

Commentary From Our Stakeholder Panel

The Panel's aim is to understand the context BAT's business operates within, identify how it is meeting the various ESG challenges and offer comment on the materiality of this Report and a collective opinion on reporting performance.

Panel Members

Philippa Foster Back CBE (Panel chair), Member of the Institute of Business Ethics International Advisory Council – Philippa is a long-standing advocate for 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, Founder 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 ESG at the heart of decision-making.

Process

This is the fifth year of the Panel's existence. 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 November 2020, involved a presentation from BAT on key business developments over the preceding 12 months; how corporate approaches to sustainability were evolving to meet various ESG challenges; and the proposed format for this ESG Report. In addition to the Panel, participants included BAT's chairman, two other non-executive Directors and members of BAT's senior leadership team.

The second meeting, in February 2021, involved only the panel and facilitation from Carnstone Partners Limited, and centred on a detailed scrutiny of a draft of this ESG Report, which had been supplied in advance. Where data in the draft reviewed by the Panel had yet to be finalised this was clearly highlighted. The Panel was subsequently able to review a later version containing the finalised data to ensure this had no effect on the comments that follow.

Due to COVID-19 restrictions both meetings took place remotely.

Throughout the process, the Panel appreciated BAT's willingness to share strategic and operational information. 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 with sections covering BAT's reporting approach and materiality, harm reduction, environment, social and governance.

BAT's Approach to ESG Reporting

This is the second year BAT has produced a separate ESG Report, in addition to a shorter summary. In its last commentary, the Panel welcomed this addition to BAT's reporting resources and recognised how it complemented the information available elsewhere. The Panel also set out its expectations as to the content and structure of future reports, and it is gratifying that many of these points have been adopted this year.

Overall, we believe the Report is greatly improved. Specifically, the Report provides greater detail on BAT's approach to harm reduction, contains, 'hard targets' and performance indicators for a wide variety of issues, and is structured to ensure that information on the four priority areas (harm reduction, environment, social and governance) is readily accessible.

The level of detail provided in the Report is testimony to BAT's commitment to transparency and gives its target audience comprehensive and direct insights into how the company is transforming its business model, the challenges this presents and the progress it is making.

Going forward, the Panel suggests that BAT clarifies whether the section dealing with Corporate Purpose is intended to provide context for the four priority areas or is a summary of its approach and performance in each of them. If the former, then we would suggest there should be a much more explicit link to both the corporate strategy and how this manifests itself in financial results and operational outcomes; if the latter, it needs to contain more information on actual performance or include clear signposting to where this can be found.

Materiality

The Panel has previously expressed its positive view of BAT's approach to identifying its sustainability/ESG focus areas. The methodology used by BAT combines a systematic review of current and potential issues with a rigorous analysis of their importance to stakeholders and the organisation.

This ensures that the ensuing list of focus areas is credible both in terms of scope and prioritisation. The inclusion of new focus areas – such as data privacy and cybersecurity – demonstrates the dynamic nature of the process.

Consequently, the Panel would like to reiterate their opinion that the focus areas covered in the Report are material to BAT's Sustainability Agenda.

Harm Reduction

This remains the key challenge for BAT and is central to its goals and objectives. Consequently, this section of the Report needs to incorporate several different elements – for example, the health and other consequences of combustible tobacco products, the opportunities and risk presented by New Category products and the progress BAT is making in transitioning from the first to the second.

It also needs to place BAT's efforts in a wider context – how the tobacco sector is adapting to a changing world – and, crucially, the role that other stakeholders, such as governments, regulators and, of course, consumers, play in the process.

The Panel applauds BAT's commitment to science and transparency as evidenced by the content of this Report. It also recognises the increasing resources BAT is devoting to this transformation and the growing importance of New Category products to its business.

The inclusion of information on the contribution BAT is making to research and the development of vaccine candidates, which may in the future deliver significant benefits to people around the world, is a further demonstration of how the Group's business model is changing. And, by bringing these efforts to the attention of the public, policymakers and investors, it may be seen as a significant new and legitimate approach in 'transforming tobacco'.

However, it is important to acknowledge that for the foreseeable future BAT's business will rely on the revenues generated by combustible tobacco products, which

will continue to have serious implications for the health of millions of its current and future consumers.

Thus, while the Report provides relevant information on the growth and availability of BAT's New Category products, there is much less on how it is persuading traditional cigarette users to switch to them.

Likewise, the Report is silent on the extent to which BAT's transition is dependent on existing customers moving wholesale to its New Category products, or whether the growth in the latter is driven by attracting consumers of other brands or those who have not previously used combustible tobacco products. In view of the growth markets for cigarettes, the Panel, as mentioned in previous years' statements, would welcome more disclosure on how BAT intends to make a variety of non-combustible products available in low-income markets.

In future reports, the Panel urges BAT to provide a more nuanced and detailed view of the relative and absolute importance of New Category and combustible products to the business currently and over the medium and long terms.

Another essential aspect of harm reduction relates to preventing youth access to, and use of, tobacco and nicotine products. BAT will be well aware of the numerous initiatives and campaigns underway globally that focus on this issue.

The Report includes some information on what BAT is doing in this area but, given the interest in the topic, we recommend future reports devote more space to it and emphasise that this is less about responsible marketing and more about minimising – if not eradicating – the harm arising from adolescents' consumption of these products.

Finally, the Panel returns to a point it has raised before: namely, the contribution that BAT can make to the development and implementation of effective regulatory frameworks for tobacco and nicotine use. The Panel appreciates this is a complex subject involving a wide range of stakeholders, many of whom will have conflicting priorities, across multiple jurisdictions.

The Report outlines BAT's preferred regulatory framework and the elements within it. The Panel accepts this is a valuable starting point but believes there needs to provide more publicly available details about the application of a visionary conceptual framework to both domestic and global markets.

Environment

This Report implements many of the suggestions the Panel has made previously.

The Environment section is a case in point, containing, as it does, amplification and clarification of BAT's targets in relation to climate change and other environmental issues, together with details of how the business is adapting in response.

With regard to climate change, the Report sets out a clear direction of travel and we trust that BAT will continue to provide regular updates on the pace at which it is translating what are at present aspirations into reality.

Likewise, the Report contains details of various initiatives that have been undertaken to identify and mitigate the risks associated with climate change across BAT's tobacco and non-tobacco supply chains. The use of scenarios to determine the scale of impact

is particularly noteworthy, as is the detailed explanation of how the company has aligned its reporting with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). There remains, however, a need to state clearly the risk (or not) to tobacco producing small farmers in those regions likely to be impacted by climate change.

The inclusion of information on BAT's work around water stewardship, promoting biodiversity and afforestation, and its efforts to embed the concept of the circular economy into its operations and thereby minimise waste underline the progress the company has made over recent years.

That being said, the Panel would recommend that future reports include more detail on the targets BAT has set in relation to biodiversity and afforestation.

Social

Given the very broad agenda covered within this section, it is to BAT's credit that the information is well structured and comprehensive.

BAT's global supply chains for tobacco, other product materials and indirect goods and services are clearly described along with the policies and processes that underpin their operation. A possible enhancement would be the addition of information on supplier classification – what criteria are used and the breakdown across the different categories.

The inclusion of data captured by *Thrive* is a positive development. The Panel looks forward to this expanding in future reports, particularly in relation to targets that attach to each of the five capitals.

The scale, nature and location of BAT's own operations and its supply chain expose the Group to human rights issues. The Report clearly outlines the policies, systems and processes in place to prevent, minimise and rectify these challenges. It also provides information on how BAT is performing.

The Panel recommends that this be supplemented in future reports by an explanation of how BAT views the relationship between human rights and the health risks of its products and makes explicit the part it has to play in reducing the latter.

The Panel recognises the improvement made in the coverage of diversity and inclusion. The Report now contains extensive material describing the robust policies and measures BAT has developed across this broad agenda which are supported by meaningful, time-specific objectives. To provide context, it would be helpful if future reports clarified the absolute numbers of employees in the different job levels.

Finally, and in keeping with the rest of this section, the approach and performance in relation to health and safety is well covered across BAT's own operations and wider value chain.

Governance

The Report clearly explains governance arrangements both in general and specifically for ESG issues. The link between executive remuneration and the latter, reflecting disclosures in BAT's Annual Report, is strong evidence of the extent to which ESG has become embedded in the business.

Similarly, the emphasis on the importance of business ethics – 'standards before profits' – is a powerful message that carries with it a heightened expectation from stakeholders that performance in this area is exemplary. In particular, increased scrutiny of lobbying activities and any apparent discrepancy between the public and private utterances of the company make it imperative that BAT's practice aligns exactly with its stated policy.

Consequently, the Panel recommend that future reports be more explicit in setting out what the Group will lobby for and against, especially regarding the development and implementation of regulatory frameworks for its products.

Concluding Remarks

This year has witnessed a growing maturity in BAT's ESG reporting. The Report is, in the Panel's opinion, better structured and more comprehensive, and greatly benefits from the inclusion of clear targets.

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

Stakeholder Panel members

February 2021

Acting on the Panel's Feedback

We welcome the Panel's valuable feedback and recommendations for where improvements can be made. We are committed to acting on these insights and continuing to drive a step change in our approach to accelerate progress towards achieving our corporate purpose and ESG ambitions.

ESG Reporting and Materiality

This year, we expanded the scope of the Panel's remit, from previously covering the shorter Sustainability Strategy Report to now including this full ESG Report. This change has proved invaluable and we would like to thank the Panel for their thorough review of such a comprehensive document.

We are grateful for the Panel's recognition of the many improvements we have made in increasing the level of detail and transparency, as well as setting further targets and KPIs to track progress. We also appreciate the Panel's observation regarding the robustness of our materiality process for identifying our ESG priorities. Overall, this ESG Report has benefited greatly from the Panel's input and we were able to apply many of their recommendations prior to publication. In particular, we were able to act on the Panel's suggestion to provide more clarity on the explicit link between our corporate strategy and Sustainability Agenda through the inclusion of a new section on our ESG Strategy (see [pages 7–12](#)).

Harm Reduction

Reducing the health impact of our business is central to our corporate purpose and business transformation. As the Panel notes, this is a complex topic covering many different elements and so we

are pleased for their recognition of our continued commitment and transparency. We recognise the Panel's desire to see more information on how we are encouraging existing smokers to switch to less risky alternatives, and whether our growth ambitions are dependent on existing consumers transitioning. We have endeavoured to address this by continuing to be clear in this Report, and in our other corporate communications, that combustible cigarettes pose serious health risks, and the only way to avoid these risks is not to start or to quit. We encourage those who would otherwise continue to smoke to switch completely to scientifically substantiated, reduced-risk alternatives.

We do this through our unique, consumer-centric, multi-category strategy, which is activated on a global scale, leveraging our insights on consumer satisfaction, innovation, emerging needs and taste preferences.

We are also building a portfolio of strong and recognised brands of the future, specifically positioned in each target consumer segment. For example, affordability and other factors (like having no batteries) mean our modern oral products may be more suitable for consumers in low-income markets. As detailed on [page 36](#), of the 50+ markets where our New Category products are currently available, 19 are

among the top 50 countries with the highest smoking prevalence globally. We have also made clear our aim to increasingly transition our revenues from cigarettes to New Category products over time and the significant investments we're making to achieve this. We hope this will help address the Panel's recommendation to demonstrate the relative importance of these products to our business. In response to the Panel's suggestions, in future reports we will look to include further information on our long-standing approach to youth access prevention and our engagement around regulatory frameworks for New Category products.

ESG Focus Areas

We are grateful for the Panel's recognition of the enhancements we have made to our reporting against our ESG focus areas this year, including acting on many of the recommendations the Panel made in their statement last year. In particular, we have strengthened and provided more detailed information on climate change and alignment with TCFD, as well as our approach to water stewardship, biodiversity and afforestation, and embedding circular economy principles across the business. We were also pleased the inclusion of additional *Thrive* performance data has helped to strengthen disclosures for our environmental and social priorities in our tobacco supply chain. We note the Panel's recommendation to include an explanation regarding the relationship between human rights and the health risks of our products. In our recent Human Rights Report, published in December 2020, we provide detailed

information on our saliency assessment to identify and prioritise our most important human rights impacts. These include human rights issues that are closely interrelated with our other priority areas, including harm reduction, farmer livelihoods, diversity and inclusion, and health and safety. In response to the Panel's feedback, we have included additional information on these interrelated human rights impacts, including harm reduction, on [page 66](#), as well as clearer signposting on [page 67](#) to the saliency assessment in our Human Rights Report. We are carefully considering the Panel's other recommendations for future reports.

Concluding Remarks

Over the last five years, the Panel's insights, challenges and constructive feedback have been invaluable in helping our reporting to continue to meet the evolving needs of our stakeholders. This ESG Report delivers a major evolution in our reporting, with more comprehensive and detailed disclosures across a broader set of issues.

We are delighted the Panel recognises the growing maturity in our reporting. Their input and recommendations have helped greatly in finding the right balance for our diverse audiences. With this approach, we trust our stakeholders will have a clearer understanding of our strategy and commitment, and the significant progress we are making. We would like to thank the Panel for their time and thorough review of our Report and the open and constructive dialogue this brings.

BAT Management
March 2021