



INDEPENDENT SUSTAINABILITY ASSURANCE 2017

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

In 2017, we continued to engage [Ernst & Young LLP](#) to provide limited assurance of selected sustainability data. In addition, building on our long history of open engagement with our stakeholders, this is the second year we invited our Independent Stakeholder Panel, formed of key opinion leaders, to offer comment on the materiality of our [Sustainability Report](#) and a collective opinion on BAT's performance. We also provide a response to the Panel's statement as part of our commitment to continuous improvement.

The Stakeholder Panel's independent statement

Panel members

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

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

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

Peder Michael Pruzan-Jorgensen, Senior VP of [Business for Social Responsibility](#) – a global non-profit organisation that works with its network of more than 250 member companies and other partners to build a just and sustainable world.

Process

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

In this reporting cycle, the Panel held three meetings with BAT. The first, in October 2017, considered the process and outputs from the Company's [materiality assessment](#). The second meeting, in November 2017, was specifically requested by the Panel following its review of the 2016 Sustainability Report, to provide an opportunity to engage earlier in the reporting process. The meeting included a presentation from BAT on key business developments in 2017 and a discussion on the proposed structure and content of the [Report](#).

The third meeting, in February 2018, centred on a detailed scrutiny of a draft of the Report, for which:

- The Panel reviewed a draft in advance of the meeting;
- BAT presented details on how the Company had responded to the Panel's recommendations and feedback made in its statement in the [2016 Report](#), as well as those made during its November meeting;
- The Panel privately discussed the Report as a group to formulate their views and identify questions to ask BAT;
- The Panel met with senior BAT representatives to ask questions and provide initial feedback on the Report, including with Jerry Abelman, Group Legal and External Affairs Director, as well as senior experts from key areas of the business;
- The Panel made suggestions as to how the Report could be improved to best serve the needs of BAT's stakeholders – a number of these comments were addressed in the Report prior to publication; and
- Drafted this statement independently of BAT and presented it to the Company's representatives.

Throughout the three meetings, the Panel appreciated BAT's willingness to share information and discuss the issues and challenges it faces as a business openly and constructively. The Panel's comments on the Report, together with recommendations as to how future reports could be improved, are summarised below. The Panel acknowledges the progress made from last year's Report which reflects many of the recommendations made by the Panel. The specific details of how these recommendations have been addressed are included below.

Materiality and performance

As in previous years, the [BAT Sustainability Report 2017](#) reads well, covers the Group's most material issues in a meaningful and balanced way, and strikes a good balance between narrative reporting and performance reporting, not least when read in context of the rich information – qualitative and quantitative – accessible on [BAT's websites](#) and in other, thematically more [focused reports](#).

The Company's commitment to reporting is underpinned by the annual materiality refresh and a more thorough review every three years. Nonetheless, and surprisingly, we call out the opportunity for defining meaningful and measurable objectives, including long-term targets for Harm Reduction and Sustainable Agriculture and Farmer Livelihoods. As mentioned in last year's Statement, we believe that it would be useful to define outcome indicators for the most material issues noting, as a positive development, that the recently commenced [Thrive programme](#) may yield a stronger evidence base for outcomes related to Sustainable Agriculture and Farmer Livelihoods.

In line with our recommendation for improved clarity on objectives and targets in key performance areas, the Report would benefit from greater clarity on what the Company considers the priorities for transforming tobacco, including milestones and key performance indicators for successful transformation. Moreover, as the BAT business model evolves with greater focus on [Next Generation Products](#) (NGPs), we expect that the broader sustainability profile of BAT will evolve, including what constitutes material issues, something we would expect to see covered in future reporting.

Harm Reduction

BAT continues to show progress in advancing its NGP portfolio and harm reduction strategies on multiple fronts. It responded to a number of the Panel's recommendations made in last year's Statement, including providing more detail on what a regulatory framework for NGPs might entail. The Panel notes that BAT recognises the serious harm caused by the use of cigarettes and the need

to provide smokers with consumer acceptable, affordable alternative products, something that the Panel believes should be given the highest of priorities.

Even as BAT continues its efforts in the NGP area, we strongly encourage it to step-up efforts to provide existing, more affordable harm reduction products (such as snus, vapour and other nicotine products) to the one billion smokers living in low- to middle-income countries. The existing 'smoking' marketplace, made up of many of BAT's consumers, provides the Company with significant opportunities to demonstrate its commitment to harm reduction as part of its *Transforming Tobacco* strategy.

The Panel also encourages BAT to continue to expand its efforts to engage with regulators, the scientific and research community, policy makers, public health NGOs, consumers and the media, and to participate in meetings and conferences where productive engagement between stakeholders can be achieved. Transparency remains a key element in the transformation of the tobacco and nicotine space.

Finally, in this area as elsewhere, the Panel hopes that BAT will in future reports provide more measurable, detailed and articulated performance objectives. We note that this year's draft Report was critically lacking in this area, even when compared to the 2016 Report. It was noted, for example, that BAT has invested US\$2.5 billion since 2012 on NGPs, but how does that compare to other activities of BAT including its annual revenue? One way to highlight and provide these details would be through one of its prominently featured websites, such as bat-science.com.

Sustainable Agriculture and Farmer Livelihoods

The Panel welcomed the presentation of data on BAT's Extension Services to farmers and information on how the [Thrive programme](#) is developing. We look forward to seeing more output next year in this area. Similarly, we would welcome more disclosure on the use of short-term hired labour by BAT's directly contracted farmers. We accept that there are practical difficulties related to the frequent and rigorous monitoring of these types of employment relationships, especially in less developed countries. However, we believe it is important that sufficient information is available for us to form a view as to whether this is a material issue. We note that the [Sustainable Tobacco Programme](#) deals only with tier one suppliers.

In the area of climate change, we encourage BAT to develop a robust analysis of the risks of climate change in their major tobacco growing regions. As a first step, this could be done by use of [Intergovernmental Panel on Climate Change](#) predictions for specific regions in terms of temperature and precipitation changes. Uncertainties should be acknowledged. Following from this, an analysis of the risks to production (particularly to smallholder farmers) is needed. Finally, the resilience to these risks should be assessed. We encourage BAT to produce something along the lines of a Focus Report on climate change. It may well be that the risks are minimal but, at present, except for some mention of extreme events and water scarcity, we feel they are not being given sufficient prominence.

Corporate Behaviour

The Panel commends the approach taken by BAT in response to comments made in last year's Statement. The approach is clear and we were pleased to see in the sections of Delivery with Integrity, Protecting Human Rights and Marketing Responsibly some detail of how BAT's approach is delivering tangible benefits through the highlighted case studies.

An omission is a description of the Company's values, seen as a commitment to stakeholders, and how they are integrated in Corporate Behaviour – it is implicit but the Panel feels they should be more explicit. Likewise, providing more detail on the [Standards of Business Conduct](#) would be beneficial to the reader.

The detail given on [Speak Up](#) channels was welcome as this is a key area for all organisations. It is suggested that next year's reporting on these matters follows best practice being developed by comparable-sized companies.

In discussion, the Panel learnt of BAT's global approach to Corporate Behaviour, yet we are aware it operates in countries with weaker enforcement and governance mechanisms. This might be an area to develop in this section, so the reader might understand how BAT's overall approach is applied within the context of different national regulatory regimes.

Other observations

The Panel welcomes the Report's inclusion of information on occupational health and safety. In addition to the increase in the number of fatalities, which is well covered, we note with concern that overall health and safety performance seems to be on a negative trajectory. During interviews with senior BAT representatives we took comfort from the attention given to the topic, and we encourage continued attention to reversing the trend, as well as to report in greater detail in the future on steps taken to improving performance.

In addition to our observations on climate change stated earlier, we welcome BAT's commitment to expand its understanding and measurement of its Scope 3 CO₂e emissions with a view to improve its overall performance. However, we note that while BAT's Scope 1 and 2 CO₂e emissions have reduced, the rate of progress seems to have stalled, raising questions about the trajectory to meeting its existing 2025 targets, an issue not fully clarified in the Report. We also note that as the Company's business model evolves with greater sales coming from NGPs, emissions may increase. In future reporting, we expect BAT to clarify how the evolving business model may influence its carbon footprint, including Scope 3 emissions.

Concluding remarks

As a general comment, the [2017 Report](#) takes BAT forward and again helps the reader to get a picture of BAT's approach to sustainability and its most significant issues identified by its materiality process.

Transforming Tobacco is a key development for BAT and the Panel is interested to learn how this will be integrated into the 2018 Report. This is made more complex given the multiple audiences of BAT's sustainability reporting. Given the difficulty of providing clarity to all audiences the Panel suggests the nature of this Report is revisited, particularly in the light of the Performance Summary data feeling disconnected from what is said in the Report on some matters.

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

Stakeholder Panel members

March 2018

British American Tobacco's response to the Panel's statement

The Panel's insights, challenge and constructive feedback are invaluable in helping to ensure our reporting meets the needs of our stakeholders. They have highlighted both strengths in our reporting and where improvements could be made, and we are committed to openly responding to their feedback.

Process

This year, we welcomed the opportunity to engage with the Panel earlier and more frequently in the reporting process. The initial drafting of the [Report](#) benefited greatly from the Panel's input and we were able to apply many of their suggestions prior to publication. We're also carefully considering further recommendations for future reports.

Materiality and performance

We're pleased the Panel found our material issues are reported in a meaningful and balanced way. We recognise the need to define more measurable long-term targets, particularly for Harm Reduction and Sustainable Agriculture and Farmer Livelihoods.

We have published our new target to generate over £5 billion in Group revenue from Next Generation Products by 2022 and believe this financial metric demonstrates our commitment to harm reduction and the transformation of our business. As this area develops, we will work to define further targets and indicators to support this.

We agree with the Panel's observation that the development of our [Thrive programme](#) will help us to better quantify outcomes and impacts for our farmers and rural communities, and are committed to reporting on this in the future.

Harm Reduction

We appreciate the Panel's recognition of our progress in this area and how we've responded to their recommendations. We understand their concerns regarding the availability of affordable, alternative products for smokers in low- to middle-income countries.

However, in many of these countries, there are still real regulatory and marketplace obstacles to launching alternative products, so we welcome the Panel's recommendation to continue to expand our efforts for productive engagement between key stakeholders. If we can all work successfully together, we believe real progress in tobacco harm reduction can be achieved.

Sustainable Agriculture and Farmer Livelihoods

We note the Panel's recommendation for more information on the use of short-term hired labour by our contracted farmers.

The extent to which hired labour is used differs according to location and scale of the farm. In many locations, the use of short-term casual labour is common, with workers hired for one or two days' work at a time. This is a reflection of how the informal economy operates in many parts of the world and one over which we have limited direct control. However, we are clear on the labour standards we expect our contracted farmers to uphold with their own hired workers and monitor practices via our farm monitoring and the industry's [Sustainable Tobacco Programme](#), both of which include specific criteria relating to the use of hired labour. We will consider how we can better reflect this important part of our supply chain in future reports.

We're also carefully considering the Panel's suggestion to conduct a new analysis on climate change impacts in tobacco growing, and to provide more detail in future reports on how we're working to understand, mitigate and increase farmers' resilience to these impacts.

Corporate Behaviour

We're pleased the Panel found our reporting in this area to be clear and that the use of case studies to demonstrate how we're delivering tangible benefits was a useful addition. We're also grateful to the Panel for highlighting the gap regarding the role of our Guiding Principles and Standards of Business Conduct – which we were able to address prior to publication (see page 23 of the [2017 Report](#)). In addition, we're committed to including data from our [Speak Up](#) channels in future reports.

We recognise the importance of clearly explaining how our global approach to Corporate Behaviour is applied, particularly in the context of different local circumstances. We adhere to our [policies, principles and standards](#) even when they are stricter than local laws, and prioritise countries with a higher risk exposure for enhanced monitoring, such as where regulation or enforcement is weak, or there are high levels of corruption, criminality or unrest. We will work to further clarify our reporting on this in the future.

Other observations

We share the Panel's concerns regarding our health and safety performance in 2017, but are pleased they were reassured by the high level of attention this is given, including regular monitoring and oversight by our Board Audit Committee.

With the majority of incidents concentrated in the first half of the year, we have already seen an improvement in performance for the second half of 2017, as a result of the targeted programmes and initiatives we've put in place to respond to increased risks. We will endeavour to include more detail on this in next year's Report.

We recognise that performance in 2017 against our CO₂e and energy intensity metrics has remained relatively steady. In response to the Panel's feedback, we have provided more clarity in this Report (see page 30 of the [2017 Report](#)). We're currently working on identifying opportunities for achieving further reductions against our targets and believe our new focus on increasing the ratio of renewable energy will help contribute towards this.

Concluding remarks

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

British American Tobacco

March 2018

Ernst & Young LLP Independent Assurance Report to British American Tobacco Management

We have performed a limited assurance engagement on selected sustainability data presented in the British American Tobacco p.l.c. (“BAT”) 2017 Sustainability Report (“the Report”)¹.

Respective responsibilities

BAT management is responsible for the collection and presentation of the information within the Report. BAT management are also responsible for the design, implementation and maintenance of internal controls relevant to the preparation of the Report, so that it is free from material misstatement, whether due to fraud or error.

Our responsibility, in accordance with our engagement terms with BAT management, is to carry out a ‘limited level’ assurance engagement on selected data in the Report (“the subject matter information”). We do not accept or assume any responsibility for any other purpose or to any other person or organisation. Any reliance any such third party may place on the Report is entirely at its own risk.

Our assurance engagement has been planned and performed in accordance with the International Standard for Assurance Engagements (ISAE 3000 Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*. The criteria we have used to evaluate the Report (“the Criteria”) include BAT’s own criteria as set out in the Report, and supplementary internal guidance documents.

Summary of work performed

The procedures we performed were based on our professional judgement and included the steps outlined below:

1. **Conducted interviews with management** to understand sustainability priorities and performance during the reporting period.
2. **Reviewed selected documents** relating to sustainability management, to understand progress made across the organisation.
3. **Assessed performance data** through the following work-steps:
 - Interviewed data owners and reviewed guidance documents to understand reporting processes and controls;
 - Reviewed disaggregated data and tested source documentation for a sample of data points;
 - Performed analytical procedures and made enquiries of management in relation to year-on-year performance; and
 - Assessed whether the data has been collected, consolidated and reported appropriately at Group-level in line with the reporting scope set out at bat.com/sustainability/data.
4. **Reviewed the presentation of the sustainability data in the Report**, including descriptions of performance, limitations and assumptions.

Our review of the sustainability data was limited to the following metrics for the 2017 reporting period. Our review did not include data relating to Reynolds American Inc, the US business which BAT acquired in July 2017.

Category	Metric
Environment	Tonnes scope 1, 2 & 3 greenhouse gas emissions in carbon dioxide equivalent (CO ₂ e) Tonnes CO ₂ e per million cigarette equivalent (MCE)
	Gigajoules (GJ) energy consumption per MCE GJ renewable energy consumption per MCE % of total energy use from renewable sources
	Cubic metres water withdrawn per MCE Cubic metres water recycled per MCE % of total water recycled
	Tonnes of waste generated Tonnes of waste to landfill per MCE Tonnes of waste recycled per MCE % of manufacturing sites reporting zero waste to landfill % of waste recycled
	% of farmers' wood fuel from sustainable sources
Health and safety	Number of fatalities to employees Number of fatalities to contractors Number of fatalities to members of the public involving BAT vehicles
	Number of serious injuries to employees Number of serious injuries to contractors
	Number of Lost Workday Cases (LWCs) to employees resulting in at least one shift off work LWC Incident Rate (number of incidents per 200,000 hours worked)
	% of women in senior management % of women represented in BAT's workforce at different levels of the organisation % of focus nationalities in senior management
Responsible marketing	% of markets undertaking Youth Smoking Prevention (YSP) activities based on BAT's global guidelines
Corporate Social Investment (CSI)	Investment (£) in CSI projects

Limitations of our review

We conducted our work to express a limited assurance conclusion. The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for a reasonable assurance engagement. Consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement and we do not therefore express a reasonable assurance opinion.

The scope of our engagement was limited to the reporting period, and therefore 2017 performance only. We only reviewed data and descriptions of performance in relation to the metrics identified in the summary of work performed above. Data from Reynolds American Inc. has been excluded from the scope of our review.

Our work was limited to headquarters activities. We did not visit any local companies.

We have only reviewed narrative content within the Report that relates to sustainability metrics identified in the table above. We have not provided assurance over claims made by BAT that are statements of belief or forward looking in nature.

The responsibility for the prevention and detection of fraud, error and non-compliance with laws or regulations rests with BAT management. Our work should not be relied upon to disclose all such material misstatements, frauds, errors or instances of non-compliance that may exist.

Our conclusions

Based on the scope of our review our conclusions are outline below:

Completeness and accuracy of performance information

How complete and accurate is the select sustainability data presented in the Report?

- With the exception of the limitations identified in the Report, we are not aware of any material reporting units (as defined by BAT) that have been excluded from the Group-level data relating to the metrics identified above.
- Nothing has come to our attention that causes us to believe that the data relating to the metrics identified above has not been collated properly at Group-level.
- We are not aware of any errors that would materially affect the data for the metrics identified above as presented in the Report.

Our independence and competence

With the exception of this work, we have provided no other services relating to BAT's approach to sustainability reporting throughout 2017.

We have implemented measures to ensure that we are in compliance with the applicable independence and professional competence rules as articulated by the IFAC Code of Ethics for Professional Accountants and ISQC². Our assurance team has been drawn from our UK Climate Change and Sustainability Services team, which undertakes engagements similar to this with a number of significant UK and international businesses.

Ernst & Young LLP

London, March 2018



1. The 2017 Sustainability Report includes the print [Sustainability Report](#), as well as selected data contained within the online [Sustainability Performance Centre](#), indicated by the Ernst & Young stamp at the bottom of the page.

2. Parts A and B of the IESBA Code; and the International Standard on Quality Control 1 (ISQC1).