



VALUE SHARED

- CORPORATE CONDUCT AND TRANSPARENCY
- BUILDING TRUST
- COLLABORATING AND ENGAGING
- CUTTING-EDGE SCIENCE
- HIGH PRODUCT STANDARDS
- LEADING IN NEXT GENERATION PRODUCTS
- TOMORROW'S AGRICULTURE TODAY
- STRENGTHENING SUPPLIER STANDARDS
- SUPPORTING FARMERS' LIVELIHOODS

*An open door on our people,
performance and promises*

OUR STRATEGY FOR A SUSTAINABLE FUTURE

Sustainability is a key pillar of our Group strategy and is crucial to its delivery and the growth of our business.

Our sustainability agenda

We're focused on the three areas which have most significance for our business and our stakeholders:



READ MORE AT bat.com/strategy



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Harm reduction

We are committed to researching, developing and commercialising less risky alternatives to regular cigarettes.



p6

Sustainable agriculture and farmer livelihoods

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



p10

Corporate behaviour

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



Our other business priorities

We continue to focus on other key business priorities, including retailer relationships, diversity, employee engagement, governance, tax transparency and stakeholder engagement. These are covered in our Annual Report and online at

www.bat.com/sustainability



Independent assurance

Ernst & Young LLP has been engaged by British American Tobacco to provide external assurance of this report, as well as selected performance information published at www.bat.com/sustainability/data.

Read the full statement, including the scope of work and conclusions, and BAT's response at www.bat.com/assurance

QA *with Nicandro Durante,* *Chief Executive*

Doesn't a strategy based on commercial growth contradict your commitment to sustainability?

I think it is actually just the opposite. Our three focus areas of harm reduction, sustainable agriculture and farmer livelihoods, and corporate behaviour are not just sustainability issues, they are fundamental business imperatives.

Take harm reduction: working to develop a next generation of less risky products is, of course, the right thing to do, but it's also an area of future business growth.

Ultimately, any business needs to deliver value for its shareholders, but this does not have to be at a 'cost' to society. I truly believe in the concept of shared value and that is why it has been the basis of our approach for many years.

Do you see Next Generation Products eventually replacing the traditional tobacco business entirely?

There is huge potential in Next Generation Products; however, they are still very new and will take time to build. There are also uncertainties around regulation and product standards, which will take significant governmental and industry collaboration to resolve, so I still see traditional tobacco as the mainstay of our business for a long time to come.

Essentially, we want to give consumers a choice of a range of different products – from traditional cigarettes to less risky alternatives. So, ultimately, it is the consumer who will decide.

Businesses are under increasing pressure to address sustainability issues not just within their own operations, but also across the whole value chain. What challenges does this pose for BAT?

I think the main challenge is that these are areas where we don't have direct control – for example, in our leaf supply chain, we don't own tobacco farms or employ farmers. But through our long history of directly supporting our farmers around the world, we have been able to successfully embed many good practices like sustainable wood sourcing, biodiversity conservation and high labour standards.

Some of the major issues in agriculture today – such as rural poverty, child labour and ageing farmer populations – are not limited to just one company or even one crop. That's why collaboration is so important.

We have some great examples of how we work as part of industry initiatives and in local partnerships, which you can read more about in this report. Getting everyone around the table and in agreement can take considerable time and commitment, so that's another challenge in itself – but it's certainly not one we shy away from.

So what about challenges in the area of corporate behaviour?

Operating in so many countries around the world means we can face many different challenges unique to the local circumstances: from countries with high levels of illegal tobacco or poor human rights records, to countries without even a minimum age for tobacco sales.

Regardless, we're committed to upholding the highest standards wherever we operate, as expressed in our Group policies and procedures. Ensuring these are applied consistently at all levels of the organisation can be a challenging undertaking. If any incidents of non-compliance do happen we, of course, investigate and take action to address them.

We continue to strive for exemplary corporate conduct and transparency globally. To me, this is fundamental to ensuring the long-term success of our business.

Nicandro Durante

March 2016



HARM REDUCTION



Independent expert view from Scott Ballin

Health Policy Adviser

Scott has spent more than 40 years involved in issues related to tobacco and health and is a key opinion leader on tobacco harm reduction. His former positions include Chairman of the Coalition on Smoking and Health, VP for Public Policy and Legislative Counsel at the American Heart Association, and key instigator of the University of Virginia's 'Morven Dialogues' on the regulation of tobacco, nicotine and alternative harm reduction products.



Tobacco Harm Reduction (THR) has the potential for significantly reducing disease and death from the combustible cigarette, which takes the lives of over five million people worldwide every year.

Today we find ourselves at a crossroads of sorts. Getting the THR 'stars to align' faces many challenges that will require new leadership, and new thinking by all stakeholders in both the public and private sectors. We seem to have one foot in the past that keeps us focused on the 'tobacco wars', while another foot tentatively tries to step forward. The time has come to take that step forward.

Things to consider include:

1. Recognition that different tobacco and nicotine products present different levels of risk and should be evaluated on that basis (**continuum of risk**);
2. That all tobacco and nicotine products need to be **regulated** by an appropriate agency, such as the Food and Drug Administration in the US;
3. Manufacturers of tobacco and nicotine products must be **transparent** about who they are;
4. THR must be a **sustained high priority** by all manufacturers;
5. No tobacco or nicotine product should be **sold to or used by** underage youth;
6. Those in public health (and others) should recognise that THR could **save millions of lives**;
7. THR research must meet **high standards** and that innovation should be encouraged; and
8. **Civil engagement** of stakeholders is critical.

These principles reflect a more detailed set of Core Principles¹ that were published by the University of Virginia as a result of several 'safe-haven' dialogues. I encourage everyone to actively support them."

Note: These are the personal views of the author.



Independent assurance

Comment from Ernst & Young LLP

In 2015, BAT continued to develop the range and reach of their Next Generation Products. In the absence of consistent regulation for Vapour Products, we have seen evidence of BAT adopting their own standards, as well as working with several external organisations in the development of new product standards that could set a benchmark across the industry. We would encourage BAT to continue this external engagement, allowing for a broad representation of views in the development of a best practice approach.


¹ Core principles concerning the implementation of effective and workable tobacco, nicotine and alternative products policies for reducing disease and death from tobacco use, A Product of the Morven Dialogues sponsored by the Institute for Environmental Negotiation, University of Virginia, 2015 (see www.bitly.com/coreprinciples).

LEADING IN NEXT GENERATION PRODUCTS



with Kingsley Wheaton,
Managing Director of
Next Generation Products

Our approach

 **Investing in a sustainable pipeline** of high-quality Next Generation Products to give consumers a choice of less risky alternatives to smoking.

 **Setting the bar on standards** for product safety and quality, based on robust science, and implementing globally responsible marketing practices.

 **Supporting the development of evidence-based regulation** for Next Generation Products by sharing our own research and approach, and collaborating with regulators and standards authorities.

Can a tobacco company really be serious about harm reduction?

Yes, absolutely – it's been a strategic priority for BAT for many years.

We understand that some people may have doubts about our motivations. I myself would be sceptical about any company claiming to be focused on something solely because it's 'the right thing to do' – after all, a business needs to deliver value for its shareholders.

But working to make available a range of less risky alternatives to cigarettes has clear benefits for society in helping to reduce smoking-related disease, alongside a compelling business case for delivering sustainable commercial growth over the long term.

Don't just take my word for it, though. The strength of our commitment can, I think, best be demonstrated through tangible actions and the progress we're making.

But is it right for BAT to be focusing on this when many people see you as part of the problem?

I see BAT as being best placed to be part of the solution, too.

We understand consumers' needs, we have world-class R&D capabilities, robust product safety standards and responsible marketing practices, and global reach. We've invested nearly half a billion pounds in building a whole new area of the business focused exclusively on Next Generation Products.

From the launch of Vype, our first Vapour Product, in the UK in 2013, we now have a range of products available to consumers across seven markets. I'm particularly proud that BAT is the first ever tobacco company to have a nicotine product licensed as a medicine. Assiduously following the rigorous process set by the UK medicines regulator was certainly no easy undertaking.

But this is just the beginning. We have more products and market launches in the pipeline, as well as the commitment, ambition and capabilities to make a positive and credible contribution.

This all sounds very positive, but what about the challenges?

Firstly, there's the fact that many people are unaware that it's largely the toxicants in cigarette smoke which causes the harm – not the nicotine itself. Of course, Vapour Products are not totally without risk, but they are widely considered to be significantly less risky than smoking.

On the other hand, concerns continue to be raised regarding consumer safety and long-term health risks. These conflicting messages can be very confusing for consumers, and some governments are responding with overly restrictive regulation, such as bans on advertising or vaping in public places, which could stifle growth and the potential benefits these products can bring as part of a progressive approach to public health policy.

All this will take considerable effort for the industry, public health community and regulators to work together to resolve.

It may take many more years to achieve, but we're in this for the long haul and I think there's a lot to be optimistic about for the future.

HARM REDUCTION

We are committed to researching, developing and commercialising less risky alternatives to regular cigarettes

For society, less risky alternatives have the potential to reduce smoking-related disease, while also being an area of commercial growth for our business.

Given the potential of new types of tobacco and nicotine products, we would like to see growth and innovation encouraged, while ensuring this is done responsibly by putting consumer safety and product quality first. We believe this can be achieved through focusing on five key areas.

1 Product standards

High product standards, agreed by all relevant parties and based on robust science, are needed to ensure consumer safety and confidence.

2 Responsible marketing

The growth of new products should be supported by controlled marketing and advertising rules aimed at adult consumers only.

3 Collaboration

The public and private sectors need to work together to clearly communicate the benefits of lower-risk products so consumers can make informed decisions.

4 Innovation

The freedom to innovate should be cultivated to enable the development of a compelling range of products for adult consumers.

5 Appropriate taxes

Excise and taxes should be set appropriately to enable the affordability of new products to encourage wide take-up.

Investing in a sustainable pipeline of products

We have invested significant time, funds and resources into developing high-quality Next Generation Products. As the only company focusing on three distinct product categories, we have made considerable progress in building our range and expanding into new markets.

Licensed Medicinal Products

VOKE We became the first tobacco company to have a nicotine product licensed as a medicine, following receipt of the relevant licences from the UK medicines regulator for our innovative nicotine inhaler, Voke.

We plan to launch Voke in the UK later in 2016.

Vapour Products (e-cigarettes)

vype Our Vype brand was first launched in the UK in 2013. Since then we have used our experience and consumer insights to develop the range, adding new flavours and devices, such as the eTank, a refillable device.

In 2015, we launched Vype in five further markets – Italy, France, Poland, Germany and Colombia.

Tobacco Heating Products



In 2015, we launched our first Tobacco Heating Product, glo iFuse, in Romania. This is an electronic device that heats a nicotine-containing liquid into an inhalable vapour, which then passes through a tobacco section, releasing tobacco flavour to the consumer.

We also continue to work on other types of innovative Tobacco Heating Products and plan to test market a new product in 2016.

Enhancing our Next Generation business and capabilities

We continue to work on an innovations pipeline of products for the future through expanding our R&D programme, as well as looking for opportunities to collaborate and enhance our Next Generation business globally.

In 2015, we signed a new agreement with the RJ Reynolds Tobacco Company to collaborate and share technology around Vapour Products. Also, with our 2015 acquisition of the CHIC Group, a leading Vapour Product business in Poland, we have gained access to Europe's largest Vapour Product retailing network, as well as important new manufacturing and R&D capabilities.

A report by Public Health England² states that Vapour Products (e-cigarettes) are estimated to be

952

less harmful
to health than
smoking

Setting the bar on high standards and in cutting-edge science

Given concerns regarding consumer safety and uncertainty about how new products should be regulated, we think it's crucial for consistent product standards and marketing rules to be in place. In the absence of these currently, we have voluntarily developed and implemented our own approach.

Our team of scientists, covering many disciplines, scrutinise every single detail of our products for safety and quality – from what goes into the e-liquids to the vapour that comes out.

We have developed these robust product assessment procedures through cutting-edge science and peer-reviewed research. This includes our research published in 2015 on toxicological risk assessment of e-liquid flavours and ingredients³, and tests to investigate the effects of vapour compared with cigarette smoke⁴. The early-stage results of the latter study found very significant reductions in vapour toxicity compared to cigarette smoke.

To provide a globally consistent and responsible approach to the marketing of our Vapour Products, in 2015 we developed and published at bat.com/principles new Vapour Products Marketing Principles, aligned to the UK Committees of Advertising Practice Codes.

Our core Vapour Products Marketing Principles

Targeted

We will target our Vapour Product marketing at adults.

Focused

We will market our Vapour Products to smokers and consumers of vapour and nicotine products.

Transparent

We will be clear and factual about our Vapour Products and their potential risks.

Distinct

We will not promote combustible tobacco products through our Vapour Product marketing.

- 3 *An approach to ingredient screening and toxicological risk assessment of flavours in e-liquids*, Costigan, S., Meredith, C., Regulatory Toxicology and Pharmacology, 2015.
- 4 *Development of an in vitro cytotoxicity model for aerosol exposure using 3D reconstructed human airway tissue; application for assessment of e-cigarette aerosol*, Neilson, L., Mankus, C., Thorne, D., Jackson, G., DeBay, J., Meredith, C., Toxicology in Vitro, 2015.
- 5 *A framework for the biological assessment of reduced risk tobacco and nicotine products*, Lowe, F., Fearon, I.F., Camarcho, O.M., Minet, E. and Murphy, J. Recent Advances in Tobacco Science, 2015.



Understanding the relative risks of different products

To help understanding of the relative risks of different types of tobacco and nicotine products, they can be placed on a risk continuum model based on exposure to toxicants.



Supporting the development of evidence-based regulation

We'd like to see the same high standards and responsible approach across the whole industry, so we continue to advocate for, and collaboratively develop, consistent national and international standards and regulation based on robust science.

In 2015, we worked with the British Standards Institution and AFNOR, the French standards association, to develop new safety standards for Vapour Products. For now, these remain voluntary, but they have set an important benchmark for best practice globally.

We have also developed and shared a new scientific framework⁵ to assess the relative risks of new products which uses lab-based and clinical tests, along with real-world observations. This framework could be used to provide an evidence base for regulating different products appropriate to their risk profile.

In the area of responsible marketing, we are looking closely at the sale of Vapour Products online and how to deal with the risk that they could end up in the hands of under-18s. This has included working with the UK Digital Policy Alliance, together with representatives from other industries with age-restricted sites and products, to find ways of ensuring appropriate online age verification.

SUSTAINABLE AGRICULTURE AND FARMER LIVELIHOODS



Independent expert view from Tony Juniper

Campaigner, writer, sustainability adviser and leading British environmentalist

Tony is, among other things, a founder of Robertsbridge, an advisory group helping major companies to lead in achieving sustainability goals.



Companies dependent on agricultural supply chains have witnessed the rise of sustainability as an increasingly important part of how they must conduct their operations. Sustainability is about the long-term viability of farming and making sure the many factors underpinning crop production remain in place.

These include the ability and willingness of growers to plant, tend and harvest crops. When farmers lack adequate skills, or struggle to make a decent income, they seek livelihoods elsewhere. That can undermine security of supply and constitute a major business risk.

Even when farmers are motivated and empowered, they can only produce crops if they have a secure water supply, nutrients and are resilient in the face of climatic change. Then there is the impact of farming on critical systems and how agriculture is often associated with ecological pressures, including the loss of wildlife arising from pesticide use, nutrient enrichment of water bodies and deforestation.

BAT has worked hard to understand sustainability challenges and to come forward with strategies to meet them. Combining social and environmental goals into sound business strategy is not easy but is beginning to happen as a result of a lot of thinking and increasing internal awareness.

The challenge going forward is to ensure that environmental goals are fully integrated with social priorities. Improving farmer livelihoods at the expense of environmental quality will not be sustainable. Getting supply chains into a position where both are achieved together is a big prize that I encourage BAT to pursue with vigour and determination.”

Note: These are the personal views of the author.



Independent assurance

Comment from Ernst & Young LLP

In 2015, we saw evidence that BAT has continued to develop its approach to sustainable agriculture and farmer livelihoods for its tobacco leaf supply chain. This has included the development and piloting of global metrics. Initial results have helped BAT identify areas for improvement and prioritise actions in key markets, as well as providing a baseline for future reporting. In future years, we would encourage BAT to report against these metrics to build a deeper understanding of the progress made in this area.

TOMORROW'S AGRICULTURE TODAY



QA

with Alan Davy, Group
Operations Director

Our approach



Supporting farmers' livelihoods across five key focus areas.



Strengthening industry-wide supplier standards and driving best practice and continuous improvement.



Tackling agriculture's social and environmental challenges through global and local initiatives and stakeholder partnerships.

How does BAT support farmer livelihoods and sustainable agriculture?

Our specialist leaf technicians provide on-the-ground advice and support for some 90,000 contracted farmers worldwide.

They work in the field with farmers, agreeing contracts, supplying seeds, helping to improve crop yields and farm productivity, preserving soil and water, and providing them with access to new methods and technologies.

We often become involved in wider community projects, too – such as providing clean water and sanitation for farming communities in Bangladesh, or training and development for rural youth in Brazil.

We are currently working to further develop this approach, especially with regard to addressing wider social challenges in agriculture.

But wouldn't it be more sustainable for farmers to switch from growing tobacco to food crops instead?

Not necessarily. People may not realise that tobacco is mainly grown alongside, or in rotation with, other crops such as cereals, fruit and vegetables.

That's why the support we provide our farmers isn't limited to just tobacco but covers all areas of agriculture. It's a great way of helping our farmers make the most of their land and have a diversified income.

That is not to say that we don't want them to continue producing high-quality tobacco. But we believe this is possible through a balanced approach that can be sustainable for communities, the environment and our business.

It's well known that child labour is a major issue in agriculture, how is BAT addressing this?

We've been at the forefront of the industry for many years in our efforts to eliminate exploitative child labour in tobacco growing. Our approach includes supplier assessments, industry initiatives and community-based programmes.

Yet with a supply chain the size of ours, issues can sometimes occur – such as recent allegations regarding child labour on tobacco farms in the US⁶. We take such allegations very seriously and so, in 2015, we prioritised an independent on-site review of our US suppliers. No evidence of child labour was found, but some areas were identified for further improvement, particularly in relation to workers' awareness of their rights under US law.

We are working with our US suppliers to address these issues and continue to engage with the relevant parties.

SUSTAINABLE AGRICULTURE AND FARMER LIVELIHOODS

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

We have a long and proud history of supporting our farmers and helping them to build more successful businesses. If our farmers are prosperous they are more likely to be motivated to look after the environment and support their local communities.

For our business, this is a pragmatic and commercial approach that helps secure our supply chain and ensure the quality of our products to satisfy consumers.

In 2015, we continued working to further enhance our approach to supporting farmers' livelihoods, focusing on these five key areas.

1 **Farm income**

Helping our farmers optimise the profitability of their businesses, with tobacco grown alongside other crops.

2 **Natural resources**

Preserving forests, water, soil health and biodiversity, which are all essential for long-term agricultural productivity.

3 **Infrastructure and resources**

Providing access to technology and investing in community projects to help ensure tobacco growing areas remain viable places to live and work.

4 **Skills, knowledge and labour**

Providing advice on how to run successful businesses and on issues such as human rights and protecting the health of farm workers.

5 **Community networks**

Building farmer networks by helping them to share best practice and become more self-sufficient.

Strengthening industry-wide supplier standards

Our Social Responsibility in Tobacco Production (SRTP) programme sets out the minimum requirements we expect of our leaf suppliers.

In 2015, we worked as part of an industry-wide initiative to develop a new Sustainable Tobacco Programme, which will replace SRTP later in 2016.

The new programme will apply to all major global tobacco manufacturers and their suppliers and draws on best practice from across the industry, while also being aligned to external standards such as those of the International Labour Organisation (ILO). It also includes strengthened processes and more frequent on-site reviews.

Suppliers assessments

Our SRTP programme and, from later in 2016, the new Sustainable Tobacco Programme, promotes best practice and provides a framework for continual improvement through annual self-assessments and on-site reviews of all our first-tier leaf suppliers⁷.

Annual self-assessments

These are completed by first-tier suppliers and cover minimum standards on good agricultural practices and environmental management, as well as key social and human rights criteria.

They are reviewed by AB Sustain, an independent consultancy, and we publish the scores at bat.com/SRTPdata.

On-site reviews

AB Sustain also conducts on-site reviews of first-tier suppliers at least once every four years. The reviews include an in-depth analysis of the suppliers' policies, processes and practices, as well as farm visits. We use the results to work collaboratively with suppliers to drive corrective action and improvements.

In 2015, 15 reviews were conducted in 11 countries.

⁷ First-tier suppliers are those companies from which we purchase tobacco leaf that, in turn, source from a large farmer base. These include BAT operations, which directly contract some 90,000 farmers, and third-party suppliers.





Tackling agriculture's social and environmental challenges

The support we provide farmers is especially important today when we are facing more and more challenges in agriculture – from increasing demand for land and natural resources to child labour and urban migration.

Our companies around the world work in collaboration with local stakeholders, including governments, the industry and NGOs, on programmes in farming communities. These focus on a range of issues, such as child labour, women's empowerment, afforestation, and clean water and sanitation.

For example, following many years of running its own afforestation programme, in 2015 our company in Pakistan signed a memorandum of understanding with the Ministry of Climate Change to plant trees on 640 acres of Government-owned land.

At the end of 2015, our Biodiversity Partnership with three NGOs – Earthwatch Institute, Fauna & Flora International and Tropical Biology Association – concluded after 15 years of collaboration. As a result of the Partnership, biodiversity management has been embedded into our leaf operations and a number of projects continue to thrive. Our commitment to biodiversity remains an important part of our approach to sustainable agriculture and our ongoing focus will be on local project-based partnerships.

Child labour in tobacco growing

We are co-founding members of the Eliminating Child Labour in Tobacco Growing (ECLT) Foundation and continue to play an active role along with others in the industry, the ILO and Save the Children.

ECLT focuses on research and advocacy and runs long-term community projects to address the root causes of child labour. For example, in 2015 it engaged with

stakeholders in Indonesia to understand the child labour situation and identify existing efforts, gaps and needs. The insights gained will be used to develop a new project in the region.

In Tanzania, with the support of Winrock International and in partnership with the ILO, ECLT sponsored a conference in 2015 convened by the Government. This has resulted in a national commitment and action plan to eliminate child labour in Tanzanian agriculture.

Developing the next generation of farmers

Agriculture provides work for around 30% of the world's population⁸, but this is a figure that has been declining due to negative perceptions of agricultural work and young people leaving the countryside to find a better life in urban areas.

This is a key challenge for our business, and one we're working to address in our leaf operations. For example, over the last 10 years our company in Brazil has implemented initiatives to show that farming can be both a desirable and a profitable way of life. We have helped increase farm productivity, improved farming techniques, and introduced incentives such as advance payments and long-term contracts.

As a result, in contrast to the national trend, the average age of our contracted farmers has remained steady rather than increasing, while the number of those aged 18–30 continues to grow.

We are now working to build upon this approach in our other leaf operations.

98.2%

of wood sourced by contracted farmers for curing did not come from natural forest in 2015

100%

score and industry leader in the Raw Material Sourcing category of the 2015 Dow Jones Sustainability Index

⁸ Based on 2015 World Bank data on employment in agriculture.

CORPORATE BEHAVIOUR



Independent expert view from Simon Webley

Research Director, Institute of Business Ethics (IBE)



IBE is an independent, not-for-profit organisation that promotes high standards of business practice based on ethical values. Simon is also a member of the ICC's Commission on Corporate Responsibility and Anti-Corruption and the British Standards Institution's Anti-Bribery Standards Panel.



It is a disturbing fact that less than half of the general public in the United Kingdom trust business. Only politicians and media are less trusted⁹. When it comes to controversial industries like tobacco, this is probably even more the case.

Reports of ethical lapses can do considerable harm to a corporate reputation and, with more and more people simply not wanting to deal with companies they don't trust, this can ultimately impact upon the bottom line.

Trust is therefore a key determining factor for the sustainability of any organisation. But it's a long-term project which cannot be achieved overnight.

The basis of creating and maintaining a corporate culture of trust is the extent to which the core ethical values of the organisation are embedded throughout its operations. In other words, an understanding of 'how we do business'.

The way in which customers, suppliers, employees and other stakeholders are treated is also clearly important, as well as how corporate values of honesty, integrity and transparency are played out in day-to-day business.

The general public also seems to be largely unaware of the benefits flowing to poor communities from international trade and investment. The partnerships that companies have developed with suppliers, retailers and governments around the world help to address real problems around issues such as poverty, human rights, environmental impacts, and bribery and corruption.

I think it's important for these positive contributions to be recognised, alongside the negative, to create a more balanced view and so help to restore public trust in business."

Note: These are the personal views of the author.



Independent assurance

Comment from Ernst & Young LLP


Being transparent about the challenges faced with regards to corporate behaviour is an important element of building trust with stakeholders. BAT has acknowledged these challenges in this report and we encourage further disclosure of relevant issues in future sustainability reports. BAT has also highlighted the serious allegations made in 2015 of bribery and corruption in its East Africa business. However, as investigations are ongoing, the current level of disclosure is understandably limited.


BUILDING TRUST





with Jerry Abelman,
Group Legal and External
Affairs Director

Our approach

 **Engaging openly** on regulation.

 **Responsible marketing** of tobacco products and working with retailers to **prevent youth smoking**.

 **Collaborating** with others to tackle the illegal tobacco trade.

 **Safeguarding human rights** across our own operations and our supply chain.

 **Protecting the health and safety** of our workforce.

 **Addressing the environmental impacts** of our business operations.

Corporate behaviour is quite a broad topic – why is it a sustainability focus area for BAT?

The actions and behaviour of any company determine how people see them and the level of public trust.

We've been aware of our responsibilities and the importance of operating to the highest standards of corporate conduct and transparency. So acting responsibly and with integrity wherever we operate underpins our whole approach and forms the foundation of our culture and values as a company.

So what progress are you making?

We've been focusing on corporate behaviour issues for a long time and this is reflected through the many good practices embedded across our business. For example, our corporate governance, responsible marketing practices and efforts to tackle the illegal tobacco trade are all recognised as industry-leading by the Dow Jones Sustainability Index.

Yet we're always striving to remain at the forefront of best practice and build upon our approach to meet new challenges and opportunities. For example, we've made good progress over the last year in strengthening our management of human rights, such as through the development of our new Supplier

Code of Conduct, which clearly defines the minimum standards we expect of all our suppliers worldwide.

How are you working to build public trust, particularly in the light of the recent allegations of bribery in your business in East Africa?

I think trust is ultimately built and maintained through the actions and behaviour of every single one of our 50,000+ employees across the globe.

To drive this, we have clear policies which set out the high standards of integrity we require from our entire workforce worldwide and how they should apply those values and principles to specific situations in day-to-day business life. We also have well-established procedures to help embed these policies within the organisation.

Naturally, we take the recent allegations of historic misconduct in East Africa extremely seriously. Our Standards of Business Conduct make it abundantly clear that we do not tolerate corruption anywhere in our business and consequently, as you would expect, we're currently working with an external legal firm to fully investigate these claims.

I understand that public trust has to be earned, but I'm confident that our focus on driving the right culture and behaviour across all aspects of our business will ensure our future as a trustworthy and sustainable company for the 21st century.

CORPORATE BEHAVIOUR

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

Conducting our affairs with honesty, integrity and transparency is key if we are to continue to develop as a responsible, successful and sustainable business.

Integral to our corporate conduct are the Group Standards of Business Conduct (SoBC), which cover our policies and procedures on areas such as human rights and bribery and corruption.

We investigate suspected incidents of non-compliance to the SoBC and take appropriate action if any breaches are found. Details on our SoBC compliance procedures and the number and types of incidents reported can be found at bat.com/sobc.

Our commitment to transparency is expressed through our long history of openly reporting on our performance and challenges with regards to the most material issues for our business and stakeholders.

In recent years, the amount of tax paid by corporations has come under particular scrutiny. In 2015, the total tax contribution by the Group, including taxes paid and tobacco excise collected on behalf of governments, amounted to £29.2 billion – that’s over 70% of our total gross turnover. We are committed to being open and transparent with tax authorities, and details of our tax strategy can be found in our Annual Report 2015 on page 30.

85%

score and industry leader in the Corporate Governance category of the 2015 Dow Jones Sustainability Index

100%

score and industry leader in the Responsible Marketing Policies category of the 2015 Dow Jones Sustainability Index

Engaging openly on regulation

We have always been clear that 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.

We want to contribute to the debate, offering information, ideas and practical steps to help regulators address the key issues facing the industry. For example, in 2015 we continued to advocate for, and worked collaboratively to develop, new regulatory standards for Vapour Products (see page 5).

However, on issues like plain packaging, evidence from Australia shows it is not delivering the intended results¹⁰. We are also concerned both about its impact on competition and that it will effectively deprive us of valuable intellectual property. We therefore have reluctantly taken legal action to protect our business and shareholders’ rights.

Our Principles for Engagement provide clear guidance on how we work with regulators, politicians and other third parties, and we publish our views on key regulatory issues at bat.com/regulation.

We would like to see regulation that is:



Inclusive

Takes a consultative approach, is shaped in collaboration with all stakeholders and respects legal rights and livelihoods, such as those of farmers or retailers.



Evidence-based

Based on robust evidence and thorough research.



Effective

Delivers its policy aims and public health objectives, while recognising unintended consequences, such as fuelling the illegal tobacco trade.



Like a lot of people, I had an impression of ‘big tobacco’ as an old-fashioned industry, operating behind closed doors. But, from what I’ve seen, this is far from the reality at BAT. Nothing seems to be off the table and the tough issues are faced head-on.”

Sue Farr, Independent Non-Executive Director and member of the Board CSR Committee, BAT p.l.c.

¹⁰ Roy Morgan Research data for adult (18+) smoking rates in Australia shows the rates have not deviated from historic trends since plain packaging was introduced at the end of 2012. Indeed, it could be presumed that a measure such as plain packaging would have the most impact in the first 12 months of implementation, yet the Roy Morgan data shows the smoking rate at the end of 2013 was higher than when the policy was first implemented.

Responsible marketing of tobacco products

Tobacco products pose serious health risks, so it's vital that they are marketed responsibly and do not get into the hands of under-18s.

Our International Marketing Principles (IMP) govern how we market our tobacco products and we are committed to 100% compliance. In 2015, two incidents of non-compliance were identified through market audits, and immediate actions were put in place to address them.

Our core International Marketing Principles

Truthful

We will not mislead about the risks of smoking.

Transparent

It should always be clear to our consumers that our advertising originates from a tobacco company and that it is intended to promote the sale of our tobacco brands.

Targeted

We will only market our products to adult smokers.

Trusted

We will not seek to influence the consumer's decision about whether or not to smoke, nor how much to smoke.

Working with retailers to prevent youth smoking

We work with retailers around the world to prevent underage smoking. This includes helping to raise their awareness of, and compliance with, minimum age laws, supporting proof-of-age schemes, and providing training to shop staff to help them spot underage buyers and refuse to sell to them.

In 2015, we conducted youth smoking prevention activities in all markets where we are able. We discourage the sale of single cigarettes because of the lack of health warnings and risk of underage access; however, there are some markets where the sale of single cigarettes is a culturally accepted practice. To help address this, we revised our IMP in 2015 to enable our companies in such markets to supply in-store posters and materials with clearly visible youth smoking prevention messages and health warnings.



ISIL procures funding from illegal taxation and trafficking in persons, counterfeits, antiquities, and cigarettes. These illicit sources of financing allow extremist groups to diversify their revenue streams in order to carry out their horrific attacks.”

Security Turbulences to World Order: Bringing our Humanity and Planet Back Into Balance, US Department of State, 2015

Collaborating to tackle the illegal tobacco trade

It's estimated that up to 12% of global tobacco sales are illegal. By flooding markets with unregulated, sub-standard products, criminals are putting consumers at risk, and selling to children.

These criminals are also depriving governments of around £30 billion in taxes each year and compromising legitimate businesses. Increasingly, this black market is also being linked to the financing of organised crime and terrorism.

To address this global issue, we work collaboratively with governments, law enforcement agencies, the industry and international organisations.

We have a 20-year cooperation agreement with the European Commission, to which we're providing funding of €134 million. In 2015, as part of an industry group, we signed an agreement with the United Nations¹¹ to implement and further develop anti-illicit trade solutions that work across national borders.

100%

score and industry leader in the Combating Smuggling category of the 2015 Dow Jones Sustainability Index

¹¹ The Memorandum of Understanding was signed in October 2015 between the Digital Coding and Tracking Association (DCTA) – an industry anti-illicit trade group of which BAT is a founding member – and the United Nations Conference on Trade and Development (UNCTAD).

CORPORATE BEHAVIOUR

Safeguarding human rights

Given our agricultural supply chain and operations in challenging and diverse environments, human rights are particularly important issues for our business.

Our Human Rights Policy details our commitments to eliminating child labour and the exploitation of labour, as well as to respect freedom of association.



In 2015, to help suppliers meet our Policy commitments, we developed a new Supplier Code of Conduct defining the minimum standards we expect. This was published at bat.com/principles in early 2016.

We have human rights due diligence processes in place across the Group. These include key audit controls and our Board CSR Committee monitoring human rights developments where we operate to help ensure they are managed effectively.

In our supply chain, while we have strong existing processes for our tobacco leaf suppliers (see page 8), we identified a need to strengthen this for our 70,000+ non-leaf suppliers worldwide. In 2015, we developed an approach to assess and prioritise these suppliers to more effectively manage human rights in the highest risk areas. This approach has been aligned to the expectations of the UN Guiding Principles on Business and Human Rights and we will be piloting it in 2016.

93%

score and industry leader in the Labour Practice Indicators and Human Rights category of the 2015 Dow Jones Sustainability Index

Protecting the health and safety of our workforce

We have a Group-wide goal of zero accidents and a commitment to providing a safe working environment for all our 50,000+ employees and contractors worldwide.

Our people work in a diverse range of environments and conditions, from city offices to remote farms. Thousands also work in distribution and sales, often spending long periods on the road when they are vulnerable to road traffic accidents, particularly in developing countries where the transport infrastructure can be poor¹².

To reduce the main causes of accidents and serious injuries, we focus on risk management and assessments, and in 2015 we further rolled-out our enhanced driver safety programme. Where there is also a risk of armed assault, our personnel may also be escorted by trained security teams when out on the road.

As a result, while total accidents across the Group have remained relatively steady with a small 1.7% reduction, we have achieved a 15% reduction in road traffic accidents. Sadly, however, six contractors died as a result of armed attacks and one contractor died in a road traffic accident. In addition, six members of the public lost their lives in road traffic accidents involving our vehicles.

We deeply regret this loss of life and the suffering caused. We carry out reviews of all reported accidents and fatalities to learn lessons and identify actions to reduce the chances of similar events happening again. We expect our enhanced driver safety programme to lead to a reduction in fatalities in this high-risk area of our business.



Addressing the environmental impacts of our business operations

As a global business, we have a responsibility to reduce our impact on local communities and the environment. We do this through a mixture of performance management, risk assessments and, where appropriate, strengthening our processes and procedures.

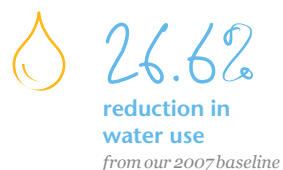
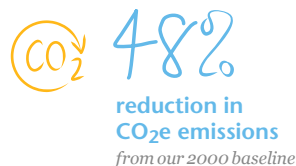
The majority of the resources we use are in our 44 factories in 41 countries, so improving manufacturing efficiency represents a significant opportunity to meet our environmental targets.

We continue to implement a range of initiatives in our factories, including installing energy meters to more closely monitor usage and automated building management systems for controlling areas such as lighting, air conditioning and heating.

We have also adopted water-saving measures, such as rainwater harvesting, in a number of our key factories. In 2015, we completed assessments of long-term water supply and demand at 10 strategic, high-risk sites, leading to new action plans appropriate to local circumstances.

Having made significant progress by achieving our 2017 targets at the end of 2015, we are now focusing on sustaining our current performance and plan to develop a new set of targets by the end of 2016.

As of 2015, we achieved:



¹² For example, the World Health Organisation's *Global status report on road safety 2015* shows that the estimated rate of road traffic deaths per 100,000 population is 2.9 in the UK, while this is significantly higher in key emerging markets for our business – such as Indonesia, where the rate is 15.3, or South Africa, where the rate is 25.1.

OUR GOALS AND COMMITMENTS

Read more details on the status of our goals and our 2015 performance at www.bat.com/sustainability/data

✓ Completed
➔ On track
✗ Not met

Harm reduction

- ✗ Launch Voke, our innovative new nicotine inhaler licensed as a medicine, in the UK by end 2015.
 - Voke will now be launched later in 2016 to allow more time for large-scale manufacturing and commercialisation.

✓ Continue to build Vype in the UK and launch in further markets.

New goal Continue to build our range of Next Generation Products, including launching Voke in the UK and test marketing an innovative Tobacco Heating Product in 2016.

✓ Publish our marketing principles for nicotine products by end 2015.

New goal 100% adherence to our Vapour Products Marketing Principles each year. If any cases of non-adherence are identified, ensure immediate actions are put in place.

✓ Take a lead in advocating for regulation that has high product standards and appropriate commercial freedoms. **Ongoing goal**

✓ Present the results of our scientific research into Next Generation Products to regulators and other relevant bodies. **Ongoing goal**

✓ Work with scientists, public health professionals, regulators and governments around the world to build support for innovative, less risky products. **Ongoing goal**

Sustainable agriculture and farmer livelihoods

- ✗ Aim for at least 70% of our spending on community investment activities in tobacco growing countries to be focused on sustainable agriculture by end 2015.
 - This goal was successfully met in all but seven tobacco growing countries – all of which have valid reasons for focusing the majority of community investment in other areas.

New goal Aim for at least 70% of our spending on community investment activities in tobacco growing countries to be focused on sustainable agriculture where feasible each year.

- ✗ Achieve less than 1% use of natural forest for contracted farmers' curing fuels by end 2015.
 - By the end of 2015, this target was nearly met with 1.8% of total wood used by our farmers coming from natural forest (2014: 5.2%).

New goal Work to eliminate use of unsustainable wood sources by our contracted farmers.

- ✗ Not to exceed the Group's long-term standard for our leaf suppliers to use no more than an average of 1.5kg of active chemicals per hectare of tobacco per year. **Ongoing goal**
 - In 2015, the average use of active chemicals per hectare of tobacco by our leaf suppliers was 1.69kg.

✓ In response to completed biodiversity risk and opportunity assessments, implement action and monitoring plans for all our leaf growing operations in 2015.

New goal As part of our membership of the ECLT Foundation, develop new global guidance on hazardous child labour and occupational health and safety in tobacco growing based on ILO research.



Corporate behaviour

- ✘ 100% adherence to our International Marketing Principles each year. If any cases of non-adherence are identified, ensure immediate actions are put in place. **Ongoing goal**
 - In 2015, two incidents of non-compliance were identified (2014: three) through market audits, and immediate actions were put in place to address them.
- ✔ 100% adherence to our global approach to youth smoking prevention in all markets where feasible and allowed each year. **Ongoing goal**
- ✘ Develop and publish a supplier code, aligned to the UN Framework and Guiding Principles on Business and Human Rights, by end 2015.
 - In 2015, we successfully developed the new Supplier Code of Conduct, aligned to the UN Guiding Principles, but the publication was slightly delayed until early 2016.
- ✔ In support of our ongoing commitment to the UN Declaration of Human Rights, develop a strengthened, integrated and systematic management approach to human rights due diligence aligned to the UN Framework by end 2015.

New goal Pilot our strengthened, integrated and systematic management approach to human rights due diligence on our non-leaf suppliers by end 2016.
- ➔ As part of our cooperation agreement with the European Commission, implement track and trace technology in all markets covered by the agreement where we annually supply 25 million cigarettes or more to multiple customers, by end 2016. **Ongoing goal**
- ➔ Reduce our carbon dioxide (CO₂e) emissions by 50% by 2030 and 80% by 2050 against our 2000 baseline of 1.52 tonnes per million cigarettes equivalent. **Ongoing goal**
- ✔ Reduce our CO₂e missions by 46% by 2017 against our 2000 baseline. **Ongoing goal**
- ✔ Reduce our energy use towards our 2017 target of 9.82 gigajoules per million cigarettes equivalent produced, 17% lower than our 2007 baseline. **Ongoing goal**
- ✔ Reduce our water use towards our 2017 target of 3.6 cubic metres per million cigarettes equivalent produced, 26% lower than our 2007 baseline. **Ongoing goal**
- ✔ Complete assessments of long-term water supply and demand requirements in 10 strategic operational sites identified as 'high risk' by end 2015.
- ✔ Sustain our waste to landfill at no more than 0.016 tonnes per million cigarettes equivalent produced, 36% lower than our 2007 baseline, and recycle at least 85% of our waste. **Ongoing goal**
- ➔ Ensure the right policies, governance and practices are in place to enable us to get closer to our goal of zero accidents. **Ongoing goal**

www.bat.com/sustainability

More detailed information on our sustainability agenda, as well as other key areas, including governance, stakeholder engagement and materiality.



Performance centre

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

www.bat.com/sustainability/data



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Focus Reports

More in-depth information on specific areas of our Group sustainability agenda.

www.bat.com/sustainabilityfocus



Annual Report

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

www.bat.com/annualreport

About this report

This is a report by British American Tobacco p.l.c. Associate companies are excluded. All Group data relates to the calendar year 2015. References to 'British American Tobacco', 'BAT', 'we', 'us' and 'our' when denoting opinion refer to British American Tobacco p.l.c. (the Company), and when denoting tobacco business activity refer to Group operating companies, collectively or individually as the case may be. This report contains forward-looking statements that are subject to risk factors associated with, among other things, the economic and business circumstances occurring in the countries in which the Group operates. It is believed that the expectations reflected in these statements are reasonable, but they may be affected by a wide range of variables that could cause actual results to differ materially from those currently anticipated.

Designed and produced by Flag.
Photography by David Hares, all featuring real BAT employees and business partners.

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