

Read the online Sustainability Report at  
[www.bat.com/sustainability](http://www.bat.com/sustainability)

## Sustainability Summary 2011



CHIEF EXECUTIVE'S  
VIEWPOINT

Much of what we do today is about ensuring we have a sustainable business for the future. That is why this Report focuses on what that future could look like and how we are preparing for it.

*Nicandro Durante, Chief Executive*

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Sustainable business practice is at the heart of the Group's strategy. By addressing our social, environmental and economic impacts, we build value for the business, for our shareholders and for other stakeholders.



## In the full Report online

The full version of our 2011 Sustainability Report contains further information, including:

### ■ Stakeholder engagement

Our stakeholder engagement includes independently assured and facilitated dialogue sessions.

### ■ Materiality

Our materiality test defines the issues of greatest significance to our business and our stakeholders.

### ■ CSR governance

Effective governance is critical to ensuring we manage our sustainability issues, and our wider business, responsibly.



### ■ Our economic impact

As one of the world's most international businesses, our economic contribution stretches from a local to a global level.

### ■ Our regions and markets

Sustainability performance for our regions and for nine of our largest markets.

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

## You ask us

Contact us with your questions about our business and feedback on this Report.

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

We will donate £10 to the Global Trees Campaign for each of the first 200 responses to the feedback survey.

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**Statements and assurance** This Report contains forward-looking statements that are subject to risk factors associated with, among other things, the economic and business circumstances occurring from time to time in the countries 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 which could cause actual results to differ materially from those currently anticipated. Ernst & Young LLP has been engaged by British American Tobacco to provide external assurance of this Report. Ernst & Young LLP reviewed all commitments and statements of progress, data, GRI information, text and, specifically, performance-related information for the period 1 January 2011 to 31 December 2011.

# Sustainability is at the heart of our strategy

## Chief Executive's overview

### Our Group vision and strategy

Our Group vision is to achieve leadership of the global tobacco industry, not just in volume and value, but also in the quality of our business. To be industry leaders we must continue to demonstrate that we are a responsible tobacco Group with outstanding people, brands and superior products.



#### Growth

Our strategy to deliver our vision begins with growth and our aim to increase our global market share, with a focus on our Global Drive Brands and our other international brands.

#### Productivity

We target continuous improvements in our cost base that will provide resources to invest in our brands, helping us to grow market share and achieve higher returns for shareholders.

#### Winning organisation

By being a winning organisation we can ensure that we attract, develop and retain the best people we need to deliver our strategy for growth.

#### Responsibility

Our companies and people are required to act responsibly at all times and we seek to reduce the harm caused by our products and our environmental footprint.

**£46,123m**

2011 gross turnover

Brands sold in more than

**180 markets**



### Q What is your vision for a sustainable tobacco company?

**A** Many people ask me whether the cigarette business can be sustainable in the long term and whether people will keep on smoking? The fact is that despite an increase in smoking restrictions and the introduction of further tobacco control measures, many people continue to smoke and use tobacco products and will probably do so for the foreseeable future. So in 20 years' time, I see the bulk of our business still being in conventional cigarettes.

Naturally, I want us to be able to help to reduce the impact of tobacco use on public health. This is something that should be of benefit to society as well as our shareholders since it will contribute to long-term business sustainability. However, the challenge should not be underestimated: policy makers are not all in agreement when it comes to how to approach tobacco related harm reduction, the science is complex and to resolve these issues requires a collaborative approach between the private and public sectors.

Because science is such an important topic for us I decided recently to create a new Management Board position of Group Scientific Director. This helps ensure that science is at the heart of our strategic planning and decision making.

So, as well as conventional cigarettes, we are driving our business to be able to offer consumers a choice of reduced toxicant cigarettes, as well as new categories such as low-toxicant smokeless tobacco and regulatory approved nicotine products. I like to describe this approach as the 'responsible use of tobacco' but I recognise that this is a contentious concept and that for good reasons stakeholders hold widely different views. Our commitment to this is the reason we have recently established a new company, Nicovenures.

### Q What is Nicovenures and where does it fit with your sustainability agenda?

**A** Nicovenures is a new stand-alone company in the Group that is pioneering our development of regulatory approved nicotine products. We believe there is a potential market for products that will offer smokers much of the experience they expect to get from a cigarette but without the real and serious health risks of smoking. This requires a different approach and we hope that Nicovenures will make significant progress in this area and make a meaningful contribution to tobacco harm reduction.

## Q What other sustainability issues are important to British American Tobacco?

**A** In the marketplace it's essential we continue to market our products in a responsible way to informed adult consumers and work with retailers to prevent youth access to tobacco products. It's also important to work with governments and enforcement authorities to combat the black market in tobacco, which has become our fourth largest competitor.

We also have a considerable impact upon the environment in both our direct operations and in tobacco growing areas and for several years we have put in place various initiatives to help mitigate our impact on biodiversity, to limit and reduce deforestation in our leaf growing operations and to improve efficiencies relating to energy and water use.

In the supply chain it's important to ensure that the rights of tobacco farmers are respected and that the industry and stakeholders work together to tackle child labour. Initiatives such as our Social Responsibility in Tobacco Production programme and participation in the Eliminating Child Labour in Tobacco Growing Foundation help us play our part.

Sustainable agriculture is important to us too – tobacco farming makes an important contribution to rural development by improving both landscape and livelihoods and through providing agronomy support to our contracted farmers we are able to help share best practice.

## Q Why is your business facing increased regulation?

**A** Regulation has been increasing in many consumer goods industries but especially in tobacco due to the public health impact of the product. Many people think we are opposed to regulation and it may come as a surprise that we actually support evidence based regulation that achieves the objective of reducing the impact of tobacco use on public health.

We are, however, very concerned about regulation that isn't based on sound evidence, fails to achieve public health goals and exacerbates the illegal trade in tobacco products. For example, steady, gradual

increases in tobacco taxation can help reduce smoking rates and increase government revenues. However, in many cases we see large and sudden increases in tax that destabilise markets. Consumers often down-trade to widely available illegal products in such circumstances, depriving the Government of revenue and undermining public health policy while damaging the legitimate business interests of retailers.

We've often been accused of being underhand when it comes to lobbying and engagement but I can tell you that our engagement and advocacy on key regulatory issues is very open and transparent – you can read our views on these issues in this Report.

## Q What else is British American Tobacco doing to prepare for the future?

**A** Almost everything we do is preparing us for the future. That is why this Report focuses on what the future could look like and how we are preparing for it. For example, over the past year, we have been mapping climate change risks to help us identify where in the world things such as water availability and energy security could impact our operations and tobacco growing in the future. We're also looking at how we can make sure we get the very best people into the business. Employee expectations of a satisfying career are changing and we know we need to understand and meet those expectations.

So can a business like ours be sustainable? By taking the lead, setting out a clear agenda for the future and doing things right, the answer is yes.

**Nicandro Durante**

Nicandro Durante, Chief Executive  
March 2012



## Viewpoint from Karen de Segundo, Chairman of the Board CSR Committee

**“** The job of the Board CSR Committee is to make sure that the Group's sustainability programme is on track. With the Committee being made up entirely of independent Non-Executive Directors like myself, I think we are able to have a more impartial view, bringing in different perspectives and experience and providing challenge to the business.

Sustainability often requires looking at the business from a longer term perspective. Take tobacco harm reduction: policy makers do not yet agree how to approach it and the science is complicated, but that doesn't mean that the business isn't committed to it. I was very encouraged by Nicandro creating the new Management Board position of Group Scientific Director this year.

In 2011, as well as looking at areas such as adherence to the Group's International Marketing Standards and health and safety performance, we've also been focusing on sustainable agriculture in detail and the positive contribution that the business can make in this area. For me this is an exciting topic, as well as being particularly relevant given the increasing pressures on land and resources that the world is facing.

# Our vision for sustainability

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



*Tobacco leaf.*



*Scientists analysing tobacco smoke constituents.*



*Cigarettes produced in our factory in Mexico.*

**Our vision of a sustainable tobacco business is one that manages the impact of its operations and products responsibly today and prepares for a future in which it continues to create value for shareholders as well as being in the best interest of other stakeholders.**

The tobacco industry has not met the expectations of its stakeholders in the past. However, we are working hard to align our business strategy with the expectations of society.

Our sustainability agenda comprises five goals across our key impact areas. We will:

- Strive to bring commercially viable, consumer acceptable reduced-risk products to market;
- Take a lead in upholding high standards of corporate conduct within our marketplace;
- Actively address the impact of our business on the natural environment;
- Work for positive social, environmental and economic impacts in our supply chain; and
- Work to ensure we have the right people and culture to meet our goals.

Here we describe some of the ways we are trying to meet our sustainability goals.

## **Working towards reducing the risks of our products**

Despite the known health risks and increasing regulation, many people still choose to smoke. The World Health Organisation estimates that, as the global population increases, there could be as many as two billion smokers worldwide by 2050.

We believe that regulators and the public health community should involve the tobacco industry and recognise the contribution we can make towards developing potential solutions to these health issues. For example, we are already working to develop reduced toxicant cigarettes and are committed to developing new categories such as low-toxicant smokeless tobacco and regulatory approved nicotine products. This is challenging though, as not only is the science complex but, to be successful, these products need to meet consumers' expectations and provide an acceptable alternative to existing tobacco products. We also need a regulatory framework to support their development and sale.



### **EMPLOYEE VIEWPOINT**

**For me, acting responsibly means facing up to our most important impacts including the health risks associated with tobacco products.**

*Ad Schenk, Managing Director,  
British American Tobacco Germany*

Read more about our stakeholder engagement online in the full Report at

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



Despite these challenges, we are already making good progress in developing the science and engaging with regulators and public health professionals. We are committed to continuing our work with others so that we can move forward without delay.

### Supporting regulation based on sound evidence

We are not against tobacco control regulation. We support regulation based on robust evidence that can help to reduce the impact of tobacco use on public health, embraces an open-minded approach to harm reduction and takes into account the preferences of consumers. Some regulatory proposals, such as plain packaging, are not based on clear evidence that they will meet their stated objectives. In some cases, they are also likely to have unintended consequences, such as increasing the levels of counterfeit and smuggled tobacco products and damaging the livelihoods of tobacco farmers and legitimate retailers.

We are keen to contribute evidence to the policy debate about regulation. In 2011, we commissioned two independent third party reports: one was produced by Deloitte and examines the intended and unintended impact of tobacco packaging regulation; the other, by Development Delivery International, focuses on the social, environmental and economic impacts of tobacco growing.

### Marketing our products responsibly

Like any business, we want to grow our market share in a responsible way. For example, our International Marketing Standards state that our marketing should not be aimed at the underage and not be misleading about the health risks of tobacco products. Nor do we conduct marketing activities aimed at increasing the number of people who smoke or how much they smoke. Instead, we aim to grow our market share by encouraging existing adult smokers to choose our products over our competitors.

### Promoting sustainable agriculture

Agriculture often comes with complex, interrelated social, environmental and economic challenges. Tobacco growing is no exception and individual companies or

farmers cannot tackle these challenges alone. We support a multi-stakeholder approach to sustainable agriculture that will help to protect our tobacco leaf supply chain as well as create successful farming communities.

We have direct relationships with over 140,000 tobacco farmers in 19 countries to whom we provide agronomy support. This support includes providing quality seed as well as guidance on crop management, soil and water protection and environmental best practice. The guidance is not limited to tobacco farming, it covers all areas of agriculture.

### Valuing our people

Of course, we cannot be successful in any of these areas unless we have great people working for us. So we are focusing on creating competitive advantage from our people and building a stretching and supportive culture that attracts, engages and retains diverse and talented people.

### Working with others

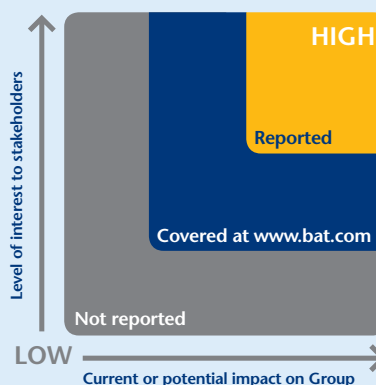
To have a successful business that meets the expectations of society we need the support of the scientific and public health communities, as well as regulators and local stakeholders. So we engage with our stakeholders to build consensus on the best ways forward. This takes many forms and involves listening as well as talking. For example, we hold stakeholder dialogue sessions in which we jointly develop our sustainability plans. We have set up a Supply Chain Sustainability Stakeholder Panel to guide and challenge us on these issues. And our External Scientific Panel gives us important input to help inform our research programme.

### A sustainable future

We hope that this Report gives our stakeholders a transparent account of how we are working towards better meeting their expectations and how we are working to build a sustainable business for the future. We are, as always, open to talking with our stakeholders, in particular to those who can help us tackle some of our key challenges. We're also keen to hear what you think of this Report, our goals and our progress. You can email us at [sustainability@bat.com](mailto:sustainability@bat.com) or you can complete our feedback survey at [www.bat.com/sustainability/feedback](http://www.bat.com/sustainability/feedback).

## Materiality

Our sustainability agenda focuses on five impact areas: harm reduction, marketplace, environment, supply chain and people and culture and was developed based on feedback from stakeholders. Within each are priority topics that are identified using a materiality matrix.



### Reported

Our Report covers the topics of greatest significance to our business and stakeholders. These are introduced in this Summary and reported fully online.

#### Go to our online Report for:

- Engagement and governance
- Performance charts
- Global Reporting Initiative indicators
- Sustainability performance of our regions and our largest markets

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

Topics of high interest to some stakeholders but partial impact on the business, or vice versa, are elsewhere on our website.

### Not reported

We do not cover topics that are of low interest to stakeholders. Nor do we cover topics that do not have a significant current or potential impact on our business.

Read more about materiality in the full Report online at

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

# Harm reduction

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

## What the future might look like

We have a responsibility to seek to reduce the health risks of our products. In the future, we expect to be able to offer adult tobacco consumers reduced toxicant cigarettes and new categories such as low-toxicant smokeless tobacco and regulatory approved nicotine products.

Demonstrating that new products are less risky poses many scientific and regulatory challenges. To tackle these, we expect to see many more research collaborations being established involving the tobacco industry, academia and tobacco research centres. This will hopefully lead to the development of a regulatory assessment framework for potentially reduced-risk products that is underpinned by sound science.

### Viewpoint from David O'Reilly, Group Scientific Director

**“** Of course, the only way to avoid the health risks associated with tobacco products is not to use them. However, with the global population increasing, the World Health Organisation has estimated that the number of smokers worldwide is going to increase.

More and more, it seems clear to me that, to reduce the health impacts from smoking, prevention and quitting initiatives alone will not be enough. We need a broader approach – one that accepts that many adults are going to continue to use tobacco and nicotine products. That means developing reduced-risk products.

In order to achieve this, first we need to collaborate with others to determine the appropriate scientific and regulatory frameworks for the development and scientific assessment of these products and monitoring of their use. In my newly created Management Board position as Group Scientific Director, I am committed to seeing that our product strategy continues to be based on robust scientific evidence.



*Analysing tobacco smoke at our research and development centre.*

## How we're preparing for the future

- Identifying which smoke toxicants pose the greatest health risks and developing new technologies to reduce these.
- Developing a framework of scientific tests to evaluate the likely health impacts of potentially reduced-risk products.
- Our stand-alone company, Nicovenures, is exploring the development and commercialisation of regulatory approved nicotine products.
- Engaging with regulators, scientists and the public health community to develop the scientific and regulatory frameworks needed to deliver reduced-risk products.



Our harm reduction commitment:

## We will strive to bring commercially viable, consumer acceptable reduced-risk products to market.

See our 2012 goals on page 33.

The greatest negative impact of our business is the real and serious health risks of tobacco products. So developing reduced-risk products for those adults who use tobacco products is a priority. There are many challenges in this: the science is complex; collaboration is needed between scientists, tobacco companies and regulators; products need to meet consumer expectations; and we need a regulatory framework that supports tobacco harm reduction. We are committed to meeting these challenges.

### Our approach

#### What is tobacco harm reduction?

The US Institute of Medicine defines tobacco harm reduction as “minimising harms and decreasing total morbidity and mortality, without completely eliminating tobacco and nicotine use”. This recognises a well-established public health policy concept that seeks pragmatic ways to minimise the impact of an activity or behaviour that carries inherent risks. Well known examples of this are the use of seat belts in cars and crash helmets for motorcyclists.

In terms of tobacco this could mean that, in addition to a continued emphasis on prevention and cessation efforts, adult tobacco consumers should have the option of choosing less risky products instead of existing more risky products, such as conventional cigarettes. However, few governments currently support this view.

#### Our role in tobacco harm reduction

As a manufacturer of tobacco products, we have a responsibility to pursue ways in which we might reduce the health risks of our products. Although nicotine is not completely harmless, contrary to what many people believe it is not associated with most tobacco-related diseases. There is widespread agreement in the scientific community that it is the toxicants in the tobacco and tobacco

smoke that are responsible for the majority of these. Indeed in a Public Assessment Report, the UK Government’s Medicines and Healthcare products Regulatory Agency (MHRA) states that: “Nicotine is strongly addictive and stopping smoking results in cravings and withdrawal effects, but it is the tobacco smoke that produces the diseases and premature deaths associated with smoking.”<sup>1</sup>

So, on a ‘product risk continuum’, where products can be lined up in a decreasing order of risk, conventional cigarettes can be considered the riskiest; some forms of low-toxicant smokeless tobacco products, while not risk free, much less risky; and regulatory approved nicotine products almost risk free.

Our previous efforts at test marketing lower-risk products have given us important insights into tobacco consumers’ varied product preferences and different needs for potentially reduced-risk products. We believe that a ‘one product fits all’ approach cannot achieve tobacco harm reduction, so our approach is to make available a range of reduced-risk tobacco and nicotine products for adult consumers.

Alongside this, we are engaging with the scientific and public health community to try to build more widespread support for this broader approach to tobacco harm reduction.

<sup>1</sup> MHRA Public Assessment Report. ‘The use of nicotine replacement therapy to reduce harm in smokers’, February 2010.



### Our material issues

#### Reported

- Reduced-risk products
- Engagement

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

- Information on the health risks of smoking
- Second-hand smoke

Read more on page 5 and online at [www.bat.com/sustainability/materiality](http://www.bat.com/sustainability/materiality)



#### EXTERNAL VIEWPOINT

If lots of people stop smoking but switch to medicinal nicotine products, it would be no more harmful than the existing use of caffeine... We need to liberalise the medicinal market and introduce a decent cigarette substitute. We may end up with millions of people addicted to nicotine inhalers, but so what? Millions are addicted to caffeine.

*Professor John Britton, Chair of the Tobacco Advisory Group of the Royal College of Physicians (RCP). Speaking at the launch of the Tobacco Advisory Group of the RCP’s report ‘Harm reduction in nicotine addiction: helping people who can’t quit’, October 2007*

### You ask us

**Can scientific research paid for by tobacco companies really be impartial?**

Read our responses to your questions

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

Tell us what you think about our approach to harm reduction.

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

We will donate £10 to the Global Trees Campaign for each of the first 200 responses to the feedback survey.

## Developing reduced-risk products

We are working on three broad product categories based on the way they are designed, manufactured and consumed: reduced toxicant cigarettes; low-toxicant smokeless tobacco products; and regulatory approved nicotine products.

### Reduced toxicant cigarettes

It is well established that people who smoke more cigarettes a day and over a longer period of time have an increased risk of developing a smoking-related disease. So we are researching whether cigarettes with lower levels of toxicants in the tobacco smoke might lower health risks for those adults who don't want to quit. Our approach is to:

- Determine which toxicants in smoke are significant for disease and develop tools to measure smokers' exposure to them;
- Develop products that may substantially reduce exposure to these significant toxicants and, through clinical testing, demonstrate that they do; and
- Assess whether this reduction in exposure can reasonably be expected to reduce the risk of one or more specific diseases.

In our online Report, you can read about the research work we are undertaking on areas including developing laboratory models of disease; evaluating smoke toxicants; developing new tobacco plant lines with lower levels of certain toxicants; and increasing our understanding of how and where smoke particles are deposited in the respiratory system.

In our last Sustainability Report, we discussed our clinical study, which showed that smokers who switched to modified prototype cigarettes had reduced exposure to certain smoke

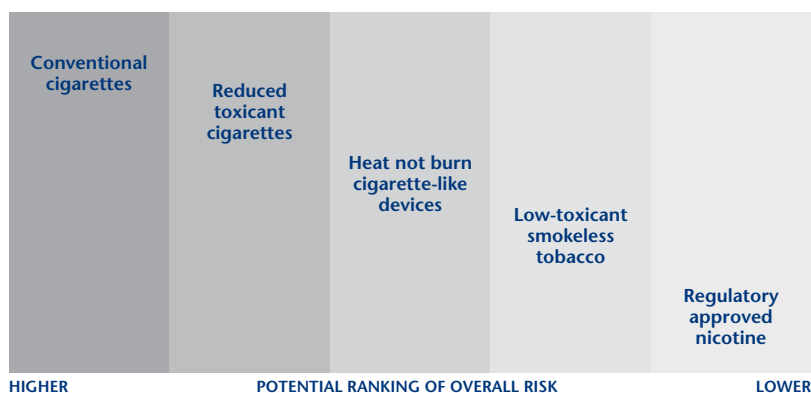
toxicants compared to people smoking conventional cigarettes. This short-term clinical study is a good first step, but we need stronger scientific evidence to establish reduced risk. Our next step is a longer clinical study starting in 2012. This will measure biomarkers of biological effect in body fluids that could indicate biological changes related to disease processes. Although these changes will not tell us whether the modified prototype cigarettes actually present lower overall health risks, they provide evidence we need to see whether we are on the right track.

The cigarette technologies being tested in this study use novel processes that would need to be scaled up to be viable for large-scale commercial production. This is an important area of our current research and development effort.

Recent publications from the US Food and Drug Administration's Tobacco Products Scientific Advisory Committee and the World Health Organisation's scientific advisory group suggest that future regulation of combustible tobacco products could be based on the toxicant levels emitted from them. The harm reduction potential of such regulation is not clearly understood. We believe that our research into reduced toxicant cigarettes will prepare us for such a regulatory future and allow us to contribute to the evidence base for the development of regulation for this category.

### Product risk continuum – our view

Tobacco and nicotine products can be considered to sit on a continuum of risk.



### Regulatory approved nicotine products

The UK Government's recently updated public health strategy for England considers adults to be responsible for their choices and so there may be many smokers who may not want to quit smoking. In 2010, the Medicines and Healthcare products Regulatory Agency approved a 'harm reduction' element for some regulatory approved nicotine products for their use as either a complete or partial substitute for cigarette smoking. We believe that the products currently on the market are not meeting the needs of these smokers.

Nicoventures was recently established to focus exclusively on the development and commercialisation of regulatory approved nicotine products. It is a stand-alone company within the British American Tobacco Group and is managed separately from our tobacco business.

Nicoventures is exploring the development of nicotine products that, subject to regulatory approval, will provide smokers with a safer alternative to cigarettes that they actually want to use. If it is successful this will also meet the objectives of some leading public health professionals and make commercial sense to us and to our shareholders. It forms part of our long-term business sustainability agenda.

**nicoventures**

[www.nicoventures.co.uk](http://www.nicoventures.co.uk)

**£166m R&D**

(research and development) spend

**Third year**

with our External Scientific Panel, a multidisciplinary team of leading experts who help inform our scientific research programme.

## Smokeless tobacco products

Independent evidence shows that certain low-toxicant smokeless tobacco products, such as Swedish-style snus, present substantially lower overall health risks than cigarette smoking. We tried to bring snus to new markets, but had a number of setbacks: it is banned from sale in some parts of the world; in countries where we test marketed it, the regulatory environment did not allow the communication of the relative risks

of snus compared to cigarettes to adult smokers; and smokers often did not like using it in preference to cigarettes.

We believe that smokeless tobacco products could still play an important role in a harm reduction approach. So we are looking at developing other innovative low-toxicant smokeless tobacco products that we hope will appeal to tobacco consumers and be approved by regulators.

## Engagement

Our work to develop reduced-risk products will be pointless if we cannot successfully bring them to market. So we are engaging with the scientific community and regulators to build support for tobacco harm reduction as a pragmatic public health policy.

We are trying to build support for a broader approach to tobacco harm reduction by making presentations at scientific conferences, publishing our research in peer-reviewed journals and engaging with the scientific and public health communities.

At the heart of our approach is the belief that we must always be transparent about our science, making it publicly available for review by other experts and scientists. We publish details of our scientific research on [www.bat-science.com](http://www.bat-science.com) and contribute to debates around tobacco harm reduction through conferences and journals.

In 2011, we carried out research into views on tobacco harm reduction among healthcare professionals in the UK, Sweden and Norway. We asked a representative sample what they thought about tobacco use, approaches to quitting and smoking reduction, their understanding of the risks of nicotine and the key factors associated with the health risks of smoking.

Most advocated a 'complete cessation' approach to tobacco use, rather than broader harm reduction strategies. Some held inaccurate views on what it is about cigarette smoking that poses serious risks to health. For example, many wrongly believed nicotine to be as harmful as tobacco smoke, when in fact it is toxicants in the tobacco and tobacco smoke that are responsible for most smoking-related diseases. Given the expertise of those surveyed, this general lack of understanding was surprising.

Another surprising result was that a number of those interviewed in Sweden were unaware of the impact of snus use on public health. A substantial number of Swedish men

switching from cigarette smoking to snus use coincided with a lower rate of male lung cancer in the country than any comparable developed nation. Oral cancer rates also decreased and cardiovascular health significantly improved.

This research has highlighted the need to raise awareness about the different risk profiles of cigarettes, smokeless tobacco products and nicotine products.

## Regulation

We believe tobacco product regulation should be underpinned by sound scientific evidence and developed through transparent and accountable consultation with all relevant stakeholders. Our extensive experience in tobacco science means that we could make a valuable contribution to the development of tobacco harm reduction policy. We have encountered resistance to this in the past, but are beginning to see more opportunities opening up for us to contribute, as well as some governments starting to take broader approaches to tobacco harm reduction.

In 2011, our Chief Scientific Officer sat on the expert panel of a workshop held by the US Food and Drug Administration (FDA) on developing scientific standards for the evaluation of modified risk tobacco products. The FDA's approach is inclusive and evidence-based, something we strongly support.

The UK National Institute for Health and Clinical Excellence is developing guidance on harm reduction approaches to smoking. It sought contributions through a consultation process involving a range of stakeholders from across society, including the tobacco industry. We welcomed the opportunity to contribute and responded with our views.



### EXTERNAL VIEWPOINT

**Applying harm reduction principles to public health policies on tobacco/nicotine is more than simply a rational and humane policy... It has the potential to lead to one of the greatest public health breakthroughs in human history by fundamentally changing the forecast of a billion cigarette-caused deaths this century.**

*Swenar, D., Alcades, P., Ducker, E. (2007), 'Tobacco harm reduction: How rational public health policy could transform a pandemic'. International Journal of Drug Policy, 18 (2), 70-74*



*Scientist analysing tobacco smoke constituents.*



### ASSURANCE COMMENT FROM ERNST & YOUNG LLP

**There are many challenges associated with bringing potentially reduced-risk products to market, many of which are discussed in this Report. We have seen evidence of engagement with the regulatory and scientific communities and some public health bodies on the topic of harm reduction. Despite this engagement, public health policies remain targeted at prevention and cessation efforts, illustrating the continued importance of stakeholder engagement if further support for harm reduction is to be progressed.**





A retailer in Holland.

## What the future might hold

We expect to see more tobacco control regulation being introduced around the world. However, if the current trend for some regulation continues, such as excessive excise increases, plain packaging or ingredients bans, this may lead to a dramatic rise in the levels of illegal tobacco products. This could mean a future dominated by a black market that is untaxed and unregulated instead of a legitimate regulated industry generating significant revenue for governments.

However, we also expect to see more legislation to address this rising illegal tobacco trade, which we hope will help drive more international cooperation and stronger enforcement. This is a positive step but will only be effective if it is rigorously enforced both nationally and internationally and covers all players in the market.

## How we're preparing for the future

- Sharing objective evidence to help contribute to the policy debate on regulation, as well as supporting regulation for the development and sale of reduced-risk products.
- Updating and strengthening adherence to our International Marketing Standards.
- Collaborating with governments and enforcement authorities to help address the black market in tobacco and working with our competitors to develop new technologies to stop the unauthorised sale, re-sale or smuggling of tobacco products.

### Viewpoint from Jean-Marc Lévy, Group Marketing Director

“ One of the big challenges I face in my role is this: how do we responsibly grow our business in an increasingly regulated environment?

*We agree that tobacco products should be regulated – so long as the regulation is based on sound evidence and meets public health goals but doesn't fuel the illegal tobacco trade or damage the livelihoods of retailers or tobacco farmers.*

*We'd like to see regulation that is well thought through. So we're focusing on engaging with stakeholders to share our expertise and contribute objective evidence. And, of course, we continue to act responsibly in all that we do, including the development and marketing of innovative cigarettes for adult consumers.*



Our marketplace commitment:

## We will take a lead in upholding high standards of corporate conduct within our marketplace.

➤ See our 2012 goals on page 33.

We believe that regulation should be shaped in collaboration with all stakeholders, including the tobacco industry. With our industry experience and expertise, we can be part of developing regulatory solutions.

### Tobacco regulation and engagement

Increasingly stringent regulation is being proposed and introduced around the world, mainly driven by the World Health Organisation's Framework Convention on Tobacco Control (FCTC).

New types of regulation we are seeing today, such as ingredients bans, are not based on strong evidence that they are likely to reduce smoking rates. It is often not clear that the regulation will achieve its stated objectives, while in many cases it is likely to have unintended consequences. These include increasing the black market in tobacco or damaging the livelihoods of tobacco farmers and retailers. It is this type of regulation that we do not support.

In 2011, we continued to engage with our stakeholders on regulatory issues at global and local levels. This activity is coordinated centrally as we develop global positions and help our companies improve their abilities to advocate our views. We also worked with independent third parties on developing objective evidence to help inform our positions.

Our engagement position on two key areas in 2011, plain packaging and alternative crops, is discussed below. Our views on ingredients bans, pricing and tax measures and retail display bans are covered in our online Report.

#### Plain packaging

Some governments are considering regulation to restrict the colours, designs and trademarks that can be used on tobacco packaging. In Australia, legislation has been passed requiring all tobacco products to be sold in plain packaging from December 2012.

Australia is likely to be the first country to introduce plain or unbranded packaging legislation but other types of packaging regulation elsewhere have reduced the space on the pack available for brands, for example by increasing the size of health warnings. In 2011, we commissioned a report by Deloitte to examine the intended and unintended impacts of this type of packaging regulation. It revealed that neither increasing the size of health warnings on packs nor introducing graphic images had directly reduced tobacco consumption. The report also recognised that plain packaging could lead to a number of unintended consequences, such as an increase in the black market in tobacco.

Like all brand owners, we believe we are entitled to use our packs to distinguish our products from those of our competitors. By restricting branding, governments risk breaching intellectual property rights and, in most cases, international trade agreements. British American Tobacco Australia always said it wanted to avoid going to court over plain packaging regulation. But the company has been left with little alternative: as a legal company selling a legal product it has a duty to defend its intellectual property on behalf of its shareholders. So we, and other tobacco companies in Australia, are challenging the constitutional validity of the removal of trademarks and other intellectual property without compensation.



### Our material issues

#### Reported

- Tobacco regulation and engagement
- How we market our products
- Fighting the black market in tobacco

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

- Litigation
- Cigarette litter

Read more on page 5 and online at [www.bat.com/sustainability/materiality](http://www.bat.com/sustainability/materiality)



#### STAKEHOLDER VIEWPOINT

**Our analysis did not identify any direct impact of PSA [plain packaging] regulation on consumption.**

*'Tobacco Packaging Regulation: An international assessment of the intended and unintended impacts' by Deloitte, May 2011*



#### Transparent lobbying

We believe that views advocated in policy formation should be communicated transparently. So the views and positions we advocate are reflected on [www.bat.com](http://www.bat.com).

We support best practice principles on the development of regulation, including the EU Communication on Smart Regulation and the guidelines of the Organisation for Economic Cooperation and Development and the UK Better Regulation Executive.

## Alternative crops

The FCTC requires governments who are party to it to promote, as appropriate, economically viable alternative crops for tobacco farmers to grow where their livelihoods are seriously affected as a consequence of local tobacco control programmes. We support this. However, the FCTC working group in this area appears to be going beyond this mandate by seeking to phase farmers out of tobacco growing ahead of any decline in demand. We believe that while the demand for tobacco exists, farmers should have the right to choose whether they grow tobacco or not and that governments should not try to drive farmers out of tobacco growing as this can result in social, economic and other impacts for those farmers and their wider communities.

Any assessment of economically sustainable alternative livelihoods to tobacco cultivation should be evidence-based, look at all the

potential impacts and use a methodology agreed in consultation with impacted growers, key tobacco producing countries, tobacco merchants and manufacturers. We agree that governments should consider the protection of the environment and the health of people engaged in tobacco cultivation in their countries and decide what measures they may wish to introduce. But we believe that independent research should be carried out to assess the environmental and social impact of tobacco growing in comparison with other types of crops. To help contribute to this evidence base, in 2011, we commissioned independent research into the impact of tobacco farming on communities and the environment, which you can read about in the supply chain section on page 21.

## How we market our products

Like any business, we want to grow our market share. But we do this responsibly, not by trying to increase the number of smokers or how much they smoke, but through competitive and innovative product offers to encourage existing adult smokers to choose our products over our competitors.

We apply a consistent, responsible approach to marketing across the Group by requiring our companies to follow our International Marketing Standards (IMS) wherever local law is less stringent. Our IMS state that our companies' marketing should be targeted at adult tobacco consumers and not undermine their understanding of the health risks.

Until now, our companies' adherence to IMS has been monitored through self-assessments and as part of internal company audits. We have now introduced additional IMS-specific on-site audits in selected markets. In 2011, 21 incidents of non-adherence were identified. These included the size and position of health warnings on promotional items; insufficient age verification during promotional activities; and the use of video in a non-age-verified environment. We believe these to be isolated incidents and actions are being taken to address them, but they highlight the need to continually reinforce the Standards and monitor our companies' adherence closely.

The business we took control of in Indonesia in 2010 does not yet adhere to our IMS. We're engaging with other tobacco companies and the Indonesian Government on implementing stricter regulations to ensure a level playing field and hope to reach an industry consensus. You can read more about this in our online Report.

## Youth smoking prevention

We have a global approach to youth smoking prevention (YSP). In countries where there are no laws stopping retailers selling tobacco products to under 18s, we expect our companies to encourage governments to adopt them. Where minimum age laws do exist, our companies are expected to raise retailers' awareness of them. We also require our companies to measure the reach, coverage and, where possible, effectiveness of their YSP activities.

Following the launch of our global approach to YSP, we found that it could not be applied in certain countries that are politically unstable; have regulation prohibiting our preferred YSP activities; or where we operate through a distributor and have no employees in the country to implement the approach. In total, markets representing only 10 per cent of our sales volumes fell into one of these categories. These markets will be reviewed annually to monitor changing situations.

Of the reporting markets that are currently able to implement our YSP approach, 96 per cent stated they were compliant in 2011. The remaining non-compliant markets are expected to achieve adherence by the end of 2012.



## Employment trends in the tobacco sector

In 2011, the International Labour Organisation conducted research into employment trends in the tobacco sector, with a view to inform policy debates on the impacts some regulation may have on employment and the livelihoods of tobacco farmers. We contributed data to this research along with other tobacco companies, governments and social partners in key tobacco growing countries.




ASSURANCE  
COMMENT FROM  
ERNST & YOUNG LLP

In 2011, British American Tobacco carried out internal audits in 16 markets to monitor compliance with the Group's International Marketing Standards (IMS). Although an increase in the number of non-compliance incidents was identified compared to the two previous years, these had varying degrees of severity and only a few raised concerns about control issues. We have seen evidence of work undertaken to develop guidelines that further clarify IMS and British American Tobacco will need to continue to reinforce the Standards across the Group and monitor adherence.

## You ask us

How can you say you support regulation when it must damage your business?

Read our responses to your questions  
 [www.bat.com/sustainability/answers](http://www.bat.com/sustainability/answers)

Tell us what you think about our marketplace approach.

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

We will donate £10 to the Global Trees Campaign for each of the first 200 responses to the feedback survey.





Counterfeit cigarettes being sold on the black market.

## Fighting the black market in tobacco

The black market in tobacco is already a widespread problem, but it is made worse by some misguided regulatory policies and particularly by large and sudden increases in excise tax that destabilise the market. The perpetrators in this criminal trade are underground operators and are often gangs that also traffic drugs, arms and people and may have ties to terrorist organisations. We are hopeful that the FCTC draft Protocol to Eliminate Illicit Trade in Tobacco Products, if effectively enforced, will help to tackle the problem.

### Supply chain security

To help eliminate unauthorised sale, re-sale or smuggling of tobacco products we are working with other international tobacco manufacturers to further secure the supply chain. It is necessary to develop industry-wide security systems to do this.

We have created a proven, automated system for tracking and tracing products as they move through the supply chain. If products are found on the black market, the system can trace them back to their point of departure from the legitimate supply chain. It uses industry standards and meets our obligations under our cooperation agreement with the European Commission, as well as the expected requirements of the FCTC draft Protocol to Eliminate Illicit Trade in Tobacco Products. It has been implemented in Poland and Ukraine and is currently being rolled out elsewhere.

In 2011, we were founding members of the Digital Coding and Tracking Association (DCTA). Working with the DCTA, we advised IBM on a model demonstrating how track and trace systems can be implemented globally based on industry standards.

Governments are interested in the security of the tobacco supply chain, because tobacco products sold illegitimately rob them of excise revenue. In the past, cigarette packs have carried paper tax stamps to verify their

legitimacy but counterfeiters are getting better at copying these. With the DCTA, we are promoting the concept of digital tax verification based on an agreed industry-wide approach. This approach uses digital coding printed directly onto packs, which also helps consumers and authorities validate the product's authenticity. In 2011, we piloted the preferred system at our factory in Mexico. In 2012, we will continue to work with the DCTA to advocate for the introduction of this system in further countries.

### International cooperation

In 2011, we continued to engage with other sectors addressing illegitimate trade through international organisations like the International Chamber of Commerce's Business Action to Stop Counterfeiting and Piracy, the International Tax and Investment Centre and the Anti-Counterfeiting Group.

In 2010, we signed a cooperation agreement with the European Commission and its member states and, in 2011, we reviewed our progress against it. We are meeting all our obligations, including implementing track and trace technology, introducing enhanced 'Know Your Customer' policies and monitoring seizures of our brands. To support the agreement, we will provide US\$200 million over the next 20 years, which can be used to fund areas including training for border staff in new security systems and the acquisition of detection technology.



### Contributing factors to the black market in tobacco

- Large and sudden excise increases, resulting in price disparities between neighbouring countries, which encourage smuggling across borders.
- Weak border controls and ineffective sanctions.
- Packaging regulation that makes counterfeiting easier or increases demand for smuggled branded goods.



### Illegal tobacco

It is estimated that up to 12 per cent of the global tobacco trade is illegal.

**Counterfeit or fake products** are unauthorised copies of branded products that have been manufactured without the knowledge or permission of the trademark owner and using cheap unregulated materials.

**Local tax evaded products** are manufactured and sold in the same country, but are not declared to the authorities, so excise tax is not paid. These products are manufactured in either legitimate or illegal factories.

**Smuggled products** (either genuine or counterfeit) are moved from one country to another without payment of taxes or duties, or in breach of laws prohibiting their import or export.



Biodiversity nursery in Uganda.

## What the future might hold


We expect the effects of climate change to be felt more strongly in the coming years. Together with the growing global population and economic development, this will probably result in disruption to the water cycle, loss of biodiversity, decreasing soil fertility and many other environmental changes. We are also likely to see more legislation and other initiatives to manage climate change.

For British American Tobacco, these changes to the environment could make it harder for us to source tobacco and make and distribute our products, as well as affecting the communities and landscapes in which we operate. So we are increasingly focused on minimising the effect we have on climate change and preparing our business for the risks ahead.

## How we're preparing for the future

- Using risk assessments and stakeholder dialogue to shape our response to climate change.
- Developing strategies to reduce our impacts, focusing on water, energy and biodiversity.
- Using biodiversity risk and opportunity assessments to inform our approach to sustainable agriculture.
- Working with external stakeholders on areas of common interest, such as through our Biodiversity Partnership.

### Viewpoint from Luis Barros, Head of Operations for Eastern Europe, Middle East and Africa

 For me, working in a region where much of our manufacturing and leaf growing is based, often in locations where we also see resource use pressures, good environmental management is essential. Reducing our impacts such as energy use and water consumption has always been important but our longer term risk planning, particularly around water, will be crucial to the way we manage our operations in the future.



*This is not only the right thing to do, but also makes sound business sense given how much we depend on natural resources for our products. Securing access to these resources, as well as being prepared for future changes, is key to ensuring the sustainability of our business in the region.*

Our environment commitment:

## We will actively address the impact of our business on the natural environment.

See our 2012 goals on page 33.

We need to address both our immediate environmental impacts and the likely environmental pressures on the business in the future. This involves risk assessments, performance management and investment in efficient technologies.

Environmental problems cannot be solved by one company acting alone. They also need flexibility – what works in one part of the world might not in another.

### Environmental management

To manage our environmental impacts we work within our supply chain but to be truly effective we also need to work more with local communities and in collaboration with other international organisations.

#### Reducing our impacts

We have had a comprehensive Environmental, Health & Safety (EHS) management system for many years. We monitor and reduce our direct environmental impacts by making our operations more efficient. We also address our indirect impacts by choosing suppliers with strong environmental credentials and encouraging our existing suppliers to improve their environmental performance.

In 2011, we performed well against our key environmental measures for energy, carbon dioxide equivalent (CO<sub>2</sub>e) emissions, water and waste, primarily due to efficiency improvements alongside an increase in production volumes. This increase in volumes resulted from the recent inclusion of data from our business in Indonesia. In absolute terms, energy increased by 1.9 per cent, with water use and waste to landfill also increasing. You can read more about this in our online Report.

Having met our 2012 targets for energy, water and waste ahead of schedule we had intended to publish new targets in this Report, however, this has been delayed to allow time

to review our approach and seek advice on the most appropriate measures to help ensure we continue to improve our performance. During 2011, we developed CO<sub>2</sub>e and energy reduction plans for our largest manufacturing sites; began a review of the scope of reporting for energy and CO<sub>2</sub>e; worked to strengthen our water strategy; and integrated data from our 2010 acquisition in Indonesia. We are committed to achieving further reductions in our energy and water use and waste sent to landfill and to meeting our long-term CO<sub>2</sub>e targets. Given the importance of this, we believe it is prudent to spend more time on the development of new Group targets, so will instead announce them in our 2012 Report.

When it comes to reducing our environmental impacts within our direct operations, our priority is to minimise energy consumption. We aim to do this by carefully assessing and planning our energy needs to maximise efficiency; by investing in energy-efficient equipment; by employee engagement; and by encouraging our suppliers to reduce their energy use.



### Our material issues

#### Reported

- Environmental management
- Biodiversity

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

- Genetically modified tobacco
- Soil conservation and improvement

Read more on page 5 and online at [www.bat.com/sustainability/materiality](http://www.bat.com/sustainability/materiality)



### Our environmental targets

To assess our environmental efficiency, we set targets relative to the volume of cigarettes we produce. Each of the targets below is calculated per million cigarettes equivalent.

From our 2000 baseline of 1.38 tonnes:

- Reduce CO<sub>2</sub>e emissions by 50 per cent by 2030 and 80 per cent by 2050. (Our CO<sub>2</sub>e emissions include other greenhouse gases, such as methane.)

From our 2007 baselines:

- Reduce direct energy use by 6.7 per cent by 2012.
- Reduce direct water use by 13.4 per cent by 2012.
- Reduce waste to landfill by 12 per cent by 2012 and recycle at least 85 per cent of our waste each year.



### STAKEHOLDER VIEWPOINT

**There is no magic bullet – it's about understanding what works best in a particular location.**

*Participant in dialogue on renewable energy and low-carbon options*



That said, our long-term ambitions are demanding and to meet them, we must also look at renewable and low-carbon energy sources. This is particularly the case in our manufacturing and logistics operations where our direct energy use is highest. In 2011, we carried out a feasibility review of renewable energy. A number of our sites have followed up with their own investigations. For example, a few of our factories use biomass or tobacco dust as a fuel to provide heat and to reduce waste to landfill.

Water is an important resource for us, especially in manufacturing and tobacco growing. For many years, we have been measuring water use in our operations and working to reduce it. Local initiatives have contributed to us meeting our Group targets, such as in some locations, where water resources are scarce, adopting innovative technologies. For example, two of our factories in Malaysia and Brazil use rainwater collection systems. In Uzbekistan, our company has worked with local stakeholders to improve the existing water irrigation systems for tobacco farmers in the Urgut area. To reduce the water footprint of the entire supply chain, we also encourage our suppliers to cut their water consumption.

### Future environmental risks, opportunities and planning

We are focused on increasing our understanding of future risks and opportunities by mapping our risks from climate change, assessing our water footprint and engaging with stakeholders.

### Climate change risk mapping

In 2011, we mapped the risks posed by climate change to our main operational sites and tobacco growing locations, along with a small number of strategic material suppliers' sites. This involved looking at national risks, like energy security and the vulnerability of transport and infrastructure, as well as more local risks like water scarcity and flooding. In the tobacco growing areas, we also looked at risks to do with urbanisation rates, child labour and food security.

This research has raised awareness of climate change risks in the business and is helping us prioritise our efforts to protect the Group against these risks. We have also used the results to pilot a climate change risk index, which we now plan to develop for each of our strategic leaf growing locations. Based on this, short- and long-term action plans will be put in place.

For example, the pilot showed that Pakistan has a number of risks around water security. They are not affecting tobacco growing areas yet, but may well in the future. So our local company in Pakistan will now carry out a more detailed assessment of water management in these areas, then follow it up with an action plan and seek partnerships with local stakeholders.

We plan to review our climate change risk index each year, to track existing and developing risks, and will monitor progress against our action plans. We also intend to use this information to identify future opportunities in this area.

### Water

In 2011, we started to assess the water footprint of tobacco growing locations. We are using the results to further develop our water strategy, so that we have a clear picture of how much is used in our supply chain and where we might have problems getting enough water in the future. The outputs from our 2010 stakeholder dialogue on water availability and management are also being fed into the improvement of our water strategy. The aim of the strategy is to make sure that our business has the secure water resources we need in the future, while also minimising our water use as well as being better prepared to deal with extreme weather events such as flooding.

### Stakeholder engagement


In 2010 and 2011, we held a series of three stakeholder dialogue sessions looking at different aspects of climate change. The first, on water availability and management, was discussed in last year's Report.


The second session looked at current and future carbon pricing mechanisms and carbon regulation. A major theme that came out of the day was that business needs to be a prime driver of innovation in carbon reduction.

The third session focused on renewable and low-carbon energy. The participants highlighted that these areas will make an important contribution to meeting future energy needs. We are looking at renewable and low-carbon initiatives in more detail, for example, we have initiatives in place, such as sites in Pakistan and Turkey generating energy with installations of solar and photovoltaic equipment. We now intend to incorporate such initiatives further into our plans to help us meet our long-term CO<sub>2</sub>e targets.


The reports from all three dialogue sessions can be downloaded from our online Report, where you can also find a statement from the independent dialogue facilitator on the main insights from the series.

## In 2011 our performance improved on all metrics compared to 2010

 **Energy use**  
**-7.5%**  
per million cigarettes equivalent

 **Carbon dioxide**  
**-3.5%**  
per million cigarettes equivalent

 **Water use**  
**-6.3%**  
per million cigarettes equivalent

 **Waste to landfill**  
**-5.6%**  
per million cigarettes equivalent

 **Recycling rate**  
**+0.2%**

For trend data and context see the performance summary on page 32 and the performance charts in the online Report.



**ASSURANCE  
COMMENT FROM  
ERNST & YOUNG LLP**

Our review of British American Tobacco's stakeholder engagement processes showed that stakeholders continue to place high importance on the Group's response to climate change. British American Tobacco has set long-term targets to reduce direct CO<sub>2</sub>e emissions and, in 2007, developed 2012 targets for four environmental metrics, all of which were met in 2011. Although we have seen evidence of five-year CO<sub>2</sub>e reduction plans being developed for large manufacturing sites, the commitment to develop five-year milestones to reduce CO<sub>2</sub>e emissions for the Group as a whole has not been met. It will be important to finalise these mid-term targets so that performance against them can be communicated in next year's Sustainability Report.



Afforestation programme in Uganda.

## Managing biodiversity

The success of our business now and in the future depends on biodiversity. Biodiversity provides resources like clean water, healthy soils and timber. Business has a responsibility to minimise its negative impact on biodiversity, as species and communities also depend on these resources.

### Biodiversity risk and opportunity assessments

In 2010, biodiversity risk and opportunity assessments were completed in all our tobacco leaf growing operations. These assessments help us to identify, assess and address risks arising from our impacts and dependencies on biodiversity and ecosystems in and around our leaf growing areas. By the end of 2011, initiatives had been put in place to address the issues identified.

We make sure that the assessments and the actions taken encourage cooperation with local stakeholders and don't just focus on tobacco. Collaboration with the people living and working in the agricultural landscapes or organisations like our Biodiversity Partnership or local NGOs is often required for these initiatives.

Examples of initiatives underway are replanting trees to address water supply issues in a watershed catchment of the Indonesian island of Lombok and a Ugandan project to restore and manage forest and freshwater health. You can read a case study on the Indonesia project in our online Report.

In 2011, we revised the biodiversity risk and opportunity assessment tool with our Biodiversity Partnership. The revised version of the tool should give us a more consistent approach to the assessments across the globe. This will be rolled out to our tobacco growing operations in 2012 and the next round of assessments will be completed by the end of 2014. We also plan to share the assessment tool with other tobacco and agricultural businesses to encourage them to adopt a similar approach.

### Biodiversity projects

As a business we focus on addressing our own biodiversity impacts and dependencies and those of our contracted farmers. But through our Biodiversity Partnership, we also address challenging biodiversity issues through projects with external stakeholders in the wider agricultural landscapes and ecosystems on which we depend. You can read about these projects in detail on the Partnership's website: [www.batbiodiversity.org](http://www.batbiodiversity.org).



### Biodiversity: our approach

Our Group Biodiversity Statement outlines our aim to embed biodiversity conservation across our business. It can be downloaded at [www.bat.com](http://www.bat.com).

### Biodiversity partnership

Since 2001, we have worked with three NGOs in the British American Tobacco Biodiversity Partnership: Fauna & Flora International, the Tropical Biology Association and Earthwatch Institute. The Partnership seeks to address some of the challenging issues surrounding the conservation and management of biodiversity within agricultural landscapes and the ecosystems on which we depend.

[www.batbiodiversity.org](http://www.batbiodiversity.org)



### STAKEHOLDER VIEWPOINT

**At present, we think that British American Tobacco is the only agricultural multinational to have conducted a biodiversity risk assessment of its global operations. This means it can base decisions on real on the ground circumstances of its leaf growing operations in a strategic manner.**

*Fauna & Flora International,  
Biodiversity Partner*

## You ask us

**Doesn't tobacco growing lead to a loss of biodiversity?**

Read our responses to your questions

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

Tell us what you think about our approach to environmental issues.

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

We will donate £10 to the Global Trees Campaign for each of the first 200 responses to the feedback survey.



# Supply chain

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



Tobacco harvesting in Sri Lanka.

## What the future might hold

Supply chains have always needed to be flexible and agile. But there are increasing pressures to adapt faster than before: climate change, more competition and demand for greater business growth, to name a few.


The anticipated growth in demand for agricultural products is particularly relevant for us. As the global population expands and economic development generates more disposable incomes, there will be increased competition between crops for energy, land and water.

We also expect business to play a greater role in addressing social and environmental issues, through influence and public-private partnerships.

## How we're preparing for the future

- Protecting the long-term security of our tobacco leaf supply by encouraging sustainable agriculture based on multi-stakeholder partnerships.
- Using our supply chain programmes and partnership projects with suppliers and third parties to protect the human rights of our suppliers, contracted farmers and local communities.
- Working to help build an objective evidence base on the impacts of tobacco growing compared to other crops.
- Listening to our Supply Chain Sustainability Stakeholder Panel's guidance and challenge on our supply chain sustainability issues.
- Reducing environmental impacts in our operations and encouraging our suppliers to reduce theirs.

### Viewpoint from Des Naughton, Group Operations Director

 *It is vital to ensure our supply chain is fit for purpose for the long term. That's partly about how it's structured – for example, being vertically integrated gives us greater flexibility. But it's also about making sure our supply chain works in sustainable ways, from growing tobacco through to distributing our products around the world.*

*Importantly, our approach covers both our own operations and our wider supply chain. We join forces with partners in our supply chain and with other stakeholders to find solutions that work for all of us, preparing us for changing regulation, climatic instability and evolving consumer needs.*

*The business case for adapting to climate change is strong and includes competitive advantage, cost savings, community resilience, liability management and good investor relations. To me, it's clearly good business, as well as good stewardship.*





Our supply chain commitment:

## We will work for positive social, environmental and economic impacts in our supply chain.

See our 2012 goals on page 33.

Our supply chain sustainability strategy prepares our business for the future. The strategy covers our own planning, manufacturing, logistics and trade marketing operations. But the most significant part of it relates to tobacco growing. Even though this is an area where some of our greatest supply chain impacts are, we do not own tobacco farms or directly employ farmers. However, with relationships with over 140,000 farmers in 19 countries, we do have strong influence.

We believe these relationships and this experience mean we have an important part to play in developing sustainable agriculture solutions that focus on the whole agricultural sector, not just tobacco.

### Working with farmers

#### Agronomy support

We have around 800 leaf managers and technicians worldwide, who provide agronomy support to all our directly contracted tobacco farmers and engage with farming communities in all our tobacco growing locations.

Engaging with our contracted farmers in this way helps make their farms viable and efficient. In doing so, we protect the security and quality of our tobacco leaf supply. However, our agronomy support covers areas of agricultural practice other than just tobacco farming. So it also helps farmers improve the quality and yields of food crops, making them more self-sufficient. It includes:

- Information on best practice like labour and safety standards and the appropriate use of agrochemicals;
- Advice on how to maximise yields, optimise crop quality, achieve reliable returns and improve the long-term sustainability of a farm; and

- Guidance on improving the long-term potential of the soil and other farm resources, for example through crop rotation.

Our global agronomy centre in Brazil supports our leaf managers by identifying best practice and helping them to help farmers implement it consistently.

While the support we provide our contracted farmers undoubtedly brings advantages to our business in terms of access to high quality tobacco leaf, it also plays a significant role in improving local environments and livelihoods and in helping tobacco farmers mitigate the impacts of climate change.

#### Human rights in the supply chain

Human rights issues are a concern in many parts of the world where we operate. We use our influence where we can to improve conditions in our supply chain. We do this through our supplier standards and partnership projects with suppliers and third parties.

### Our material issues

#### Reported

- Working with farmers
- Sustainable agriculture
- Supply chain management

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

- Tobacco curing
- Integrated pest management
- Green tobacco sickness

Read more on page 5 and online at [www.bat.com/sustainability/materiality](http://www.bat.com/sustainability/materiality)



### Our supply chain

In 2011, we supplied over 180 markets with 705 billion cigarettes made at our 46 cigarette factories in 39 countries. We purchased 443,480 tonnes of tobacco leaf, grown by more than 200,000 farmers, over 140,000 of whom are directly contracted to us.

We also purchase significant quantities of other materials, such as packaging, cigarette paper, filter materials, glues and inks.



Agronomy support for tobacco farmers in Brazil.

Our approach draws on the UN Universal Declaration of Human Rights and the Organisation for Economic Cooperation and Development's (OECD's) Guidelines for Multinational Enterprises. Human rights criteria are incorporated into our major supply chain management programmes, including our Business Enabler Survey Tool and our Social Responsibility in Tobacco Production (SRTP) programme. Our leaf managers and technicians also help our contracted farmers to protect the occupational health of their farm workers, for example by using agrochemicals safely.

In 2012, we will review our approach to human rights following the publication of the OECD's revised Guidelines for Multinational Enterprises and the Conventions of the International Labour Organisation (ILO). This will include a review of our Child Labour Policy with input from the ILO.

### Tackling child labour

Child labour is an important human rights issue for any industry with an agricultural supply chain and the tobacco industry is no exception. We have had a Group-wide Child Labour Policy since 2000, it is a key element of our SRTP programme and we were one of the founding members of the Eliminating Child Labour in Tobacco Growing (ECLT) Foundation in 2001.

We continue to play an active role in the ECLT Foundation along with others in the industry, trades unions and the ILO. The Foundation runs community-based projects to raise awareness of child labour issues; improve access to education and health services for children; and build local capacity to address the problem. A number of our companies in tobacco growing countries also run their own community-based programmes to address child labour.

### External allegations

In 2010 and 2011, allegations were made by representatives of the US Farm Labour Organising Committee (FLOC) about conditions for migrant workers on tobacco farms in North Carolina, USA. Reynolds American Inc, an associate company of which the Group is a 42 per cent shareholder, was targeted in FLOC's campaign.

We take this matter very seriously. In order to understand the complexity of the situation and to encourage progress, we have engaged with the Trades Union Congress in the UK and the International Union of Food workers. Reynolds American Inc. is fully committed to constructively engaging with all stakeholders who share an interest in tobacco farm working conditions in North Carolina and steps to establish this process are underway.

### Sustainable wood sourcing

Tobacco leaf sometimes requires additional heat for curing and, in 2011, 78 per cent of the tobacco leaf we purchased used wood as the fuel for this. We promote afforestation programmes to enable farmers who require wood for tobacco curing to obtain it from sustainable sources and we have a target of zero use of natural forest for our directly contracted farmers' curing fuels by 2015.

In 2011, we made progress towards this target, with a fall from 12.1 per cent to 7.3 per cent. This data can be viewed in the performance summary on page 32.

We are also encouraging some of our contracted farmers to cure their tobacco with appropriate, locally available alternative fuels. These can include gas, sawdust, coal, candlenut shells or liquid petroleum gas, as well as coffee or rice paddy husks. All fuels have environmental impacts, so we are also evaluating ways to minimise fuel consumption, for example by using innovative designs for curing barns. You can read more about this in a case study in the online Report.

### Continual improvement

We monitor the social and environmental performance of all our leaf suppliers through our SRTP programme.

The programme includes good agricultural practices, which combine viable tobacco production with positive environmental management; soil and water conservation; appropriate use of agrochemicals; promoting afforestation programmes; safety standards; medical facilities; and eliminating exploitative child labour.

In 2011, as well as all suppliers carrying out self-assessments, the independent reviewer LeafTc carried out 26 reviews in 17 countries. By the year end, 96 per cent of suppliers had been reviewed by LeafTc at least once. SRTP has been shared with the industry and the details of the review criteria are available on [www.leaftc.com](http://www.leaftc.com).

In 2011, we introduced minimum performance thresholds for all our tobacco leaf suppliers and we are revising the full programme, in consultation with LeafTc. The updated version is expected in 2012 and will also be aligned with the ILO's new Code of Practice on Safety and Health in Agriculture.

The latest SRTP scores, including those for the child labour section, can be seen in the performance summary on page 32.



### Our approach to human rights in the supply chain

Our SRTP programme for all our tobacco leaf suppliers covers child labour and other human rights issues.

Through our agronomy support services, we encourage compliance with Group policy and local laws.

We have had a Group-wide Child Labour Policy since 2000.

We were one of the founding members of the Eliminating Child Labour in Tobacco Growing (ECLT) Foundation in 2001. See [www.eclt.org](http://www.eclt.org).

We have a number of long-standing community-based programmes to address child labour in tobacco growing areas.

Our suppliers are required to meet criteria on issues including workers' rights and child labour.

We are incorporating human rights criteria into all our framework agreements with global suppliers. We expect this to be completed in 2012.



Tobacco curing in Indonesia.



*Agronomy support for a tobacco farmer in Indonesia.*

## Independent research

We do not agree with the majority of claims that tobacco farming has far worse social and environmental impacts than other agricultural crops or practices.

In 2011, we commissioned independent research by Development Delivery International (DDI) into the impact of tobacco growing, which comprised a literature review of over 300 published sources on the subject and field research into the circumstances of tobacco and non-tobacco farmers in three contrasting tobacco growing countries.

This literature review concluded that the existing research base was both limited and lacked contextual understanding. No clear evidence to support a causal link between tobacco cultivation and poverty or that tobacco growing necessarily leads to adverse labour or employment outcomes could be found. The literature on environmental risks was equally problematic with the possible exception of deforestation, although the evidence suggested that this is site specific and can be mitigated. It also found that there is no clear evidence that tobacco growing exacerbates poverty and that there is minimal evidence that it contributes to food insecurity.

The second part of the study took the form of a practical investigation in Bangladesh, Brazil and Uganda looking at whether tobacco cultivation

poses a greater hazard to the welfare of poor people in comparison with the cultivation of other available crops. The case study results show that the claims for a direct causal link between tobacco cultivation and poverty do not hold true as a generalisation. It also found that the ability of households to move in and out of tobacco cultivation does not support a picture of entrapment; that tobacco cultivation is seen to be an important and reliable income source that enhances food security and has contributed to increasing farmers' welfare; and that suitable agronomy support can help mitigate both environmental and health risks, such as green tobacco sickness, associated with tobacco farming.

DDI's report contributes to the currently limited evidence base in this area and includes detailed on the ground research about the impact of tobacco cultivation on farmers' livelihoods. The report says that the percentage of the literature reviewed that shows any peer-review or quality assurance process is rather limited and so restricts the evidence base that policy makers can work with. As a result, we are concerned that regulators will develop policy that will affect the lives of hundreds of thousands of tobacco farmers and is based on neither adequate research nor robust evidence.

The report can be downloaded from [www.ddinternational.org.uk](http://www.ddinternational.org.uk).



## STAKEHOLDER VIEWPOINT

The review of the evidence comparing environmental risks of tobacco cultivation with other international agricultural commodities suggests that as far as environmental risk is concerned, tobacco growing would seem to pose no greater threat than any other commodity, especially when compared to crops like cotton and sugar cane, which have high requirements for agrochemicals and where land management practices can have significant negative impacts on ecosystems.

*'The role of tobacco growing in rural livelihoods: Rethinking the debate around tobacco supply reduction' by Development Delivery International, February 2012*

## You ask us

**Where fertile land is used to grow tobacco rather than food, doesn't tobacco cultivation contribute directly to hunger and malnutrition?**

Read our responses to your questions

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

Tell us what you think about our supply chain management.

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

We will donate £10 to the Global Trees Campaign for each of the first 200 responses to the feedback survey.





*Tobacco harvesting in Sri Lanka.*

## Sustainable agriculture

The world population is forecast to reach nine billion by 2050 and this, along with economic development leading to people having higher incomes, means twice as much food will need to be produced from the same amount of land. This is focusing the attention of a wide range of stakeholder groups involved in sustainable agriculture.

Sustainable agriculture means farming communities are successful in terms of their productivity but also protect the environment and provide social benefits like education. We believe that a framework for sustainable agriculture needs to include standards and regulations to support best practice; tools and technologies to improve productivity and reduce environmental impacts; and key services for communities, including healthcare and education.

To be successful, sustainable agriculture needs to look at the whole landscape, not just individual crops. A single tobacco farmer implementing good practices is neither sufficient nor effective if neighbouring farmers and community members are not also involved. That is why we want to work with others to develop an approach that includes cross-sector solutions and involves all a community's stakeholders.

In 2011 and early 2012, we held two stakeholder dialogue sessions on sustainable agriculture. The first, in the UK, was held with the Food and Environment Research Agency. Along with UK policy makers, NGOs and other key influencers, we discussed the policy and regulation needed to effectively address the social, environmental and economic challenges of agriculture. The main insights from the session included:

- There needs to be robust and appropriate regulation, supported by relevant agricultural policies, to ensure compliance both with global standards and to address specific issues in different countries;
- Sustainable agriculture will require the adoption of more economic and ecologically efficient practices;
- These practices will be implemented through appropriate tools and technologies that deliver sustainable outcomes; and
- Improved communication and education throughout the agricultural supply chain is fundamental to translating strategies and policies into action and ensuring that tools and technology are adopted at the farm level.

The second dialogue session was held in Bangladesh, a key tobacco growing country. It was attended by stakeholders from the UK and across Asia. Participants were taken on a field visit to see our agronomy support services in action and an independently facilitated session was then held the following day to get feedback on our approach and discuss the challenges of sustainable agriculture in Southern Asia. The main insights from the session were that a holistic 'landscape' approach involving different stakeholders in the process is needed and that further dialogue and collaboration will be required to raise awareness and create results. Participants all stressed the importance of educating and empowering farmers and how the sharing of best practice will be necessary to accelerate the process.

You can download copies of the dialogue reports from these sessions from the online Report.

### “ ASSURANCE COMMENT FROM ERNST & YOUNG LLP

We attended two British American Tobacco stakeholder dialogues on sustainable agriculture during the reporting year, bringing together participants from policy making, not-for-profit and other key influencing organisations. It was clear from the discussions that the cultivation of tobacco brings with it economic, social and environmental challenges. It will be important for British American Tobacco to demonstrate how its approach to sustainable agriculture can help mitigate those challenges and develop ways of measuring the value generated by its activities on local economies where it operates.

### “ STAKEHOLDER VIEWPOINT

When we first saw the details of the Group's approach to sustainable agriculture, we were surprised at just how much they were doing. I guess they don't shout about it because they've been discouraged by the criticism the tobacco industry has received.

*Dr Douglas Crawford-Brown,  
Chair of our Supply Chain Sustainability  
Stakeholder Panel*

Read his full statement in the online Report  
[www.bat.com/sustainability/viewpoints](http://www.bat.com/sustainability/viewpoints)

## Supply chain management

In 2011, we established a Supply Chain Sustainability Stakeholder Panel to give us guidance and challenge on our supply chain sustainability issues. The Panel is made up of two suppliers, two professionals from other FMCG companies and two independent experts. You can read more about the Panel in the statement from the Chair in our online Report.

We developed our supply chain sustainability strategy in consultation with internal and external stakeholders in 2010. It requires each division of our supply chain to minimise its most significant environmental impacts.

Manufacturing and logistics use more energy and resources than the rest of our direct operations, so the strategy focuses on them. In both areas, we have measures in place to assess and reduce our environmental impacts and are exploring and adopting alternative technologies and renewable sources.

We use our Sustainable Business Assessment to compare the potential social and environmental impacts and risks associated with new products, components or

packaging. Life cycle analysis provides detailed environmental information to incorporate into our decision-making. For example, consideration of energy and CO<sub>2</sub> impacts are now used in our global factory sourcing decisions.

Our Business Enabler Survey Tool, which we use to evaluate the sustainability standards of our materials suppliers, now incorporates additional sustainability criteria. We are also integrating further sustainability principles into the selection criteria for our direct materials and machinery suppliers.

Our suppliers are encouraged to monitor and measure their environmental impacts using a scorecard that we trialled in 2011 with strategic materials suppliers. The scorecard was developed in 2010 together with these suppliers and covers energy, water, waste and CO<sub>2</sub>e. It helps us monitor performance and identify areas for joint improvements. We are now working with these suppliers to develop the next stage of the scorecard and will expand its use to our machinery suppliers.



Cigarettes produced at our factory in Mexico.



### Our Business Enabler Survey Tool (BEST)

BEST assesses the sustainability performance of our materials suppliers, providing a framework for continual improvement. Suppliers must obtain Approved, Qualified or Certified status in order to be retained by British American Tobacco. During 2011, we carried out 41 BEST reviews, of which 23 gained the minimum Approved status, 16 gained Qualified status and two gained the highest status, Certified.

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



### STAKEHOLDER VIEWPOINT

Through our work with British American Tobacco, we were able to participate in a stakeholder dialogue session and the development of the supplier scorecard. This collaborative approach has been particularly fruitful for us and helped jump start our company-wide sustainability programme. We welcome British American Tobacco's feedback and sharing of best practices as we continue on our journey.

*Juliette Audren, Sustainability Programme Manager, SWM-INTL (paper and reconstituted tobacco leaf supplier)*

# People and culture

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



Employees at our offices in Colombo, Sri Lanka.

## What the future might hold



Competition for good people is likely to intensify as international companies increase their overseas footprint. Therefore, it will be critical for businesses to build a strong and clearly differentiated reputation as an employer.

Increasingly, people want to work for businesses with strong sustainability credentials, so we need to ensure that the Group continues to stand out in this area. Ensuring our workforce shares in the success of a sustainable business will help us attract the best people wherever we operate.

## How we're preparing for the future

- Strengthening our core capabilities, our culture and our values.
- Continuing to build robust succession plans.
- Embracing the diversity of our workforce to encourage creativity and innovation.
- Establishing clear principles and simple, effective tools to manage performance.
- Streamlining our global human resources practices and eliminating duplication.
- Improving our approach to the health, wellbeing and safety of our people.

### Viewpoint from Giovanni Giordano, Group Human Resources Director

  *Having a talented workforce has become one of the most critical factors in our industry, arguably even more so than technology or capital. Our talented people are an indispensable element in competitive advantage.*

*We're focusing on driving high performance, encouraging greater productivity, building on the excellence of our people to increase our competitive advantage and strengthening our culture and values.*

*Looking after the fundamentals is equally important: like having a safe workplace, protecting our employees' wellbeing and listening to their views. This is all part of maintaining a culture founded on exceptional commitment and deep personal responsibility.*



Our people and culture commitment:

## We will work to ensure we have the right people and culture to meet our goals.

▶ See our 2012 goals on page 33.

To achieve the goals we set for our business we need a strong workforce – from securing our supply of tobacco leaf to delivering high quality products to our consumers. We can only maintain a strong workforce if we nurture our people and bring them up through the business. We value our employees' diverse perspectives, encourage them to perform to their best ability and look after them well, particularly during periods of business change. In short, we want a stretching and supportive culture that attracts, engages and retains diverse and talented people.

### Talented people as a competitive advantage

#### Strengthening our core capabilities

In recent years, we have focused on simplifying and enhancing how we manage our learning and development practices. In particular, we have concentrated on giving our employees access to the leadership, managerial and functional training programmes they need to strengthen their core capabilities and progress within our business.

A range of training programmes has been made accessible to all our companies and, in 2011, we launched a new online learning and development system. For the first time, this provides our people with access to a suite of e-learning applications and gives our companies a clearer view of the learning and capability gaps in their operations.

#### Succession management

Ensuring clear succession plans are in place for every senior role remains our long-term objective. This means having at least one

local successor ready in the short term and two local successors identified for long-term development. We also aim to achieve a 70:30 ratio of local to expatriate senior managers in each business unit. This gives our companies a valuable balance between local knowledge and international perspective.

Following our recent reorganisations, we have identified some gaps in our succession plans for a number of important roles. To tackle this, the Group launched a global recruitment drive in 2011, focusing on senior management positions. This will continue in 2012.

Data on our succession coverage and local to expatriate management balance can be viewed in the performance summary on page 32. Although neither target has yet been reached, we have seen an improvement in 2011 in local representation and long-term succession coverage.



### Our material issues

#### Reported

- Talented people as a competitive advantage
- Strengthening our culture and values
- High performance leadership and organisational productivity
- Workplace health and safety

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

- Occupational health management
- Corporate social investment

Read more on page 5 and online at [www.bat.com/sustainability/materiality](http://www.bat.com/sustainability/materiality)



### CHAIRMAN'S VIEWPOINT

**I welcome the report by Lord Davies about Women on Boards released in February this year. The Company's Board has considered the report in some detail... and recognises the benefits of increased female representation, and Board diversity in its widest sense, both at Board level and throughout all levels within the organisation.**

*Richard Burrows, Chairman, September 2011*

Read his full statement on Board diversity at [www.bat.com/diversity](http://www.bat.com/diversity)



### Equal opportunities

We are committed to providing equal opportunities to all prospective and current employees. Our Group Employment Principles state that we will not discriminate in hiring, promotion or retirement decisions on the grounds of candidates' or employees' race, colour, gender, age, social class, religion, smoking habits, sexual orientation, politics or disability. Instead, we match the requirements of the job to the ability and potential of the individual.

## Strengthening our culture and values

We know that people do not stay in jobs just because of the pay or promotion opportunities. Employees want a supportive culture where their views are listened to.

### Diversity

Diversity helps us to understand our consumers, customers and stakeholders and to meet their needs. It also provides different ways of looking at challenges, encouraging creativity and innovation.

To maintain a diverse workforce we need to attract talented individuals from different backgrounds and make sure our culture supports them. Our corporate values have always included a statement on how diversity gives us a competitive advantage but we need to ensure our people fully embrace this value and promote it globally.

Our focus on diversity includes having greater demographic representation across our senior management, including by gender and by nationality.

We continue to support the career development of our female managers, with the aim of increasing the proportion of women in senior management roles. This includes drawing up

development plans for our senior women and monitoring progress against them; assigning mentors; and encouraging recruitment consultancies to draw up gender-balanced candidate shortlists when we recruit externally. Data on the proportion of senior roles held by women are reviewed at our Management Board Talent Review meetings.

### Employee opinion

Our most recent Group-wide 'Your Voice' employee opinion survey was carried out by Towers Watson in 2010. It showed that our employees view British American Tobacco more positively than the benchmark for businesses in the FMCG sector. But it also told us that, although general business communication has improved, communication on organisational changes could be clearer. The full results of the survey are in our online Report.

We are currently revising our 'Your Voice' survey and the new version will be carried out Group-wide in 2012.

## High performance leadership and organisational productivity

### A more focused approach to performance management

In 2011, we set out to simplify our performance management system in response to feedback from many employees. The aim was to better support employees' regular performance reviews, helping them track their performance against individual goals and their contribution to the Group's values and ambitions.

The revised system is being used throughout the Group from January 2012. It is simpler to use and encourages employees and managers to think about performance management throughout the year, not only at the start and end of the annual cycle. Using a streamlined and more logical approach to objective setting and assessment, it will help differentiate more clearly between those who are falling short, those who are meeting their goals and those whose performance is genuinely outstanding.

We have also focused on strengthening our use of constructive feedback, the quality of development materials and making opportunities available to all our people.

### An organisation that's fit for purpose

Reviews of our human resources practices in 2011 showed that the service to the business is often fragmented. This has resulted in a duplication of effort and lack of consistency across our global operations. For example, we have a large number of suppliers providing HR services around the world and, collectively, our Group companies spend a great deal of money with these suppliers. Clear opportunities exist to create strategic relationships with a smaller number of suppliers to improve quality and consistency and to take advantage of economies of scale.

We are working actively to streamline our practices and eliminate duplication, while putting greater focus on the quality of services we deliver. Progressively this will be enabled by technology, providing data to track improvements and providing information to enable better management of our people and productivity.



### Protecting human rights in our workplace

Our Employment Principles embody key internationally recognised aspects of human rights that apply to the workplace. They include important topics such as: equality of opportunity and non-discrimination; freedom of association; not condoning or employing child labour; being completely against forced or bonded labour; occupational health and safety; and fair remuneration and conditions of work.

32%

of women in management roles

25%

of women on our Main Board

64

nationalities working in our global headquarters

For trend data and context see the performance summary on page 32 and data in the online Report.


## You ask us

Is it really feasible for you to continue to recruit talented employees in the future given that you sell cigarettes?

Read our responses to your questions

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

Tell us what you think about our approach to people and culture.

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

We will donate £10 to the Global Trees Campaign for each of the first 200 responses to the feedback survey.



Processing tobacco at our factory in Switzerland.

## Workplace health and safety

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

It is a matter of great concern to us that there were 37 serious injuries reported in 2011, involving 18 employees and 19 contractors across 21 countries. Seven out of these 37 injuries were fatalities (one employee and six contractors), compared to four in 2010 (three employees and one contractor). Four were the result of assaults, two were from falls from height and one was the result of a road traffic accident. We greatly regret this loss of life and we systematically review every major incident to identify any ways in which we can prevent a recurrence.

Along with the number of serious injuries and fatalities for both employees and contractors, we also monitor our Lost Workday Case Incident Rate (LWCIR). The Group's LWCIR in 2011 was 0.26, compared to 0.27 in 2010. Our total number of lost workday cases decreased from 212 in 2010 to 204 in 2011.

In 2011, we implemented our plan to reduce vehicle-related injuries in our Trade Marketing & Distribution teams. Already, we have seen positive results, with an 18 per cent reduction

in the teams' vehicle-related lost workday cases and a reduction in fatalities compared to 2010. Group-wide vehicle-related accidents decreased by nearly 19 per cent compared to 2010. Following targeted initiatives to address manual handling accidents, lost workday cases in this area reduced by 53 per cent for the Group.

We have programmes to protect and promote health, which are particularly valuable in those parts of the world where local health services struggle to provide an adequate service. In these areas, diseases such as malaria, tuberculosis, AIDS and hepatitis are often responsible for high levels of death and disability.

Our Significant Endemic Disease programme aims to reduce the impact of these diseases on employees, their families and communities. You can read more about the programme on [www.bat.com](http://www.bat.com) and about the HIV/AIDS programme run by our company in South Africa in our online Report.



### DIRECTOR VIEWPOINT

Ensuring a safe working culture is paramount to the success of our business. That is why our ambition is for zero accidents in our workplace.

*Des Naughton, Group Director of Operations*



### ASSURANCE COMMENT FROM ERNST & YOUNG LLP

Improving health and safety performance across the Group has been a focus area over the past year and we have seen evidence of regular updates being provided to leadership. An internal review of accident categorisation has led to improved identification of priority areas and the roll-out of accident reduction initiatives across the Group. Although we have seen a positive downward trend of vehicle-related injuries compared to 2010, these accidents continue to be the most common cause of physical incidents and so the focus needs to continue to identify further areas for improvement.



# Assurance

## Independent assurance statement to British American Tobacco management

The British American Tobacco p.l.c. Sustainability Report 2011 (the Report)<sup>1</sup> has been prepared by the management of British American Tobacco, which is responsible for the collection and presentation of the information within it and reviewed by the Board CSR Committee. Our responsibility, in accordance with management's instructions, is to carry out a 'reasonable level' assurance engagement on the information presented in the Report regarding the stakeholder dialogue sessions and a 'limited level' assurance engagement on the rest of the Report. 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.

### What we did to form our conclusions

Our assurance engagement has been planned and performed in accordance with ISAE3000<sup>2</sup> and to meet the requirements of a Type 2 assurance engagement as defined by AA1000AS (2008)<sup>3</sup>. The AA1000AS (2008) assurance principles of Inclusivity, Materiality and Responsiveness have been used as criteria against which to evaluate the Report.

In order to form our conclusions we undertook the steps outlined below:

1. **Interviewed a selection of executives and senior managers** at British American Tobacco's headquarters in London to understand the current status of social, ethical, environmental and health and safety activities and progress made during the reporting period.
2. **Reviewed selected headquarters documents** relating to social, ethical, environmental and health and safety aspects of British American Tobacco's performance, to understand progress made across the organisation and to test the coverage of topics within the Report.
3. **Reviewed British American Tobacco's approach to stakeholder engagement** through interviews with employees at headquarters, two regions and three local companies, interviews with selected key stakeholders, reviews of selected associated documentation and attendance at four stakeholder dialogue sessions.
4. **Carried out the following activities to review data samples and processes for environment, health & safety (EHS), the Sustainability Survey, machinery destroyed,**

**wood fuel sources, the Business Enabler Survey Tool (BEST), the Social Responsibility in Tobacco Production (SRTP) programme, local succession coverage and leadership diversity data:**

- a. Reviewed disaggregated energy, waste and water data reported by a sample of seven local companies to assess whether the data had been collected, consolidated and reported accurately.
  - b. Reviewed and challenged supporting evidence from the sample of seven local companies.
  - c. Tested whether energy, waste, water, CO<sub>2</sub>e and health & safety data had been collected, consolidated and reported appropriately at Group level.
  - d. Reviewed data for machinery destroyed, wood fuel sources, BEST, SRTP, local succession coverage and leadership diversity at Group level.
  - e. Reviewed and challenged supporting evidence for a selection of Sustainability Survey data points from a sample of the 86 local companies that completed the Survey in 2011.
  - f. Reviewed disaggregated data reported in balanced scorecards for four regions and nine markets to assess whether the data had been collected, consolidated and reported accurately.
5. **Reviewed British American Tobacco's processes for determining material issues** to be included in the Report.
  6. **Reviewed the coverage of material issues within the Report** against the key issues raised in the stakeholder dialogue sessions, material issues and areas of performance covered in external media reports and the environmental and social reports of British American Tobacco's peers, as well as the topics discussed by the Board CSR Committee and regional audit and CSR committees.
  7. **Reviewed information or explanations about the Report's data, statements and assertions** regarding British American Tobacco's sustainability performance.

In order to form our conclusions on the information regarding the stakeholder dialogue sessions, we:

8. **Attended four independently facilitated stakeholder dialogue sessions.** Three were held in the UK and one in Bangladesh.

<sup>1</sup> This includes the printed Summary Report and full online Report, including the case studies and balanced scorecards for nine key markets and selected sustainability web content on [www.bat.com](http://www.bat.com), marked with the Ernst & Young footnote.

<sup>2</sup> ISAE 3000 – International Federation of the Accountants' International Standard for Assurance Engagements Other Than Audits or Reviews of Historical Financial Information.

<sup>3</sup> AA1000AS (2008) – The second edition of the AA1000 assurance standard from the Institute of Social and Ethical Accountability.

9. Reviewed the independent facilitator's minutes of the dialogues to form conclusions that they provided a fair representation of the issues raised and British American Tobacco's response.

10. Reviewed the sections in the Report relating to the stakeholder dialogue sessions, as described on pages 16 and 22 to form conclusions that they are an accurate and balanced summary.

### Level of assurance

The extent of evidence gathering procedures for a 'limited level' of assurance is less than that of a 'reasonable' assurance engagement (such as a financial audit) and therefore a lower level of assurance is provided for the full Report than the sections relating to the stakeholder dialogue sessions.

### The limitations of our review

With the exception of selected telephone interviews with regional and local staff and the review of selected documentation, our work was limited to headquarters activities. We did not visit any local companies.

### Our conclusions

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

#### Inclusivity

Has British American Tobacco been engaging with stakeholders across the business to develop its approach to sustainability?

- We are not aware of any key stakeholder groups that have been excluded from engagement. However, we are aware of stakeholder groups who, due to their critical views of the tobacco industry, have not accepted invitations to engage.
- We are not aware of any matters that would lead us to conclude that British American Tobacco has not applied the inclusivity principle in developing its approach to sustainability.

#### Materiality

Has British American Tobacco provided a balanced representation of material issues concerning its sustainability performance?

- With the exception of the area listed below, we are not aware of any material aspects concerning British American Tobacco's sustainability performance that have been excluded from the Report.

- We consider that British American Tobacco could have covered the following in more depth in the Report:

- Disclosure of why targets have not been met, including discussion of the challenges associated with their achievement. This relates to the introduction of new goals for energy, water and waste measures, five-year milestones to monitor progress towards the CO<sub>2</sub>e targets and performance against the local representation target.

- Nothing has come to our attention that causes us to believe that British American Tobacco management has not applied its processes for determining material issues to be included in the Report. The process is described on page 5.

#### Responsiveness

Has British American Tobacco responded to stakeholder concerns?

- We are not aware of any matters that would lead us to conclude that British American Tobacco has not applied the responsiveness principle in considering the matters to be reported.

#### Completeness and accuracy of performance information

How plausible are the statements and claims within the Report?

- We have reviewed information or explanations on the statements on British American Tobacco's sustainability activities presented in the Report and we are not aware of any misstatements in the assertions made.

How complete and accurate is data on EHS, the Sustainability Survey, machinery destroyed, wood fuel sources, BEST, SRTP, local succession coverage and leadership diversity in the Report?

- We are not aware of any material reporting units (as defined by British American Tobacco) that have been excluded from the headquarters 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 headquarters level.
- We are not aware of any errors that would materially affect the data as presented in the Report.

Has British American Tobacco provided a fair representation of the issues raised and response to the stakeholder dialogue sessions referred to in the Report?

- Information in the Report regarding the independently facilitated stakeholder dialogue sessions held in the UK and Bangladesh provides a fair summary of the engagement at these sessions.

### Observations and areas for improvement

Our observations and areas for improvement will be raised in a report to British American Tobacco management. Selected observations are provided below. Additional specific observations regarding progress made and areas for improvement can be found in the appropriate sections of the printed Summary Report and full online Report. These observations do not affect our conclusions on the Report set out earlier in this statement.

- During our work we have seen evidence of a more detailed analysis of Group EHS data by British American Tobacco's central EHS function. This has provided them with a greater understanding of performance at an individual unit level and has allowed for the targeting of specific activities to drive improvements in performance. There continue to be areas for improvement in relation to the transposition of data from unit to Group EHS data systems and the level of review applied to performance at a unit and regional level.
- Improving health and safety performance across the Group has been a focus area over the past year and we have seen evidence of regular updates being provided to the Board and senior management. An internal review of accident categorisation has led to improved identification of priority areas and the roll-out of accident reduction initiatives across the Group. Although we have seen a positive downward trend of vehicle-related injuries compared to 2010, these accidents continue to be the most common cause of physical incidents and so the focus needs to continue to identify further areas for improvement.

- British American Tobacco continues to engage with stakeholders to help shape sustainability plans and initiatives. During our attendance at the stakeholder dialogue sessions, interviews with selected key stakeholders and interviews with representatives from local companies, we noted several examples where stakeholder opinion had influenced business decisions. For example, British American Tobacco is considering ways of incorporating renewable energy and low-carbon options into its energy and wider business strategies and is examining opportunities for further collaboration to address the risks and opportunities presented by sustainable agricultural practices.

### Our independence

This is the fifth year that Ernst & Young LLP has provided independent assurance services in relation to British American Tobacco p.l.c.'s Sustainability Report. We have provided no other services relating to British American Tobacco's approach to sustainability reporting.

### Our assurance team

Our assurance team has been drawn from our global environment and sustainability network, which undertakes engagements similar to this with a number of significant UK and international businesses. The work has been led and reviewed by a Lead Sustainability Assurance Practitioner.

Ernst & Young LLP  
London  
March 2012

 **ERNST & YOUNG**  
*Quality In Everything We Do*



## Learning from our assurance process

### *British American Tobacco's response to the 2011 assurance statement*

An independent review of our approach is essential to support our commitment to continuous improvement. The review by Ernst & Young LLP of our Sustainability Report and of how it is aligned with the AA1000 Assurance Standard (2008) has highlighted a number of strengths in our reporting process, as well as where improvements could be made.

#### Inclusivity

Ernst & Young LLP concluded that we have been inclusive in our engagement with stakeholders across the business in developing our approach to sustainability. However, they also shared our observation that some stakeholders refuse to engage with us because of the nature of our products. We hope that the changes we have made to our approach to dialogue will encourage wider participation.

##### Actions for us

- Continue to try to engage with our critics; and
- Continue to develop our approach to dialogue to include wider participation from different stakeholder groups.

#### Materiality

Our sustainability agenda was developed in 2007 using a three-stage materiality test to identify which issues we should include in our reporting. This was formally reviewed in 2009 and reviewed on an informal basis each year since.

Ernst & Young LLP concluded that we could have covered in more depth details of why targets have not been met, specifically on:

- The development of new goals for our energy, waste and water measures and five-year milestones to monitor progress towards our long-term CO<sub>2</sub>e targets by end 2011. This has been delayed to allow time to review our approach and seek advice on the most appropriate measures to help ensure we continue to improve our performance.
- Our aim to achieve a 70:30 ratio of local to expatriate senior managers in each business unit has not yet been reached. This was mainly the result of reorganisations over recent years. However, in 2011 we have seen an improvement in local representation compared to 2010 and believe this is a positive indication that we are once again progressing against this target.

##### Actions for us

- Conduct a formal materiality review in 2012;
- Announce new Group targets for our energy, waste and water measures, as well as CO<sub>2</sub>e milestones in our 2012 Report; and
- Continue to report transparently on our progress against our goals and commitments.

#### Responsiveness

Ernst & Young LLP attended four stakeholder dialogue sessions held in the UK and Bangladesh, as described on pages 16 and 22. These dialogues were independently facilitated and were attended by senior management from British American Tobacco. Ernst & Young LLP concluded that content in this Report relating to these dialogues are an accurate and balanced summary.

In addition, Ernst & Young LLP interviewed our employees at Group, regional and local level and a selection of key external stakeholders on our approach to stakeholder engagement. Several examples where stakeholder opinion has influenced business decisions were noted in Ernst & Young's observations.

We continue to involve stakeholders in helping to shape our sustainability plans and initiatives, such as through our dialogue sessions and with our newly formed Supply Chain Sustainability Stakeholder Panel. As well as including details of our stakeholder engagement in this Report, we also publish summaries of the key insights from our dialogue sessions and a number of our companies have published stakeholder reports based on the outputs of local dialogue sessions. These can be found at [www.bat.com/reporting](http://www.bat.com/reporting).

##### Actions for us

- Continue to involve stakeholders directly in the development of plans to meet our sustainability goals; and
- Continue to report transparently on our stakeholder engagement, including publishing summaries of our dialogue sessions on [www.bat.com](http://www.bat.com).

##### Named as one of the

## top five

companies in the FTSE 350 for our approach to sustainability assurance in Carbon Smart's 2011 report 'Stuck on the starting blocks: The state of sustainability assurance in 2010'

# Performance summary

		2009	2010	2011	Trend	Page	By region/ market
<b>Marketplace</b>							
<b>International Marketing Standards</b>		15	6	21	■	12	📍
Number of reported instances of partial or non-adherence							
<b>Youth smoking prevention</b>		33	72	73	◆		📍
Percentage of reporting markets where our businesses state they are running or supporting youth smoking prevention programmes							
<b>Preventing underage access</b>		39	49	50	◆		📍
Percentage of reporting markets where our businesses state they are engaging with the government to improve measures to help prevent underage access to tobacco							
<b>Environment</b>							
<b>Energy use</b>		11.12	11.14	10.31	●	16	📍
Gigajoules per million cigarettes equivalent produced							
<b>Carbon dioxide</b>		0.86	0.85	0.82	●		📍
Tonnes CO <sub>2</sub> e per million cigarettes equivalent produced							
<b>Water use</b>		4.41	4.15	3.89	●		📍
Cubic metres per million cigarettes equivalent produced							
<b>Waste to landfill</b>		0.019	0.018	0.017	●		📍
Tonnes per million cigarettes equivalent produced							
<b>Recycling</b>		83.3	85.2	85.4	◆		📍
Percentage of waste recycled							
<b>Supply chain</b>							
<b>Wood fuel sources</b>	Company sponsored or advised forestry	66.4	59.2	62.9	●	20	📍
	Commercial forest	27.2	28.8	29.8	●		
	Natural forest	4.3	12.1	7.3	●		
	Source unknown (All unknown sources have now been identified since 2010 so this category has been deleted)	2.1	–	–	–		
Percentage sources of wood used in growing programmes							
<b>Social Responsibility in Tobacco Production</b>	Social responsibility policy	87	93	93	◆	20	📍
	Agronomy	59	65	67	●		
	Tobacco processing	73	79	81	●		
	Socio-economic factors	85	90	91	◆		
Average percentage of leaf suppliers' self-assessment scores							
<b>Child labour section of Social Responsibility in Tobacco Production</b>		83	87	90	●	20	
Average percentage of leaf suppliers' self-assessment scores							
<b>People and culture</b>							
<b>Local succession coverage – 1:1:2 at business unit level</b>						25	📍
Average percentage of business units with at least one local successor in the short term and two local successors in the long term for each senior position							
	Short term	58	57	51	■		
	Long term	63	43	53	●		📍
<b>Local top teams – 70:30 at business unit level</b>		55	51	57	●	25	📍
Average percentage of local representation on business unit senior management teams							
<b>Employee opinion 'Your Voice' biennial survey</b>	Score in the Engagement category	77 (2008)	78	–	◆	26	📍
	Ranked by difference from benchmark	+5 (2008)	+2	–	■		
British American Tobacco vs Towers Watson global FMCG benchmark							
<b>Gender diversity</b>	Management trainees	48	48	47	■	26	📍
	Management grade 34	33	35	34	■		
	Management grade 35	32	32	33	●		
	Management grade 36	28	29	29	◆		
	Management grade 37	23	24	25	●		
	Management grade 38	13	15	16	●		
	Management grade 39	9	8	10	●		
	Management grade 40	4	5	5	◆		
	Management board	0	0	0	◆		
	Non-Executive Directors	38	33	33	◆		
Percentage of women in management grades							
<b>Lost Workday Case Incident Rate (LWCIR)</b>		0.37	0.27	0.26	●	27	📍
LWCIR = Number of lost workday cases through injury x 200,000 divided by total hours worked							
<b>Serious injuries and fatalities</b>	Employees	22	25	18	●	27	📍
	Contractors	6	4	19	■		
	Total	28	29	37	■		

See the full Report online at [www.bat.com/sustainability](http://www.bat.com/sustainability) for all our performance data.

For the measures indicated 📍, data is also available for our four regions and nine of our largest markets at [www.bat.com/sustainability/regionsandmarkets](http://www.bat.com/sustainability/regionsandmarkets).

KEY ● Improvement  
◆ Minimal or no change (2 percentage points or less)  
■ Decline

# Progress against our goals

2011 goals and commitments	Status	Page	2012 goals and commitments	Timing
<b>Harm reduction</b>				
Validate and submit for publication details of a series of laboratory models of diseases, such as cancer, chronic obstructive pulmonary disorder and cardiovascular disease, as well as the biological processes of inflammation and oxidative stress by end 2011. (A number of studies have been submitted in 2011 and the remaining will be submitted in 2012.)	○	8	Take the laboratory models of diseases through an external validation phase involving collaborative research with scientific partners.	End 2013
Work with our External Scientific Panel on the design of a longer clinical study of biomarkers of exposure to tobacco smoke toxicants and biomarkers of biological effect by end 2011.	●	8	Register and undertake a longer clinical study of biomarkers of exposure to tobacco smoke toxicants and biomarkers of biological effect under ethical approval and to high clinical standards.	End 2012
Implement our reinvigorated biotechnology programme and submit the latest results of the research for publication by end 2011.	●	8	Submit for publication more of our research on the tobacco genome and undertake further field trials on tobacco plants with lower toxicant levels.	End 2012
Present our scientific findings at international conferences and maintain or increase our publications in peer-reviewed journals by end 2011.	●	9	Present our scientific findings at international conferences and continue to improve the standard of our publications in peer-reviewed journals.	End 2012
Further improve <a href="http://www.bat-science.com">www.bat-science.com</a> to facilitate greater input from the external scientific community into our scientific research programme by end 2011. (This work has been put on hold while we explore the best way to share our science further through electronic media.)	○	9		
Review our approach to snus test marketing by end 2011.	●	9		
<b>Marketplace</b>				
Engage with the International Labour Organisation and other relevant international organisations to aim to ensure that the impact of regulation on issues such as employment and free trade are properly assessed by end 2011.	●	12	Revise and update our International Marketing Standards to take into account evolving marketing practices and regulation.	End 2012
100 per cent adherence to our International Marketing Standards. (In 2011, 21 incidents of non-adherence were identified.)	○	12	100 per cent adherence to our International Marketing Standards.	End 2012
Review youth smoking prevention in those markets that have yet to implement our global approach by end 2011.	●	12	100 per cent adherence to our global approach to youth smoking prevention in all countries where implementation is required.	End 2012
Complete a pilot at our factory in Mexico of the industry-agreed system for digital tax verification by end 2011.	●	13		
<b>Environment</b>				
Develop new goals for our energy, water and waste measures by end 2011. (This has been delayed while we review our approach.)	○	15	Develop new goals for our energy, water and waste measures.	End 2012
Set five-year milestones to monitor progress towards our 2030 and 2050 CO <sub>2</sub> e targets by end 2011. (This has been delayed while we review our approach.)	○	15	Set five-year milestones to monitor progress towards our 2030 and 2050 CO <sub>2</sub> e targets.	End 2012
Reduce our direct energy use towards our 2012 target of 11.03 gigajoules per million cigarettes equivalent produced, 6.7 per cent lower than our 2007 baseline.	●	16	Reduce our direct energy use towards our 2012 target of 11.03 gigajoules per million cigarettes equivalent produced, 6.7 per cent lower than our 2007 baseline.	End 2012
Reduce our direct water use towards our 2012 target of 4.2 cubic metres per million cigarettes equivalent produced, 13.4 per cent lower than our 2007 baseline.	●	16	Reduce our direct water use towards our 2012 target of 4.2 cubic metres per million cigarettes equivalent produced, 13.4 per cent lower than our 2007 baseline.	End 2012
Reduce our waste to landfill towards our 2012 target of 0.022 tonnes per million cigarettes equivalent produced, 12 per cent lower than our 2007 baseline, and recycle at least 85 per cent of our waste.	●	16	Reduce our waste to landfill towards our 2012 target of 0.022 tonnes per million cigarettes equivalent produced, 12 per cent lower than our 2007 baseline, and recycle at least 85 per cent of our waste.	End 2012
Reduce our direct CO <sub>2</sub> e emissions by 50 per cent by 2030 and 80 per cent by 2050 against our 2000 baseline of 1.38 tonnes per million cigarettes equivalent produced.	➡	16	Reduce our direct CO <sub>2</sub> e emissions by 50 per cent by 2030 and 80 per cent by 2050 against our 2000 baseline of 1.38 tonnes per million cigarettes equivalent produced.	2030/ 2050
Engage with stakeholders about the long-term challenges and opportunities of climate change, focusing on the areas of carbon pricing and renewable energy by end 2011.	●	16		
Undertake a feasibility review of renewable energy to help identify potentially suitable manufacturing locations and technologies by end 2011.	●	16	Incorporate renewable and low-carbon energy options in the development of plans to help us meet our long-term CO <sub>2</sub> e targets.	End 2012
Carry out a water footprint analysis to better understand the risks and opportunities that changes in water availability could present for us by end 2011.	●	16	Complete the strengthening of our sustainable water management strategy.	End 2012



A selection of commitments from our previous Report, that are now part of our continuing approach to sustainability in those areas, are now no longer being listed as specific goals.








































2011 goals and commitments	Status	Page	2012 goals and commitments	Timing
<b>Environment (continued)</b>				
Review and revise our biodiversity risk and opportunity assessment tool for use in our next round of assessments of tobacco leaf growing operations by end 2011.		17	Complete the next round of biodiversity risk and opportunity assessments, using the updated tool, in all our tobacco leaf growing operations.	End 2014
Conduct research to verify the apparent return of wildlife to trial areas of re-established natural forest in Sri Lanka by the end of 2013.			Conduct research to verify the apparent return of wildlife to trial areas of re-established natural forest in Sri Lanka.	End 2013
<b>Supply chain</b>				
Aim for zero use of natural forest for directly contracted farmers' curing fuels by end 2015.		20	Aim for zero use of natural forest for directly contracted farmers' curing fuels.	End 2015
Introduce requirements for our leaf suppliers to meet minimum performance thresholds in their Social Responsibility in Tobacco Production (SRTP) assessment scores by end 2011.		20	Continue working with the independent SRTP reviewer, LeafTc, to review and update the assessment.	End 2012
Incorporate requirements for human rights and other sustainability criteria into all our framework agreements with global suppliers by end 2012.		20	Incorporate requirements for human rights and other sustainability criteria into all our framework agreements with global suppliers.	End 2012
Establish an external stakeholder panel to provide guidance and challenge on supply chain sustainability issues by end 2011.		23	Conduct a review of our approach to human rights following the publication of the OECD's revised Guidelines for Multinational Enterprises, including input on our Child Labour Policy from the International Labour Organisation.	End 2012
Use our approach for considering environmental impacts in all global factory sourcing decisions by end 2011.		23		
Extend our third party manufacturing assessments to include water by end 2011.			Conduct a detailed review of our strategic operational sites in high-risk water stress locations.	End 2012
Roll out our energy and CO <sub>2</sub> e assessments for warehouses across the Group by end 2012.		23	Roll out our energy and CO <sub>2</sub> e assessments for warehouses across the Group.	End 2012
Roll out our programme to improve fuel efficiency across all Group Trade Marketing & Distribution teams by end 2012.			Roll out our programme to improve fuel efficiency across all Group Trade Marketing & Distribution teams.	End 2012
Carry out a review of our Business Enabler Survey Tool to incorporate further sustainability criteria into the assessment process by end 2011.		23		
Further integrate sustainability principles into the selection criteria for our direct materials and machinery suppliers by end 2011.		23		
Trial our environmental scorecard with strategic materials suppliers by end 2011.		23	Develop the next version of our supplier scorecard and expand its use to machinery suppliers.	End 2012
<b>People and culture</b>				
In each of our business units, we aim to have at least one local successor ready in the short term for each senior position and two local successors ready in the long term. (In 2011, this was achieved for 51 per cent of roles for the short term and 53 per cent for the long term.)		25	In each of our business units, we aim to have at least one local successor ready in the short term for each senior position and two local successors ready in the long term. (This goal is expressed as 1:1:2.)	End 2012
Aim to have a 70:30 ratio of local to expatriate senior managers at business unit level. (In 2011, the ratio was 57:43.)		25	Aim to have a 70:30 ratio of local to expatriate senior managers at business unit level.	End 2012
Complete the development of our global learning management system and implement it across the Group by end 2011.		25		End 2012
Review our approach to employee wellbeing to establish how it can contribute to improved employee engagement by end 2012.			Review our approach to employee wellbeing, to establish how it can contribute to improved employee engagement.	End 2012
Work with our employees to devise improvement plans in response to the results of our employee opinion survey by end 2011.			Revise our employee opinion survey to strengthen our feedback culture and be better aligned to business priorities, with the revised survey to be carried out Group-wide by year end.	End 2012
Our global aim is to have a Lost Workday Case Incident Rate of no more than 0.2 by end 2012. The local target set for all our companies is zero accidents.		27	Our global aim is to have a Lost Workday Case Incident Rate of no more than 0.2 by end 2012. The local target set for all our companies is zero accidents and we have a zero accidents ambition for the whole Group.	End 2012
Implement our plan to reduce vehicle-related injuries in our Trade Marketing & Distribution teams by end 2011.		27		









































# Global Reporting Initiative index

The Global Reporting Initiative (GRI) is a global, multi-stakeholder organisation that has developed guidelines for sustainability reporting. Known as the G3 Guidelines, these include a list of indicators that companies should consider reporting against. The index below lists each of the GRI G3 indicators, whether we report against it and where that information can be found. The GRI materiality page in our online Report explains how we established which indicators to report against. You can find all our reported information at [www.bat.com/sustainability/GRI](http://www.bat.com/sustainability/GRI).

## KEY

-  Fully reported
-  Partially reported
-  Information not reported (not considered material to business operation)
-  Information not reported (more relevant locally and we do not collect global data on it)
-  Information reported in our Annual Report 2011

EC1	Economic value generated and distributed	
EC2	Financial implications due to climate change	
EC3	Defined benefit plan obligations	
EC4	Significant financial assistance from government	
EC5	Entry level wage ratios compared to local minimum	
EC6	Local supplier policy and spend	
EC7	Local hiring (p23)	
EC8	Impact of infrastructure investments	
EC9	Indirect economic impacts	
EN1	Materials used	
EN2	Use of recycled materials	
EN3	Direct energy consumption	
EN4	Indirect energy consumption	
EN5	Energy saved	
EN6	Energy-efficient products and services	
EN7	Energy reduction initiatives	
EN8	Water withdrawal	
EN9	Water sources affected by withdrawal of water	
EN10	Water recycled and reused	
EN11	Land in areas of high biodiversity	
EN12	Impacts on biodiversity (p17)	
EN13	Habitats protected or restored	
EN14	Plans for managing impacts on biodiversity (p17)	
EN15	Areas with IUCN Red List species	
EN16	Direct and indirect greenhouse gas emissions	
EN17	Other indirect greenhouse gas emissions	
EN18	Initiatives to reduce greenhouse gas emissions	
EN19	Ozone-depleting substances	
EN20	NOx, SOx emissions	
EN21	Water discharge	
EN22	Waste disposal	
EN23	Significant spills	
EN24	Hazardous waste	
EN25	Biodiversity – water habitats	
EN26	Environmental impacts of products and services	
EN27	Packaging materials reclaimed	
EN28	Non-compliance with environmental laws and regulations	
EN29	Impact of transport	
EN30	Environmental expenditures	

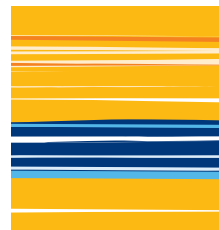
LA1	Total workforce by employment type	
LA2	Employee turnover	
LA3	Benefits provided to employees	
LA4	Collective bargaining agreements	
LA5	Minimum notice period	
LA6	Management–worker health and safety committees	
LA7	Health and safety	
LA8	Serious disease programmes	
LA9	Health and safety agreements with trade unions	
LA10	Training	
LA11	Lifelong learning	
LA12	Career development reviews	
LA13	Diversity	
LA14	Salary ratio of men to women	
HR1	Human rights – investment screenings	
HR2	Human rights – supplier screenings (p20)	
HR3	Human rights – employee training	
HR4	Total number of incidents of discrimination and actions taken	
HR5	Freedom of association	
HR6	Child labour (p20)	
HR7	Forced or compulsory labour	
HR8	Human rights – security personnel	
HR9	Indigenous people	
SO1	Community programmes	
SO2	Corruption – risk assessment	
SO3	Anti-corruption policies	
SO4	Response to incidents of corruption	
SO5	Public policy and lobbying (p11–12)	
SO6	Contributions to political parties	
SO7	Anti-competitive behaviour	
SO8	Non-compliance with laws and regulations	
PR1	Health and safety of products	
PR2	Health and safety of products – non-compliance	
PR3	Product and service information	
PR4	Product and service information – non-compliance	
PR5	Customer satisfaction	
PR6	Marketing communications (p12)	
PR7	Marketing communications – non-compliance (p12)	
PR8	Customer privacy	
PR9	Products and services – non-compliance	

#### About this Report

This is the British American Tobacco p.l.c. Sustainability Summary 2011. It reports on the activities of British American Tobacco companies in the UK and internationally and covers the calendar year 2011. Associate companies are excluded. References to 'British American Tobacco', '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.



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Read the online Sustainability Report at  
[www.bat.com/sustainability](http://www.bat.com/sustainability)

