our Board Audit Committee.

With the majority of incidents concentrated in the first half of the year, we have already seen an improvement in performance for the second half of 2017, as a result of the targeted programmes and initiatives we’ve put in place to respond to increased risks. We will endeavour to include more detail on this in next year’s Report.

We recognise that performance in 2017 against our CO2e and energy-intensity metrics has remained relatively steady. In response to the Panel’s feedback, we have provided more clarity in this Report (see page 39). We are currently working on identifying opportunities for further reductions against our targets and believe our new focus on increasing the ratio of renewable energy will help contribute towards this.

Concluding remarks

We would like to thank the Panel for their time and thorough review of our Report and look forward to continuing this open and constructive dialogue.

British American Tobacco

March 2018
More detailed information on our Sustainability Agenda and initiatives.

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

[bat.com/sustainability/data](http://bat.com/sustainability/data)

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

[bat.com/sustainabilityreport](http://bat.com/sustainabilityreport)

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**FOCUS REPORTS**
More in-depth information on a specific area of our Group Sustainability Agenda.

[bat.com/sustainabilityfocus](http://bat.com/sustainabilityfocus)

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

[bat.com/annualreport](http://bat.com/annualreport)

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**About this Report**
This is a report by British American Tobacco p.l.c. Associate companies are excluded. All Group data relates to the calendar year 2017. Data from Reynolds American Inc., our US business that we acquired in July 2017, is excluded from the Report unless stated otherwise, as we continue the integration. References to ‘British American Tobacco’, ‘BAT’, ‘we’, ‘us’ and ‘our’ when denoting opinion refer to British American Tobacco p.l.c. (the Company), and when denoting tobacco business activity refer to Group operating companies, collectively or individually as the case may be. This Report contains forward-looking statements that are subject to risk factors associated with, among other things, the economic and business circumstances occurring in the countries in which the Group operates. It is believed that the expectations reflected in these statements are reasonable, but they may be affected by a wide range of variables that could cause actual results to differ materially from those currently anticipated.

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