

# 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.

Building on our long history of open engagement with our stakeholders, this is the third 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. In addition, we continued to engage Ernst & Young LLP to provide limited assurance of selected sustainability data.

## 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**, Owner and Director at ORCA & Co. ApS – a strategy advisory firm committed to working with companies and capital owners to maximise business value and societal impact by placing environmental, social and governance at the heart of decision making.

### Process

This is the third 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 two meetings with BAT. The first, in December 2018, included a presentation from BAT on key business developments over the preceding 12 months and a discussion on the proposed structure and content of the Report. As part of the latter, BAT explained how it was proposing to address the specific comments made by the Panel in its last statement.

The second meeting, in February 2019, 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 2017 Report, as well as additional comments made during its December 2018 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 Jerome Abelman, Group Legal and External Affairs Director, as well as senior experts from key areas of the business;



Our Stakeholder Panel members meeting with Jerome Abelman, Group Legal and External Affairs Director

- 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
- the Panel drafted this statement independently of BAT and presented it to the Company's representatives.

Throughout the two meetings, the Panel appreciated BAT's willingness to share strategic and operational information including on the issues and challenges BAT faces in the short, medium and longer term. BAT responded openly and constructively to questions and suggestions. The Panel's comments on the Report, together with recommendations as to how future reports could be improved, are summarised below.

The Panel welcomes the progress that BAT has made in different areas of its sustainability agenda and the positive way in which it has embraced some of the recommendations made by the Panel previously. The specific details of how these recommendations have been addressed are included below. It also notes that key recommendations pertaining to harm reduction and sustainable livelihoods of farmers remain important improvement areas.

### Materiality and performance

BAT's reporting style has evolved over many years to incorporate numerous elements of good practice. The current Report builds on these foundations. It offers a clear and compelling insight into BAT's approach to the challenges and opportunities presented by its most material issues. Performance data is presented and supplemented by a wide range of additional information accessible via BAT's website. This information includes a number of thematic reports focused on key topics and which will be of particular interest to different stakeholders. We commend this willingness to provide information to meet the needs of specific audiences.

Compared to previous reports, the Panel's perception was that the link between BAT's sustainability agenda and the overarching business strategy was less pronounced. We accept that this may, in part at least, reflect the fact that sustainability is an explicit element of the Group corporate strategy and that continued cross-reference is felt to be unnecessary. Nonetheless, we recommend that

this information should be better signposted in the Sustainability Report in order to contextualise BAT's sustainability performance.

In previous years, we recommended that BAT defines meaningful and measurable long-term targets for harm reduction and sustainable agriculture and farmer livelihoods. Similarly, we suggested that in reporting performance there should be greater emphasis on outcomes rather than inputs, especially with regards to sustainable agriculture and farmer livelihoods. While some progress has been made, we believe BAT should go further in publicly explaining its vision for the future and the Company and stakeholder actions required to realise this vision: put simply, what will a transformed tobacco sector look like and how will that manifest itself in BAT's strategy, organisational structure and operations as well as its sustainability priorities?

Based on our conversations with senior management, we believe that BAT has a clear vision for the future and understands what the implications will be and how they will be managed. Consequently, we recommend that BAT's next Sustainability Report contains more of this detail, including relevant financial and non-financial targets.

### Harm reduction

We acknowledge and appreciate BAT's continued commitment to its potentially reduced-risk products (PRRPs) portfolio and its extension of these products into additional markets and to more consumers. We also recognise that BAT's reporting around harm reduction has developed considerably over recent years. However, we believe there are three areas – relating to consumer access to PRRPs, regulation and engagement – that merit more detailed coverage in future reports.

A major challenge for BAT over the coming years will relate to making PRRPs accessible across the globe and particularly to the more than 800 million smokers, many of whom are BAT customers, living in low- to middle-income developing countries. We do not underestimate the difficulty of developing and marketing products that are affordable to all and commercially viable. However, given the fact that the markets likely to see the highest use of combustible tobacco in the future will continue to be in the less developed parts of the world, we believe there are powerful ethical, public health and financial arguments in favour

of a concerted effort to ensure that the benefits of PRRPs are not confined to a relatively small number of wealthy nations. Consequently, we recommend that future reports provide more information on how BAT is addressing this issue.

In terms of regulation, we recognise that BAT's voice is one of many and the drafting and implementation of regulation is the prerogative of national governments. The Panel also accepts that making definitive statements about timescales for transitioning from current products to PRRPs is problematic and dependent on a range of factors outside the Company's control. This Report offers some insights into BAT's approach as to what should constitute the essential elements of a regulatory framework for PRRPs. However, we recommend that the Company should expand upon the current level of detail, including, where possible, differences in regulation from country to country. This information – which would not necessarily sit within the Report but could be clearly signposted from it – should explain not only benefits to the Company but, equally importantly, how these elements will advance public health goals and meet the needs of the smoker.

Given the Company's scale and the quality of its scientific research, the Panel recommends that future reports explain how BAT is sharing its expert insights with governments, public health authorities and other relevant stakeholders. We accept there may be significant obstacles to overcome here, including the willingness of some stakeholders to publicly acknowledge their engagement with BAT. However, if these issues can be addressed, it would allow BAT to demonstrate how it is taking a leadership position, which draws upon sound science, in contributing to the formulation of appropriate regulatory frameworks for a rapidly changing world. This is particularly the case in addressing issues related to the sale, availability, use and marketing of all tobacco and nicotine products to children and adolescents (including both traditional combustible products and PRRPs), while simultaneously providing lower-risk, science-based products to smokers.

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## Independent assurance continued

Reiterating our observation above, we believe that BAT's stakeholders and the broader global community would welcome greater insight into the pace of BAT's transformation into offering a wider range of products that reduce the health risks associated with traditional tobacco and how this will affect the current business model.

### Sustainable agriculture and farmer livelihoods

The Report provides a range of information on BAT's work to promote more sustainable agricultural practices and improve farmer livelihoods. These are important issues as they go to the heart of ensuring that BAT is able to satisfy its requirements for tobacco leaf while minimising the impact growing tobacco has on the environment, workers and communities. The Panel recognises the work BAT is undertaking in these areas and the investment it has made in the Sustainable Tobacco Programme (STP), its *Thrive* programme and Extension Services.

However, the Panel is disappointed that there remains a lack of objectives that would allow stakeholders to assess the effectiveness of BAT's efforts. With this in mind, we recommend BAT formulates appropriate indicators with specified targets for each of the dimensions it monitors on social, economic and environmental performance. Additionally, we recommend that future reports contain greater coverage of the work undertaken by BAT's Extension Services and how this contributes to the improved wellbeing of farmers and preservation of ecosystems. Information in the Report on how its Extension Services address issues around climate change, soil and water protection remain aspirational. Achievements in these areas need to be demonstrated with some detail and data.

Last year, we suggested that BAT should develop a robust analysis of the risks of climate change in their major tobacco-growing regions, with the results and how the Company intends to respond to them summarised in a Focus Report. This has not yet been done. We recommend that further work is necessary to ensure a more comprehensive understanding of the risks the Company faces over the medium and longer term. This should focus on the vulnerability of thousands of small farmers to the risks of climate change.

### Corporate behaviour

The Panel applauds BAT's strategy and associated policies and actions relating to how it is promoting a culture of integrity and safeguarding human rights across its global operations.

We recommended in our last statement that there should be more coverage of the Company's values and how they are integrated into day-to-day operations. We are pleased to see that this has been addressed and is supplemented by information on BAT's Standards of Business Conduct (SoBC) and its anti-bribery and corruption procedure. A further positive development has been the roll-out of the *Speak Up* process that enables employees and other stakeholders to report breaches of the SoBC confidentially. In line with the practice adopted by its peers, we recommend that future reports provide more detailed information on the outcomes of investigations into violations of the SoBC, including the number of employees dismissed as a result.

### Other observations

While noting the improvement in some aspects of health and safety performance, the Panel deeply regrets the deaths of BAT employees and contractors during the course of their work and members of the public who died in road traffic accidents with BAT vehicles.

In our last statement we expressed some concerns about the progress BAT was making towards achieving its CO<sub>2</sub>e emissions reduction target. Performance now appears to be back on track and the Panel wishes to commend BAT's decision to embrace the discipline of science-based targets for greenhouse gas emissions.

### Concluding remarks

BAT has achieved a well-earned reputation for the quality of its reporting. This year's Report embodies many of these strengths, including a strong narrative and balanced presentation of performance. It is against these high standards that the Panel's remarks should be read. Nonetheless, the Panel encourages BAT to deepen its deliberations on what constitutes the best way of communicating its performance, noting that the combined effect of its strategy and integration of sustainability priorities, as well as the evolution in corporate reporting, may call for new ways of sustainability reporting.

In conversation with senior executives the Panel was struck by the commitment to transforming tobacco and the willingness to acknowledge that this represents a fundamental shift in the Company's strategy. Our hope is that future reports capture this sense of enthusiasm for change while acknowledging the numerous obstacles that need to be overcome to realise BAT's ambition and continuing to provide a comprehensive and balanced representation of its full business impacts.

The Panel is grateful for the cooperation of BAT's Group Sustainability team and senior management involvement.

### Stakeholder Panel members March 2019



#### Assurance of performance data

Ernst & Young LLP has performed a limited assurance engagement on selected sustainability data presented in this Report and at our Sustainability Performance Centre at



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

Read Ernst & Young's full statement, including the scope of work and conclusions, which is available at



[bat.com/assurance](https://bat.com/assurance)

# 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. In their third year of independently reviewing our Report, the Panel continued to highlight both strengths in our reporting and where improvements could be made. Our initial drafting of the Report continued to benefit greatly from the Panel's input, and we're committed to openly responding to their feedback.

## Materiality and performance

We're pleased the Panel noted our approach to reporting as providing a clear and compelling insight into the sustainability challenges and opportunities we face. We appreciate their feedback for us to be explicit and transparent about how our sustainability agenda supports our commitment to transform tobacco and we believe we have already taken significant steps in articulating this.

This includes detail on how we are transforming our business and industry through our commitment to providing a diverse range of potentially reduced-risk products (PRRPs). How we articulate this is supported by our cutting-edge technology, robust science, product safety and quality standards, as well as our approach to openly sharing our science. We're also clear that our relationships with farmers continue to be central to the success of our ambitions, and that our transformation will continue to be supported by the highest standards of corporate behaviour.

We have applied signposts to our 2018 Annual Report and Accounts, to encourage interested audiences to find out more about the key financial metrics related to our PRRPs, and will continue to identify opportunities to better report on the scale of our harm reduction ambitions.

## Harm reduction

We appreciate the Panel's continued recognition of our progress in this area, and note their recommendation for more information on consumer access to PRRPs, effective regulation, and transparent and science-driven engagement, as these are crucial for PRRPs to maximise their contribution to tobacco harm reduction.

Despite some notable legislative developments in enabling the sale of PRRPs, such as in Canada and New Zealand, there are still many parts of the world with real regulatory and marketplace obstacles to launching PRRPs. A supportive

regulatory environment is crucial to maximise the potential of these products to contribute to harm reduction and, for a number of years, we have openly shared our view on what we believe to be the key principles for an effective regulatory framework for PRRPs (see p13). We continue to launch in as many markets as practically as we can, with our PRRPs now available in 29 markets, including Colombia and Guatemala.

We are committed to transparent engagement – including with governments, public health authorities and the scientific community – and openly share our science, provide technical data and bring our expertise to developing regulation and policy. In this Report, we outline examples of where we have been able to contribute our expertise and insights, and we will continue to report on these.

## Sustainable agriculture and farmer livelihoods

As part of our *Thrive* programme, we have assessed 280,000 farmers against the set of indicators outlined in this Report, accounting for around 90% of our total tobacco leaf purchases. These assessments, as well as the STP – which has now seen all of our supply base independently reviewed – are already enabling us to drive change at farm level.

However, whilst the introduction of the Farmer Sustainability Management tool has greatly enhanced the quality and efficiency of data collection, with the diverse geographic and socio-economic profiles of the markets we source leaf from, communicating consolidated performance data brings another set of challenges. Still, as we continue improving our monitoring, we note the Panel's recommendation for more specific indicators and targets, and hope that the learnings from the third-party review we commissioned in 2018 will help us to better communicate the outcomes of our programmes.

We acknowledge that we have not yet provided further detail on what we understand to be the long-term impacts of climate change, as suggested by the Panel in their 2017 statement. We have previously conducted studies into the weather-related impacts of one of our strategic tobacco-growing markets but we also understand that our tobacco supply chain is not the only area that will be impacted by climate change. We continue to explore how we can better assess and report on climate change risk and opportunity across all of our business.

## Corporate behaviour

We're very pleased that the Panel found our reporting in this area to be strong and that it addresses their feedback. Responsible behaviour and ethical values have long been at the centre of our Group policies and work culture, and as our Delivery with Integrity programme evolves, we are confident that this global, consistent approach will strengthen our culture further.

In 2019, continuing to empower our employees to deliver with integrity and to promote our *Speak Up* channels will be a priority. We hope to see an increase in the number of cases reported over the coming years and we're committed to including further information from our *Speak Up* channels in future reports.

## Other observations

We share the Panel's deep regret on the fatalities that occurred in 2018. While acknowledging the challenges in the many diverse geographies we operate in, we continue to remain absolutely committed to working collaboratively and tirelessly across our markets to do all we can to prevent future incidents.

We are proud of our achievements this year in reducing our environmental impact, and to have recorded a notable improvement in our performance, despite the significant changes to the scale and magnitude of our operations. We are also grateful to the Panel on the feedback they've provided on reporting more prominently around our science-based targets commitment and we look forward to reporting on this in more detail next year.

## Concluding remarks

While we welcome the Panel's observations on how the Report may benefit from further disclosure on some of our efforts, such as the work undertaken by our Extension Services, given the diverse audiences of our sustainability reports, it is essential that we provide the right balance and level of information in this Report to meet these diverse needs. Those with a specific interest in aspects of our sustainability agenda can find much more detailed information across our dedicated channels, such as our focus reports and [bat-science.com](http://bat-science.com), and we have better signposted these at the Panel's recommendation.

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 2019