

Strength from Diversity

British American Tobacco
Gender Pay Report 2017



BRITISH AMERICAN
TOBACCO



BAT Gender Pay Report

At BAT, we understand that a diverse workforce is a competitive advantage and that great people and an engaging culture are key to our success.

We are committed to treating all employees fairly across the world, including providing equal pay and equal opportunities to both men and women. This is something I care passionately about. Women currently make up 31% of our Main Board, and women are already over 50% of our graduate intake each year. But we can do better. We take diversity seriously because we understand the moral and business imperative – and we appreciate that our stakeholders are demanding more and more transparency around our diversity performance.

Following the UK legislation on gender pay gap reporting, we are now required to publish information on the average pay and bonus amounts paid to UK employees, as well as the proportion of male and female employees receiving a bonus and the proportion of male versus female employees within each quartile of the total employee population.

At BAT, men and women are rewarded equally for similar roles; however, we do have a “gender pay gap” as defined by the UK legislation. This is largely a reflection of having more men than women in senior roles and is something we are committed to addressing.

It’s work that has been ongoing for a number of years and although we are seeing significant improvements in the number of women in senior management, this is not at the pace or scale we would like.

Within the following pages you will find information on our statutory gender pay gap statistics, the underlying rationale for the gap this reveals and details of the work we are doing to close this gap.

I can confirm that the information and data provided is accurate and has been produced in accordance with the guidance on managing gender pay gap developed by the Advisory, Conciliation and Arbitration Service (ACAS).

Nicandro Durante

Chief Executive



Promoting gender diversity

While we are proud to have achieved a 31% representation of females on our Main Board, we recognise the need to do more in order to increase female representation across all senior leadership positions in the company, and, in particular, the executive Management Board.

Over the last few years, significant progress has been made with female representation at senior level. When we revised our focus on diversity in 2012 the company started with a low base of 11% female representation in senior roles, due to the historical industry characteristics. In the last six years the company has managed to grow this by 91% and now has 21% female representation at senior level.

In addition, for the first time ever, we now have women represented on all Functional and Regional Leadership Teams. This progress has been made through developing our internal talent, as well as recruiting the best talent externally.

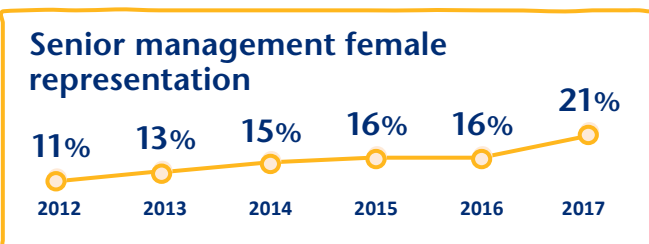
For a number of years we have insisted that the recruitment agencies we work with provide us with gender-balanced shortlists of candidates and approximately 40% of senior recruits in recent years have been women.

We are also having success in retaining our very best female talent, with turnover of senior women reducing dramatically from 15% in 2013 to less than 6% in 2017.

We have made good progress but we are not yet satisfied and will continue to press hard to improve our representation of senior women in the company.

To ensure success, we have a multi-pronged approach in driving our diversity agenda as follows:

- Ensuring ownership and accountability at senior levels;
- Developing a diverse talent pool;
- Creating enablers to support development and ease transition of females to senior level roles; and
- Ensuring all our initiatives are underpinned by an inclusive culture.



91%

increase in the number of women in senior management since 2012

Ownership and accountability at senior levels

We believe driving ownership and accountability for gender diversity across the business is key to progress and must necessarily lie at the core of the business, and that this isn't something that should be managed by the Human Resources Function alone. Each of our Regions and all Functions have a Diversity Champion, who is a member of the Leadership Team and is responsible for driving the agenda, including ensuring that agreed diversity actions are implemented and that development and retention plans for high-potential females in the succession plans are executed as planned. This approach helps ensure that diversity is embedded across the Group and that our pipeline of female talent is strong and healthy.

We report progress on our diversity activity and performance twice a year to the Board, and diversity reporting forms a key part of all Functional and Regional Leadership Team meetings, with quarterly reviews.

Developing a diverse talent pool

We recognise that, in order to have more women represented at senior management level, we must build diverse talent pools at all levels of the organisation, and we are pleased to report that over 50% of our graduates across the business are female. We run courses aimed at different levels of female management, including our highly regarded Women in Leadership Programme – which last year saw 145 delegates supported on how to guide their career to success.

Our most senior women can also take part in the Women's Leadership Development Programme, run in conjunction with INSEAD. Away from the classroom, we also provide mentoring, coaching and sponsorship programmes and, over the last four years, have participated in the 30% Club Mentoring Programme, which provides external support for our senior women.

Creating enablers to support development

We also know that, in order to realise our ambitions around diversity, we must identify the barriers and develop enablers to overcome these.

Feedback from our female employees told us that one of the key opportunities they value is the opportunity to network with other female leaders in a supportive environment. To enable this, we support women's networks across the organisation and currently have over 10 networks globally that cut across all levels of the organisation.

Complementing these networks, the 12 most senior women in the business have established an additional network with the aim not only to develop and sponsor women, but also to encourage and support the Group's leadership on its approach to gender diversity and the way in which talent pipelines are developed and managed.

Inclusive leadership

As an organisation, we recognise that we can only truly harness the benefits of a diverse workforce if we have an inclusive culture that enables all our employees to flourish regardless of their gender, cultural or other differences. As a result, we work hard to create an inclusive culture.


To ensure managers are able to support an inclusive culture we have in place a workshop on Inclusive Leadership and Understanding Bias. The workshop is designed to make sure managers not only recognise they may have personal or organisational bias, but that they also understand how to develop inclusive teams and harness the viewpoints of others. We aim to have 80% of our management employees complete the Inclusive Leadership workshop by the end of 2018.



over 50%
of our graduates across the business are female.



145 women
in management completed our Women in Leadership Programme last year.



Hae In Kim, Group Head of Talent

“A key part of my role as Group Head of Talent here in London, is to make sure that diversity and inclusion is fully integrated to how we recruit, develop and retain our key people globally.

At the very start of the process, the recruitment agencies we work with are all briefed to provide us with a gender-balanced pool of candidates for every position, which has in turn supported us to recruit significant numbers of women into senior roles within the business – in fact, over the last few years over 40% of senior recruits have been women.

It’s also part of our diversity drive to ensure that our high-potential women get all the experience needed to progress to executive management roles. We have recently appointed more women into senior roles in manufacturing and in sales, two areas within BAT that have traditionally been led by men, and are also making sure that women are better supported to take up overseas assignments.

I’m pleased to say that we have received a number of external recognitions for our diversity efforts globally, including the AON Hewitt Best Employer for Women award in Korea and the Most Female-Friendly Organization award in Bangladesh. We were also ranked as one of the most diverse and inclusive companies to work for in the Thompson Reuters Diversity and Inclusion Index.

But I know we can’t be complacent. We will continue to talk with our employees to better understand what we can do to create a great culture at BAT, to make sure the great women we have working here, choose to stay here.”



Ranked among the top employers in the world by the Top Employers Institute in 2018.



Ranked 31st in the FTSE 100 in the Hampton-Alexander Review of Women on Boards and in Leadership.



In 2016 and 2017, the Thomson Reuters Diversity and Inclusion Index ranked us as the industry leader and one of the most diverse and inclusive companies to work for.



We were also recognised by a review into the ethnic diversity of UK Boards, which ranked BAT in the top 20 of the FTSE.



Reporting against UK gender pay gap regulations

More men in senior positions creates a gender pay gap

The mean pay gap for all our UK employees is 34% (which means that the average hourly wage for women is 34% lower than for men). The median pay gap is 36%.

This differential is almost entirely driven by the fact that we have a higher proportion of males in senior roles and who, in general, have been in those roles longer than their female colleagues. The numbers are significantly impacted by our highest-paid employees, the Management Board, who are currently all men.

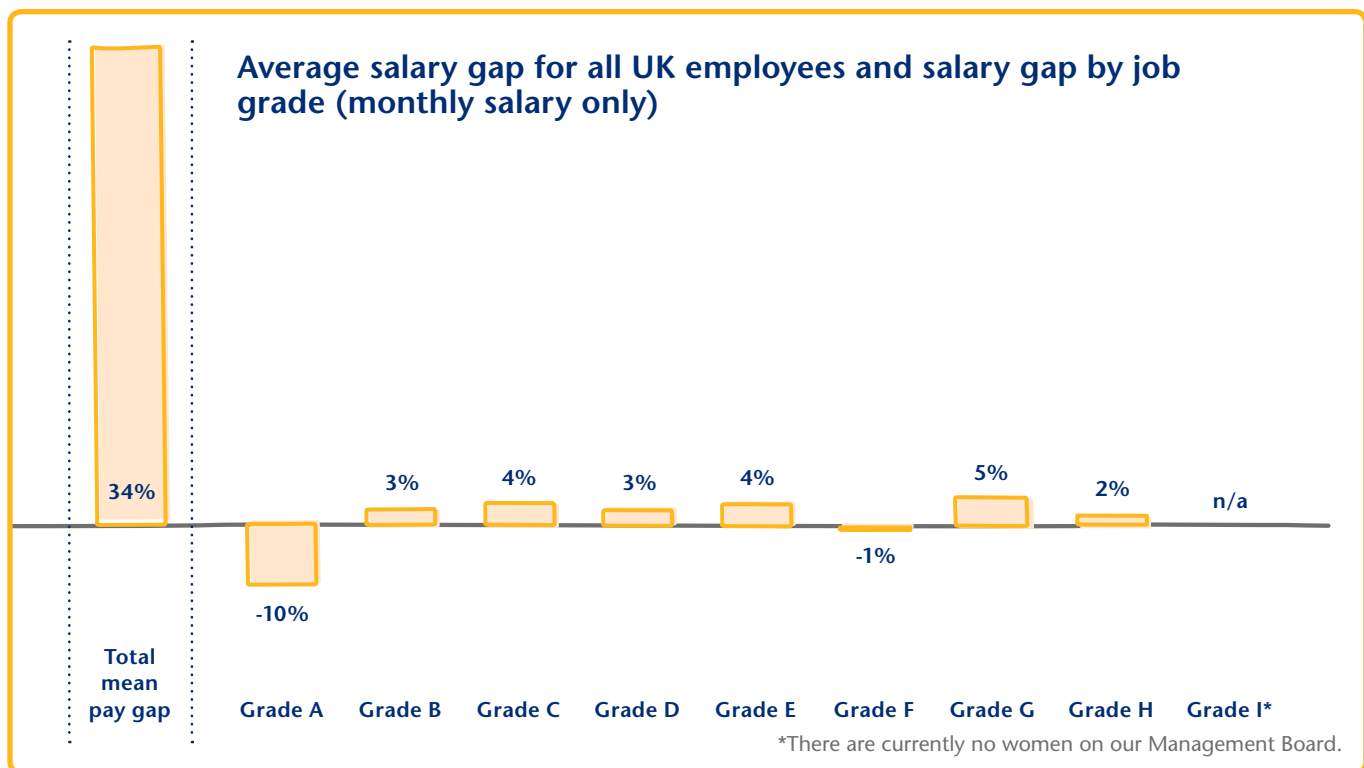
For all UK employees, the median bonus gap is 54% and the mean bonus gap is 67%. At BAT, bonus is a percentage of salary. Consequently, an imbalance of higher-paid men than women in senior positions should lead to a gap in bonus payments similar to that for basic pay. However, the greater gap in bonus payments is explained by two factors:

- The more senior a role, the higher the bonus opportunity. And there are more senior men with access to our very highest bonus opportunities than there are women.
- Compared to the senior men, a large proportion of the senior women are newly hired or recently promoted. A major component of our senior management bonuses is deferred in the form of a share award that does not vest for a three-year period. At the same time, the legislation specifically requires us to only include amounts paid (only cash and vested shares can be included). This results in this group of newly promoted and newly hired women receiving less cash

than their male colleagues in spite of receiving the same total award – since they cannot yet access the deferred elements of their bonus package in this initial three-year period (see box on page 5). While this creates an exaggerated bonus gap in our reported data, it nevertheless also shows that our drive to increase the number of women in senior management is working. Over time we expect to see a larger proportion of women in senior roles, receiving both cash and vested shares as their time at that level grows.

Men and women receive equal pay for equal work

What this statutory gender pay data does not address is the question of whether men and women are paid equally for doing equivalent jobs across our business. In this respect we are confident that, at BAT, the amount we pay our employees for jobs of a similar grade or value is not impacted in any way by gender. This can be seen clearly when we examine the monthly salary received by men and women at each employment grade. The diagram below shows the gender pay gap at each of our employment grades from non-management positions (Grade A) to Directors (Grade I) and the total pay gap for all UK employees. Any small gaps that do exist between men and women in the same grade can be explained by factors such as time in role or type of role. This is most prominent at non-management grades where a large proportion of women work in London-based administrative roles, whereas the majority of men are based in distribution roles outside of the capital where the pay levels are lower. In this situation, both location and nature of work contributes to a salary gap of around 10% in favour of women at non-management grades.



Bonus awards

All BAT employees are entitled to participate in an applicable bonus scheme, and any shortfall from 100% (in 2017, 96.4% of employees received a bonus) is explained by employee turnover. All bonuses are calculated by reference to company performance and we are confident that there is no discrimination in terms of bonus allocation.



However, in line with market practice, the level and type of bonus depends on the seniority of the role and, to a lesser extent, the location of the role, as global, regional and market-based employees can all receive different levels of bonus depending on business unit performance.

All non-management, junior and middle management employees have access to varying percentages of base salary that are paid in cash, annually.

In common with other large companies we also have equity-based incentive plans in place for our more senior employees. Consequently, these more senior employees' bonuses are split between a cash element and a share award. This latter share award cannot be accessed for a three-year period after its award.

UK legislation allows only for cash or shares that have been awarded in the reporting year to be reported – not shares held in deferred incentive schemes.



Who is the average employee at BAT?	Average grade	Years in grade (average)	Hourly pay (median)	On target bonus
 Average Woman	C	3.4	£25.50	£3.83
 Average Man	D	3.9	£40.00	£7.99



Cenar Dirik,
Head of Revenue
Management

“Prior to my current UK-based role, I joined BAT Turkey in 2004 in a non-management role but was soon promoted to management and moved through various roles, ultimately becoming Marketing Finance Controller.

In 2013, I moved to Prague as Finance Director for BAT Czech. This role meant many firsts for me – my first Leadership Team role, my first overseas assignment with a new-born baby and my first experience in managing a dual career with my husband.

It was at this time I had the opportunity to attend BAT’s Women in Leadership Programme, which helped me learn how to address different challenges in practice – it was

hugely beneficial. Building on this, I’ve also always taken part in the various networking groups that BAT has in place.

Not only does it build my confidence and motivation, but it also enables me to give something back and I enjoy being able to support other women on their development journey – it’s a very collaborative environment.

Being appointed to my current role as Head of Revenue Management meant another relocation to our global headquarters in London. Relocations can be difficult, especially if you have a family. BAT supported me with both relocations, providing relevant support and making it easier for my family to adapt to new environments and cultures, which in turn helped me to be able to progress and build a successful career.”



Scope of BAT disclosures

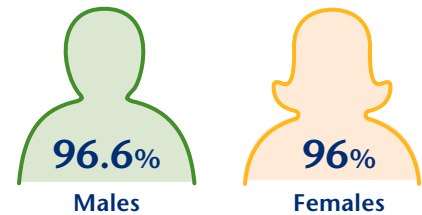
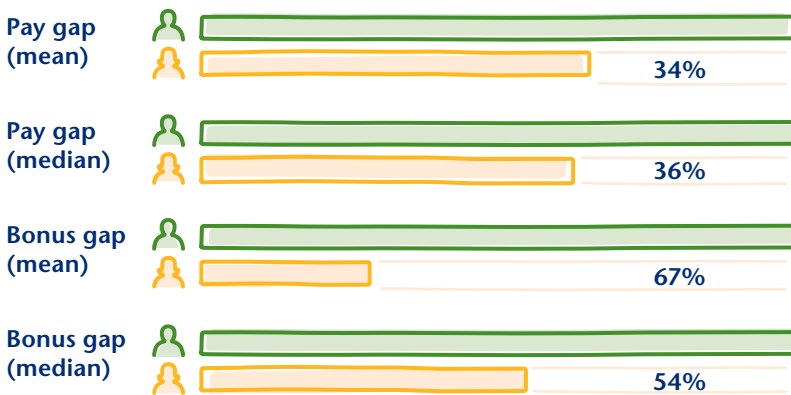
UK legislation that came into force in April 2017 requires UK employers with more than 250 employees to publish statistics around their gender pay gap. The calculations required by statute are designed principally to show the difference in the average pay and bonus between men and women and are intended to assess equality in the workplace with regard to female and male representation. This is different to equal pay, which is the principle that men and women should be paid equally for the same work.

The UK is home to our global headquarters, where 77 different nationalities are represented; our global research and development (R&D) centre in Southampton, which has over 400 highly skilled specialists in areas such as biochemistry, genetics, toxicology, biotechnology and electronics; and our UK trading business based in Richmond, Surrey. In total, BAT in the UK employs approximately 2,300 people across 11 different businesses.

Given our complex business structures, we have a number of employing entities in the UK. The majority of our employees are employed by two of these, BAT Investments Ltd and BAT Holdings Ltd, which are the only ones that meet the statutory threshold for reporting. While we have included the specific statistics for these two companies on the government report website and on page 7 of this report, in the interests of transparency, our main analysis and commentary focuses on aggregated figures for all UK-based employees. We feel that this better represents the intent of the legislation, particularly as to not do so would mean excluding some of the highest-paid men in the company.

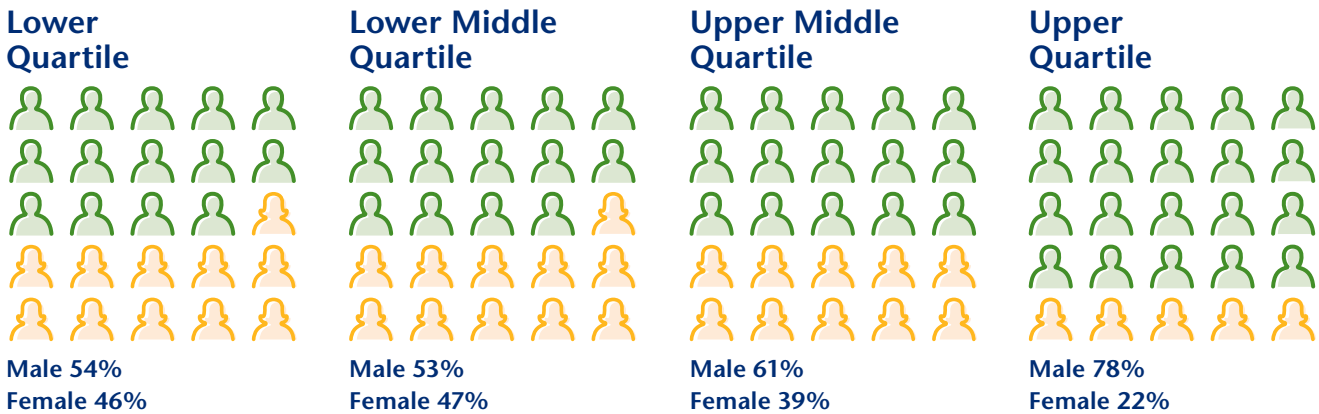
In addition, as a global business which prides itself on offering international career paths, we have a number of employees with UK contracts who are currently based overseas. For the purposes of both this disclosure and our disclosures on the government website, we have included all employees with a UK contract on either a short- or long-term assignment outside of the UK, as well as long-term assignees into the UK.

Consolidated data for BAT in the UK



Percentage Receiving Bonus (all employees eligible)

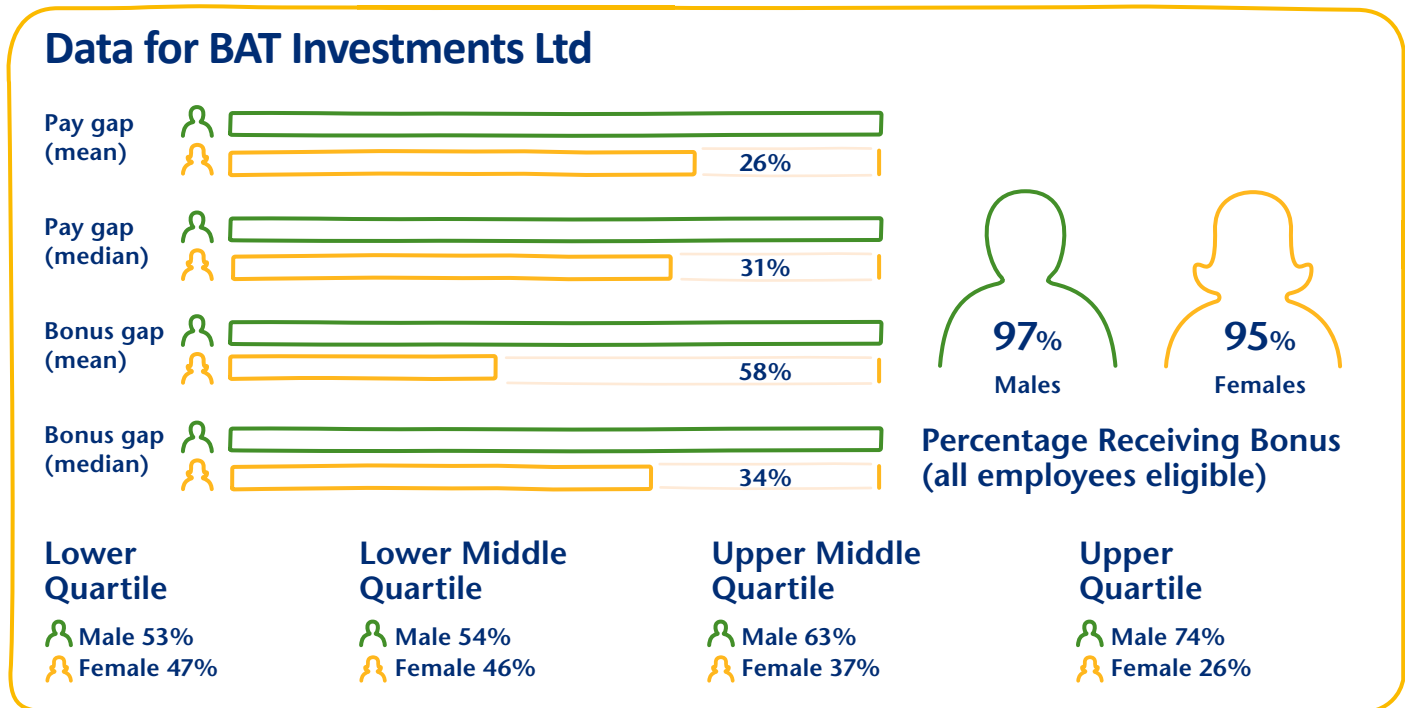
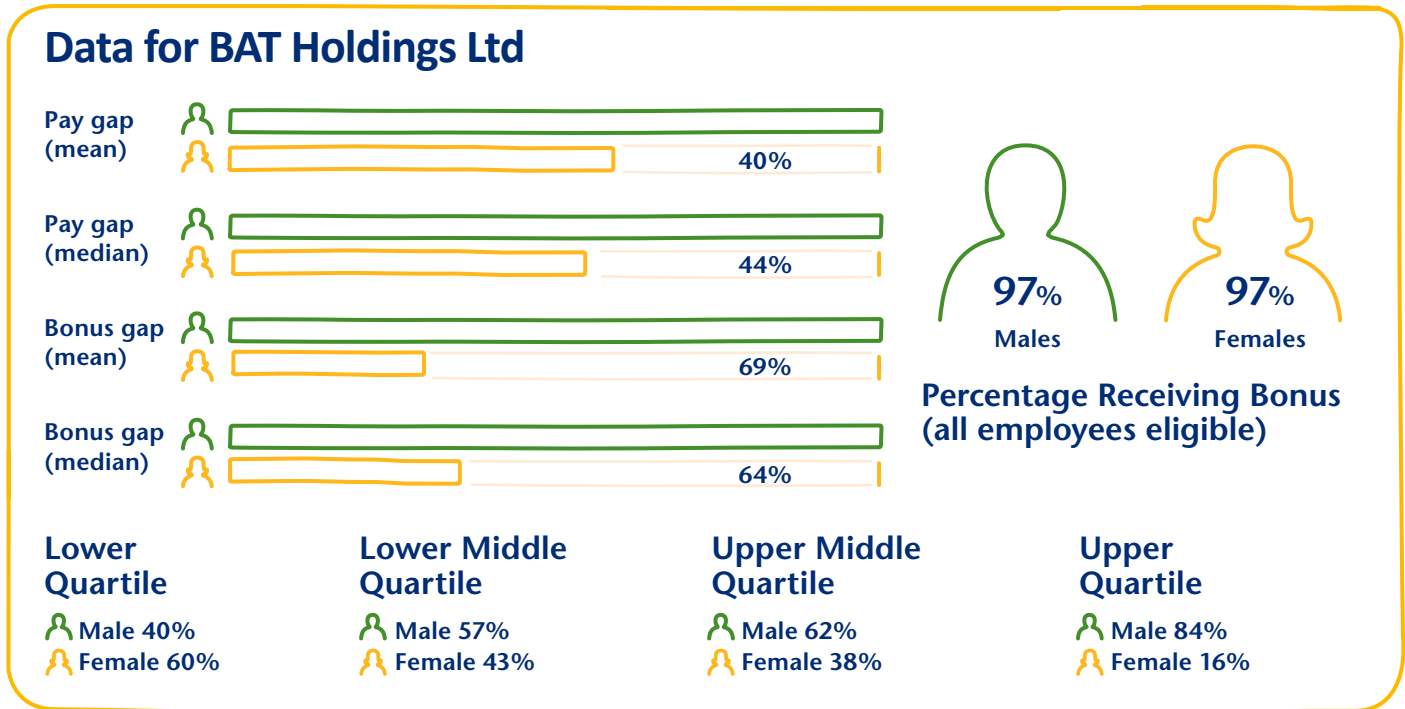
BAT UK employee breakdown



Statutory reported data

According to UK legislation, all companies with over 250 employees must report the relevant data on the government website. For BAT, this applies to two companies, BAT Holdings Ltd and BAT Investments Ltd. The data below reflects the data

for each that has been published on the government website. The rationale for the gender pay gap outlined in the previous pages, namely an issue of under-representation of women in senior roles, also applies to these two companies.



bat.com/peopleandculture

More detailed information on our people and diversity initiatives.



PERFORMANCE CENTRE

Performance charts against our key metrics and indicators, including those relating to diversity and labour practices.

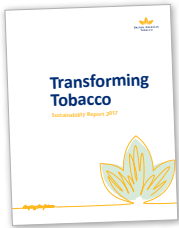
 bat.com/sustainability/data



CAREERS WEBSITE

Find out more about what it's like to work for BAT and search and apply for jobs.

 bat-careers.com



SUSTAINABILITY REPORT

Our sustainability strategy and the three key areas of Harm Reduction, Sustainable Agriculture and Farmer Livelihoods, and Corporate Behaviour.

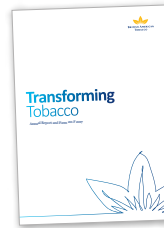
 bat.com/sustainabilityreport



FOCUS REPORTS

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

 bat.com/sustainabilityfocus



ANNUAL REPORT

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

 bat.com/annualreport

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References in this report to 'British American Tobacco', 'BAT', 'we', 'us' and 'our' when denoting opinion refer to British American Tobacco p.l.c. and when denoting tobacco business activity refer to British American Tobacco Group operating companies, collectively or individually as the case may be.

The report contains forward-looking statements that are subject to risk factors associated with, among other things, the economic and business circumstances occurring from time to time in the countries and markets in which the Group operates. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a wide range of variables that could cause actual results to differ materially from those currently anticipated.