

Introduction

British American Tobacco (BAT) is one of the world's leading consumer goods companies, with brands sold around the globe.

With a multicategory portfolio of tobacco and nicotine products, our mission is to transform the tobacco industry by providing consumers with a diverse array of products, including innovative and potentially less risky Next Generation Products (NGPs), such as Vapour or Tobacco Heating Products.

Our Group Strategy and Sustainability Agenda

Our Group vision is to be the world's best at satisfying consumer moments in tobacco and beyond. Our strategy focuses on four key areas of growth, productivity, winning organisation and sustainability.

As a key strategic focus area, sustainability is crucial to the delivery of our Group strategy and is integrated across all areas of our business. In particular, three key areas have been identified through a detailed materiality process as having the greatest significance to our business and our stakeholders:

Harm Reduction

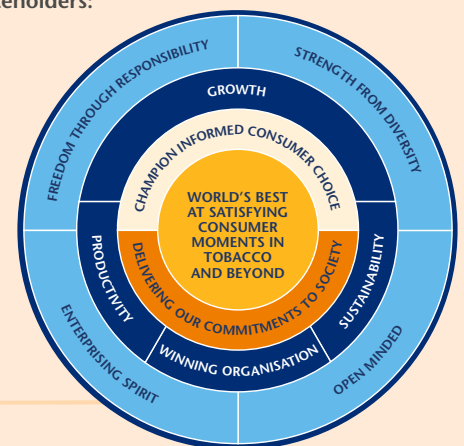
We are committed to working to reduce the public health impact of smoking, through offering adult consumers a range of next generation tobacco and nicotine products.

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.



About this Report

As well as our annual Sustainability Report, we produce individual Focus Reports to provide more in-depth information on specific topics.

This Report focuses on the area of Sustainable Agriculture and Farmer Livelihoods.

All Group data and information in this Report relates to the calendar year 2016 and so excludes Reynolds American Inc, which we acquired in July 2017.

Read about our performance across all areas of our Sustainability Agenda in our latest Sustainability Report at:

Bat.com/sustainabilityreport



“ BAT has been working in partnership with tobacco farmers for more than a century. Over that time, we've evolved our approach to take advantage of new opportunities and adapt to a changing world, focused on creating value for the future of our business and the farmers we work with.

We understand that there are many challenges facing agriculture and rural communities, so our work also includes wider, multi-stakeholder projects that aim to enhance livelihoods, protect human rights, and lessen the environmental impacts of agriculture.”

Nicandro Durante, Chief Executive, British American Tobacco



A strategic approach

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

The multiplier effect

How we're advancing sustainable agriculture and supporting our farmers



Through our **global leaf research and development**, we develop new and innovative sustainable farming technologies, techniques and best practice, which are rolled out to farmers as part of comprehensive agri-support packages.

We have a network of expert field technicians who provide on-the-ground **Extension Services** support, technical assistance and capacity building for all our 90,000+ directly contracted farmers, helping them to run successful and profitable farms. Our third-party suppliers provide their own support for all the 260,000+ farmers they source from.

Find out more on [pages 8–13](#)

Setting standards, driving change

How we're managing and monitoring supply chain risks and opportunities



We use the industry-wide **Sustainable Tobacco Programme** to conduct formal assessments and independent on-site reviews for 100% of our tier one tobacco leaf suppliers, including all our own leaf operations, to ensure alignment with international standards, such as for human rights and environmental protection.

Our **Thrive programme** goes beyond audit and compliance, by taking a more holistic and collaborative approach to identifying and addressing long-term challenges that have an impact on the livelihoods of farming communities and the sustainability of agriculture.

Find out more on [pages 14–21](#)

Part of a bigger solution

How we're working in partnership to solve complex problems



Since 2000, we have worked as part of the **Eliminating Child Labour in Tobacco Growing (ECLT) Foundation**, which helps to strengthen communities and bring together key stakeholders to develop and implement local and national approaches to tackle child labour.

Around the world, we also run or support **local projects for rural communities**, in partnership with NGOs, industry associations, governments and academia, focused on areas such as afforestation, food security and clean water and sanitation.

Find out more on [pages 22–24](#)

Also in this Report:

- 02** A view from the outside: independent stakeholder viewpoint
- 03** Who are the farmers we work with?
- 04** Our tobacco leaf supply chain
- 06** A view from the inside: Q&A with our Group Operations Director
- 25** Future outlook

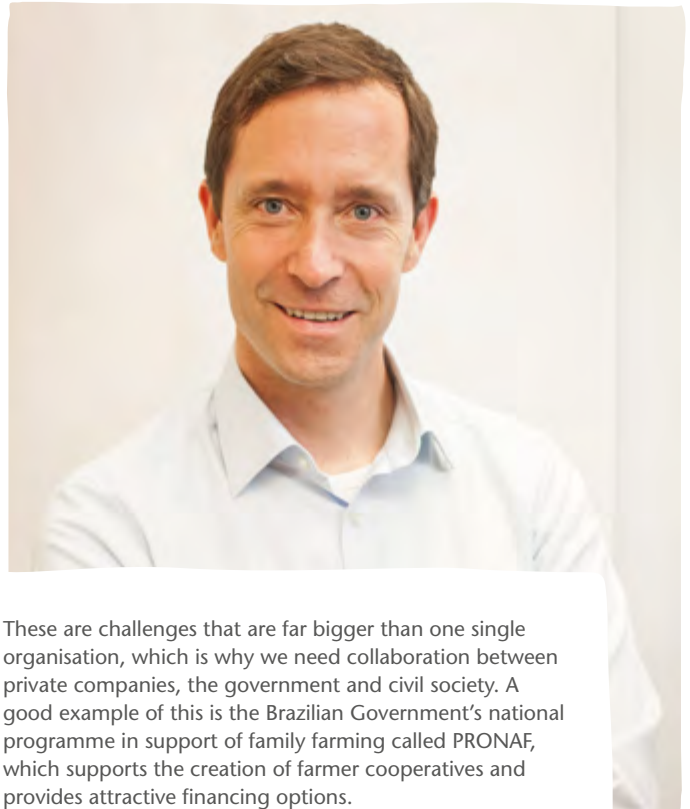
A view from the outside

Independent stakeholder viewpoint from Professor Dr Heiko Hosomi Spitzcek

Biography

Dr Spitzcek is a Professor and Director of the Center for Sustainability at Fundação Dom Cabral, Brazil, which has been recognised as the best business school in Latin America for 11 consecutive years by the *Financial Times*. His teaching is informed by more than eight years of consulting experience, as well as academic research.

He has a PhD in Business Ethics from the University of St Gallen in Switzerland, and has also worked as assistant professor at Cranfield University's School of Management, Doughty Centre for Corporate Responsibility in the UK (2008–2010). He is also the author of *Humanism in Business*, published by Cambridge University Press.



These are challenges that are far bigger than one single organisation, which is why we need collaboration between private companies, the government and civil society. A good example of this is the Brazilian Government's national programme in support of family farming called PRONAF, which supports the creation of farmer cooperatives and provides attractive financing options.

Agricultural supply chains for major businesses are likely to face even more scrutiny in the future; particularly regarding competition between non-food and food production on globally limited farmland, as well as the risk of deforestation if farmland is expanded further. To alleviate this tension and improve farmers' resilience, companies need to continue to encourage crop diversification, the application of new technologies and the development of agroforestry models as a priority for all their farmers.

As issues such as water scarcity, child labour, biodiversity and rural development are not specific to a particular company, there is a huge potential to collaborate and align strategies to support the Sustainable Development Goals. The more competitors work together to address these challenges, the more can be achieved at larger scale, for the mutual benefit of the companies and family farmers around the world."

“The world depends on family farming. According to the Food and Agriculture Organisation of the United Nations, there are more than 500 million family farms globally, which produce 80% of our food and are custodians of 70–80% of farm land.

The methods of family farming that nurture us today, however, are insufficient to address the challenges of the future. If we want to reduce hunger and provide food security for 9–10 billion people by 2050, the productivity of family farms needs to increase. At the same time, farmers also need to deal with the costs associated with managing social and environmental issues, such as water scarcity, forced and child labour, preserving biodiversity, women's rights, reduction of chemicals used in production, adaptation and mitigation to climate change, and providing essential ecosystem services.

“If we want family farmers around the world to succeed by improving productivity, while at the same time successfully managing these current and emerging sustainability challenges, we need to support them.

Particularly, they need education about crop management, as well as how to run their farms as successful businesses. Additionally, they need secure access to land, markets, technology and finance. Only by providing this support, can we expect them to adhere to higher standards along the value chain.



Who are the farmers we work with?

350,000+ farmers in **34** countries

90,000+ directly contracted by BAT leaf operations

260,000+ contracted by our third-party suppliers

Tobacco is grown on an average of **40%** of farmers' land, but generates around **60%** of their total farm income

Approximately **130,000** school-age children live on the family farms

Majority are **small-scale family farms** of one hectare or less

90% grow other crops, including fruit, vegetables, wheat, maize, cotton and soy bean

Average farmer age is **43 years**



How BAT and our suppliers work with farmers and their communities

Building resilience



What?

- BAT Leaf R&D and Extension Services
- Third-party suppliers' farmer support services



How?

- Access to high-quality seeds, fertilisers, and best practice techniques and technologies
- Farm visits, support and advice by expert field technicians
- Farmer training and capacity building



Impact

- Improving farm incomes, productivity, crop yields and quality
- Good environmental management

Safeguarding standards

- BAT policies and standards
- Industry Sustainable Tobacco Programme

- Supplier due diligence
- Farm monitoring, technical assistance and spot-checks
- Communications and training
- Providing personal protective equipment for harvesting and handling agrochemicals

- Protecting human rights
- Eliminating unsustainable wood sourcing
- Safe working environment
- Access to grievance mechanisms

Creating value

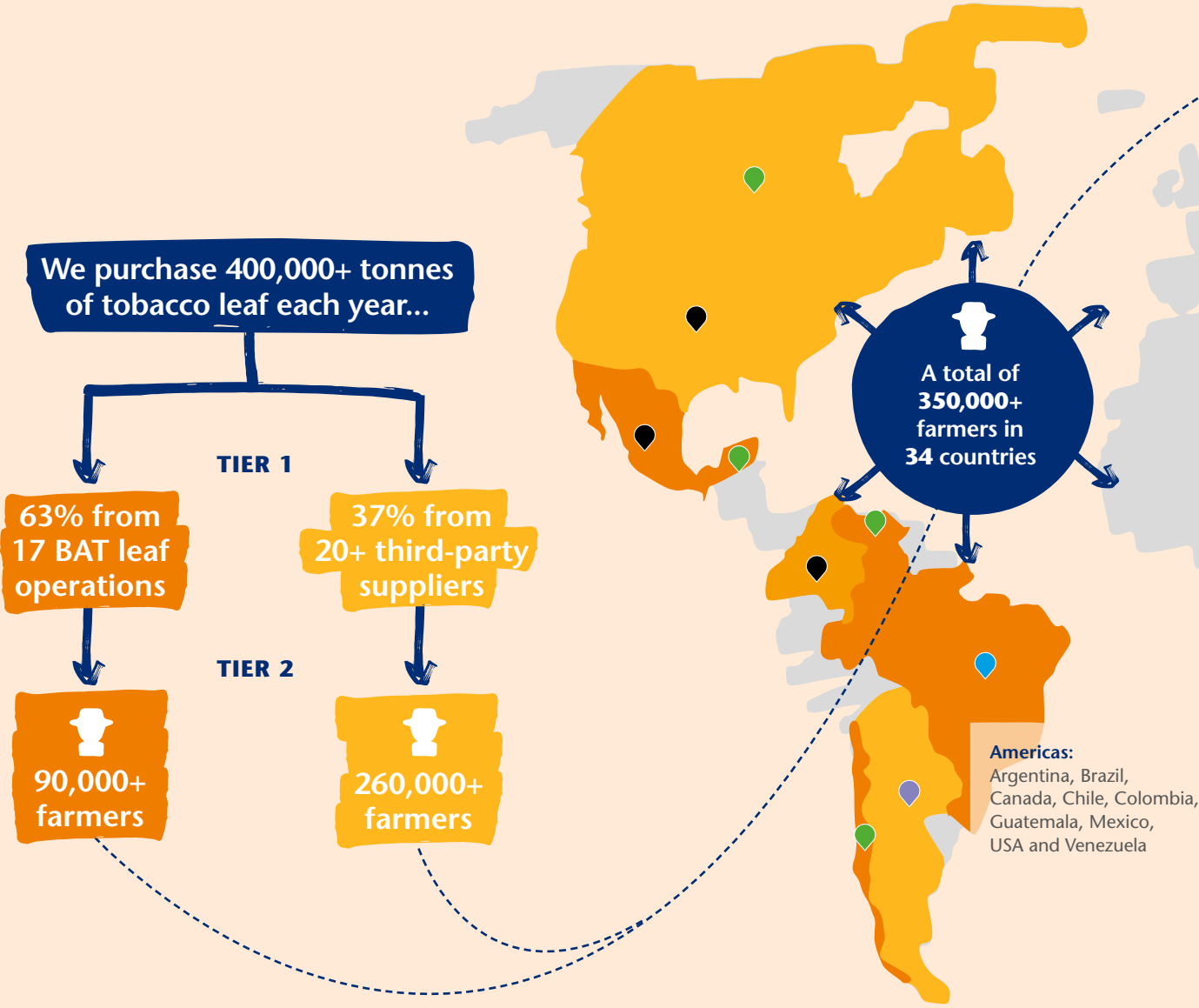
- BAT *Thrive* programme and community projects
- Third-party suppliers' programmes

- Working in partnership with NGOs, governments, industry associations and academia
- Identifying and addressing root causes of issues affecting the long-term sustainability of farming communities

- Child labour prevention
- Food security
- Clean water and sanitation
- Enterprise development
- Women's empowerment
- Afforestation

ELD
ON
AN
HTS
EDS
global

Our tobacco leaf supply chain

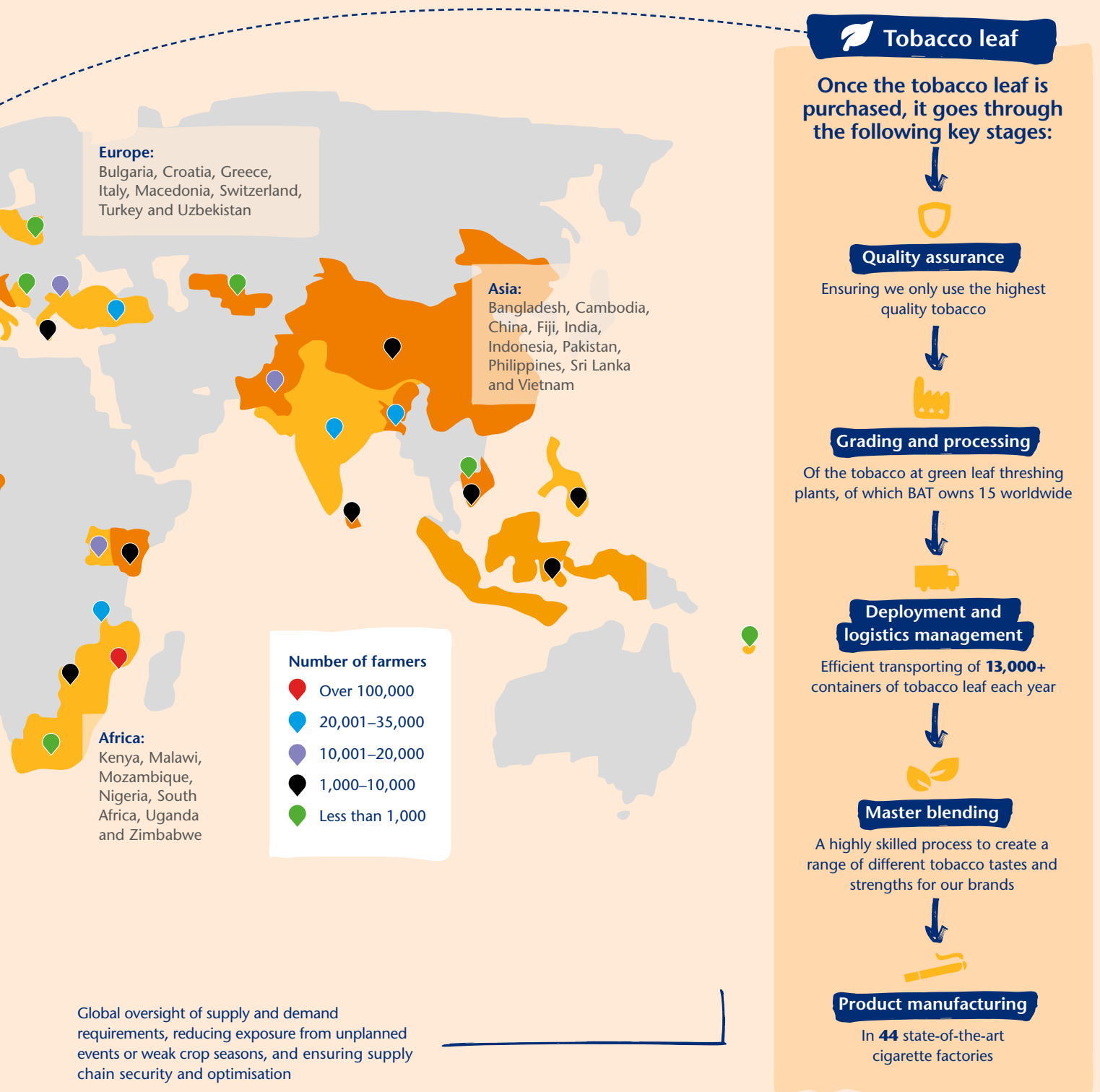


Map key

- BAT leaf operations
- BAT and third-party suppliers
- Third-party suppliers



Farmers are at the heart of our tobacco leaf supply chain. We have traceability down to the farm level and centralised management of our tobacco leaf supply chain. This enables an agile, efficient and reliable supply of high-quality tobacco leaf to meet consumer demand, while also enhancing the sustainability of rural communities and agriculture.



A view from the inside



BAT's Group Operations Director Alan Davy explains why supporting sustainable agriculture remains such a priority, and how the Company is responding to major issues impacting farming communities.

Q Why does BAT have such a strong focus on sustainable agriculture and farmer livelihoods?

A Tobacco leaf remains at the core of our products, so the farmers who grow it are at the heart of our supply chain. Our sustainable agriculture objectives are fundamental to ensuring the continued success and long-term security of our business and, crucially, to fulfilling our role in wider society to support farmers and their communities, now and in the future.

I've been working in the tobacco industry for 30 years and during this time I've seen huge changes. External standards and expectations have evolved; new challenges, such as ageing farmer populations and climate change, have emerged; and innovative, more sustainable agricultural and livelihood practices have developed.

As a business, we've adapted and continually refined and strengthened our approach. It's a strategic focus area that we're committed to for the long term.

Q BAT does a lot of work with its 90,000+ directly contracted farmers, but what about the 260,000+ farmers who your third-party suppliers source from?

A It's an absolute must that every one of our suppliers participates in the industry's Sustainable Tobacco Programme (STP), which includes specific requirements for conducting farmer training, and ensuring the farmers understand and meet STP's many different farm-level criteria.

Our suppliers also have to adhere to the requirements of a number of other BAT policies and standards, covering areas such as human rights, environment, health and safety, and use of agrochemicals, which we communicate and ask them to sign up to every year.

In order for the farmers to meet these standards, they need support. So the vast majority of our suppliers have their own network of expert field technicians to provide farmers with guidance, technical assistance and capacity building, as well as supporting wider sustainability programmes and community-based projects. You can find some great examples of this in the case studies from our suppliers in Mozambique and Turkey, on pages 11 and 16.



Q How do you respond to claims that tobacco growing has far worse environmental impacts than other crops?

A Many of the issues that are associated with growing tobacco are common across agriculture and the only way to completely avoid them would be not to farm any crop, which is clearly not a viable option. So we focus on working to mitigate these inherent risks and implement best practice environmental standards with all the farmers we work with.

Environmental criteria form a central part of STP and our expert field technicians provide farmers with technical assistance on areas such as sustainable soil, water, biodiversity, and forest and pest management. The benefits of this can be seen when you look at agrochemical usage, which is generally significantly lower in tobacco growing than other comparable crops.

Also, because wood is often used as a fuel for curing, we have programmes in place to avoid and combat deforestation. The result is that 99% of the wood our contracted farmers used in 2016 was from sustainable sources. I've seen for myself the impressive scale of our afforestation programmes too – such as in Pakistan and Bangladesh, where we have the largest private sector programmes in each country.

Q How are you responding to recent allegations about child labour and human rights issues in tobacco growing?

A I understand and share these concerns. We're doing our utmost to uphold high standards and ensure human rights are respected across our supply chain.

I've learned how complex an issue this can be, with children learning agricultural techniques and skills from their parents – which the International Labour Organisation (ILO) acknowledges is a normal part of growing up on a family farm. It's when this hinders their education, or can be harmful to their health, that it's completely unacceptable.

That's why we assess every one of our suppliers and conduct farm monitoring, to make sure our standards are adhered to, while also trying to understand and address the root causes. We thoroughly investigate all reported incidents or allegations of child labour, including commissioning independent reviews where required. If any issues are found, we take immediate action to address them. Often, a longer-term, collaborative approach is needed; such as in Indonesia, where we're working as part of a multi-stakeholder project led by the ECLT Foundation, which you can read more about in the case study on page 23.

Q How will BAT's focus on Next Generation Products (NGPs) have an impact on the demand for tobacco leaf and the livelihoods of farmers?

A Although we are very confident about the growth of our NGP business, I think it's important to understand that, of our current NGP portfolio, our tobacco heating and hybrid products both use high-quality processed tobacco leaf, and our vapour products also rely on the extraction of nicotine from tobacco plants.

Given this, and the fact that a significant proportion of our business will remain in conventional tobacco products for many years to come, we do not anticipate any material impact on the demand for tobacco leaf for the foreseeable future.

The farmers we work with already have highly diversified farms, with over 90% growing other crops alongside, or in rotation with, tobacco. We've always encouraged this crop diversification – it not only increases farmers' resilience by not relying on just one crop, but also helps to enhance food security and to preserve soil health.

If, at some stage in the future, we do find there is an impact on the overall demand for tobacco leaf, we have an established approach for working with impacted farmers to support a smooth transition into alternative agricultural livelihoods.

I think what's most important right now is to ensure we're taking steps to map our NGP supply chain and ensure our standards are being upheld, such as through our Supply Chain Due Diligence programme, which looks at human rights risks for non-agricultural suppliers. You can read more about this at bat.com/humanrights.

Q Now that you've acquired Reynolds American Inc, what actions is BAT taking to address allegations of labour rights issues for migrant workers in US tobacco growing?

A This is a long-running issue, which, as with any human rights allegation, we take extremely seriously.

We have planned a supplier review, as part of STP, for 2018, which will include the RJ Reynolds Tobacco Company in its capacity as a BAT leaf operation. Prior to this, in 2015, we brought forward an independent, on-site review of our US tobacco leaf suppliers. It found no evidence of any wrongdoing, but did highlight some areas for improvement, which the suppliers addressed.

We believe that the most effective and practical way of dealing with the issues is by encouraging all the parties in the US to get around the table and talk. This is why RJ Reynolds and other US suppliers have been participating with other stakeholders in the Farm Labour Practices Group, and together they are working on initiatives to improve workers' experiences and promote compliance with the laws that protect workers' rights.

Additionally, since our acquisition in July, we have been working extensively with Reynolds to integrate our businesses and our supply chains.

Q What do you say to those who claim you exploit small farmers in developing countries and leave them in debt bondage?

A This can be a very real concern for some farmers and is often the case where they borrow money to invest in growing a crop but don't have a guaranteed buyer or price. This leaves them particularly vulnerable to getting trapped in a cycle of debt. However, this is not the way BAT works.

For our farmers, we agree contracts at the beginning of each growing season – guaranteeing to buy their tobacco crop at a fair price, as well as detailing the free support and training they'll receive from our Extension Services and options to access resources at lower costs, such as seeds, fertilisers and personal protective equipment. The contract can also be used as security for credit or loans they need from banks, enabling them to invest in their farms.

Growing tobacco for BAT is something they choose to do and, rather than trapping or forcing them into debt, we're actually giving them regular and secure incomes – which, I think, is why over 60% of our contracted farmers have chosen to continue working with us for more than five years.





The multiplier effect

How we're advancing sustainable agriculture and supporting our farmers

We have a long and proud 100-year history in agriculture, working directly with farmers around the world and advancing sustainable practices. While this undoubtedly brings advantages to our business in terms of securing our source of high-quality tobacco leaf, it also plays a significant role in protecting the environment and enhancing farmer livelihoods.

We invest over £60 million each year in two key areas.

Global Leaf Research and Development (R&D)

Through our global Leaf R&D, we develop new and innovative sustainable farming technologies, techniques and best practice, which are rolled out to farmers as part of comprehensive agri-support packages.



Extension Services

We have a network of expert field technicians who provide on-the-ground Extension Services support, technical assistance and capacity building for all our 90,000+ directly contracted farmers. Our third-party suppliers provide their own support for all the 260,000+ farmers they source from.



OUR GLOBAL LEAF R&D AND THE SCIENCE OF AGRICULTURE

Our Leaf R&D was first formed in Rio de Janeiro in 1974 and focuses exclusively on new ideas and ways of doing things that can be deployed to support our tobacco growing sources worldwide. It includes state-of-the-art scientific research labs, plant breeding facilities, and partnerships with highly respected academic and research institutions.



OUR APPROACH FOCUSES ON:



Defining

What technologies and techniques are needed to address particular issues or needs, such as more efficient crop irrigation in areas where water is scarce.



Discovering

What new research needs to be undertaken, and what techniques can be adapted from other crops.



Developing

Conducting scientific research to develop new techniques and technologies, and testing and validating them through field trials.



Deploying

New techniques are adapted into comprehensive, locally relevant agri-support packages, to be rolled out by our Extension Services to farmers worldwide.

Our Leaf R&D focus areas

Quality seeds

Through our plant breeding programme, we are developing new tobacco seed varieties that offer greater yields and higher quality, as well as resistance to diseases. This helps to improve crop resilience, but does not involve any kind of genetic modification.

We are also working to develop new technologies and approaches to growing tobacco plant seedlings that help cut back on manual labour and reduce environmental impacts. For example, we have adopted and expanded a 'floating' seedbed system based on hydroponics, which reduces water use for growing seedlings. It also enables safer and more efficient application of agrochemicals, contributing to a significant reduction in overall usage. It is now used by all our farmers in Latin America and is being introduced in our other leaf operations around the world.

Down to earth

To preserve soil for future generations, we are continually working to develop and apply sustainable soil management practices. Avoiding soil loss or degradation is crucial and we have introduced best practices and technologies in all our leaf operations around the world, appropriate to the growing conditions. These include minimum tillage, a method that minimises turning or disruption of the soil; relay cropping, where two or more crops are grown in sequence; and the use of plant-based green manure.



Over 60%

of tobacco leaf grown by our farmers is from our improved seed varieties, contributing to an increase in yields of up to 20% compared to traditional varieties

SOIL INDUSTRY SEEDS ROTATION

Up to 90%

water efficiency achieved from drip irrigation technology

Water management is also vital to sustainable farming, especially given that agriculture accounts for nearly 70% of freshwater withdrawals globally, and up to 90% in some developing countries. While many tobacco crops are rain-fed, others, such as those in Mexico, need irrigation. It is in these situations that we try to find more sustainable ways for farmers to water their crops, while also protecting the access of local communities to water. For example, drip irrigation technology has been shown to increase water usage efficiency by up to 90%, as well as reducing soil erosion and salination, and ultimately boosting yields.

93%

of our farmers in Bangladesh grow castor plants alongside tobacco seedbeds, which act as a natural repellent to pests

There are several ways in which we are helping to minimise agrochemical use on crops too, such as through alternative integrated pest management and natural 'biocontrol' techniques. We also have standards to ensure our farmers use only approved agrochemicals with the lowest possible toxicity according to the World Health Organisation (WHO) classification.

New technology

We're adapting and developing mechanised solutions and curing technologies to help farmers scale up production, reduce manual labour and minimise health and safety risks; as well as to address environmental issues, such as deforestation, by reducing wood fuel use.

Examples include soil tilling and fertilising machines; transplanting tools; automated harvesters; automated curing systems for alternative biomass fuels; and innovative designs for curing barns to minimise wood fuel consumption.

99%

of the wood fuel used by our contracted farmers for curing in 2016 was from sustainable sources

“Before we had barn automation, it was difficult and time consuming to carry out curing with paddy husks. The new system saves money and, because I have less hassle with the process, I’m more confident about the final outcome too.”

DP Wickramasinghe, BAT contracted tobacco farmer, Sri Lanka

Case study

How our R&D is driving a new kind of farming



Flávio Oliveira, Senior Agronomy Development and Application Manager

“I find working in our Leaf R&D very exciting, especially when you see the scale of the work being undertaken, covering so many different areas of agricultural research, from scientific experiments in the lab to testing and field trials.

It’s also opened my eyes to how important it is to have an international perspective and understand how different each tobacco growing country is, with their own unique set of challenges. So we spend a lot of time looking at them on a case-by-case basis, adapting and tailoring solutions to local circumstances. These complexities can be overwhelming sometimes, but I find they also help motivate and inspire me even more, and certainly make my job incredibly interesting.

I also get a great feeling of satisfaction when I see an idea come to fruition and move out of the laboratory and, quite literally, into the field, where it’s rolled out to tens of thousands of farmers around the world by our Extension Services. It really brings home the positive benefits our work can have on farmers, rural communities and the natural environment.

A lot of our work also centres on developing higher yielding and more disease-resistant seed varieties. Along with working to implement natural pest management techniques, this has resulted in far lower use of agrochemicals in tobacco than other comparable crops. In fact, data from Brazil shows that the level of active chemicals used per hectare of tobacco is less than 2kg, which is one of the lowest in the country, compared to many other crops, which use as much as 20kg per hectare¹.

There are new challenges popping up every day and, increasingly, these relate to much wider, longer-term issues, particularly in relation to the effects of climate change. We know how issues such as water scarcity or extreme weather events are increasing and we need to ensure we’re prepared, now and in the future.

We’ve had great success, in countries such as Mexico, with introducing technologies such as drip irrigation, which is a much more efficient way of using water. However, this is more suitable for medium- to larger-scale farms, so we’re also continuing to look for more simple and affordable solutions that can be adapted for small-scale farms.

I think it’s easy to forget the effort and ingenuity that goes into making farming more sustainable. But when you actually visit farms and speak to farmers, there’s no doubt in my mind that the research and development we carry out is having an incredibly positive effect wherever it’s deployed.”

¹ Superior School of Agriculture Luiz de Queiroz/University of São Paulo, Brazil, 2012.

FARMER EXTENSION SERVICES AND CAPACITY BUILDING

Our global network of expert field technicians plays an active and important role in rural communities, acting as a direct link between over 90,000 farmers and BAT.

Field technicians visit the farms at every stage of the growing cycle, building trusted relationships and gaining unique insights into the challenges our farmers face, as well as wider sustainability issues affecting the local community or landscape. These insights enable us to tailor our Extension Services and sustainability programmes to meet real needs and circumstances on the ground.

Our third-party suppliers also use a similar Extension Services model to provide guidance, technical assistance and capacity building for the 260,000+ farmers they contract.

By supporting farmers in this way, we can help them maximise the potential of their farms and enhance the livelihoods and resilience of rural communities. They and future generations are then more likely to feel motivated to remain in agriculture, look after the environment and see the value of growing tobacco as part of a diverse range of crops.

“Through the 22 years I’ve been cultivating tobacco for BAT, I have received technical guidance, support and communication on ways to improve my farm’s productivity and crop quality. Without this, I would not have been able to afford my son’s higher education – he now has a bachelor’s degree and a very bright future ahead of him.”

Haji Masturyadi, BAT contracted tobacco farmer, East Lombok, Indonesia



Case study

Viewpoint from our supplier in Mozambique

Clive Stewart, MLT’s Head Agronomy Manager, Tete Province



Mozambique Leaf Tobacco Ltda (MLT), a subsidiary of Universal Leaf Tobacco Company, Inc, is a third-party supplier to BAT. MLT sources tobacco from over 100,000 small-scale farmers in the country, who are supported by its network of over 500 field technicians.

“I’m responsible for overseeing and managing tobacco production in Tete Province, with over 60,000 farmers, covering more than 40,000 hectares of land. It’s by far the most extensive agricultural operation I’ve worked in.

Today, we still see the negative legacy of Mozambique’s civil war, which deprived so many rural communities of education and has led to extensive rural poverty and limited access to medical services, banking facilities, transport, electricity, and clean water and sanitation.

Seeing these issues brings home for me the importance of the support we provide to the farmers and surrounding communities we work with. For example, over the past four years, MLT has provided 61 new boreholes, giving access to clean water for approximately 18,000 people. With diarrhoea being the fourth most common cause of death in the country, this is making a real difference to people’s health, as well as improving the lives of farmers’ children – who previously may have missed school to travel long distances each day to collect water.

Most people here rely on maize as the main source of food, but we could see that many of our farmers weren’t managing to produce enough to feed their families throughout the year. So we initiated a programme to distribute hybrid maize seeds and fertilisers, as well as running demonstrations, field days and training for farmers on best practice growing techniques. This has contributed to their maize yields increasing from an average 800kg per hectare to up to 1,200kg – enough to feed a family of six for the whole year. In the past growing season, we supported over 34,700 hectares of maize production in my area and plan to expand further.

Another great initiative is our partnership with local banks to provide financial literacy training and educational materials for farmers. It covers everything from how to budget and manage their income, to understanding the costs of production, as well as promoting the benefits of having a bank account. So far, over 26,000 farmers have benefited from the training and 32,000 have opened new bank accounts.

I find it very encouraging to see how much more the industry is now working together, with such a strong focus on social, environmental, human rights and economic issues for farmers. We can’t fix everything overnight, but I believe that by working together, continuous, incremental improvements can be achieved over time.”

The types of support our Extension Services provide



“An efficient extension system can reach smallholders with targeted, adapted advice that takes into account local environmental conditions, production practices and market access to help in decision-making and risk reduction. Extension service systems need to be adapted to local needs and build on farmer knowledge and exchange.”

International Fund for Agricultural Development²



Contracting and crop planning

We agree contracts with farmers at the beginning of each growing season, guaranteeing to buy their tobacco crop at a fair price. This helps to ensure farmers have a regular and secure income, protecting them from market fluctuations. The contracts also include clauses covering our standards, such as no child labour, as well as detailing the support they'll receive from our Extension Services. Our field technicians also work with farmers on their crop planning for the year, to help optimise their farms through growing other produce, such as fruit, wheat and cotton.

Growing seedlings

We provide farmers with seeds that offer greater yields and resistance to diseases, and support them in growing high-quality tobacco plant seedlings – such as with access to technologies like 'floating' seedbeds – helping to increase farm productivity and reduce costs.

Soil preparation and planting

We're introducing farmers to techniques that help to reduce soil erosion and preserve soil health, such as contour planting, which lessens the effect of water run-off and requires less tilling.

Growing and crop rotation

By advising farmers on how to use agrochemicals and fertilisers more efficiently, we can help them to save money and avoid pollution. If agrochemicals are used, we make sure that farmers meet our standards and that farm workers are fully trained in how to apply and store them safely, and use appropriate personal protective equipment (PPE).

All our farmers are encouraged to grow other crops alongside, or in rotation with, tobacco. This mixed agricultural landscape helps preserve soil health, while also enhancing food security and providing additional sources of income.

Harvesting

Alongside automating processes to make harvesting safer and more efficient, we also provide PPE and advice on health and safety best practice, such as how to avoid green tobacco sickness, a type of poisoning caused when nicotine is absorbed through the skin from wet tobacco leaves.

Curing

As well as new technology for curing barns and alternatives to wood fuel, such as candlenut shells and rice paddy husks, we're providing farmers with seedlings so they can meet future fuel needs from sustainable sources.

Grading, sorting and selling

We help farmers to preserve the quality of their tobacco after harvest and prepare the leaf for market, meeting agreed quality standards that can bring them higher incomes.

Training and community programmes

Throughout the year, we run farmer training and capacity building, as well as community-based programmes on a range of issues, such as child labour prevention, health and safety best practice, and enterprise development.

² *Smallholders, food security, and the environment*, A 2013 report prepared for the International Fund for Agricultural Development (IFAD) and the United Nations Environment Programme (UNEP), under the guidance of senior management of UNEP's World Conservation Monitoring Centre.

ENGAGE ECOLOGICAL
ENTREPRENEURS CROPS
BUILDING TRUST
WOMEN
STRENGTHENING
BALANCED

Case study

100 years of supporting farmers in Brazil

Gabriela Campos, Area Growing Manager



Brazil is one of the largest tobacco growing countries in the world. Around 30% of the total tobacco leaf purchased by the Group is from Souza Cruz, our Brazilian subsidiary, which directly contracts around 27,000 farmers. Since 1918, Souza Cruz has pioneered the development of an integrated approach to sustainable tobacco production, focused on increasing the prosperity of family farming and protecting the natural environment.

“ I lead a team of 10 expert field technicians and together we cover all aspects of Extension Services support for 1,200 farmers. This includes individual farm visits at least six times a year, as well as field training days in partnership with the NGO SENAR (the National Rural Learning Service).

We also work with SENAR on a programme to provide farmers with training to develop successful businesses, with a focus on financial management and crop diversification, to make the most out of their land.

Looking at the bigger environmental picture is also an important part of what we do – such as our long-standing sustainable forest management programme, or the industry-wide scheme to collect and recycle plastic agrochemical containers from over 100,000 farms across the country.

As one of the few women working in our Extension Services, I’m very aware of issues affecting women in agriculture. Traditionally, farming has been male dominated, but today about a fifth of our total contracted tobacco farmers in Brazil are women.

Women play a vital role on the farm, from tending crops and animals to financial and business management. They’re often the real entrepreneurs too, coming up with new strategies to enhance the farm’s profitability, as well as being open to the new sustainable techniques and technologies we introduce them to. Since 2011, about 1,400 women have benefited from our training focused on enhancing these farm management and entrepreneurial skills.

Souza Cruz has been part of these rural communities for generations, and not just some faceless corporation. We’re out there in the fields, working with the farmers to find solutions to challenges and developing best practice approaches that benefit us all. This builds trust. The farmers feel secure in knowing they’ll not only get a fair price for their tobacco crop, but also have access to this wealth of training and support for all the different crops they grow.

I’ve seen first hand how this is helping the farms develop and become more resilient, and can tell that the families and communities are enjoying a much better quality of life.”



UN recognition for our programme to inspire a new generation of farmers in Brazil

Our *Novos Rurais* programme in Brazil, which is run by the Souza Cruz Institute, provides entrepreneurial training and opportunities for young people to receive financial support for setting up new agricultural businesses.

The programme was recognised in 2017 by the Food and Agriculture Organisation of the United Nations, which awarded it a Certificate of Good Practice for Sustainable Rural Development.

Since 2012, it has empowered over 2,200 young people and enabled the creation of almost 800 new businesses in farming communities. This is making an important contribution to our key objective for farming to be seen as a preferred profession, particularly for rural youth.

One of the beneficiaries, Daniela De Faveri, explained: “The *Novos Rurais* programme made me realise what I really want for my future.” Daniela, whose parents are tobacco and dairy farmers, is the first in her area to start semi-hydroponic strawberry production, which is proving to be a great success for her family’s farm.

1,400+

rural women empowered through our training



Setting standards, driving change

*How we're managing and monitoring
supply chain risks and opportunities*

Our tobacco leaf supply chain covers 34 different countries, involving 17 BAT leaf operations and over 20 third-party suppliers that source from over 350,000 farmers. It is a truly global operation and one that, as with all crops, faces certain economic, environmental and social challenges.

We use two key programmes to ensure we effectively manage these risks, drive change and enhance farmer livelihoods.

Sustainable Tobacco Programme

We use the industry-wide Sustainable Tobacco Programme to conduct formal assessments and independent on-site reviews for 100% of our tier one tobacco leaf suppliers, including all our own leaf operations, to ensure alignment with international standards, such as for human rights and environmental protection.

Thrive sustainable agriculture and farmer livelihoods programme

Our *Thrive* programme goes beyond audit and compliance, by taking a more holistic and collaborative approach to identifying and addressing long-term challenges that have an impact on the livelihoods of farming communities and the sustainability of agriculture.



SUSTAINABLE TOBACCO PROGRAMME

Our previous Social Responsibility in Tobacco Production programme set the standard for all our leaf suppliers worldwide since 2000 and, over time, was shared and utilised by other tobacco companies.

In recognition of evolving standards and expectations, the industry came together in 2015, facilitated by the independent supply chain management company AB Sustain, to unify under a single programme. This included strengthening the methodology, scope, content and measurement, and increasing alignment

to international standards, such as those of the ILO and the UN Guiding Principles on Business and Human Rights.

As a result, the industry-wide Sustainable Tobacco Programme (STP) was introduced in 2016 and applies to 100% of our tier one tobacco leaf suppliers, including all our own leaf operations.

STP is independently managed by AB Sustain on behalf of the industry. Its key focus is to ensure high environmental, social and agronomy standards on a day-to-day basis and bring together best practice from across the industry to drive continuous improvement.



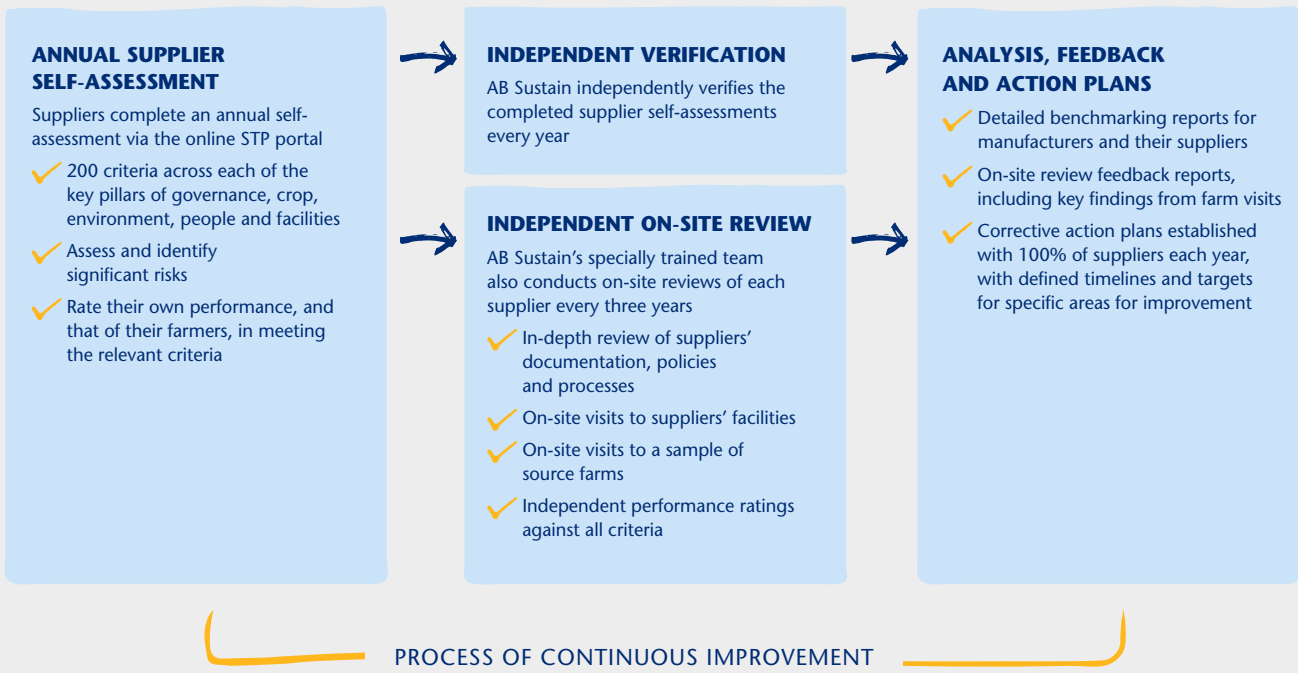
Across the industry, STP is the unification of

180 tobacco leaf suppliers and

5 million smallholder farmers, in

52 countries, under a single programme

THE STP SUPPLIER ASSESSMENT PROCESS



Case study

Viewpoint from our supplier in Turkey

Ali Baki, TTL’s Senior Leaf Director



TTL Tütün Sanayi ve Dış Ticaret A.Ş. (TTL) is a third-party supplier to BAT of oriental tobacco, an aromatic, small-leaved, sun-cured variety. TTL has been operating in Turkey for more than 100 years and currently sources from over 14,000 small-scale farmers.

“As a smaller, family-run company, we have found that STP has made a big difference for us in now having one comprehensive programme for the whole industry. It helps us to better understand our customers’ expectations, based on their global experience, and provides a straightforward system with definitive criteria and tools to manage the long-term sustainability of our operations.

As with any new programme, the first year of implementation is always the toughest, and the small size of the farms we work with is also a challenge. That’s why our field technicians are so vital – we’ve worked hard to make STP part of the regular support and training they provide our farmers. Once integrated, it becomes part of everyday life.

Also, because STP has been adopted by all leaf suppliers, farmers become familiar with the standards and expect to be monitored during the growing cycle. So, if we contract with a new farmer who’s previously worked with a different supplier, we don’t have to start implementing it with them from scratch.

I’ve been working in the tobacco industry for over 25 years and have seen the increasing knowledge among farmers on good agricultural practices and awareness of what sustainability means. The frequent visits by our field technicians also encourage them to contribute their opinions and experiences – which makes the process a lot more collaborative, rather than just imposing standards from the top down.

The farmers also get to see the benefits of STP, and the support we provide, in helping to improve the quality and productivity of their tobacco, which they can then apply to their other crops, including wheat, grapes and olives. I think this – combined with opportunities to introduce more mechanisation on the farms – will ultimately result in costs decreasing and better farm incomes, and help pave the way for the future sustainability of farming in Turkey.”

global
STANDARDS HUMAN
KNOWLEDGE RIGHTS
SUPPLIER

Thrive PROGRAMME

While supplier due diligence and assessments, as part of STP, are an important part of ensuring high standards and driving continuous improvement at supplier and farm level, we recognise that there are also many wider and deep-rooted issues affecting the livelihoods of farming communities and the sustainability of agriculture.

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

However, these are not issues that one company, or even one industry, can tackle alone. To be successful, collaborative, cross-sector solutions are needed, involving all a community's stakeholders and covering the whole landscape.

We already have a long history of working in partnerships and implementing long-term projects in farming communities, as the case studies in this Report show. Building on these experiences and lessons learned, we have developed a global programme, known as *Thrive*, to help us achieve our long-term objectives to ensure:

- All our farmers have a viable livelihood;
- Farming is seen as a preferred profession, particularly for rural youth; and
- Within farming, tobacco is seen as a valuable crop to grow.

Five Capitals

Thrive is based on the internationally recognised 'five Capitals' framework, which was first developed by the Department for International Development and then adopted by the Food and Agriculture Organisation of the United Nations. The premise is that to be sustainable, farming communities must be 'in credit' across five types of 'Capital': financial, natural, physical, human and social. Strength in all five creates resilience and enables farmers and rural communities to prosper.

We first piloted this programme in 2014 and 2015, and worked with external experts on further developing and expanding it over the last year, including defining a set of 14 indicators to measure strength in each Capital (see page 18 for details). These will help us to set benchmarks, measure improvements, prioritise our resources, and monitor progress and impact over time.

At the end of 2016, we conducted our first baseline assessment against the indicators for approximately 250,000+ farmers who supply all of our 17 leaf operations and six strategic third-party leaf suppliers. In total, this first batch of assessments covered nearly 80% of our total tobacco leaf purchases.

The results have provided important insights into the complexity of the issues, and we are now using them to inform our approach to selecting and developing new partnerships and community-based projects, aligned with the five Capitals, that will have a demonstrable positive impact for farmers and their communities. This will also enable a more tangible way of measuring our contribution to the UN Sustainable Development Goals (SDGs), including those relating to poverty, hunger, decent work and economic growth, life on the land, and partnerships.

We will report on *Thrive* progress and performance in our next Sustainability Report.



AGRICULTURE
PRODUCTIVITY
Commitment
KNOWLEDGE
COMMUNITY

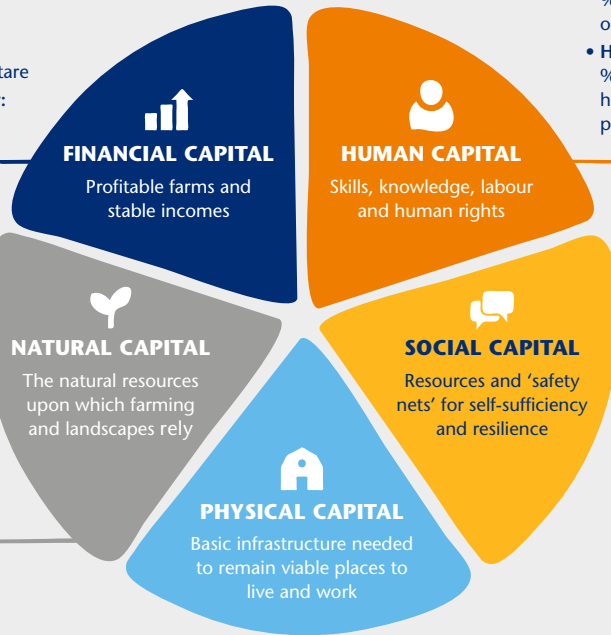


CAPITALS AND INDICATORS

- **Farmer income:**
daily net farm income per person
- **Farm productivity:**
average tobacco crop yield per hectare
- **Crop diversification/food security:**
% of farmers growing food crops

- **Soil and water management:**
% of total farm land with appropriate best practice soil and water management plans implemented
- **Water use:**
consumption per hectare
- **Sustainable fuels:**
% of fuel used to cure tobacco from sustainable sources

- **Land security:**
% of farmers with secure land rights
- **Farm infrastructure:**
% of farms with access to decent water and sanitation, energy, housing and healthcare



- **Next generation of farmers:**
farmers' age profile and % with potential successor
- **Tackling child labour:**
% of farmers monitored and trained on child labour issues
- **Health and safety:**
% of farmers and workers trained in health and safety and with sufficient personal protective equipment

- **Job security/longevity:**
duration of time farmers supplying the Company
- **Women's empowerment:**
number of women/girls receiving training or support to increase skills and knowledge, and build capacity
- **Grievance mechanisms:**
% of farmers and workers with access to fair, transparent, anonymous and effective grievance mechanisms



For each of the following case studies, the sections highlighted in the *Thrive* logo indicate the specific Capitals the projects support.

Strengthening child labour prevention and farm monitoring

According to the ILO, approximately 60% of global child labour occurs in agriculture. It is something we take very seriously and through our initial *Thrive* assessments we know that there are approximately 130,000 school-age children living on farms that supply us.

We recognise that these children are particularly vulnerable to child labour and that we need to continually work to ensure our Child Labour Policy is effectively and consistently applied, and systematic farm monitoring is conducted to ensure adherence and enable action to be taken if any issues are found.

So this year, we have developed a new Operational Standard on Child Labour Prevention, with inputs from the Eliminating Child Labour in Tobacco Growing (ECLT) Foundation and the ILO. This complements our

long-standing Child Labour Policy and includes detailed standards, guidance and processes to ensure it is effectively applied in a robust and globally aligned way.

For example, it provides our leaf operations with clear guidelines and procedures for regular training and capacity building, farm monitoring and spot-checks, and immediate reporting of any incidents of child labour. It also includes clearly defined steps for developing and implementing actions to prevent or remediate child labour, and to improve the situation of affected children and their communities. It will be implemented by all our leaf operations worldwide by the end of 2018.

We are also developing a new, more robust digital farm monitoring system. We have always conducted farm monitoring, but different methodologies have been used in different countries. This global system will provide greater oversight and enable faster and more accurate reporting, so any issues can be flagged up in real time and addressed immediately.

WOMEN'S EMPOWERMENT

SELF-SUFFICIENCY
Communities

Clean water
QUALITY

116%

increase in SADP
beneficiaries' average
household monthly income

94%

SADP field work carried
out by women

75,000

beneficiaries in 19,000
families empowered
by SADP since it was
launched in 2006



Case study

Empowering women in Sri Lanka



For over 10 years, our Sustainable Agriculture Development Programme (SADP) in Sri Lanka has worked to empower rural families in tobacco growing areas, by helping them to become more self-sufficient and economically independent. Through supporting the wider community, not just tobacco farmers, we are helping these areas to continue to prosper and be viable places to live and work.

The programme covers four different stages, with families receiving support over two-and-a-half years from our specially trained field technicians. The first stage teaches the families to maximise the use of their home gardens for organic cultivation of vegetables and other crops. They then concentrate on improving their farming techniques, as well as learning about poultry farming and how to set up 'farming societies' to encourage villagers to support each other and share best practice.

The third stage focuses on generating extra income through activities such as rearing animals and growing vegetables for sale, with the final phase involving graduation and recognition of the family's achievements.

Thirty-two-year-old Renuka Rathnayake lives with her husband, two children and parents-in-law in North Central Sri Lanka. "We were just about managing to live on my husband's income from working as a mason, but it was hard to put a balanced meal on the table," she explains.

Then she signed up to SADP and began working with BAT's field technicians. "They started by showing us how to grow crops in our gardens. It was something we'd never thought of before and we've now learned how to grow more than 30 different vegetables, herbs and fruit, with seeds and plants provided by the programme. And all that fresh produce means our diet is now so much better.

"Once the gardens were under way, we learned about good agricultural techniques, such as how to make compost, treat pests naturally and use what little water we have more efficiently."

The next step for Renuka was to take up poultry farming and she now sells eggs, alongside other produce from her garden, in a shop she's set up at home, as well as at the local market, which is an important addition to the household budget.

She has also worked with the field technicians to start goat rearing, as well as growing mushrooms.

"Next year, I graduate from the programme and that will be a great day because SADP has changed the lives of my family and so many people in the village," she says. "It's particularly helped us as women, by giving us the skills to be self-sufficient and contribute to the family's income.

"The home gardens have brought people in the village together. There's a sense of cooperation that wasn't there before – it's really reawoken our community spirit."

Case study

Supporting communities in Pakistan



Aamir Sattar Lodhi, Leaf Operations Corporate Affairs Manager

Our business in Pakistan sources tobacco leaf from over 12,000 farmers, and has put in place a range of sustainability initiatives with tobacco farming communities.

“Here in Pakistan, we see our contracted farmers as our most valuable business partners and so our Farmer Loyalty programme is designed to support the strong, trust-based relationship we have together. We are also continually developing and customising our training programmes to take in the latest thinking on good agricultural practices and environmental protection.

That’s why our farmers are seen as among the most progressive in the country when it comes to sustainable agriculture. Each year, around 100 farmers also graduate from our *Champions of Change* programme, working as ambassadors in the community to inspire a new generation into farming, instead of moving away to towns or cities.

Looking at wider aspects of rural life is important too, especially when you see many farmers living in remote areas where they don’t have decent access to basic services. Since 1985, we’ve helped provide much needed free medical assistance and advice for rural communities through our Mobile Doctor Units. Last year, they treated over 78,000 people.

Then there’s the water filtration plants we’ve installed in the Punjab province, which are helping to provide easy access to clean drinking water for an estimated 2.8 million people.

Poor access to electricity is also a fact of life for many of us in Pakistan. In Khyber Pakhtunkhwa, the main tobacco growing region, there are villages that are so cut off they’ve never had access to electricity before. We’ve partnered with the provincial government to provide them with solar energy kits, which, so far, are helping to improve the lives of over 6,000 people.

Even for areas that are connected to the grid, frequent power cuts are commonplace. This was a big problem in the region of Buner, where they use a water irrigation system that relies on electricity to work. So, in partnership with the Government, we provided generators to keep the water flowing, which has helped farmers to irrigate their tobacco and other food crops too.

We also have a long-running afforestation programme, which has seen over 75 million trees planted and is considered to be the largest private afforestation scheme in the country.

Of course, all these initiatives are important for securing the future of our tobacco leaf supply chain, but they’re also about giving back to the communities we’ve been working with, and alongside, for the past 70 years in Pakistan. We have a very special relationship here with the land and the people, and I feel very privileged to be part of it.”

78,000+

people treated for free by our Mobile Doctor Units in 2016

2.8m

people estimated to have access to clean drinking water from our water filtration units

75m

trees planted since 1981



LOCAL NEXT GENERATION AFFORESTATION

Partnerships LOCAL ADVICE

COMMUNITY DEVELOPMENT

Case study

Measuring impact in Bangladesh



We have long and successful associations with many rural communities in Bangladesh and, in 2016, commissioned the global consultancy Nielsen to conduct an independent impact measurement study of our three key community programmes.

Enhancing landscapes and livelihoods

Our *Bonayan* afforestation programme was launched in the 1980s and has distributed over 95 million free saplings to rural communities. Nielsen's study found that not only has this brought environmental benefits, but it has also helped make farming communities more self-sufficient, offering them a new source of food, fruit and sustainable timber to sell for furniture making. 76% of beneficiaries told Nielsen that they have benefited financially from *Bonayan*.

This extra income means that more parents can now afford to send their children to school, which has had a dramatic impact on literacy rates in the communities. Take Rehana Begum, who featured in Nielsen's report; she has been growing trees supplied by the project for the last 10 years, earning her enough money to pay for her children's education.

Safer water

Through our *Probaho* programme, over 170,000 people a day now benefit from better access to safe drinking water, thanks to 65 new water filtration plants we have installed. The study found that this has reduced the number of people suffering from waterborne diseases, from 32% down to only 0.3%.

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

Lighting the way

A third Bangladeshi project is *Deepto*, which, since 2011, has brought solar power to 16 remote villages with no electricity. Nielsen found that 65% of beneficiaries reported that they have started new income-generating activities, such as basket weaving and sewing, since getting solar power in their homes.

Before *Deepto*, over 70% of schoolchildren faced problems keeping up with their schoolwork, due to not having sufficient light to study in the evenings. Over 84% now have more time to study, which is helping to improve their school performance.

Villagers also feel much safer going outside at night, which is benefiting the community. Maamma Marma, a local businessman, explained to Nielsen: "As there was no permanent solution for light in the past, people used to fall asleep at eight or nine. I couldn't keep my shop open for long either. But since free solar-powered light became available, my business has been yielding more profit."

The full report of the Nielsen study is available at

batbangladesh.com



Responding to allegations of human rights abuses in Bangladesh

Monitoring and protecting human rights is an integral part of managing any agricultural supply chain, and last year we responded immediately to alleged abuses in our leaf growing operations in Bangladesh, published in a report by the Swedish NGO Swedwatch³.

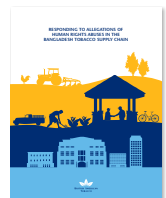
We take such allegations extremely seriously and immediately conducted our own internal review in Bangladesh, which did not raise any significant concerns and indicated that the Swedwatch report as a whole is not representative of the reality on the ground. However, we recognise the serious nature of the allegations and so also commissioned the international sustainability and human rights consultancy DNV-GL to conduct a review of the tobacco leaf growing practices of our business in Bangladesh and against the allegations posed within the Swedwatch report.

We are pleased that the outputs were aligned with the outcomes of our own investigations and that DNV-GL found no evidence to support the allegations, including claims of child and bonded labour. Equally, we are grateful that the review highlighted some procedural and control issues that will further help us manage human rights risks in-country, which we are already acting upon – details of which can be found in the full report of DNV-GL's review and our response.

We remain committed to continually improving our approach to human rights management and working with local communities and stakeholders on long-term projects that help address complex root causes of such issues in agriculture.

The full report of the DNV-GL independent review and our response is available at

BAT.com/humanrights/respond



³ Smokescreens in the supply chain: The impacts of the tobacco industry on human rights and the environment in Bangladesh, Swedwatch, June 2016.



Part of a bigger solution

How we're working in partnership to solve complex problems

We recognise that we are not experts in all areas, so working with partners can help us bridge different sectors, addressing complex problems and helping to apply the right expertise to develop and deliver solutions.

Implementing long-term community-based projects and multi-stakeholder partnerships is central to our approach and will form the foundation of the future development of our *Thrive* programme.

Eliminating Child Labour in Tobacco Growing (ECLT) Foundation

Since 2000, we have worked as part of this global partnership with other major tobacco companies and leaf suppliers. ECLT helps to strengthen communities and bring together key stakeholders to develop and implement local and national approaches to tackle child labour.

Local projects and partnerships

Around the world, we run or support local projects for rural communities, in partnership with NGOs, industry associations, governments and academia, focused on areas such as afforestation, food security and clean water and sanitation.



ECLT FOUNDATION

Child labour remains one of the most pressing issues that agriculture has to face and something that we have long fought to end within tobacco farming.

In 2000, we became a founding board member of the ECLT Foundation and remain active members today, alongside other major tobacco companies, leaf suppliers and the International Tobacco Growers' Association. The ILO and Save the Children Switzerland also serve as advisors to ECLT's Board.

ECLT's independent status means it can call upon governments to take action, renew national commitments and action plans, and improve policies and advance research into child labour. It also carries out important work helping to strengthen communities and brings together key stakeholders to develop and implement local and national approaches to tackle child labour.

All ECLT members are signatories to a shared Pledge of Commitment and Minimum Requirements on combatting child labour. It provides a framework for members to align, reinforce and, where necessary, expand their policies and practices, and ECLT publishes results of an annual self-assessment on progress towards full implementation.

More information can be found at

ECLT.org



Case study

A multi-stakeholder approach to tackling child labour in Indonesia

We have been working with farmers in Indonesia since the 1970s, and in 2016, the issue of child labour in the country's tobacco growing was highlighted in a report by the NGO Human Rights Watch⁴.

We are pleased the report acknowledged the collective responsibilities of the Government, the tobacco industry and NGOs in tackling the issue, and many of the findings have contributed to strengthening our approach and ongoing plans.

Significantly, this has included working with ECLT on a multi-stakeholder project in Indonesia to address child labour in tobacco growing. This began in 2016 by building relationships and partnerships with national and local governments, farmers' associations, tobacco companies, civil society, international organisations and development agencies.

ECLT also commissioned a study to examine the child labour situation in two major tobacco growing districts. The study was also a way to engage key stakeholders around the root causes of child labour within agriculture in order to design a collective strategy for addressing them.

Several meetings were convened with key stakeholders at the national, provincial and district level, which aimed to consult and engage around the child labour study and improve stakeholder coordination for collective action moving forward.

Alongside supporting the work of ECLT, our company in Indonesia is also collaborating with four state universities to conduct independent research into the age of children living on family farms, as well as monitoring any farming activities they are engaged in. It will also look to verify school attendance records, check farmers' understanding of child labour issues and promote access to schools for children living on farms. The findings will help drive our future plans.

As part of our implementation of STP, we have provided training for over 4,800 farmers on STP requirements, including a strong focus on child labour. In addition, we're improving communications for farmers on issues such as child labour and health and safety, through distributing new educational leaflets, posters and handbooks detailing best practice guidelines and requirements in a simple and accessible way.

Our company is also implementing a more robust and systematic approach to farm monitoring, including regular visits by our field technicians and unannounced spot-checks each crop season, as well as new methods for conducting interviews with farmers and hired labour and for checking conditions on the farms.

Eliminating child labour in Indonesia is a major challenge, which faces very strong traditional and cultural practices that can be resistant to change. But through our commitment to a long-term multi-stakeholder approach, we hope to begin to see progress and change over time.

8 children
removed each day
from child labour with
the help of ECLT



SINCE 2011, THROUGH THE ECLT'S WORK:

162,000	children removed or kept away from child labour
455,000	community members reached through awareness-raising activities
40,000	families in tobacco growing communities financially empowered
22,250	children sent to school and benefited from vocational training
500+	key stakeholders brought together to renew commitments on national action plans to eliminate child labour

More information can be found at

ECLT.org/impact

⁴ The Harvest is in My Blood: Hazardous Child Labor in Tobacco Farming in Indonesia, Human Rights Watch, May 2016.

LOCAL PROJECTS AND PARTNERSHIPS

There is no 'one-size-fits-all' solution to the many issues facing global agriculture. The realities in different countries or regions can vary enormously and solutions need to be tailored to local circumstances. Therefore, locally based partnerships are crucial to our approach, involving key stakeholders, including industry groups, governments, NGOs and academic institutions.

In 2016, our companies supported 47 community projects focused on sustainable agriculture and farmer livelihoods, in 16 countries where we source tobacco leaf across Africa, Asia and South America. In total, these long-standing projects are estimated to have benefited over four million people in rural farming communities in 2016.

They focus on a range of issues and activities from child labour prevention programmes to afforestation projects, providing access to clean water and energy, to healthcare for remote rural communities and even enterprise development.

We will be taking the key learnings, insights and best practice from these projects to inform the further development of our *Thrive* programme, including developing new strategic partnerships aligned to the five Capitals.

“Achieving this new global agenda [of the SDGs] will require a new approach to achieving impact on the ground – one which is people-centered, locally-led and globally supported, and anchored in the spirit and practice of partnership. Newly-formed alliances between business, government, civil society, farmers associations and other organisations can jointly develop the solutions needed to improve opportunities for smallholder farmers.”

World Economic Forum⁵



Case study

Helping children blossom in Mexico



In Mexico, 95% of our tobacco leaf comes from the state of Nayarit, where nearly 50% of the labourers employed by farmers during the harvest are migrant workers.

The majority are indigenous people who travel from their homes in the mountains, often bringing their families and children with them. Away from school, it used to be common for these children to be in the fields with their parents, which damaged their education, health and development.

It was a serious issue that we needed to address and so, in 2001, we partnered with the Government, Universal Leaf, groups such as the Rural Association of Collective Interest, and a local NGO on the *Florece* (meaning 'Blossom') child labour prevention programme.

Since then, it has grown in scale, built solidly on a collaborative, multi-stakeholder approach. Four centres, strategically located close to tobacco growing plantations, provide educational, health, nutritional and recreational services, helping over 800 children a year.

When *Florece* began, it was difficult for the labourers and it took time for them to understand that the practice of keeping their children in the fields while they worked was not acceptable to BAT or to the farmers they were working for.

Now things have changed remarkably, with many of the workers actively choosing which farm they work on based on whether it has access to a *Florece* centre. BAT also provides the farms with temporary accommodation, so that the migrant families have a place to stay, as well as access to food and clean water.

Francisco Javier Rentería Ramos, farmer and member of the Rural Association of Collective Interest, explains: “*Florece* has been improving every year because of the consistent way of working with labourers. The centres go directly to pick up the children each morning, so the parents don't have to travel. At first, some of the kids would hide, but now they can't wait to go each day.”

BAT's field technician Hugo Carrillo adds: “The programme is now loved by the community, not only for the support it brings to workers by taking care of their children and giving them new opportunities to study, but also for the jobs it creates for teachers, doctors and other local people.”

14,400
children
which *Florece* has
opened its doors to
since 2001

⁵ Think globally, act locally to meet development goals, World Economic Forum, 2016.

Future outlook

How we're working to meet tomorrow's challenges

FOOD SECURITY
PARTNERSHIPS
REGULATION
CLIMATE CHANGE

The importance of our programmes, initiatives and objectives for sustainable agriculture and farmer livelihoods is paramount in the face of increasing challenges affecting the future of farming. With these come increased expectations for companies to play an even greater role in society and in supporting the objectives of international frameworks, such as the UN Guiding Principles on Business and Human Rights, the Paris Climate Change Agreement and the UN Sustainable Development Goals (SDGs).

Human rights

Agriculture is particularly vulnerable to human rights abuses, and with a supply chain crossing many diverse countries this is not an area where we can afford to stand still. Implementing clear policies, standards and requirements for our suppliers and farmers, and monitoring their compliance through due diligence programmes and farm monitoring, is only one part of the solution.

Human rights issues in agriculture have complex root causes, including rural poverty, traditional practices in family farming and the informal nature of the work, so understanding how these factors play out in different local circumstances is central to our *Thrive* programme. This will enable us to implement effective multi-stakeholder solutions and partnerships, to make a demonstrable difference for the long term.

Increasing regulation

Further agricultural regulation is likely in the coming years, particularly for ensuring compliance with global standards, measuring impacts and addressing specific issues in different countries. There are also proposals from the WHO's Framework Convention on Tobacco Control for governments to promote as appropriate, economically viable alternatives for tobacco farmers.

We support the introduction of regulations covering the agricultural sector, particularly in areas that look to protect fundamental human rights and enhance environmental standards. We also agree that governments should look at the impacts of tobacco growing, as with all commercial crops. But we think this should take an inclusive and evidence-based approach that considers the wider agricultural context and respects farmers' right to choose which crops they grow.

New regulation, such as the UK Modern Slavery Act, requiring increased transparency from companies about the steps they're taking to address this serious global issue in their supply chains, is also fully supported by us, and you can find BAT's statement at bat.com/msa.

Environmental impacts and population shifts

The world's population is expected to grow by a billion people to 8.6 billion in 2030⁶, leading to an increased demand for food production. This, along with environmental threats such as climate change, decreasing soil fertility, disruption to the water cycle and extreme weather events, will mean more competition between crops for energy, land and water.

To meet these demands, farm yields and productivity will need to rise, calling for new, sustainable ways of farming, as well as cross-sector partnerships that look at the whole landscape and involve all a community's stakeholders.

None of this is possible, though, without the farmers themselves. Yet we're hearing more and more that, in many parts of the world, farming isn't seen as an aspirational career choice for young people, so they move away from rural communities to find jobs in the cities.

Through our work to help farmers have profitable, successful businesses, they and future generations are more likely to be motivated to remain in farming and look after the environment. This will help to secure the long-term sustainability of agriculture and the future of our supply chain.

ACTIONS FOR US

We see an opportunity for us to build on our long-standing approach to further enhance the livelihoods of farmers and their communities, to develop multi-stakeholder solutions to complex long-term issues, and to better monitor, measure, manage and quantify impacts in a globally consistent way.

By the end of 2018, we will:

- Implement our Operational Standard on Child Labour Prevention and new digital farm monitoring system among 100% of our leaf operations;
- Publish details of our suppliers' performance in the Sustainable Tobacco Programme;
- Continue to engage with regulators and key stakeholders to advocate for inclusive and evidence-based regulation on tobacco growing;
- Map our Group Sustainability Agenda to the SDGs, as part of a detailed materiality assessment;
- Use the results of our *Thrive* assessments to identify root causes for key issues and to implement multi-stakeholder partnerships; and
- Report on the progress and performance of our *Thrive* programme.

⁶ World Population Prospects: The 2017 Revision, UN Department of Economic and Social Affairs.

www.bat.com/sustainability

More detailed information on our Sustainability Agenda and initiatives.



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



GET IN TOUCH

Jennie Galbraith and Verity Lawson

British American Tobacco
Globe House, 4 Temple Place
London WC2R 2PG

✉ sustainability@bat.com

☎ +44 (0)20 7845 1000



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



FOCUS REPORTS

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

➤ www.bat.com/sustainabilityfocus



ANNUAL REPORT

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

➤ www.bat.com/annualreport



About this Report

This is a report by British American Tobacco p.l.c. Associate companies are excluded. All Group data relates to the calendar year 2016 and so excludes data from Reynolds American Inc, which we acquired in July 2017. References to 'British American Tobacco', 'BAT', 'we', 'us' and 'our' when denoting opinion refer to British American Tobacco p.l.c. (the Company), and when denoting tobacco business activity refer to Group operating companies, collectively or individually as the case may be. This Report contains forward-looking statements that are subject to risk factors associated with, among other things, the economic and business circumstances occurring in the countries in which the Group operates. It is believed that the expectations reflected in these statements are reasonable, but they may be affected by a wide range of variables that could cause actual results to differ materially from those currently anticipated.

Designed and produced by Flag.