



Transforming Tobacco

Sustainability Report 2018



We are BAT

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.

Sustainability at BAT

Through a detailed materiality process, we have identified three sustainability priorities that have the greatest significance to our business and our stakeholders:

Harm reduction

We are committed to working to reduce the public health impact of smoking, through offering adult consumers a range of potentially reduced-risk products (PRRPs).

06

Sustainable agriculture and farmer livelihoods

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

14

Corporate behaviour

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

22

These are underpinned by our ongoing focus on reducing the environmental impact of our operations, and on building a diverse and engaging culture for our people.

In this Report

This Report covers our sustainability performance for the calendar year 2018. It details how we are championing change and transforming tobacco to create shared value for the future of our business, our consumers and for stakeholders across our value chain.

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BAT in numbers



Revenue¹
£24,492m
+25.2%

Market leader

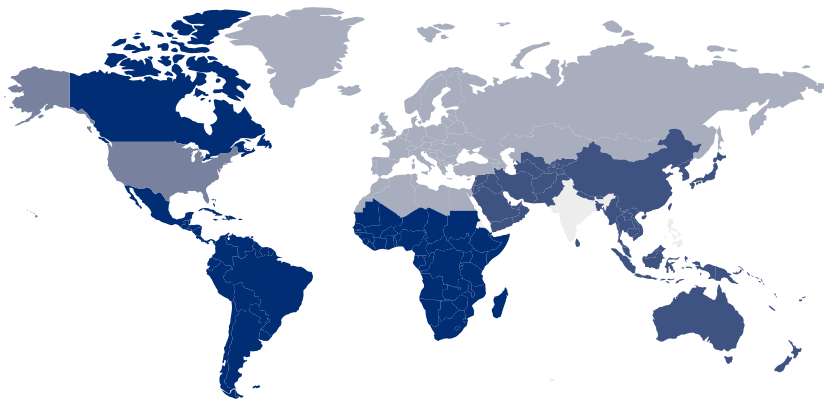
in over 50 countries and one of the world's leading vapour companies

55

factories in 48 countries

Proud heritage

BAT was founded in 1902 and first listed in 1912



BAT by region

	Employees	Factories
● Americas and Sub-Saharan Africa	16,500+	15
● Europe and North Africa	17,000+	18
● Asia-Pacific and Middle East	13,700+	17
● United States	4,900+	5

¹ To find out more about the breakdown of sales volume for our cigarettes, vapour products, THPs and oral products, and other financial reporting elements for these, please refer to bat.com/annualreport.

Letter from the CEO

A clear vision for transforming tobacco



Nicandro Durante
CEO

After 37 years at BAT, eight of them as CEO, I will retire in April 2019. When I became CEO in 2011, we articulated a strategy to put the consumer at the heart of our business, and a vision to be the best at satisfying consumer moments in tobacco and beyond. Central to this has always been our ambition to develop and launch a portfolio of less risky products. I'm very proud that we've achieved this and now have in place a successful and diverse potentially reduced-risk products (PRRP) business designed to meet the evolving and varied preferences of today's consumers.

Embedding sustainability

Throughout this period, sustainability has been a key part of our strategy. We understand that for any business to be sustainable over the long term, we must deliver value not only for our consumers and shareholders but for our employees, our suppliers and for wider society.

And so, whilst PRRPs are a vital part of our ambition to transform tobacco, it is also key that we continue to create shared value for all our stakeholders across all of our business.

I firmly believe that the approach we have taken in my tenure, integrating sustainability across all of our operations, will strongly support our transformation for many years to come and our sustainability agenda is a real source of personal pride.

A comprehensive approach

We have achieved great things over the last eight years. Not only have we developed a strong portfolio of PRRPs – with 1.1 billion smokers in the world, we are constantly seeking new technology solutions to help consumers find the right alternative for them. We continue to share our own scientific research and engage transparently with regulators and the public health community worldwide in order to ensure consumers can access alternatives to cigarettes.

As we transform, our relationship with farmers continues to be central to the success of our ambitions, not least because tobacco and nicotine remain a key ingredient for our PRRPs, and we invest over £60 million annually to

“We understand that for any business to be sustainable over the long term, we must deliver value not only for our consumers and shareholders but for our employees, our suppliers and for wider society.”

promote sustainable agriculture and enhance farmer livelihoods. We deploy stringent measures to respect human rights across all of our global supply chain, whether for tobacco leaf or other goods and services, and have supported our employees through training and tools to better understand and manage risks.

High standards of corporate behaviour are a critical success factor in any business, and ours is no exception. We endeavour to uphold high standards in everything that we do and I am proud that we have a culture in which everyone understands that 'how' we do things is as important as 'what' we do – something that is fully supported by our Delivery with Integrity programme.

All of this is underpinned by excellence in environmental management and a clear focus from myself and the rest of the Management Board on ensuring that we have a safe, diverse and engaging culture in which our employees can thrive.

Dynamic growth

I have seen BAT evolve and grow throughout my career, and am confident that this will continue during the dynamic period of change the industry is going through today. As I hand over to my successor, I know the Company is in great hands and that the ground has now been set for our PRRPs to reach even more consumers in the future.

Nicandro Durante

March 2019

Letter from the CEO Designate



Jack Bowles
CEO Designate

It is an exciting time for me to take over as CEO. Our industry is evolving and in this, we see significant opportunities – ones that with our depth of talent, iconic brands and range of potentially reduced-risk products (PRRPs), I am confident we will take full advantage of.

Putting our consumers at the heart of our strategy

The consumers will continue to be at the heart of all we do. We will accelerate our strategy to ensure that our products can satisfy the preferences of those many millions of adult consumers who are looking for a less risky alternative. By investing in innovation and talent we will continue to transform our business towards an ever-growing portfolio of cutting-edge PRRPs.

Building on firm foundations

However, I know that our focus on PRRPs cannot be in isolation and I echo Nicandro's comments that our sustainability agenda will be key to our future success. A culture of responsible behaviour is even more relevant in today's world, and I firmly believe we all have a role to play in delivering with integrity. It is also clear

“We have the right strategy, foundations and vision in place to transform tobacco for the benefit of all.”

to me that our sustained investment in farming communities and our continued focus on issues such as responsible marketing, protecting human rights and excellence in environmental management means that we are in excellent shape for the future.

The road ahead

I am excited about the challenges and opportunities that lie ahead and fully believe we have the right strategy, foundations and vision in place to transform tobacco for the benefit of all.

Jack Bowles

March 2019



 [Read more about PRRPs and our harm reduction strategy on page 06.](#)

Our business model

At the centre of our global business, operating in over 200 markets, is the manufacture and marketing of superior combustible tobacco products and potentially reduced-risk products (PRRPs).

These include our vapour and tobacco heating products (THPs), alongside oral tobacco and nicotine products such as moist snuff, snus and tobacco-free nicotine pouches.

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 receives notable independent recognition, including:



We are proud to be the only company in our industry to have been included in the Dow Jones Sustainability Indices' prestigious World Index in 2018.



For the second year running, we received the prestigious Global Top Employer accreditation in February 2019, acknowledging our commitment to creating an inclusive and innovative working environment. We've also been certified as a Top Employer in 43 markets.



Our latest Science and Technology Report won a dotCOMM Platinum Award for best eBook in 2018 – a recognition of our efforts in making our science accessible to wider audiences.



Our 2017 Modern Slavery Statement was ranked fifth in the FTSE 100 in an analysis report.

* Data independently assured by EY. Find out more at www.bat.com/assurance.



Our people and relationships

We employ over 55,000 people worldwide, to whom we paid over £3 billion in wages and benefits in 2018.

Our workforce is diverse and multicultural. We have 147 nationalities represented across the Group senior management. We also have 30% women representation* on our Board of Directors and 22% 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 2018, we invested a total of £14.4 million* in cash on 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.



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

Source



What we do

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

How we create value

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

Market



What we do

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

How we create value

- By providing our consumers with a range of PRRPs, we believe many millions of smokers will increasingly make the choice 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 2018, the total tax contribution of the Group was £39.9 billion, including tobacco excise, employee taxes, VAT and other sales taxes paid.



Consumers

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

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

Produce



What we do

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

How we create value

- In 2018, we had 55 factories, 47 of which produce 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 CO₂e emissions, energy, water and waste.
- For our vapour products and THP devices, we expect our contract manufacturers to comply with the same high standards that exist on our own sites.

Distribute

What we do

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

How we create value

- Our relationships with, and efficient distribution to, retailers worldwide ensure we can offer the products our adult consumers wish to buy, where and when they want them.
- 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.



Resources for success

Innovation

We make significant investments in research and development to deliver innovations that satisfy or anticipate consumer preferences and generate growth for the business across all categories. The main focus of this investment is in our PRRPs. We continue to invest in the development and commercialisation of potentially lower-risk alternatives to smoking. We also conduct R&D into our conventional cigarette innovations such as capsule products, additive-free products, slimmer products, tube filters and Reloc, our resealable pack technology.

World class science

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



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

Harm Reduction

Focusing on the future

We are committed to working to reduce the public health impact of smoking, through offering adult consumers a range of potentially reduced-risk products (PRRPs).

Harm reduction: key material issues

We carry out a full materiality assessment every three years – most recently in 2017 – which identifies the sustainability issues most relevant to our business and stakeholders. We annually refresh this list through assessments and engagement to manage the opportunities and challenges arising.

- 1 The health risks of smoking** have been well known for decades. They are the driving force behind the development of PRRPs.
- 2 Clear, robust and accurate information** on the health risks of each product enables consumers to make informed choices based on the relative risks of tobacco and nicotine products.
- 3 Consumer accessibility** is critical for PRRPs to maximise their contribution to tobacco harm reduction.
- 4 The ethics, credibility and robustness of our scientific research** is essential to establishing the reduced-risk potential of our products and to build trust in our products through science.

Our strategic approach

Our harm reduction approach is built on:



Harnessing the power of innovation

Smokers have many different preferences and are more likely to switch if there is a satisfying alternative. We're using innovative technology to create a range of high-quality products that consumers will want to switch to, and that have the potential to be significantly reduced-risk, compared to smoking. (p08)



Building trust through science

Our cutting-edge research around PRRPs is supported by a growing body of independent evidence. (p10)



Enabling responsible growth

For PRRPs to achieve their aim, the right regulation needs to be in place. This requires a multi-stakeholder approach, with governments, industry, public health experts and scientists working together. (p12)

Understanding the relative risks of our products

No tobacco or nicotine product is 100% safe. However, it is widely accepted that most of the harm associated with smoking is caused by inhaling the smoke produced by burning tobacco and not by nicotine. Our PRRPs, which comprise vapour, tobacco heating and oral products, involve no combustion, release far fewer and lower levels of toxicants compared to cigarettes, and have the potential to be significantly less harmful to health.



Level of toxicants released¹



United Nations Sustainable Development Goals (SDGs)

Our strategy is closely aligned with the SDGs. Our harm reduction work contributes towards the following goals:



3: Good health and well-being

We are committed to working to reduce the public health impact of smoking, through offering adult consumers a range of PRRPs.



9: Industry, innovation and infrastructure

Our innovation-driven PRRPs are designed by some of technology's brightest minds. They are creating processes and products with the potential to significantly reduce projected tobacco-related harm across society.



17: Partnerships for the goals

We work closely with governments, academics, public health bodies and the private sector to contribute to sustainable development. We share information, expertise and research findings.

This is underpinned by:



PRRP safety and quality standards

We bring expertise and two decades of product stewardship experience to all of our products.



Standards and codes of conduct for scientific collaborations and funding

Our collaborations with scientists from leading universities and research institutions are underpinned by robust standards and codes of conduct.



Information on the health risks of our products

We are committed to being open about the health risks of our products, and regularly share our scientific findings around PRRPs.



International Marketing Principles

Our marketing strategy is governed by strict principles, particularly focusing on appealing exclusively to adult consumers.

How we are transforming our business and industry

We are in the most dynamic period of change our industry has ever encountered, and at BAT, we're committed to leading this change. In a decade, we have transformed our business from offering just one product to now offering a growing PRRP portfolio.

At the heart of this transformation has been our **investment in innovation**. Since 2012, we have invested significant sums in research. Our R&D department is now focused almost solely on developing the next generation of PRRPs.

This has meant **transforming our workforce**. As we continue to develop better and more advanced products, our R&D department has welcomed some of the leading talent from consumer electronics, new materials and other fields.

For consumers to make informed choice and regulators and other stakeholders to have confidence in the relative risk profile of PRRPs, it is essential that any reduced-risk claim is supported by **robust science**. We are confident in our multidisciplinary risk assessment framework, and openly share findings from our scientific research.

We are dedicated to the **safety and quality of our products**. Opportunities for innovation are evolving fast, and we believe it's critical to reach the highest product quality standards possible.

¹ The positioning of products on this continuum is based on a number of published studies and is intended to provide an indication of the respective levels of harmful toxicants present in cigarette smoke that regulators in various jurisdictions require to be measured. With the exception of nicotine replacement therapy products, which are widely accepted as being less harmful than conventional cigarettes, the levels of toxicants released as illustrated on the continuum do not necessarily mean that the relevant product is less harmful to health than another product.

How innovation can contribute to harm reduction

We recognise the power of technology to create high-quality products, and that consumer demand is evolving: adult smokers are more likely to switch to PRRPs if they can find satisfying, enjoyable and less harmful alternatives to cigarettes.

At BAT, we have embraced the challenge this presents. Innovation is critical to developing products with reduced-risk potential and maximising their contribution to tobacco harm reduction. Our research and development (R&D) efforts mostly focus on finding and developing innovative technologies that will enable us to provide adult smokers with more advanced, more appealing and better-performing PRRPs.

We're absolutely committed to PRRPs. Our PRRPs are already available in 29 markets, and we are launching in as many markets as quickly and practically as we can – our priority is markets where there is the highest potential, such as those with the right regulatory framework and consumer dynamics in place. We work hard to get the right mix of communication, product and price, and have a 'test and learn' strategy before we launch anywhere.

Our products¹

Vapour products



What is it?

A vapour product, or e-cigarette, heats a liquid (called an e-liquid, usually containing nicotine) and creates a vapour to be inhaled. These contain no tobacco, and no combustion takes place.

What makes it less risky?

There is growing consensus among many public health bodies and academics that vapour products can have a significantly reduced risk profile compared to smoking. Public Health England in the UK estimates these products are "95% less harmful than smoking"². Other third-party science and research supporting the significantly reduced-risk potential of vapour products continue to grow.

Tobacco heating products (THPs)



A THP heats tobacco sufficiently to release nicotine and flavours, but not enough to burn it. This creates an aerosol to be inhaled, which contains nicotine, glycerine, flavourings and water – but few of the toxicants found in tobacco smoke.

Research indicates that by heating tobacco rather than burning it, THPs can have the potential to be reduced-risk compared to smoking. For example, based on industry data, the UK Parliamentary Select Committee on Science and Technology points to an early evaluation of likely cancer risk which assessed THPs to "have about 10% of the harm of conventional cigarettes"³.

Modern oral products



This is our most recent innovation across oral products – white in colour and offering consumers a satisfying nicotine experience with a range of different flavours.

These products are very new and we therefore don't yet have any epidemiological data, as we do in the case of Swedish snus. However, chemical emission studies show they have similar nicotine delivery to Swedish snus but with far fewer toxicants⁴.

Traditional oral products



Swedish-style snus is particularly popular in Nordic countries such as Sweden, which currently has far more users of snus than smokers. American moist snuff, another traditional oral tobacco product type, is popular in the U.S. Available in loose form, as well as in prepacked pouches, it is flavoured to suit the American palate.

With traditional smokeless tobacco (ST) products, such as American moist snuff and Swedish-style snus, having been available for many decades, there is substantial epidemiological evidence that both present significantly lower risks than smoking. For example, the risk of oral cancer and lung cancer is substantially lower for users of American ST products⁵ or Swedish-style snus⁶ than for cigarette smokers⁷.

1 Our vapour product Vuse, and oral products Grizzly, Camel Snus and Kodiak, which are only sold in the U.S., are subject to FDA regulation and no reduced-risk claims will be made as to these products without agency clearance.
 2 McNeill, A., Brose, L.S., Calder, R. et al. "Evidence review of e-cigarettes and heated tobacco products 2018". Public Health England (2018).
 3 "Reducing Harm", UK Parliamentary Select Committee on Science and Technology, January 2019. <https://publications.parliament.uk/pa/cm201719/cmselect/cmsctech/505/50505.htm>.
 4 This is based on initial results from external studies commissioned by BAT. Additional studies are ongoing and findings will be published in due course.
 5 Lee, P.N. and Hamling, J. "Systematic review of the relation between smokeless tobacco and cancer in Europe and North America". *BMC Med.* 2009 Dec; 7(1):36.
 6 Boffetta, P., Hecht, S., Gray, N., Gupta, P. and Straif, K. 2008. "Smokeless tobacco and cancer". *Lancet Oncol.* 9:667-675.

Where are our PRRPs available?

Key

- Vapour products
- THPs
- Modern oral products
- Traditional oral products



Market spotlight

Evidence-based regulation in Canada

Acknowledging the potential of vapour products to reduce tobacco-related harm in society, the Canadian government has established itself as a model of best practice in PRRP governance. It established an advisory board and commissioned a science-based review, consulting scientists, industry and public health experts. Following a two-year consultation and scientific review process, in May 2018 a new law was introduced, which will give consumers access to a properly regulated market for vapour products.

Consumer engagement in Serbia and Croatia

With THPs still being relatively new to the market, we have been exploring how best to introduce them to consumers so we can maximise their contribution to tobacco harm reduction. In Serbia and Croatia, we are focusing on consumer interaction and to support the launch of glo, we have introduced brand ambassadors as part of our local teams. They will educate potential consumers about glo and what flavours are available, as well as offering after-care support for the devices. By supporting them through any transition, we hope to see more consumers become permanent users of glo.

Responding to reduced-risk tobacco demand in Sweden and Norway

In a fast-moving world that continuously calls for improvement and variety, the demand for innovative oral products continues to grow. Responding to consumer demand, BAT developed a line of products with different flavours and nicotine levels. Unlike Swedish-style snus, which has traditionally appealed more to men, EPOK and LYFT are more likely to appeal to men and women equally, which will increase their potential to contribute to tobacco harm reduction.

A significant step towards harm reduction in the U.S.

In 2017, we submitted our modified-risk tobacco product (MRTP) applications for Camel Snus to the U.S. Food and Drug Administration (FDA). If approved, this means that we will be able to communicate the health benefits of switching from cigarettes to Camel Snus, directly to consumers. Based on the evidence submitted, the TPSAC – a scientific advisory committee of the FDA – formally recognised that switching completely from cigarettes to Camel Snus can significantly reduce smokers' risk of lung cancer and respiratory disease. The FDA will take the TPSAC's recommendation into consideration as it independently conducts its own review. We hope their decision will enable us to better communicate reduced-risk information to our consumers.

Is nicotine harmful?



Nicotine can be addictive and is not risk-free, but it is widely accepted that most of the harm associated with tobacco comes from burning it – not from the nicotine itself. Nicotine has been used in licensed medicinal products for years. It is the toxicants found in cigarette smoke that cause the harm⁷, and independent evidence, such as from the Royal College of Physicians in the UK, references “the health and life expectancy of smokers could be radically improved by encouraging as many as possible to switch to a smoke-free source of nicotine”⁹.

However, it's essential that these products are only marketed to adult consumers, and we are strong supporters of legislation and regulation that prevents those that are underage from accessing any form of tobacco or nicotine, and maintain our own strict marketing principles.



Read more about our approach to responsible marketing on page 28.

7 U.S. Department of Health and Human Services. 2014. “The Health Consequences of Smoking—50 Years of Progress: A Report of the Surgeon General”. Atlanta, GA: U.S. Department of Health and Human Services, Centers for Disease Control and Prevention, National Center for Chronic Disease Prevention and Health Promotion, Office on Smoking and Health; 2014.

8 It is widely accepted that most of the harm associated with tobacco comes from burning it, not from nicotine itself. For example, see the report cited under footnote 7.

9 “Nicotine without smoke: Tobacco harm reduction” Royal College of Physicians, April 2016

Building trust in our products through science

For PRRPs to fully contribute to tobacco harm reduction, it's essential that their reduced-risk status, compared to smoking, is adequately demonstrated by robust science. We're working to make sure this is the case through our leading scientific research programme.

PRRPs do not involve the burning of tobacco and there is broad scientific consensus that these products can therefore be significantly less harmful than cigarettes. It is important to fully understand whether the use of products within our own portfolio presents less risk to consumers, compared to smoking. This is why we apply a multidisciplinary approach to their risk assessment. Full details of this framework are outlined in the box below.

Accelerating the pace of our research in 2018

Clinical studies involving human volunteers give us the most accurate insights into the health impact of PRRPs. We have already conducted several studies, with encouraging results. Two five-day studies¹ showed that the levels of exposure to many of the toxicants measured in participants who switched completely from cigarettes to glo were comparable to those in people who had stopped smoking altogether. Building on these, we've begun our largest and most complex PRRP studies to date, examining risk indicators among adult smokers who continue smoking, switch to glo or stop smoking completely. We expect to publish the initial results later in 2019.

We think PRRPs will have the biggest impact on harm reduction when good-quality science is shared openly. We publish our research findings in journals independently reviewed by

experts through peer reviews. To date, we've published 25 peer-reviewed articles on THPs, 23 on vapour products, 10 on oral products and six manuscripts reviewing THPs and vapour products jointly. We also continue to present at conferences and technical advisory committees of governments. In 2018, we presented at 24 scientific conferences and meetings.

We openly share findings of our scientific research on bat-science.com.

We also contribute to the development of international standards, such as ISO's vaping standard and CEN's guidance document on vaping aerosol measurements, both published in 2018.

Our multidisciplinary risk assessment framework

Most PRRPs are still relatively new and epidemiological data is not yet available. In those cases, as recommended by the U.S. Institute of Medicine², we take a weight-of-evidence approach based on the emissions, exposure and risk levels of each product.

Firstly, we need to examine the emissions of any product and establish exactly what is in the vapour or aerosol. Next, we need to understand what happens when human cells are exposed to these emissions. Once this has been established, we can begin to assess what

the long-term risk of using a particular product is. At each stage, we undertake a range of different studies that collectively make up our multidisciplinary risk assessment framework.

Reduced emissions
What is in the vapour/aerosol?

Reduced exposure
What happens when exposed to these emissions?

Reduced risk
What is the long-term health risk?

Behavioural sciences



How do people use the product?

We observe how consumers use the products to help us replicate this in the lab. The results help us ensure that we test the products in a realistic way.

Chemistry



What's in the vapour/aerosol?

We look at what toxicants are in the vapour/aerosol and the air in which our products are used. We compare the results to what is in cigarette smoke.

Biological sciences



What does the vapour/aerosol do to human cells in the lab?

We compare this to the impact that cigarette smoke has on human cells.

Clinical studies



How does using the product impact the human body?

This involves studying real consumers – for example, by taking blood or urine samples – to understand what using these products might mean for health.

Population studies



How might the product affect population health?

We use a computer modelling approach to predict the impact that the availability of such products will have on the health of a population.

¹ Results from one of these studies have already been published, and can be accessed from Gale, N. et al. (2018). "Changes in Biomarkers of Exposure on Switching From a Conventional Cigarette to Tobacco Heating Products: A Randomized, Controlled Study in Healthy Japanese Subjects". *Nicotine & Tobacco Research* doi.org/10.1093/ntr/nty104.

² Stratton, K. et al. "Clearing the smoke: assessing the science base for tobacco harm reduction", Institute of Medicine. National Academy Press. 2001.

What does best practice research mean at BAT?

An important element of our commitment to tobacco harm reduction is to demonstrate robust scientific evidence on the reduced-risk potential of alternative tobacco and nicotine products. Research conducted by the industry sometimes faces scepticism, but at BAT, we are proud of our transparent approach to our research and follow strict best practice standards, such as those from the OECD and the Consolidated Standards of Reporting Trials (CONSORT) Group.



Clinical studies

Our clinical studies are governed by the ethical principles of the Declaration of Helsinki (2008), as defined by the International Council for Harmonisation of Technical Requirements for Pharmaceuticals for Human Use and CONSORT's Good Clinical Practice Standard.

These principles require that the study is publicly registered, and recommend the study's protocol is published and that a data-handling plan is agreed before the data is acquired.

These studies are also registered in the International Standard Randomised Controlled Trial Number Register before they begin.

Product testing

Although we design our studies, most product testing is carried out by independent laboratories and research organisations. Our collaborators must openly acknowledge BAT's role – whether funding or expertise – when discussing work done on our behalf.


How we publish our findings

Regardless of the results, we submit our research to high-quality journals owned by leading commercial publishers, which have well-respected standards for how they run the peer-review process that evaluates articles.

We also present at conferences and meetings, and invite stakeholders to visit our global R&D centre. Our latest Science and Technology Report is a good example of how we are trying to simplify the science to make it accessible to wider audiences.



Our latest Science and Technology Report won a dotCOMM Platinum Award for best eBook in 2018 – a recognition of our efforts in making our science accessible to wider audiences.

 Read our award-winning Science and Technology Report at bat-science.com/sciencereport.

Independent evidence

There is also a growing body of independent evidence, in addition to our own findings, that PRRPs may significantly contribute to tobacco harm reduction.

While more third-party research – from regulators, academia and tobacco control campaigners – is undoubtedly needed, we are encouraged by the amount of independent evidence pointing to the potential of PRRPs to significantly reduce harm. We've highlighted some recent key findings here.

 For more examples of independent findings, see our [2018 Harm Reduction Focus Report](#).

Vapour products

“Based on current knowledge, stating that vaping is at least 95% less harmful than smoking remains a good way to communicate the large difference in relative risk unambiguously so that more smokers are encouraged to make the switch from smoking to vaping.”
Public Health England³

“Vaping is less harmful than smoking. Completely replacing cigarettes with a vaping product will significantly reduce a smoker's exposure to toxic and cancer-causing chemicals.”
Health Canada⁵

THPs

“As the exposure to compounds of concern in the aerosol is reduced compared to conventional cigarette smoke, it is likely that there is a reduction in risk, though not to zero, to health for smokers who switch completely to heat-not-burn tobacco products.” **The UK COT⁴**

Oral products

“Smokeless tobacco (ST) products are much cleaner and less hazardous than cigarettes. ST use could reduce harm to smokers if they switched entirely to ST products. This appears to be the case with snus use in Sweden.”
Prof Neal Benowitz, an internationally recognised expert in tobacco addiction⁶

3 McNeill, A., Brose, L.S., Calder, R. et al. “Evidence review of e-cigarettes and heated tobacco products 2018”. Public Health England (2018).

4 Statement on the toxicological evaluation of novel heat-not-burn tobacco products, Committee on Toxicity of Chemicals in Food, Consumer Products and the Environment (COT), Department of Health UK, December 2017.

5 Health Canada, Overview of Canada's Tobacco Strategy, 31 May 2018.

6 Benowitz, N.L. “Smokeless Tobacco as a Nicotine Delivery Device: Harm or Harm Reduction?” *Clinical Pharmacology & Therapeutics*. 2011, 90(4): 491–93. doi:10.1038/clpt.2011.191.

Enabling responsible growth

PRRPs can only meet their tobacco harm reduction potential if the right regulatory conditions are in place.

As the science increasingly points to the likely benefit of PRRPs as an alternative to smoking, we are seeing policy and regulatory shifts in several markets globally.

For instance, in the UK, regulators and health ministries have included promotion of PRRPs as part of successful smoking cessation campaigns, and in Canada and New Zealand, governments have passed laws enabling the sale of PRRPs. This will now enable the products to be available under appropriate quality and safety standards, and for effective consumer communication to be in place.

However, in many parts of the world, governments are still unclear about how best to regulate PRRPs. We believe they offer the potential to reduce the health risks for people who transition away from cigarettes, but that depends on local availability, which itself relies on effective regulatory frameworks being in place.

“We believe that if more adults are able to fully transition from combustible tobacco products to ENDS*, we might be able to significantly reduce the overall morbidity and mortality associated with tobacco use.” **Scott Gottlieb, U.S. FDA Commissioner¹**

“Smokers switching to vaping products are highly likely to reduce their health risks and for those around them.” **New Zealand Ministry of Health²**

A recent study funded by the **NHS National Institute for Health Research and Cancer Research** in the UK found vapour products to be “twice as effective for smoking cessation than nicotine replacement therapy”³. This further supports how vapour products, through effective regulation, can be one of the most effective ways to quit smoking.



1 “FDA’s Nicotine and Tobacco Regulation and the Key Role of Regulatory Science”. Remarks by Scott Gottlieb, M.D., 18 June 2018. *Note: ENDS stands for electronic nicotine delivery systems, including e-cigarettes.
2 New Zealand Ministry of Health, Vaping and smokeless tobacco. <https://www.health.govt.nz/our-work/preventative-health-wellness/tobacco-control/vaping-smokeless-including-heated-tobacco>.
3 Hajek, P. et al. (2019). “A Randomized Trial of E-Cigarettes versus Nicotine-Replacement Therapy”. *New England Journal of Medicine*. doi:10.1056/NEJMoa1808779.


Need for responsible marketing



PRRPs can only maximise their contribution to tobacco harm reduction if adult smokers feel they can find the right product – one that provides a sensory experience close to their experience of smoking. And consumer marketing can play a key role in this.

However, despite their lower risk potential compared to smoking, PRRPs should not be used by adolescents, who may be particularly susceptible to health impacts from nicotine use, and it is vital that communications don't unintentionally target under-18s. Features such as flavours, for instance, must be responsibly named and marketed to explicitly avoid appealing to young audiences.

We have strict requirements to market only to adult consumers as part of our International Marketing Principles and we expect all our markets, where possible, to conduct youth access prevention activities across all of our product categories. We believe our comprehensive approach allows us to be consistent and robust across all of our markets, even where local regulatory standards are lower.

 Read more about our approach to responsible marketing on page 28.

Effective regulation of PRRPs

We would like to see PRRPs become widely available and contribute to tobacco harm reduction across society. This requires a regulatory framework that ensures alternatives are available and affordable, and their potential benefits and risks clearly understood. Any regulatory framework should differentiate between products, tax them relative to their risk and ensure the highest product quality and safety standards, while enabling companies to successfully innovate and market their products.

Industry expertise, which can provide detailed product knowledge, is critical, but government, public health and scientific experts all have a role to play in developing the right regulatory framework to ensure PRRPs are a success, and can, in turn, fully contribute to tobacco harm reduction.

How should PRRPs be regulated?

To support the growth of these important products and contribute to a reduction in projected tobacco-related harm across society, an effective regulatory framework is needed. We believe any effective regulatory framework for PRRPs should address the following principles:



Quality and safety standards

Based on robust science, to ensure consumer safety and confidence



Freedom to innovate

To give consumers more choice and satisfy their evolving needs and preferences



Freedom to collaborate and communicate

So the public and private sectors can work together and provide meaningful and accurate information to consumers



Appropriate taxes and excise

Reflecting the relative product risks and not artificially driving up prices, which can discourage take-up by more smokers



Freedom of access

So smokers who want to continue consuming tobacco and nicotine can easily access PRRPs wherever they can buy cigarettes



Responsible marketing to adults only

Controlled marketing and advertising rules aimed at adult consumers only



Enforceable regulation

We support regulation that is enforceable and practical for the regulator, industry and consumer

Sustainable Agriculture and Farmer Livelihoods

Supporting sustainable farming

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



Sustainable agriculture and farmer livelihoods: key material issues

We carry out a full materiality assessment every three years – most recently in 2017 – which identifies the sustainability issues most relevant to our business and stakeholders. We annually refresh this list through assessments and engagement to manage the opportunities and challenges arising.

- 1 The livelihoods of farmers** that grow our tobacco leaf, and their success, are at the heart of our business. By supporting our farmers, we enable them to run successful and profitable farms as well as continuing to make farming an attractive profession for younger people.
- 2 Child labour and forced labour** are serious human rights issues that affect all areas of agriculture and can have an impact on the livelihoods of farming communities.
- 3 Health and safety risks** can arise in farming if appropriate personal protective equipment (PPE) is not worn or agro-chemicals are not handled safely. Some of these preventable risks are specific to tobacco farming, such as Green Tobacco Sickness.
- 4 Environmental and climate change impacts**, such as deforestation, soil degradation and water scarcity, can affect the natural environment and communities in which we operate or source our tobacco leaf from.

Our strategic approach to managing these issues

Our sustainable agriculture and farmer livelihoods approach is built on:



Supporting our farmers

Through our global Leaf Science and Research, we create sustainable technologies to support efficient farming methods, such as those to reduce water use or prevent soil loss. These are rolled out to farmers as part of comprehensive agri-support packages by our network of field technicians, which we refer to as Extension Services. (p16)



Setting standards, driving change

We have standards in place for managing environmental and social impacts. All of our leaf operations and tier 1 tobacco leaf suppliers (those from whom we directly source) are monitored through the industry-wide Sustainable Tobacco Programme (STP), which is aligned with international standards. Our *Thrive* programme also helps us identify and address long-term challenges, such as rural poverty. (p18)



Part of a bigger solution

We work in partnerships to solve some of the most complex problems that face our industry. We're a founding member of the Eliminating Child Labour in Tobacco Growing (ECLT) Foundation. At local level, we partner with NGOs and other stakeholders. (p21)

Our tobacco leaf supply chain

Securing our supply of tobacco leaf for the future, coupled with our extensive agronomy support to farmers, ensures we have an agile, efficient and reliable supply, with traceability down to the farm level. This means we can continue to meet consumer demand, while also enhancing the sustainability of rural communities and agriculture.

The farms in our supply chain vary in size and complexity. The majority are smallholder family farms of a hectare or less, with a smaller number of larger farms which employ hired labour to tend and harvest the tobacco leaf. We also source a small amount on the open market.



400,000 tonnes
of tobacco leaf purchased each year



68%
from 18 BAT leaf operations



32%
from 20+ third party suppliers

90,000+
farmers

260,000+
farmers

This is underpinned by:



Our Supplier Code of Conduct ('the Code')

The Code sets out the standards we expect from our suppliers and supports our commitment to respect human rights and international standards.



Leaf Supplier Manual (LSM)

Our tobacco leaf suppliers must also adhere to the requirements of a number of other BAT policies and standards, such as those contained within our LSM, which includes a requirement that suppliers participate in the industry-wide STP (see p18). All suppliers must annually sign up to the LSM, which covers areas from human rights and environment, to health and safety.



Our Farmer Sustainability Management (FSM) tool

FSM is our new digital farm monitoring system for our leaf operations, which helps our Extension Services technicians to identify and monitor any issue identified through their farm visits in real time and address these immediately. Our FSM system reduces the time field technicians spend capturing data, enabling better access to data and faster review times.

United Nations Sustainable Development Goals (SDGs)

Our strategy is closely aligned with the SDGs. Our sustainable farming work contributes towards the following goals:



1: No poverty

We work together with farmers and suppliers to enhance rural livelihoods.



2: Zero hunger

We encourage our farmers to diversify and grow a range of crops to improve their resilience and promote food security.



8: Decent work and economic growth

We're helping to improve farm working conditions, and to tackle child labour and forced labour.



15: Life on land

We're working to protect and restore natural resources in farming communities.



17: Partnerships for the goals

We've made long-term, multi-stakeholder partnerships central to our approach.

How we are transforming our business and industry

Even with the growth of our potentially reduced-risk products (PRRPs) portfolio (see p08), tobacco leaf remains at the core of our business, meaning that the farmers who grow it will stay central to our supply chain for many years to come.

This is why we remain committed to helping farmers and their communities to grow and flourish. Farm diversification is just one example. Over 90% of our farmers grow other crops alongside, or in rotation with, tobacco, ensuring they don't rely on one crop. This has helped to increase their resilience, as well as enhancing food security and preserving soil health.

If there is a future impact on the overall demand for tobacco leaf, we have an established approach for working with impacted farmers to support a smooth transition into alternative agricultural livelihoods.

Supporting our farmers

We have been working with farmers around the world for more than 100 years, and invest over £60 million annually to help advance sustainable practices in agriculture.

This investment is one of the most important ways in which we secure our long-term supply of high-quality tobacco leaf. It also plays a significant role in helping us address some of the most pressing issues facing the business, such as protecting the environment and enhancing farmer livelihoods.

Global level: Leaf Science and Research

We are constantly working on new and innovative sustainable farming technologies, techniques and best practices, which we roll out to farmers as part of our extensive agri-support packages.

Together these measures help us to tackle the issues most material to our business and stakeholders. Examples include:

- **Livelihood impacts** – through our work to develop new tobacco seed varieties, which can increase farmers' yields by up to 20% compared to traditional strains. The introduction of new technologies that can make farming more profitable and less labour intensive also helps ensure farming remains an attractive option for younger generations.
- **Health and safety** – by encouraging alternatives to agrochemicals, such as integrated pest management and natural biocontrol techniques, which are better for the environment and for farmers. These are supported by our global requirements for personal protective equipment (PPE) and regular training at farm level.
- **Environmental/climate change impacts** – by introducing new technology, such as tobacco seeds that can have increased resilience, integrated pest management, and more efficient uses of water, soil and wood fuel, which can reduce water and energy consumption, and prevent soil loss.

In 2018 **99%** of the wood fuel used by our contracted farmers for curing was from sustainable sources*.

Farm level: Extension Services

We have a network of expert field technicians who provide on-the-ground Extension Services support and deliver agri-support packages, technical assistance and capacity building, for all our 90,000+ directly contracted farmers. Our third-party suppliers provide their own support to the 260,000+ farmers they work with.

Regular farm visits help our technicians to build trust with farmers, and find out about the issues that they, and the wider community, are facing. This in turn helps us to tailor the services we offer, ensuring they address real needs and challenges.

Through our Extension Services, we also offer training and community programmes, such as workshops on human rights and child

Over

134,000

farmers and rural community members benefited from training and capacity building on human rights and child and forced labour-related issues in 2018.

and forced labour-related issues, as well as free support and access to resources at lower costs, such as seeds, fertilisers and PPE.

Extension Services model



* Data independently assured by EY. Find out more at www.bat.com/assurance.



A closer look: Supporting crop diversification in Kenya



In Kenya, food security is an important issue, and we have been working collaboratively with our farmers and their communities to address this, such as through crop diversification.

Annually, we donate 25,600 kilograms of maize seeds, and farmers get additional support and training from our Extension Services on efficient ways to grow their crops. We are pleased that these efforts have resulted in around 1,000 hectares of maize being harvested. Going forward, we're looking to help farmers grow other crops, such as sorghum.

Farmers typically use around 60% of the maize harvest for their families and sell the rest, which means this crop diversification also helps enhance their income – an area that our *Thrive* assessments have identified as a local priority.

To help farmers better manage income and promote longer-term investments, we also support farming units to create independent savings and credit cooperative societies, with five set up so far.

“BAT Kenya gave me the first maize I planted this year, and encouraged me to grow food crops at the close of the tobacco season. My good yield will be more than enough for my family, enabling me to sell what is left over and raise the money to complete the shop I'm building.”
Simon Nyongesa, tobacco farmer, Malakisi region

1 Contracting and crop planning

Farmers in developing countries may find themselves forced to borrow money in order to invest in crops, leaving them vulnerable to being trapped in a cycle of debt. This is not how BAT operates. By agreeing contracts at the start of each new season, we ensure farmers have a secure income. Crop planning support helps them to grow other produce and optimise their farm.

2 Growing seedlings

By developing and supplying seeds with higher yields and greater disease resistance, we can boost farmer incomes.

3 Soil preparation and planting

Introducing farmers to new, improved farming techniques means less soil erosion and better soil health.

4 Growing and crop rotation

The safer, more efficient use of agrochemicals means less pollution and saves farmers money. Crop rotation, and creating a mixed agriculture landscape, produces a healthier, more sustainable farm, as well as increasing food security.

5 Harvesting

Automation can make harvesting much safer and more efficient, along with the guidance provided by our Extension Services on how to avoid risks such as Green Tobacco Sickness.

6 Curing

By introducing alternative, sustainable fuels for curing barns, such as candlenut shells and rice paddy husks, we are helping farmers to avoid deforestation.

7 Grading, sorting and selling

This support helps farmers to better prepare their harvest for market and maximise profits.

Training and community programmes

We host regular training sessions for farmers and their communities to help build up knowledge and expertise, covering issues from farming techniques and enterprise development to preventing child labour.

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

Setting standards, driving change

We source our tobacco from over 350,000 farmers worldwide. Our supply chain stretches across 37 countries, involving 18 BAT leaf operations and over 20 third-party suppliers.

We want to ensure consistency and adherence to our sustainable agriculture standards across our whole supply chain. Through these standards, we can drive change and enhance farmer livelihoods. To effectively manage such a geographically diverse supply chain, we operate two key programmes:

- **at the supplier level:** the Sustainable Tobacco Programme (STP), an industry-wide initiative that aligns our suppliers with international standards; and
- **at the farm level:** *Thrive* is our own programme, which adopts a more holistic approach to address long-term challenges in farming communities.

These programmes also help monitor adherence to BAT policies and standards, as well as helping us identify where improvements can be made across a number of aspects of sustainability.

 [Read more about our approach to managing risks with non-agricultural suppliers on page 27.](#)

Sustainable Tobacco Programme

We conduct due diligence on 100% of our own leaf operations and third-party suppliers through the STP, which covers issues such as safe working conditions, preventing child and forced labour, and environmental protection. It is aligned to international standards, such as those from the International Labour Organization (ILO) and the UN Guiding Principles on Business and Human Rights, and is independently managed by a supply chain management company.

We use the results of self-assessments and on-site reviews to work with suppliers to drive corrective action and improvements. In the event of any serious and/or persistent issues, or where suppliers fail to demonstrate a willingness to improve performance, we reserve the right to terminate the business relationship.

During 2018, the STP Steering Committee, formed by industry members, including BAT, conducted a review of the programme and plans are in place to continue to evolve and improve the STP. These aim to improve transparency and reporting on how we are managing the sustainability impacts of our practices in the supply chain. We will continue to collaborate with the rest of the industry to refine the programme throughout 2019.

Since the current STP was implemented in 2016, three rounds of self-assessments have been completed, with 62 independent on-site reviews conducted, covering 100% of our total supply base.

Thrive

Our *Thrive* programme takes a more holistic and collaborative approach to identifying and addressing the long-term risks – and their causes – which could impact on the livelihoods of farming communities and the sustainability of agriculture. It is based on an internationally

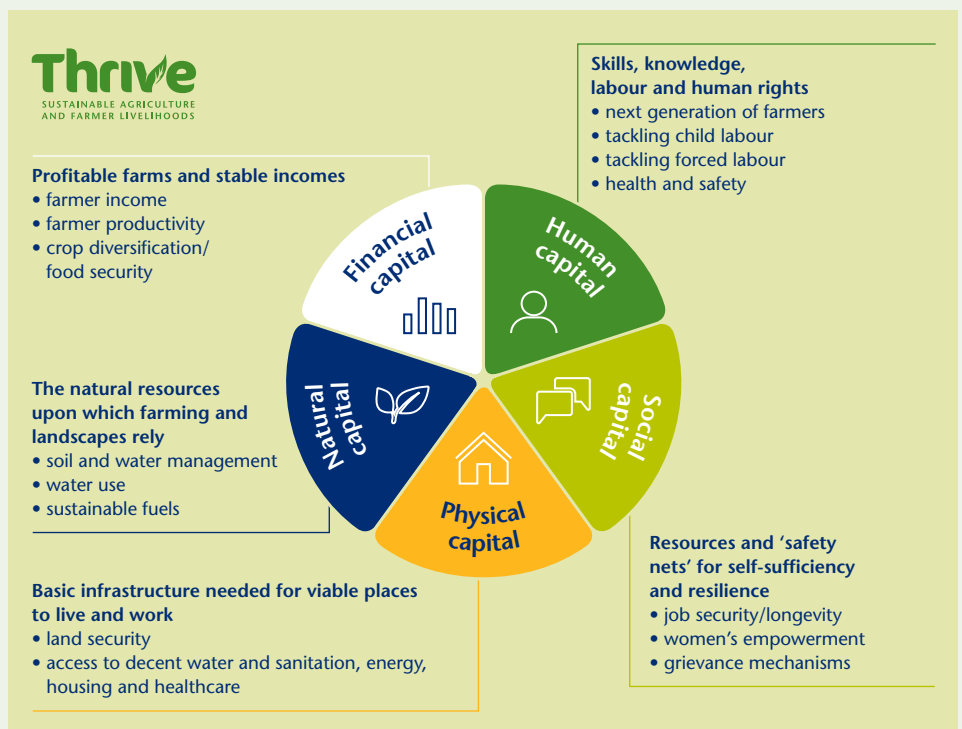
recognised framework covering five focus areas, known as ‘capitals’.

Since introducing *Thrive*, we have assessed over 280,000 farmers, covering around 90% of our total tobacco leaf purchases, against a set of 15 indicators that measure their strength in each capital (see diagram below).

In 2018, we further improved the *Thrive* assessments to better align with international standards and to enable us to collect more granular data on workers, farmer livelihoods, child labour, forced labour and grievance mechanisms.

In addition, to continue improving our monitoring programmes, we have commissioned a third-party review of our processes and underlying data for a selection of our 2018 *Thrive* indicators relating to crop diversification, child labour, health and safety, forced labour and grievance mechanisms.

We hope that the learnings from the review will enable us to further improve our data quality, with a view to publishing more detailed outcomes from our *Thrive* assessments in the future.



Driving change at farm level

We want to ensure that our monitoring programmes not only identify gaps in performance but help drive change in the business. We use the outcomes of the STP and *Thrive* to identify priority actions, specific targets and community projects that address root causes and promote long-term performance improvement in sustainable farming at a strategic level in our countries of operation.



Global priorities

Each leaf operation is expected to prioritise:

Farmer income

Providing ongoing agri-support packages through Extension Services

No child labour

Full adherence to BAT policies as well as regular training and monitoring

Health and safety

100% of farmers supplied with PPE

Sustainable wood

Eliminate use of unsustainable wood sources



Local priorities

Using *Thrive* and STP results, each leaf operation is required to establish its local priorities, developing its vision for farmer livelihoods and helping it define a sustainable farm model.



Global enablers

Leaf Science and Research, Leaf Operations and Sustainability Centres of Expertise

Sustainable farm action plan for each leaf operation

Local enablers

Extension Services (including the use of our new FSM app)



A closer look: Using digital technology to create sustainable farms

To gather data for the STP and *Thrive*, and help develop a more sustainable farm model, our Extension Services conduct farm monitoring. Traditionally, this has been carried out manually, but in 2017 we piloted a new, more robust digital farm monitoring system in our leaf operations called Farmer Sustainability Management (FSM).

The benefits of this include reducing the time field technicians spend completing paperwork, as well as better access to data and faster review times. FSM ensures issues are identified in real time and

addressed immediately. Initially deployed in Pakistan, FSM is enabling us to improve our monitoring, such as around labour standards, access to amenities and sustainable fuels, and helps us better tackle any issues identified.

Following its successful launch in Pakistan, the FSM system has now been deployed in 10 leaf operations globally, covering over 80,000 farmers and over 80% of our direct tobacco leaf purchases.



This is a big change – the system is fantastic. It has made life easier both for field technicians and our sustainability team. Above all, we now have real insights and big data to analyse, and help us plan our sustainability programme.”

Zaheer Iqbal
Leaf Sustainability Manager

Setting standards, driving change continued



A closer look: Child labour

The global context

Agricultural supply chains are particularly susceptible to human rights violations. According to the International Labour Organization (ILO)¹, 70% of global child labour occurs in agriculture.

Poverty is often the main cause, together with inadequate technology and traditional attitudes towards children participating in agricultural activities where, in many parts of the world, certain kinds of work can play a formative, cultural, social and familial role for children.

Our approach to combatting child labour

Child labour remains a significant risk for our supply chain, which we are continuing to monitor and address. BAT does not condone child labour, and we have requirements in place for all our suppliers to work to ensure their operations are free from the exploitation of child labour. Still, because of local economic circumstances or cultural norms, we understand it continues to remain a real risk for many children and remains a priority area for us to tackle – through both our own initiatives and partnerships with other major tobacco companies, leaf suppliers and other stakeholders.

A strong commitment

Our Group policies are all aligned with international standards and regulations regarding human rights and child labour, including the UN Guiding Principles on Business and Human Rights, the Universal Declaration of Human Rights, and ILO conventions.

For our own business and leaf operations, our Group Standards of Business Conduct (SoBC) and, for our suppliers, our **Supplier Code of Conduct**, include our policies on child labour. Overall responsibility for these policies rests at Board level.

This is supported by the operational standard on child labour prevention – developed in 2017 with contributions from the ILO and the

Eliminating Child Labour in Tobacco Growing (ECLT) Foundation. The standard provides detailed guidance on our requirements, such as around providing regular training, conducting farm monitoring and spot checks, and how to immediately report any incidents of child labour. It also includes steps for developing and implementing prevention and remediation actions, and to improve the situation of affected children and their communities.

The standard applies to all BAT leaf operations worldwide, which must also ensure that employees and contractors understand and adhere to the standard, and that it is promoted across their supply chains.

All of our various policies and standards on child labour are aligned with ILO Convention 138 on minimum age and set out the following requirements:

- any work that is considered hazardous or likely to harm the health, safety or morals of children should not be done by anyone under the age of 18 (or 16 under strict conditions);
- the minimum age for work should not be below the legal age for finishing compulsory schooling and, in any case, not less than the age of 15; and
- in cases where local law permits, children between the ages of 13 and 15 years old may do light work, provided it does not hinder their education or vocational training, or include any activity that could be harmful to their health or development (for example, handling mechanical equipment or agrochemicals).

Putting policy into action

While we are confident in our policies and procedures, any approach to address child labour also needs to address root causes. Our traceability to farm level and direct contracts with farmers enable us to have a real impact.

Our Extension Services provide our farmers worldwide with comprehensive, locally relevant agri-support packages, which include new and innovative sustainable farming technologies, techniques and best practices developed by our global Leaf Science and Research. These can make a significant contribution to reducing child labour by ensuring that farmers get better yields – and in turn a better income – which helps build

profitable farms that don't need to rely on cheaper forms of labour, including children.

Due diligence

To help us better understand child labour-related risks and identify root causes, we also regularly conduct due diligence through the STP and *Thrive* (p19) across our agricultural supply chain to ensure our policies are having the right impact. Outputs from these assessments are used to develop action plans and in many cases help us establish multi-stakeholder partnerships.

Responding to allegations

We take all allegations extremely seriously. If we receive any reports of child labour or other human rights abuses, we conduct detailed investigations and take appropriate actions.

One example of this is, in April 2018, the NGO Human Rights Watch published a report into possible child labour abuses on tobacco farms in Zimbabwe. Almost all of the tobacco leaf we purchase in Zimbabwe is sourced from Northern Tobacco, one of the largest buyers of tobacco in the country, which directly contracts with farmers. Northern Tobacco was positively referenced in the report for providing detailed, clear and transparent responses to Human Rights Watch, and for its comprehensive approach to risk assessment and mitigation.

Nevertheless, recognising the seriousness of the allegations, we undertook a series of unannounced visits to farms in Zimbabwe that supply BAT, none of which revealed any material issues of concern. We continue to monitor the situation in Zimbabwe closely and plan further unannounced farm visits in 2019.

Keeping our focus on child labour

We understand there is no quick fix to the issue of child labour and that any action to address it requires the cooperation of governments, the industry and local communities. We continue to revise and refresh our approach to combatting child labour, building on our learning, and to look for opportunities to engage with others to find solutions.

¹ International Labour Organization (2017). "Global Estimates of Child Labour: Results and trends, 2012-2016". ILO, Geneva. https://www.ilo.org/global/publications/books/WCMS_575499/lang--en/index.htm.

Part of a bigger solution

By working with new partners and organisations with different skills and experience, we can collaborate across sectors, applying the right expertise to address complex problems and deliver real, on-the-ground solutions.

Implementing long-term community-based projects and multi-stakeholder partnerships is central to our approach, and also forms the foundation of the future development of our *Thrive* programme.

While some of the issues faced by global agriculture, such as the effects of climate change or rural poverty, are common across many countries, how they actually manifest themselves in different regions can vary enormously.

This means that solutions need to be tailored to local circumstances, and is why locally based partnerships involving key stakeholders, such as industry groups, governments, NGOs and academic institutions, are crucial to our approach.

In 2018, our companies supported 87 community projects focused on sustainable agriculture and farmer livelihoods in 32 countries.

For example, in Brazil, we continue to support the Growing Up Right programme, which is dedicated to eradicating child labour on tobacco farms, and as part of this, we also partner with SENAR – the National Service of Rural Learning – to provide skills for young people. In Sri Lanka, we run vocational training programmes to help rural community members to learn new skills to provide alternative sources of incomes such as animal husbandry. We also have a number of well-established afforestation programmes, such as Bonayan in Bangladesh where, since its launch in 1980, we have distributed around 100 million saplings.

At global level, in 2000 we became a founding board member of the Eliminating Child Labour in Tobacco Growing (ECLT) Foundation and we remain an active member today, alongside other major tobacco companies, leaf suppliers and the International Tobacco Growers' Association. The International Labour Organization acts as an advisor to the board.

Since 2011, ECLT has helped over

650,000

children, farmers and community members through its work for the progressive elimination of all forms of child labour in tobacco-growing communities.

Through ECLT's work, other notable achievements include:

- 182,000+ children have been removed or kept away from child labour;
- 27,000+ children have attended school and benefited from vocational training;
- 75,000+ community members have been reached through awareness-raising activities;
- 1,500+ key stakeholders have been brought together to renew commitments on national action plans to eliminate child labour; and
- 68,800+ families in tobacco-growing communities have been financially empowered.



Visit www.eclt.org.



We have commissioned IMC Worldwide Limited, a leading international development consultancy, to conduct independent research into the impacts of tobacco growing and the role it plays in rural livelihoods. The study includes a critical review of available literature and evidence base, as well as field research in three contrasting tobacco-growing countries: Bangladesh, Brazil and Kenya. A report of the key findings will be published later in 2019.

Visit www.imcworldwide.com

Corporate Behaviour

A culture of integrity

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



Corporate behaviour: key material issues

We carry out a full materiality assessment every three years – most recently in 2017 – which identifies the sustainability issues most relevant to our business and stakeholders. We annually refresh this list through assessments and engagement to manage the opportunities and challenges arising.

- 1 Bribery and corruption**
Unethical behaviour or allegations of it (including money laundering and non-compliance with sanctions) can be extremely damaging to a business. It can also distort markets, and developing countries are especially vulnerable to its economic, social and political impacts.
- 2 Regulatory environment and policy influence**
Companies can contribute information and ideas to help regulators address key issues facing the industry, but this must be done in a clear and transparent way.

- 3 Human rights impacts**
Agricultural supply chains and operations in challenging markets can present significant human rights risks including child labour, bonded labour, and poor health and safety.
- 4 Responsible marketing**
Our combustible products carry serious health risks. Although our potentially reduced-risk products (PRRPs) could pose reduced risk compared to smoking, no nicotine product is 100% safe. That's why all tobacco and nicotine products should be marketed responsibly and only to adults.
- 5 Illegal tobacco trade**
The tobacco black market is a global problem and exposes consumers to unknown ingredients, as well as causing large-scale tax evasion.
- 6 Corporate tax**
Companies have a moral as well as a legal obligation to pay all taxes due, and to be transparent about what they pay.

Our strategic approach to managing these issues

Our corporate behaviour approach is built on:



Delivery with integrity

We're committed to sustaining a culture of integrity. Our business standards should never be compromised for the sake of results. (p24)

Protecting human rights

We respect the rights of people across our entire supply chain and our own operations. We have an integrated approach to protecting human rights. (p26)



Marketing responsibly

We are committed to marketing all our tobacco and nicotine products responsibly and only to adult consumers. (p28)



We report on our corporate tax policy and approach to addressing illegal tobacco trade in our 2018 Annual Report and Accounts and on bat.com.

Setting standards

Our Standards of Business Conduct (SoBC) is our core policy document covering areas such as whistleblowing, bribery and corruption, illicit trade, respect in the workplace, human rights, and political and charitable contributions.

This is complemented by the Supplier Code of Conduct, Principles for Engagement and International Marketing Principles as well as supporting procedures, including our Third-Party Anti-Bribery and Corruption (ABAC) Procedure.

Main Board Audit Committee review any material allegations of non-compliance with our Standards.

Board level

Policy framework

Regional Audit and CSR Committees review material allegations of non-compliance with our Standards in more detail, at regional level. We also have **Regional Heads of Compliance**, supporting each region, who report directly to our Group Head of Business Conduct and Compliance.

Regional level

Governance, monitoring and oversight

Key audit controls

All business units complete annual self-assessments to confirm compliance with requirements as set out in the SoBC and other policies.

Annual training and sign-off

All staff must complete e-learning, confirm their commitment to the SoBC, and declare or re-declare conflicts of interest.

Speak Up

Anyone working for, or with, the Group can raise concerns in their language, in confidence and without fear of reprisal.

Compliance, training and controls

This is underpinned by:



Guiding Principles

We must be clear about what we stand for. Our Guiding Principles and Statement of Business Principles set out core beliefs and act as our compass.



International Marketing Principles

We market all our products in a consistent and responsible way across the world, and always target adult consumers only.



Standards of Business Conduct

Our values must be applied consistently every day and the SoBC guides all our behaviour, including areas such as respecting human rights, speaking up and preventing illegal tobacco trade.



Youth Access Prevention Guidelines

We have clear expectations on how our markets should work with distributors and retailers to prevent young people accessing our products.



Supplier Code of Conduct

We are clear about the minimum standards our suppliers must meet in their work for us.



Principles for Engagement

All external engagement with regulators, politicians and others must be conducted to the highest ethical standards.



See other policies, principles and standards at bat.com/principles.

United Nations Sustainable Development Goals (SDGs)

Our strategy is closely aligned with the SDGs. Our corporate behaviour work contributes towards the following goals:



8: Decent work and economic growth

We're committed to remaining one of the world's top employers through a dynamic, inclusive and rewarding work environment, and supporting economic growth.



9: Industry, innovation and infrastructure

We do not tolerate corruption or unethical behaviour anywhere in our business and continue to empower our employees and partners to raise any concerns. We also collaborate with governments and stakeholders to tackle the illegal tobacco trade.



17: Partnerships for the goals

We work closely with governments and public health bodies, sharing product information, including sharing the cutting-edge science behind our PRRPs. We set challenging targets for ourselves and our supply chain.

How we are transforming our business and industry

We already have an established culture of high corporate behaviour standards, which includes freedom through responsibility and strength through diversity. Yet we are always building upon our firm foundations, addressing tough issues and challenges head-on, and embracing opportunities for continuous improvement. As we transform our business and industry, it's essential this transformation is done to the highest standards of corporate conduct and transparency.

How we work is as important as what we do, and it is vital our corporate culture empowers employees to promote ideas and raise concerns without fear of retaliation and in confidence that investigations will be objectively carried out.

Delivery with Integrity

At BAT, we're committed to sustaining a culture of integrity in everything we do. We empower our employees to play their part confidently in promoting integrity and to raise concerns without fear of reprisal.

Our priority

At BAT, responsible behaviour and ethical values have long been underpinned by Group-wide policies and a strong culture. As we transform our business, it's even more important that everyone at BAT understands their role in maintaining a culture of integrity and that our culture empowers our employees. And how we deliver is just as important as what we deliver.

So, in 2017, we launched our Delivery with Integrity programme worldwide, and we're proud of how much we've achieved since then.

In 2018, we prioritised the deployment of a consistent global approach to identifying and managing risks, particularly around anti-bribery and corruption (ABAC), competition law, sanctions and data protection.

In 2019 we will focus on strengthening a trusting culture where our employees feel confident about raising concerns and championing integrity in their work, and business units are empowered to better identify and mitigate risks. We will also continue to engage with key stakeholders across the business to ensure that compliance controls are effectively embedded throughout the Group.

We scored

91%

and achieved industry leadership in the 2018 Dow Jones Sustainability Indices' Codes of Business Conduct category.

2017

Planning and building the foundation of our Delivery with Integrity programme

2018

Global deployment and mitigating key risk areas, particularly around ABAC, competition law, sanctions and data protection

2019

Continue strengthening our business controls and empowering our employees in delivering with integrity

Setting standards: policies, processes and principles

Our **Standards of Business Conduct (SoBC)** are a set of global policies that enable us to uphold the highest standards of integrity, and we continually review and update them. To support our employees in understanding and applying the requirements of the SoBC, we also maintain procedures and tools relevant to individual risk areas. For example, in 2018, we enhanced our **Third-Party ABAC Procedure**, to help our business units identify and mitigate the bribery and corruption risks present by working with third-party service providers across the Group. The procedure, rolled out alongside training, ensures a consistent approach to pre-contractual due diligence on prospective business partners, with mandatory mitigation packages for medium- and high-risk third parties. By August 2019, we will have reviewed all relevant third parties that we deal with globally.

As a company, we believe it's important to engage with our stakeholders, including regulators, to share our expertise, and to support regulation based on robust evidence. To ensure that we do this responsibly and transparently, we have strengthened our Engaging with Integrity manual, as well as delivering a number of workshops and training sessions. These documents provide employees with rules around engaging with public officials, competitors and other third parties, including identifying themselves by name and corporate affiliation, and clear guidance with practical examples.



Empowering our people

In 2018, we launched several initiatives designed to help employees and business units across the Group better understand the SoBC requirements and corporate behaviour standards, and to identify and mitigate risks.

Supporting our employees through training

In 2018, over 26,000 employees completed our SoBC e-learning and assessment covering key policy areas. Our remaining employees, who don't have easy online access, received face-to-face training.

Over 2,500 hours of mandatory ABAC training were completed by targeted employees in roles considered to be exposed to ABAC risk, with refresher training scheduled for 2019. We also launched a new e-learning module, focusing on ethical decision making and data security.

Our global *Speak Up* channels

It takes courage to raise concerns about potential wrongdoing at work and employees should feel empowered to do so. This is why we launched *Speak Up*, a global hotline and portal for employees to report in confidence (and anonymously, if they prefer to do so), available in multiple local languages. This allows global oversight of all reported issues in real time.

Speak Up is supported by our Group Whistleblowing Policy, which outlines our commitment to investigate concerns fully, objectively and confidentially and to ensure no one faces reprisals for speaking up – even if they are mistaken.

We also ran an informal, targeted *Speak Up* survey, which showed strong employee awareness of the programme – over 92% believed that reported SoBC breaches are investigated fully and objectively, and almost all respondents indicated they felt able to raise concerns without fear of reprisals. In 2019, we plan to do more surveys to help monitor the effectiveness of our compliance programme.

In 2018, 266 suspected violations of our SoBC were reported (2017: 183). We consider the increase in the number of suspected violations reported to be reflective of our efforts in encouraging employees to raise concerns through the global *Speak Up* channels.

Employee viewpoint

An outlook on managing third-party risks across Australasia



Susan Jones
Area Head of Legal and External Affairs, Australasia

We've always had a strong culture of operating to the highest standards and it's great to now have the Delivery with Integrity programme, which has provided us with a wide range of tools and training to better monitor and manage risks, such as ABAC.

Our Australasian markets – including Australia and New Zealand, as well as developing

markets in the South Pacific – are diverse, and the scale of our operations and the partners we work with vary significantly.

Managing ABAC risk across these diverse markets and ensuring alignment with our Group procedures has been a key priority in 2018. We have found the updated procedure and related training particularly helpful, as this provided us with practical examples of how to identify, assess and mitigate ABAC risks when dealing with any third party, from suppliers to trade associations or consultants we work with.

Together with our procurement teams and the wider business, we reviewed third parties across our area against the risks around integrity. In most cases, this has strengthened our partnerships and helped the third parties we work with to understand and better align with the ethical behaviour we expect. Where we have identified concerns, we worked with our third parties to tighten our agreements and impose more stringent controls.

For Australasia, Delivery with Integrity is more than just a programme – it's a fundamental way of working; a behaviour that underpins BAT's future business sustainability and continuous growth.

In 99 of these cases reported, an investigation found no wrongdoing and in 69 cases the investigation was ongoing at the end of the year. A total of 98 cases were established as breaches (2017: 78), and appropriate action was taken, including dismissal, disciplinary measures and strengthening of our internal controls. Where criminal activity is believed to be involved, the matter will generally be reported to the relevant authorities.

Monitoring compliance

We ask all our employees to review and confirm understanding of the SoBC, undertake related training, and declare or confirm conflicts of interest on an annual basis. As part of our drive to further strengthen our sign-off and case management process, in 2018 we:

- included the SoBC sign-off process for Reynolds American Inc. (RAI) employees for the first time;
- engaged a greater number of employees through the online sign-off process; and
- expanded the scope of conflicts of interest to capture personal relationships with public officials in roles where they could influence our business.

In 2018

100%

of our 55,000+ employees worldwide completed our annual SoBC sign-off process.

We also launched a suite of new incident reporting tools and data fields in the SoBC Portal, which are being used by our central Business Conduct and Compliance team to better capture and analyse statistics.

Other 2018 updates

At the end of 2015, allegations were made regarding historic misconduct. An investigation, through external legal advisers, was commenced and we liaised with the Serious Fraud Office (SFO) and other relevant authorities. In August 2017, we were informed that the SFO has opened a formal investigation into suspicions of corruption in the conduct of business by BAT plc, its subsidiaries and associated persons. BAT continues to cooperate with that investigation.

An integrated approach to managing human rights

We have an integrated approach to human rights management that covers our own operations and our supply chain.

We scored

95%

and achieved industry leadership in the *Human Rights* category of the 2018 Dow Jones Sustainability Indices.

Key achievements in 2018

- **Strengthened our Supplier Code of Conduct** with new human rights provisions for responsible sourcing of conflict minerals, and minimum standards for wages, benefits and working hours.
- **Extended the scope of our non-agricultural supplier audits**, with audits conducted on strategic tier 2 vapour and tobacco heating product suppliers, and strategic indirect suppliers of factory machinery and marketing materials.
- **Rolled out our digital Farmer Sustainability Management (FSM) system** to 10 BAT leaf operations covering over 80,000 farmers.
- **Delivered training, awareness raising and capacity building** on human rights and child and forced labour-related issues to over 134,000 farmers and rural community members.
- **Joined the Slave-Free Alliance**, a multi-stakeholder group led by the NGO Hope for Justice.

Our 2017 Modern Slavery Statement was ranked **third** in the Global Governance FTSE 100 League Table of Modern Slavery statements.

Agricultural supply chains and global business operations by their nature can present significant rights risks. We operate in challenging and diverse environments around the world, which makes human rights management a key issue.

We are fully committed to respecting the rights of our employees, the people we work with and the communities in which we operate, across both our supply chain and our own operations.

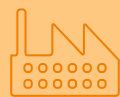
Our Human Rights Policy details our long-standing commitment to respecting fundamental human rights, as affirmed by the Universal Declaration of Human Rights.

Our due diligence processes enable us to monitor the effectiveness of, and compliance with, our policy commitments, as well as to identify, prevent and mitigate human rights risks, impacts and abuses.

Human rights risks in our business and supply chains



Tobacco leaf agricultural supply chain



Non-agricultural supply chain
Direct product materials



Indirect goods and services



BAT subsidiary operations

Higher

Level of risk

Lower

A strong policy platform

We continue to strengthen policy and due diligence processes for our supply chain, particularly in areas identified as having the highest risk.

Human rights training in 2018

In 2018, over 26,000 employees completed our Standards of Business Conduct (SoBC) e-learning and assessment covering key policy areas. Our remaining employees, who don't have easy online access, received face-to-face training.

By early 2018, all 1,000+ Procurement and Legal and External Affairs managers had completed comprehensive human rights training, covering areas such as child labour and modern slavery. The training is now mandatory for new joiners to both functions.

2012

Review of existing policies and approach and their alignment with the United Nations Guiding Principles on Business and Human Rights (UNGPs).

2014

Existing Human Rights Policy incorporated into the SoBC.

2016

Launched Supplier Code of Conduct ('the Code').

2018

Updated the Code to include additional human rights provisions; and third-party review of human rights management programme and its alignment with the UNGPs.

Due diligence and remedy

For our agricultural supply chain

Because of the nature of agricultural supply chains, the greatest risk of human rights abuses is within our tobacco leaf supply chain. We conduct due diligence on 100% of our leaf operations and third-party suppliers through the industry-wide Sustainable Tobacco Programme. See [page 18](#) for more information.

For our non-agricultural supply chain

We assess non-agricultural suppliers annually through our supply chain due diligence (SCDD) programme, overseen by a cross-functional governance committee. Each supplier's risk exposure is considered, and we then prioritise them for third-party on-site audits by Intertek.

Supplier assessments in 2018

In 2018, a total of 88 suppliers in 29 countries underwent Intertek audits. As well as our directly contracted tier 1 suppliers, this also included 17 tier 2 (those from whom our directly contracted suppliers buy) strategic suppliers for vapour and tobacco heating products and eight strategic indirect suppliers of factory machinery and point-of-sale marketing materials in high-risk countries.

77%

of our strategic global direct materials suppliers have been independently audited in the last three years.

The majority of these audits identified issues categorised by Intertek as 'moderate', relating to hours and wages, poor record keeping and health and safety procedures. For 13 suppliers, issues

classified as 'major' by Intertek were identified, relating to excessive working hours, lack of age verification, monetary penalties as disciplinary measures, the absence of right-to-work checks for migrant workers and, in one case, retention of passports.

We require suppliers to implement corrective action plans to mitigate any issues identified. Intertek then monitors suppliers' progress and conducts further checks to ensure these have been implemented. Moderate issues are verified through desktop reviews. Major issues are followed up using on-site audits.

By the end of 2018, 75% of supplier corrective actions had been fully completed and verified by Intertek, and the monitoring of remaining corrective actions is ongoing.

For BAT subsidiary operations

Due to the nature of our business and the robust oversight and control we have over our own operations alongside long-established policies, human rights risks are substantially avoided across our own operations. However, we still closely monitor alignment with our policies across all our operations. As part of this, we use independent human rights indices to assess those of our markets which, due to local circumstances, warrant closer monitoring.

All Group subsidiaries in high-risk countries must have human rights assessments and mitigation action plans in place. They must demonstrate that human rights are managed effectively, reporting on their compliance annually. In 2018, our operations in 26 countries were identified as high-risk and underwent assessments and Board- and regional-level governance reviews.



See our Modern Slavery Statement at bat.com/msa.

Human rights risk assessments were carried out for

100%

of total direct and strategic indirect procurement spend in 2018.

Managing potential exposure to conflict minerals

As our vapour products and tobacco heating products portfolio grows, we need to consider any new and emerging sustainability risks relating to these devices – and conflict minerals is one.

Electronic devices with batteries run the risk of containing 'conflict minerals', which are cobalt, gold, tantalum, tin and tungsten sourced from the Democratic Republic of Congo and surrounding countries, in conditions of armed conflict and human rights abuses and sold or traded by armed groups.

Recognising our growing business in electronic tobacco and vapour products, we strengthened our Supplier Code of Conduct in 2018, and began implementing new conflict minerals due diligence procedures. We will publish our first conflict minerals report in 2020.

Employee viewpoint

Managing human rights in practice



Diane Bryden
Supplier Relationship Manager

The human rights landscape has evolved a lot in the last decade, and so has BAT's approach. In Procurement, we're on the front-line of working with our suppliers and ensuring they're meeting our standards. So, the human rights training we've received in 2018 has been invaluable in understanding what the risks are – both strategically and locally for our suppliers and their workers – and to better identify and manage those risks.

We have a strong governance framework for human rights management, and our subject matter experts, such as the Group Head of Environment, Health and Safety, review any non-compliance issues identified through audits. In those situations, we liaise closely with suppliers to support their corrective actions, with practical examples of what effective remediation can look like.

A good example from 2018 was when an audit found that foreign migrant workers at one of our Malaysian suppliers had their passports held by a third-party recruitment agency. This was done with the workers' permission and in accordance with the local law, but there were no proper documented procedures for workers to retrieve their documents back at any time.

We worked with our supplier to address the findings as quickly as possible. They immediately implemented a new policy and a signed agreement with the agency, which clearly defined how workers can get their passports back within an hour.

To build on that, the supplier is also in the process of bringing contracts and foreign worker management in-house, enabling them to provide secure on-site lockers allowing workers to store and access documents at any time.

Marketing responsibly

Given the nature of our products, we take seriously our commitment to market them responsibly and only to adults.

The importance of marketing responsibly

As a business, we want to grow our market share responsibly, by offering competitive and innovative products. For a business like ours, it is imperative that we provide clear and meaningful information about the risk profiles of our products to help consumers make informed choices.

The serious health risks of conventional tobacco products such as cigarettes are long-established. While potentially reduced-risk products (PRRPs) could be significantly less harmful than smoking, they are still not completely risk-free. We are also clear that we never want any of our products to appeal to those who are underage.

In recognition of this, we have International Marketing Principles (IMPs), which have been in place since 2001 and continue to evolve to reflect developments in marketing, our product portfolio, technology, changing regulations and stakeholder expectations. We apply them consistently everywhere we operate, even when they are stricter than applicable local laws. The result of these long-standing standards is that responsible marketing is well embedded in the culture of the organisation and inherent in the way we operate.

Clear and effective processes for responsible marketing

In 2018, we compiled our responsible marketing standards for each of our product categories into one set of principles under our revised IMPs, which govern all our product marketing.

These are intended to guide all our businesses and outline our requirements for our marketing to:

- be responsible, accurate and not misleading;
- be directed at adult consumers; and
- make it clear that it originates from British American Tobacco and that it is intended to promote the sales of our brands.

All marketing materials also need to be formally reviewed and approved by the local Legal and External Affairs function. Our marketing and trade representatives and external agencies receive regular training to effectively apply our approach.

In addition, with digital channels now being much more accessible and widely used, it's essential that social media is only used for activities that do not involve the advertising of any of our cigarette brands. Where we use social media partnerships to promote our PRRPs, we use advanced analytical tools to select partnerships with influencers who have a majority-adult following.

This work is complemented by a digital marketing toolkit that includes in-depth guidance on topics such as content standards, social media and search engines, and ensuring robust age verification where we have online sales of our products.



 [Read more about PRRPs on page 06.](#)

In 2018, we launched our revised Youth Access Prevention (YAP) Guidelines that now cover all our product categories (including all PRRPs).

Our commitment to youth access prevention

Beyond our strict requirement for adult-only marketing, we also expect all our markets, where possible, to conduct youth access prevention activities for the sales of our tobacco and nicotine products.

In 2018, we launched our revised YAP Guidelines that now cover all our product categories (including all PRRPs), and broadened their scope to also include markets where our products are distributed through third parties. It is now also mandatory for all markets – unless there is a government ban in place – to provide retailers with point-of-sale materials with YAP messaging. To support their application, we rolled out new training for our Trade Marketing and Distribution employees, and strengthened governance procedures at Group level to ensure compliance.

Other activities to prevent underage access include supporting proof-of-age schemes and providing training and awareness raising to shop staff. For example, in the U.S., Reynolds American Inc. is a founding member of 'We Card', an organisation that provides retailer education for age-restricted products. It also funds projects such as 'Right Decisions Right Now: Be Tobacco Free', an evidence-based youth tobacco prevention education programme designed for middle-school educators, parents and community groups.

To drive change across the industry, we also advocate to governments for minimum age laws of 18 where these aren't already in place, and for tougher penalties for those who breach them.

We believe our comprehensive approach allows us to be consistent and robust on youth access prevention, demonstrating high standards of corporate behaviour in every market in which we operate.

Employee viewpoint

A collaborative approach to YAP



Luca Gentile
Head of External Affairs
and Communication, Italy

2018 has been an exciting year for us at BAT Italy, as we were the first BAT market to offer consumers both vapour and tobacco heating products. When we launch a new product, as we did with glo in May 2018, we do all we can to raise consumer and public health awareness so that the product can make a positive impact. And as we do that, it's absolutely essential that any marketing activity only targets adult consumers – a strong requirement of our IMPs.

As well as applying the IMPs to all of our marketing communications, we also run YAP activities and a key part of my job is making sure we have the right measures in place. The revised YAP Guidelines and the additional guidance were very timely for us and we made sure we supported our glo launch nationwide with an updated YAP campaign.

Another exciting development in 2018 was a much closer collaboration across our markets to ensure consistency and alignment with the guidelines, as well more efficient delivery of YAP activities. I've worked very closely with other Southern European markets, such as Greece, Cyprus and Spain, to jointly launch an area-wide campaign.

I am proud of our extensive outreach to date: we have contacted our retailers to remind them of our commitment to preventing youth access and provided them with stickers with YAP messaging to be used wherever our cigarettes and PRRPs brands are sold. We also work closely with our local field force to make sure the roll-out of these materials is applied consistently. This revised approach is now an integral part of how we work.

People and culture

Putting people first

As a leading international employer, we are proud of our supportive and inclusive culture that means all our employees can develop and thrive in a safe workplace. At the heart of that is a commitment to driving high performance and maintaining an environment in which individuals and teams feel engaged and motivated and have opportunities to grow. In an increasingly competitive international market, our culture helps us to stand out, and to develop and nurture the next generation of leaders.

Safeguarding health and safety

Operating in challenging environments

Providing a safe working environment for all our employees and contractors is paramount. As a global business, operating in diverse markets including some of the world's most volatile regions, this can also be challenging.

Safety risks vary across our business. For example, our manufacturing sites, where we have operational control and can therefore better manage risks, have comparably much lower accident rates than in Trade Marketing and Distribution (TM&D), which involves the distribution and sale of our products in environments outside of our direct control. We have over 26,000 vehicles and motorcycles on the road daily, often in environments with difficult social or economic conditions. Our goods have a high street value, and in a small number of markets this carries high risk of armed robbery and assaults. Poor road infrastructure and wide variations in driving standards and behaviour provide further challenges.

Although these challenges will always be with us, our goal is zero accidents across the Group. To help achieve this, we have a comprehensive approach based on risk management and assessment, employee training and awareness, and tailored initiatives for specific issues.

Fatalities in 2018

Following a significant increase in fatalities in 2017, we implemented a range of initiatives, such as ensuring drivers carry less stock, together with extra security measures for route planning and vehicle tracking. These were effective and we saw improvements in many markets that had previously experienced a rise in accidents and fatalities. However, despite this, we regrettably have to report that the total number of fatalities within the Group overall remained at twelve, unchanged in 2018.

This was partly a result of changing local conditions, such as increased levels of violence and civil unrest in some markets, many of which had previously had an excellent health and safety performance. The fatal incidents in 2018 were the death of one employee and eight contractors from attacks and assaults in Jamaica, Brazil, South Africa, Costa Rica and Mexico; two road traffic accident deaths involving one employee in Indonesia and another in Sri Lanka; and a contractor who died after exposure to a gas explosion in Pakistan. Sadly six members of the public also lost their lives in road traffic accidents involving BAT vehicles (2017: 11).

We deeply regret this loss of life and the suffering it has caused. Whenever a fatality occurs, we liaise with the relevant authorities to assist their investigations, as well as reporting the incident to the Board as we are legally obliged to do. We always conduct rigorous internal investigations to determine the cause, identify lessons, and develop an action plan, so we can do all we can to prevent similar incidents from happening again. All investigation outcomes are reviewed by the Board, who also receive updates on action plan implementation.

Taking preventative action

With operations in diverse markets and a distribution network as large as ours, we are, unfortunately, likely to encounter safety incidents, so we take every step to prevent such incidents occurring. For example, in TM&D, a comprehensive driver safety and security programme enables us to monitor, analyse and improve driver behaviour, and build a safer work culture. In high-risk locations, we constantly assess threats to ensure appropriate security protocols and escorts are in place.

Through our global programmes and monitoring, as well as regional reviews and market-based initiatives, we work ceaselessly to prevent loss of life in our operations and

United Nations Sustainable Development Goals (SDGs)

We contribute towards the SDGs through:



3: Good health and well-being

We are committed to reducing road accidents, and improving the health and wellbeing of our employees.



5: Gender equality

Having a diverse, inclusive work culture creates a productive, high-performing workplace for all.

make every effort to achieve our goal of zero accidents.

Performance in 2018

Although we haven't seen a reduction in fatalities, we have recorded a notable reduction in accident rates across the Group, with 219 injuries recorded in 2018 (2017: 284) and reductions across almost all accident categories. Lost-time incidents were down to 195, from 248 in 2017, and there were 41 serious injuries in the year, down from 66 in the previous year.

In 2017, our initiatives had resulted in a reduction in car-related accidents; but sadly, in the same year we had recorded a rise in motorcycle incidents. We continued to target this area in 2018 through various driver safety initiatives and training, and vehicle-related incidents fell overall from 73 to 47 – primarily due to a reduction in motorcycle incidents. This contributed to a notable reduction in injuries reported across TM&D, down by 27% to 115.

Our manufacturing and leaf operations sites recorded 66 accidents in 2018, down from 73 the previous year. Following a campaign throughout the year there was a 57% reduction in machinery-related incidents and an action plan is in place for 2019 to reinforce this improvement.

Of course, challenges remain, and we are making every effort to address them, particularly in ensuring the safety of our TM&D workforce as well as those in our factories. We will continue to thoroughly investigate incidents and implement action plans and best practice examples across our regions.

 Find out more about our diversity and inclusion strategy in our Gender Pay Report at bat.com/genderpayreport.

Employee viewpoint

Lessons learned and shared regionally



Daniel Tomazella
Regional Head of Environment, Health and Safety for Americas and Sub-Saharan Africa (AmSSA)

In my role, I work closely with all the markets in my region to develop tailored action plans. I meet frequently with those markets with higher incident rates: we share the lessons learned, develop plans and apply them as quickly as possible. This approach has had a clear and dramatic impact.

In 2017, a number of our TM&D representatives suffered violent attacks – particularly in AmSSA. It is a priority for us to protect our employees and the first step is to investigate each issue in depth. This enables us to design and implement the appropriate response: using technology to improve vehicle safety, placing limits on the load carried, enhancing safety training and changing routes to avoid predictability are all interventions we put in place.

And I'm pleased to say we're on the right track. In Brazil, for example, we reduced the visibility of our vehicles by reviewing our overall security arrangements. By taking attention away from the drivers and their cargo, we've lowered the number of fatalities to one (2017: 7) and saw no serious injuries at all (2017: 6). We've also seen similar successes in South Africa and Chile.

We work together with our colleagues in Security and TM&D to develop and embed these initiatives, and we're proud of our achievements. Given the challenges in many of our regions, there is still more to do and we are working collaboratively and tirelessly to do all we can to prevent any future incidents.

A diverse and engaging culture

At BAT, we strongly believe that people are our competitive advantage. To successfully deliver the transformation of our industry and our business, we know it's essential to have motivated, engaged people with the right skill sets and a supportive environment for them to thrive.

'Strength through diversity' has long been one of our Group Guiding Principles, but having a culture of inclusion is more important than ever to create a collaborative environment that fosters innovation for our business success. Through a diverse workforce, we can bring the new ideas and insights we know are needed to achieve our ambitions around PRPs.

Our Group-wide diversity and inclusion strategy has been in place since 2012 and, over that time, we have doubled the representation of women in senior management roles globally, from 11% to 22%. While we're encouraged by this progress, it is not at the pace and scale we would like, and so we continue to focus on the three key pillars of our strategy – to drive ownership and accountability, build diverse talent pools and create enablers – all of which are underpinned and supported by an inclusive culture.

Ownership and accountability at senior levels

Each region and all functions have a Diversity Champion, a leader who is responsible for driving the agenda. Progress is reported to the Board twice-yearly.

Developing a diverse talent pool

As well as mentoring and coaching programmes, we run courses supporting different levels of female management, including the Women Leaders Programme run in conjunction with INSEAD, a leading business school.

Creating enablers to support development

We have a number of networks across the Group, including 12 women's networks, Parents@BAT, B United and Dual Career Networks, that support our employees and help us maintain a diverse culture.

Women in BAT in 2018

30%

Main Board representation

51%

of our senior global recruits

14%

Management Board representation*

46%

of our 2018 graduate recruits

22%

Senior management representation

33%

of internal global promotions

* Effective as of 1 April 2019.

Supporting parents

In 2018, we launched Parents@BAT – a range of benefits to support new parents working in all BAT businesses worldwide to balance their home and work lives. This offers significantly better terms than existing legal requirements for over 20,000 of our employees in 26 countries, including a minimum of 16 weeks' fully paid maternity leave for new mothers and adoptive parents as well as a return-to-work guarantee, flexible working opportunities and an online advice service offering coaching support for all parents whenever they need it.

In many countries BAT's support for new parents already goes far beyond these minimum guidelines, and local statutory requirements. For example, in the UK, we provide maternity leave with six months' full pay with a pro rata bonus, statutory pay for three months and a return-to-work guarantee.

Nurturing an inclusive culture for LGBT+ employees

B United, a self-governed global network of lesbian, gay, bi, and trans (LGBT+) employees working across BAT Group companies, was relaunched in 2018, a major milestone in our inclusivity journey. Under the banner of 'Be You, Be Proud, Be United', the programme assists and guides the implementation of our world-class equality policies across the Group, while developing and nurturing an inclusive and welcoming culture for LGBT+ employees.

Our environmental impact

A greener way of working

We are committed to reducing our environmental impact across our supply chain and operations. Successful environmental management is at the heart of our approach to sustainable agriculture and our relationship with farmers (see p14) but reducing the environmental impact of our own operations continues to be an important topic for our business. This section addresses how we are working to reduce the environmental impact of our operations and products.

Managing our operational environmental impact

We have a comprehensive environmental management approach, and our environmental policy and management system – based on international standards such as ISO 14001 – apply to all our operations. The environmental performance for all BAT sites is monitored regularly by the Board. While our management systems address a wide range of environmental issues, we have a specific focus on managing our key issues of energy use, carbon emissions, waste management and water use.

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

We are pleased that BAT has been recognised for its environmental management and performance for a number of years, such as through the Dow Jones Sustainability Indices (DJSI) and CDP, and we always strive for continuous improvement. 2018 was a significant year for us in terms of how we manage and monitor our operational environmental impact, particularly around energy and carbon use, and we implemented many changes to further align with global best practice standards.

Science-based targets

We know that in order to support global efforts to combat climate change and unsustainable resource use, our long-term targets need to remain ambitious. This is why, in 2016, when we hit our existing 2017 targets a year early, we immediately set new targets to be reached by 2025. However, in line with best practice, any targets must also reflect the changes in the scale and magnitude of our business activities.

Consequently, during 2018 and following on from our acquisition of Reynolds American Inc. (RAI), we took the opportunity to once again review our long-term targets so that they would reflect our new operations portfolio.

As a result, we undertook a full analysis of our Scope 1, 2 and 3 emissions*, establishing a new baseline and allowing targets to be set that account for all of our operations and external supply chain.

In 2018, we have set new carbon emissions targets for 2030 and hope to soon gain SBTi approval for these.

More recently, we have joined the ever-growing number of companies that have committed to setting science-based targets and making significant emissions reductions, in line with the most up-to-date climate science. We hope to soon gain the Science Based Targets initiative's (SBTi) formal approval of our new carbon targets, which we outline on the following page.

Alongside new emissions reduction and energy targets, we have set other 2030 environmental targets for water and waste. These aim to further reduce our impact through reduced consumption of resources, improved water stewardship, and ensuring that waste from our operations is reduced, reused or recycled.

Applying best practice to carbon accounting

We have 55 factories, 15 green-leaf threshing sites and a large fleet – mostly for distribution and marketing of our products. Together, these account for more than 90% of our direct carbon emissions, so this is where we focus most of our initiatives. This includes exploring energy-efficient technologies, switching to low-carbon or renewable energy sources, and optimising our logistics and fleet with new standards for fuel efficiency.

United Nations Sustainable Development Goals (SDGs)

We contribute towards the SDGs through:



13: Climate action

We are committed to reducing our carbon emissions and energy consumption.



6: Clean water and sanitation

We strive to reduce our water consumption by increasing manufacturing efficiency.

However, we know that focusing on our own operations and those which we directly control is not enough and so in 2018, as part of the wider analysis of our Group-wide emissions, we undertook a full review of our Scope 3 emissions, which was an independent review of where significant impacts lie across our value chain. We have now expanded our reporting to include all 15 categories of the Greenhouse Gas (GHG) Protocol and fully align with its Scope 3 reporting methodology.

Following this, we hosted workshops to identify how we could work more closely with suppliers to promote climate action and increase supply chain sustainability. Through this, we have developed a more integrated, comprehensive approach to carbon accounting within our supply chain.

Reviewing our product life cycle

In line with our drive to better understand the environmental impact of our business in the broadest sense, in 2018 we also carried out life cycle assessments (LCAs) to allow us to understand, and in turn begin to address, our environmental impacts beyond the emissions created from our products' immediate manufacture and distribution. These were conducted in line with ISO 14040/14044 standards across three of our product categories: cigarettes, vapour products and THPs.

The LCAs reviewed climate change, water consumption and ecosystem quality impacts throughout the whole life cycle of each of the products, from tobacco and other direct materials production, to manufacturing, distribution, use phase and end-of-life. The results from the LCAs are now helping us understand the most high-impact stages, and we are currently reviewing recommendations from the studies to incorporate them into our approach to environmental management.

* Scope 1 represents direct emissions from fuel used by our fleet or sites. Scope 2 reflects indirect emissions from purchased electricity, steam and hot water, and Scope 3 accounts for all other emissions from the supply chain.

Performance overview and future targets

Reducing our carbon emissions

Our 2030 targets (against 2017 baseline)

Carbon

-30% absolute reduction in Scope 1 and 2 emissions

-16% absolute reduction in Scope 3 emissions

Energy

30% of our total direct energy use to be from renewable sources

How we performed

We have achieved a 2.7% year-on-year absolute reduction in our carbon emissions across all our operations, with improvements driven by renewable energy and energy efficiency projects, including:

- investing in technology and switching to low-carbon or renewable energy sources, as we installed on-site solar panels in Bangladesh, Pakistan, Sri Lanka and Honduras, and continued to purchase renewable energy in Croatia, Switzerland, Poland and the UK, alongside ongoing initiatives for other sites, such as our Santa Fe factory in the U.S., which operates on 100% renewable electricity;
- optimising our logistics and fleet with new standards for fuel efficiency, engine size and emissions; and
- optimising load capacity and GPS monitoring to improve our commercial fleet efficiency.

We consider our performance this year to be particularly strong, given our direct impact increasing in 2018 following the changes to our business footprint, such as integration of RAI environmental data and expansion of some of our sites and operations.

Reducing our operational water consumption

Our 2030 targets (against 2017 baseline)

-35% absolute reduction in water withdrawn

15% of water to be recycled

How we performed

Our manufacturing processes are less water intensive than other industries, but we understand that water stress is a reality in many parts of the world where we operate. Following the water risk assessments we conducted for all factories and green-leaf threshing sites in 2017, we continue to implement our plans.

In 2018, we were pleased to achieve an absolute 8% decrease in total amount of water withdrawn, compared to 2017, through initiatives such as:

- eliminating leakages and improving water use control at sites across the world;
- increasing the recycling rate of water in many of our markets including Pakistan, South Africa, Turkey and Croatia; and
- implementing Integrated Work Systems to optimise water use in all of our factories.

Reducing our operational waste impact

Our 2030 targets (against 2017 baseline)

-15% absolute reduction in waste generated

-40% absolute reduction in waste sent to landfill

How we performed

We recycle or reuse waste within our business wherever possible. In 2018, we were pleased to achieve a 9% reduction in the amount of waste sent to landfill, compared to 2017. We also recycled 90% of our waste. Some notable initiatives include:

- waste briquetting for recycling in Nigeria;
- waste reduction activities in production in Kenya, Russia, South Africa and Bangladesh; and
- reductions in waste generated through marketing and distribution activities across some markets.

Additionally, 25% of our manufacturing sites do not send any waste to landfill, up by 2%**.

Employee viewpoint

Building on environmental stewardship in North Carolina



Jamie Morgan, Manufacturing Director
Santa Fe Natural Tobacco Company (SFNTC)

At SFNTC, we've always been proud of how environmental stewardship is at the core of our products and operations. For example, none of our factory waste is sent to landfill, and we have been Carbon Neutral certified since 2011.

Over the past year we've worked closely with our new BAT colleagues, and our approaches are fully aligned – enabling us to share our experiences across many markets. Our efforts have also been acknowledged externally: we've received the U.S. Environmental Protection Agency's Green Power Leadership Award annually since 2009. Together with BAT, we can build on this for an even more sustainable future.

** We restate previously reported 2017 figure of 26%, following integration of environmental data from recent acquisitions.

Reducing our environmental impact



A closer look: The environmental impact of cigarette butts

The global context

Globally, there is growing concern around the use and disposal of plastics, notably single-use plastics such as drinking straws, fast food packaging, coffee cups, wet-wipes, plastic bags and disposable cutlery. Although cigarette filters are derived from wood pulp, given some of the components used to manufacture them, filters are classified as plastic. As a result, there is increasing pressure on the manufacturers of these products, as well as the tobacco industry, to address post-consumer waste, often with a focus on marine pollution.

The EU has recently ratified a Directive on Single Use Plastics that includes cigarette butts and has requirements for on-pack labelling, consumer awareness initiatives and Extended Producer Responsibility (EPR) schemes. Member States have a deadline of January 2023 to implement the Directive. We will continue to engage with both the EU and Member States to ensure that EPR schemes for cigarette butts are designed and implemented in a way that will be most effective at addressing the issue of filter waste.

What are cigarette filters made of?

Cellulose acetate is derived from wood pulp and makes up more than 90% of a cigarette filter. However, during the manufacturing process, plasticising chemicals are added to provide structure to the raw materials, which results in the finished product being classified as a plastic. This means that while cigarette filters degrade faster than petrochemical-derived plastics, such as straws and plastic cutlery, they currently do not degrade quickly enough to avoid any short-term littering problems.

Why filters are important

Filters are an important part of cigarette design, as they filter and reduce the level of some of the toxicants inhaled by consumers and help ensure cigarettes do not exceed regulated levels of tar and nicotine.

Reducing the impact of filters

As we research, develop and manufacture our products, we continue to look at opportunities to reduce the environmental impact of filters. For a number of years, we have been working with our suppliers to test and develop a range of eco-filters with the potential to degrade quicker, and as such, could help in reducing butt littering. Currently there are no consumer acceptable and commercially scalable alternatives that have been developed that will meet prescribed emission standards in various jurisdictions, whilst continuing to deliver current reductions in consumer exposure to certain toxicants. We continue to collaborate with our suppliers to investigate this further.

We also continue to explore the impact that variables such as the physical environment can have on the degradability of cigarette filters. Variations in testing conditions can have a large impact on degradability estimates and we call for internationally recognised standards (such as from the International Organization for Standardization (ISO) and the European Committee for Standardization (CEN)) to assess the degradability of cigarette filters so that manufacturers and governments can assess whether these would degrade over a duration that would not cause short-term littering problems. We welcome recent progress in standards development and will support this process further.

A collaborative approach is required

Cigarette butt littering is a complex issue with no single, easy answer. For our part, we believe the most effective way to address it is through collaboration with other stakeholders to find suitable solutions.

We are seeking effective ways to address the issue, but it also requires input from governments, municipalities and consumers. Research shows that consumer education and awareness-raising initiatives are likely to be one of the most effective measures.

At BAT, we support a number of such initiatives and education campaigns that have been effective in reducing butt littering, such as:

- distributing portable ashtrays in collaboration with local governments, festival organisers, hotels, restaurants and cafés in a number of markets, including Japan, Germany and Switzerland; and
- partnerships with third-party organisations and NGOs. For example, in the U.S., our subsidiary RAI donates to Keep America Beautiful, which then awards Cigarette Litter Prevention Program grants to its affiliates, typically authorities dedicated to eradicating litter and beautifying their communities. In New Zealand, our subsidiary provides funding to Keep New Zealand Beautiful to assist its anti-litter education campaigns.

Responsible disposal of devices



Our electronic devices, such as vapour products or tobacco heating products (THPs), contain certain materials that can be recovered for reuse. By recycling these products, their environmental burden is reduced – as is the need to extract more resources. In some countries, we already provide postal recycling services and product incentives to encourage consumers to recycle their devices. We are exploring how we can extend these schemes to all markets where we sell our vapour products and THPs.

Materiality and stakeholder engagement

Identifying our sustainability priorities

We identify the issues covered in our Group sustainability agenda through a detailed materiality process, which we conduct every three years. This helps us to assess their level of importance for our business and our stakeholders.

Each year we engage with a wide range of stakeholders at global and local levels and participate in multi-stakeholder collaborations to help develop joint solutions to common challenges. These help us ensure that our sustainability agenda continues to address the most important issues.

As the materiality of an issue increases, we report on it accordingly. For example, in this Report, we included 'a closer look' features on child labour and the environmental impact of cigarette butts, in line with increased stakeholder interest in these issues.

 [Read more about our latest assessment and the process at bat.com/materiality.](https://bat.com/materiality)

Stakeholder engagement

Our ambition to 'transform tobacco' relies not only on our development and commercialisation of new products, but also on the support of our wider stakeholders, such as regulators and public health bodies, among others.

By working with key stakeholders around the world we further strengthen our approach to ensuring the sustainability of our business as well as our supply chain, and how we transform tobacco.

Shareholders and investors

We regularly canvass opinions at events such as our AGM and in meetings throughout the year.

 [Read more about our shareholder and investor engagement in our Annual Report.](#)

Employees, contractors and trade unions

We have a range of well-established workforce engagement channels at all levels of the business, including works councils, meetings with the European Employee Council, 'Your Voice' surveys and townhalls.

 [Read more about how we engage employees at bat.com/annualreport.](https://bat.com/annualreport)

Our business partners

These include farmers and non-agricultural suppliers, as well as retailers, wholesalers and distributors, and our customers. By engaging with our business partners, we provide valuable support, helping them to meet international standards or new regulations and developing joint solutions to challenges.

 [Read more on bat.com/principles.](https://bat.com/principles)

Governments and regulators

Our industry experience helps to inform new regulations, and we are committed to engaging with integrity.

 [Read more about how we enable responsible growth \(p12-13\).](#)


Law enforcement agencies and customs bodies

We work with enforcement agencies and governments in helping tackle the illegal tobacco trade.

 [Read more at bat.com/ait.](https://bat.com/ait)

Adult consumers


By talking to consumers, we recognise that their preferences are constantly evolving, insights which mean we can continue to develop a broad range of potentially reduced-risk products to meet their needs.

 [Read more about how we market responsibly \(p28\).](#)

Experts


We work with bodies such as the International Organization for Standardization (ISO) and the European Committee for Standardization (CEN), as well as international organisations such as the United Nations (UN) and International Labour Organization (ILO), and a range of scientific and public health communities.

Our Group research and development (R&D) department also has partnerships with highly respected academic and research institutions, which focus on scientific studies into the relative risk profile of PRRPs to smoking.

 [Read more about how we build trust in our products through science \(p06\).](#)

Partnerships

Through our partnerships with NGOs, development agencies, industry peers and other companies, as well as our own projects, we build close ties with the communities in which we operate, investing in corporate social investment programmes and working in partnership with local stakeholders.

 [Read more about our ongoing work with Eliminating Child Labour in Tobacco Growing \(ECLT\) \(p21\).](#)



A closer look: Engagement on United Nations Sustainable Development Goals (SDGs)

In 2018, Nigeria became the first UN member state to inaugurate a local Private Sector Advisory Group (PSAG) – a collaboration of private sector organisations and corporate foundations committed to working with various stakeholders, including the Government, academia and civil society in achieving the UN SDGs. We are very proud to have joined this national PSAG as the first and only tobacco company.

At BAT Nigeria, we already have a strong history of engaging with local communities and delivering projects to support sustainable agriculture and rural livelihoods. Through the PSAG, we joined the Nigerian delegation at the UN General Assembly in 2018, enabling us to share our experiences with other participants to collaboratively address common issues involved in realising the SDGs.

Performance summary

In this section, we present all our sustainability goals and accompanying performance.

Following our 2017 acquisition of Reynolds American Inc. (RAI) – our U.S. subsidiary – we are very pleased to report our sustainability performance data from 2017 now includes data from RAI. For year-on-year comparability, we only report on 2017 and 2018 data in this section of the Report. Performance against all our previously published goals and commitments can be found online in our Sustainability Performance Centre, available from the link below. This also includes data charts for data prior to RAI acquisition.

Key

- Desired trend
- Minimal (2% or less) or no change
- Decline
- ☑ Independently assured by EY


 Find out more at bat.com/sustainability/data.

Goal	Indicator	Performance			
		2017	2018	Trend	Independently assured
Harm reduction					
Continue to expand the geographical reach of our potentially reduced-risk products (PRRPs)	Number of markets with our PRRPs available	18	29	↑	
Research the relative risks of our PRRPs to smoking, and publish and invite independent scrutiny of our science	Total number of peer-reviewed articles and manuscripts published to date	46	64	↑	
Sustainable agriculture and farmer livelihoods					
Eliminate use of unsustainable wood sources by our contracted farmers	% of farmers' wood fuel from sustainable sources	99%	99%	→	☑
Independent on-site Sustainable Tobacco Programme (STP) reviews conducted on 100% of our leaf operations and suppliers every three years	% of total leaf operations and suppliers reviewed since STP implementation in June 2016	50%	100%	↑	
Corporate behaviour					
100% adherence to our Standards of Business Conduct (SoBC)	Number of cases reported to our <i>Speak Up</i> channels ¹	183	266	↑	
	Number of established breaches ¹	78	98	↑	
	% of employees who completed SoBC formal sign-offs and training	100%	100%	→	
100% of non-agricultural suppliers covered by our human rights supply chain due diligence programme	Suppliers assessed for human rights risks, as a % of total direct and strategic indirect procurement spend	46%	100%	↑	
	Number of independent supplier audits conducted	65	88	↑	
100% adherence to our International Marketing Principles (IMPs)	Number of cases of partial- or non-adherence to IMPs identified through our internal controls, such as market audits and self-assessments	0	0	→	
100% adherence to our global Youth Access Prevention (YAP) Guidelines for the sales of our cigarettes brands and PRRPs ²	% of markets aligned with our YAP Guidelines, where our cigarette brands are sold	100%	100%	→	☑
	% of markets aligned with our YAP Guidelines, where our PRRPs are sold	N/A ²	100%	–	☑

¹ As we continue to promote our new *Speak Up* channels, we expect the number of cases reported to these channels, and subsequently the number of established breaches, to increase. We consider this increase to be reflective of our efforts in encouraging employees to raise concerns around suspected unethical behaviour, and mark this as a 'positive' improvement in our performance.

² In 2017, we conducted youth smoking prevention activities based on our previous guidelines. The revised global YAP Guidelines, with additional requirements around provision of point-of-sale material with YAP messaging for the sales of all our different product categories (including PRRPs) came into effect as of 1 January 2018, and we report adherence from 2018 onwards. We report alignment with YAP Guidelines as those markets conducting activities or those markets granted an exemption from conducting these, in alignment with the Guidelines. Those markets with exemptions account for around 5% of our sales volume.

Goal	Indicator	Performance			
		2017	2018	Trend	Independently assured
Environment³					
Carbon and energy					
Reduce our absolute Scope 1 and Scope 2 carbon dioxide equivalent (CO ₂ e) emissions by 30% by 2030	Scope 1 and 2 CO ₂ e emissions ('000 tonnes)	864	841	↓	☑
	Total % reduction from baseline year (2017)	N/A ⁴	2.7%	-	
Reduce our absolute Scope 3 CO ₂ e emissions by 16% by 2030	Scope 3 CO ₂ e emissions ('000 tonnes) ⁵	8,254	-	-	☑
	Total % reduction from baseline year (2017)	N/A ⁴	-	-	
Increase the amount of renewable energy we source (as a % of total direct energy use) to 30% by 2030	Renewable energy as a % of total direct energy use	9.1%	9.3%	→	☑
Water					
Reduce the total amount of water withdrawn by 35% by 2030	Total water withdrawn (million cubic metres)	5.195	4.768	↓	☑
	Total % reduction from baseline year (2017)	N/A ⁴	8.2%	-	
Increase the amount of water we recycle by 15% by 2030	% of total water recycled	8.7%	8.8%	→	☑
Waste					
Reduce the absolute volume of waste generated by 15% by 2030	Waste generated ('000 tonnes)	160	155	↓	☑
	Total % reduction from baseline year (2017)	N/A ⁴	3.2%	-	
Reduce the absolute volume of waste sent to landfill by 40% by 2030	Waste to landfill ('000 tonnes)	16.2	14.7	↓	☑
	Total % reduction from baseline year (2017)	N/A ⁴	9.2%	-	
Recycle at least 95% of our total waste generated each year	% of waste recycled	89.6% ⁶	90.2%	→	☑
People					
Aim to achieve zero accidents Group-wide ^{3, 7}	Total reported accidents: employees and contractors	284	219	↓	☑
	Of which, number of serious injuries: employees	36	26	↓	☑
	Of which, number of serious injuries: contractors	30	15	↓	☑
	Of which, number of fatalities: employees	1	3	↑	☑
	Of which, number of fatalities: contractors	11	9	↓	☑
	Lost workday cases	248	195	↓	☑
	Lost workday case incident rate (LWCIR)	0.36	0.27	↓	☑
	Number of fatalities to members of the public involving BAT vehicles	11	6	↓	☑
Increase the representation of women and focus nationalities in senior management by 2020	% of women on the Main Board	30%	30%	→	☑
	% of women on the Management Board	-	14% ⁸	↑	
	% of women in senior management	21%	22%	→	☑
	% of focus nationalities in senior management ⁹	20%	21%	→	☑

 EY has performed limited assurance on data marked as 'independently assured'. Read more at bat.com/assurance.

³ 2017 data restated to account for our business footprint and most recent acquisitions, such as the RAI in the U.S.

⁴ Baseline year as we have relaunched 2030 targets this year. For historical performance, please refer to bat.com/sustainability/data.

⁵ As we have expanded our Scope 3 reporting to fully align with the Greenhouse Gas (GHG) Protocol, consolidation and verification for 2018 data is ongoing across all 15 categories and will be reported in the 2019 Sustainability Report. 2017 data reported includes biogenic emissions of 3,381,000 tonnes CO₂e, in line with the GHG Protocol reporting criteria.

⁶ We restate previously reported 2017 figure of 93.2%, following integration of environmental data from recent acquisitions.

⁷ 2017 data for employees and contractors restated to better align with the most recent international reporting guidelines and their definitions of employees and total workers. Contractors data reported exclude data for 'contractors not under our direct supervision' for our U.S. subsidiary RAI, as we continue to align reporting systems.

⁸ Data reported effective as of 1 April 2019.

⁹ Data excludes RAI, as we continue to align reporting systems.

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.

→ Continued on the next page

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 CO₂e 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

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



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, 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

bat.com/sustainability

More detailed information on our sustainability agenda and initiatives.



Performance centre

Progress against our goals, performance charts and independent assurance statement.

 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



Focus Reports

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

 bat.com/sustainabilityfocus



Annual Report

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

 bat.com/annualreport



Science and Technology Report

Our award-winning Report makes our science more accessible to wider audiences.

 bat-science.com/sciencereport

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About this Report

This is a report by British American Tobacco p.l.c. Associate companies are excluded. References to 'British American Tobacco', 'BAT', 'we', 'us' and 'our' when denoting opinion refer to British American Tobacco p.l.c. (the Company, and together with its subsidiaries, the "Group"), and when denoting tobacco business activity refer to Group operating companies, collectively or individually as the case may be. This report contains certain forward-looking statements, made within the meaning of Section 21E of the United States Securities Exchange Act of 1934, regarding our intentions, beliefs or current expectations reflecting knowledge and information available at the time of preparation and concerning, amongst other things, prospects, growth and strategies. BAT undertakes no obligation to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise.

These statements are often, but not always, made through the use of words or phrases such as "believe," "anticipate," "could," "may," "would," "should," "intend," "plan," "potential," "predict," "will," "estimate," "strategy" and similar expressions. It is believed that the expectations reflected in this report 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, including: the impact of adverse domestic or international legislation and regulation, adverse decisions by domestic or international regulatory bodies and the inability to develop, commercialise and roll-out BAT innovations (PRRPs and Combustibles), including as a result of unsuccessful research and development or a failure to develop robust scientific risk assessment frameworks.