



**C** A BETTER  
TOMORROW™

**ESG**  
**REPORT**  
**2019**

**BAT**   
A BETTER TOMORROW




**BAT is a leading, multi-category consumer goods business. Our purpose is to build a better tomorrow by reducing the health impact of our business through offering a greater choice of enjoyable and less risky products for our consumers. Our ambition is to increasingly transition our revenues from cigarettes to non-combustible products over time.**

## Welcome to our ESG Report 2019, which forms part of our suite of corporate publications.

This Report provides detailed information about our policies, management approach, performance and targets for all our environmental, social and governance (ESG) priorities. It covers our ESG performance for the calendar year 2019.

We also map our ESG disclosures against Global Reporting Initiative (GRI) Standards, the Sustainable Accounting Standards Board (SASB) framework and the World Economic Forum's new ESG framework.

 Our disclosures against these **ESG indices** are available to download at our online reporting centre.

## Get in touch

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### Sustainability Strategy Report

Our Sustainability Strategy Report 2019 provides details of our Sustainability Agenda, including a clear focus to reduce the health impact of our business; highlights of our approach and performance for our other ESG priorities; and how this creates shared value for our stakeholders towards our corporate purpose for 'A Better Tomorrow'.

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



### Annual Report 2019

Our Annual Report 2019 provides details of our evolved Group strategy, with sustainability at its heart. This includes our clear corporate purpose to build 'A Better Tomorrow' by reducing the health impact of our business through offering a greater choice of enjoyable and less risky products.

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

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## Focus Reports

Our Sustainability Focus Reports on specific topics provide stakeholders with more in-depth information on the areas that interest them most, including our most recent report on Harm Reduction, published in December 2018.

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

## Modern Slavery Statement

We publish our Modern Slavery Statement each year, in accordance with the UK Modern Slavery Act, detailing the steps taken by BAT plc and subsidiary Group companies to prevent modern slavery and human trafficking in our business and supply chains.

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

## Gender Pay Report

We publish our Gender Pay Report each year with our statutory gender pay gap reporting for our UK employees, as well as our commitment to promoting gender diversity and to increase female representation across all senior leadership positions in the Group.

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

## Science and Technology Report

Our Science and Technology Report captures the rapid evolution of tobacco science and highlights BAT's world-class alternatives to smoking. It also reinforces our commitment to providing open and transparent communications around its non-competitive science.

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

# INTRODUCTION

## Forward-looking statements

This is a report by British American Tobacco plc; associate companies are excluded. References to 'British American Tobacco', 'BAT', 'we', 'us' and 'our' when denoting opinion refer to British American Tobacco plc (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, among 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; changes in domestic or international tax laws and rates and the impact of an unfavourable ruling by a tax authority in a disputed area; adverse decisions by domestic or international regulatory bodies; and the inability to lead the development and roll-out of BAT innovations (new category products and combustibles), including as a result of unsuccessful research and development or a failure to develop robust scientific risk assessment frameworks.

The material in this report is provided for the purpose of giving information about the Company to stakeholders only and is not intended for general consumers. The Company, its directors, employees, agents or advisers do not accept or assume responsibility to any other person to whom this material is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. The material in this Report is not provided for product advertising, promotional or marketing purposes. This material does not constitute and should not be construed as constituting an offer to sell, or a solicitation of an offer to buy, any of our products. Our products are sold only in compliance with the laws of the particular jurisdictions in which they are sold.

## Reporting frameworks

### Global Reporting Initiative

Our reporting is mapped to the Global Reporting Initiative (GRI) Standards. These highlight 16 material topics reflecting BAT's most significant economic, environmental and social impacts, or that substantively influence the assessments and decisions of stakeholders. Read more about our materiality process on [page 62](#).

 [See our GRI Index.](#)

### Sustainable Accounting Standards Board

Our sustainability reporting suite in 2019 marks the first time BAT has reported to the Sustainable Accounting Standards Board (SASB) framework against both the Tobacco and Agricultural Production Standards. The SASB framework helps businesses identify, manage and report on financial aspects of sustainability consistently and transparently.

 [See our SASB Index.](#)

### World Economic Forum ESG index


In 2019, we also reported to the four pillars of the World Economic Forums' new ESG index. Launched at Davos, the new index covers a core set of material ESG metrics and provides disclosure recommendations that will provide a consistent basis across industries.

 [See our WEF ESG Index.](#)


## Independent assurance

An independent review of our sustainability reporting supports our commitment to openness and transparency and is important for stakeholders to be able to place trust in our processes and in what we report.

Our Sustainability Stakeholder Panel, formed of key opinion leaders, comment on the materiality of our Sustainability Strategy Report and provide a collective opinion on BAT's performance. We openly respond to the Panel's feedback as part of our commitment to continuous improvement.

In addition, Corporate Citizenship provide limited assurance, in accordance with the ISAE 3000 standard, of selected ESG data in this Report, as indicated by .


 [Find the Panel's commentary and our response in our Sustainability Strategy Report.](#)

 [Corporate Citizenship's statement can be found in Independent assurance.](#)

## Our Sustainability Agenda

Our Sustainability Agenda is integral to our evolved Group strategy and reflects our commitment to reducing the health impact of our business as our principal focus area. This is underpinned by excellence across our other ESG priorities.

Together, this approach helps to create shared value for our consumers, society, our employees and our shareholders. Ultimately, it's about building towards 'A Better Tomorrow' not just for BAT, but for all our stakeholders.

 For details of how we define our Sustainability Agenda and ESG priorities see **Materiality**.

 Find details of our evolved Group strategy in our **Annual Report 2019**.



## ENVIRONMENT

**We are a global company with a global footprint. We recognise that good environmental management is not only the right thing to do, but also makes sound business sense given how much we depend on natural resources for our operations. Securing access to these resources, as well as being prepared for future changes and the impacts of climate change, is key to ensuring the sustainability of our business.**

# OUR KEY ENVIRONMENT FOCUS AREAS



## Climate change

Climate change is one of the most important global priorities impacting the world today. We depend on natural resources to make our products, so protecting these resources, supporting the people in our supply chain and preparing for the future are all key to the sustainability of our business.

### Our management approach

We are focused on minimising our climate change impacts and preparing our business for the risks ahead. This includes accelerating our science-based targets for reducing our carbon dioxide equivalent (CO<sub>2</sub>e) emissions and our new target to be carbon neutral by 2030 for Scopes 1 and 2, and working with our farmers to increase their resilience.

### Our policies

- [Group Environment Policy](#)
- [Supplier Code of Conduct](#)

### Supported by our standards

- Climate and Energy Efficiency Standard



## Water and waste

We're a global company with a global footprint, so reducing our environmental impacts across our operations is a key priority. A robust environmental management approach will not only help address our water and waste impacts but also deliver financial savings and efficiencies.

### Our management approach

Through our long-standing environmental management systems, we have been steadily decreasing water use and increasing water recycling for several years. We are also reducing the amount of waste generated and sent to landfill and aim to recycle at least 95% of our waste each year.

### Our policies

- [Group Environment Policy](#)

### Supported by our standards

- Climate Change and Energy Efficiency Standard
- Environmental Aspects and Impacts Standard
- Water Security Standard
- Soil and Groundwater Protection Standard



## Sustainable agriculture

Agricultural production can contribute to deforestation, pollution and general environmental degradation. Good agricultural practice is essential for ensuring farming communities are successful, protecting the natural resources on which they rely and securing our tobacco leaf supply chain.

### Our management approach

We have a long and proud history of working with farmers around the world to advance agriculture. We provide our contracted farmers with best practice environmental training and support them throughout the growing season with deployment of sustainable farming practices. These include drip irrigation and natural bio-control techniques to reduce the use of agrochemicals, promoting crop diversity and the use of sustainable wood fuel.

### Our policies

- [Group Biodiversity Statement](#)
- [Supplier Code of Conduct](#)
- [Sustainable Tobacco Programme](#)
- [Leaf Supplier Manual](#)



## Circular economy

Globally, there is growing concern around the use and disposal of plastics and other materials and increased pressure on businesses to address post-consumption waste. Adopting circular economy principles will deliver better products for our consumers, create efficiencies in our operations and reduce our overall impacts.

### Our management approach

This is a new focus area for us. We are developing a comprehensive circular economy strategy and action plans across our product portfolio, informed by regulatory and consumer trends and based on robust science and new eco-designs and innovations.

### Our policies

- [Group Position on Circular Economy](#)



# CLIMATE CHANGE

## Why it matters

The effects of climate change will be felt more strongly in the coming years, impacting the natural environment, the communities in which we operate, our business and our supply chain. Addressing climate change is not only the right thing to do – given the extent to which we depend on natural resources for our products – it also makes good business sense.

Securing access to these resources, supporting the people in our supply chain and preparing for the future are all key to our business sustainability. While some impacts of climate change will be common everywhere, the way others manifest themselves in individual regions will vary enormously. This demands solutions underpinned by global policies and practices but tailored to local circumstances.

## Policies and accountability

Our **Environment Policy** applies to all Group companies where our shareholding is at least 50%. Endorsed by the Main Board, BAT's Operations Director oversees the Policy on behalf of the Management Board. The Policy outlines our commitment to high standards of environmental protection, adhering to the principles of sustainable development and protecting biodiversity.

Our well-established **Environmental, Health and Safety (EHS) management system** is based on international standards, including ISO 14001, and supports the implementation of the overarching Environment Policy. Each Group company has an EHS Steering Committee, with overall responsibility held by the applicable general manager or site manager. EHS is also a standing agenda item for management meetings and governance committees at area, regional and global levels.

The Main Board reviews Group performance against our environmental targets at least annually. In 2019, the Board endorsed plans for enhanced climate change reporting and to fully align our disclosures with the Task Force on Climate-related Financial Disclosures (TCFD) framework by 2022.

In 2019, we launched our new **Climate Change and Energy (CCE) Standard** to support our markets in implementing five-year energy plans that include a growth in renewable energy use. It is intended to accelerate our progress by outlining how renewable energy should be incorporated and sets out the requirement for a formal waiver in markets where green power or renewable energy certificates are unavailable or excessively expensive. In these cases, they are expected to focus on on-site energy generation projects.

## Our management approach

For our long-term targets to effectively support global efforts to combat climate change, they must be ambitious. In 2019, we set new long-term, climate-related targets, and gained the Science Based Targets initiative's (SBTi) formal approval of our carbon dioxide equivalent (CO<sub>2</sub>e) emissions targets. Since then, we have continued to accelerate our commitment to addressing the climate impact of our operations, and launched a new target to be carbon neutral by 2030<sup>1</sup>.

### Our Scope 1 and 2 emissions

Achieving these targets will require an accelerated approach to emissions reduction; and, since around 90% of our direct carbon emissions arise from our factories, green-leaf threshing plants and our large distribution fleet, this is where we primarily focus our efforts to reduce the carbon impact of our operations.

We continue to use Energy Efficiency Assessments to identify opportunities to reduce our CO<sub>2</sub>e footprint, increase on-site energy generation and purchase more renewable electricity. This has led to a range of project proposals, including plans for three on-site generation projects in our factories in South Africa, Bangladesh and Pakistan, planned for implementation in 2020.

The CCE Standard also includes a new mandatory requirement for carbon impact calculations for all capital expenditure engineering proposals, elevating climate change impact as a core consideration alongside financial and quality criteria.

For example, whenever we replace equipment, lower-impact options must be considered, such as switching from gas boilers to biofuel equivalents. We also continue to optimise our



logistics and fleet, such as through improving vehicle performance and fuel efficiency.

### Our Scope 3 emissions

Meeting our ambitious climate targets will require collective effort across the Group that reaches beyond those traditionally responsible for environmental management. And, given our Scope 3 emissions represent 90% of our total carbon footprint, addressing impacts in our supply chain is also crucial. As such, we've begun building capacity among a wider range of our employees than in the past, including thorough training for those in our Procurement department on how to buy low carbon energy and how to engage suppliers on our Scope 3 targets.

We are engaging with our largest direct product materials suppliers to raise awareness of the need to reduce carbon emissions in our supply chain and help us more accurately calculate Scope 3 emission reductions associated with the materials we purchase. In our tobacco leaf supply chain, more efficient curing technologies, smarter use of fertilisers and increases in yields are all contributing to reduced emissions. And, to help us better understand longer-term climate change risks, in 2019, we commissioned independent climate change impact assessments for our most important tobacco-leaf source areas across 10 countries. These include projected scenarios in relation to changes in temperature, rain, water-balance and climatic risks and the potential impacts these will have on tobacco growing conditions. We plan to report key findings in our 2020 ESG Report.

See **Sustainable agriculture** for more information about the work we do with our contracted farmers on climate change.

<sup>1</sup> Based on Scope 1 and 2 CO<sub>2</sub>e emissions.



## Task Force on Climate-related Financial Disclosures (TCFD) alignment

With growing understanding of climate change and greater recognition of its impacts, investors are increasingly keen to understand a business' sustainability profile and exposure. That is especially true for companies like BAT, who are reliant on crops and their associated water and energy systems.

We recognise the importance of providing consistent and reliable climate-related data to investors and other stakeholders, which is why we support the TCFD and the UK government's recommendation that all listed companies and large asset owners align with it by 2022.

In 2019, we commissioned an analysis of our readiness to align with the TCFD framework. The assessment concluded that, while we perform well across criteria such as governance and targets, further work is needed to better quantify climate change risks and to better incorporate climate change into Group risk assessment processes.

We are addressing these gaps and have already commissioned climate scenario assessments to help define climate change risks. We plan to increase our disclosures in line with the framework each year before reaching full alignment in 2022.

## Our 2019 progress and performance

In 2019, we achieved a 7% year-on-year reduction in our Scope 1 and 2 carbon emissions. In total, these equalled 782,394 tonnes, 9.5% lower than 2017, our baseline year. Driving factors include a 6.5% reduction in direct energy consumption and an increase in renewable energy use which now stands at 10.8%, a 1.5 percentage point increase over 2018.

Energy use decreased in 2019, mainly driven by engineering and efficiency improvements at our factories, such as boiler overhauls and LED lighting installations, as well as reduced production volumes following a factory downsizing in Germany and the sale of a printing facility in Croatia. We also continued to deploy our energy conservation daily management system – a key element of our Integrated Working Systems aimed at identifying and eliminating losses in factory processes.

We have also made improvements in energy use for both our owned and leased fleet vehicles, including changes to distribution models in Brazil, Croatia, Egypt, Indonesia and South Africa. In addition, improved itinerary planning at sites in Poland, Russia and the US have been supported by better fuel consumption control in Malaysia, Mexico and Spain. Further reductions have been driven by increasing renewable energy sourcing in the US, Argentina and Croatia, the increased use of biodiesel in Brazil and the installation of solar panels in Mexico.

BAT is digitally transforming its manufacturing in order to reduce tobacco and other waste, lessen energy usage, limit stoppages to production and save personnel time. A range

of scalable solutions support this focus which include: advance analytics, machine learning, robotic process automation, remote virtual engineering and smart infrastructure services. This transformation delivers a multitude of benefits from a 5-10% reduction in waste, smaller carbon footprint, lower utility costs and a significant reduction in costly stoppages, while saving 1,000s of working hours.

Our Scope 3 emissions from purchased goods decreased by 15% compared to 2017, driven by a reduction in purchase volume, changes to emissions factors<sup>2</sup> and decreases in fertiliser and fossil fuel use for tobacco leaf curing.



We are honoured to be named on CDP's prestigious 'A List' for climate change. This recognises our actions to cut emissions, mitigate climate risks and develop

the low-carbon economy, based on the data we submitted to CDP's 2019 climate change questionnaire. BAT is one of the 130+ top-performing companies out of over 6,800 that were scored.



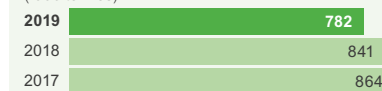
We were also awarded a position on CDP's Supplier Engagement Leaderboard which recognises our actions and strategies to engage our suppliers to manage climate risk and reduce Scope 3 carbon emissions in our supply chain.

### Scope 1 and 2 CO<sub>2</sub>e emissions

**-9.5%** lower than 2017 baseline

**Target:** To reduce our absolute Scope 1 and Scope 2 CO<sub>2</sub>e emissions by 30% to 605 tonnes by 2025.

('000 tonnes)

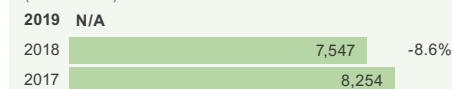


### Scope 3 CO<sub>2</sub>e emissions<sup>2,3</sup>

**-8.6%** lower than 2017 baseline

**Target:** Reduce Scope 3 supply chain CO<sub>2</sub>e emissions from purchased goods and services by 16% by 2030.

('000 tonnes)

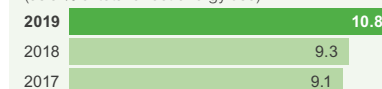


### Renewable energy

**10.8%** of our total direct energy use in 2019 was from renewable sources<sup>4</sup>

**Target:** To increase the amount of renewable energy we source to 30% by 2025.

(as a % of total direct energy use)



Indicates independently assured data. Read the full assurance statement in **Independent assurance**.

<sup>2</sup> Historical data reported includes biogenic emissions of 2,655 ('000) tonnes CO<sub>2</sub>e in 2017; and 2,592 in 2018, in line with the Greenhouse Gas (GHG) Protocol reporting criteria.

<sup>3</sup> Consolidation and verification of our 2019 Scope 3 data across the 15 categories is ongoing to fully align with the GHG Protocol. 2019 data will be reported in our 2020 ESG Report. Our total Scope 3 emissions were 8,254 ('000) tonnes CO<sub>2</sub>e in 2017 and 7,547 in 2018, and include biogenic emissions of 3,381 ('000) tonnes CO<sub>2</sub>e in 2017, and 2,858 in 2018, in line with the GHG Protocol reporting criteria. While we are currently at 15% reduction against our baseline, we will continue to review our Scope 3 emissions reductions targets in line with any potential changes to our supply chain.

<sup>4</sup> In 2019, our total direct energy consumption was 10.35 million Gigajoules (mGJ), and renewable energy use was 1.12 mGJ.



# WATER AND WASTE



## Why it matters

Natural resources are of critical importance to our business and to the communities in which we operate. The manufacture, distribution, consumption and disposal of our products all impact the environment and we recognise the need for a clear, strategic approach to managing our footprint.

It is both our responsibility and good business to use raw materials efficiently and to address our water and waste impacts. By making decisions with consideration for the environment, we can address both our immediate impacts and the likely pressures on the business in the future.

## Policies and accountability

Our Board-endorsed **Environment Policy** applies to Group companies where our shareholding is at least 50%. BAT's Operations Director oversees the Policy for the Management Board. It sets out our commitment to environmental protection, and the principles of sustainable development and protecting biodiversity.

In 2019, we supplemented our Environment Policy with a range of new or revised standards outlining the minimum requirements for our operations relating to:

- Climate change and energy, as detailed in the [Climate Change](#) section of this report;
- Environmental aspects and impacts;
- Water security; and
- Soil and groundwater protection.

Each Group company has an EHS Steering Committee with environmental responsibility held by the general manager or site manager. Environment, health and safety (EHS) is also a standing agenda item at management and governance meetings and committees at all levels, and Group performance is reviewed at least annually by the Main Board.

All business units self-assess annually to confirm their compliance with the requirements of the Group Environment Policy and our environmental standards. Our global EHS team also carries out on-site audits, where adherence to minimum requirements in our environmental standards is monitored. Non-compliances (which can be identified through self-assessments, audits or channels such as Speak Up) are addressed through management action and mitigation plans, and significant or material findings are reported to the Corporate Audit Committee.

## Our management approach

Our EHS management system is based on international standards such as ISO 14001. To date, 20 sites – representing 42% of our production volume – have achieved ISO 14001 certification.

While our management systems address a wide range of environmental topics, we have a focus on our key focus areas of carbon emissions, energy use, water use and waste management.

We use water in our manufacturing and green leaf threshing sites and to a lesser extent, in our offices and distribution sites. Through our long-standing EHS management system, we have been steadily decreasing water use and increasing water recycling for several years. Although our manufacturing processes are not especially water-intensive, we do operate in water-stressed locations around the world, making water use reduction a high priority for the local environment and the communities we operate within.

Our Integrated Work Systems help to optimise water use in all of our factories, and our sites implement a range of initiatives to save water, such as by eliminating leakages, and to increase water recycling, including reusing the water from manufacturing processes for utilities, cleaning and bathroom facilities.

95%  
We are committed to recycling at least 95% of our total waste generated

15%  
We aim to increase the amount of water recycled to 15% by 2025

40%  
We aim to reduce waste sent to landfill by 40% by 2025

We approach waste as a raw material. We are committed to recycling at least 95% of our total waste generated, as well as a 15% reduction in the absolute volume of waste generated and a 40% reduction in waste sent to landfill by 2025, including construction waste. This work is more challenging in locations with limited recycling and waste management facilities. Nevertheless, 28% of our manufacturing sites have already achieved zero waste to landfill and another 24% are recycling at least 95% and close to achieving zero waste to landfill.

See details of our approach to **Circular economy**, including addressing post-consumption product waste.

Our approach to addressing carbon emissions and energy use is covered in **Climate change**.

## Supply chain impacts

Our Supplier Code of Conduct defines the minimum standards expected of our suppliers and is incorporated into our contractual arrangements. It specifically requires them to identify, understand and actively work towards minimising their impacts on the natural environment.

When choosing suppliers of materials such as paper and filters, we look for reputable global suppliers that we are confident can effectively manage their own environmental impact.

We work with our contracted farmers to support them in deploying water efficiency and waste management practices, such as drip irrigation. Find out more about these in **Sustainable agriculture**.

## Water conservation in Brazil

Our cigarette manufacturing factory in Uberlandia in Brazil has achieved significant improvements in water conservation since completing its first water roadmap at the end of 2016.

Many of the initiatives in the factory have been driven by new technology. These include the introduction of new vacuum pumps that, unlike older versions, don't use water and as a result save more than one million litres of water per year. Specialist software enables the factory to monitor water usage around the site to help avoid unnecessary wastage.

The factory recycles 102 million litres of water per year, which is used in utilities, garden irrigation, cleaning and toilet facilities, and maintains a lake reservoir that stores water for fire drills and emergencies.

We also run awareness campaigns for employees on the importance of saving water and incentivises them by displaying progress against targets across the site. The water roadmap is also a regular item discussed in team meetings.

Since 2017, the factory has reduced its total water withdrawn by 13%, equivalent to the average annual usage of around 2,600 people; and in 2019, 42% of its water was recycled.

## Our 2019 progress and performance

In 2019, we reduced the total amount of water withdrawn across the Group, through initiatives implemented at all operational sites, by 5% compared to 2018. This included contributions from a number of our sites saw significant reductions in the year – for example:

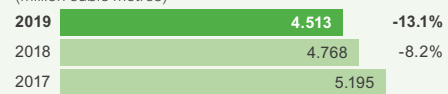
- Our green leaf threshing site in Kenya reduced water withdrawn by 49% after all water utility lines were placed above ground making it easier to identify and fix leaks;
- Our factory in Bangladesh saw a 15% reduction in water use through a range of water-saving initiatives, including water recycling; and
- One of our US factories saw a 23% drop in water withdrawn after better manufacturing scheduling meant fewer wash-downs of equipment, while another saw an 11% reduction through water-saving measures and improvements to plant and machinery.

### Total water withdrawn

**-13.1%** lower than 2017 baseline

**Target:** To reduce the total amount of water withdrawn by 35% by 2025.

(million cubic metres)



	2019	2018	2017
Of which, from total water utility supplies	64%	60%	65%
Of which, from fresh surfacewater sources	2%	2%	2%
Of which, from fresh groundwater sources	34%	38%	32%

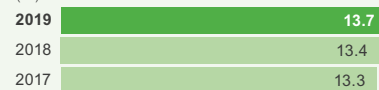
In 2019, we increased our focus on water recycling, sharing examples of good practice across the Group with many being taken up by factories not previously undertaking any recycling and reuse activities. By the end of 2019, we had almost hit our 2030 target to recycle at least 15% of our water, so we have now accelerated to achieve this by 2025.

### Water recycled<sup>1</sup>

**13.7%**

**Target:** To increase the amount of water we recycle to 15% by 2025.

(%)



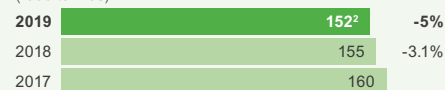
Compared to 2018, we reduced the volume of waste generated by 2% and the amount of waste sent to landfill by 5%, as well as achieving a 90.5% recycling rate across the Group.

### Waste generated

**-5%** lower than 2017 baseline

**Target:** To reduce the absolute volume of waste generated by 15% by 2025.

('000 tonnes)

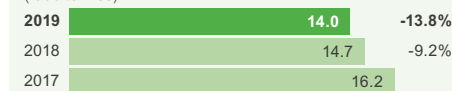


### Waste to landfill

**-13.8%** lower than 2017 baseline

**Target:** To reduce the absolute volume of waste sent to landfill by 40% by 2025.

('000 tonnes)

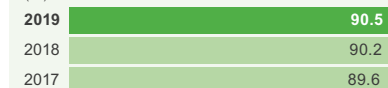


### Waste recycled

**90.5%**

**Target:** To recycle at least 95% of our total waste generated each year.

(%)



 Indicates independently assured data. Read the full assurance statement in **Independent assurance**.

### Other updates in 2019

In 2019, there were two reported incidents of environmental non-compliance across the Group. In Argentina, this was in relation to an instance of non-compliance with air emissions and waste management. Subsequently, a fine of approximately £3,500 was issued. Mitigative measures were taken to ensure both waste deposit and emission ducts comply with the legal requirements. In the US, a fine of approximately £470 was imposed by environmental authorities for emissions exceeding the legal limit. The matter was resolved by modifying the design of equipment.

1 Following improvements in reporting systems at our factories in two markets, and better alignment with CDP's guidelines for calculating water recycling, we have restated previously reported figures of 8.7% (2017) and 8.8% (2018) for percentage of water recycled.

2 Of which 148,453 tonnes was non-hazardous and 2,291 was hazardous waste. In addition to the waste recycled and sent to landfill figures disclosed for 2019, 14,380 tonnes of waste was sent for incineration with energy recovery, and 580 tonnes were sent for incineration without energy recovery. The waste disposal methods were determined based on a range of factors, including local infrastructure available and waste properties.

# SUSTAINABLE AGRICULTURE

## Why it matters

Agricultural production utilises natural resources and can contribute to climate change, deforestation, pollution and general environmental degradation. Sustainable agriculture means farming is successful in terms of productivity and supporting rural livelihoods, while also protecting the environment and local ecosystems.

By developing and working with our contracted farmers to implement sustainable farming methods, such as drip irrigation, sustainable curing technologies and integrated pest management, we're helping to protect natural resources, advance sustainable agriculture practices and increase farmers' resilience to the impacts of climate change. For BAT, this helps to secure our tobacco leaf supply chain and ensure the integrity and quality of our products to satisfy our consumers.



## Policies and accountability

Our **Group Biodiversity Statement** sets out the principles we follow to manage our biodiversity footprint across our operations. Endorsed by our Main Board, the statement is based on a mitigation hierarchy which focuses on taking steps to avoid, minimise, restore or offset biodiversity loss, wherever we operate.

Our **Supplier Code of Conduct** defines the minimum standards expected of our suppliers and is incorporated into our contractual arrangements. It requires them to identify, understand and actively work towards minimising their impacts on the natural environment. For our tobacco leaf suppliers, this is complemented by our **Leaf Supplier Manual**, which sets out the detailed requirements we expect them to adhere to, and to which they must formally sign up each year. This includes a range of stipulations relating to standards in agricultural practices and environmental management. For example, it includes standards for ensuring only approved agrochemicals are used on the tobacco leaf we buy, and that there is no contamination of the crops by genetically modified organisms.

The **Sustainable Tobacco Programme (STP)** includes industry-wide criteria on a range of areas, including environmental protection. It is our policy that all of our leaf operations and third-party suppliers participate in the STP. The programme was developed collectively by the tobacco industry, under the facilitation of

the independent supply chain management company AB Sustain, and is governed by a Steering Committee, formed by industry members including BAT. The programme is currently undergoing a review with a stronger focus on impact, risk and continuous improvement, and is expected to be piloted later in 2020.

We procure tobacco produced using **Standards for Organic Tobacco Production**, which sets strict requirements for organic tobacco growing. Although we do not currently source significant amounts of organic tobacco outside the US, this standard applies to all our leaf operations and suppliers worldwide. It requires a crop to be certified by an independent third party against either EU organic Standard or the US National Organic Program standard, to be classed as 'organic'. In the US, our subsidiary Reynolds American Inc also has an organic tobacco growing programme which requires growers to be inspected and certified annually by a US Department of Agriculture-accredited organisation.

Our Main Board regularly reviews our sustainable agriculture strategy, including details of programmes, initiatives and progress against our objectives; and our Operations Sustainability Forum, chaired by BAT's Operations Director, receives updates twice a year.



## Our management approach

### Sustainable farming practices

We do not own tobacco farms or directly employ farmers, but we have a long and proud history of working with farmers around the world to advance sustainable agriculture. Our Extension Services provide our 90,000+ directly contracted farmers worldwide with on-the-ground support, technical assistance and capacity building via our global network of expert field technicians. This includes a wide range of best practice environmental information and training, and introducing them to new sustainable farming practices and technologies, developed by our global Leaf Science & Research centre.

Avoiding soil erosion and preserving soil fertility is crucial for the sustainability of agriculture. We are continually working to develop and apply sustainable soil management practices and have introduced our contracted farmers to best practices and technologies in all our leaf operations around the world, appropriate to the growing conditions. These include:

- Minimum tillage, a method that minimises turning or disruption of the soil;
- Contour planting, where crops are planted across the natural elevation of a slope to prevent water run-off and reduce soil erosion; and
- The use of plant-based green manure which help to preserve soil health and nutrients.

Growing the same crop continuously on the same land (known as 'monocropping') is also known to deplete soil nutrients, so crop rotation is recognised as a best practice approach to protecting and enhancing soil

health. The farmers in our supply chain already have highly diversified farms, with over 92% growing other crops alongside, or in rotation with, tobacco<sup>1</sup>. We've always encouraged this crop diversification – it not only increases farmers' resilience by not relying on just one crop, but also helps to enhance food security and to preserve soil health.

Water management is also vital to sustainable farming, especially as agriculture accounts for nearly 70% of freshwater withdrawals globally, and up to 90% in some developing countries<sup>2</sup>. While rainwater is commonly sufficient for many tobacco crops, in some circumstances, irrigation is required. In these situations we work with the farmers to find more sustainable ways for watering their crops, while also protecting the access of local communities to water. For example, we've introduced farmers to drip irrigation technology in Brazil and Mexico and are currently conducting trials in Pakistan. This has been shown to increase water usage efficiency by up to 90%, as well as reducing soil erosion and salination, ultimately boosting yields.

We also have a strong focus on reducing the use of pesticides and other agrochemicals through working with our farmers to implement integrated pest management and natural 'biocontrol' techniques. For example, in Bangladesh, we have introduced our farmers to the use of bio-fungicides in seedbeds and pheromone traps for insect control and, in Brazil, using natural predators for specific seedbed pests.

We also have standards to ensure our contracted farmers use only approved agrochemicals with the lowest possible toxicity according to the World Health Organization

classification. We provide training and awareness-raising for our contracted farmers on the correct and safe use, storage and disposal of agrochemicals to protect the environment and their health. If they have a watercourse on their farm, we also advise them to maintain riparian strips to mitigate the risks of water pollution. And, in some countries, we support schemes to collect and safely dispose of empty containers for pesticides and other agrochemicals – such as in Brazil, where we're part of an industry-wide scheme that collects and recycles containers from over 100,000 farms across the country.

Many of our training sessions, demonstrations and field days are open for other farmers and community members to participate in too, and our contracted farmers often act as leading examples for the wider community. For example, in Bangladesh, we've introduced our farmers to more fuel-efficient designs for curing barns, which not only have environmental benefits, but also save the farmers time and money. The barn designs are now being adopted by other tobacco farmers in the area.



### Advancing sustainable agriculture through world-class science

Our world-class Leaf Science & Research centre, based in Brazil, advances sustainable agriculture practices by developing innovative farming techniques and technologies, often in partnership with leading universities.

This work ranges from lab-based research and development, to testing and field trials in different countries with selected farmers. In this way, solutions can be adapted and tailored to the local growing conditions helping to increase the likelihood of successful adoption when they're scaled-up for roll out by our Extension Services to our contracted farmers.

A lot of this work centres on developing higher yielding and more disease-resistant tobacco seed varieties. Along with working to implement natural pest management techniques, this helps to significantly reduce the use of agrochemicals in tobacco growing. For example, a study published in early 2020 by the University of São Paulo's Superior School of Agriculture, found that the level of active chemicals used per hectare of tobacco in Brazil is 1.01kg – the second lowest among 19 crops analysed, with the highest being tomatoes, which require 46.87kg of active chemicals per hectare<sup>3</sup>.

We've developed 'floating' systems for growing tobacco seedlings, based on hydroponics, that use about 85% less water per hectare and have the potential to increase the yield by up to 36% compared to traditional systems. These have been successfully introduced to our contracted farmers in eight countries, and we have plans to expand to more.

Innovative curing technologies – introduced to our contracted farmers in eight countries, with trials currently underway in another two – are helping to reduce fuel use and carbon emissions. For example, in Brazil, 77% of our contracted farmers' curing barns have been upgraded to automated 'loose leaf' models that use up to 30% less fuel than traditional curing barns, and make the curing process more efficient and 50% less labour-intensive for farmers.

<sup>1</sup> As reported through our *Thrive* assessments covering all BAT contracted farmers and farmers contracted to our strategic third-party suppliers, representing more than 80% of our total tobacco leaf purchases in 2019.

<sup>2</sup> <https://data.worldbank.org/indicator/ER.H2O.FWAG.ZS> (accessed March 2020).

<sup>3</sup> <http://www.sinditabaco.com.br/en/socio-environmental-programs/gestao-ambiental/reducao-uso-de-agrotoxicos/> (accessed March 2020).

## Our management approach continued

### Tackling deforestation and protecting biodiversity

BAT has long recognised the importance of forests in reducing emissions and protecting biodiversity, as well as the importance of forest products in our supply chain. Our Biodiversity Partnership, which ran from 2000–2015 with three leading conservation NGOs – Flora and Fauna International, the Tropical Biology Association and Earthwatch – helped us identify unsustainable wood fuel for curing tobacco as our most significant deforestation risk.

To address this risk, we continually work with our contracted farmers to promote the sustainable use of forest resources. This includes training in forest management, distributing tree saplings for a sustainable source of fuel and helping farmers to switch to locally available, alternative fuels. For example, we introduced farmers to alternative fuels of sugarcane bagasse briquettes in Kenya; jute sticks, rice husk briquettes and other agricultural waste in Bangladesh; candle nut shells in Indonesia; and rice paddy husks in Sri Lanka and Vietnam.

We also know that forests risk being cleared to create farmland to grow tobacco. Under the STP criteria, a detailed environmental and regulatory evaluation must be conducted prior to any expansion into new farmland to ensure suitability for tobacco production and that any adverse environmental impact is minimised. This evaluation considers factors such as local legislation, the presence of rare or endangered species and the threat of deforestation.

Deforestation can also be caused by unsustainable sourcing of paper and board for use in our products and packaging. To address this, we only source from reputable global suppliers, many of whom are certified to FSC or PEFC standards, and where we have confidence in a supplier's ability to effectively manage their own environmental impact and adhere to our Supplier Code of Conduct.

We also support afforestation, biodiversity and environmental conservation programmes around the world as part of our wider community-based initiatives. In 2019, this included 40 projects in 25 countries.

For example, in Bangladesh, our afforestation programme, in partnership with the government's Forest Department, has been running since 1980. With over 105 million tree saplings distributed, it is recognised as the largest private sector-driven programme in the country. An independent impact study<sup>4</sup> found that it had resulted in a 50% increase in forest coverage in the area, as well as diversifying the types of trees available. 97% of local residents interviewed also said the ecology of the local habitat had improved. Every year, we work with selected contracted farmers in Bangladesh to establish 'biodiversity corners' on their land to conserve rare and endangered native medicinal species, and to raise awareness of the importance of biodiversity management in the local community.

In Pakistan, our afforestation programme has supported the planting of over 78 million trees since its launch in 1981. In Kenya, we plant over two million tree saplings each year in tobacco-growing areas and we also work with country governments, the Forest Service and other local stakeholders on projects to restore habitats of key nature conservation sites to enhance biodiversity. In Indonesia, we're working with local partners to plant trees in tobacco-growing areas to enhance biodiversity, preserve the water catchment and reduce soil erosion. In Vietnam, our afforestation programme has seen more than 26 million saplings planted, covering more than 11,300 hectares of land, since 2002.

In Brazil, our afforestation efforts date back to the 1960s and, over the last 20 years, some 112 million tree saplings have been distributed to provide a sustainable source of wood fuel for our contracted farmers. And, in 2011, we became part of a multi-stakeholder partnership with the Brazilian Tobacco Growers Association, the Brazilian Institute of Environment and the Ministry of the Environment for the preservation of the Atlantic Forest in the southern tobacco-growing states. In 2018, the results of independent satellite monitoring by the Federal University Santa Maria demonstrated that forest coverage in the area increased by 12.8% between 2011 and 2017<sup>5</sup>.



<sup>4</sup> Nielsen (2017), Responsible Business for Sustainable Future, CSR impact assessment, the Nielsen Company (Bangladesh) Ltd.

<sup>5</sup> <http://www.sinditabaco.com.br/en/monitoring-attests-to-advances-in-forest-expansion-in-tobacco-growing-regions/> (accessed March 2020).

## Our management approach continued

### Standards and assessments

The environment pillar of STP covers a broad range of criteria such as the use of agrochemicals, soil and water management, biodiversity protection and forest management. In addition to the annual self-assessments, supplier on-site reviews were conducted by AB Sustain over a three-year cycle. By the end of 2018, these had been completed on 100% of our leaf operations and suppliers.

Since late 2018, the STP Steering Committee, including BAT, has been conducting an in-depth review of the programme to evolve and improve it. This has included engagement with suppliers and other stakeholders and reviews of external standards and emerging priorities. The updated STP, with a stronger focus on impact, risk and continuous improvement, is expected to be piloted later in 2020.

Our *Thrive* programme focuses on identifying and addressing the long-term risks that could impact on the sustainability of agriculture and farmer livelihoods. It is based on the internationally recognised 'Five Capitals' framework, which considers financial, natural, physical, human and social capitals. Strength in all five creates resilience and enables farmers and rural communities to prosper. We have defined a set of indicators to measure strength in each capital, including soil and water management, water use and sustainable fuels for curing.

In 2019, over 250,000 farmers were assessed against our *Thrive* indicators, covering more than 80% of our total tobacco leaf purchases. The results of the assessments are used to inform where we focus our efforts – for example, if water use is identified as a potential priority, this could mean introducing farmers to more sustainable methods of irrigation or other land management practices.

 Find out more about STP and *Thrive* in [Farmer livelihoods](#).

## Our 2019 progress and performance

In 2019, IMC Worldwide, one of the world's leading international development consultancies, published research commissioned by BAT into the impacts of tobacco growing, including environmental impacts. The study included field research in Bangladesh, Brazil and Kenya, involving a total of 257 interviews, as well as a critical review of existing published literature.

The research acknowledged the importance of providing farmers with best practice information, training and support via Extension Services. IMC noted that this is a vital tool for ensuring farmers are able to effectively mitigate risks and change their behaviour to implement sustainable farming practices and protect the environment. We're therefore pleased that the findings from the field research in all countries showed that BAT's advice reaches most contracted farmers and occasionally is the source of extension information for non-BAT farmers too. In general, farmers reported understanding the information, and this has resulted in the most pronounced and positive behaviour change.

Our monitoring of our contracted farmers' wood use for curing has shown 99% was from sustainable sources for the last three years. We're pleased this figure has been further validated by IMC's research, with all BAT farmers interviewed, in all three countries, found to use wood for curing from sustainable sources, with the exception of one farmer in Bangladesh who reported using waste wood washed down from the hilltops during the rainy season.

 See IMC's full [research report](#).

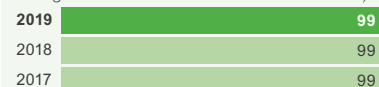
Through our *Thrive* assessments, which cover BAT contracted farmers and farmers contracted to our strategic third-party suppliers, we monitor the coverage of best practice soil and water management plans. In 2019, they reported coverage across 72.8% of tobacco hectares under cultivation. We also monitor water use for irrigating tobacco crops and use the results to inform where we focus our efforts – for example, if water scarcity is identified as a potential issue, this could mean introducing farmers to more sustainable methods of irrigation or other land management practices.

### Sustainable wood sourcing

# 99%

**Target:** To eliminate the use of unsustainable wood sources by our contracted farmers.

(% of sources of wood used by our contracted farmers for curing of fuels that are from sustainable sources<sup>6</sup>)

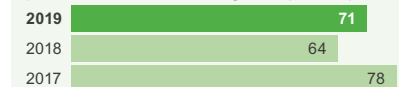


 Indicates independently assured data. Read the full assurance statement in [Independent assurance](#).

### Best practice soil and water management plans

# 71%

(% of tobacco hectares reported to have appropriate best practice soil and water management plans implemented<sup>7</sup>)



<sup>6</sup> Sustainable wood sources are defined as: wood resources harvested legally from planted sources in such a way that does not cause any detrimental social, environmental or economic impact. This may include: wood sourced from identified invasive exotic species which have not been planted; and wood sourced from existing legal plantations. This definition does not include conversion of natural forests to plantations in order to produce wood for tobacco curing.

<sup>7</sup> As reported through our *Thrive* assessments covering BAT contracted farmers and farmers contracted to our strategic third-party suppliers, representing more than 80% of our total tobacco leaf purchases in 2019.



# CIRCULAR ECONOMY

## Why it matters

There is growing global concern around the use and disposal of plastics and other materials. Stakeholders are concerned about the unsustainable use of the earth's resources and about discarded plastics damaging the environment and wildlife.

Fuelled by the UN Sustainable Development Goals and the European Commission's Circular Economy Action Plan, the holistic approach of the circular economy is gaining traction across global business and government. We expect to see further regulation in this area, but it also brings opportunity.

For BAT, adopting circular economy principles will deliver better products for our consumers, create efficiencies in our operations, offer our employees opportunities to innovate and reduce our overall environmental impact on the planet.



## Our management approach

Our corporate purpose is to build a better tomorrow for consumers, employees, shareholders and society. Making our contribution to a circular economy is part of this and means a commitment to using less plastic, creating less waste and recycling more. It's about being smarter in how we design things and being conscious of what happens to our products when the consumer has finished with them.

We have always tried to minimise the environmental impact of our business but changing external expectations and our growing product portfolio means that a renewed focus is required to develop and evolve our approach to the circular economy. A Management Board-led cross functional project team has been established to develop a Group-wide circular economy strategy and to oversee its implementation across all product categories.

Learning from our knowledge and experience in reducing waste and maximising resource use across our operations, we will now build on our success guided by three strategic priorities:

- **Simplify:** simplifying the design of products to improve recyclability and to reduce our use of virgin materials and resources;
- **Maximise:** maximising the longevity of our products to improve the experience for our consumers; and
- **Recover:** minimising waste through increased product recovery and recycling.

Initially, our focus will be on the recovery of post-consumption waste, reducing plastic waste in packaging and exploring

opportunities to improve the recyclability of products and packaging.

Product sustainability will be a priority in our new circular economy strategy, but we will not lose sight of other opportunities to be more circular across our business. We will continue to strive for efficiencies in our manufacturing and logistics; we will use our purchasing power to promote goods and services that have a positive environmental impact; and will seek out the technology that can accelerate our journey.

Becoming more circular in our approach will involve navigating a complex ecosystem of emerging science, inevitable trade-offs and changing stakeholder expectations as we all understand more about the impacts of materials, particularly of plastics, on our environment. As well as being guided by the principles of Simplify, Maximise and Recover, in this journey we will also:

- Base our decisions on sound science and what we know will delight our consumers;
- Seek to challenge traditional ways of working within our business, to think more creatively and act differently;
- Create a culture where innovation is the norm and where all employees are proud of what we do;
- Collaborate and work in partnership with the industry, suppliers, universities, innovators and campaigners to create new solutions; and
- Be mindful of the existing waste infrastructure in our countries of operation to tailor and adapt solutions to local conditions.

## The environmental impacts of cigarettes

As we research, develop and manufacture our products, we continue to look at opportunities to reduce the environmental impact of cigarette filters.

For decades, we have been working with our suppliers to test and develop a range of filters with the potential to replace cellulose acetate. We have commissioned more than 20 different projects exploring the potential development of such alternatives. Currently, there are no consumer acceptable and commercially scalable alternatives that ensure that priority toxicant emissions in mainstream smoke do not increase. 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 biodegradability of cigarette filters. Variations in testing conditions can have a large impact on biodegradability estimates and we are calling for the creation of internationally recognised standards – such as from the International Organization for Standardization (ISO), the European Committee for Standardization (CEN) or the American Society for Testing and Materials (ASTM) – to assess the biodegradability of cigarette and tobacco waste. With externally established and internationally recognised standards, manufacturers and governments can evaluate and compare materials on a consistent basis.

Cigarette butt littering is a complex topic 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.

## Our management approach continued

We are seeking effective ways to address the problem, but it also requires input from governments, municipalities and consumers. We are committed to working with consumers to enhance their understanding and ability to address the proper disposal of cigarette and tobacco waste.

Research shows that consumer education and awareness-raising initiatives are likely to be some 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.

For example, we have initiatives to distribute portable ashtrays, in collaboration with local governments, festival organisers, hotels, restaurants and cafés in a number of markets, including Japan, Germany and Switzerland. In New Zealand, we provide funding for *Keep New Zealand Beautiful* to assist its anti-litter consumer education campaigns; and in the US, our subsidiary donates US\$1 for every pound of cigarette waste collected to the *Keep America Beautiful* cigarette litter prevention programmes.

Also in the US, we have a partnership with Terracycle, a global leader in recycling hard-to-recycle materials. Consumers can order receptacles designed specifically for recycling cigarette waste and the butts are then recycled into a variety of industrial products, such as plastic pallets. To date, over 165 million cigarette butts have been recycled through the scheme.

In Brazil, in partnership with a local recycling company, we have a scheme where consumers can deposit butts in a collection box for recycling. At a pilot event, 79,000 butts were collected for recycling and transformed into decorative objects by a social enterprise that teaches skills to local women to help generate additional incomes.

### The environmental impacts of new category products

Although our overall approach to circular economy is still under development, reviews across our new category products have identified a number of opportunities to take immediate action. This includes the removal of silicon end caps, removal of plastic insert trays, reduction in cardboard packaging and the removal of polypropylene overwrap.

For example, our Vype vapour products use e-liquid pods that are inserted into the device and heated to create the vapour which is then inhaled by the consumer. Sold separately to the device and replaced as and when needed by the user, these pods are sold in a blister pack and originally included additional silicon caps on the top and bottom of the pod.

We found these silicone caps were not necessary for product quality, so we removed them. This small change is expected to save the equivalent of around 1,000 tonnes of CO<sub>2</sub> per year.

We are also trialling take-back schemes for our consumers to return e-liquid pods in France, Mexico and the UK. For example, in Mexico we incentivise consumers to return their Vype by e-liquid pods by rewarding them with 50% off their next pack for every two pods returned and a free pack for every 10 pods returned, which resulted in a 98% redemption rate.

In Japan and South Korea, we're trialling schemes for consumers to return tobacco heating product (THP) devices for safe recycling by a local partner that specialises in metal and electronics. In addition, we're piloting an industry collaboration in Japan where THPs can be returned to a collection point in retail stores and then taken for recycling.

### Next steps

At the beginning of 2020, we updated our circular economy strategy and announced ambitious long-term targets in line with the UK Government's 'Plastic Pact':

- Eliminate unnecessary single-use plastic packaging by 2025;
- 100% of plastic packaging to be reusable, recyclable or compostable by 2025; and

- 30% average recycled content across all plastic packaging by 2025.

We also plan to remove all unnecessary plastic from Vuse packaging and to implement take-back schemes for all new category devices by the end of 2021. We will continue to develop action plans and hold ourselves to account by publicly reporting on progress.

### Cigarette filters and the EU Single Use Plastic (SUP) Directive

In 2019, the EU adopted a Directive on SUPs which obliges Member States to set up Extended Producer Responsibility (EPR) schemes for cigarette filters by 2023. It will require producers to cover the costs of the collection, transport, treatment and clean-up of tobacco filter waste as well as relevant consumer-awareness-raising measures. It will also require the packaging of all tobacco products with plastic filters to bear environmental marking requirements from the second half of 2021.

This is one of the first times that a mandatory EPR scheme has been imposed on a mass consumption product that is disposed of daily, has a low end-of-life value and is collected with municipal waste. This makes the process of collection of waste more complex as well as the assessment and allocation of costs. BAT is leading industry collaboration and working with municipal waste management specialists to define what an EPR model for cigarette plastic filters could look like in order to support Member States when developing national EPR legislation.

#### What are cigarette filters made from?

Cellulose acetate makes up more than 90% of a cigarette filter, and has remained our primary filter material due to its filtration characteristics. Cellulose is first obtained from natural and sustainable wood pulp sources, and then acetylated, hydrolysed and spun to form cellulose acetate fibres. Under the definition for 'plastic' in the EU SUP Directive, 'modified natural polymers' like cellulose acetate, are grouped together with petrochemical-derived plastics (e.g. PET, PP, HDPE or LDPE). Unlike petrochemical derived plastics such as straws and plastic cutlery, cigarette filters do biodegrade but not currently quickly enough to avoid any short-term littering problems.

#### Why are filters 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, for example, tar and nicotine.

## SOCIAL

**As one of the world's most international businesses, we have an important role to play in delivering a positive societal impact for our employees and people across our supply chain. Reducing the health impact of our business, enhancing farmer livelihoods, respecting human rights and looking after our people and culture adds value to society and is a pragmatic and commercial approach that secures the long-term sustainability of our business.**



## OUR KEY SOCIAL FOCUS AREAS



### Harm reduction

As our principal ESG focus area, we are committed to reducing the health impact of our business.

#### Our management approach

Our strategy is focused on making available a broad portfolio of alternative new category products that satisfy consumers by providing pleasure, reducing risk and offering an increasing choice.

#### Our policies

- [Product safety and quality standards](#)
- [International Marketing Principles](#)
- [Youth Access Prevention Guidelines](#)



### Human rights

Like all businesses, we run the risk of being exposed to human rights abuses in our own operations and our extended supply chain.

#### Our management approach

Our approach to protecting human rights is aligned to the UN Guiding Principles for Business and Human Rights, including policies, due diligence, grievance channels and remediation, as well as working to understand and address the root causes.

#### Our policies

- [Workplace and Human Rights Policy in our Standards of Business Conduct \(SoBC\)](#)
- [Supplier Code of Conduct](#)
- [Sustainable Tobacco Programme \(STP\)](#)



### Farmer livelihoods

Rural poverty is recognised as a root cause for wider challenges in agriculture, such as child labour, so if we can help our contracted farmers to have prosperous livelihoods, we can help address these while also securing our tobacco leaf supply chain.

#### Our management approach

We help our contracted farmers to optimise the profitability of their farms, such as by increasing yields and productivity, and to grow other crops to enhance food security and generate additional sources of income.

#### Our policies

- [Thrive programme](#)
- [Strategic Framework for Corporate Social Investment](#)



### Health and safety

Health and safety risks can have serious impacts on our employees, contractors and farmers in our supply chain, as well as interrupting Group operations if not effectively addressed.

#### Our management approach

We are committed to providing a safe working environment for all our employees and contractors, and provide them with best practice health and safety training and communications. In addition, all our contracted farmers are required to provide personal protective equipment (PPE) for themselves and their workers for both agrochemical use and harvesting.

#### Our policies

- [Group Health and Safety Policy](#)

#### Supported by our standards

- Operational standard on PPE for tobacco farming



### People and culture

We know it's essential to have motivated, engaged people with the right skill sets and a supportive environment for them to grow and thrive.

#### Our management approach

We focus on building an inclusive and supportive culture that attracts, engages and retains diverse and talented people, develops the next generation of leaders and creates a fulfilling, rewarding and responsible work environment.

#### Our policies

- [Respect in the Workplace Policy in our SoBC](#)
- [Speak Up Policy in our SoBC](#)
- [Employment Principles](#)

# HARM REDUCTION

## Why it matters

As our principal ESG focus area, we are committed to reducing the health impact of our business through offering a greater choice of enjoyable and less risky products for our consumers – this is our contribution to the concept known as tobacco harm reduction.

New category alternatives to cigarettes, such as vapour, tobacco heating and modern oral products, already have an estimated 68 million consumers worldwide and provide options for the estimated 19% of the world's population who continue to smoke<sup>1</sup> to switch away from cigarettes in significant numbers.




## Policies and accountability

Our evolved Group strategy focuses on our clear corporate purpose to build 'A Better Tomorrow' by reducing the health impact of our business through offering a greater choice of enjoyable and less risky products for our consumers. Our ambition is to increasingly transition our revenues from cigarettes to non-combustible products over time.

Our Main Board is responsible to shareholders of the Company for its performance and for the Group's strategic direction, and our Management Board, chaired by the Chief Executive, has responsibility for overseeing implementation by our subsidiaries of the Group strategy, policies and controls and for creating the conditions for their successful day-to-day operation. Both the Main Board and Management Board receive regular updates on the strategy, our progress and performance.

We also have strict standards in place for the responsible marketing of all Group products, outlined in our International Marketing Principles (IMP), as well as requirements for all our markets to conduct youth access prevention (YAP) activities. The Audit Committee of the Main Board regularly reviews the Group's YAP activities and action plans.

 Details of our IMP and youth access prevention activities can be found in [Responsible marketing](#).

## Applying best practice research standards

For all our scientific research, we follow strict best practice standards, including those from the OECD and the Consolidated Standards of Reporting Trials (CONSORT) Group. 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 that 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. We also require any collaborators or partners we work with to openly acknowledge BAT's role – whether funding or expertise – when discussing work done on our behalf.



... AS MOST OF THE HARM CAUSED BY SMOKING ARISES NOT FROM NICOTINE BUT FROM OTHER COMPONENTS OF TOBACCO SMOKE, THE HEALTH AND LIFE EXPECTANCY OF TODAY'S SMOKERS COULD BE RADICALLY IMPROVED BY ENCOURAGING AS MANY AS POSSIBLE TO SWITCH TO A SMOKE-FREE SOURCE OF NICOTINE.

UK Royal College of Physicians<sup>2</sup>



## Independent evidence

Nicotine is addictive and is not risk-free, but it is widely accepted that most of the harm associated with tobacco comes from burning it and inhaling the toxicants in the smoke – not from the nicotine itself. Products that do not burn tobacco contain fewer toxicants and have the potential to be significantly less risky compared to smoking, as do products that contain nicotine but no tobacco.

While more research is undoubtedly needed, we are encouraged by the growing body of independent evidence pointing to the reduced-risk potential of new category products. This can be seen in the wide range of studies, evidence reviews and reports that have been published in recent years by highly-credible, independent organisations including: Public Health England; the US Food and Drug Administration; the UK Royal College of Physicians; the UK Parliamentary Select Committee on Science and Technology; the British Lung Foundation; Cancer Research UK; the US National Academies of Sciences, Engineering and Medicine; the French Academy of Medicine; and many more.

<sup>1</sup> Euromonitor International (2019). 'World market for cigarettes: October 2019.'

<sup>2</sup> 'Nicotine without smoke: Tobacco harm reduction.' A report by the Tobacco Advisory Group of the Royal College of Physicians (2016).

## Our management approach

To succeed in tobacco harm reduction, we think the following key enablers need to be in place:

- **Consumer choice:** smokers are more likely to switch to new category products if they can find one that satisfies their varying preferences;
- **World-class science:** in order for regulators and consumers to have trust in them, robust scientific evidence is needed to support the quality, safety and reduced-risk potential of new category products; and
- **Standards and regulation:** the right regulatory and market conditions need to be in place to enable wide availability of our new category products, alongside high standards and responsible practices across the industry.

By enabling consumer choice through our range of new category products, supported by world-class science and industry-leading standards, we are making significant progress across these three areas in delivering our commitment to reducing the health impacts of our business.

### Consumer choice

Our strategy is focused on making available a broad portfolio of different products that satisfy consumers by providing pleasure, reducing risk and offering an increasing choice.

We have a deep understanding of our consumers and anticipate trends with powerful foresights, data and analytics. We make significant investments in research and development (R&D) to deliver innovations that satisfy consumer tastes and generate growth for the business. And we're opening

up to radical new ideas and seeking out the inventiveness of others through strategic investments and partnerships.

Since launching our first vapour products in the UK in 2013, we have made significant progress in developing, manufacturing and commercialising a range of new category products, including vapour, tobacco heating and modern oral products, as well as traditional oral products – see the following [pages 20–24](#) for details.

### World-class science

To help determine the reduced risk potential of our existing new category products, relative to smoking, we put them through our peer-reviewed multi-disciplinary risk assessment framework. As recommended by the US Institute of Medicine<sup>3</sup>, this takes a weight-of-evidence approach to assess emissions, exposure and risk.

Taken together, the results of these tests indicate whether using an alternative product

has the potential to carry less health risks than smoking. To date, our research suggests that our existing new category products have the potential to be significantly less risky than cigarettes. We continue to establish more evidence to support this.


Product safety standards go hand-in-hand with sound science – we scrutinise all the ingredients and our products benefit from thousands of hours of testing before they reach the consumer. All elements of a device, including the battery and electronics, are methodically assessed. To support this, in 2019, we opened a new world-class battery and product safety laboratory in our R&D centre in the UK.

We use a wide range of analytical techniques, specialised laboratory technology, and expertise to rigorously test exactly what each vapour product contains and produces and the biological effects. We conduct toxicological risk assessments of all the ingredients in, and emissions from, our

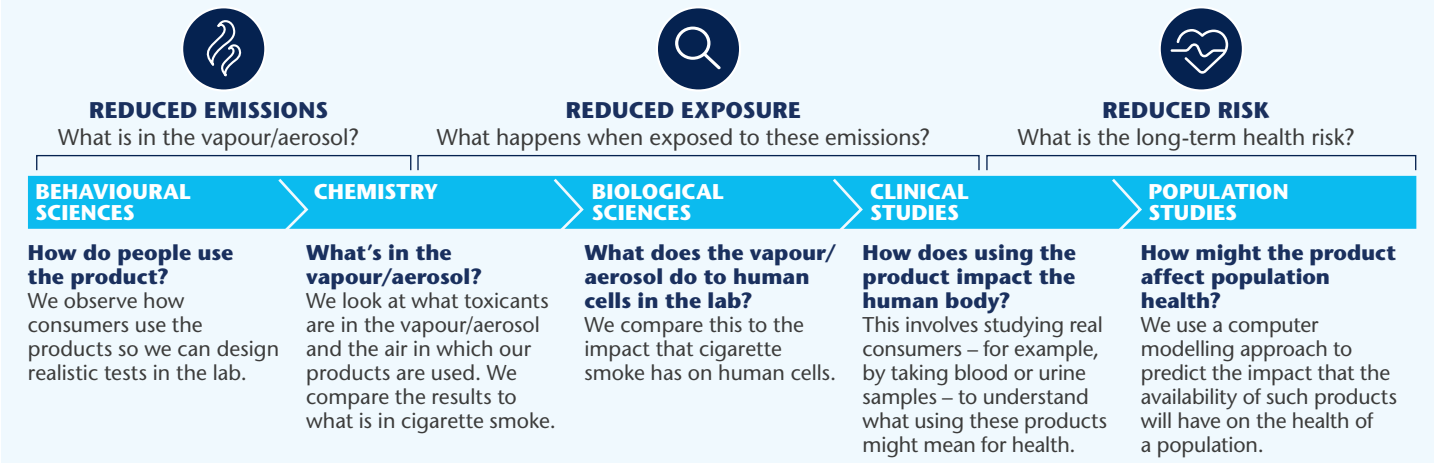
products, and use high-quality ingredients. For example, our e-liquids used in vapour products are manufactured in Europe and use pharmaceutical-grade nicotine.

Regardless of the results, we submit our research to high-quality journals owned by leading commercial publishers, with well-respected standards for how they run the peer-review process. We also present at conferences and to the technical advisory committees of governments, and invite stakeholders to visit our global R&D centre in the UK. We also make our science more accessible to wider audiences by publishing comprehensive details on our dedicated [bat-science.com](http://bat-science.com) website and, every two years, in our Science and Technology Report – the next one will be published later in 2020.

 For more details on our science, visit our [website](#).

 See [Policies and accountability](#) on page 18 for more detail on [what best practice scientific research means at BAT](#) and international standards we follow.

## Our multi-disciplinary risk assessment framework



<sup>3</sup> Stratton, K. et al. 'Clearing the smoke: assessing the science base for tobacco harm reduction', Institute of Medicine. National Academy Press (2001).



## Our management approach continued

### Standards and regulation

We follow robust standards for product safety and have strict requirements for ensuring all our product marketing worldwide is aimed only at adult consumers.

We would like to see our high standards become the benchmark for the industry and future regulation. So, we share our approach, information and expertise with industry groups, governmental technical advisory committees, standards bodies and other key stakeholders.

We do this through our work with taskforces, such as those of the Cooperation Centre for Scientific Research Relative to Tobacco (CORESTA), and our presentations on the global implications of product standards at conferences, such as those of the Food and Drug Law Institute (FDLI), and the Global Tobacco and Nicotine Forum (GTNF). We also contribute to the development of international standards. For example, we've worked with the British Standards Institute, ISO and the European Standards Body, CEN, on the development of new vaping standards.

We are not against regulation of new category products. In fact, we believe it is critical for creating a fertile ground for responsible growth. We actively engage with stakeholders around the world to advocate for proportionate regulation that enables market availability, applies the highest product quality and safety standards, allows communication of the potential benefits and risks, and ensures affordability for consumers by taxing them appropriately – all the while preventing youth appeal and access.

### How we think new category products should be regulated



#### Quality and safety standards

Based on robust science, to help ensure consumer safety and confidence



#### Freedom to innovate

To give consumers more choice and satisfy their evolving preferences



#### Freedom to collaborate and communicate

So the public and private sectors can work together and provide meaningful and accurate information to adult 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 new category products 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



### A growing global market

New category products have grown rapidly across the world, with an estimated 54 million vapour consumers and 15 million THP consumers.

Driven by the growing body of independent evidence pointing to the reduced-risk potential of new category products containing tobacco and/or nicotine, an increasing number of governments are passing laws that allow and encourage the growth of new category products, while also balancing concerns regarding increased youth usage. As the science continues to move in the direction of confirming the potential of these products to offer lower risk, we expect to see more countries passing similarly progressive regulations.

With the right regulation in place, alongside technological innovation, it is expected that the growth of new categories will continue to accelerate as they better meet consumer preferences and demands.



**INCLUDING E-CIGARETTES IN THE DEFINITION OF SMOKING CAUSES CONFUSION AND IS INCREASINGLY UNJUSTIFIABLE IN LIGHT OF THE EVIDENCE ON HEALTH RISKS AND THEIR WIDESPREAD USE AS AN ALTERNATIVE TO SMOKING. E-CIGARETTES CONTAIN NO TOBACCO AND SHOULD NOT BE CLASSIFIED AS A TOBACCO PRODUCT.**



4 Public Health England (2019). 'Tobacco control legislation for United Kingdom Overseas Territories.'

## Our management approach continued

### Standards and regulation continued



#### Vaping concerns in the US

In 2019, a number of cases of acute lung diseases among vapers were reported in the US, including some deaths. The official investigations have so far found strong links with the use of Vitamin E acetate in e-liquids and with illicit e-liquids not sourced from reputable manufacturers. Consistent with our product standards, such ingredients are not, and have never been, added to our Vype and Vuse vapour products.

Concerns were also raised regarding underage access to vapour products and that some e-liquid flavours, such as those resembling 'kid-friendly' food products, may play a role in increasing youth appeal.

These cases clearly demonstrate the importance of having, and enforcing, robust and effective regulations which ensure high product standards and prevent access and appeal to youth – something we at BAT have long been advocating. We welcome the US Food and Drug Administration's (FDA) newly released guidance on flavoured e-cigarettes. Together with the FDA's previously announced requirement to submit Pre-Market Tobacco Product Applications (PMTAs) by May 2020 for all products, this is a positive step and will help ensure consumers have access to appropriately regulated, quality-assured products that do not appeal to or are accessible to youth.

We are confident that, as required by the PMTA process, all our Vuse products in the US will be shown to be appropriate for the protection of public health. We will continue to work with the FDA throughout the implementation of this new regulatory framework to make sure consumers have access to quality-assured products, while doing our utmost to ensure that vaping remains positioned as a credible option for adult smokers looking for an alternative to tobacco.

#### Vapour products

Vapour products are battery-powered devices that heat liquid formulations – e-liquids – to create a vapour which is inhaled. Most e-liquids contain water, propylene glycol and glycerol, flavourings and nicotine, although some e-liquids don't contain any nicotine. The products contain no tobacco and no combustion takes place.

Our vapour products are currently available in 27 markets and include our flagship Vype and Vuse brands. We continue to enhance our vapour products with new innovations – for example, we're developing new distiller plate technology to heat the e-liquid more efficiently than the traditional 'coil and wick' often found in other vapour products. We plan to consolidate all our vapour products under our global Vuse brand by the end of 2020.



**THE SPATE OF LUNG INJURIES AND DEATHS IN THE US IS NOT ATTRIBUTABLE TO THE REGULATED NICOTINE VAPING PRODUCTS CURRENTLY SOLD IN ENGLAND.**

**Martin Dockrell**  
Head of Tobacco Control,  
Public Health England<sup>6</sup>



#### Our world-class science

Our series of scientific papers for Vype ePen, published in 2017, provide a comprehensive dossier of scientific data on this vapour product<sup>5</sup>. The results of our studies provide evidence that suggests Vype ePen has the potential to be reduced risk compared with conventional cigarettes.

Our preclinical chemical studies demonstrated the relatively simple composition of Vype ePen vapour compared with conventional cigarette smoke – with significantly less of certain tested toxicants in Vype ePen vapour<sup>6</sup>. Further tests indicated that the vapour has a much reduced or no biological impact on human cells in the laboratory, compared with conventional cigarette smoke, depending on the test used. Our clinical studies have shown that Vype ePen vapour delivers nicotine to the user as efficiently as smoke from conventional cigarettes – an indicator of whether the product may provide adult smokers with a satisfactory alternative to a cigarette.

#### Independent evidence

There is growing consensus among many public health bodies and academics that vapour products can have a significantly reduced risk profile compared to smoking, when used as a complete substitute for cigarettes. In the UK, for example, Public Health England has commissioned a series of expert reviews<sup>7</sup> that have concluded: "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. It should be noted that this does not mean e-cigarettes are safe."

<sup>5</sup> Murphy, J. et al., Regulatory Toxicology and Pharmacology (2017). 'Assessing modified risk tobacco and nicotine products: Description of the scientific framework and assessment of a closed modular electronic cigarette.'

<sup>6</sup> Comparison of smoke from a 3R4F reference cigarette (approx. 9 mg tar) and vapour from Vype ePen, in terms of the nine harmful components the World Health Organization recommends to reduce in cigarette smoke. These results do not necessarily mean that this product produces less adverse health effects than tobacco products.

<sup>7</sup> Public Health England (2018). 'Evidence review of e-cigarettes and heated tobacco products 2018.' See also: 'Vaping in England: an evidence update'. Public Health England (2019); 'E-cigarettes: a developing public health consensus'. Joint statement on e-cigarettes by Public Health England and 12 other UK public health organisations (2016); 'E-cigarettes: an evidence update'. Public Health England (2015).

<sup>8</sup> McNeill, A., Brose, L.S., Calder, R., Bauld, L., and Robson, D. (2020). Vaping in England: an evidence update including mental health and pregnancy, March 2020: a report commissioned by Public Health England. London: Public Health England.

## Our management approach continued

Similarly, a review by the National Academies of Sciences, Engineering and Medicine<sup>9</sup>, a US-based organisation of leading researchers which analysed the results of more than 800 identified peer-reviewed scientific studies, concluded that while e-cigarettes are not without health risks, they are likely to be far less harmful than conventional cigarettes. The British Medical Association's position paper on e-cigarettes<sup>10</sup> also states: "There are clear potential benefits to their use in reducing the substantial harms associated with smoking, and a growing consensus that they are significantly less harmful than tobacco use."

### Tobacco heating products (THPs)

THPs heat tobacco to generate a nicotine-containing aerosol, with a tobacco taste, which the user inhales. Because the tobacco is heated instead of burned, the resulting aerosol comprises mainly water, glycerol, nicotine and tobacco flavours – dramatically different to cigarette smoke.

Our THPs are currently available in 17 markets under our flagship glo brand. Our range includes battery-powered devices that heats specially-designed tobacco sticks, as well as hybrid devices that combine vaping technology with real tobacco.

In 2019, we continued to expand our new category portfolio with the launch of three innovative new THPs in Japan and South Korea as part of our glo range.

This included our 'glo pro' device which, for the first time, used a new tobacco heating technology we have developed – induction heating – which significantly reduces the heating time for the consumer. While the new 'glo sens' product uses our cutting-edge innovation, called Taste Fusion Technology, which combines vaping technology with real tobacco.

These products provide adult consumers with even greater and more satisfying choice when looking for alternatives to cigarettes. We continue to push the boundaries of innovation to encourage as many adult smokers as possible to choose a new category product with reduced-risk potential.

### Our world-class science

By heating tobacco rather than burning it, THPs can have the potential to be reduced-risk compared to smoking.

Using data from chemical and biological tests, our scientists have assessed glo in terms of the number and levels of toxicants in the aerosol that it releases and the biological impact on human and other cells in a laboratory compared with cigarette smoke. The tests found that toxicant levels in vapour from glo were significantly reduced compared with

smoke from a conventional reference cigarette with many of the toxicants found in cigarette smoke not formed at all<sup>11</sup>. They also showed that glo vapour, compared with cigarette smoke, had a much reduced or no biological impact on cells in a laboratory, depending on the test.

Our short-term clinical studies indicate that when smokers switched completely from conventional cigarettes to glo, their exposure to certain smoke toxicants was significantly reduced and, in some cases, the reductions observed were comparable to those seen in people who had quit smoking completely<sup>12</sup>. Although long-term tests are needed, taken together, the results of the studies suggest that glo has the potential to be reduced risk compared to smoking conventional cigarettes.

We are conducting further research into population modelling in Japan, looking at the large-scale impact of THP use nationally. We are also expecting the results of a longer 12-month clinical study later in 2020, in which we're investigating what impact switching from cigarettes to glo in a real-world setting will have on markers of smoking-related disease development.

### Independent evidence

Although most of the research to date on THPs has been conducted by the industry, we are encouraged to see an increasing number of independent reports that are broadly aligned with our findings.

For example, a study commissioned by the UK Department of Health in 2017 found that people using the two available THPs on the UK market are exposed to around 50–90% less of the "harmful and potentially harmful" compounds compared with conventional cigarettes<sup>13</sup>. And, in 2018, a Public Health England report looked at current research on THPs and, while highlighting the need for more research, found that "compared with cigarettes, heated tobacco products are likely to expose users and bystanders to lower levels of particulate matter and harmful and potentially harmful compounds. The extent of the reduction found varies between studies"<sup>14</sup>.

9 Public Health Consequences of E-Cigarettes, National Academies of Sciences, Engineering, and Medicine, Washington, DC: The National Academies Press (2018).

10 British Medical Association (2017). 'E-cigarettes: Balancing risks and opportunities.'

11 This is a comparison between the smoke from combusted tobacco in a standard 3R4F reference cigarette (approximately 9mg tar), and the vapour from heated tobacco in glo, and refers to the nine types of harmful components for which the World Health Organization recommends a reduction. This quality does not necessarily mean this product's impact on health is less than other tobacco products.

12 These qualities do not necessarily mean this product's impact on health is less than other tobacco products.

13 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 (2017).

14 Public Health England (2018). 'Evidence review of e-cigarettes and heated tobacco products 2018'.



## Our management approach continued

### Modern and traditional oral products

#### Modern oral products

In recent years, a new category of modern oral products has emerged. These come in the form of nicotine pouches that are placed under the lip so that nicotine can be absorbed by the body.

We have developed a range of modern oral products with different flavours and nicotine levels currently available in 18 markets. They are white in colour and contain high purity nicotine, water and other high-quality food-grade ingredients including

eucalyptus and pine tree fibres, flavouring and sweeteners.

These are likely to appeal more broadly than traditional oral tobacco. And, due to affordability and other factors like not relying on batteries, they may be more consumer-acceptable than our other new category products for low to middle income developing countries, such as for our recent launches in Kenya and Pakistan.

We plan to consolidate all our modern oral products under our global Velo brand by the end of 2020.

#### Traditional oral products

Our traditional oral products are currently available in five markets and include Swedish-style snus and American moist snuff, available in loose tobacco form or as prepacked pouches.

We have long sold snus in Sweden and Norway through our Fiedler & Lundgren business, whose brands include Granit and Mocca; and in the US, we market snus under the Camel brand. Our American moist snuff products include our flagship Grizzly brand in the US, as well as the premium moist snuff brand Kodiak.

Our Camel Snus product is currently undergoing a process with the US FDA to be classified as a modified-risk tobacco product, which we expect to be completed in 2020. If our application is accepted, 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 – has already formally recognised that switching completely from cigarettes to Camel Snus can significantly reduce smokers' risk of lung cancer and respiratory disease.

#### Science behind these products

A wealth of epidemiological evidence from Sweden over many decades shows that the use of snus, a type of traditional oral tobacco, is substantially less risky with respect to some conditions than smoking<sup>15</sup>. This has been confirmed by the US FDA which, in 2019, in response to an application made by the company Swedish Match, formally recognised that switching completely from cigarettes to the snus products assessed can significantly lower the risks of mouth cancer, heart disease, lung cancer, stroke, emphysema and chronic bronchitis<sup>16</sup>.

As our modern oral products do not contain any tobacco, chemical emissions and toxicological studies show they have a better risk profile than snus. Already, our chemical studies have shown that our modern oral products have even fewer and lower levels of toxicants than snus, and our toxicological studies have shown that the effect of this is to have even lower toxicological impact on human cells than snus. We're confident that further research will confirm that consumers of modern oral products will be exposed to even fewer toxicants than snus users. Ultimately, we believe they present significantly less risk to users than cigarettes.



### Velo launch in Pakistan

At the end of 2019, Pakistan became our latest market to launch Velo, our flagship modern oral product.

Pakistan is a country with high smoking rates and a tradition of oral tobacco use, so the launch of Velo responds to consumer demand by offering a potentially reduced-risk alternative to cigarettes.

Prior to the launch, our local business engaged with government and other key stakeholders to raise awareness and understanding of the potential benefits of new category products. Great care was also taken to ensure that Velo products were free of ethanol and animal derivatives, to meet local cultural and religious requirements.

The launch initially focused on two cities, Lahore and Karahi, with a 'test and learn' approach, ahead of potential expansion across the country. A digital media campaign boosted Velo's reach with adult consumers and the product is currently on sale in 3,000 outlets, with plans to double that number in 2020. Early sales have been promising, particularly as consumers are already familiar with local types of traditional oral tobacco. The challenge is to now build on this and create a new ritual around Velo and modern oral products.

<sup>15</sup> (a) 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; and (b) Boffetta, P., Hecht, S., Gray, N., Gupta, P. and Straif, K. 2008. 'Smokeless tobacco and cancer'. Lancet Oncol. 9:667-675.

<sup>16</sup> <https://www.fda.gov/news-events/press-announcements/fda-grants-first-ever-modified-risk-orders-eight-smokeless-tobacco-products> (accessed March 2020).

## Our 2019 progress and performance

In 2019, we grew our New Categories business by 37% to £1.3 billion<sup>17</sup> – we aim to achieve at least £5 billion in New Categories revenues in 2023/2024. Our ambition is to increase the number of consumers of our non-combustible, potentially reduced-risk products to 50 million by 2030.

### Revenue breakdown across new category and traditional oral products, by category

£2,336m<sup>17</sup>

2018 £1,853m

	2019 £m	vs 2018 %
Vapour	401	+26%
Tobacco heating products	728	+29%
Modern oral	126	+267%
Traditional oral	1,081	+15%

Today, 11 million consumers regularly use one of our non-combustible products across 48 markets. Of these 48 markets, 15 are among the top 30 countries with the highest smoking prevalence globally<sup>18</sup>. We're committed to expanding to further markets as quickly and practically as we can.

We prioritise markets with the right regulatory frameworks in place, and where there is consumer awareness and demand – countries we expanded to in 2019 include Kenya, Malaysia, Pakistan, Slovakia and South Africa.

While we're proud of how much we've already achieved, we need to accelerate progress

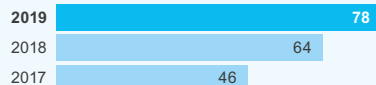
in order to generate an increasingly greater proportion of our revenues from products other than cigarettes, thereby reducing the health impact of our business.

Consumer preferences and technology are evolving rapidly, and we are staying ahead of the curve by building new capabilities around the world focused on science and innovation. We are also leveraging the expertise of our external partners to further strengthen our world class R&D capabilities – such as, our partnership with McLaren where we are actively working with McLaren Applied on a number of projects to enhance our future product pipeline. Our new corporate ventures team will also accelerate the creation, development and commercialisation of new-to-world innovation on a test-and-learn basis.

### Peer-reviewed articles and manuscripts

78

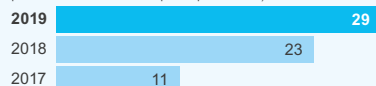
(Total number of peer-reviewed articles and manuscripts published to date)



### Peer-reviewed articles by category: vapour

29

(Total number of peer-reviewed articles and manuscripts published to date: vapour products)



### Peer-reviewed articles by category: oral products

9

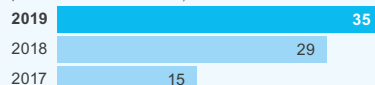
(Total number of peer-reviewed articles and manuscripts published to date: oral products)



### Peer-reviewed articles by category: THP

35

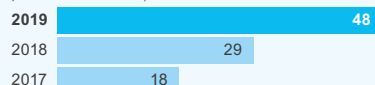
(Total number of peer-reviewed articles and manuscripts published to date: THPs)



### Market availability of our new category products

48

(Number of markets with our new category products available)



### Using tobacco to develop vaccines

Science, and research and development are at the centre of everything we do. We acquired Kentucky BioProcessing in 2014, with the aim of using some of their unique tobacco extraction technology to help us further develop our non-combustible products.

Utilising their scientific expertise, Kentucky BioProcessing, is now using the tobacco plant to design a vaccine for coronavirus.

Using the coronavirus' genetic sequence as published by the Chinese Government, we are able to infect fast-growing tobacco plants with a genetically modified coronavirus to see if they can produce antibodies for a possible vaccine.

It's too early to say if it could be ready for human use, though our technology has the advantage of being faster and safer compared to conventional vaccine production technology, which uses eggs. We have offered our help to the US government as part of an international effort to deal with this epidemic.

This is not a commercial, profit-generating opportunity for us but as a responsible corporate citizen, we have unrivalled knowledge and expertise of tobacco and the science and technology to contribute to this serious problem.

<sup>17</sup> At current rates of exchange.

<sup>18</sup> Based on World Bank data (2016) measuring smoking prevalence as a percentage of the total population. The 15 countries and smoking rates are: Greece (43.4%), Russia (39.3%), Serbia (38.9%), Bulgaria (37%), Croatia (37%), Czech Republic (34.3%), France (32.7%), Germany (30.6%), Hungary (30.6%), Slovakia (30.1%), Romania (29.7%), Austria (29.6%), Spain (29.3%), Ukraine (28.9%) and United Arab Emirates (28.9%). <https://data.worldbank.org/indicator/SH.PR.V.SMOK> (accessed March 2020).

# HUMAN RIGHTS

## Why it matters

Like all businesses, we run the risk of being exposed to human rights issues in our own operations and our extended supply chain.

The greatest risks exist in our tobacco leaf supply chain which, due to the nature of the agricultural sector with large numbers of casual and temporary workers, use of family labour in small-scale farming and high levels of rural poverty, is particularly vulnerable to human rights issues. For example, the International Labour Organization (ILO) estimates that the agricultural sector accounts for over 70% of all child labour globally<sup>1</sup>.

Our other product materials suppliers operate in the manufacturing sector, which the ILO estimates accounts for 11.9%<sup>1</sup> of global child labour and that most human rights cases are documented in lower-income countries<sup>2</sup>. In addition, we have a vast number of suppliers of indirect goods and services worldwide, where human rights risks depend on the sector and country of operation.



## Policies and accountability


Our **Standards of Business Conduct (SoBC)** includes our **Workplace and Human Rights Policy** which outlines our support for the UN Guiding Principles on Business and Human Rights (UNGPs) and the ILO's Declaration on Fundamental Principles and Rights at Work. It includes our commitments to treat all of our colleagues and business partners inclusively, with dignity, and with respect, and to always conduct our operations in a way that respects the human rights of our employees, the people we work with and the communities in which we operate. The policy covers topics such as managing human rights risks and impacts; preventing child labour, the exploitation of labour and modern slavery; respecting freedom of association; and preventing discrimination, bullying and harassment in the workplace.

Our SoBC is complemented by our **Supplier Code of Conduct** (the Code) which defines the minimum standards expected of our suppliers, including human rights criteria, and is incorporated into our contractual arrangements. The Code was endorsed by our Main Board, and our Operations Director owns the policy on behalf of the Management Board. The Code is available in local language versions and communicated to suppliers through our onboarding processes.

Our operational standard on child labour prevention supports our child labour policy

commitments by providing detailed guidance and procedures for tackling the risk in our tobacco leaf supply chain, as well as steps for remediation actions to improve the situation of affected children and their communities. It was developed in 2017 with contributions from the ILO and the Eliminating Child Labour in Tobacco Growing (ECLT) Foundation and applies to all BAT leaf operations worldwide, including the requirement to ensure that employees and contractors understand and adhere to the standard and that it is promoted across their supply chains. The standard provides detailed guidance on our requirements, such as 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.

In addition, the **Sustainable Tobacco Programme (STP)** includes industry-wide criteria on a wide range of areas, including human rights. STP applies to our leaf operations and third-party leaf suppliers worldwide, and is governed by a Steering Committee formed by industry members, including BAT.

 For more details on STP, please see [Sustainable agriculture](#).

<sup>1</sup> ILO (2017a). *Global Estimates of Child Labour: Results and trends, 2012-2016*, ILO, Geneva (accessed March 2020).

<sup>2</sup> ILO (2017b). *Global Estimates of Modern Slavery: Forced Labour and Forced Marriage*, ILO, Geneva (accessed March 2020).



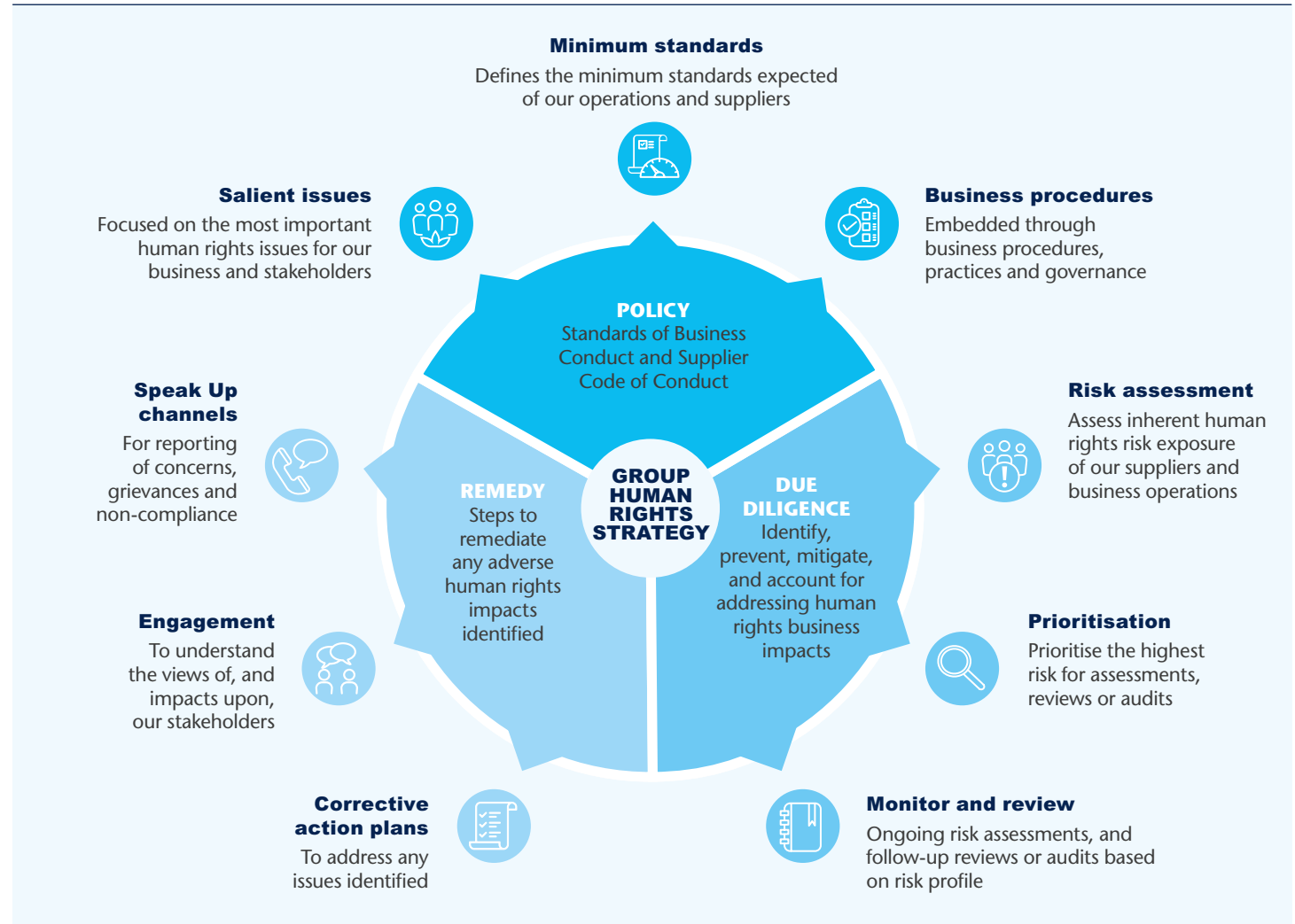
## Our management approach

We have a longstanding approach to protecting human rights across our own operations and supply chains that we have been working to align with the UNGPs since their publication. This began with a review of our existing policies and approach to human rights management, informed by an independently facilitated stakeholder dialogue. This process led to incorporating our Human Rights Policy into our SoBC in 2014 and developing our Supplier Code of Conduct in 2015.

We continually review our policies to ensure they remain effective, account for evolving risks and priorities, and align with best practice. For example, our Supplier Code of Conduct was updated in 2018 to include additional human rights provisions for responsible sourcing of conflict minerals, and minimum standards for wages, benefits and working hours.

In 2019, we updated our SoBC Human Rights Policy, including clarifying our commitments to preventing modern slavery and prohibiting the use of recruitment fees or retention of identity papers by any Group company or employment agencies acting on our behalf. In addition, the SoBC Whistleblowing Policy was amended to use 'Speak Up' terminology (including renaming the policy) to reflect the broad range of topics it covers and the different channels for how these concerns can be raised. The revised SoBC took effect from January 2020.

 Details of our SoBC compliance procedures and Speak Up channels can be found in [Business ethics](#).



## Our management approach continued

### Managing human rights in our subsidiary operations

It is a specific requirement in our key audit controls for human rights risk assessments and risk mitigation action plans to be in place in high-risk countries where we operate, and for processes to be in place to demonstrate that human rights are managed effectively in the workplace and supply chain. All BAT operations are required to report compliance against the controls annually.

We recognise that circumstances in some countries present a higher risk for human rights issues, such as where regulation or enforcement is weak, or there are high levels of corruption, criminality or unrest. So, in addition to Group-wide procedures and controls, we have a defined process in place to identify and carefully monitor BAT operations in high-risk countries. Firstly, we carry out an annual risk assessment of all countries worldwide, using Verisk Maplecroft's human rights indices to identify BAT operations in countries with higher risks for human rights issues.

Our Board Audit Committee reviews the high-risk countries identified and can add further countries in the event of new developments in human rights or business circumstances. Following this Board review, our Legal and External Affairs teams in each high-risk country conduct an in-depth assessment against key human rights issues, including modern slavery, child labour, wages benefits and working hours, and freedom of association. For each human rights topic, they confirm compliance with Group policies, standards and controls, and provide details of any additional local measures in place to enhance human rights management.

The final stage of the annual cycle is a review of results by our Board Audit Committee. This includes a dashboard of the compliance status for each country and details of action plans, with defined timescales, for any areas for improvement identified.

 Details can be found in [Farmer livelihoods](#).



### Slave-Free Alliance gap analysis

In 2018, we became members of the Slave-Free Alliance, a multi-stakeholder initiative, owned by the anti-slavery charity Hope for Justice. This enables us to engage with other like-minded companies and gain access to unique resources provided by the Hope for Justice investigators, trainers and other frontline specialists.

As part of our membership, we underwent an in-depth gap analysis of our approach to tackling modern slavery in 2019. Through a self-assessment, followed by interviews with managers from key areas of our business, experts from the Alliance investigated and explored our strengths and potential risks, tested our assumptions and assisted with prioritising where to focus our efforts going forward.

We were pleased to be reassured regarding the robustness of our policies, compliance and recruitment procedures, which help to substantially mitigate risks of modern slavery in our own business operations. Some opportunities for strengthening and enhancing our approach to tackling modern slavery in our supply chain were also identified, for which we are now developing a comprehensive action plan.

 [Read more about the Slave-Free Alliance.](#)



## Our management approach continued

### Our supply chain structure

Our supply chain consists of two discrete elements, managed by different departments within the business.

#### Tobacco leaf

Our global Leaf department has centralised management over our tobacco leaf supply chain. The majority (approximately 68%) of our tobacco leaf is sourced by our own BAT leaf operations in 18 countries, which contract directly with over 90,000 farmers. The remaining leaf we buy is sourced through third-party suppliers from 26 countries that in turn contract with over 250,000 farmers.

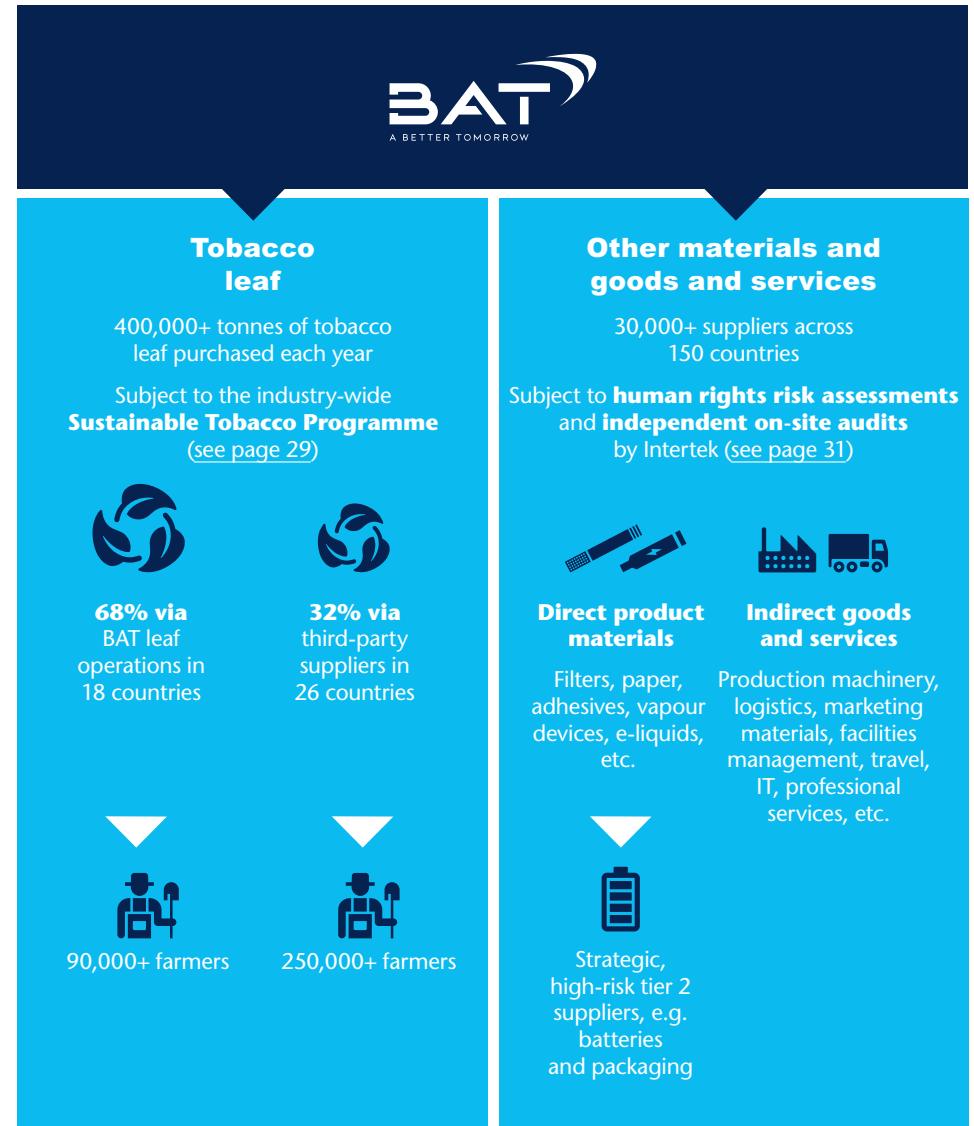
The vast majority of tobacco farms in our supply chain are smallholder family farms of just two hectares on average. In addition, there are a small number of larger, commercial farms in countries such as Mexico, the US and Zimbabwe.

### Other materials and goods and services

Managed by our Procurement department, the highest-value strategic area of this part of our supply chain is for direct product materials suppliers. These cover all the materials, other than tobacco leaf, needed for the manufacture of Group products, such as filters, paper and adhesives for cigarettes, or electronic devices and e-liquids for vapour and tobacco heating products.

As well as the thousands of materials suppliers that supply BAT companies directly (tier 1), we also have mapped a small number of suppliers of our suppliers (tier 2) in higher-risk, business-critical areas, such as for batteries and packaging materials. We've put in place direct contractual relationships with these tier 2 suppliers to better manage risk and ensure security of supply.

In addition, we have a vast number of tier 1 suppliers of indirect good and services worldwide. These include a wide range of different types of suppliers in different sectors, such as production machinery, logistics, facilities management, professional services, business travel, IT and technology, and marketing materials.





## Helping children blossom in Mexico

Our *Florece* (meaning 'blossom') child labour prevention programme was set up with the government, Universal Leaf and organisations such as the Rural Association of Collective Interest in Nayarit in Mexico in 2001. Since then, it has benefitted over 16,000 children.

Nearly 50% of the labourers employed by farmers in the region during the harvest are indigenous people who travel from their homes in the mountains, often bringing their families and children with them. *Florece* helps prevent these children from being exposed to the risks of child labour through providing centres, strategically located close to tobacco growing plantations, for them to go to each day for educational, health, nutritional and recreational services.

When the programme began, it took time for workers to appreciate its benefits. But fast forward to today and workers are now actively choosing which farm they work on based on whether it is near a *Florece* centre. In 2019, a record 1,200 children attended, with all receiving donations of food, clothing and bedding for their families. The centres were also upgraded and equipped with computers to improve the children's learning experience, and new vans were donated to improve transport to-and-from the centres.

Rodolfo Coronado Montaña, Head of the Rural Association of Collective Interest, said: "Having a programme like *Florece* is great as it supports working families, allowing them to perform their roles, knowing their children are in good hands."

BAT field technician Hugo Carrillo adds: "The programme is now loved by the community, not only for the support it brings to workers, but also for the jobs it creates for teachers, doctors and other local people."



## Our management approach continued

### Managing human rights in our tobacco leaf supply chain

Our field technicians conduct farm monitoring of our 90,000+ directly contracted farmers, visiting them approximately once a month during the growing season. As well as providing agronomy support, this is an important way of checking conditions to ensure they're meeting our standards. Our digital Farmer Sustainability Management system, which enables faster, more consistent and accurate reporting, is now used for the monitoring of over 90% of our directly contracted farmers. This includes 'red flags' for risks relating to child and forced labour, which are reported immediately to central management and for which prompt action must be taken to investigate and remediate. Our third-party suppliers are responsible for monitoring the farmers they source from.

It is our policy that all our leaf operations and third-party suppliers participate in the STP. It covers a broad range of human rights criteria which suppliers complete a self-assessment against each year, including child and forced labour, health and safety, fair treatment, freedom of association, and income, working hours and benefits. In addition to the annual self-assessments, supplier on-site reviews were conducted by AB Sustain over a three-year cycle. By the end of 2018, these had been completed on 100% of our leaf operations and suppliers. The programme is currently undergoing a review to have stronger focus on impact, risk and continuous improvement, and is expected to be piloted later in 2020.

During this period of development, suppliers have continued to complete the annual STP self-assessment, but there have been no on-site reviews. As a result, BAT has commissioned bespoke human rights impact

assessments in tobacco growing areas in Indonesia and India in 2019, with two more planned for 2020 in Mozambique and Mexico. Recognising that cross-industry action is needed to effectively address human rights priorities in the tobacco leaf supply chain, the assessments in India and Mozambique are in collaboration with the wider industry.

These assessments help to identify, and provide a deeper understanding of, salient human and labour rights, land, environmental and socio-economic priorities, including the root causes and how they manifest. They are aligned to the UNGPs and considerable care is also taken to engage with particularly vulnerable groups in the tobacco-growing communities, such as women, youth and the elderly. The results provide valuable insights into the issues rights-holders face in their communities from their perspective. We are in the process of analysing the findings from the assessments in Indonesia and India. We will report on the details in a Human Rights Focus Report, to be published later in 2020.

Due to its high prevalence across all agriculture, we recognise that child labour will be a reality in any agricultural supply chain. That's why it is so important to take a holistic and collaborative approach to tackling the root causes and raising awareness, and not rely on policies and due diligence alone.

For example, our training and communications programmes help to raise farmers' awareness and increase their understanding of issues related with child labour, helping to overcome cultural challenges and misunderstandings. In 2019, our leaf operations and third-party suppliers ran over 5,000 human rights training sessions with more than 350,000 attendances, including farmers who attend several sessions in the year.

## Our management approach continued

Rural poverty is also recognised as a primary root cause for child labour, and so, enhancing farmer livelihoods is central to our strategy. We're focused on helping our contracted farmers to build profitable enterprises so as to minimise cheaper forms of labour, including children, and to have good enough incomes to support their children's education. Our global *Thrive* programme also focuses on identifying and addressing longer-term risks to the sustainability of farming communities, including those relating to human rights.

 More details on *Thrive* can be found in [Farmer livelihoods](#).

### Part of a bigger solution


Since 2000, we have worked as part of the ECLT Foundation alongside other major tobacco companies, leaf suppliers and the International Tobacco Growers' Association, as well as the ILO, which acts as an advisor to ECLT's board.

As a membership requirement, all member companies make a public commitment to uphold robust policies on child labour, conduct due diligence and provide for remediation consistent with the UNGPs. Known as the ECLT Pledge of Commitment, it provides a coherent framework for member businesses to confirm and strengthen commitments and actions to eradicate child labour. Member companies must submit self-assessments regarding their efforts towards pledge realisation to the ECLT, and dashboards of progress are published on the ECLT website to provide further transparency.

The ECLT Foundation has a holistic and integrated approach to addressing child labour that goes well beyond traditional approaches.

As part of its mission, it promotes collective solutions by combining area-based projects with national and international advocacy. Its independent status means it can call upon governments to take action, improve policies and advance research into child labour. It also carries out important work helping to strengthen communities and brings together key stakeholders to develop and implement local and national approaches to tackle child labour. Since 2011, ECLT has helped over 700,000 children, farmers and community members, including:

- Helping over 182,100 children get out of child labour;
- Financially empowering over 68,800 families, through establishing Village Savings and Loans Associations and other initiatives to reduce poverty;
- Raising awareness of the priorities to 475,100 community members, through training and advocacy; and
- Supporting over 27,100 rural youth to learn skills and access decent work, such as through model farm schools, job skills training and apprenticeships.

 [Read more about the ECLT Foundation.](#)

## A multi-stakeholder collaboration to tackle child labour in Uganda

Eliminating child labour requires a holistic approach with various types of stakeholders working together to address it across all sectors. Building on its experience for the tobacco sector, the ECLT Foundation established an independent Affiliate Office in Uganda in January 2020 to promote and enable multi-stakeholder collaboration in the country across different sectors. It will provide a much-needed platform for public and private sector organisations to come together to share accountability and best practice, address common priorities and design collaborative sustainable solutions.

“Keeping collaboration at the core of its activities, the Affiliate Office targets the root causes of child labour such as poverty, lack of coordination among stakeholders, poor access to education and absence of decent work opportunities to bring long-lasting change for children and their families across Uganda,” said ECLT Executive Director, Karima Jambulatova.

The Affiliate Office will build on the ECLT's initiatives in Uganda over the past 15 years, during which it has invested more than US\$3 million to tackle child labour and promote sustainable development. Working closely with the national government, district officials and local partners, projects have reached more than 134,000 children, farmers and families where tobacco has grown. More than 8,600 children have remained in schools and away from child labour, while a further 4,000+ have been withdrawn from child labour and enrolled in schools.



Image sourced from ECLT



## Our management approach continued

### Managing human rights for our other suppliers

In addition to the tobacco leaf, we also buy other direct materials, such as paper and filters, and a large amount of indirect goods or services. Before a new supplier of product materials can be appointed, they must undergo an independent on-site audit, in which they must achieve a minimum score of 70%. Conducted by Intertek, the audit is aligned to ILO conventions and covers forced labour, child labour, wages and hours, health and safety, environment and management systems.

We maintain a rigorous focus on human rights with existing suppliers by conducting an annual risk assessment on 100% of our supplier base. This uses independent indices developed by Verisk Maplecroft and assesses inherent risk exposure based on the type of supplier and country where it operates.

Suppliers identified as high-risk in the assessment are prioritised for Intertek audits. Performance in the supplier's last audit also informs the frequency – for example, those that have achieved a 'gold-class' score of 95% or more have demonstrated they have strong practices and procedures in place to manage and mitigate the inherent human rights risks, and so are re-audited at least every four years. Those with a 'bronze class' score between 70%–84% are re-audited every two years.

If any issues are identified in the audits, we work collaboratively with suppliers to implement corrective actions. These are tracked centrally, and Intertek verifies they have been completed either through a

desktop review for moderate issues, or a follow-up audit for more serious issues within 3–6 months.

We continue to take a risk-based approach to further expand our audit programme beyond tier 1 direct suppliers. By the end of 2019, the Intertek audits had been successfully expanded to include tier 2 direct materials suppliers in high-risk, business-critical areas, such as for packaging materials and electronic products; and to strategic indirect goods and services suppliers in the higher-risk categories of production machinery, marketing materials and facilities management.

### Conflict minerals

With the growth of our electronic vapour and tobacco heating products, we recognise the human rights risks associated with conflict minerals – the term used to describe some of the raw materials (tin, tantalum, tungsten and gold) used throughout the global electronics industry.

In 2018, we adopted new conflict minerals provisions in our Supplier Code of Conduct and, in 2019, implemented new conflict minerals due diligence procedures, aligned to guidelines by the OECD. We will publish details of this in our first Conflict Minerals Report, a separate statutory disclosure to the US Securities and Exchange Commission, later in 2020.



## Our 2019 progress and performance

In 2019, a total of 94 supplier audits in 31 countries<sup>3</sup> were conducted by Intertek, including 65 audits of tier 1 materials suppliers, 20 audits of tier 2 materials suppliers and nine audits of indirect goods and services suppliers. The vast majority of risks identified in these audits were categorised by Intertek as 'moderate', relating to hours and wages, poor record keeping, and health and safety procedures. Intertek identified 11 suppliers that had issues categorised as 'major'. These related to preventing worker interviews, excessive working hours, wages below the legal minimum, fire and emergency preparedness, lack of required permits or licenses, poor record keeping and, in one case, retention of workers' original documents.

By the end of the year, 71% of corrective actions had been fully completed and verified by Intertek, in desktop reviews for the moderate issues and 11 on-site, follow-up audits for the major ones. All outstanding actions are in progress and being closely monitored. We are strongly encouraged by the high level of supplier engagement and willingness to work together to improve performance and raise standards. On average, suppliers that required a follow-up audit improved their overall scores by 73%.

In 2019, our subsidiary operations in 25 countries<sup>4</sup> were identified as high risk and underwent the human rights assessment and Board reviews, as described on [page 27](#). Through this process, we identified a breach of our SoBC in the Democratic Republic of Congo relating to freedom of association. The incident was reported, investigated and fully remediated in accordance with our SoBC Assurance Procedure, which you can read more about in [Business Ethics](#). Details of all SoBC allegations and substantiated breaches, including those relating to our Human Rights Policy, can be found in [Business Ethics](#).

We were pleased in 2019 to see the resolution of a complaint made in 2016 regarding tobacco growing in the US, which found that BAT had not breached its obligations under the OECD Guidelines for Multinational Enterprises relating to human rights and due diligence. The complaint was made by the IUF union and the Farm Labor Organizing Committee to the UK National Contact Point (UK NCP) for the OECD Guidelines – full details can be found in the UK NCP's final statement<sup>5</sup>. In 2019, there were also two external allegations regarding human rights issues in our tobacco leaf supply chain in Italy and Malawi.

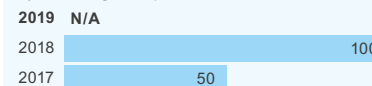
 Full details of the allegations and our response can be found at our [website](#).

### Tobacco leaf supplier reviews

100% over a three-year cycle, ending 2018

**Target:** Independent on-site STP reviews conducted on 100% of our leaf operations and suppliers over a three-year cycle.

(% of total leaf operations and suppliers where independent on-site reviews have been conducted over the three-year cycle ending 2018<sup>6</sup>)

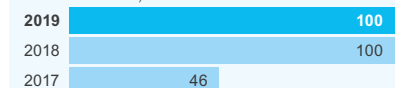


### Supplier risk assessments and audits

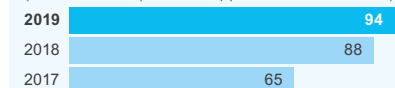
100% assessed for human rights risks in 2019

**Target:** 100% adherence of suppliers of product materials (other than tobacco leaf), goods and services covered by our human rights supply chain due diligence programme.

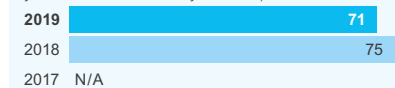
(% of total procurement spend covered by Verisk Maplecroft risk assessment)



(Number of independent supplier audits conducted)



(% of suppliers' corrective action plans completed by year-end and verified by Intertek<sup>7</sup>)



<sup>3</sup> Bangladesh, Brazil, China, El Salvador, France, Germany, India, Indonesia, Italy, Kenya, Malaysia, Mexico, Netherlands, Nigeria, Pakistan, Philippines, Poland, Portugal, Russia, Singapore, South Africa, South Korea, Sri Lanka, Sweden, Thailand, Turkey, UK, Ukraine, United Arab Emirates, US and Vietnam.

<sup>4</sup> Bangladesh, Cameroon, China, Colombia, Democratic Republic of Congo, Egypt, Eritrea, Indonesia, Iran, Iraq, Lebanon, Mali, Mozambique, Myanmar, Niger, Nigeria, Pakistan, Papua New Guinea, Russia, Saudi Arabia, Sudan, Turkey, Uzbekistan, Venezuela and Zimbabwe.

<sup>5</sup> <https://www.gov.uk/government/publications/uk-ncp-final-statement-complaint-from-iuf-and-floc-against-bat> (accessed March 2020).

<sup>6</sup> During a period of development, in 2019, suppliers have continued to complete the annual STP self-assessment, but there have been no on-site reviews.

<sup>7</sup> We started tracking this data from 2018.



# FARMER LIVELIHOODS

## Why it matters

Maintaining a stable income in agriculture can be challenging in the face of an unpredictable climate and changing market forces; and rural poverty is recognised as a primary root cause for issues such as child and bonded labour, as well as poor safety and environmental standards.

In many rural farming countries, poverty and lack of easy access to basic services and infrastructure, such as clean water, electricity, schools, transport and healthcare, can lead to young people moving away to find jobs in the cities. Without a new generation of farmers, the future of agriculture could be under threat – and that presents a major long-term risk for our business.

By enhancing the livelihoods of our contracted tobacco farmers, we can help address a primary cause of these risks, while securing our tobacco leaf supply chain by helping farming be seen as a preferred profession, particularly for rural youth.



## Policies and accountability

Our **Supplier Code of Conduct** (the Code) defines the minimum standards expected of our suppliers, including decent wages criteria, and is incorporated into our contractual arrangements. The Code was endorsed by our Main Board, and our Operations Director owns the policy on behalf of the Management Board. The Code is available in local languages and communicated to suppliers through our onboarding processes.

The **Sustainable Tobacco Programme (STP)** includes industry-wide criteria on a wide range of areas, including for farmer income and farm labourers' wages and benefits, and we require our leaf operations and third-party leaf suppliers worldwide to participate.

 Find out more about STP in **Human rights**.

We have a global sustainable agriculture and farmer livelihoods programme, known as *Thrive*. This is based on the internationally recognised 'Five Capitals' framework, first developed by the Department for International Development and then adopted by the Food and Agriculture Organisation (FAO) of the UN. To be sustainable, farming communities must be 'in credit' across five types of 'capital': financial, natural, physical, human and social. Strength in all five creates resilience and enables farmers and rural communities to prosper. *Thrive* is applied to our BAT leaf operations and strategic third-party suppliers.

Our Main Board reviews our sustainable agriculture and farmer livelihoods strategy regularly, including details of progress against our global priority areas and *Thrive* indicators.

## Our management approach

### Supporting farmers

We support our 90,000+ contracted farmers through the work of our global Leaf Science & Research and our Extension Services of expert field technicians.

Our Leaf Science & Research focuses on developing new tobacco seed varieties that offer greater yields and higher quality and so help to boost farmers' profits.

In 2019, 57% of tobacco leaf grown by our contracted farmers was from these varieties, resulting in an increase in yields by 12 to 20%, depending on growing conditions, compared to traditional strains. They also research, test and develop innovative farming technologies and techniques that are rolled out to our contracted farmers as part of comprehensive agri-support packages by our Extension Services.

As well as environmental benefits, these also help to save farmers money by increasing farm efficiency and productivity. For example, automated curing barn technology reduces fuel use up to 30%, depending on the model, and makes the curing process more efficient and 50% less labour-intensive. 'Floating' systems for growing tobacco seedlings, used by our contracted farmers in eight countries and now being trialled in another country, use about 85% less water per hectare, improve the quality of the seedlings and have the potential to increase yields by up to 36%, compared to traditional systems, through less plant mortality and better plant development.

 Find out more about the work of our Leaf Science & Research in **Sustainable agriculture**.

Our contracts with farmers are negotiated each year and guarantee we will buy their tobacco crop at a fair price, as well as detailing the support and training they'll receive from our Extension Services throughout the growing season. We also give our contracted farmers the option to access financial advances to pay for crop inputs, such as seeds and fertilisers, which they repay at the end of the season.

We support our contracted farmers to diversify and grow a range of other crops alongside, or in rotation with, tobacco. This helps to enhance food security and to increase farmers' resilience by enabling them to not rely on just one crop and giving them additional sources of income. For example, in Pakistan, we provide our contracted farmers with free seeds and training for growing vegetables; and, in Kenya, we donate maize seeds to our contracted farmers and provide them with free support and training to grow it.

Also in Kenya, we facilitate health and crop insurance for contracted farmers, helping to build their resilience and provide a safety net for unexpected events. For example, thanks to crop insurance, over 2,000 of our contracted farmers were able to claim back losses of some KSh79 million (£600,000) following a prolonged drought in 2017 that led to major crop losses across the country. In addition, we support farmers in Kenya to set up independent savings and credit cooperatives, which helps them to better manage their income and invest for the longer term.

## Our management approach continued

### Supporting farmers continued

#### Increasing the prosperity of family farming in Brazil

We source a significant proportion of our total Group tobacco leaf purchases each year from over 20,000 farmers in the southern states of Brazil. These farmers are directly contracted by our subsidiary, Souza Cruz, which, since 1918, has pioneered the development of an integrated approach to sustainable tobacco production in the country.

The positive impact of the ongoing work of our Extension Services to increase farmer incomes can be seen in the results of independent research conducted in 2019 (see [page 35](#) for details). The study found that 83% of our contracted farmers interviewed have increased or significantly increased their income from tobacco farming in the past five years, compared to 50% for those growing for other tobacco companies.

As well as the support for the tobacco crop, we support programmes to promote crop and land diversification among tobacco farmers across the country. First launched by Souza Cruz in 1984 and managed by the tobacco interstate union since 2015, the programme generated R\$640 million (£115 million) of additional income for tobacco farmers in 2019, from approximately 170,000 hectares of corn, beans, soya and pastureland planted after the tobacco crop harvest.

In addition, our Sustainable Farm programme focuses on working with selected tobacco farmers to conduct a comprehensive farm management and financial analysis that considers a crop diversification matrix and environmental and social matters. The results are used to generate recommendations and training for all our 20,000+ contracted farmers in the country to help them have profitable businesses. Our training programmes are run in partnership with SENAR, the national service for rural learning, and include a wide range of topics, including farm and agro-business management, health and safety, human rights and labour rights, and women's empowerment.

Our *Novos Rurais* programme provides entrepreneurial training and opportunities for young people to receive financial support for setting up new agricultural businesses. The programme was recognised in 2017 by the UN's FAO, which awarded it a Certificate of Good Practice for Sustainable Rural Development. Since 2014, it has empowered over 2,260 young people and invested in almost 800 new businesses in farming communities. This is making an important contribution to our key objective for farming to be seen as a preferred profession, particularly for rural youth.

### Supporting communities

As well as the direct support we provide contracted farmers, in many parts of the world we also partner with NGOs and other stakeholders on projects to support the wider rural communities where we operate. We've invested £46.1 million in community and charitable projects over the last three years, including over £13 million in 2019.

These projects focus on a wide-range of different issues, including women's empowerment, poverty alleviation, micro-financing, job skills training, basic services and many more. For example, in 2019, we supported 14 rural infrastructure projects in eight countries, including seven clean water and sanitation projects, three solar energy projects and the remaining focused on issues such as healthcare, technology and transport. In Pakistan, for instance, since 1985, we have helped bring free healthcare services to remote tobacco-growing areas through mobile doctor units for people across six farming regions.

We also have 25 programmes focused on supporting agro-business development, food security and women's empowerment in 12 countries. For example, for over 13 years in Sri Lanka, we have worked to enhance food security and empower women in poor rural communities by helping them maximise the use of their home gardens for organic cultivation of vegetables and other food and income sources. This includes teaching agricultural skills, enhancing their knowledge and providing resources such as seeds, plants and poultry, as well as training in beekeeping, mushroom cultivation and goat-rearing. To date, the programme has benefitted over 76,000 individuals in 19,600 families.



#### Enhancing rural infrastructure in Bangladesh

Through our *Probaho* programme in Bangladesh, over 200,000 people a day now benefit from better access to over 400,000 litres of safe drinking water, thanks to 87 new water filtration plants we have installed in tobacco-growing communities. An independent impact study<sup>1</sup> found that this has reduced the number of people suffering from waterborne diseases from 32% down to just 0.3%.

The huge impact on the lives of the women and girls, who are responsible for collecting the family's water each day, was also identified by the study. It means that women no longer have to travel long distances to collect water or have to deal with constant sickness in the family. This gives them more time to help their children with their studies and to take on more work, including as seamstresses for the village, helping to boost the family's income.

In addition, the *Deepto* project has, since 2011, brought free solar power to 25 remote, off-grid villages. More than 2,600 solar home systems have been installed for families that previously had no electricity, ending most activities at sundown.

The impact study found that 65% of beneficiaries said they have started new income-generating activities, such as basket weaving and sewing, since getting solar power in their homes. Before *Deepto*, over 70% of schoolchildren faced problems keeping up with their schoolwork, due to lack of light to study in the evenings. Around 84% now have more time to study, helping to improve their school performance.

<sup>1</sup> Nielsen (2017), *Responsible Business for Sustainable Future*, CSR impact assessment, the Nielsen Company (Bangladesh) Ltd.

## Our management approach continued

### Thrive programme

Our *Thrive* programme builds on our long history of supporting farmers and rural communities. It was first piloted in 2014 and 2015 and we then used the results to further refine the strategy in consultation with external consultants with expertise in livelihoods programmes. This has included defining a core set of indicators to measure strength in each capital. These help us to set benchmarks, measure improvements, prioritise our resources, and monitor progress and impact over time.

### Independent research

To further increase our understanding of the role tobacco plays in rural livelihoods, we commissioned IMC Worldwide, one of the world's leading international development consultancies, to conduct independent research in Bangladesh, Brazil and Kenya. The study, conducted between September 2018 and May 2019, included 257 interviews with tobacco farmers and labourers and a critical review of existing published literature relating to the social and environmental impacts of tobacco growing.

The overarching research question was to identify if tobacco growing reduces resilience and prevents farmers and rural communities from prospering – overall, IMC found no evidence of this. In fact, they concluded that tobacco growing plays an important and positive role in the livelihoods of tobacco farmers and labourers interviewed, and no evidence to suggest a causal link between tobacco cultivation and poverty was found.

The country research showed that, rather than a causal link to poverty, tobacco farmers' perceptions of the changes in their

circumstances imply that they perceive a sustained increase in wellbeing and their socioeconomic status over time. In all countries, tobacco farmers reported that they choose to grow tobacco because it's their most lucrative and reliable cash crop, and that it provides a substantial and increasing contribution to their household income. Nearly two-thirds of farmers who have recently started growing tobacco did so for income and profit motivations.

IMC also found that tobacco farmers are highly diversified, and there was no indication of tobacco growing resulting in food insecurity. They observed that wide reference was given within some of the published literature they reviewed to tobacco being a monocrop. However, there was no evidence of monocropping – the tobacco farmers interviewed in all three countries were highly diversified, engaging in a mixed portfolio of crops and activities. In Bangladesh and Kenya, farmers' ability to derive sources of food from on-farm production is crucial and, among the research samples, it was found tobacco farmers and labourers grow their own food and are consequently relatively food secure; whereas, in Brazil, farmers mainly grow other crops to maximise farm income and profitability.

 See IMC's research report, including our response to the findings.

## Thrive capitals and indicators

### Profitable farms and stable incomes

- Farmer income
- Farmer productivity
- Crop diversification/food security

### The natural resources upon which farming and landscapes rely

- Soil and water management
- Water use
- Sustainable fuels

### Basic infrastructure needed for viable places to live and work

- Land security
- Access to decent water and sanitation, energy, housing and healthcare



### Skills, knowledge, labour and human rights

- Next generation of farmers
- Tackling child labour
- Tackling forced labour
- Health and safety

### Resources and 'safety nets' for self-sufficiency and resilience

- Job security/longevity
- Sustainable fuels
- Women's empowerment
- Grievance mechanisms

## Our 2019 progress and performance

Since implementing *Thrive*, we have continually developed and strengthened the programme, as well as working to address the challenges that inevitably come with gathering accurate and timely data across global agricultural supply chains.

For BAT leaf operations, the majority of data for our *Thrive* indicators is collected via our Farmer Sustainability Management (FSM) digital monitoring tool – rather than paper-based systems – which we first piloted in Pakistan. In 2019, we commissioned an independent external assurance provider to conduct an ‘assurance readiness assessment’ of a selection of *Thrive* data collected through the FSM system in Pakistan. This included conducting interviews with data owners and a review of relevant procedures, controls, calculation methodologies and supporting evidence.

The assessment made a number of recommendations, some of which we have already implemented, including providing extra guidance on the definition of the indicators and, importantly, defining ‘red flag’ alerts and prompt actions for major risks, such as child labour, to boost response times and real-time management of priorities. We are progressing the remaining recommendations across our leaf operations.

In 2019, over 250,000 farmers were assessed through our *Thrive* programme, covering more than 80% of our total tobacco leaf purchases. We use the results to define priority actions for our leaf operations focused on addressing our global priorities and the locally-relevant risks identified.

In the assessments, our leaf operations and strategic third-party suppliers reported that

92% of their contracted tobacco farmers grow other crops, including fruit, vegetables, wheat, maize, cotton and soy. They also reported running 2,709 farmer training sessions on farm business management which, overall, had over 76,000 attendances. In addition, some 298 women’s empowerment and leadership training sessions were held, with over 24,000 attendances.

We are committed to continuing to improve the quality of our data in order to publish progress against all our *Thrive* indicators in future reports.

### Crop diversification and food security

# 92%

(% of tobacco farmers in our supply chain that grow other crops, including fruit, vegetables, wheat, maize, cotton and soy<sup>2,3</sup>)

2019	92
2018	95
2017	96

### Farmer training

(Number of farmer training sessions reported via our 2019 *Thrive* assessments<sup>2</sup>)

	2019
<b>Farm business management:</b>	
Sessions	2,709
Attendances	76,656
<b>Women’s empowerment and leadership:</b>	
Sessions	298
Attendances	24,368



<sup>2</sup> As reported through our *Thrive* assessments covering BAT contracted farmers and farmers contracted to our strategic third-party suppliers, representing more than 80% of our total tobacco leaf purchases in 2019. For crop diversification and food security, data reported excludes the US, where farmer food security is considered as a lower risk.

<sup>3</sup> Crop diversification figures may vary year-on-year, depending on the commercial outlook in the countries where the crops are grown, including the viability of other crops.



# HEALTH AND SAFETY

## Why it matters

The risk of injury, death or ill health to employees and those who work with the business is a fundamental concern and something we do all we can to mitigate and address.

Safety risks vary significantly across our business operations. For example, our manufacturing sites, where we have operational control and can better manage risks, have comparably much lower accident rates than in Trade Marketing & Distribution (TM&D), which involves the distribution and sale of our products in environments outside of our direct control.

In our tobacco leaf supply chain, farmers and workers are at risk of pesticide poisoning from handling agrochemicals and green tobacco sickness (GTS) from handling wet green tobacco leaves during harvesting.

Providing safe working conditions and continuing to strive for zero accidents across the Group enables our people to thrive, while also enhancing productivity and our reputation as an employer of choice.



## Policies and accountability

The **Respect in the Workplace Policy** in our **SoBC** outlines requirements for all Group companies to safeguard employee wellbeing and provide a safe working environment. This is complemented by our **Supplier Code of Conduct**, which defines the minimum standards we expect our suppliers to adhere to, including a requirement for them to provide a safe working environment for all their employees and contractors.

Our **Health and Safety Policy** applies to all Group companies where our shareholding is 50% or greater. It was endorsed by our Main Board and our Operations Director owns the policy on behalf of the Management Board. The policy recognises the importance of the health, safety and welfare of all our employees and third-party personnel in the conduct of our business operations and is supported by our environment, health and safety (EHS) management system. Each of our business operations has an EHS Steering Committee, with overall responsibility held by the applicable general manager or site manager. EHS is also a standing agenda item for management meetings and governance committees at area, regional and global levels.

Performance against the Group's health and safety targets and key performance indicators is reviewed by the Main Board annually and the Corporate Audit Committee three times a year.

In addition, our **Leaf Supplier Manual** includes specific health and safety requirements for tobacco leaf suppliers, which they must formally agree to each year.

Our **operational standard for personal protective equipment (PPE) in tobacco farming** was developed in 2019 and applies to all 90,000+ farmers directly contracted by BAT leaf operations. It requires the mandatory provision of PPE to all farmers and workers for agrochemical use and harvesting, as well as training and monitoring for all farms on PPE, agrochemical use and GTS.

We ask our third-party leaf suppliers to guarantee that its requirements have been implemented within their own practices and operations.

## Our management approach

### Safety across our business

Our goal is zero accidents across the Group. Our comprehensive approach is based on risk management from which we develop tailored initiatives for specific priorities and high-risk areas of the business. For example, in manufacturing, our accident prevention programme focuses on preventing injuries when using equipment or machinery.

In TM&D, there are higher risks of road traffic accidents or attacks and assaults. We have close to 30,000 vehicles and motorcycles out on the road every day, 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 a high risk of armed robbery and assaults. Poor road infrastructure and traffic management, as well as wide variations in driving standards and behaviour, provide further challenges.

Our comprehensive driver safety and security programme enables us to monitor, analyse and improve driver behaviour, and build a safer work culture. We take specific measures appropriate to the local circumstances, such as using technology to improve vehicle safety, placing limits on the load carried, enhancing safety training and changing routes to avoid predictability. In high-risk locations, we constantly assess threats to ensure appropriate security protocols and escorts are in place.

We track safety performance across all our sites and a dedicated team regularly analyses the information to identify trends or high-risks areas that require coordinated cross-functional action.

If a serious incident or fatality occurs, we liaise with the relevant authorities to assist their investigations, as well as reporting fatalities to the Board, which 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.

#### Occupational health and wellbeing

We aim to be among the leaders in occupational health management. We focus on identifying hazards, assessing risks to people's health at work and introducing appropriate controls.

We also have programmes around the world that protect and promote health and wellbeing for employees, their families and local communities. These include medical services and insurance, healthy lifestyle and fitness schemes, and family-friendly policies and initiatives, such as flexible working and help with childcare.

### Safety in tobacco growing

All our contracted farmers are required to provide PPE for themselves and their workers for both agrochemical use and harvesting. Our Extension Services provide regular training and guidance in how to use, clean and care for it to ensure effectiveness. The training not only covers PPE, but also comprehensive health and safety best practice and preventative measures against GTS, and this is supported by ongoing farmer communications.


In addition, we provide training and awareness-raising for our contracted farmers on the correct and safe use, storage and disposal of agrochemicals to protect the environment and their health. These sessions cover our standards to ensure our contracted farmers use only approved agrochemicals with the lowest possible toxicity according to the World Health Organization classification.

### Green tobacco sickness (GTS)

GTS is a type of nicotine poisoning caused when nicotine is absorbed through the skin from wet tobacco leaves. Harvesting tobacco when wet is a real risk to farmers and their workers.

The symptoms are temporary and can include headaches, nausea, and dizziness. These are similar to those of heat stress and pesticide intoxication, which in some cases, can make it difficult to diagnose.

Research shows that the proper use of PPE when harvesting can minimise the risks of GTS. We work to provide our contracted farmers and their workers with access to suitable PPE and training in how to use and care for it to ensure its effectiveness. Our GTS education and awareness programmes focus on providing farmers and workers with practical guidance about risk factors, preventative measures, symptoms, diagnosis and treatment.

 For more information, please see [Green tobacco sickness](#).

## Our 2019 progress and performance

### Safety across our business

In 2019, we saw a reduction in total accidents, to 194, down from 236 in 2018. This included improvements across the majority of accident categories and we continue to take measures to ensure robust risk management is in place, supplemented by targeted communications campaigns to raise awareness.

Injuries related to attacks and assaults in TM&D have declined in 2019, demonstrating the ongoing positive impact of the security initiatives implemented over the last two years. While road traffic accidents have remained steady compared to 2018, we have seen an ongoing decline in recent years as drivers' standards and awareness continually improve.

It is with great sadness that we must report that there was one contractor fatality in 2019 (compared to a total of 12 employees and contractors in 2018), and eight members of the public lost their lives in road traffic accidents involving BAT vehicles in Brazil, Indonesia, Iran, Kenya, North Sudan and Zambia. While our drivers were found not to be at fault, we deeply regret this loss of life and the suffering it has caused to family, friends and colleagues. In response, we have enhanced our driver safety and awareness training in these areas, focused on the potential hazards and driver behaviour that could help avoid similar accidents from happening again.

#### Total accidents

# 194

(Number of accidents to employees and contractors<sup>1</sup>)



#### Fatalities

(Number of fatalities to employees and contractors; and members of the public involving BAT vehicles)

	2019	2018	2017
Employees	0	3	1
Contractors	1	9	11
Members of the public, involving BAT vehicles	8	6	11

#### Serious injuries

(Number of serious injuries to employees and contractors)

	2019	2018	2017
Employees	26	26	36
Contractors	11	16	30

#### Lost workday cases

# 186

(Work-related accidents resulting in injury, causing absence of one shift or more)



#### Lost workday case incident rate (LWCIR)<sup>2</sup>

# 0.27


(LWCIR<sup>3</sup>)



#### Occupational illness rate<sup>4</sup>

# 0.006



 Indicates independently assured data. Read the full assurance statement in **Independent assurance**.



<sup>1</sup> We have restated the 2018 figure (236) to include data from our recent acquisitions.

<sup>2</sup> LWCIR is calculated as the number of lost workday cases through injury to employees and contractors multiplied by 200,000 divided by total hours worked.

<sup>3</sup> We restate the 2018 figure (0.27) to include data from our recent acquisitions.

<sup>4</sup> Occupational illness rate is calculated as the number of incidents of occupation illness to employees and contractors per 200,000 hours worked.



## Our 2019 progress and performance continued

### Safety in tobacco growing

In 2019, IMC Worldwide, one of the world's leading international development consultancies, published research commissioned by BAT into the impacts of tobacco growing on rural communities, including topics relating to health and safety. The study included field research in three contrasting countries – Bangladesh, Brazil and Kenya – involving a total of 257 interviews, as well as a critical review of existing published literature. The literature review showed few specific linkages between tobacco cultivation and the realisation of the health and safety risks examined. Evidence of risks posed by pesticide use in tobacco versus other crops was scarce and there was little reliable comparative data. GTS was found to be a specific risk to tobacco farmers and workers, particularly for women, but research shows that the proper use of PPE will minimise the risk.

In the field research, IMC found that where PPE is made available to registered tobacco growers by the contracting company, this is valued by farmers and impacts positively on PPE compliance. We're reassured that the use of PPE was high among the BAT contracted farmers interviewed. The majority had received best practice information and training in its proper use, and they appeared to be effectively mitigating health and safety risks. Some gaps were identified in relation to farmers' understanding of GTS and its causes and symptoms, particularly in Bangladesh and Kenya, which we are working to address through enhanced training and awareness programmes.

 [Read IMC's full research report.](#)

We monitor health and safety performance through our *Thrive* assessments which cover BAT contracted farmers as well as farmers contracted to our strategic third-party suppliers. In 2019, they reported that 93% of farms had sufficient PPE for agrochemical use and 97% had sufficient PPE for harvesting tobacco. It was also reported that over 2,600 farmer training sessions on GTS and health and safety best practice were held in 2019, as well as a further 2,871 sessions on health and safety best practice when using agrochemicals. Overall, these sessions had over 350,000 attendances, including farmers who attend several sessions in the year, as well as labourers and other community members.

While these figures are encouraging, we recognise that, to be fully effective, the type of PPE needs to be suitable for different activities and climates, and that ongoing education is needed to reinforce the importance of ensuring it is fully available, used and maintained properly. So, in 2019, we developed our operational standard for PPE in tobacco farming to help strengthen and reinforce our approach. It covers our mandatory requirements for 100% provision of PPE for farmers and workers; 100% training on PPE, agrochemical use and GTS; and 100% farm monitoring. The standard also includes detailed technical specifications, based on independent research, for the types of PPE appropriate for agrochemical use and harvesting, and for different climates and conditions. From 2020, our health and safety monitoring will be measured against the strengthened PPE standard.

 [Find out about our \*Thrive\* programme in Farmer livelihoods.](#)

### Provision of PPE for farmers and their workers

(% of farms reported to have sufficient PPE for agrochemical use and harvesting<sup>5</sup>)

	2019	2018	2017
PPE for agrochemical use	93%	89%	89%
PPE for harvesting	97%	96%	90%

### Farmer health and safety training

(Number of farmer training sessions and total attendances<sup>5</sup>)

	2019
<b>GTS and harvesting health and safety:</b>	
Sessions	2,608
Attendances	196,982
<b>Agrochemical health and safety:</b>	
Sessions	2,871
Attendances	201,374



<sup>5</sup> As reported through our *Thrive* assessments covering BAT contracted farmers and farmers contracted to our strategic third-party suppliers, representing more than 80% of our total tobacco leaf purchases in 2019.



# PEOPLE AND CULTURE

## Why it matters

The 53,000+ people we employ worldwide are key to our success. As we transform our business, we need to continue attracting and retaining the best talent and to stand out in an increasingly competitive international employment market.

By investing in talent, strengthening our culture and values and maintaining a fulfilling, rewarding and responsible work environment, we can increase our competitive advantage and develop the next generation of diverse leaders.

## Policies and accountability

Our **Standards of Business Conduct (SoBC)** comprise the core global policies that express our high standards of integrity. These include **Speak Up** and **Respect in the Workplace**, covering equality and diversity, preventing bullying and harassment and safeguarding employee wellbeing. The SoBC is mandatory for all Group companies and employees, including subsidiaries and joint ventures that BAT controls.

Our **Employment Principles** apply to all Group companies and include our commitments to diversity, reasonable working hours, a family-friendly work environment, employee wellbeing, talent, performance and equal opportunities, and fair, clear and competitive remuneration and benefits.

Our Director, Talent and Culture, has overall responsibility for all employee and human resources matters, while our Management Board oversees the development and management of talent within the Group's regions and functions and monitors progress against our key objectives and performance indicators.

Our Main Board is responsible for assessing and monitoring culture and its alignment with Group purpose, values and strategy. In 2019, we introduced a new Group culture dashboard review, which our Board will now monitor annually. The dashboard draws together a range of focused insights that can be measured over time, including employee engagement, leadership stability, employee retention and turnover, diversity balance across the organisation, business conduct, Speak Up and health and safety.

The Board also conducts regular reviews of the Group's talent, diversity and inclusion strategies and the progress of initiatives supporting their objectives. As part of its annual workforce engagement review, it receives feedback from a range of mechanisms across the Group, including outcomes from our employee survey, conducts market and site visits, and discusses plans for implementing feedback.

## Our management approach

### Investing in talent

As our industry continues to transform, the way we attract and develop talent continues to evolve to meet these new challenges. Our increasingly data-led and digitally-enabled approach focuses on bringing new skills and capabilities to our teams.

We continue to reshape our employer brand to attract and retain capabilities needed to deliver our strategy, supported by our strong social media position that grew followership by over 20% in 2019. Our employee value proposition remains strong and the Group was awarded Global Top Employer recognition for the third consecutive year with special recognition in 35 countries.

Developing critical capabilities is at the highest of the Group's priorities and we are focused on personalised digital opportunities for upskilling employees. To support our people, in 2019, we launched a new Digital Learning platform called The Grid, which consolidates our internal and external learning content together in one place for ease of access.

Additionally, we launched the micro-learning mobile app Ed, which is available to all our Group company employees in marketing and provides always on mobile access to our New Category products learning portfolio. As a result, more than 6,700 marketers and trade marketing representatives regularly use the app to support their daily sales visits to retail outlets and wholesalers.

We also recognise that, to accelerate our step-change in New Categories, we need to be a stronger, faster and simpler organisation. A key driver behind this is our new Ethos – an evolution of our Guiding Principles that were developed in 2019 with significant input from our employees. They guide our behaviours across the entire Group and are about being bold, fast, empowered, responsible and diverse.

 Find out more about our new Ethos on page 11 of our [Annual Report 2019](#).



## Our management approach continued

### Diversity and inclusion

Our Diversity and Inclusion Strategy is embedded across the Group worldwide and focuses on driving ownership and accountability, building diverse talent pools and creating enablers – all underpinned by an inclusive culture.

Everyone at BAT has a role to play, so we clearly define the ownership of, and accountability for, diversity across all areas of the business. Our business functions, regions and markets have diversity action plans and initiatives in place, and each leadership team also has a designated 'Diversity Champion'. They are responsible for driving the agenda, including ensuring that agreed diversity action plans are implemented and that development and retention plans for high-potential employees are executed with a strong focus on gender diversity. Diversity is also fully embedded into our talent review processes and meetings across all levels of the Group – from the Management Board down to the local market-level.

To realise our diversity ambitions, we know we must have enablers in place that provide a supportive environment for people to thrive and realise their full potential. We also understand the importance of helping our employees to balance their home and work lives – something that can be particularly challenging for new parents.


Our Parents@BAT programme, launched at the end of 2018, provides a range of benefits to support new parents working in all BAT businesses worldwide. As well as offering significantly better terms than existing legal requirements for over 20,000 of our employees in 26 countries, it includes flexible working opportunities and an online advice service offering coaching support for all parents whenever they need it. The online coaching support also provides guidance for line managers, so they can fully support their employees before, during and after parental leave.


We provide women and diverse groups with opportunities to connect, engage and share experiences through networks and other forums. This includes 13 women's networks that cut across all levels of the organisation. Our global 'B United' network provides a safe forum for our lesbian, gay, bi and transgender (LGBT+) employees to share experiences, mentoring opportunities and help with overcoming hurdles, such as those relating to adoption or travelling abroad with same sex partners.

Our Women in Leadership programme has been supporting the development of our female employees for the last six years and we've participated in the INSEAD business school's Women's Leadership Development programme for the last four years. Together, these two programmes have supported 476 of our high-potential female employees.

We also provide a range of mentoring, coaching and sponsorship programmes to support women's development, including, for the last five years, cross-company mentoring through the 30% Club in the UK. In addition, we have reverse mentoring schemes in our Information & Digital Technology (IDT) function and key markets, where junior managers mentor senior leaders to bring fresh perspectives and ways of working.

In 2020, we plan to join the 30% Club's new international programme to bring cross-company mentoring opportunities to our female employees outside of the UK. We also plan to launch a new returner programme called IGNITE to support people who have taken career breaks back into the workplace. This will give us the opportunity to reach a largely untapped pool of high-calibre, experienced and motivated individuals, while also increasing gender, age and cognitive diversity among our workforce. We will pilot the programme initially in the UK before rolling it out to further BAT markets.

 For more details on our **Diversity and Inclusion Strategy**, see our 2019 Gender Pay Report.

 Please also see **Board diversity**.

### Women in STEM

As we continue to transform our business to develop new technologies and product categories, we need to unlock the best talent and bring different perspectives to innovation and problem-solving. So, in 2019, we launched our Women in STEM (science, technology, engineering and maths) initiative. Using external partnerships and internal learning and development platforms, this aims to attract, develop and retain more women in our Research & Development (R&D) department, and our Operations and IDT functions.

In 2019, the Women in IT Awards nominated seven of our female IDT employees in categories for 'CIO of the Year', 'Digital Leader of the Year', 'Data Leader of the Year' and 'E-skills Initiative of the Year'. These globally recognised awards focus on identifying new role models, celebrating women's achievements and promoting dialogue around diversity in the technology sector.

We celebrated the International Day of Women and Girls in Science in 2019 with a global campaign showcasing female scientists working in our R&D centre in the UK. And, in the US, our subsidiary Reynolds American Inc ran a 'Women of Transformation' campaign in 2019 to highlight and celebrate its innovative female leaders.

In the UK, we've joined the WISE, a multi-stakeholder organisation that enables people in business, industry and education to increase the participation, contribution and success of women in STEM. These types of partnerships, which we are looking to implement in key hubs across the business, will also provide female employees the opportunity to widen their network and interact with peers from other companies.

## Our management approach continued

### Workforce engagement

The Group has a range of well-established workforce engagement channels to ensure the Main Board understands the views of the Group's workforce worldwide.

Group engagement channels include works councils, meetings with the European Employee Council, town hall sessions, global, functional and regional webcasts, and Chief Executive and Director webcasts and live Q&As, implemented at market, business unit, functional and/or regional level as appropriate for the composition of the local workforce. We also undertake the 'Your Voice' global employee opinion survey every two years.

Additionally, the Board undertakes a Group market or site visit on an annual basis, including meeting with local employees, and the Directors regularly visit markets and local sites across the Group. Our Directors also take other opportunities to engage directly with employees, such as through their support for diversity initiatives. In 2019, examples include Director participation in our global International Women's Day campaign and our second annual event for B United.

In accordance with our SoBC, we respect freedom of association and collective bargaining. Our employees have the right to be represented by local company-recognised trades unions, or other bona fide representatives. Such representatives should be able to carry out their activities within the framework of law, regulation, prevailing labour relations and practices, and agreed company procedures.

Our Employment Principles also make clear that, where restructuring is necessary, we are committed to doing so in a responsible manner. Where such situations do occur, our companies adopt responsible local approaches and procedures to address each instance. For example, this includes employee consultation periods, severance pay and any other measures as may be appropriate to the situation and location, including outplacement support to help displaced employees to find alternative employment.

### External recognition



#### Diversity leader in the Financial Times Diversity Leaders report:

BAT was ranked in the top 10% of the total of 8,000 organisations covered by this inaugural report. It was compiled from extensive research, with 80,000 people surveyed across 10 European countries, and recognises the organisations that have achieved a diverse and inclusive workforce across several criteria.



**Global Top Employer:** we've been accredited as a Global Top Employer for three consecutive years, acknowledging our commitment to providing best-in-class working environments and career opportunities, as well as supporting employees' work-life balance throughout their careers.



#### International Women's Day (IWD) Best Practice

**Winner:** our IWD campaigns have been recognised for two consecutive years as examples of best practice by the IWD Association and featured as a case study at [www.internationalwomensday.com/bestpractice](http://www.internationalwomensday.com/bestpractice).

mumsnet



**Mumsnet research:** an analysis conducted in 2019 by the Mumsnet website for parents in the UK found that BAT is among just 23 FTSE 100 companies that transparently publishes its parental leave policies as part of our Parents@BAT programme. Mumsnet's research has shown this is an important factor for people who are returning to work or looking to switch jobs.

**Best Place to Work for LGBTQ Equality:** our business in the US, Reynolds American Inc (RAI), was designated as a Best Place to Work for LGBTQ Equality by the Human Rights Campaign Foundation (HRCF). RAI achieved 100% on the HRCF's 2020 Corporate Equality Index, the US premier benchmarking survey and report measuring corporate policies and practices related to LGBTQ workplace equality.



**UK National Undergraduate Employability Awards 2020:** we won the award for top medium-sized undergraduate employer, in the UK National Undergraduate Employability Awards which reward and celebrate the outstanding achievements of employers, students and universities in undergraduate work experience across the UK. This award recognises the quality of our undergraduate programme, which is a key platform for us to attract the best young STEM talent from UK universities.

## Our 2019 progress and performance

Since implementing our Diversity and Inclusion Strategy, we've made great strides in increasing the proportion of women across all management levels globally. Female representation in senior management has more than doubled since 2012, from 11% to 23% in 2019 and we have broadly equal representation at graduate and lower management levels. Having had an all-male Management Board for many years, in 2019 we welcomed two women Directors to lead our IDT and Culture and Talent functions.

Operating in more than 180 markets, we also continue to have a very diverse workforce in terms of nationality. In 2019, we had 141 nationalities working in management globally, and 22% of our senior management roles were filled by people from our focus nationalities.

Our SoBC includes our commitment to respect employees' rights to freedom of association and collective bargaining and, in 2019, our companies reported that 40% of our employees were covered by an independent trade union or collective bargaining agreements.

In 2019, as part of our restructuring programme to simplify the business, we reduced around 2,300 roles globally to eliminate duplication and shrink management layers, while also adding roles to ensure we have the right capabilities to support the growth of New Categories. Overall, total voluntary turnover of management-grade employees, in 2019, was 1,085, representing 8.1% of the total management population.

The results of our global 'Your Voice' survey in 2019, completed by over 90% of our employees, demonstrate that we continue to outperform our global FMCG comparator group in all areas surveyed, including our employee engagement index at 7% higher than our FMCG comparator group and our high performance index at 6% above our FMCG comparator group. Our Group results are also significantly ahead of our FMCG comparator group in the categories of corporate responsibility, diversity and inclusion, and talent development.

### Female representation

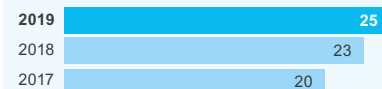
**Goal:** Significantly increase the representation of women and focus nationalities in senior management.

(%)

#### All employees Group-wide



#### All non-management employees



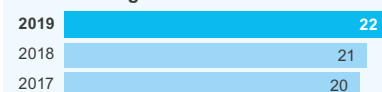
#### All management employees



#### All senior management



#### Representation of focus nationalities in senior management<sup>1</sup>



 Indicates independently assured data. Read the full assurance statement in **Independent assurance**.

### 2019 'Your Voice' survey

**Goal:** Achieve more positive scores in our global 'Your Voice' employee survey than the norm for FMCG companies in our comparator benchmark group.

(% favourable scores in our 2019 'Your Voice' survey, compared to the FMCG benchmark)

	BAT	FMCG
Employee Engagement Index	82%	75%
High Performing Index	80%	74%
Corporate Responsibility	86%	74%
Diversity and Inclusion	83%	70%
Empowerment	84%	79%
Innovation	74%	67%
Leadership and Strategy	73%	67%
People Management	82%	80%
Reward and Recognition	74%	64%
Talent Development	69%	64%
Transformation	76%	71%

<sup>1</sup> Data excludes our US business.



# ANTI-ILLICIT TRADE

## Why it matters

**Cigarettes are a reliable source of tax revenue for governments worldwide, and price differentials between markets, regulatory changes and broader macroeconomic pressures have driven the establishment of a significant illicit cigarette trade.**

The World Health Organization estimates that one in every ten cigarettes and tobacco products consumed globally is illicit. Euromonitor International estimates that approximately 456 billion cigarettes per year are smuggled, manufactured illegally or counterfeited, without any taxes paid.

This cheats governments out of around US\$40 billion each year in taxes and the profits can be used to fund other illegal activities.

## Policies and accountability

We have established dedicated Anti-Illicit Trade (AIT) teams operating at global and local levels. Our global AIT strategy is supported by a research programme that aims to further the understanding of the size and scope of the problem.

The **SoBC Illicit Trade Policy** sets out the controls all Group companies must put in place to prevent our products being diverted into illicit trade channels. It states that Group companies should have the ability to regularly monitor illicit trade in their domestic markets and assess the extent to which our products are sold unlawfully or diverted to other markets.

## Our management approach

We fully support regulators, governments and international organisations in seeking to eliminate all forms of illicit tobacco trade. We see it as vitally important that governments establish workable tax regimes and economic policies that do not create conditions that encourage illicit trade, with strong border controls and effective laws to fight the black market.

Our approach to fighting the black market in tobacco includes:

- Effective internal governance and supply chain security;
- Gathering market information on the scope of illegal trade;
- Working with authorities to ensure that appropriate enforcement action is taken;
- Engaging with international bodies like the World Customs Organisation to increase understanding of the topic;
- Informing regulators about the impacts of the illegal tobacco trade; and
- Raising awareness of the topic among our employees, business partners and the public.

## Our 2019 progress and performance

We actively engage with key external stakeholders, cooperating across our industry and other sectors on a range of AIT priorities. Our AIT Engagement team works with enforcement agencies and local tax and customs authorities, where appropriate.

We also aim to ensure business is joined up with governments and other organisations to make our combined efforts more effective. This includes collaborating with law enforcement and working closely with international bodies.

As part of our cooperation agreement with the European Commission and its member states, we contribute to funding areas including training for border staff in new security systems.

Working alongside other international tobacco companies, we developed industry-wide security systems that enhance our supply chain controls by allowing the authentication and traceability of our products, including digital coding technology to track and trace our products.

We also support law enforcement agencies worldwide in gathering and sharing information, monitoring the destruction of seized products and machinery and analysing suspected fakes in our state-of-the-art laboratory in Southampton, UK.

## GOVERNANCE

**Good corporate governance is key to our sustainable, long-term growth. We are committed to achieving our business objectives in an honest, transparent and accountable way, and sustaining a culture of integrity in everything we do. Our actions and behaviour impact all areas of our business, which is why corporate governance is such an important focus for us.**

## OUR KEY GOVERNANCE FOCUS AREAS



### Business ethics

Unethical behaviour or allegations of it (such as corruption, money laundering or tax evasion) 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.

#### Our management approach

Responsible behaviour and ethical values form the basis of our culture and are expressed in our Standards of Business Conduct. Our *Delivery with Integrity* programme focuses on ensuring everyone at BAT understands and is empowered to play their part in ensuring our standards are never compromised for the sake of results.

#### Our policies

- [Standards of Business Conduct](#)
- [Supplier Code of Conduct](#)



### Responsible marketing

Tobacco and nicotine products should be marketed responsibly to adult only consumers and not designed to appeal to youth. It's crucial that standards are applied across the industry to ensure a consistent approach and level playing field.

#### Our management approach

We take seriously our commitment to marketing all our tobacco and nicotine products responsibly. We have strict requirements to market only to adult consumers as part of our International Marketing Principles (IMP) and we expect all our markets, where possible, to conduct youth access prevention activities across all of our product categories.

#### Our policies

- [International Marketing Principles](#)
- [Youth Access Prevention Guidelines](#)



### Regulation and policy engagement

We seek to be part of the debate that shapes the regulatory environment in which we operate. Truly effective regulation needs cooperation between governments and industry, and we can contribute valuable experience and expertise to policy development.

#### Our management approach

Our Principles for Engagement have long defined how all our engagement with regulators must be conducted with transparency, openness and integrity. We offer information, ideas and practical steps to support the development of evidence-based regulation, such as for new category products, and to address priorities such as illicit trade.

#### Our policies

- [Lobbying and Public Contributions Policy in our Standards of Business Conduct](#)



### Board diversity

We believe that great talent and an engaging culture are key to our success, and diversity is a critical component of both. A diverse Board contributes to good governance and helps us set corporate culture from the top.

#### Our management approach

Our approach considers all aspects of diversity when reviewing the composition of the Main Board and Management Board. This includes having regard for diversity in its broadest sense and committing to achieving at least 30% representation of women on our Board.

#### Our policies

- [Board Diversity Policy](#)

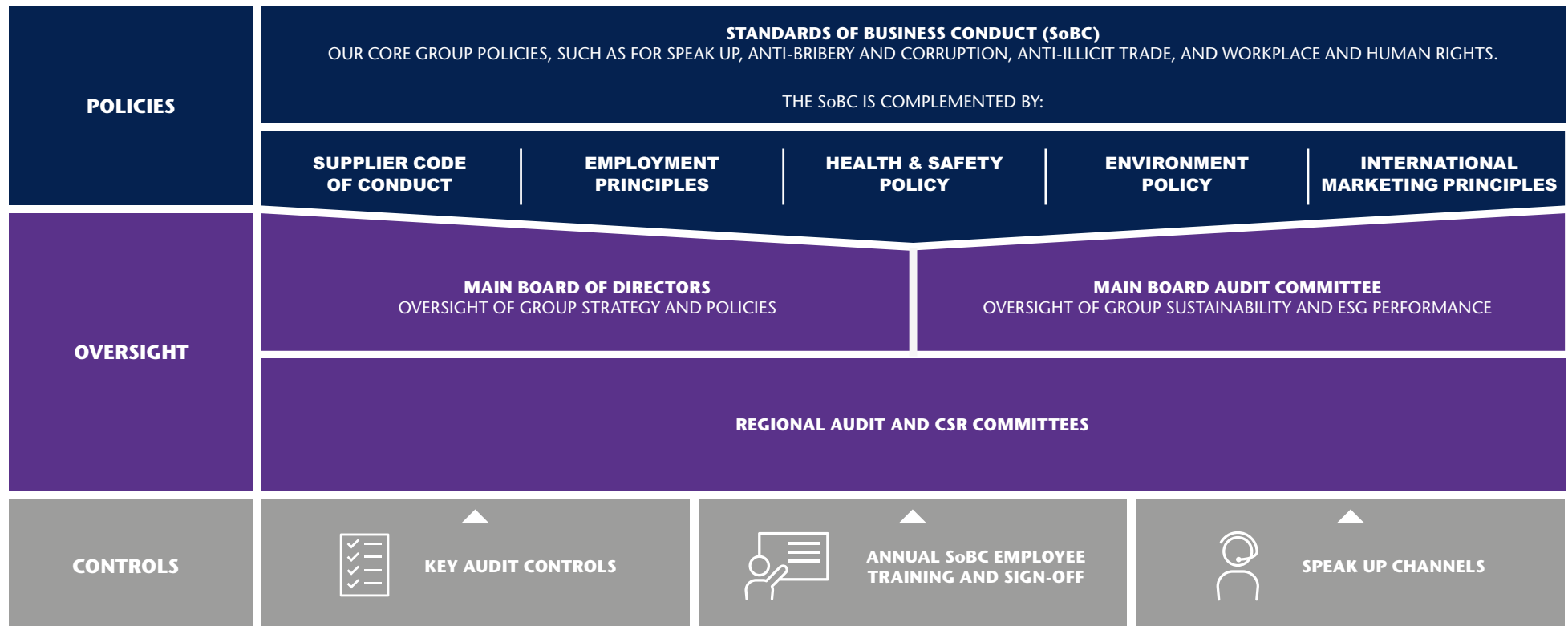
# ESG POLICIES, ACCOUNTABILITY AND CONTROLS

**Our Sustainability Agenda is supported by our Group policies, principles and standards that are endorsed at Board-level and aligned with international standards.**

Our Main Board of Directors has overall responsibility for our Sustainability Agenda and ESG focus areas, while the Board Audit Committee monitors sustainability and ESG performance, risks and adherence to our standards. The Group's Regional Audit and CSR Committee (RACCs) framework underpin the Audit Committee and provide a flexible channel for the structured flow of information through the Group.

Our executive Management Board – chaired by the Chief Executive – has responsibility for overseeing the implementation of Group strategy, policies and controls and for creating the conditions for the successful day-to-day operation of our business.

## Our governance framework





# BUSINESS ETHICS

## Why it matters

Unethical behaviour – or allegations of it – such as corruption, money laundering or tax evasion can be extremely damaging to a business. It can also distort markets, and developing countries are especially vulnerable to its associated economic, social and political impacts. Operating with honesty, integrity and transparency is not only the right thing to do – it is critical to the continuing success of our business.

In an organisation as diverse and multinational as BAT, it is essential that we work to a consistent set of rules and standards of behaviour across the Group. This is particularly relevant in the complex and challenging times we face today, such as political change, economic instability, and increasing external expectations and legislation.



## Policies and accountability

Our **Standards of Business Conduct (SoBC)** comprise the core global policies that express the high standards we are committed to upholding, covering topics including Speak Up, bribery and corruption, political contributions, tax evasion and money laundering.

Our SoBC are fully aligned with the provisions of applicable laws, including the UK Bribery Act, the US Foreign Corrupt Practices Act and the UK Criminal Finances Act.

The SoBC is mandatory for all Group companies and employees, including subsidiaries and joint ventures which BAT controls. We ask our contractors, secondees, trainees, agents and consultants to act consistently with the SoBC and to apply similar standards within their own organisations. It is available in 12 languages spoken by approximately 90% of our employees, and awareness and understanding is promoted through regular training and communications.

To help our employees effectively access, understand and apply SoBC policies, we have developed procedures and tools, such as the SoBC app, Anti-Bribery and Corruption (ABAC) Risk Assessment Tool and Third-Party ABAC Procedure.

The SoBC Assurance Procedure details how SoBC breaches will be dealt with, while compliance with the SoBC is monitored through the year by our Regional Audit and CSR Committees (RACCs) and quarterly by the Board Audit Committee.

Our Business Integrity Panel supports the Audit Committee in discharging its responsibilities relating to the SoBC. The Panel is made up of our Group Designated Officers who promote a consistent approach to investigation and remediation of all alleged breaches of the SoBC.

Our Audit Committee is regularly updated on SoBC incidents. The Committee reports to the Board to enable Board oversight of any behaviour falling short of our standards and the corrective action taken, particularly where relevant to culture and values.

The SoBC is complemented by our **Supplier Code of Conduct** which outlines the minimum standards expected of our suppliers. It includes provisions relating to bribery and corruption, sanctions, tax evasion and illicit trade.

## Our management approach

*Delivery with Integrity* is our global compliance programme, led by our Business Conduct and Compliance department. Established in 2017, it builds on our already strong foundations to drive a consistent approach to compliance across the Group, focused on empowering everyone at BAT to understand our standards and that they should never be compromised for the sake of results.

The programme promotes an ethical culture and communicates expected behaviours as set out in our SoBC. It also provides employees with ways to raise concerns without fear of retaliation and assurances that investigations will be fair and thorough. *Delivery with Integrity* also drives a consistent approach to identifying and mitigating risk in the areas of bribery and corruption, money laundering, tax evasion, competition law, sanctions and data protection through tools and guidance for employees and business units.

Mitigating third-party risk is a key component of our compliance programme. We do this through a Third-Party Anti-Bribery and Corruption Procedure (the ABAC Procedure) which assists business units in identifying and mitigating bribery and corruption risks. The ABAC Procedure mandates a consistent methodology for due diligence of third parties, complemented by mandatory mitigation packages for third parties assessed as medium and high risk. In 2019, this due diligence procedure was applied retrospectively to over 4,500 existing third parties engaged by Group companies.

In addition, given the challenges associated with intermediaries engaged to interface with public officials on the Group's behalf, detailed due diligence and mitigation measures were completed for 903 service providers with external input and oversight. We also launched an ABAC risk assessment tool in 2019 to assist

our markets to identify, assess and evaluate bribery and corruption risks.

We monitor regulatory developments to ensure the continued evolution of our *Delivery with Integrity* programme. We also regularly review the SoBC to ensure our policies remain at the forefront of best practice and, in 2019, made revisions which took effect from January 2020. This included:

- Incorporating our long-standing Principles for Engagement into the SoBC as a new Lobbying and Engagement Policy;
- Combining money laundering and tax evasion in one policy, including greater detail on the Group's obligations under the UK Criminal Finances Act;
- Amending the Whistleblowing Policy to become the Speak Up Policy, to remove the negative connotations 'whistleblowing' can have and to reflect the broad range of topics it covers and the different channels through which concerns can be raised;
- Setting out in more detail line managers' responsibilities as role models of the SoBC; and
- Updating various other policies in response to regulatory developments and to reflect areas identified for improvement through external benchmarking.

To further increase our employees' awareness, understanding and accessibility, we launched our SoBC app at the end of 2019. Available in 12 languages, this provides easy access to SoBC policies, procedures and guidance and to our global Speak Up Channels. Ambassadors across the Group are now promoting it within their business areas.



### Speak Up

We encourage anyone working for, or with, the Group to raise concerns or grievances, including through our Speak Up channels which are independently managed and available 24 hours a day online, by text or telephone. The channels can be used in confidence and anonymously and are available in multiple local languages, and their details are promoted through staff training and communications, the SoBC app and the Supplier Code of Conduct.

Our Speak Up Policy makes it clear no one will suffer any direct or indirect reprisal for speaking up about actual or suspected wrongdoing, even if they are mistaken. We do not tolerate the harassment or victimisation of anyone raising concerns or anyone who assists them. Such conduct is itself a breach of the SoBC and a serious disciplinary matter.

### Annual SoBC training and sign-off

Every year, all our employees and business entities must formally confirm they have complied with the SoBC. Individuals complete an annual sign-off during which they undergo training and assessment, reaffirm their commitment to the SoBC and declare any personal conflicts of interest.

Our business entities also complete an annual assessment of audit controls to assess and confirm they have complied with SoBC controls and compliance procedures.



## Preventing bribery through supply chain due diligence

In 2019, during routine supply chain due diligence, Intertek – our audit partner – was conducting an independent audit of a new supplier. The audit identified several priorities relating to workplace conditions. On the final day of the assessment, members of the Intertek team were offered a cash bribe by the supplier's quality manager. Despite emphasising Intertek's anti-bribery policies, the manager continued to offer the bribe.

Intertek informed BAT within hours, and in line with our SoBC Assurance Procedure, it was immediately referred to the Business Conduct and Compliance team as a breach of our Anti-Bribery and Corruption Policy. A detailed investigation was conducted by the supplier's senior leadership, which led to the termination of the quality manager's employment and the implementation of company-wide anti-bribery training, clearly communicating its Business Ethics Policy and the consequences of breaching it. The supplier also apologised formally, confirming its commitment to upholding our high standards.

The supplier performed well in Intertek's follow-up audit to verify completion of corrective actions. As a result, we decided to continue the relationship, commending them on a swift response to a serious matter.

For more details on our supplier due diligence, see **Human rights**.

## Our 2019 progress and performance

In 2019, over 25,000 Group company employees completed our annual SoBC sign-off and e-learning through the online SoBC portal. In total, our 2019 SoBC e-learning resulted in 10,800 training hours and included scenarios covering product diversion, money laundering and bribery and corruption risks. Other Group company employees (over 30,000), who do not have easy online access, completed the SoBC sign-off in face-to-face sessions, which included training. For the first time, all employees were also asked to make an 'integrity pledge' – a positive personal commitment for the year ahead.

In our 2019 global 'Your Voice' survey, completed by 90% of Group company employees, we asked for the first time if employees felt they "can report concerns about actual or suspected wrongdoing at work without fear of reprisal" – 79% strongly agreed, 8% higher than the FMCG comparator norm.

This level of confidence in our Speak Up channels and procedures is reflected in the increase in 2019 of Speak Up contacts to our SoBC portal. Not all contacts made via these channels involve SoBC allegations; some relate to questions regarding the SoBC or other matters. There were 497 SoBC contacts in 2019 and 359 of the contacts were assessed as SoBC allegations, representing a 35% increase on the total number of SoBC contacts in 2018 (266 contacts).

In the year ended 31 December 2019, of the 359 SoBC allegations reported, 130 were established as breaches and appropriate action taken (2018: 126). In 179 cases, an investigation found no wrongdoing (2018: 140). In 50 cases, the investigation continued (2018: 69), including investigation through external legal advisers of allegations of misconduct. Disciplinary action taken as a result of the 130 established SoBC breaches resulted in 80 dismissals (2018: 92). In 184 of the 359 SoBC allegations (51%), the person raising the allegation chose to remain anonymous.

### SoBC compliance

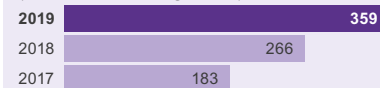
# 100%

Goal: 100% adherence to our SoBC.

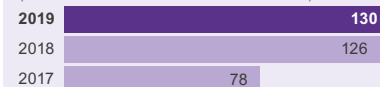
(% of employees who completed SoBC formal sign-offs and training)



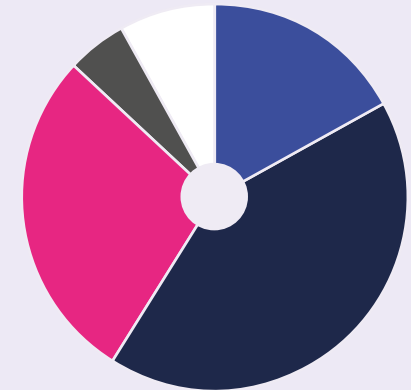
(Number of SoBC allegations<sup>1,2</sup>)



(Number of established SoBC breaches<sup>3</sup>)



### Breakdown of all SoBC allegations in 2019



Category	2019 Percentage
Personal and Business Integrity	17%
Workplace and Human Rights	42%
Corporate Assets and Financial Integrity	28%
National and International Trade	5%
Other topics not relating to a specific SoBC policy	8%
Lobbying and Public Contributions	<1%

100%  
employees completed  
our annual SoBC  
training and  
sign-off process

1 As we continue to promote our 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 Historically, we had reported this data point under 'number of cases reported to our Speak Up channels'.

3 We restate the previously reported figure of 98, as some cases reported to the SoBC portal in 2018 were pending further investigation at the time of publication of our 2018 Sustainability Report.



# RESPONSIBLE MARKETING

## Why it matters

Tobacco and nicotine products should be marketed responsibly to adult-only consumers and not designed to appeal to youth. It is also crucial that standards are applied consistently across the industry to ensure a level playing field.

Through a globally responsible approach to marketing across the Group, we can help raise standards and prevent underage access, while growing our market share and encouraging adult consumers to choose our products over our competitors. Further, new category products can only maximise their contribution to tobacco harm reduction if adult smokers feel they have information available to be able to choose the right alternative product for them, and consumer marketing can play a key role in this.



## Policies and accountability

Our **International Marketing Principles (IMP)** govern marketing across all our product categories and set out our commitment to continue to market our products responsibly and sustainably, to successfully grow our global brands. Our IMP highlight ten key themes that guide our business, including that our business is aimed at and marketed to adults only.

Our IMP are applied consistently everywhere we operate, even when they are stricter than applicable local laws.

[Find out more about these themes in our IMP.](#)

To support our strict requirement to only direct marketing at adult consumers, our markets are also expected to adhere to our global **Youth Access Prevention (YAP) Guidelines**. These apply to all markets where our products are sold, including where they're distributed through third parties; and, unless there is a government ban in place, includes a mandatory requirement to provide retailers with point-of-sale materials with YAP messaging.

IMP and YAP adherence is monitored through internal audit procedures and overseen by the Group's Regional Audit and CSR Committees (RACCs) and by the Main Board Audit Committee annually.

## Our management approach

Our IMP were first introduced in 2001 and have been regularly updated to reflect developments in marketing, our product portfolio, technology, changing regulations and stakeholder expectations. The result of these long-standing standards is that responsible marketing is well embedded in the culture of the organisation and inherent to the way we operate. Our current IMP was revised in 2019 and came to effect in January 2020, to reflect our growing multi-category product portfolio.

The IMP covers all aspects of marketing – from print and billboards to electronic and social media – and are complemented by internal training on marketing-related topics.

All marketing materials must be formally reviewed and approved by the local Legal & External Affairs (LEX) function. Our Marketing teams and external agencies receive regular training to effectively apply our approach.

Beyond our strict requirement for adult-only marketing, we also expect all our markets to adhere to our YAP Guidelines. These were strengthened in 2018 to cover all our products categories and to extend the requirements to markets where our products are distributed through third parties. They require all our markets (unless there are legal restrictions in place) to:

- Work directly with retailers to uphold minimum age laws and our own internal standards;
- Support distributors in providing training and point-of-sale materials for use by retailers; and
- Engage with governments in markets where there is no minimum age law of 18 to see one introduced.

The Guidelines are supported by comprehensive training for our Trade Marketing & Distribution employees, and robust governance procedures at Group-level to monitor compliance.





## Responsible marketing in a digital age

With the growth of digital marketing and social media, the way consumers want to engage with us and learn about new category products has changed. Online channels are increasingly important, and we use them to engage with adult consumers.

In the digital age, our IMP continue to be at the centre of the way we market.

We never use open social media to promote our cigarette brands; however, where legally allowed, we use social media to communicate regarding our new category products to support adult smokers who are looking for alternatives to smoking. Where we use social media partnerships to promote new category products, we use analytical tools to help us select partnerships with third-party promoters who have majority-adult following.

Since digital marketing is rapidly evolving, it is key we build capability with our business and support employees to apply the IMP effectively and consistently. To meet that challenge, we established a digital marketing hub in 2019.

Based at our headquarters, the hub supports all markets where new category products are sold. Comprised of responsible marketing and consumer engagement experts, the hub's team helps markets achieve long term consumer satisfaction and product awareness in a responsible way.

Our responsibility extends beyond what we publish in social media, we are also mindful of how we conduct social media listening. We already exclude platforms that are likely to be used predominantly by people underage and, through the development and use of language analysis algorithms, we are rapidly enhancing our ability to identify and exclude posts made by anyone underage, whatever the platform.



## Our 2019 progress and performance

In 2019, we continued to focus on achieving 100% adherence to our IMP and YAP Guidelines. We are therefore pleased that 100% of our markets reported adherence to our YAP Guidelines. Examples of their activities include supporting proof-of-age schemes, training retailers to better understand minimum age laws and their responsibilities in upholding them, and providing point-of-sale materials to display in retail stores with YAP messaging.

We always endeavour to ensure our IMP is consistently applied, including through mandatory training, launched in early 2020, for all Marketing and relevant LEX employees across the Group. However, in 2019, five cases of IMP non-compliance were identified through our internal procedures, as well as external reports and allegations. In addition, our subsidiaries reported a total of approximately £1.37 million in fines or settlements associated with incidents of non-compliance with laws relating to marketing, labelling or advertising. As of the end of the year, some of these were still ongoing and subject to appeal.

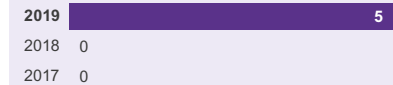
We believe the increase in IMP non-compliance cases, compared to previous years when none were identified, reflects the strengthening of our compliance procedures and controls. We conduct detailed investigations of all cases and, where a breach is found, implement immediate measures to address them.

### Established IMP breaches

# 5

**Goal:** 100% adherence to our IMP.

(Number)



### YAP Guidelines

# 100%

**Goal:** 100% adherence to our global YAP Guidelines.

(% of markets aligned with our YAP Guidelines<sup>1</sup>)



Indicates independently assured data. Read the full assurance statement in **Independent assurance**.

<sup>1</sup> Up until 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 came into effect as of 1 January 2018, so we report adherence from 2018 onwards. Adherence with YAP Guidelines relate to those markets conducting activities or those markets granted an exemption from conducting these, in accordance with the requirements of the Guidelines. Those markets with exemptions account for less than 5% of our sales volume.

# REGULATION AND POLICY ENGAGEMENT



## Why it matters

Like any other large business, we seek to be part of the debate that shapes the regulatory environment in which we operate. But some tobacco control organisations may present us as part of an all-powerful 'Big Tobacco' lobby that uses extensive resources and secretive measures to influence government and regulation. This is not the case.

Truly effective regulation needs cooperation between governments and industry, and we have a legitimate role to play in policy-related debate that affects our business.

By conducting all our engagement with politicians, policy makers and regulators transparently and with high regard for accuracy and integrity, we can make a valuable contribution to policy development and help enable the best information to be used as a foundation for decisions in policy making.

## Policies and accountability

Our **SoBC** express the high standards of integrity we are committed to upholding, including policies for political and charitable contributions and lobbying and engagement.

Regulatory engagement by our businesses is monitored by our RACCs. Any political donations must be authorised in advance by the Board of the company making it, be fully documented in the company's books and, if required by local law, be placed on the public record. Details must be notified in writing each year to the Group Head of Business Conduct and Compliance and reported annually to the Main Board Audit Committee.

The **SoBC Political Donations Policy** outlines robust procedures for ensuring political contributions are only made where expressly permitted by local law, generally accepted as part of local business practice and subject to strict controls. Contributions are never permitted to be made in order to achieve any improper business or other advantage or to influence any decision by a public official to the advantage of the Group or any Group company.

Our **Principles for Engagement** have long provided clear guidance for our external engagement with regulators, politicians and other third parties and, in 2019, was incorporated into a new Lobbying and Engagement Policy in our SoBC. The revised SoBC took effect from January 2020 and highlights the importance of these principles along with all other Group policies, which you can read more about in Business Ethics on [page 49](#).

## Our management approach

For global regulatory priorities, the views we advocate are the same as those we publish on our [website](#) and we have long supported the OECD's Principles for Transparency and Integrity in Lobbying.

We are open about what we think and when we disagree with proposed regulations, we try to put forward alternatives that can still achieve governments' aims. We support regulation that is based on robust evidence and thorough research, respects legal rights and livelihoods and delivers on the intended policy aims, while recognising unintended consequences.

[Find out more about our support for regulation of new category products in \*\*Harm reduction\*\*.](#)

## Our 2019 progress and performance

The Group does not make contributions to UK or EU political organisations or incur UK or EU political expenditure. The total amount of political contributions made to non-UK and non-EU political parties in 2019 was £4,466,171 (2018: £3,718,540) as follows:

RAI Companies reported political contributions totalling £4,466,171 (US\$5,703,300) for the full year 2019 to US political organisations and to non-federal-level political party and candidate committees, in accordance with their contributions programme. No corporate contributions were made to federal candidates or party committees and all contributions were made in accordance with applicable laws.

All political contributions made by RAI Companies are assessed and approved in accordance with RAI's policies and procedures to ensure appropriate oversight and compliance with applicable laws.

In accordance with the US Federal Election Campaign Act, RAI Companies continue to support an employee-operated Political Action Committee (PAC), a non-partisan committee registered with the US Federal Election Commission that facilitates voluntary political donations by eligible employees of RAI Companies. According to US federal finance laws, the PAC is a separate segregated fund and is controlled by a governing board of individual employee-members of the PAC. In 2019, RAI Companies incurred expenses, as authorised by US law, in providing administrative support to the PAC.

No other political contributions were reported.

# BOARD DIVERSITY

## Why it matters

At BAT, we understand that diversity across our business is a competitive advantage and key to the continuing success of the Group. Setting the 'tone from the top' with a diverse Board of Directors is crucial to this.

If our Board does not reflect the diversity of our workforce and consumers, this presents a risk to our business sustainability. A diverse Board brings in the right balance of skills and perspectives to help deliver our Group Strategy and contributes to good corporate governance. It also helps foster an inclusive culture across the Group.



## Policies and accountability

Our **Employment Principles** include our commitment to diversity and is taken into consideration in determining the composition of our Main Board and Management Board.

Our **Board Diversity Policy** sets the Main Board's commitment to considering all aspects of diversity when reviewing the composition of, and succession planning for, the Board and Management Board.

The Nominations Committee is responsible for regularly reviewing the composition of the Board and Management Board to ensure both boards have an appropriate balance of skills, expertise and knowledge, and ensuring that all appointments are made on merit against objective criteria and with due regard for the benefits of diversity.

The Nominations Committee also has oversight of the development of a pipeline of diverse, high-performing potential Executive Directors, Management Board members and other senior managers.

## Our management approach

We consider all aspects of diversity when reviewing the composition of, and succession planning for, the Main Board and Management Board. This includes having regard for gender, social and ethnic background, and cognitive and personal strengths.

Succession planning considers both potential internal and external candidates. Where appropriate, executive search firms are engaged to support that work, and we require them to provide gender-balanced shortlists of candidates. The firms we work with are accredited under the UK government's Enhanced Code of Conduct for Executive Search Firms, which acknowledges companies with a strong track record of gender diversity.

The Hampton-Alexander Review sets recommendations aimed at increasing the number of women in leadership positions in FTSE 350 companies, including a target of 33% representation of women on FTSE 350 Boards by 2020. Currently, we have three women representing 27% of our Main Board and are committed to progressing towards further gender balance.

The Parker Review Committee published its final report on ethnic diversity in UK boards in 2017, recommending there be at least one director from a Black, Asian and Minority Ethnic (BAME) background on every FTSE 100 company board by 2021. Applying the Parker Review assessment guidelines, we currently have one Director from a BAME background.

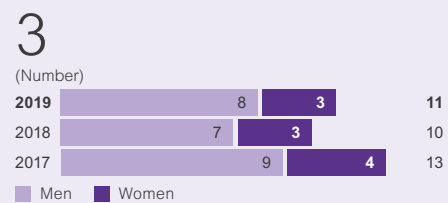
## Our 2019 progress and performance

In 2019, the Nominations Committee carried out reviews of the succession plans and talent pool for Executive Directors and other members of the Management Board, placing emphasis on the pipeline for the next two years and the importance of maintaining gender balance.

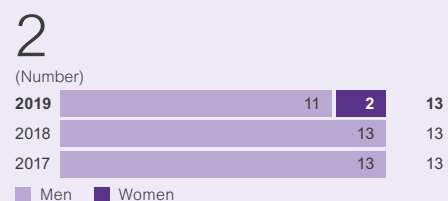
Our diversity principles were rigorously applied by the Nominations Committee, who recommended Tadeu Marroco and Jerry Fowden for appointment to the Board as Finance Director and Non-Executive Director respectively. Two women Directors, Marina Bellini and Hae In Kim, were appointed to lead our Information & Digital Technology and Culture & Talent functions respectively.

27%  
of our Main Board  
are women

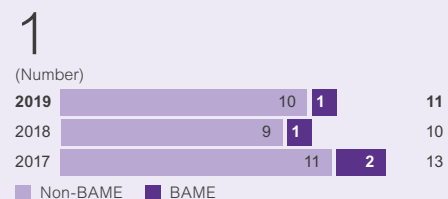
### Female representation on our Main Board



### Female representation on our Management Board



### BAME\* representation on our Main Board



\* Black, Asian and minority ethnic, applying the Parker Report guidance.





# EXECUTIVE REMUNERATION



## Why it matters

There is a continued debate on corporate governance and ESG impacts, the emphasis on long-term alignment with shareholder interests and the importance of considering executive compensation in the broader context of a company's employees.

By linking ESG performance to pay, executives are more likely to take responsibility and accountability for the sustainability priorities faced by the company.

## Policies and accountability

Our Main Board Remuneration Committee is responsible for determining the remuneration of the Chairman, Executive Directors, members of the Management Board and the Company Secretary. The Board sets the remuneration of Non-Executive Directors.

Our **Directors' Remuneration Policy** was approved by the Main Board Remuneration Committee in April 2019 with significant support from our shareholders.

 For full details, see pages 93–113 of our **Annual Report 2019**.

## Our management approach

Our focus is to ensure that the Directors' Remuneration Policy enables the Company to:

- Attract and retain top quality talent in the global marketplace;
- Reward high levels of sustainable long-term performance in both an appropriate and competitive manner to the benefit of shareholders and wider stakeholders;
- Create close long-term links between the Company's senior management and its shareholders; and
- Incorporate best practice policy features into the remuneration strategy.

The Remuneration Committee considers these objectives carefully when deciding remuneration matters, to ensure an appropriate balance between competitiveness, fairness, sustainability and pay for performance.

The Committee looks to ensure the performance metrics within the short and long-term incentive schemes continue to be aligned with the Company's long-term strategy. Performance measures are reviewed every year to ensure the Company is providing focus, incentivising the right behaviours and creating value.

## Executive remuneration linked to ESG

Our short-term incentive scheme for executive directors includes a weighted 30% metric linked to 'adjusted revenue growth from our Strategic Portfolio', which includes new category products that are central to our commitment to reducing the health impacts of our business.

Our Management Board Directors have overall responsibility for the successful implementation of the Group Strategy. This includes ESG performance metrics related to areas such as environment, health and safety, human rights, sustainable agriculture and farmer livelihoods responsibilities for the Operations Director; talent, reward and diversity responsibilities for the Culture & Talent Director; and SoBC, AIT and *Delivery with Integrity* responsibilities for the Legal and External Affairs Director. Continued delivery towards these and other ESG priorities form part of individual performance objectives linked to remuneration.

## Our 2019 progress and performance

Our Remuneration Committee devoted considerable time in 2019 to reviewing the Group's remuneration strategy and related policies for its wider workforce. It focused on ensuring an appropriate degree of alignment between Group workforce remuneration and the Director's Remuneration Policy, making sure the remuneration agenda, practices and policies are relevant across our markets and supportive of Group strategy and ethos.

This year we are publishing for the first time our CEO to employee pay ratio for the 2019 financial year. We have adopted what we believe is the most robust and comprehensive calculation method, which is also reflective of shareholder preferences.

For the 2019 period the CEO single figure used in the calculation is a combination of remuneration data for both Nicandro Durante and Jack Bowles, recognising the transition in the Group's leadership which took place in 2019. Consequently, the Group's CEO to employee pay ratio for 2019 was 86:1 at the median level. We believe the median pay ratio for 2019 reflects the diversity of our business footprint and employee population across the UK.

 Full details can be found on pages 92 and 103 of our **Annual Report 2019**.

 Details of our UK gender pay gap, as defined by UK regulations, can be found in our **Gender Pay Report 2019**.

# TAX TRANSPARENCY

## Why it matters

Our global business is an important source of tax income for governments around the world and makes a valuable contribution to local economies.

As multinational companies continue to face increased scrutiny in relation to their tax practices, stakeholders are calling for greater transparency to evaluate companies' exposure to potential earnings, governance, reputational and broader societal and macroeconomic risks.

## Policies and accountability

Our **global tax strategy** applies to all Group companies and is transparently published in our [Annual Report](#). It is regularly reviewed by the Board and its operation is managed by the Finance Director and Group Head of Tax with the Group's tax position reported to the Audit Committee on a regular basis. The Board considers tax risks that may arise as a result of our business operations.

## Our management approach

We operate in over 180 markets around the world and pay taxes wherever we make money, in accordance with all applicable laws. Our tax footprint extends beyond corporation tax, including significant payment of employment taxes and other indirect taxes including customs and import duties.

The Group also collects a wide range of taxes on behalf of governments, such as tobacco excise, employee taxes, VAT and transport taxes.

The Group's global tax strategy applies to all Group companies and includes:

- Complying with all applicable laws and regulations in countries in which we operate;
- Being open and transparent with tax authorities and building professional relationships;
- Supporting the business strategy of the Group by undertaking efficient management of our tax affairs in line with the Group's commercial activity;
- Transacting on an arm's-length basis for exchanges of goods and services between companies within the Group; and
- Engaging in pro-active discussions with tax authorities on occasions of differing legal interpretation.

Where resolution is not possible, tax disputes may proceed to litigation. The Group seeks to establish strong technical tax positions. Where legislative uncertainty exists, resulting in differing interpretations, the Group seeks to establish that its position would be more likely than not to prevail. Transactions between Group subsidiaries are conducted on arm's length terms in accordance with appropriate transfer pricing rules and OECD principles.

## Our 2019 progress and performance

In 2019, we made corporation tax payments of £2.2 billion (2018: £1.9 billion), while our total Group tax contribution, including both taxes borne and collected, amounted to £41.4 billion (2018: £39.9 billion).

## Pricing and tax

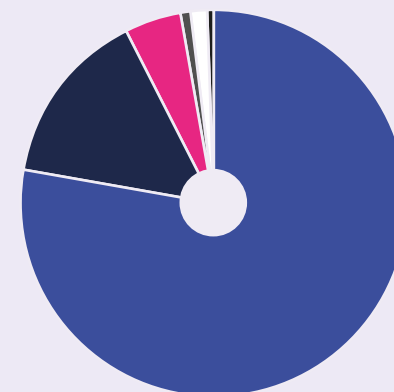
We operate in a highly regulated industry, and tobacco taxes are an important source of revenue for many governments. Without regulation, consumer demand risks transferring to the black market. The global illegal trade already cheats governments out of around US\$40 billion each year in taxes.

[Find out more in Anti-Illicit trade.](#)

## Major taxes paid

# £41.4bn

2018: £39.9bn



Major taxes paid	2019 £bn	2018 £bn
Tobacco excise (collected)	32.4	31.1
Net VAT and other sales taxes (collected)	5.8	5.9
Corporation tax	2.2	1.9
Customes and import duties (borne)	0.3	0.3
Taxes paid by employee (collected)	0.5	0.5
Employment taxes (borne)	0.2	0.2
<b>Total</b>	<b>41.4</b>	<b>39.9</b>

# STAKEHOLDER ENGAGEMENT

## Why it matters

Stakeholder engagement is crucial to our continuous improvement, and we engage with a wide range of stakeholders at local, regional and global levels on our key ESG focus areas.

Listening to our stakeholders helps us better understand their views and concerns and so respond to them appropriately. It gives us valuable inputs to, and feedback on, our strategic approach to sustainability, as well as our policies, procedures and ways of working.



## Policies and accountability

Our key audit controls require all engagement with external stakeholders across the Group – including by third parties on our behalf – to be conducted in accordance with our **Standards of Business Conduct (SoBC)**, including our **Lobbying and Engagement Policy** (itself replacing our long-standing Principles for Engagement in 2020). We also have a number of additional procedures, frameworks and guidelines in place to support specific types of stakeholder engagement.

Our Main Board conducts an annual stakeholder engagement review, assessing how engagement is conducted across the Group, stakeholders' primary concerns and how the Board maintains its oversight.

 For more details about this process and the Board's engagement with stakeholders, see pages 71–73 of our **Annual Report 2019**.

 See also **Regulation and policy engagement**.

## Our management approach

Our Group governance framework and standards help ensure the effectiveness of our engagement mechanisms by:

- Requiring all Group stakeholder engagement activities to be conducted in a transparent and open manner and in compliance with all applicable laws and regulations;
- Providing a means to objectively identify, categorise and prioritise stakeholders who are most impacted by, or can have the greatest impact upon, our business;
- Ensuring the ways in which we engage across the Group are applied in a consistent way; and
- Defining the appropriate level of management responsibility and oversight for engagement activities.

Engagement with our key stakeholders, and other local stakeholder groups, is conducted at the level and format best suited to the context. This may be locally, regionally or functionally, or by the Board or senior management. Where our Board does not engage directly with stakeholders, it is kept updated so Directors maintain their understanding of what matters to our stakeholders and to inform Board decision-making.

## Partnership for the Goals

In 2018, Nigeria became one of the first UN member states in Africa 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 Sustainable Development Goals (SDGs). We were, and remain, very proud to have joined this national PSAG as the first and only tobacco company.

Through the BAT Nigeria Foundation, 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 priorities involved in realising the SDGs.

Membership of the PSAG enables us to proactively work with other organisations towards a sustainable future for Nigeria. Since 2018, we have been co-leading a workstream with other members from across the agricultural sector, focused on agri-business and responsible consumption and production. A new project to empower young people working in agriculture is currently in development for implementation in late 2020. The outcomes are aimed to be presented to the Nigerian Federal Ministry of Agriculture through the office of the Special Assistant to the Presidency on SDGs.

## Our key stakeholders and engagement in 2019

	SHAREHOLDERS/ BONDHOLDERS	CONSUMERS	OUR PEOPLE	SUPPLIERS AND FARMERS	CUSTOMERS	GOVERNMENTS AND WIDER SOCIETY
Why this stakeholder is important to us	The support of our shareholders and bondholders is essential for maintaining access to financial capital in order to achieve our business objectives.	As preferences and attitudes change in an evolving industry, an understanding of our consumers is essential to both a successful product portfolio and business growth.	Our people are key to our success. Without them, we will be unable to deliver our strategy and ultimately build a better tomorrow for all our stakeholders.	Our suppliers and farmers are crucial for ensuring an efficient, productive and secure supply chain, as well as our ability to meet our ESG obligations.	Engagement with our customers (which include distributors, wholesalers, and retailers) is essential for driving growth by providing competitive advantage while ensuring responsible practices.	We seek to be part of the debate that shapes the regulatory environment in which we operate, and to work collaboratively to address ESG and sustainable development priorities.
Examples of how we engage	<ul style="list-style-type: none"> <li>– Annual General Meeting</li> <li>– Annual investor relations programme</li> <li>– Meetings and ongoing dialogue</li> <li>– Investor roadshows</li> <li>– Submissions to investor indices and ratings agencies</li> </ul>	<ul style="list-style-type: none"> <li>– Consumer panels, focus groups and interviews</li> <li>– Product testing</li> <li>– Customer care feedback channels and helplines</li> <li>– Real-time feedback via digital platforms</li> <li>– Clinical trials on new category products</li> </ul>	<ul style="list-style-type: none"> <li>– Director market and site visits</li> <li>– Employee town halls and global webcasts</li> <li>– ‘Your Voice’ 2019 survey</li> <li>– Graduate and trainee events</li> <li>– Speak Up channels</li> <li>– Individual performance reviews</li> </ul>	<ul style="list-style-type: none"> <li>– Ongoing farmer support, training and monitoring by our Extension Services</li> <li>– Sustainable Tobacco Programme assessments, reviews and meetings</li> <li>– Supplier reviews and audits</li> <li>– Ongoing dialogue</li> <li>– Strategic partnerships</li> </ul>	<ul style="list-style-type: none"> <li>– Ongoing dialogue, negotiations and account management</li> <li>– Customer engagement index</li> <li>– Audits and performance reviews</li> <li>– Sales calls and visits</li> <li>– Business-to-business programmes</li> </ul>	<ul style="list-style-type: none"> <li>– Face-to-face meetings and ongoing dialogue</li> <li>– Presentations and submissions to government</li> <li>– Participation in non-profit multi-stakeholder groups</li> <li>– External Scientific Panel</li> <li>– Sustainability Stakeholder Panel</li> </ul>
Examples of what matters to them and the key topics raised	<ul style="list-style-type: none"> <li>– Business performance</li> <li>– Corporate governance</li> <li>– Strength of Group leadership</li> <li>– Board succession planning</li> <li>– ESG considerations</li> </ul>	<ul style="list-style-type: none"> <li>– Product anxiety, (addiction, harm, social considerations)</li> <li>– Product quality</li> <li>– Affordability and price</li> <li>– Ingredients and nicotine level</li> </ul>	<ul style="list-style-type: none"> <li>– Reward</li> <li>– Career development</li> <li>– Diversity and inclusion</li> <li>– Workplace culture</li> <li>– Health and safety</li> <li>– Business ethics</li> </ul>	<ul style="list-style-type: none"> <li>– Quality, productivity and costs</li> <li>– Contingency planning</li> <li>– Crop yields and quality</li> <li>– Sustainable agriculture and farmer livelihoods</li> <li>– Human rights</li> <li>– Health and safety</li> <li>– Climate change and other environmental impacts</li> </ul>	<ul style="list-style-type: none"> <li>– Route-to-market planning</li> <li>– Contingency planning</li> <li>– Cost, price and quality</li> <li>– Availability and stock levels</li> <li>– Consumer buying behaviour</li> <li>– Youth access to tobacco and nicotine products</li> </ul>	<ul style="list-style-type: none"> <li>– Public health impacts</li> <li>– Tax and excise/illicit trade</li> <li>– Business ethics</li> <li>– YAP</li> <li>– Human rights</li> <li>– Sustainable development</li> <li>– Climate change and other environmental impacts</li> </ul>



# MATERIALITY

## Delivering value through excellence in ESG

Our new Sustainability Agenda supports our corporate purpose to build a better tomorrow with a principal focus on harm reduction, and it's at the heart of our strategic plans to build a long-term sustainable business. Ultimately, it's about building towards 'A Better Tomorrow' not just for BAT, but for all our stakeholders.

The concept of shared value is central to both our Group strategy and our Sustainability Agenda. By meeting our ambitious plans to reduce the health impact of our business and

to deliver excellence across our other ESG focus areas, we build value for a wide range of stakeholders.

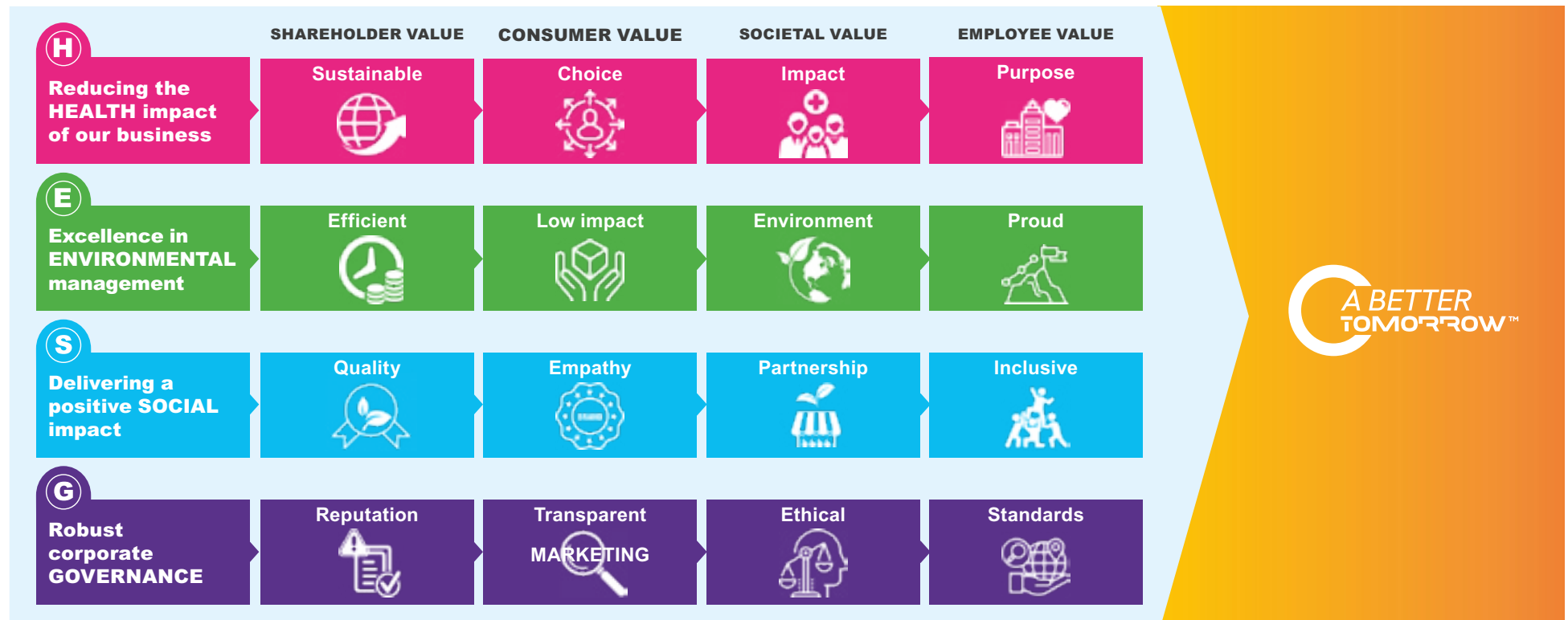
As we develop and deliver a range of innovative products, this will not only help us create shareholder value – but by providing a choice of products, smokers are more likely to find one that satisfies their varying preferences and switch to new category products. Providing choice to our consumers will, in turn, help us reduce the health impact of our

business on society. Our employees will also benefit, as we create a dynamic, inspiring and purposeful place to work.

Similarly, excellence across our other ESG priorities will also create shared value: for **our shareholders** as we deliver efficiencies and savings, and secure our supply chains, as well as effectively manage reputational and regulatory risk; for **our consumers** as we offer products with lower environmental and social impact that are responsibly marketed; and

for **our employees** as we create an inclusive workplace that adopts the highest standards of ethical behaviours.

Below, we outline the priority areas identified in 2019 for our Sustainability Agenda, and highlight key examples of how we create value for each of our stakeholders, as well as business benefits.



## Our approach to materiality assessment

**A key strength of our approach to sustainability is a robust process to identify and understand our most material ESG priorities. Our comprehensive approach to evolving our Sustainability Agenda ensures we keep pace with emerging priorities and stakeholder expectations.**

This materiality process also helps us to assess the level of importance of different topics for our stakeholders and our business – those with the highest level of importance form our Sustainability Agenda and are covered in this Report.

### Identifying focus areas

Each year, we engage with a wide range of stakeholders to understand the priorities most important to them and complement this with ongoing risk monitoring, research and benchmarking. These external insights are mapped against the focus areas identified as most important to our business, based on strategic plans, risk registers, governance meetings and committees, and Group policies and standards.

### Prioritising topics

We group the topics identified under common themes and use a defined scoring methodology to assess their level of importance to our stakeholders and the BAT Group.

### Final results

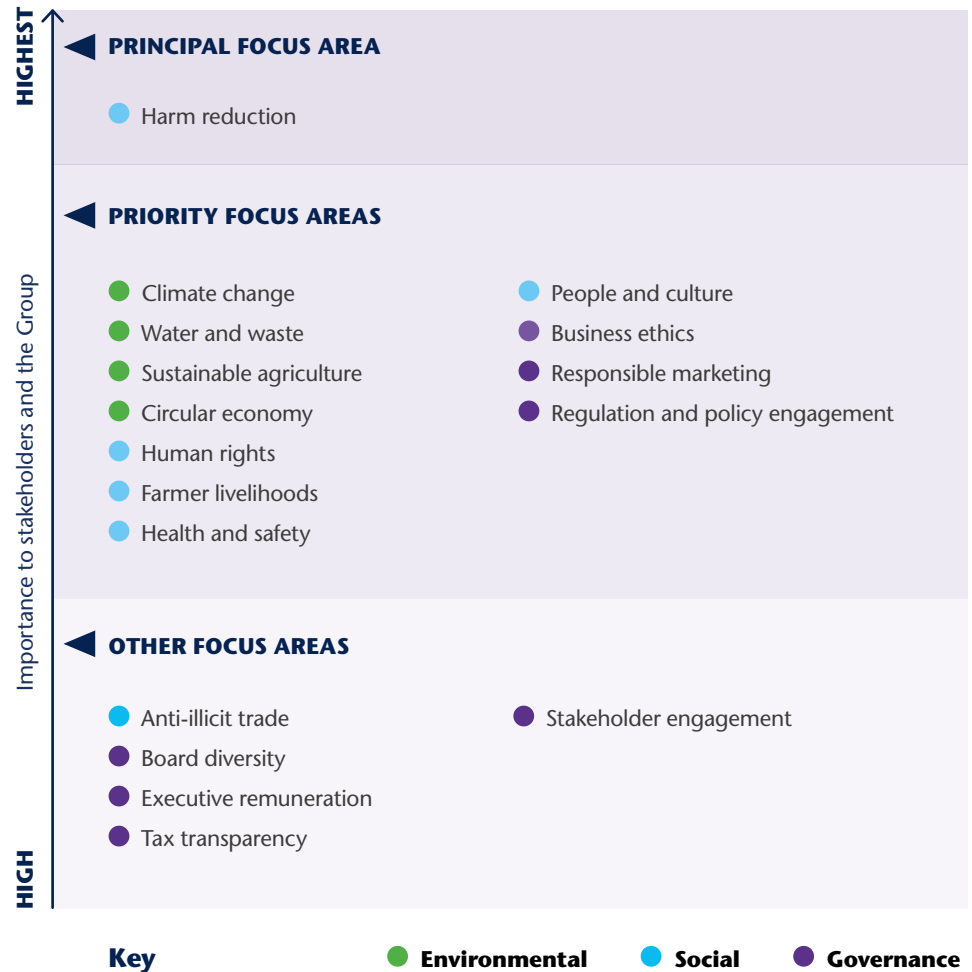
The most material topics identified through this process in 2019 are outlined in the adjacent graphic. Given the serious public health impacts of smoking, harm reduction is our principal ESG priority.

The environmental impacts of our operations and the importance of sustainable agriculture to our tobacco leaf supply chain mean these have long been priorities for us. Within these areas, climate change is a key focus but, with the impacts increasing rapidly, we have now elevated it to a stand-alone priority focus area. Growing concerns regarding plastics and post-consumption waste means that the importance of circular economy principles has also been elevated to a priority area.

Our social impacts relating to human rights, farmer livelihoods, health and safety, and our people and culture continue to be priorities, as well as key governance topics relating to business ethics, responsible marketing, regulation and policy engagement. Our other key focus areas relate to priorities we continue to address through our ongoing business as usual activities.

We continue to monitor emerging issues, and as the materiality of an issue increases, we will report on it accordingly.

## Our ESG focus areas




## INDEPENDENT ASSURANCE

**Independent review of our sustainability reporting is crucial to helping stakeholders place trust in our processes and in what we report. It also supports our commitment to openness and transparency.**

Our Independent Stakeholder Panel comments on the materiality of our [Sustainability Strategy Report](#) and provides a collective opinion on BAT's performance, while we provide a response to their statement as part of our commitment to continuous improvement.

 Find the Stakeholder Panel's commentary and our response on pages 26–29 of our [Sustainability Strategy Report](#).

The consultancy [Corporate Citizenship](#) also provide limited assurance, in accordance with the ISAE 3000 standard, of selected ESG data in this Report, as indicated by .



Our Stakeholder Panel members

# CORPORATE CITIZENSHIP'S STATEMENT



The nature of the assurance. This is a report by Corporate Citizenship for the management of BAT. Corporate Citizenship has undertaken a **limited** assurance of selected environmental and sustainability performance data as described below:

## Environment

KPI	DATA POINT	UNIT	QUANTITY
<b>Carbon dioxide equivalent (CO<sub>2</sub>e) emissions</b>	Scope 1 CO <sub>2</sub> e emissions	tCO <sub>2</sub> e	396,398
	Scope 2 CO <sub>2</sub> e emissions, location-based	tCO <sub>2</sub> e	452,844
	Scope 2 CO <sub>2</sub> e emissions, market-based	tCO <sub>2</sub> e	385,996
	Scope 3 CO <sub>2</sub> e emissions <sup>1</sup>	tCO <sub>2</sub> e	7,546,683
<b>Energy use/consumption</b>	Direct energy consumption	GJ	10,346,514
<b>Renewable energy</b>	Renewable energy consumption	GJ	1,117,186
	Renewable energy as a % of total direct energy use		10.80%
<b>Water withdrawn</b>	Total water withdrawn	m <sup>3</sup>	4,513,022
<b>Water recycled</b>	Water recycled	m <sup>3</sup>	718,720
	% of total water recycled		13.7%
<b>Waste</b>	Waste generated	tonnes	152,468
	Waste to landfill	tonnes	13,954
<b>Zero waste to landfill</b>	% of sites reporting zero waste to landfill		28%
<b>Recycling</b>	% of waste recycled		90.5%

<sup>1</sup> Scope 3 emissions are reported 1 year in arrears due to data availability constraints.

## Health and safety

KPI	DATA POINT	UNIT	QUANTITY
<b>Fatalities</b>	Number of fatalities to employees	#	0
	Number of fatalities to contractors	#	1
	Number of fatalities to members of the public involving BAT vehicles	#	8
<b>Serious injuries</b>	Number of serious injuries to employees	#	26
	Number of serious injuries to contractors	#	11
<b>Lost workday cases</b>	Lost workday cases	#	186
	Lost workday case incident rate (LWCIR)		0.27



## Marketing practices

KPI	DATA POINT	UNIT	QUANTITY
YAP compliance	% of markets aligned with YAP Guidelines where cigarette brands are sold		100.0%
	% of markets aligned with YAP Guidelines where PRRPs are sold		100.0%
	% sales volume represented by markets granted a YAP exemption in 2019		less than 5%

## Corporate social investment (CSI)

KPI	DATA POINT	UNIT	QUANTITY
CSI spend	Investment (£) in CSI projects	£	13,034,554

## Sustainable wood sources

KPI	DATA POINT	UNIT	QUANTITY
Sustainable wood sources used by farmers for tobacco curing fuels	% of farmers' wood fuel from sustainable sources		99.6%

## Employee diversity

KPI	DATA POINT	UNIT	QUANTITY
Gender – % of women	All employees Group-wide		27.8%
	All non-management employees		24.8%
	All management employees		36.8%
	Senior management (G38+)		23.1%
	Main Board		27.3%
Focus nationalities	% of focus nationalities in senior management		22.4%



The assurance covers the period from 01/01/2019 to 31/12/2019. Environmental data is reported for the period 01/12/2018 to 30/11/2019.

BAT is entirely and solely responsible for the production and publication of the data assured, and Corporate Citizenship for its assurance.

The data relates to BAT's owned and leased facilities under its operational control across all geographies.

GHG quantification is subject to inherent uncertainty due to factors such as incomplete scientific knowledge about the global warming potential of different GHGs and uncertainty around the models and parameters used in estimating GHG emissions.

This engagement was performed in accordance with the International Standard on Assurance Engagement (ISAE) 3000 (Assurance Engagements other than Audits or Reviews of Historical Financial Information) and the relevant subject-matter specific ISAE for GHG data (ISAE 3410, Assurance Engagements on Greenhouse Gas Statements).

The carbon emissions data has been prepared using the WRI/WBCSD Greenhouse Gas Protocol, 2015 revised edition, and the appropriate GHG conversion factors for company reporting as published by UK Department for Business, Energy and Industrial Strategy (BEIS) and the International Energy Agency (IEA), or other appropriate sources.

Other data has been reported in accordance with GRI reporting standards, or other internationally recognised standards for data points where GRI does not include guidance (e.g. CDP guidance for water recycling rate).

Corporate Citizenship has complied with the requirements for independence, professional ethics and quality control as stipulated by ISAE 3000.

#### Assurance work performed

The assurance work was undertaken from October 2019 to February 2020. Detailed records were kept of meetings and correspondence relating to the assurance. A team of three, led by a Senior Consultant, undertook the assurance and commentary process. A Director acted as adviser to the project.

Corporate Citizenship's work has involved, but not been limited to, the following elements:

1. In-depth management interviews with key persons at BAT in order to understand BAT's processes for management, reporting and performance improvement in each of the assured areas;
2. Management interviews with site and regional owners of specific data points;
3. A review of the activity data for energy (process, building and company vehicles), travel, water and waste;
4. A review of the tools, methodologies and estimation techniques behind the calculation of the Scope 3 footprint,

including alignment to the GHG Protocol Scope 3 guidance;

5. A review of year-on-year performance trends to identify any significant changes in operational eco-efficiency and investigate the reasons behind these trends;
6. A review of GHG calculations for accuracy and consistency with best practice guidelines;
7. A review of the calculation methodologies behind BAT's market-based Scope 2 emissions, including evidence of renewable electricity purchases;
8. A review of the data collation tools for Health and Safety, Diversity, Marketing Practices, Corporate Social Investment and Sustainable Wood Sourcing;
9. A review of underlying data sources and substantiating evidence to support this year's reporting and to assess the robustness of monitoring and reporting systems;
10. A review of year-on-year performance trends to identify any significant changes and investigate the reasons behind these trends; and
11. A review of group-wide data consolidation and reporting to check for errors or omissions in data analysis, consistency with underlying data sets and reasonableness of reporting.

#### Our experience and independence

Corporate Citizenship is a specialist management consultancy, advising corporations that seek to improve their economic, social and environmental performance around the world and is a leading assessor of corporate responsibility and sustainability reports.

This is the first year Corporate Citizenship has assured BAT's sustainability data and we have done no other work with BAT in the last five years.


#### Conclusion











*Based on the scope of work and assurance procedures performed, nothing has come to our attention that causes us to believe that BAT's sustainability data described above is not prepared, in all material respects, in accordance with the Environmental Reporting Guidelines, the GHG Protocol Corporate Accounting and Reporting Standard and relevant sections of the GRI Principles.*

Corporate Citizenship Limited  
London  
17th March 2020

# KPI DATA TABLES

## Environment

Key: ● Desired trend ○ Minimal (2% or less) or no change ● Decline  
 Independently assured by Corporate Citizenship

TOPIC	GOAL	KPI	PERFORMANCE				
			2019	2018	2017	TREND	ASSURED
<b>Climate change</b>	We aim to be carbon neutral by 2030 Reduce our Scope 1 and Scope 2 CO <sub>2</sub> e emissions by 30% by 2025 compared to our 2017 baseline	Total Scope 1 and Scope 2 CO <sub>2</sub> e emissions ('000 tonnes)	<b>782</b>	841	864	↓	
	Reduce Scope 3 supply chain CO <sub>2</sub> e emissions from purchased goods and services by 16% by 2030 <sup>1</sup>	Scope 3 CO <sub>2</sub> e emissions ('000 tonnes)	–	7,547	8,254	↓	
		Scope 3 supply chain CO <sub>2</sub> e emissions from purchased goods and services	–	4,896	5,759	↓	
	Source 30% of our direct energy from renewable sources by 2025 <sup>2</sup>	Renewable energy as a % of total direct energy use	<b>10.8%</b>	9.3%	9.1%	→	
<b>Water and waste</b>	Reduce the total amount of water withdrawn by 35% by 2025	Total water withdrawn (million cubic metres)	<b>4.51</b>	4.77	5.19	↓	
	Increase the amount of water we recycle to 15% by 2025 <sup>3</sup>	% of total water recycled	<b>13.7%</b>	13.4%	13.3%	→	
	Reduce the absolute volume of waste generated by 15% by 2025	Waste generated ('000 tonnes)	<b>152</b>	155	160	↓	
	Reduce the absolute volume of waste sent to landfill by 40% by 2025	Waste to landfill ('000 tonnes)	<b>13.95</b>	14.70	16.19	↓	
	Recycle at least 95% of our total waste generated each year	% of waste recycled	<b>90.5%</b>	90.2%	89.6%	→	
<b>Sustainable agriculture</b>	Eliminate use of unsustainable wood sources by our contracted farmers <sup>4</sup>	% sources of wood used by our contracted farmers for curing fuels that are from sustainable sources	<b>99%</b>	99%	99%	→	

<sup>1</sup> Consolidation and verification of our 2019 Scope 3 data across the 15 categories is ongoing to fully align with the Greenhouse Gas (GHG) Protocol. 2019 data will be reported in our 2020 ESG Report. Historical data reported includes biogenic emissions of 3,381 ('000) tonnes CO<sub>2</sub>e in 2017, and 2,858 ('000) tonnes CO<sub>2</sub>e in 2018, in line with the GHG Protocol reporting criteria.

<sup>2</sup> In 2019, our total direct energy consumption was 10.35 million Gigajoules (mGJ), and renewable energy use was 1.12 mGJ.

<sup>3</sup> Following improvements in reporting systems at our factories in two markets, and better alignment with CDP's guidelines for calculating water recycling, we have restated previously reported figures of 8.7% (2017) and 8.8% (2018) for percentage of water recycled.

<sup>4</sup> Sustainable wood sources are defined as: wood resources harvested legally from planted sources in such a way that does not cause any detrimental social, environmental or economic impact. This may include: wood sourced from identified invasive exotic species which have not been planted and wood sourced from existing legal plantations. This definition does not include conversion of natural forests to plantations in order to produce wood for tobacco curing.

## Environment

All data relates to the BAT Group and covers the 2019 calendar year. Details of the source and scope for each of our key environmental metrics are provided below.

TOPIC	DEFINITION	SCOPE
<b>Climate change<sup>1</sup></b>	<p>Scope 1 and 2 CO<sub>2</sub>e emissions in tonnes ('000)</p> <p>Scope 3 CO<sub>2</sub>e emissions in tonnes ('000)</p> <p>We use the World Business Council for Sustainable Development (WBCSD) Greenhouse Gas Protocol Corporate Standard to guide our CO<sub>2</sub>e reporting methodology, and follow subsequent definitions of Scopes 1, 2 and 3 emissions reporting.</p> <p>Emissions from electricity are calculated using International Energy Agency (IEA) data for standard electrical grid by country (CO<sub>2</sub> emissions from fuel combustion OECD/IEA 2019 Edition).</p> <p>Emissions from fuel use by sites and offices are calculated using a range factors using UK Department for Environment, Food &amp; Rural Affairs (DEFRA) GHG Conversion Factors for Company Reporting, 2017.</p>	<p>All BAT sites where:</p> <ul style="list-style-type: none"> <li>– We have a shareholding of 50% or greater; and</li> <li>– Nine or more BAT employees work. For non-manufacturing, this only includes sites with a 'materiality threshold' of 5% or more of the Group's consolidated total emissions in our baseline year (2017).</li> </ul> <p>Data reported from 2017 onwards includes data from our July 2017 acquisition of Reynolds American Inc (RAI).</p> <p>To enable year-on-year comparison, 2017 data reflects full-year performance from RAI, despite our acquisition not taking place until July.</p> <p>GHG emissions reporting approach:</p> <p>We report on the following greenhouse gases as CO<sub>2</sub>e emissions: CO<sub>2</sub>; CH<sub>4</sub>; and N<sub>2</sub>O. We do not include data on other GHG emissions (HFCs, PFCs and SF<sub>6</sub>) as they are estimated to be insignificant. While we account for the contribution CH<sub>4</sub> and N<sub>2</sub>O to our CO<sub>2</sub>e emissions, we do not report CO<sub>2</sub>e data on an individual GHG basis.</p> <p>Our Scope 1 reporting includes: energy consumed at our factories and offices (coal, natural gas, wood, diesel and LPG), emissions from our dry ice expanded tobacco plants, and fuel consumed by our fleet vehicles.</p> <p>Our Scope 2 reporting includes: electricity purchased and consumed at our factories and offices, purchased steam and hot water.</p> <p>Our Scope 3 reporting includes: all 15 categories of the GHG Protocol.</p> <p>In both 2018 and 2019, we undertook a full review of our Scope 3 emissions, which was an independent review of where significant impacts lie across our value chain.</p> <p>Previously (until 2017), our Scope 3 reporting covered the following categories: freight (transport-related activities in vehicles not owned or controlled by the business), waste disposal and business travel.</p>
<b>Energy<sup>1</sup></b>	<p>Percentage of direct energy use from renewable sources</p>	<p>All BAT sites where:</p> <ul style="list-style-type: none"> <li>– We have a shareholding of 50% or greater; and</li> <li>– Nine or more BAT employees work. For non-manufacturing, this only includes sites with a 'materiality threshold' of 5% or more of the Group's consolidated total emissions in our baseline year (2017).</li> </ul> <p>Direct energy use metric includes the primary energy used (e.g. natural gas for heating and fuel for our own or leased fleet), electricity and steam consumption by Group companies using the WBCSD GHG Protocol carbon emissions reporting methodology for Scopes 1 and 2.</p> <p>Renewable sources include the primary energy used (e.g. renewable fuel used in boilers for our own or leased fleet), as well as purchased renewable electricity and renewable electricity generated onsite (e.g. with photovoltaics installations) consumed by Group companies.</p> <p>Data reported from 2017 onwards includes data from our July 2017 acquisition of RAI.</p> <p>To enable year-on-year comparison, 2017 data reflects full-year performance from RAI, despite our acquisition not taking place until July.</p>









TOPIC	DEFINITION	SCOPE
<b>Water<sup>1</sup></b>	Water withdrawn in million cubic metres <sup>1</sup> Percentage of water we recycle	All BAT sites where: – We have a shareholding of 50% or greater; and – Nine or more BAT employees work. For non-manufacturing, this only includes sites with a 'materiality threshold' of 5% or more of the Group's consolidated total emissions in our baseline year (2017). Data reported from 2017 onwards includes data from our July 2017 acquisition of RAI. To enable year-on-year comparison, 2017 data reflects full-year performance from RAI, despite our acquisition not taking place until July.
<b>Waste<sup>1</sup></b>	Waste sent to landfill in tonnes ('000) <sup>1</sup> Percentage of waste recycled Total volume of total waste generated in tonnes ('000)	All BAT sites where: – We have a shareholding of 50% or greater; and – Nine or more BAT employees work. For non-manufacturing, this only includes sites with a 'materiality threshold' of 5% or more of the Group's consolidated total emissions in our baseline year (2017). Data also includes construction waste generated in BAT premises from on-site constructions, building modifications or extensions. Waste to landfill and recycling rate metrics do not currently include waste data for a small number of sites where the waste is incinerated on site, without energy recovery, due to recycling and landfill facilities being unavailable. In these areas we continue to engage with local regulators to identify the most effective waste management solution. However, this portion of waste is accounted for in our total waste generated figure. Data reported from 2017 onwards includes data from our July 2017 acquisition of Reynolds American Inc. (RAI). To enable year-on-year comparison, 2017 data reflects full-year performance from RAI, despite our acquisition not taking in place until July.
<b>Sustainable agriculture</b>	Percentage of wood used by our contracted farmers for curing fuels from sustainable or unsustainable sources. Sustainable wood sources are defined as: wood resources harvested legally from planted sources in such a way that does not cause any detrimental social, environmental or economic impact. This may include: – Wood sourced from identified invasive exotic species which have not been planted; and – Wood sourced from existing legal plantations. This definition does not include conversion of natural forests to plantations in order to produce wood for tobacco curing.	Data collected from a sample of over 77,000 farmers that are contracted by BAT leaf operations. Of our 90,000+ directly contracted farmers, around 43,000 use wood for curing and percentage reported represents sustainable wood used by those farmers. In some cases, where our operations have contracted a large number of farmers, farmer samples have been used. This excludes RAI, our US subsidiary that we acquired in July 2017, as their directly contracted farmers do not use wood for curing, as well as data from farmers that our third-party suppliers source from.










<sup>1</sup> Historically, we reported intensity figures for our environmental performance against the normalised output figure of 'per million cigarettes equivalent produced', which converted all materials used in the manufacture of a cigarette into a 'cigarette equivalent'. With the growth of our PRRPs portfolio, and in line with best practice standards to reduce absolute environmental impact, we no longer consider this way of reporting to be the most meaningful metric. From 2018 onwards, we report absolute performance and normalised carbon emissions against our revenue can be found on our [2019 Annual Report and Accounts](#).

## Social

Key: ● Desired trend ● Minimal (2% or less) or no change ● Decline Independently assured by Corporate Citizenship

TOPIC	GOAL	KPI	PERFORMANCE				
			2019	2018	2017	TREND	ASSURED
<b>Harm reduction</b>	Continue to expand the geographical reach of our new category products	Number of markets with our new category products available	48	29	18	↑	
	Research the relative risks of our new category products to smoking, and publish and invite independent scrutiny of our science	Total number of peer-reviewed articles and manuscripts published <sup>1</sup> to date	78	64	46	↑	
	Aim to achieve at least £5 billion in New Categories revenues in 2023/2024	Revenue breakdown from non-combustible products, by category (£m): Vapour	401 (vs 2018: +26%)	325		↑	
		Revenue breakdown from non-combustible products, by category (£m): Tobacco heating products	728 (vs 2018: +29%)	576		↑	
		Revenue breakdown from non-combustible products, by category (£m): Modern oral	126 (vs 2018: +267%)	36		↑	
		Revenue breakdown from non-combustible products, by category: Traditional oral	1,081 (vs 2018: +15%)	916		↑	
		Revenue breakdown from non-combustible products: Total	2,336	1,853		↑	
<b>Human rights</b>	Independent on-site reviews conducted on 100% of our leaf operations and suppliers every three years as part of the Sustainable Tobacco Programme (STP) <sup>2</sup>	% of total leaf operations and suppliers where independent on-site reviews have been conducted since STP implementation in June 2016	N/A	100%	50%	→	
	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, as part of our supply chain due diligence programme	100%	100%	46%	→	
		Number of independent supplier audits conducted	94	88	65	↑	
<b>Health and safety</b>	Aim to achieve zero accidents Group-wide	Number of work-related accidents resulting in injury to employees and to contractors <sup>3</sup>	194	236	284	↓	
		Lost workday case incident rate <sup>4,5</sup>	0.27	0.29	0.36	↓	
		Work-related accidents (including assaults) resulting in injury, causing absence of one shift or more	186	213	248	↓	
		Occupational illness rate <sup>6</sup>	0.006	0.003	0.000	↑	
		Number of serious injuries: Employees	26	26	36	→	
		Number of serious injuries: Contractors	11	16	30	↓	

Key: ● Desired trend ● Minimal (2% or less) or no change ● Decline  
 Independently assured by Corporate Citizenship

TOPIC	GOAL	KPI	PERFORMANCE				
			2019	2018	2017	TREND	ASSURED
<b>Health and safety continued</b>	Aim to achieve zero accidents Group-wide	Number of serious injuries: Total	37	42	66	↓	
		Number of fatalities: Employees	0	3	1	↓	
		Number of fatalities: Contractors	1	9	11	↓	
		Number of fatalities involving BAT vehicles: Public	8	6	11	↑	
<b>Our people and culture</b>	Significantly increase the representation of women and focus nationalities in senior management	% of women representation: All employees Group-wide	28%	26%	24%	↑	
		% of women representation: All non-management employees	25%	23%	20%	↑	
		% of women representation: All management employees	37%	35%	34%	↑	
		% of women representation: All senior management employees	23%	22%	21%	↑	
	Increase the representation of focus nationalities in senior management <sup>7</sup>	% of focus nationalities in senior management	22%	21%	20%	↑	

1 Historical data has been restated to include relevant publications from our US business, RAI, acquired in July 2017.

2 Please note, no on-site reviews were conducted in 2019 while STP is under review, but self assessments continued.

3 We have restated the 2018 figure (236) to include data from our recent acquisitions.

4 LWCIR is calculated as the number of lost workday cases through injury to employees and contractors multiplied by 200,000 divided by total hours worked.

5 We have restated the 2018 figure (0.29) to include data from our recent acquisitions.

6 Occupational illness rate is calculated as the number of incidents of occupation illness to employees and contractors per 200,000 hours worked.

7 Data excludes our US business.

## Social

All data relates to the BAT Group and covers the 2019 calendar year. Details of the source and scope for each of our key social metrics are provided below.

TOPIC	DEFINITION	SCOPE
<b>Human rights; farmer livelihoods</b>	Number of independent on-site reviews conducted by AB Sustain, a supply chain management company, as part of the industry-wide Sustainable Tobacco Programme. These include visits to tobacco farms and in-depth analyses of suppliers' policies, processes and practices.	100% of first-tier tobacco leaf suppliers to the BAT Group.  First-tier suppliers are those companies from which we purchase tobacco leaf that, in turn, source from a large farmer base. These include 18 BAT leaf operations companies, which directly contract over 90,000 farmers, and 20+ third-party suppliers, which source from over 250,000 farmers. In 2017, RAI was included in the data as a third-party supplier and was integrated as a BAT leaf operation in 2018.
	Non-agricultural suppliers assessed for human rights risks, as a % of total procurement spend, as part of our supply chain due diligence programme  Number of independent non-agricultural supplier audits conducted	All suppliers of non-agricultural direct product materials to BAT, such as filters, paper, packaging and batteries; and strategic global suppliers of indirect goods and services.
<b>Health and safety</b>	An accident is defined as any work-related incident  A fatality is any work-related loss of life  A serious injury is defined as any work-related accident involving an injury, which results in: hospitalisation for more than 36 hours; any amputation; any fracture, other than to bones in fingers, thumbs and toes; loss of vision – whether temporary or permanent; or dislocation – shoulder, hip, knee or spine.	All BAT sites and off-site work-related activities, including business travel and Trade Marketing & Distribution.  – Data reported for employees only covers those that have an employment relationship with BAT.  – Data reported for contractors includes “contractors that work under our direct supervision”.  To enable year-on-year comparison, 2017 data reflects full-year performance from RAI, despite our acquisition not taking place until July. In 2019, we restated our H&S data to include “contractors under our direct supervision” for our US subsidiary RAI, as we continued to align reporting systems and expanded the scope of our data to include other acquisitions in 2018.
	Lost Workday Case Incident Rate (LWCIR)	All BAT sites and off-site, work-related activities, including business travel and Trade Marketing & Distribution.  This includes employees and contractors under our direct control and supervision.  Calculated as the number of lost workday cases through injury x 200,000 divided by total hours worked.
	Lost workday cases	All BAT sites and off-site work-related activities, including business travel and Trade Marketing & Distribution.  Work-related accidents (including assaults) resulting in injury, causing absence of one shift or more.  This includes employees and contractors under our direct control and supervision.
	Occupational illness rate	All BAT sites and off-site work-related activities, including business travel and Trade Marketing & Distribution.  The number of incidents of occupation illness per 200,000 hours worked.  This includes employees and contractors under our direct control and supervision.
<b>Our people and culture</b>	Percentage of women at different levels of the organisation	All non-management employees globally.  All management-grade employees globally, including junior, middle, senior and executive grades.  All members of the BAT plc. Main Board of Directors.
	Percentage representation of focus nationalities from Asia, the Middle East, Africa and Eastern Europe in senior management roles	All senior management-grade employees globally.



**Governance**

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TOPIC	GOAL	KPI	PERFORMANCE				
			2019	2018	2017	TREND	ASSURED
<b>Business ethics</b>	100% adherence to our Standards of Business Conduct (SoBC)	% of employees who completed SoBC formal sign-offs and training	<b>100%</b>	100%	100%	➡	
		Number of SoBC allegations <sup>1,2</sup>	<b>359</b>	266	183	⬆	
		Number of established SoBC breaches <sup>3</sup>	<b>130</b>	126	78	⬆	
<b>Responsible marketing</b>	100% adherence to our International Marketing Principles (IMP)	Number of established IMP breaches	<b>5</b>	0	0	⬆	
	100% adherence to our global Youth Access Prevention (YAP) Guidelines % of markets aligned	% of markets aligned with our YAP Guidelines <sup>4</sup>	<b>100%</b>	100%		➡	🏆

1 As we continue to promote our 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 Historically, we had reported this data point under 'number of cases reported to our Speak Up channels'.

3 We have restated the previously reported figure of 98, as some cases reported to the SoBC portal in 2018 were pending further investigation at the time of publication of our 2018 Sustainability Report.

4 Up until 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 came into effect as of 1 January 2018, so we report adherence from 2018 onwards. Adherence with YAP Guidelines relate to those markets conducting activities or those markets granted an exemption from conducting these, in accordance with the requirements of the Guidelines. Those markets with exemptions account for less than 5% of our sales volume.

## Governance

All data relates to the BAT Group and covers the 2019 calendar year. Details of the source and scope for each of our key governance metrics are provided below.

TOPIC	DEFINITION	SCOPE
<b>Business ethics</b>	<p>% of employees who completed SoBC formal sign-offs and training</p> <p>Number of contacts made via our SoBC portal involving SoBC allegations</p> <p>Number of established SoBC breaches</p>	All BAT Group markets and employees worldwide.
<b>Responsible marketing</b>	<p>Number of cases of partial or non-adherence to our Marketing Principles identified through self-assessments and market audits.</p> <p>% of markets aligned with our YAP Guidelines where our cigarette brands are sold</p> <p>% of markets aligned with our YAP Guidelines where our new category products are sold</p>	<p>All BAT Group markets.</p> <p>All BAT Group markets.</p> <p>In 2017, we conducted youth smoking prevention activities based on our previous guidelines. Under our previous youth smoking prevention guidelines, this excludes BAT markets that were unable to conduct activities due to political instability, because they operate solely through a distributor or where local legislation bans YSP activities. These markets represented less than 15% of our 2017 sales volume.</p> <p>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 new categories) came into effect as of 1 January 2018, and we report adherence to the revised Guidelines from 2018 onwards.</p> <p>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 less than 5% of our sales volume in 2019.</p>