



**SUSTAINABILITY
STRATEGY
REPORT 2019**

**PUTTING
SUSTAINABILITY
FRONT AND CENTRE**



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WHO WE ARE

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.



OUR AMBITIOUS ESG TARGETS



Increasing our consumers of non-combustible products to 50 million by 2030



Achieving carbon neutrality by 2030 and accelerating our existing environmental targets to 2025



Eliminating unnecessary single-use plastic and making all plastic packaging recyclable by 2025

WELCOME TO OUR SUSTAINABILITY STRATEGY REPORT 2019, WHICH FORMS PART OF OUR SUITE OF CORPORATE PUBLICATIONS.

Our reporting suite



Annual Report 2019



Sustainability Strategy Report 2019



ESG Report 2019



Modern Slavery Statement and UK Gender Pay 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.

This **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 environmental, social and governance (ESG) priorities; and how this creates shared value for our stakeholders towards our corporate purpose for ‘A Better Tomorrow’.

This is complemented by our **ESG Report 2019**, which provides more comprehensive details of our Sustainability Agenda and ESG priorities, including policies, accountability, management approach, targets and performance for each topic. We also map our disclosures against Global Reporting Initiative (GRI) Standards, the Sustainability Accounting Standards Board (SASB) framework and the World Economic Forum’s new ESG framework.

In addition, we publish our annual **Modern Slavery Statement** and **UK Gender Pay Report**, as well as periodic topic-specific **Focus Reports** and our biennial **Science & Technology Report**.

 bat.com/reporting

About this Report and 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.

LETTER FROM OUR CHIEF EXECUTIVE



Our clear commitment to providing consumers with a range of less harmful products is central to our corporate purpose, around which our long-term ambition is planned. And we're also clear that our long-term sustainability will be underpinned by successful delivery against our other ESG priorities.



WE HAVE A STRATEGY WITH SUSTAINABILITY AT ITS HEART AND I FIRMLY BELIEVE IT WILL LEAD TO 'A BETTER TOMORROW' FOR OUR CONSUMERS, OUR EMPLOYEES, OUR SHAREHOLDERS AND, UNDOUBTEDLY, FOR SOCIETY.



Strong foundations

We have a long and proud history of sustainability achievements, but today we are transitioning from being a business where sustainability has always been important to one where it is front and centre in all that we do.

Over the last 20 years, we've made significant progress on our sustainability journey, as evidenced by the highlights below, as well as our 18 consecutive years in the Dow Jones Sustainability Indices (DJSI).

Yet our approach needs to constantly develop, much as the world around us is evolving – from increasing expectations of the role of business in contributing to the UN Sustainable Development Goals and addressing climate change; to evolving consumer preferences and the emergence of new category products, such as vapour products (e-cigarettes), that offer potentially reduced risks for the estimated 19% of the world's population who continue to smoke cigarettes.

Clear priorities

Since taking over as CEO in April last year, I have focused the business on three clear priorities:

- Ensuring a step change in New Categories performance with the aim of ultimately generating an increasingly greater proportion of our revenues from products other than cigarettes, thereby reducing the health impact of our business;
- Simplifying the business to be more flexible, agile and efficient, while also releasing valuable funds for reinvestment in New Categories; and

2000–2005: ESTABLISHING

Transparent reporting aligned to best practice frameworks

Eliminating Child Labour in Tobacco Growing (ECLT) Foundation and BAT Biodiversity Partnership

International Marketing Standards and youth smoking prevention programmes

Social Responsibility in Tobacco Production (SRTP) programme with minimum standards for tobacco leaf suppliers

2006–2010: DEVELOPING

Sustainability Agenda focused on harm reduction, marketplace, environment, supply chain, and people and culture

First long-term targets for reducing our direct carbon emissions (CO₂) by 50% by 2030

First reduced-risk product, snus smokeless oral tobacco, launched

External Scientific Panel formed to guide our harm reduction research

bat-science.com launched

Integrated supply chain sustainability strategy developed in consultation with stakeholders



WE ARE TRANSITIONING FROM A BUSINESS WHERE SUSTAINABILITY HAS ALWAYS BEEN IMPORTANT TO ONE WHERE IT IS FRONT AND CENTRE IN ALL THAT WE DO.



–Driving value from combustible cigarettes to enable continued investment to grow our New Categories business.

Our evolved strategy

To accelerate progress, we have evolved our Group strategy with the purpose of building 'A Better Tomorrow' for all our stakeholders.

While combustible tobacco products will be at the core of our business for some time to come, we aim to reduce the health impact of our business by using revenue from our cigarette business to generate an ever-increasing proportion of our overall revenues from our new category products.

And, to reflect the changes in both the world around us and our business, we have a dynamic new corporate logo, as featured in this Report.

Our Sustainability Agenda

Central to our evolved strategy is our Sustainability Agenda, which has been refreshed to reflect the changing external environment.



AT ITS HEART, OUR EVOLVED STRATEGY IS ABOUT ANTICIPATING AND SATISFYING THE EVER-EVOLVING CONSUMER: PROVIDING PLEASURE, REDUCING RISK AND OFFERING AN INCREASING CHOICE.



Specifically, we are clear that reducing the health impact of our business is our principal focus area, as well as placing a greater emphasis on the importance of addressing climate change and environmental management. At the same time, we remain committed to delivering a positive social impact and ensuring robust corporate governance across the Group.

Future ambition

Just as we are committed to making a step change in our New Categories performance, we are also committed to making a step change in our sustainability ambition.

Recently, we have announced a number of stretching targets that we are confident will accelerate our purpose to build 'A Better Tomorrow' for all our stakeholders, including:

- Increasing our consumers of non-combustible products to 50 million by 2030;
- Achieving carbon neutrality by 2030¹ and accelerating our existing environmental targets to 2025; and
- Eliminating unnecessary single-use plastic and making all plastic packaging recyclable by 2025².

I am proud that we have a strategy with sustainability embedded at its heart and I firmly believe it will lead to 'A Better Tomorrow' for our consumers, our employees, our shareholders and, undoubtedly, for society.

Jack Bowles
Chief Executive, March 2020

BUILDING ON OUR PROGRESS WITH STRETCHING NEW TARGETS



Increasing our consumers of non-combustible products to 50 million by 2030



Achieving carbon neutrality by 2030 and accelerating our existing environmental targets to 2025



Eliminating unnecessary single-use plastic and making all plastic packaging recyclable by 2025

2011–2015: EMBEDDING

First international tobacco company to launch a vapour product

Human rights strategy developed in consultation with stakeholders

Diversity and inclusion strategy implemented across the Group

Sustainable Tobacco Programme developed with the industry

2016–2019: GROWING

Range of potentially reduced-risk products available across multiple markets

New science-based CO₂ targets set, having already achieved a 47% reduction in direct emissions

Thrive farmer livelihoods and sustainable agriculture programme developed

Delivery with Integrity programme strengthening our compliance culture

2020: STEP CHANGE

Evolved our Group strategy with a clear corporate purpose to build 'A Better Tomorrow'. See our Annual Report 2019 for details, at bat.com/annualreport.

Evolved our Sustainability Agenda; see the following page for details



¹ Based on Scope 1 and 2 carbon dioxide equivalent (CO₂e) emissions.

² In full, our 2025 targets are to: eliminate all unnecessary single-use plastic packaging; 100% of plastic packaging to be reusable, recyclable or compostable; and 30% recycled content in plastic packaging – as well as having take-back schemes for all new category devices by end 2021.

OUR NEW 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.

A key strength of our approach to sustainability is a robust process to identify and understand the most material ESG topics that drive our long-term business sustainability and value creation.

Each year we engage with a wide range of stakeholders to understand what matters to them most and complement this with ongoing risk monitoring, research and benchmarking.

This comprehensive approach to evolving our Sustainability Agenda ensures we keep pace with emerging topics and stakeholder expectations.

Outlined below are the priority areas identified in 2019 and which form the core of our Sustainability Agenda. You can read more about how we identify and prioritise them at bat.com/sustainabilityreport.

Along with our principal focus on reducing the health impact of our business, we retain a strong focus on 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.



Increasing our consumers of non-combustible products to 50 million by 2030



Achieving carbon neutrality by 2030 and accelerating our existing environmental targets to 2025



Eliminating unnecessary single-use plastic and making all plastic packaging recyclable by 2025

H

Reducing the HEALTH impact of our business

- Consumer choice
- World-class science
- Standards and regulation

E

Excellence in ENVIRONMENTAL management

- Climate change
- Water and waste
- Sustainable agriculture
- Circular economy

S

Delivering a positive SOCIAL impact

- Human rights
- Farmer livelihoods
- Health and safety
- People and culture

G

Robust corporate GOVERNANCE

- Business ethics
- Responsible marketing
- Regulation and policy engagement



CONSUMERS

by responsibly offering them enjoyable and less risky choices to cigarettes.



SOCIETY

by addressing the overall health, social and environmental impacts of our business, and by raising standards for people across our value chain.

CREATES SHARED VALUE FOR



EMPLOYEES

by creating a dynamic, inspiring and purposeful place to work that values their wellbeing, embraces diversity and respects their rights.



SHAREHOLDERS

by delivering sustainable, superior returns and long-term growth.

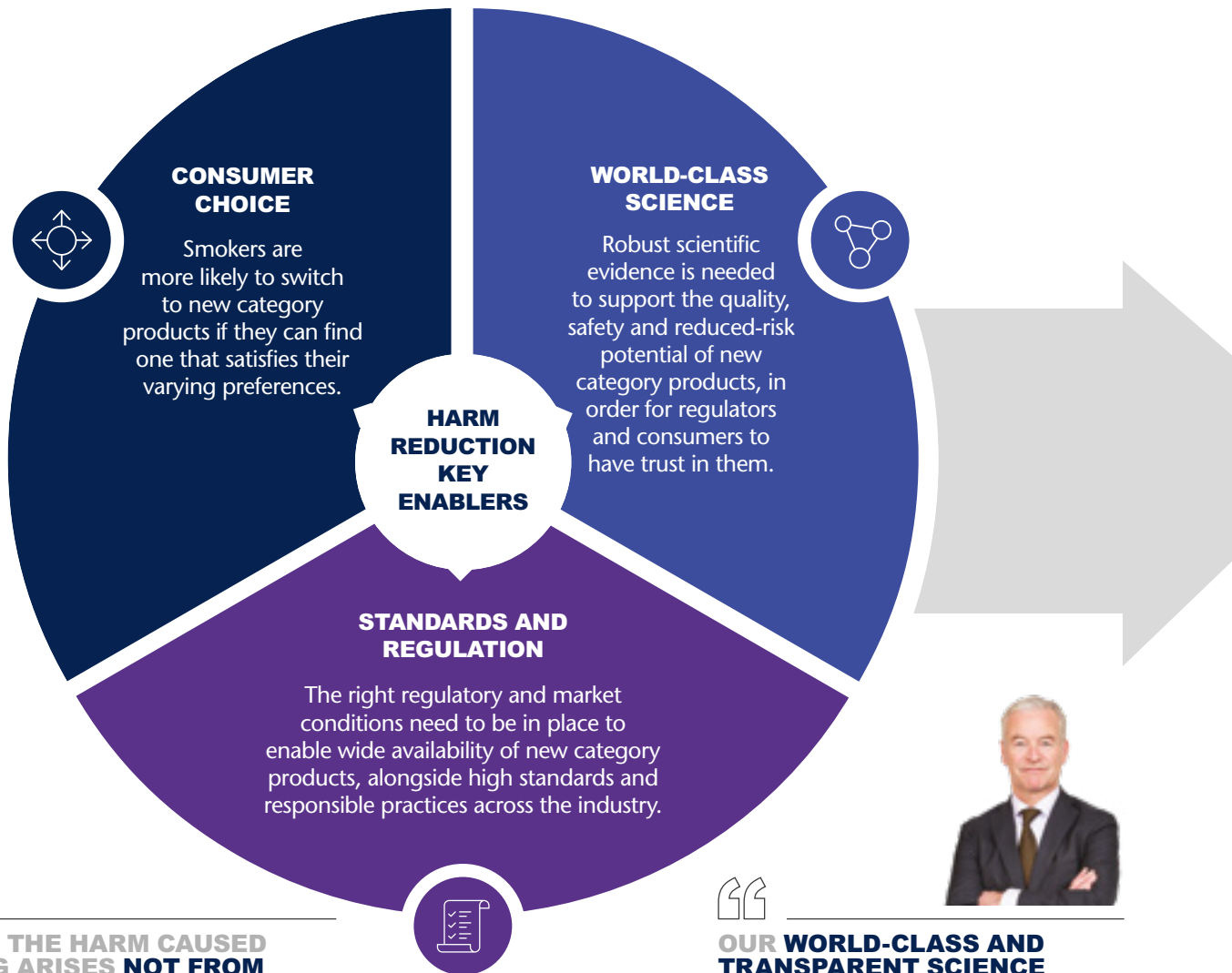
OUR PURPOSE



HEALTH IMPACT: OUR PRINCIPAL ESG FOCUS

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.

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 smoke³ to switch away from cigarettes in significant numbers. To succeed in this, the following key enablers need to be in place:



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 Physicians⁴



³ Euromonitor International (2019). 'World market for cigarettes: October 2019'.

⁴ Royal College of Physicians, Tobacco Advisory Group (2016). 'Nicotine without smoke: Tobacco harm reduction'.



OUR WORLD-CLASS AND TRANSPARENT SCIENCE MEANS CONSUMERS CAN TRUST IN THE PERFORMANCE, SAFETY AND HARM REDUCTION POTENTIAL OF OUR PRODUCTS.

Dr David O'Reilly
Director, Research and Science



WHAT WE'RE DOING

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 in delivering our commitment to reducing the health impact 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.

Our progress

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.

Today, our new category products are available in 48 markets globally – see pages 8–10 for details.

Comprehensive details of how we're enabling consumer choice through our range of new category products can be found on pages 19–24 of our ESG Report.

 bat.com/sustainabilityreport



WORLD-CLASS SCIENCE

We apply our peer-reviewed scientific framework to assess the emissions, exposure and risk of our products. 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.

We openly share our science, publish our findings in peer-reviewed journals and present at conferences and to government advisory committees. We also publish comprehensive details of our research programme on our dedicated bat-science.com website.

Our progress

To date, we have published 59 peer-reviewed papers on new category products. The results indicate that our products have the potential to be significantly less risky than cigarettes and we're continuing to establish more evidence to support this.

In 2019, we presented at 32 scientific conferences and meetings, and we will publish our biennial Science & Technology Report later in 2020.

Full details of our scientific framework and findings of our research, as well as the growing independent evidence base, can be found on pages 19–24 of our ESG Report.

 bat.com/sustainabilityreport



STANDARDS AND REGULATION

We follow strict standards for product safety and for ensuring all our product marketing worldwide is aimed only at adult consumers and does not engage or appeal to youth. We openly share our approach, and advocate for industry-wide standards and regulation.

We think regulation of new category products should enable market availability, apply the highest quality and safety standards, allow communication of the potential benefits and risks, and ensure affordability for consumers by taxing them appropriately – all the while preventing youth appeal and access.

Our progress

We've evolved our International Marketing Principles and Youth Access Prevention Guidelines to reflect our multi-category portfolio.

We've openly shared our approach to product stewardship and have worked as part of multi-stakeholder groups on the development of industry-wide standards, including with the British Standards Institution, the EU standards body (CEN) technical committee and the International Organization for Standardization (ISO).

Find out more about our regulatory engagement and views on an effective regulatory framework for new category products that is based on relative risks, on pages 20–21 of our ESG Report.

 bat.com/sustainabilityreport



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 PRODUCTS

Our flagship vapour brands include Vype and Vuse.

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.

27
markets where
our vapour products
are available



95%
fewer toxicants
emitted by our Vype
product, compared
to cigarettes⁵

The scientific 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. In the UK, for example, Public Health England has published a series of expert reviews of the latest evidence, drawing on peer-reviewed literature, surveys and other reports. They concluded that **"based on current knowledge, vaping is at least 95% less harmful than smoking"**⁶. This is supported by a wealth of other evidence reviews, studies and reports from public health bodies, regulators and academics in countries such as Australia, Canada, France, New Zealand and the US.



IT IS WELL ACCEPTED WITHIN THE PUBLIC HEALTH COMMUNITY THAT, WHILE THE PRECISE LONG-TERM EFFECTS OF VAPING ARE UNKNOWN, IT IS NEVERTHELESS SUBSTANTIALLY SAFER THAN SMOKING TRADITIONAL CIGARETTES.

The Royal Society
for Public Health⁷



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 youth 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. We have strict standards to ensure our products do not engage or appeal to youth.

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 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.

⁵ Comparison of smoke from a 1R6F reference cigarette (approx. 9 mg tar) and vapour from Vype ePen 3, with reference to nine harmful components the World Health Organization (WHO) recommends to reduce in cigarette smoke. This quality does not necessarily mean this product is less harmful than other tobacco products.

⁶ Public Health England (2018). 'Evidence review of e-cigarettes and heated tobacco products 2018'.

⁷ Royal Society for Public Health (2018). 'Health on the High Street: Running on empty'.



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 PRODUCTS

Our THPs are available under our flagship glo brand.

Our range includes battery-powered devices that heat specially designed tobacco sticks, as well as hybrid devices that combine vaping technology with real tobacco.



17

markets where our THPs are currently available

The scientific evidence

By heating tobacco rather than burning it, THPs have the potential to be reduced-risk compared to smoking. Although most of the research to date 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 were exposed to around 50–90% less of the “harmful and potentially harmful” compounds compared with conventional cigarettes⁸. 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”⁹.

Leading innovation

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

This included our ‘glo pro’ device which, for the first time, used our new tobacco heating technology – induction heating – which significantly reduces the heating time for the consumer. 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.

90–95%

Some chemicals found in cigarette smoke are not in glo aerosol at all, and many others are around 90–95% lower in the glo aerosol¹⁰



TESTS ON HEATED TOBACCO CARRIED OUT BY THE TOBACCO INDUSTRY AND SCRUTINISED BY THE COMMITTEE... FOUND A REDUCTION OF UP TO 90% IN THE NUMBER OF TOXIC CHEMICALS EMITTED BY HEATED TOBACCO COMPARED WITH COMBUSTIBLE CIGARETTES.

David Jones

MP and honorary life fellow of Cancer Research UK¹¹



⁸ Committee on Toxicity of Chemicals in Food, Consumer Products and the Environment (COT), Department of Health UK (2017). ‘Statement on the toxicological evaluation of novel heat-not-burn tobacco products’.

⁹ Public Health England (2018). ‘Evidence review of e-cigarettes and heated tobacco products 2018’.

¹⁰ Comparison of smoke from a 3R4F reference cigarette (approx. 9 mg tar) and vapour from heated tobacco in glo, with reference to nine harmful components the WHO recommends to reduce in cigarette smoke. This quality does not necessarily mean this product is less harmful than other tobacco products.

¹¹ UK House of Commons Hansard, 26 June 2019, referencing findings of the COT in footnote 8.



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.

OUR PRODUCTS

Our modern oral products 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.

18

markets where
our modern oral
products are
available



The scientific evidence

A wealth of epidemiological evidence from Sweden over many decades shows that use of snus, a type of traditional oral tobacco, is substantially less risky than smoking. 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 bronchitis¹².

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 that modern oral products present significantly less risk to users than cigarettes.

Traditional oral products

We also sell a range of traditional oral products, including 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.



ST [SMOKELESS TOBACCO] PRODUCTS ARE MUCH CLEANER AND LESS HAZARDOUS THAN CIGARETTES. THEIR USE COULD REDUCE HARM TO SMOKERS IF THEY SWITCHED ENTIRELY TO THESE PRODUCTS. THIS APPEARS TO BE THE CASE WITH SNUS USE IN SWEDEN.

Prof Neal Benowitz

Professor of Medicine at the University of California, San Francisco¹³



¹² <https://www.fda.gov/news-events/press-announcements/fda-grants-first-ever-modified-risk-orders-eight-smokeless-tobacco-products> (accessed March 2020).

¹³ Benowitz, N. L. (2011). 'Smokeless Tobacco as a Nicotine Delivery Device: Harm or Harm Reduction?' *Clinical Pharmacology & Therapeutics* 90, no.4: 491-93. doi:10.1038/clpt.2011.191.

OUR STRATEGY FOR ACCELERATED GROWTH

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.

In 2019, we grew our New Categories business by 37% to £1.3 billion¹⁴ – we aim to achieve at least £5 billion in New Categories revenues in 2023/2024.

Opportunities for growth

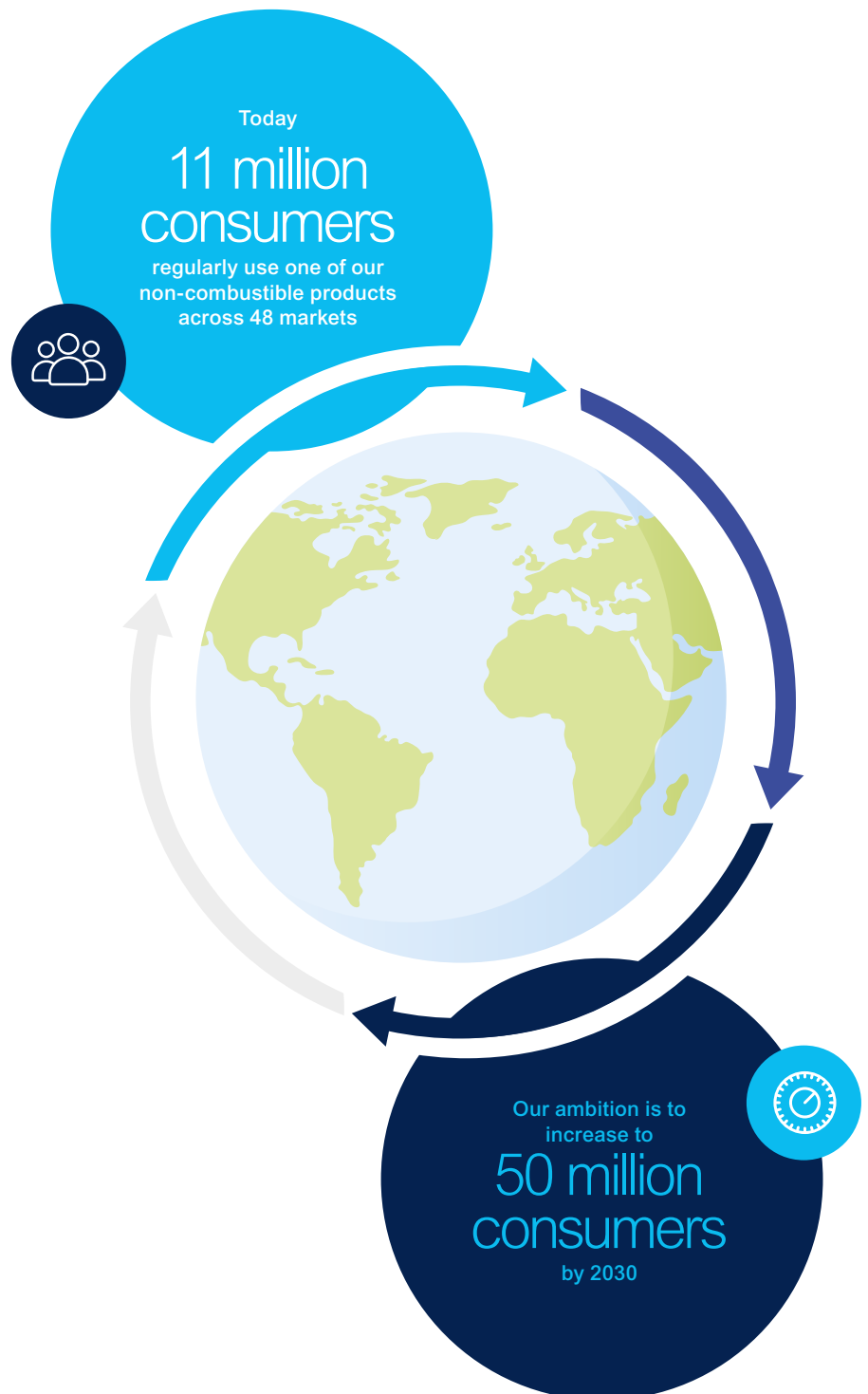
- New category products have grown rapidly across the world, with an estimated 54 million vapour consumers and 15 million THP consumers; and
- With the right regulation in place, alongside technological innovation, it is expected that growth will continue to accelerate as the products better meet consumer preferences and demands.

More innovation, greater choice

- 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; and
- Our new corporate ventures team will also accelerate the creation, development and commercialisation of new-to-world innovation on a test-and-learn basis.

Growing reach and availability

- Of the 48 markets where our new category products are currently available, 15 are among the top 30 countries with the highest smoking prevalence globally¹⁵;
- We're committed to expanding to further markets as quickly and practically as we can; and
- 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.



¹⁴ At current rates of exchange.

¹⁵ 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.PRVS.SMOK> (accessed March 2020).

OUR SUPPORTING ESG PRIORITIES

Highlights for each of our ESG priorities can be found on the following pages. Comprehensive details for all our ESG topics, including our policies, management approach, targets and performance, can be found in our ESG Report.

 bat.com/sustainabilityreport



As well as our commitment to addressing the health impact of our business, we are also clear that our long-term sustainability and value creation will be driven by ensuring a best-in-class approach to managing our other ESG focus areas.

WHY THESE TOPICS MATTER

E

EXCELLENCE IN ENVIRONMENTAL MANAGEMENT

Good environmental management is not only the right thing to do, it makes business sense given our dependence on natural resources.

- **Climate change** has long been part of our wider approach to environmental management and we've now elevated it to a standalone priority in recognition of the growing climate emergency;
- Addressing our **water and waste** impacts has environmental benefits and delivers financial savings and efficiencies;
- Implementing **sustainable agriculture** practices with our 90,000+ contracted farmers helps to address environmental impacts and secure our tobacco leaf supply chain; and
- In response to increasing concerns regarding plastics and post-consumption waste, we've established **circular economy** as a new priority area.

S

DELIVERING A POSITIVE SOCIAL IMPACT

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.

- **Human rights** risks exist across our business and supply chain, particularly in tobacco growing due to the inherent challenges in agriculture;
- By enhancing **farmer livelihoods**, we can help address rural poverty, which is a primary root cause for issues such as child labour and urban migration, and so help secure our supply chain;
- Protecting the **health and safety** of our people and contracted farmers enables them to thrive while also enhancing business productivity; and
- Investing in our **people** and creating a diverse, inclusive and engaging **culture** is crucial to our business success.

G

ROBUST CORPORATE GOVERNANCE

Robust corporate governance is key to our sustainable, long-term growth.

- Applying high standards of **business ethics** and operating with honesty, integrity and transparency is not only the right thing to do, it is critical to the continuing success of our business;
- **Responsible marketing** practices are crucial for ensuring adult-only consumers use our tobacco and nicotine products and that they do not appeal to youth; and
- 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.

E

EXCELLENCE IN ENVIRONMENTAL MANAGEMENT

We are committed to reducing impacts across our operations and supply chain and preparing our business for the risks ahead.

Climate change

Having achieved a 47% carbon dioxide equivalent (CO₂e) reduction towards our original intensity-based targets, from a 2000 baseline, we then set new science-based targets to reduce our direct emissions, from a 2017 baseline, against which we've already achieved a 9.5% reduction, such as by:

- Improving the energy efficiency of our factories, such as by upgrading to more efficient and lower-impact equipment;
- Increasing our use of renewable energy through green energy certificates and on-site energy-generation projects; and
- Optimising our logistics and fleet, such as through improving vehicle performance and fuel efficiency.

Given our supply chain (Scope 3) emissions represent 90% of our total carbon footprint, we're engaging with our largest direct product materials suppliers and conducting climate change impact assessments for our major tobacco leaf sourcing countries.

Water and waste

We've reduced water withdrawals across our operations by 13.1% from our 2017 baseline, such as by:

- Improving water efficiency and controls across our sites; and
- Increasing water recycling rates to 13.7%.

We've reduced waste sent to landfill by 13.8% since 2017 by recycling over 90% of our waste each year across all our sites worldwide.

Sustainable agriculture

We're supporting 90,000+ directly contracted farmers worldwide to address the environmental impacts of tobacco growing such as by:

- Giving them access to technologies developed by our Leaf Science & Research centre, like drip irrigation and floating seedbeds that help to reduce water and agrochemical use;
- Promoting the sustainable use of forest resources as fuels for tobacco curing to tackle deforestation;
- Reducing carbon emissions from tobacco curing with more efficient curing technologies that use up to 30% less fuel – these have been introduced to our contracted farmers in eight countries, with trials underway in two more; and
- Providing ongoing training and capacity building on environmental best practice.

Circular economy

We're developing a new Group-wide circular economy strategy for all our product categories, through a Management Board-led cross-functional project team:

- As a start, we've removed silicon caps from our Vype e-liquid pods, saving the equivalent of around 1,000 tonnes of CO₂ per year, and we plan to have removed all unnecessary plastic from Vuse packaging by the end of 2021;
- Trialling take-back schemes for new category products in France, Japan, Mexico, South Korea and the UK, and we plan to implement take-back schemes for all our new category devices by 2021; and
- Setting ambitious new targets aligned to the UK Government's 'Plastics Pact'.

Next steps

Building on our progress, we're now setting ourselves even more ambitious and stretching targets:

- Carbon neutral by 2030;
- Reduce our Scopes 1 and 2 CO₂e emissions by 30% by 2025;
- Source 30% of our direct energy from renewable sources by 2025;
- Reduce the total amount of water withdrawn by 35% and increase water recycling to 15% by 2025;
- Reduce waste sent to landfill by 40% by 2025 and recycle at least 95% of our total waste each year;
- Eliminate the use of unsustainable wood sources by our contracted farmers for curing fuels;
- 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.

ESG Report

Find full details of our policies, management approach, performance and targets for these focus areas in our ESG Report.

 [bat.com/sustainabilityreport](https://www.bat.com/sustainabilityreport)

HIGHLIGHTS FOR 2019

9.5%

REDUCTION

in direct CO₂e from 2017 baseline and aiming to be **CARBON NEUTRAL BY 2030**

13.1%

REDUCTION

in water withdrawals from our 2017 baseline and aiming to reduce by **35% BY 2025**

99%

OF WOOD FUEL

used by our contracted farmers for curing was from sustainable sources in 2019

1,000 TONNES

of CO₂ equivalent saved annually by removing silicon caps from Vype e-liquid pods

S

DELIVERING A POSITIVE SOCIAL IMPACT

We are committed to delivering a positive social impact for our employees and people across our supply chain.

Human rights

We're committed to protecting the human rights of our employees and people across our supply chain, such as:

- Our Human Rights Policy and Supplier Code of Conduct are aligned to the UN Guiding Principles on Business and Human Rights (UNGPs);
- Human rights criteria are included in due diligence procedures for our tobacco leaf suppliers via the industry-wide Sustainable Tobacco Programme;
- Annual human rights risk assessments for all our other suppliers, with independent audits for those with the highest risks;
- Strengthening our farm monitoring with our new global digital system that enables issues to be tracked in real time for prompt remediation;
- Participating in multi-stakeholder groups, such as the ECLT Foundation and Slave-Free Alliance; and
- Conducting human rights impact assessments, aligned to the UNGPs, in tobacco-growing countries.

Farmer livelihoods

We're helping to enable prosperous livelihoods for our contracted farmers, such as by:

- Developing new tobacco seed varieties that offer greater yields, as well as higher quality and resistance to diseases, and so help boost farmers' profits;

- Helping our contracted farmers to increase efficiency and productivity with new technologies, such as for tobacco curing;
- Educating and supporting our contracted farmers to grow other crops for food or as additional sources of income; and
- Measuring progress via our global *Thrive* programme, which assesses over 250,000 farmers in our supply chain against core indicators aligned to the internationally recognised 'Five Capitals' livelihood framework.

Health and safety

We're committed to ensuring a safe working environment for our employees and contractors, as well as for tobacco farmers in our supply chain, such as through:

- Group-wide health and safety programmes and employee training;
- Tailored initiatives for higher-risk areas of our business, such as manufacturing and Trade Marketing & Distribution;
- Providing our contracted farmers with best practice health and safety training, and access to personal protective equipment (PPE); and
- Developing a new operational standard for PPE in tobacco growing to drive a consistent approach across our supply chain.

People and culture

We're creating a fulfilling, rewarding and responsible workplace culture by:

- Implementing Group-wide diversity and inclusion initiatives;
- Listening and responding to our employees' views via our Group-wide workforce engagement channels; and
- Investing in world-class training and development programmes.

Next steps

- Publish a new Human Rights Focus Report in 2020, including details of human rights impact assessments in tobacco-growing areas in India and Indonesia;
- Conduct two further human rights impact assessments in Mexico and Mozambique in 2020;
- Continue working with the industry to develop and evolve the Sustainable Tobacco Programme with a stronger focus on risks and impacts;
- Continue to enhance farmer livelihoods, such as by helping to increase yields and improve farm productivity;
- Continue to aim for zero accidents for all our employees and contractors Group-wide; and
- Significantly increase the representation of women and focus nationalities in senior management.

ESG Report

Find full details of our policies, management approach, performance and targets for all our focus areas in our ESG Report, including more details on these topics, as well as on anti-illicit trade.

 bat.com/sustainabilityreport

HIGHLIGHTS FOR 2019

5,000+
HUMAN RIGHTS TRAINING SESSIONS
for farmers in our tobacco leaf supply chain in 2019

12–20% INCREASE IN TOBACCO CROP YIELDS
thanks to our new seed varieties covering 57% of our 2019 volumes from contracted farmers

18% REDUCTION IN TOTAL ACCIDENTS
to employees and contractors in 2019

82% EMPLOYEE ENGAGEMENT
score in our 2019 'Your Voice' survey, 7% higher than the FMCG comparator

G

ROBUST CORPORATE GOVERNANCE

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.

Business ethics

Ethical values form the basis of our culture and are expressed in our Standards of Business Conduct (SoBC). Our *Delivery with Integrity* programme builds on our already strong foundations to drive a consistent approach to managing key risks including bribery and corruption, such as by:

- Regularly reviewing and updating our SoBC to remain at the forefront of best practice;
- Providing comprehensive SoBC training and communications for all our employees every year;
- Increasing the accessibility, awareness and understanding of our SoBC and Speak up channels, such as with our new SoBC app available in 12 languages; and
- Developing procedures and tools to promote the consistent application of our SoBC policies across the Group – for example, our Third-Party Anti-Bribery and Corruption Procedure.

Responsible marketing

We're committed to ensuring our products are marketed responsibly to adult-only consumers, such as through:

- Our International Marketing Principles (IMP) governing our marketing across all our product categories, including strict requirements to be responsible, accurate and targeted at adult consumers only;
- Expecting our markets to adhere to our global Youth Access Prevention (YAP) Guidelines wherever our products are sold; and
- Updating our IMP and YAP Guidelines to keep pace with best practice and our growing range of product categories.

Regulation and policy engagement

We're committed to conducting all our engagement activities with external stakeholders with transparency, openness and integrity, such as by:

- Incorporating our longstanding Principles for Engagement into a new Lobbying and Engagement Policy in our SoBC, to highlight the importance of these principles along with all other Group policies;
- Applying robust procedures and controls for political contributions;
- Monitoring of regulatory engagement activities across the Group by our governance committees; and
- Respecting the WHO Framework Convention on Tobacco Control (FCTC) 5.3 provision, which calls for transparent and accountable interaction between governments and the tobacco industry.

Next steps

- Continue to strive for 100% adherence to our SoBC and to increase the awareness, understanding and accessibility of our SoBC policies and Speak up channels;
- 100% adherence to our International Marketing Principles (IMP);
- 100% adherence to our global Youth Access Prevention (YAP) Guidelines; and
- Ensure all our engagement with regulators and other stakeholders is conducted in accordance with our SoBC Lobbying and Engagement Policy.

ESG Report

Find full details of our policies, management approach, performance and targets for all our focus areas in our ESG Report, including more details on these topics as well as for Board diversity, executive remuneration, tax transparency, stakeholder engagement and materiality.

 bat.com/sustainabilityreport

HIGHLIGHTS FOR 2019

100% EMPLOYEES COMPLETED OUR SoBC TRAINING and formal compliance sign-off procedures in 2019

UPDATED OUR IMP to reflect developments in marketing, technology and our product portfolio

100% COMPLIANCE with our Youth Access Prevention Guidelines

£41.4BN TOTAL TAXES PAID including taxes borne and collected in 2019

CREATING VALUE FOR OUR CONSUMERS

Our consumers are at the core of everything we do and our success is underpinned by addressing their preferences; offering them a choice of enjoyable, innovative and potentially less risky products.



WE ENABLE CONSUMER CHOICE

Our global community of consumers is diverse and has differing needs. We aim to satisfy evolving consumer preferences with a broad portfolio that considers geographic and market differences.

- **150 million daily consumer interactions** give us a deep understanding of our consumers, enabling us to develop products that meet their different needs.
- **Wide range of products** to choose from, including traditional cigarettes, vapour products, THPs, and modern and traditional oral products.
- **48 markets** where our new category products are available and plans to launch in further markets as quickly as possible, prioritising those with the right conditions in place.
- **'Test and learn' strategy** helps us get the right mix of communication, product and price to maximise the harm reduction potential of new category products.



WE PRIORITISE CONSUMER SAFETY

Ensuring high quality and consumer safety is at the heart of how we design, develop and manufacture our products.

- **1,500+ scientists** focused on researching and developing our new category products.
- **Decades of product stewardship experience** at our world-class R&D centre in the UK.
- **Thousands of hours of testing** undertaken before our products reach the consumer.
- **New world-class battery and product safety lab** opened in 2019 in our R&D centre.
- **E-liquids manufactured in Europe** and using pharmaceutical-grade nicotine.
- **Openly sharing our approach and expertise** for the development of robust, industry-wide product quality and safety standards.



WE COMMUNICATE AND MARKET RESPONSIBLY

We provide clear and accurate product information for consumers in a responsible way, enabling them to make informed choices, while not appealing to youth.

- **Strict IMP compliance procedures** in place, including a requirement for all marketing materials to be formally reviewed and approved by our Legal and External Affairs function.
- **IMP training** provided for our marketing employees and trade representatives, as well as any external agencies we work with.
- **Digital marketing hub and toolkits** to help our markets apply our IMP online, such as regarding digital age verification and the use of social media.
- **Responsible flavours and features**, such as for e-liquids, to avoid appealing to youth.
- **Youth access prevention (YAP) activities**, such as supporting proof-of-age schemes and providing training for retailers and point-of-sale materials with YAP messaging.



WE ADDRESS THE ENVIRONMENTAL IMPACTS OF OUR PRODUCTS

We are committed to addressing our consumers' concerns about the environmental impacts of our products, including post-consumption waste and the use of plastics and other materials.

- **13 markets** with cigarette butt recycling and anti-litter programmes in collaboration with local governments, NGOs and other third parties.
- **New projects to reduce plastic waste** in packaging and explore opportunities to improve the recyclability of our products.
- **Take-back and recycling schemes** being trialled for new category products in France, Japan, Mexico, South Korea 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.





OUR STRATEGY PUTS THE **CONSUMER FIRST**, FOCUSING ON UNDERSTANDING **ADULT CONSUMER CHOICE** AND ENJOYMENT.

Kingsley Wheaton
Chief Marketing Officer



WE WILL BECOME A BUSINESS THAT DEFINES ITSELF NOT BY THE PRODUCTS IT SELLS BUT BY THE **CONSUMER NEEDS IT MEETS**.



11m

consumers regularly use one of our non-combustible, potentially reduced-risk products

VALUE CREATED FOR OUR CONSUMERS

- **A wide choice** of superior and stimulating products for every mood and moment;
- **Brands they can trust** that are manufactured to high quality and safety standards;
- **Alternatives to cigarettes** with reduced-risk potential;
- **Transparent, clear and accurate information**, based on robust science, about the relative risks; and
- **Responsible marketing** that doesn't engage or appeal to youth.

100%

compliance with our Youth Access Prevention Guidelines

CREATING VALUE FOR SOCIETY

Protecting the environment, enhancing farmer livelihoods, respecting human rights and supporting the communities where we operate adds value to society and is a pragmatic and commercial approach that secures the long-term sustainability of our business.



WE PROTECT THE ENVIRONMENT

Through our long-standing environmental management systems, we are addressing a wide range of issues, with a particular focus on climate change, energy use, water use, waste management and sustainable agriculture.

- **Steady progress towards our ambitious new target to be carbon neutral by 2030**, as well as alignment with the Task Force on Climate-related Financial Disclosures (TCFD) by 2022.
- **Increasing our use of renewable energy** through green energy certificates and on-site energy generation projects.
- **Optimising water use in our factories** including recycling water used in manufacturing processes.
- **Recycling over 90% of our total waste** and working towards zero waste to landfill.
- **Tackling deforestation** by promoting the sustainable use of forest resources among contracted tobacco farmers, as well as helping them reduce agrochemical use and use water more efficiently.
- **Engaging with our largest product materials suppliers** to manage climate risk and reduce Scope 3 carbon emissions in our supply chain.



WE SUPPORT COMMUNITIES

Around the world, we partner with NGOs and other stakeholders on projects that support the communities and landscapes where we operate.

- **£46.1 million invested** in community projects and charitable donations in the last three years.
- **Afforestation and environmental programmes** in 25 countries, including in Bangladesh and Pakistan that have planted over 183 million tree saplings since the early 1980s, and are among the largest private sector-driven programmes in the countries.
- **Rural infrastructure programmes** in eight countries to help provide access to clean drinking water, solar energy, healthcare and other basic amenities, such as in Pakistan where our mobile doctor units bring free health services for people across six farming regions.
- **Empowerment programmes** in 53 countries that provide scholarships, training and skills development, micro-financing and support for small businesses and social enterprises.



WE RESPECT HUMAN RIGHTS

Our integrated human rights strategy is aligned to the UN Guiding Principles and includes policies, due diligence, grievance channels and remediation procedures for our own business operations and supply chain.

- **Industry-wide Sustainable Tobacco Programme** includes human rights criteria for our leaf suppliers.
- **Regular farm monitoring** by our Extension Services, with over 90% of our contracted farmers monitored using our new global digital system.
- **Raising farmers' awareness of human rights issues** and overcoming any cultural barriers, through over 5,000 training sessions in 2019, with more than 350,000 attendances.
- **Multi-stakeholder partnerships** to find collaborative solutions to address the root causes of human rights issues, including 20 years in the global ECLT Foundation.
- **Human rights impact assessments** in tobacco-growing areas in Indonesia and India in 2019, with two more planned in Mozambique and Mexico in 2020.
- **Annual human rights risk assessments on 100% of suppliers** of other product materials and indirect goods and services, with independent audits for those with the highest risk.



WE ENHANCE FARMER LIVELIHOODS

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

- **Increasing yields by 12–20%**, depending on growing conditions, thanks to our quality tobacco seed varieties and agronomy support, so helping to boost farmers' profits.
- **Business management training for farmers** delivered by our Extension Services and strategic suppliers, including over 2,700 sessions in 2019 with more than 76,000 attendances.
- **Increasing farm efficiency and productivity** through technology such as automated curing barns that use 30% less fuel and are 50% less labour intensive.
- **Enhancing food security** by educating and supporting tobacco farmers to grow other crops, such as vegetables, maize and soy, which can also bring additional sources of income.





ADDRESSING THE **ENVIRONMENTAL IMPACTS OF OUR BUSINESS AND WORKING TO DELIVER A POSITIVE SOCIAL IMPACT FOR OUR SUPPLIERS, FARMERS AND PEOPLE ACROSS OUR SUPPLY CHAIN HAS LONG BEEN A PRIORITY AND IS CENTRAL TO OUR GROUP STRATEGY.**

Alan Davy
Director, Operations



92%

of tobacco farmers in our supply chain grow other crops, including fruit, vegetables, maize and soy

Up to
90%

increase in water efficiency thanks to drip irrigation technology introduced to farmers in Brazil and Mexico

VALUE CREATED FOR SOCIETY

- **Minimise impacts on the environment**, increase climate change resilience and protect the natural resources and landscapes on which society relies;
- **Make farming a profitable and preferred profession**, particularly for rural youth, to ensure the long-term viability of rural communities;
- **Tackle child labour** in tobacco growing, as well as other human rights issues across our supply chain;
- **Raise standards and improve workplace conditions** for workers across our supply chain; and
- **Develop collaborative solutions** to complex sustainable development challenges that can't be addressed in isolation.

CREATING VALUE FOR OUR EMPLOYEES

We have always been clear that the people we employ worldwide are key to our success. Without these people, we will be unable to deliver our strategy and ultimately build 'A Better Tomorrow' for all our stakeholders.



WE CREATE A DIVERSE AND INCLUSIVE CULTURE

Diversity has long been one of the foundations of our culture and continues as part of our new BAT 'ethos'.

- **Diversity and inclusion strategy** embedded across the Group that focuses on driving ownership and accountability, building diverse talent pools and creating enablers.
- **Parents@BAT programme** helps new parents across the Group to balance their home and work lives.
- **Our global 'B United' network provides a safe forum for our LGBT+ employees** to share experiences and, this year, our business in the US was named a 'Best Place to Work for LGBTQ Equality' by the Human Rights Campaign Foundation.
- **Female representation in senior management** has more than doubled since 2012, from 11% to 23% in 2019, and women represent 37% of all management roles globally.
- **Global 'Your Voice' survey** in 2019 found 88% of our employees strongly agreed that BAT supports diversity in the workplace.
- **Our new 'ethos' focuses on being diverse, empowered, bold, fast and responsible** – it is an evolution of our Guiding Principles and was developed with our employees.



WE PROVIDE A SAFE WORKPLACE

A safe workplace for all our employees and contractors is paramount: our aim is zero accidents Group-wide.

- **Comprehensive driver safety and security programme** to address the risks of road traffic accidents and attacks and assaults for our employees in Trade Marketing & Distribution (TM&D).
- **Reducing accidents in manufacturing** through focused programmes and safety procedures.
- **Rigorous investigations for all serious incidents** to determine the cause, identify lessons and develop an action plan to prevent similar incidents from happening again.
- **Targeted employee training** to raise awareness of health and safety risks and understand how to prevent, manage and mitigate them.



WE INVEST IN TALENT

Continuing to attract and retain the best people remains a key priority and we are committed to invest as much in our people as we do in our brands.

- **Global Graduate Programme** focused on developing the next generation of future leaders.
- **Global digital learning platform**, called The Grid, launched in 2019 to consolidate all our training in one easy-to-access place.
- **World-class professional development programmes**, such as our Women in Leadership programme, which has run for the last six years, and the INSEAD business school's Women's Leadership Development programme that we've participated in for the last four years.
- **Women in STEM** (science, technology, engineering and maths) initiative launched in 2019 to attract, develop and retain more women in our R&D, Operations, and Information & Digital Technology functions.



WE DELIVER WITH INTEGRITY

Our *Delivery with Integrity* programme focuses on making sure everyone at BAT understands and feels empowered to play their part in ensuring our standards are never compromised for the sake of results.

- **High standards of business integrity** that we require of all our employees worldwide are expressed in our Standards of Business Conduct (SoBC), and 100% of employees undergo SoBC training every year.
- **Confidential and independently managed Speak up channels** available since 2017 to anyone working for, or with, the Group, 24 hours a day online, by text or telephone in multiple languages.
- **SoBC app** launched in 2019 to increase accessibility, awareness and understanding of our SoBC policies, procedures and guidance, as well as our global Speak up channels.
- **79% of employees** agreed strongly in our global 'Your Voice' survey that they feel able to report concerns about wrongdoing without fear of reprisal, 8% higher than the FMCG comparator norm.





IN THIS EXCITING PERIOD OF **TRANSFORMATION AT BAT**, WE ARE FULLY COMMITTED TO CONTINUING TO **INVEST IN OUR PEOPLE** AND **EMBRACE DIVERSITY** IN ALL FORMS. ULTIMATELY, THIS MAKES US A MUCH **STRONGER BUSINESS**.

Hae In Kim
Director, Talent and Culture



23%

female representation
in senior management
globally

141

nationalities
represented across
management roles
globally

40%

increase in Speak up
contacts in 2019, reflecting
increased accessibility,
awareness and confidence
in our channels and
procedures

VALUE CREATED FOR OUR EMPLOYEES

- **A diverse and inclusive** workplace culture that treats everyone equally;
- **A dynamic, inspiring and safe place to work** that values their wellbeing and listens to their views;
- **Opportunities for a rewarding career** with a major international business that values their contribution and supports their professional learning and development;
- **Awareness of, and confidence in, our Speak up channels and SoBC compliance procedures**, so they feel able to report any concerns in confidence and without fear of reprisal; and
- **Pride in working for an organisation** that takes its responsibilities for the highest standards of ethical behaviour and sustainability seriously.

OUR CONTRIBUTION TO THE SDGs

We contribute towards many of the UN Sustainable Development Goals (SDGs), and our initiatives often address more than one.

ESG Report

For more details about our initiatives and performance in 2019, please see our ESG Report.

 bat.com/sustainabilityreport

We have identified the SDGs that are most material to our business and our stakeholders, and which are most closely aligned with our strategy. Here, we present highlights of our work. For more details about our initiatives and performance in 2019, please see our ESG Report.



SDG 1: NO POVERTY

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

We help our 90,000+ contracted farmers to increase tobacco crop yields, enhance farm productivity and generate additional sources of income. In Kenya, for example, we also facilitate savings and credit cooperatives, and crop and health insurance to help increase farmers' resilience.

Find out more on pages 34–37 of our [ESG Report](#).



SDG 2: ZERO HUNGER

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

In 2019, 92% of tobacco farmers in our supply chain grew other crops, such as maize and soy. We also support community food security programmes, including in Sri Lanka, where we've helped over 19,600 rural families since 2006.

Find out more on pages 34–37 of our [ESG Report](#).

SDG 3: GOOD HEALTH AND WELL-BEING

Cigarettes carry serious health risks, but many adults continue to smoke, so we've long been committed to tobacco harm reduction.

Today, we have a range of products with reduced-risk potential used regularly by 11 million consumers across 48 markets, and we're launching in more markets as quickly as possible. In 2019, for example, we launched modern oral products in Kenya and Pakistan.

Find out more on pages 23–24 of our [ESG Report](#).



SDG 5: GENDER EQUALITY

We are committed to gender equality across our business and, in 2019, as part of our diversity and inclusion strategy, we launched our global Women in STEM initiative.

We are also focused on helping to empower rural women in tobacco-growing communities and, in 2019, our leaf operations and strategic third-party suppliers ran 298 rural women's empowerment training sessions, with over 24,000 attendances.

Find out more on pages 37 and 45 of our [ESG Report](#).



SDG 6: CLEAN WATER AND SANITATION

We're working with 90,000+ contracted farmers around the world to implement best practice water management techniques and to mitigate the risks of agrochemicals polluting local water sources.

We also support programmes to bring clean drinking water to rural communities in seven countries worldwide. For example, in Bangladesh, our Probaho project provides clean drinking water for over 200,000 people daily.

Find out more on pages 33–36 of our [ESG Report](#).



SDG 8: DECENT WORK AND ECONOMIC GROWTH

We're helping to improve farm working conditions across our leaf operations globally, and to tackle child labour and forced labour in tobacco growing, which are serious inherent issues across agriculture.

In Mexico, for example, our *Florece* programme has helped over 16,000 children since 2001 from being exposed to the risks of child labour.

Find out more on pages 26–33 of our [ESG Report](#).



SDG 9: INDUSTRY, INNOVATION AND INFRASTRUCTURE

Our innovation-driven new category products are designed by some of technology's brightest minds.

We employ over 600 scientists and engineers focused on our product innovation pipeline. We also partner with more than 200 organisations, academics and third-party inventors to co-create new-to-world innovation.

Find out more on pages 19–23 of our [ESG Report](#).

SDG 13: CLIMATE ACTION

We're making steady progress towards our ambitious science-based targets for reducing our direct carbon emissions in our operations.

To address carbon emissions in our tobacco leaf supply chain, more efficient curing technologies, smarter use of fertilisers and increases in yields are all contributing to reductions. For example, automated curing barns used by our contracted farmers in eight countries use up to 30% less fuel than traditional barns. We also recognise the importance of forests in reducing emissions and, in 2019, 99% of our contracted farmers' wood for curing fuels was from sustainable sources.

Find out more on pages 7–8 and 11–16 of our [ESG Report](#).



SDG 15: LIFE ON LAND

We have a long and proud history of working directly with farmers around the world to advance sustainable agriculture practices and to protect natural resources in farming communities.

This includes a wide range of best practice information and training, and introducing farmers to sustainable practices and technologies, developed by our global Leaf Science & Research centre. For example, drip irrigation technology introduced to our contracted farmers in Brazil and Mexico, and currently being trialled in Pakistan, increases water efficiency by up to 90%.

Find out more on pages 11–16 of our [ESG Report](#).



SDG 17: PARTNERSHIPS FOR THE GOALS

Working as part of multi-stakeholder partnerships is central to our approach – we partner with NGOs and other stakeholders on long-term community-based projects around the world.

For example, in 2000 we co-founded the global ECLT Foundation, which has now established a new independent Affiliate Office in Uganda to provide a platform for cross-sector collaboration to tackle child labour.

Find out more on pages 31 and 59 of our [ESG Report](#).



EXTERNAL RECOGNITION

Our sustainability efforts and commitment to high standards have received notable independent recognition over the years, including the following.

MEMBER OF

**Dow Jones
Sustainability Indices**

INDUSTRY LEADER IN THE DOW JONES SUSTAINABILITY INDICES (DJSI)

BAT is the only company in our industry listed in the prestigious World Index, representing the world's top 10% ESG performers. We have achieved inclusion in the DJSI for 18 consecutive years, and our overall score in 2019 was 33 points higher than the industry average. As well as overall industry leadership, we achieved top scores in our industry in 11 of the 21 categories, including risk management, operational eco-efficiency, supply chain management and human rights.



INTERNATIONAL WOMEN'S DAY BEST PRACTICE WINNER

Our global campaigns for International Women's Day have been recognised for two consecutive years as examples of best practice by the International Women's Day Association and featured as case studies at internationalwomensday.com/bestpractice.



GOLD CLASS SUSTAINABILITY AWARD

In 2019, we were again awarded a Gold Class distinction for sustainability performance in RobecoSAM's Sustainability Yearbook, determined by scores in our DJSI assessments. The Yearbook showcases the best performing companies among industry peers and in terms of financially material ESG metrics.



LEADER STATUS IN THE GLOBAL CHILD FORUM'S BENCHMARK STUDY

In the Global Child Forum's 2019 benchmark study we were awarded 'leader' status with a score of 9.2 out of 10, compared to 'industry' and 'all companies' averages of just 5.6. The study examined 700 companies to assess the extent to which they address children's rights across workplace, supply chain, marketplace and community impacts.



OTHER ESG RATINGS

We have also achieved a 'BBB' rating in the most recent MSCI ESG Ratings and a score of 65% in the most recent Sustainalytics ESG Risk Ratings – both of which help investors identify and understand financially material ESG risks in their portfolios. We aim to improve these scores and expect the launch of our evolved strategy, new Sustainability Agenda and ambitious new targets to help demonstrate both our accelerated commitment and, in turn, our enhanced performance across all areas of ESG.



CDP CLIMATE A LIST

We are honoured to have been named on the non-profit 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. 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.



SEAL ORGANIZATIONAL IMPACT AWARD

In February 2020, we were delighted to be named among the 50 most sustainable companies in the world in the 2019 SEAL Business Sustainability Awards. The Organizational Impact Award celebrates leadership, transparency and commitment to sustainable business practices. Winners are selected by combining and ranking the results of two rigorous, world-class assessments – the 2019 CDP A List and the SAM Corporate Sustainability Assessment.



BEST-IN-CLASS ISS ENVIRONMENTAL AND SOCIAL QUALITY SCORES

We've achieved the highest ratings for Institutional Shareholder Services' (ISS) Environmental and Social Disclosures QualityScore, which identify best-in-class sustainability disclosure practices. ISS notes a higher rating in the assessment indicates relatively better quality in a company's environmental and social practices, compared to peers.

FTSE

TOP 5 FTSE RANKING FOR OUR MODERN SLAVERY STATEMENT

In the two most recent studies of companies' modern slavery statements, conducted by the Business and Human Rights Resource Centre and the not-for-profit Development International, BAT was ranked as being among the top five highest scoring companies in the FTSE for the detailed disclosure and action reflected in our Modern Slavery Statement.



PRODUCT OF THE YEAR

In early 2020, our Vype ePod won in the e-cigarette category at the UK Product of the Year awards – the UK's largest consumer survey of product innovation. This is the second consecutive year that Vype has won in this category, following the success of the ePen 3 in 2019. It highlights the strength of our new category product pipeline, the expertise of our UK-based R&D team and how innovation has remained a driving force behind our business.



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.



UK NATIONAL UNDERGRADUATE EMPLOYABILITY AWARDS 2020

We won the award for Top Medium-sized Undergraduate Scheme 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.



BEST PLACE TO WORK FOR LGBTQ EQUALITY

Our business in the US, Reynolds American Inc Group (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 (CEI), the US's premier benchmarking survey and report measuring corporate policies and practices related to LGBTQ workplace equality.

COMMENTARY FROM OUR STAKEHOLDER PANEL

An independent review of our sustainability reporting is an important element of helping stakeholders place trust in our processes and in what we report, and supports our commitment to openness and transparency.

Panel members

Philippa Foster Back CBE, Director of the Institute of Business Ethics (Panel chair) – an education charity whose purpose is to promote high standards of business behaviour based on ethical values.

Scott Ballin, Health Policy Adviser – Scott has spent more than 40 years involved in issues related to tobacco and health and is a key opinion leader on tobacco harm reduction.

Prof John Boardman, Emeritus Fellow, Environmental Change Institute, University of Oxford – John has published over 150 papers primarily focused on soil management and land degradation.

Marion Durose, Partner at Safe Space Collaboration LLP – an independent consultancy and training firm focused on modern slavery and human rights using dialogue, facilitation and mediation to bring parties together to agree a fair action plan on issues relating to worker exploitation in supply chains.

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

Process

This is the fourth year of the Panel's existence. Its aim is to understand the context the BAT Group operates within, identify how it is meeting the various sustainability challenges, and offer comment on the materiality of this Sustainability Strategy Report (the 'Report') and a collective opinion on reporting performance. The Panel is independent of BAT and the comments which follow are based on the professional expertise and experiences of its members.

In this reporting cycle, the Panel held two meetings with BAT. The first, in November 2019, included a presentation from BAT on key business developments over the preceding 12 months and a discussion on BAT's approach to reporting and plans to evolve this in the light of stakeholder feedback. BAT also explained how it was proposing to address the specific comments made by the Panel in its last statement.

The second meeting, in February 2020, centred on a detailed scrutiny of a draft of the Report for which:

- The Panel reviewed a draft in advance of the meeting together with a draft of BAT's standalone ESG Report to provide context for its deliberations;
- BAT outlined how its corporate strategy was developing and the role sustainability played within it;

- BAT presented details on how they had incorporated into the Report the Panel's comments made during its November 2019 meeting;
- The Panel privately discussed the Report as a group to formulate their views and identify questions to ask BAT;
- The Panel met with senior BAT representatives to ask questions and provide initial feedback on the Report, including the Group Heads of Corporate Affairs, Leaf Operations, Business Conduct and Compliance, and Scientific Engagement, as well as other senior experts from key areas of the business;
- The Panel made suggestions as to how the Report could be improved to best serve the needs of BAT's stakeholders – a number of these comments were addressed in the Report prior to publication; and
- The Panel drafted this commentary independently of BAT and presented it to BAT's representatives.

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





WE REMAIN IMPRESSED BY THE WORK BAT IS UNDERTAKING IN PROMOTING SUSTAINABLE AGRICULTURE AND IMPROVING FARMER LIVELIHOODS IN ITS LEAF SUPPLY CHAIN.

Stakeholder Panel members

BAT's approach to sustainability reporting

BAT's approach to sustainability reporting is evolving with this shorter Report, complemented by a separate, more detailed ESG Report. It will continue to publish topic-specific Focus Reports covering major challenges and issues, and a range of supporting information and performance data on its corporate website, bat.com, and its science website, bat-science.com. Taken together, this produces an extensive portfolio of materials that inform stakeholders how BAT is addressing the sustainability risks, challenges and opportunities it faces. We would encourage BAT to use these media to be as transparent as possible when communicating its sustainability strategy and the progress it is making towards its objectives.

This change to the reporting approach has implications for the Panel's role especially in what is, effectively, a year of transition. For example, it has been difficult to relate the comments made last year around areas for improvements with specific initiatives undertaken in the past 12 months, especially as our remit was to focus on this Report rather than the longer and more detailed ESG Report. Consequently, the nature and structure of what follows is different to previous years and, as a result, we have agreed that it is better described as a commentary rather than an assurance statement. Nonetheless, we hope that it is of benefit both to BAT and the reader.

The Panel recognises the work that BAT has done this year, particularly its consideration of the needs of different audiences and how best to meet them. The Panel supports the approach BAT is adopting. In particular, it commends the use of a variety of reports that address BAT's major issues – such as harm reduction, human rights and farmer livelihoods – with this shorter Report intended to provide a strategic overview. However, and perhaps not surprisingly given this is the first year of the new approach, we feel this Report is less a summary of strategy and more a short description of what BAT has been doing with some information on its future plans.

With that in mind, the Panel believes it would be helpful to set out, briefly, what it would expect to see in BAT's future reports.

The starting point is the alignment between the messages and language used in the latter and the Annual Report. This avoids any possibility of divergence or confusion between the overarching business strategy and how BAT is addressing sustainability. With that in mind, and recognising that valuable details are provided, the Report would benefit from clarifying how BAT's investment in accelerating the adoption of new category products with reduced risk potential represents a step change towards reducing the absolute number of consumers that continue to use combustible tobacco products.

The Report should contain clear and ambitious objectives and targets. These should be underpinned by measures that allow readers to assess BAT's performance. It is important there is clarity about which measures – or Key Performance Indicators (KPIs) – are truly important to the business. A limited number of indicators covering the Company's most significant sustainability issues will be of much greater benefit to stakeholders than a lengthy list that makes it difficult to distinguish what is truly material.

The Report should also explain how external factors – such as changing consumer demand, regulation, and the expectations of investors and other stakeholders – impact BAT's ambitions and strategic goals, and how BAT is responding.

Finally, the success of this reporting approach is heavily dependent on clear signposting between this Report and the suite of other reports and materials that provide more detail and depth.

Ambitions, objectives and indicators

Given the scale and nature of the challenges confronting BAT, we believe it is imperative that the Report outlines similarly ambitious objectives and targets. In this way, stakeholders will have a much better understanding of where, ultimately, BAT wishes to get to and how long this will take. Explaining this direction of travel, highlighting milestones along the way, and sharing performance data are fundamental in building trust and confidence.

This process has already started: for example, we recognise the progress BAT has made in securing approval for science-based targets to reduce its CO₂e emissions. Similarly, we note BAT's commitment to align its approach



WE CONTINUE TO WELCOME THE SCALE AND QUALITY OF BAT'S SCIENTIFIC RESEARCH.

to reporting on climate change related risks with that of the Task Force on Climate-related Financial Disclosures (TCFD). However, in our opinion, BAT's climate change strategy and the ambitions that inform it remain unclear. We believe that the Report provides the ideal vehicle for clarifying and communicating its approach.

We also note the progress BAT has made over recent years with regard to managing and improving the sustainability aspects of both its leaf and non-leaf supply chains. BAT's approach to the latter – of building internal capacity complemented with external support as required – is to be commended. We note that the Company is yet to publish the results of a country-by-country assessment of the risks that climate change is posing and hope that this will be addressed in its reporting in the near future.

Finally, in response to a suggestion we made last year, we commend the inclusion in this year's report of information on disclosures relating to Standards of Business Conduct.

Specific areas of focus

BAT's Sustainability Reports have always been explicit about what it regards as its most significant challenges. Based on the Panel's discussions with senior management, we believe this clarity of focus will continue to be found in future reports. However, we thought it would be helpful to outline how BAT may wish to address the crucial issues of harm reduction, sustainable agriculture and farmer livelihoods in subsequent reports.

BAT's approach to harm reduction can only be properly understood when placed in context against how the market is evolving, consumer demand changing and regulation developing. While the Panel recognises that BAT will continue to rely on combustible cigarettes as a source of revenue for the near future, the Panel strongly urges BAT to accelerate its harm reduction efforts, to increase their investments in this area with the goal of making those products available to billions of smokers. It should also emphasise how this income from combustibles provides the investment for development and innovation in new category products, which will drive the transition from a company selling combustible tobacco products to one that is providing consumers with a range of new category products with lower health risks.

COMMENTARY FROM OUR STAKEHOLDER PANEL CONTINUED

In our previous statement, we outlined the three areas – relating to consumer access to new category products, regulation and engagement – that merit detailed coverage in future reports. We would like to reiterate those comments and stress the importance of giving them due prominence.

Making new category products accessible across the globe, and particularly to the hundreds of millions of smokers living in low to middle income developing countries, is a major challenge. At the same time, this presents an enormous opportunity both in terms of the public health and financial benefits that would accrue if this issue is addressed effectively and speedily.

In terms of regulation, we recognise BAT is one of many voices and the development and implementation of regulation is, rightly, the prerogative of national governments. The Panel also accepts that making definitive statements about timescales for transitioning from current products to new category products is problematic and dependent on a range of factors outside BAT's control. The Report summarises the principles underpinning BAT's approach to regulation and the challenges of ensuring consistency across different countries. We believe more detail could be included on this in the ESG Report.

The Panel continues to welcome the scale and quality of BAT's scientific research and recommends, obstacles notwithstanding, that this material and the data underpinning it is shared as widely as possible with relevant stakeholders. We also recommend disclosure on annual investments in research and development that underpin the strategy to accelerate the uptake of new category products. In that way, BAT will be able to demonstrate its commitment to formulating regulation that is based on robust scientific evidence that incorporates objective assessments of the level of risk associated with particular products.

The Panel remains impressed by the work BAT is undertaking in promoting sustainable agriculture and improving farmer livelihoods in its leaf supply chain. There has been

substantial investment through the industry-wide Sustainable Tobacco Programme (STP), and BAT's *Thrive* programme and Extension Services. We believe that future Reports should include the following with clear signposting to supporting information in either the ESG Report or shorter, topic-specific Focus Reports:

- An explanation of how BAT is working to address the vulnerability of its contracted farmers who are exposed to the risks posed by climate change;
- More information on farmers' access to grievance mechanisms;
- How BAT's Extension Services are working with contracted farmers to improve productivity, prosperity and resilience;
- Likewise, more data from the *Thrive* programme will provide readers with better insights into how contracted farmers are benefiting from their relationship with BAT; and
- The results of the human rights impact assessments that BAT has completed and of future assessments.

Concluding remarks

This year has witnessed a major change in BAT's approach to reporting. As with any departure from tried and tested practice this has presented a series of challenges both for BAT and Panel. However, the Panel believes the rationale for the change is compelling and the vision BAT has set out for its reporting will benefit stakeholders and the Group. The Panel recognises the progress made this year and hopes that the suggestions and recommendations outlined in our commentary will assist BAT in building on the firm foundations already in place.

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

Stakeholder Panel members February 2020



Assurance of performance data

Corporate Citizenship has performed a limited assurance engagement on selected sustainability data presented in this Report and in our ESG Report.

Corporate Citizenship's assurance statement, including the scope of work and conclusions, can be found on pages 62–65 of our ESG Report.



bat.com/sustainabilityreport

ACTING ON THE PANEL'S FEEDBACK

Process

While the Panel's remit this year was limited to commenting on the Sustainability Strategy Report, we are confident that both this Report and our ESG Report have both benefited greatly from the Panel's input.

As in previous years, we were able to apply many of the Panel's suggestions prior to publication, and we're carefully considering other recommendations for future reports.

Our approach to sustainability reporting

We're pleased the Panel supports our revised approach to reporting which aims to be more accessible and better meet the needs of different audiences.

We appreciate the Panel's feedback that this Report is more a description of what we're doing and plans in place. Given our move this year from a well-established reporting format to this new approach, we felt it was important to provide readers with some consistency with our previous reports to enable them to form a view on our progress against our sustainability commitments.

As we strived to find the right balance while launching this new reporting format, the Panel's feedback has been particularly helpful. We were able to respond with closer alignment to the messages in our Annual Report, stronger connections between our strategy, performance and progress, and more details on our ambitious targets, particularly in the letter from our CEO on pages 2–3 and details of our strategy for accelerated growth on page 11.

We also welcome the Panel's feedback on the importance of explaining how external factors impact our strategic goals. In response, we have included further information on the scale of smoking globally and scale of the market for new category products to give an indication of the opportunities for growth, information on the availability of our new category products in markets with the highest smoking prevalence globally, and clearer signposting to more information in our ESG Report, such as regarding regulatory factors.

Ambitions, objectives and indicators

We recognise the importance of outlining ambitious objectives and targets in our reporting to help our stakeholders understand our key milestones and how we will deliver on our commitments.

We welcome the Panel's valuable feedback and recommendations for where improvements can be made. We are committed to acting on these recommendations and continuing to drive a step change in our approach through our new Sustainability Agenda and ambitious new targets.

We're pleased the Panel recognised the progress already made with our science-based CO₂e reduction targets, and these are now complemented with our new stretching targets for increasing our consumers of non-combustible products to 50 million and achieving carbon neutrality by 2030, as well as bringing forward our existing environmental targets to 2025. We're confident these will accelerate our strategy to build 'A Better Tomorrow' for all our stakeholders. Yet, we appreciate the Panel's feedback on the importance of better explaining our 'direction of travel' and will continue to work to enhance this in our future reports.

We also recognise the need to advance our reporting on climate change, particularly in relation to the impact on tobacco farmers. We have recently commissioned a climate change scenario analysis of our strategic leaf sources and, as we better align with the TCFD framework, we will continue reporting on the findings of this assessment in more detail in future reports. As well as the information provided in this Report, we have included additional KPI tables in our ESG Report to indicate which measures are the most important for our business.

Finally, we are grateful for the Panel's recognition of our approach to both managing and improving the sustainability aspects of our supply chain, and the improvement in our disclosures relating to our Standards of Business Conduct.

Specific areas of focus

As we strive to openly and transparently report on our most significant challenges, we appreciate the Panel's view that our reporting continues to reflect these explicitly. We note the Panel's desire to see more information on how we are making progress in our efforts to reduce the health impact of our business. We hope that explicitly positioning this as the principal focus of our Sustainability Agenda, alongside more details in this Report on our strategy for accelerated growth, including offering an increasing choice of new category products, supported by world-class science and industry-leading standards, will reassure our stakeholders of our commitment.

We know our long-term sustainability and value creation will also be driven by ensuring a best-in-class approach to managing our other ESG priorities, and the Panel rightly identifies sustainable agriculture and farmer livelihoods

as important elements of that. In this Report, we're disclosing additional metrics on farmer livelihoods, such as the increase in tobacco crop yields from the seed varieties developed by our Leaf Science & Research centre. In addition, we include specific examples of how our support for our contracted farmers helps to improve their productivity, prosperity and resilience. As our *Thrive* programme continues to evolve, we will explore how we can better quantify the livelihood and environmental benefits to our farmers in our tobacco leaf supply chain.

We are committed to transparently reporting on the findings of our human rights impact assessments in tobacco-growing areas. Initial results will be published in our upcoming Human Rights Focus Report, as well as relevant findings from our climate change scenario planning. With the close connection between the impacts of climate change and human rights, we hope this Focus Report will be received well by our stakeholders.

Concluding remarks

Last year, we noted the importance of providing the right balance and level of information in our sustainability reporting to meet the needs of our diverse audiences. Following extensive engagement with our stakeholders, including during our November meeting with the Panel, we have delivered a major change to our reporting this year.

With our revised approach, we trust our stakeholders will have a clearer understanding of our strategy and the significant progress we're making. In addition, we've clearly signposted our detailed ESG Report that provides readers with more comprehensive details of our policies, management approach and progress against targets for each of our ESG priorities. We're delighted the Panel agrees with the rationale for these changes and we believe this will benefit both our stakeholders and our business.

We would like to thank the Panel for their time and thorough review of our Report and look forward to continuing this open and constructive dialogue.

BAT
March 2020

GO ONLINE

Explore the story of our year

Featuring downloadable versions of this Report, along with our ESG Report, Annual Report and other content – all accessible on desktop, tablet and mobile.

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