



**CORPORATE  
BEHAVIOUR**

Sustainability  
Focus Report 2016



As a major international company in a controversial sector, we are focused on creating shared value for our business and society, while continuing to work to address the health impacts of our products.

## A strategic approach to sustainability

Our sustainability agenda focuses on the three key areas which have the greatest significance to our business and our stakeholders.

### Harm Reduction

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

### Sustainable Agriculture and Farmer Livelihoods

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

### Corporate Behaviour

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

Performance across all three areas can be found in our annual Sustainability Summary report. In addition, we periodically produce individual focus reports on each area. At the end of 2014, we published two reports covering Harm Reduction and Sustainable Agriculture and Farmer Livelihoods. This 2016 report covers Corporate Behaviour which underpins every area of our business.

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[www.bat.com/sustainability](http://www.bat.com/sustainability)



# OPERATING TO THE HIGHEST STANDARDS OF CORPORATE CONDUCT

“ Sustainability is one of the key pillars of our Group strategy and I see it as crucial to our long-term success. As such, our Group sustainability agenda focuses on the three most material and fundamental issues for our business and our stakeholders.

While I'm particularly proud of the progress we're making in harm reduction and sustainable agriculture and farmer livelihoods, both are underpinned by corporate behaviour – the third area of our sustainability agenda. After all, it's our actions and behaviour that will ultimately deliver on our commitments.

Being in such a controversial industry has meant that we've long been aware of our responsibilities and the importance of operating to the highest standards of corporate conduct and transparency.

This is reflected through the many industry-leading practices we have in place, such as our approaches to responsible marketing, combatting smuggling and corporate governance, as recognised by the Dow Jones Sustainability Index.

Yet we're always striving to remain at the forefront of best practice and to build upon our approach to meet new challenges and opportunities. For example, we're strengthening our management of human rights and have adopted product and marketing standards for Vapour Products.

This focus on continuous improvement and high standards of corporate behaviour forms the foundation of our culture and values. This cannot be delivered without the commitment and dedication of our people at every level of the business. I'm pleased to share some great examples in this report.

For me, this is an exciting time to be leading British American Tobacco and I'm confident in our future as a sustainable, trustworthy and forward-looking company for the 21st century.”

*Nicandro Durante*

**NICANDRO DURANTE**  
CHIEF EXECUTIVE, BRITISH AMERICAN TOBACCO  
SEPTEMBER 2016



# MARKETING RESPONSIBLY

# 100%

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

## The challenge

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

But every market is different, in terms of the type and level of regulation that's in place, as well as cultural and economic circumstances, such as high levels of poverty or an informal retail trade.

As a result, some critics may think that we take the easy option and ignore our International Marketing Principles in developing countries or where the market is more challenging. This is not the case.

## Our approach

Our International Marketing Principles comprise four core values which we believe are at the heart of responsible tobacco marketing. We are committed to 100% compliance and monitor this through market audits and annual self-assessments. If any incidents of non-compliance are found we take immediate action and report it to our Board Audit Committee. In 2015, two incidents of non-compliance were identified.

One of the fundamental requirements of our Principles is that our marketing is aimed only at adult smokers and is not designed to engage or appeal to children. This is supported by our global youth smoking prevention (YSP) activities, which include working with retailers worldwide to raise awareness of existing laws and supplying in-store YSP posters and other materials.

► More at [www.bat.com/imp](http://www.bat.com/imp)

Chriz Tan engaging with a Malaysian retailer in his previous role as a trade representative



## In action

“Responsible marketing, for me, is a no-brainer. Of course, marketing to under 18s is illegal, but more importantly it's against our core principles and against what each of us who works here believes to be right.

Our International Marketing Principles give us clear direction on how to act and are vital when developing new plans and campaigns to be rolled out to adult smokers. I find the readily available guidelines really helpful for when I'm a little unsure. We have clear governance processes in place and work closely with the Legal and External Affairs team. They review all our marketing materials, from the initial concepts through to the final sign-off, to help ensure compliance. And they're always on hand to support us.

I think it's also important to understand the challenges our retailers face – they are basically at the frontline of selling our products. In my previous role as a trade representative, I visited retailers every day and so was in the ideal position to communicate the importance of

key issues like youth smoking prevention. I routinely reminded them about the law and penalties for selling to under 18s and gave practical tips and advice, such as ways to verify someone's age.

I think the retailers really appreciate this personal approach.

We also provide all our retail outlets with YSP signage – I was responsible for replenishing the materials and checking they were properly displayed. This is all about building awareness.

The way I see it, our approach to responsible marketing is firstly about understanding the Group perspective and then applying that to real-life scenarios that are relevant for us locally. I find it very satisfying to see all our hard work paying off and I feel like I'm making a genuine contribution to upholding high standards of corporate behaviour in the marketplace.”

**Chriz Tan**

**BRAND EXECUTIVE, MALAYSIA**

# CONTRIBUTING TO COMMUNITIES

## The challenge

We operate in many different countries around the world, where our companies have a long history of supporting local communities.

Each community is different from the next, with its own economic, environmental and social issues. These range from political instability to poverty and unemployment, a lack of education and health services, or poor infrastructure for clean water and electricity.

As such, we need to ensure our contributions are meaningful and reflect on-the-ground circumstances, while being aligned to our global priorities.

## Our approach

Over the last five years, we have invested more than £60 million in projects which support the communities where our companies work.

Our Group Framework for Corporate Social Investment outlines how our companies are expected to develop, deliver and monitor community investment programmes. It covers three key themes: sustainable agriculture and environment, empowerment, and civic life.

These themes focus on our priorities to address the impacts of tobacco growing on the environment and to support rural livelihoods and the wider communities in which we operate by contributing to their economic and social development.

➤ More at [www.bat.com/csi](http://www.bat.com/csi)



Bangladeshi women collecting water from a new water filtration unit

## In action

“ Bangladesh, like any developing country, has many social and economic challenges, but it is also a country that’s full of optimism. It is the place where I grew up, so being able to contribute to the lives of thousands of fellow Bangladeshis is, for me, the ultimate job.

We’re one of the top five companies in the country by market capitalisation and have more than 1,500 employees. We also support around 52,000 people indirectly, including farmers, distributors and local suppliers.

Take the farmers in particular. Many of them live in remote rural communities where there’s limited access to electricity or clean drinking water and sanitation. Developing and running community investment projects is one of the ways I’m working to help address this.

For example, we’re installing water filtration units in villages which, so far, are providing clean water to over 170,000 people every day. We’ve also provided over 1,600 solar panels for 16 villages, benefiting around 10,000 people.

Importantly, we include a package of support and training on management and maintenance of the filtration units and solar panels. This helps ensure community ownership and longevity of the projects.

These projects complement the work of our leaf extension services which, as in all BAT leaf operations, provide advice and support for all our farmers. Our local leaf technicians work in the field with farmers, covering everything from agreeing contracts and supplying seeds, to best practice approaches to soil and water management, or how to get the most from their land by growing other crops alongside tobacco.

In Bangladesh, we support this through our farmers’ field schools, which we run with the Government’s Department for Agriculture. They are great ways of teaching farmers more sustainable techniques, and bringing them together to create a support network so they can help each other.

I’ve seen first-hand how all these activities can really make a difference to the lives of farming communities – and that makes me very proud to be part of such a progressive organisation.”

**Anowarul Amin**

**CORPORATE AFFAIRS MANAGER,  
BANGLADESH**



Over  
**£2.2bn**  
paid to employees each year  
in wages and benefits

Around  
**£30bn**  
paid to governments each year  
in excise and other taxes

# STRENGTHENING OUR APPROACH TO HUMAN RIGHTS

## The challenge

All businesses have a responsibility to support human rights across their operations and supply chains. However, the global scale and diversity of our supply chain can make this particularly challenging.

We source tobacco from some 90,000 farmers and third party suppliers worldwide. We also work with over 70,000 suppliers of other goods and services.

Tobacco growing, as with all agriculture, can face high risks of child labour or poor labour standards, and many of our suppliers of other goods operate in countries with poor records on human rights.

## Our approach

We have a long-standing commitment to human rights, and it's our core belief that fundamental human rights, as recognised by the Universal Declaration on Human Rights, should be respected.

We've always been industry leaders in this area. We published our first Child Labour Policy in 2000, co-founded the Eliminating Child Labour in Tobacco Growing (ECLT) Foundation in 2001, and our Social Responsibility in Tobacco Production (SRTP) programme for reviewing tobacco leaf suppliers has been running for over 15 years.

We are now strengthening our approach in line with the UN Guiding Principles on Business and Human Rights. The first step was the publication, in 2014, of a

new Human Rights Policy as part of our revised Standards of Business Conduct, which covers areas such as child labour, freedom of association and forced or bonded labour.

We are also committed to promoting human rights in our supply chain and to support this we are developing an integrated and systematic management approach to human rights due diligence. This includes a new Supplier Code of Conduct, published in 2016, which defines the minimum standards we expect, including those covering human rights.

► *More at*  
[www.bat.com/humanrights](http://www.bat.com/humanrights)



BAT leaf technician working with a farmer in Brazil



# 93%

score and industry leader in the **Labour Practice Indicators and Human Rights** category

of the 2015 Dow Jones Sustainability Index

## In action

“ We have been working directly with farmers for over 100 years, and understand that human rights issues, especially around child labour, can be an issue in agricultural communities.

In my many years with BAT, overseeing manufacturing, supply chain and leaf operations across Europe and South America, I've seen for myself the many different circumstances on the ground and the different approaches needed to address them.

I'm particularly proud of the activities in Brazil and Mexico.

In Brazil, we have a number of long-standing initiatives to tackle child labour, such as the *Extended School Day* programme, which helps schools in tobacco growing regions to provide alternative after school activities. We also support the *Growing Up Right* programme with the Tobacco Industry Interstate Union, which provides capacity building and training for farmers on addressing child labour. We were very honoured to receive recognition from

the International Labour Organisation (ILO) for *Growing Up Right* as an example of best practice.

Another example is our leaf operations in Mexico, where migrant labourers travel from their homes in the mountains each year to work in the tobacco fields during the harvesting season. They often bring their families with them, including children, who, away from their homes and schools, can be particularly vulnerable.

This is why for over 15 years we have worked with the Mexican Government on the *Blossom* programme, which builds centres that offer children support, providing education, as well as health, nutrition and recreation services.

Until I saw it in action, I hadn't appreciated how complicated the issue is in terms of trying to achieve a cultural change in an age-old ancestral practice in farming.

To me it seems clear that there's no 'one size fits all' solution. We're committed to eliminating child labour across our supply chain, but this can only be achieved through this kind of collaborative working.”

**Dimar Frozza**

HEAD OF LEAF, AMERICAS REGION



## Child labour in tobacco growing

Child labour is an issue common in agriculture and tobacco growing is no exception. We work to address exploitative child labour through a number of approaches, including supplier assessments, industry-wide initiatives and multi-stakeholder, community-based programmes.

Our SRTP programme sets out the minimum performance levels we expect of tobacco leaf suppliers and includes criteria on activities to prevent child labour. We publish our leaf suppliers' SRTP scores at [www.bat.com/SRTPdata](http://www.bat.com/SRTPdata) and have worked over the last 15 years to continually strengthen and evolve the programme. Our suppliers scored an average of 86% in 2015 for activities to prevent child labour.

In 2015, we worked as part of an industry initiative to develop a new Sustainable Tobacco Programme, which has replaced SRTP in 2016. It applies to all major global tobacco manufacturers and their suppliers and draws on best practice from across the industry, while also being aligned to external standards, such as those of the ILO, and includes strengthened processes and more frequent on-site reviews.

In addition, we have a number of community-based programmes to address child labour in our leaf operations, through working with governments, NGOs and other local stakeholders.

We're also active members of the ECLT Foundation, along with others in the industry, the ILO and Save the Children. ECLT focuses on research and advocacy, working with governments, and running long-term community projects to address the root causes of child labour. For more information on ECLT activities, please see [www.eclt.org](http://www.eclt.org).

# PROMOTING STANDARDS FOR VAPOUR PRODUCTS

## The challenge

Vapour Products, or e-cigarettes, are considered to offer a significantly less risky alternative to regular cigarettes and so have the potential to deliver positive public health benefits.

Yet despite the growing weight of independent, peer-reviewed evidence in support of Vapour Products, some public health organisations have voiced concerns that not enough is known yet about their risk profile.

Consequently, many governments are still unsure how to regulate Vapour Products. So there is currently little consistency across markets, with respect to advertising rules and quality and safety standards – leaving consumers without the reassurances they need.

## Our approach

As part of our commitment to harm reduction, our ambition is to lead the industry in developing a range of high-quality Next Generation Products that consumers can trust across three distinct product categories: Licensed Medicinal Products, Vapour Products and Tobacco Heating Products.

We were the first international tobacco company to market Vapour Products with the launch of our Vype brand in the UK in 2013. Following the receipt of the relevant licences from the UK medicines regulator in February 2015, we became the first tobacco company to have a nicotine product licensed as a medicine.

From the outset of Vype's launch, we voluntarily developed and implemented robust procedures for assessing product quality and safety, including vapour analysis and standards for all ingredients and flavours.

We also adopted responsible marketing practices aimed only at adult consumers. Ahead of the launch of Vype in five further markets in 2015, we published new Vapour Products Marketing Principles, aligned to the UK Committees of Advertising Practice Codes, to provide a globally consistent and responsible approach everywhere they're sold. We would like to see the whole industry follow the same high standards, so are actively advocating for regulation in these areas.

➤ More at [www.bat.com/harmreduction](http://www.bat.com/harmreduction)

## We think Vapour Product regulation should...

### Ensure product quality and consumer safety

by introducing high product standards and regulation, agreed by all relevant parties and based on robust science.

### Ensure growth and consumer access and choice

by enabling companies to freely innovate and by setting appropriate excise and taxes to enable affordability and encourage wide take-up, supported by controlled marketing and advertising rules for adult consumers only.



Scientist in BAT's research laboratories





Consumers in the UK using the Vype eStick and ePen

## In action

“ I trained as a medical doctor and worked in the pharmaceutical industry in the USA and Singapore before joining BAT’s research programme over 10 years ago. Back then it felt as though we were a long way from having a reduced-risk product that smokers would really want to switch to.

Vapour Products, or e-cigarettes, have proved a real game-changer. Scientific studies show that they’re likely to be significantly less risky to health than smoking and there’s been genuine consumer uptake in many markets.

But because they’re so new, there’s still confusion about how they should be regulated. So it was really important for us to follow our own high standards for all our Vapour Products and to use only the highest quality ingredients, including pharma-grade nicotine, in our e-liquids.

Ideally, though, we’d like to see a more consistent approach across the whole industry.

Talking openly about all the issues and concerns and promoting high standards has been the primary focus of my role for over two years. I regularly present at international events, such as the EuroScience Open Forum and workshops held by the US Food and Drug Administration.

I also represented the company, alongside eight other external experts and advisors, on the British Standards Institution’s (BSI) steering group for developing new quality and safety

standards for Vapour Products. It was great to see the specifications we helped develop released in July 2015 and, while for now they are voluntary, they have set a benchmark for best practice globally. I am now a co-convenor of the working group on the EU standards body (CEN) which will build on the BSI work to develop Europe-wide Vapour Products standards.

Another area we have been looking at closely is the sale of Vapour Products online and the risk that they could end up in the hands of under 18s. I’m working with the UK Digital Policy Alliance, together with representatives from other industries with age-restricted sites and products, to find ways of ensuring appropriate online age verification.

No approach can ever be perfect, but we’re working with the industry, regulators and the scientific community to develop new, stronger rules. I think this clearly demonstrates our commitment to consumers on high product standards.

I personally believe in the harm reduction potential of Next Generation Products and feel that the work I’m doing will make a positive difference to public health. It’s a privilege to be part of it.”

**Dr Sudhanshu Patwardhan**

**SENIOR INTERNATIONAL ENGAGEMENT MANAGER, NEXT GENERATION PRODUCTS, UK**

A report by Public Health England<sup>1</sup> states that Vapour Products (e-cigarettes) are estimated to be

**95% less harmful** to health than smoking



<sup>1</sup> E-cigarettes: an evidence update, a report commissioned by Public Health England, August 2015.

# SAFEGUARDING OUR PEOPLE

## The challenge

We employ over 50,000 people worldwide in a diverse range of environments and conditions, from city offices and factories to remote farming areas/communities and distribution centres.

This includes thousands of distribution and sales representatives, who spend long periods on the road and so can face risks of road traffic accidents. This is particularly the case in countries where roads and transport infrastructure are poor, leading to significantly more traffic accidents than in developed countries<sup>2</sup>. In some countries, there can also be a high risk of armed assaults. Sadly, in 2015, six contractors lost their lives in armed assaults and one contractor died in a road traffic accident.

## Our approach

We are committed to providing a safe working environment for all our employees and contractors, and have a Group-wide goal of zero accidents.

Our approach is focused on risk management and reducing the main causes of accidents and serious injuries. We carry out risk assessments and root-cause analyses at our manufacturing sites to help us find engineering solutions to safety hazards.

We have developed and implemented an enhanced driver training programme which focuses on safety and road traffic accidents. In addition, in countries with particularly high risks, our trade and distribution personnel may also be escorted by trained security teams when out on the road.

► More at [www.bat.com/safety](http://www.bat.com/safety)

## In action

“ I work in Surabaya as part of the trade marketing and distribution team, which means I’m out on my motorcycle every day, selling our brands to retailers. Recent decades have seen a huge increase in the number of vehicles on the road and, sadly, also in the number of road traffic accidents.

Motorcyclists are particularly at risk, as this is the most popular way of getting around, so keeping as safe as possible on the road, and avoiding accidents, is at the forefront of what we do.

I’ve found the driver safety programme, implemented by BAT over the last year, really helpful. It has included practical training on safe motorcycle riding techniques, such as driving in different road conditions and types of traffic, safe speeds and distances between vehicles, as well as how to spot a potential problem and take action to deal with it safely.

We also get training on basic checks and maintenance to make sure our bikes are safe for use. And, of course, as well as keeping our bikes well maintained, we wear helmets and other protective gear.

This training isn’t just a one-off. We receive regular refreshers and are kept up to date with any new guidance and procedures at our team meetings. These meetings are also an opportunity for us to hear about other reps’ experiences, share best practice and discuss real-life scenarios.

We’re now deploying a new technology fitted to the bikes for monitoring distances, speed, braking and so on. This will help us improve the way we drive.

All this makes me feel that the company genuinely cares about my welfare and keeping me and my colleagues as safe as possible in our work. ”

*Rheza Yunda Firmansyah*

SALES REPRESENTATIVE,  
SURABAYA, INDONESIA



BAT sales representatives at work in Indonesia



# COLLABORATING TO TACKLE THE ILLEGAL TOBACCO TRADE

## *The challenge*

It's estimated that up to 12% of global tobacco sales are illegal. This flourishing black market puts consumers at risk by flooding the market with unregulated and often sub-standard products, which criminals actively market and sell to children. It also robs governments of around £30 billion in taxes each year and is a huge threat to legitimate businesses such as BAT.

This trade is increasingly dominated by organised crime. Interpol, the international police organisation, says gangs that traffic drugs, arms and people are often behind the illegal tobacco trade. The US Department of Justice says some also have ties to terrorist organisations.

Governments, law enforcement authorities and the tobacco industry need to collaborate internationally to address this global issue.

## **In action**

“ Some people think the black market in tobacco is a low-level, victimless crime, and a case of 'getting one over' on global tobacco companies. But this couldn't be further from the truth.

In Turkey, illegal cigarettes are a huge issue. The figures are staggering, with over 20% of all cigarettes smoked in 2014 thought to be illegal – that's around one billion packs. Most of these are smuggled products and, with no taxes or duties paid, they're considerably cheaper than legitimate cigarettes, and so very appealing to smokers, particularly in these hard times.

What people don't realise though is that by buying these products they're supporting organised crime. OK, the impacts of this may not be felt as immediately or as directly as other crimes, but the consequences for society are still very real.

The Government loses money from evaded taxes and the livelihoods of legitimate retailers, often small or family businesses, are damaged.

When we tell people this, it makes them stop and think.

A big focus of my role has been engaging for stricter penalties for people caught smuggling. We were pleased to see the introduction last year of new three- to six-year prison sentences

## *Our approach*

Our approach is based on working with governments, law enforcement agencies, the industry and international organisations.

We have a 20-year cooperation agreement with the European Commission, to which we're providing funding of €134 million. In 2015, as part of an industry group, we signed an agreement with the United Nations<sup>3</sup> to implement and further develop anti-illicit trade solutions that work across national borders. Our Anti-Illicit Trade team also works hand-in-hand with law enforcement agencies to gather and share intelligence.

We engage with international organisations, such as the International Chamber of Commerce and the Organisation for Economic Cooperation and Development (OECD), to increase understanding and find ways to work together.

We also have robust internal governance procedures and are implementing industry-wide supply chain security systems to prevent our own products from becoming part of this criminal trade.

► More at [www.bat.com/ait](http://www.bat.com/ait)

for smugglers and also new bonus payments for law enforcement officials to incentivise them to be more vigilant in catching these criminals.

In my experience, the better people understand the real effects of illegal products and how this criminal trade impacts upon them and their country, the more likely they are to stop buying them. As part of this, I've been working on a nationwide campaign with the Confederation of Turkish Tradesmen and Craftsmen to raise public awareness. It's based on real-life examples and statistics taken from our detailed understanding of the illegal trade.

What's most satisfying about my job is when we start to see results from all these efforts. The latest data shows that illegal cigarette use has dropped to just under 13% so far this year. It makes me proud to think I played a small part in achieving this.

But we can't afford to become complacent. Illegal tobacco is a dangerous trade and there is always a lot more to do. However, I'm confident that by working collaboratively, industry, government and the law enforcement agencies are making it much harder for the smugglers to operate – and that can only be a good thing. ”



**Tonguc Coskun**

**ANTI-ILLICIT TRADE STRATEGY AND  
PLANNING MANAGER, TURKEY**

<sup>3</sup> The Memorandum of Understanding was signed in October 2015 between the Digital Coding and Tracking Association (DCTA) – an industry anti-illicit trade group of which BAT is a founding member – and the United Nations Conference on Trade and Development (UNCTAD).

# REDUCING OUR ENVIRONMENTAL IMPACTS

## The challenge

We have a global footprint and a responsibility to reduce the impact of our business on local communities and the environment.

Operating in many different parts of the world means local issues and resources, and environmental legislation and infrastructure can vary significantly. We also have many different types of operations – from large-scale modern factories to sourcing from thousands of smallholder farmers. So what works in one part of the world might not in another.

In our supply chain, some critics claim that tobacco has a more detrimental impact on the environment than other crops, particularly in terms of deforestation due to wood often being used as a fuel in curing processes.

## Our approach

We are working to address our direct environmental impacts through performance management, risk assessments and developing new processes and procedures to make our operations more efficient.

To measure and manage our direct environmental performance, we have long-term targets to cut carbon dioxide equivalent (CO<sub>2</sub>e) emissions by 50% by 2030 and by 80% by 2050. Having made significant progress by achieving our 2017 energy, water and waste targets at the end of 2015, we are now focusing on sustaining our current performance and plan to develop a new set of targets by the end of 2016.

To address our indirect impacts, environmental criteria are included in supplier assessments. We work with our farmers on areas such as soil and water management and sustainable wood sourcing, and we support wider multi-stakeholder projects and afforestation programmes with NGOs and governments.

► More at [www.bat.com/environment](http://www.bat.com/environment)

# 48%

reduction in direct Group  
CO<sub>2</sub>e emissions

achieved by 2015 from our 2000 baseline

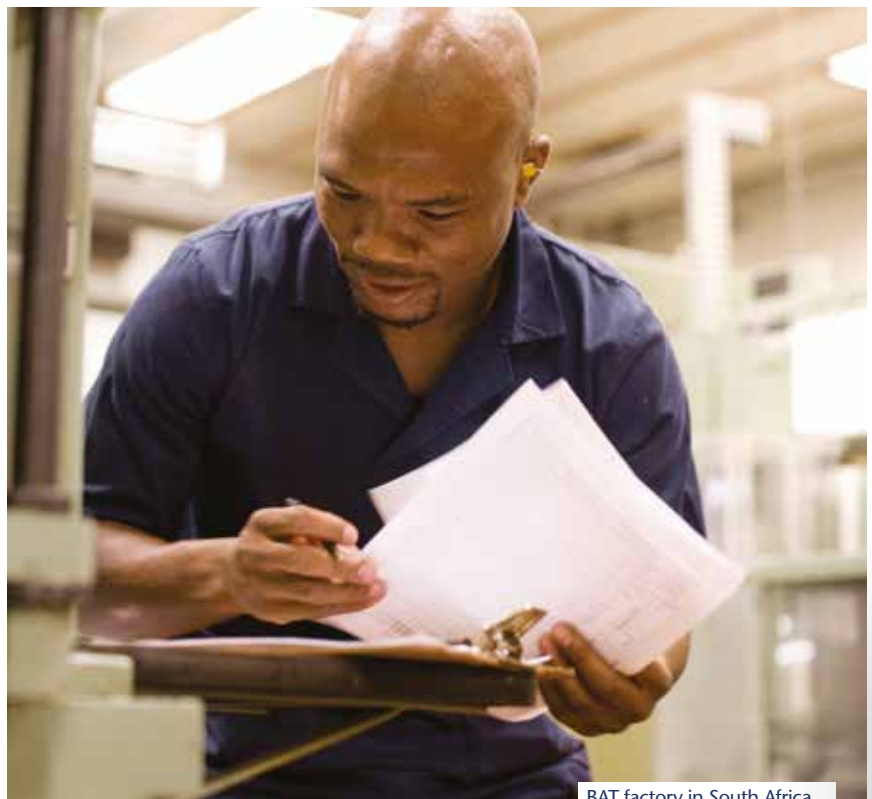
# 26.6%

reduction in direct Group  
water use

achieved by 2015 from our 2007 baseline

# 98.2%

of the wood sourced by  
our contracted farmers  
did not come from natural  
forest in 2015



BAT factory in South Africa





## Focusing on our factories

With 44 factories in 41 countries, the majority of our direct resource and energy use is in our manufacturing operations. So we have the opportunity to make significant improvements to our overall Group performance by focusing in this area.

Environmental factors are a key consideration in the design of new factories, with a particular focus on energy and water efficiency.

For our existing factories, we are running a number of energy and CO<sub>2</sub>e reduction projects, and are continuing to explore renewable and low-carbon energy options for the longer term. A number of our sites in the UK, Italy, Poland and Germany continue to meet 100% of their electricity needs from renewable sources.

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



## In action

“ It’s been remarkable living through South Africa’s economic transformation over the last few years. This success has been based on rapid industrialisation, which has led to increased demand on an already stretched, and often unreliable, power supply that is still heavily reliant on fossil fuels.

Ultimately, this just isn’t sustainable for the environment.

Our Heidelberg factory was built in 1978, which was definitely a time when resource efficiency wasn’t high on the agenda. So working to address the factory’s environmental impacts is a big challenge, but not one we’re afraid to take on.

We’ve worked together as a team to implement changes which have resulted in a 42% reduction in the site’s energy consumption and a 38% reduction in carbon emissions over the last five years.

We’ve achieved this through a range of initiatives, including energy-efficient lighting and an automated building management system that controls areas such as air conditioning and heating. We’re also now recovering the heat from manufacturing processes to go back into fuelling the boilers, cutting the amount of coal we use by 38%.

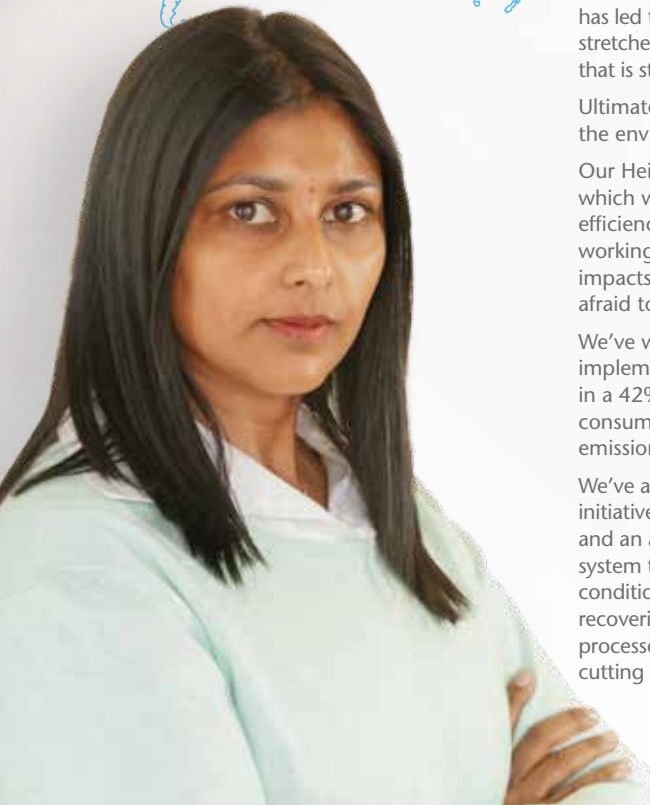
With the introduction of carbon taxes, we’re also exploring new, cheaper low-carbon energy options, such as solar power, to drive further efficiencies. This will help towards the Government’s greenhouse gas reduction targets, while also having a clear business benefit for us by reducing our energy costs.

Our manufacturing processes don’t use as much water as other industries, but with the realities of water scarcity increasingly being felt in South Africa we know we have a responsibility to work to reduce water use. Our investment into water recycling has helped us cut the amount of water we use on site by 47% over the last five years. The engineering team is also implementing large-scale rainwater harvesting, which could deliver an 80% reduction in mains water use.

I’m proud to think that our work is contributing towards the Group’s sustainability goals and, along with my colleagues, we’re certainly up to the challenge of achieving even more. ”

*Devina Piyarlall*

**ENVIRONMENT, HEALTH & SAFETY  
MANAGER, HEIDELBERG FACTORY,  
SOUTH AFRICA**



# UPHOLDING HIGH STANDARDS OF CORPORATE GOVERNANCE

## The challenge

Effective governance is critical for ensuring a company acts in a transparent and responsible way and is accountable for its behaviour.

For a multinational business like BAT, ensuring global standards are applied consistently at all levels of the organisation around the world can be a challenging undertaking.

In recent years, there has also been increasing scrutiny of companies to ensure they live up to the expectations of their shareholders and deliver results, without compromising their principles and standards.

## In action

“ I joined BAT’s Board of Directors in early 2015. Since then, I’ve had an opportunity to see first-hand how BAT conducts its business and upholds its principles and standards.

Like a lot of people, I had an impression of ‘big tobacco’ as an old-fashioned industry, operating behind closed doors. But, from what I’ve seen, this is far from the reality at BAT. Nothing seems to be off the table – internally, from the Board down to all levels of the business, as well as externally in reports like this.

## Our approach

Conducting our affairs with honesty, integrity and transparency is key to the continued development of an international business that is responsible, successful and sustainable in the long term.

We have clear principles, policies and standards in place that set out the way we do business and how we behave. Integral to this is the Group’s Statement of Business Principles, which sets out our beliefs and standards as an organisation,

and our Standards of Business Conduct which applies those values and principles to specific day-to-day situations.

Additionally, 10 of the 12 members of our Board of Directors are independent, and our Board committees, which are all made up entirely of Non-Executive Directors, provide oversight of key areas, including audit, risks, sustainability and remuneration.

► More at [www.bat.com/governance](http://www.bat.com/governance)

One of the things that has impressed me is the level of diligence given to the Group’s Standards of Business Conduct. This includes policies on everything from bribery and corruption to human rights, and political and charitable contributions to money laundering and illicit trade.

What’s more, every single employee across the business is required to acknowledge and confirm compliance with the Standards each year – that’s more than 50,000 people worldwide, so quite an undertaking in itself.

As a member of the Board I get to see how seriously the company takes any suspected incidents of non-compliance – whether reported by employees, business partners or even anonymous third parties. These cases are investigated in detail and prompt action is taken if any non-compliance is found. I’ve seen this same level of diligence reflected across other areas too, such as reviewing how BAT

is managing human rights in countries with extreme risks or monitoring compliance with the International Marketing Principles.

Having worked myself for many years in large private and public sector organisations, I understand the challenge of applying consistent principles and standards on a global scale. And, like any international business, issues can sometimes occur – such as allegations made in 2015 of bribery in BAT’s business in East Africa and Human Rights Watch alleging child labour on tobacco farms in the US and Indonesia. The fact that BAT openly responds to such allegations, engages with the relevant stakeholders and fully investigates the claims is testament to their commitment to facing the tough issues head-on.

I think BAT’s long history of focusing on sustainability and corporate conduct means that these values are very much embedded in the culture of the organisation. It’s apparent in the passion, dedication and energy of all the people I’ve met across the business. I’m very pleased to now be part of it.”

**Sue Farr**

**INDEPENDENT NON-EXECUTIVE  
DIRECTOR, BAT PLC, UK**







## Our principles and standards

As with any other multinational organisation, we have clear policies in place that set the standard for the way we do business. They cover everything we do from employment to the environment, from health and safety to responsible marketing and bribery and corruption.

While these have been in place for many years, they are regularly reviewed to ensure they remain at the forefront of best business practice and continue to meet the expectations of our stakeholders.

In 2014, for instance, we updated our Standards of Business Conduct to reflect a new policy area for workplace and human rights. The development for this policy included input from external stakeholders at an independently facilitated dialogue session.

To complement this, in 2016 we published a new Supplier Code of Conduct, which defines the minimum standards we expect all our suppliers to adhere to, including those covering human rights.

As a controversial industry, being transparent about our engagement with regulators and governments is crucial. We have long supported the OECD's Principles for Transparency and Integrity in Lobbying, and we recognise that as a responsible company all engagement activities that we undertake must be guided by internal standards. So, in 2014, we published our new Principles for Engagement, which provides clear guidance for our external engagement with regulators, politicians and other third parties.

➤ More at [www.bat.com/principles](http://www.bat.com/principles)

**85%** score and industry leader in the **Corporate Governance** category of the 2015 Dow Jones Sustainability Index

# [www.bat.com/sustainability](http://www.bat.com/sustainability)

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



## PERFORMANCE CENTRE

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

➤ [www.bat.com/sustainability/data](http://www.bat.com/sustainability/data)



## GET IN TOUCH

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## SUSTAINABILITY REPORT

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

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



## FOCUS REPORTS

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

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



## ANNUAL REPORT

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

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

 [@BATPress](https://twitter.com/BATPress)

 [www.youtube.com/welcometobat](http://www.youtube.com/welcometobat)

 [www.flickr.com/welcometobat](http://www.flickr.com/welcometobat)

### About this report

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

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