



**BRITISH AMERICAN
TOBACCO**

INDEPENDENT ASSURANCE OF SUSTAINABILITY REPORT 2016

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 2016, we continued to engage Ernst & Young LLP to provide limited assurance of selected environment, health and safety data. In addition, to build on our long history of open engagement with our stakeholders, we invited 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.

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.

Marco Ferroni, Director of the [Syngenta Foundation for Sustainable Agriculture](#) – a non-profit organisation focused on improving the livelihoods of smallholder farmers.

Peder Michael Pruzan-Jorgensen, Senior VP of [Business for Social Responsibility](#) – a global network dedicated to addressing business sustainability issues.

Process

This is the first 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.

To achieve this, the Panel reviewed a draft of the [Report](#), asked questions of BAT and received additional information in response, and made suggestions as to how this year's Report could be improved. A number of these comments were incorporated prior to publication. Throughout the process BAT's willingness to share information and enter into an open discussion of the issues and challenges arising from its operations and products was impressive.

The Panel's comments on the Report, together with recommendations as to how future reports could be improved to meet the needs of BAT's stakeholders, are summarised below.

Materiality and performance

Overall, the Report reads well, captures the sustainability issues most material to BAT and its stakeholders, and usefully guides the reader to more comprehensive qualitative and quantitative

data on BAT's website. We believe openness and transparency would be improved if there was a clearer rationale for the selection of material issues and accompanying objectives together with a single, consolidated data table that sets out performance.

Moreover, the Report would be greatly enhanced by providing more detail on BAT's corporate strategy and operations, in particular the significance of Next Generation Products (NGPs), to enable readers to contextualise its sustainability performance. We recommend that the Report focus more on the outcomes of BAT's strategy and policies than on the scale of its inputs.

Given the importance BAT attaches to its most material issues the Panel felt it important to comment on how each is addressed in the Report.

Harm Reduction

The health implications of BAT's products are considerable both in terms of scale and seriousness. Thus, its commitment to develop lower risk alternatives is a positive step. The Report conveys important information about these products and how their understood risks compare to those of combustible cigarettes.

While we welcome the inclusion of stakeholder views in the Report, it would benefit from greater detail on BAT's engagement with its stakeholders, such as the academic and public health communities, regulators, policy makers and consumers. Similarly, BAT should explain how its research increases understanding of the health risks of conventional cigarettes and NGPs. Greater clarity is also needed on how BAT's research into NGPs in general and their health impacts in particular compares to its total investment in these areas.

Finally, future Reports should emphasise BAT's commitment to and detail what it regards as an appropriate and workable regulatory framework. Among other things, this should include an explicit prohibition on the use of tobacco or nicotine products by children and adolescents.

Sustainable Agriculture and Farmer Livelihoods (SAFL)

The significance of SAFL to BAT and how its operations affect the environment and wellbeing of farming communities is reflected by the Report's comprehensive coverage of the Company's impacts in its leaf supply chain. This insight will be enhanced by the planned inclusion of SAFL and Sustainable Tobacco Programme key indicators in future Reports.

The Report could be improved by more clearly identifying the principal risks and opportunities that affect the resilience of BAT's supply chain. As the Company increases investments in NGPs, the Panel would welcome more detail on how this would impact both the NGP and BAT's traditional supply chains.

Corporate Behaviour

The Panel was concerned that this section lacked focus given the variety of topics covered. To address this, BAT could make the following changes:

- Include more detail on how BAT's policies in this area are delivering tangible benefits;
- Highlight the role employees play in implementing the Company's strategy; and
- More radically, BAT could include a stand-alone section on marketing, covering both combustible and NGPs. In conjunction with our comment above, about what BAT regards as a workable regulatory framework, this would clarify how it is preventing young people accessing the full range of tobacco and nicotine products.

Stakeholder Panel
March 2017

OUR RESPONSE TO THE PANEL'S STATEMENT

The Panel's insights and constructive feedback are invaluable in helping to ensure our reporting meets stakeholder expectations and identifying areas for improvement.

We would like to thank the Panel members for their time and thorough review of our Report and performance. We were pleased to have the opportunity to apply many of their comments prior to publication of our [Report](#), including providing greater clarity on our R&D investment into Next Generation Products (NGPs) and harm reduction, as well as more detail on what we regard as an appropriate regulatory framework for NGPs.

We are committed to acting upon their additional suggestions in future reports:

Process, materiality and performance

We believe the process for the first year of the Panel's review worked well and found the open discussion of the issues and challenges incredibly beneficial. Such was the value of the Panel's input, we have invited them to engage at an earlier stage of the reporting process in the future.

In 2017, we plan to undertake a new, comprehensive materiality assessment, including detailed stakeholder input. We will work to include more detail and clarity on this process in our next Report.

While our performance data is comprehensively covered online on this website, we recognise, and are committed to including, the Panel's suggestion for more data transparency in the main Report in the future.

Harm Reduction

We appreciate the Panel's suggestions for more detail on our extensive stakeholder engagement for this important area, as well as further clarity on our research and regulatory views.

In February 2017, we published a [Harm Reduction Focus Report](#), which we hope will help address some of the comments by providing more in-depth information on these complex issues.

Sustainable Agriculture and Farmer Livelihoods (SAFL)

We are committed to include key indicators for the Sustainable Tobacco Programme (STP) and SAFL in future reports. We also plan to undertake a detailed mapping exercise of our new NGP supply chain in 2017 and will openly report on the results of this.

In addition, we plan to publish a new Focus Report on Sustainable Agriculture and Farmer Livelihoods later in 2017, which will include more detail on the programmes and our supply chain risks and opportunities.

Corporate Behaviour

We note the Panel's concern that this section lacked focus due to the variety of topics covered and the need for more clarity on marketing and youth access prevention. As detailed in [Responsible marketing](#), we are currently working on the development of new Youth Access Prevention Principles for all our product categories – from conventional cigarettes to NGPs – which we will cover in our next Report.

The Panel's suggestions for potential changes will form valuable inputs into our 2017 materiality assessment, as well as our planning for next year's Report.

**British American Tobacco
March 2017**

ERNST & YOUNG'S INDEPENDENT STATEMENT

Independent Assurance report to British American Tobacco Management

We have performed a limited assurance engagement on selected Environment, Health & Safety (“EHS”) data presented in the British American Tobacco p.l.c. (“BAT”) [2016 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 EHS priorities and performance during the reporting period.
2. **Reviewed selected documents** relating to EHS 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 on the [reporting scope](#) page of the online Performance Centre.
4. **Reviewed the presentation of the EHS data in the Report**, including descriptions of performance, limitations and assumptions.

Our review of the EHS data was limited to the following metrics for the 2016 reporting period:

Metric	Units
Total scope 1, 2 & 3 greenhouse gas emissions	Tonnes CO ₂ e Tonnes CO ₂ e per million cigarettes equivalent (MCOE)
Total energy consumption	Gigajoules per MCOE
Total water consumption	Cubic metres per MCOE
Waste to landfill	Tonnes per MCOE
Waste recycled	Tonnes per MCOE Percentage of total waste recycled
Fatalities to employees, contractors and members of public	Number of incidents
Serious injuries to employees and contractors	Number of incidents
Lost Work Cases (LWCs) to employees resulting in at least one shift off work Lost Workday Case Incident Rate (LWCIR)	Number of incidents Number of incidents per 200,000 hours worked

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 2016 performance only. We only reviewed data and descriptions of performance in relation to the metrics identified in the summary of work performed above.

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

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 outlined below:

Completeness and accuracy of performance information

How complete and accurate is the EHS 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 topics above.
- Nothing has come to our attention that causes us to believe that the data relating to the above topics has not been collated properly at Group-level.
- We are not aware of any errors that would materially affect the data 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 2016.

We have implemented measures to ensure that we follow the applicable independence and professional competence rules as articulated by the IFAC Code of Ethics for Professional Accountants and ISQC1². Our assurance team has been drawn from our UK Climate Change and Sustainability Services team, which undertakes engagements like this with a number of significant UK and international businesses.

Ernst & Young LLP

13th March 2017



1. The 2016 Sustainability Report includes the print [Sustainability Report](#), as well as selected data contained within the [online 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).