Dear Stakeholders,

We are delighted to share our first ‘Combined Annual and ESG Report’ with you: incorporating our Sustainability reporting into our Annual Report more extensively, and in an integrated way.

Sustainability at our Core, Underpinned by Double Materiality Assessment™

Our purpose to build A Better Tomorrow™, by reducing the health impact of our business, while also driving excellence across ESG matters, is well-aligned to the attitudes and expectations of our stakeholders.

Recognising the importance of further integrating sustainability into our business strategy, in 2022, Mike Nightingale was appointed as our first Chief Sustainability Officer (CSO).

We also implemented a new Double Materiality Assessment (DMA)-led approach to inform our Sustainability Agenda (see below). This updated approach reflects how we are seeking to put sustainability at the core of everything we do, and is increasingly embedded in every business function.

Taking a Double Materiality Approach

The forthcoming EU Corporate Sustainability Reporting Directive (CSRD) requires reporting on a Double Materiality basis and, we have taken the opportunity to be among the first companies globally to conduct and disclose the results of our Double Materiality Assessment (DMA). See page 46 for details.

We have used the outputs of this new DMA to better inform our understanding of, and reporting on, those sustainability issues which are most important for BAT and to our stakeholders. This analysis considers both BAT’s impact on ESG matters, and the impact of ESG matters on BAT.

We have used the output to guide our reporting on sustainability in this new Combined Annual and ESG Report.

Stakeholder engagement

Strong engagement with our stakeholders has always been important to us. Our approach to the DMA has allowed us to further deepen and widen this engagement.

External assurance

Recognising the importance of confidence in our disclosures and transparency, we engaged KPMG to conduct external assurance of key ESG metrics in this report, in accordance with international standard ISAE 3000. Their independent limited assurance report for ESG metrics is available on page 95.

This is in addition to their audit of ESG-related financial metrics, such as New Category product sales.

Tobacco Harm Reduction at the Forefront of our Strategy

At the centre of our strategy is our corporate purpose to build A Better Tomorrow™, and reduce the health impact of our business. Over the last 10 years we have built a multi-category portfolio of reduced-risk products, tailored to meet the evolving preferences of adult consumers.

As Luc, Jack and Tadeu have highlighted, we continue to make strong progress on our journey and are confident in generating £5 billion revenue from the New Category business by 2025, with 50 million consumers of our Non-Combustible products by 2030.

Our core purpose of harm reduction is of paramount importance to us. Its importance to stakeholders was made clear through the DMA we conducted, which identified it as our primary issue.

As we deliver A Better Tomorrow™, and reduce our health impact, we must also drive progress across all our other material ESG areas to ensure BAT’s transformation is complete.

Achieving Excellence in Environmental Management

Alongside affirming the utmost importance of Harm Reduction, our DMA demonstrated an elevated importance for Climate Change, Circularity and Biodiversity, while recognising continued relevance of other material issues in our strategy.

Climate Change: By addressing climate risks and opportunities across our value chain, we can better support the long-term sustainability of our business, our planet and wider society. By 2030, we aim to achieve a 50% reduction in our Scope 1, 2 & 3 emissions and to be Net Zero across our value chain by 2050 at the latest. See page 52 for more details.

Circular Economy: Circularity is at the heart of how we seek to manage resources. From minimising operational waste to innovative New Category product designs, we are working to address a growing global concern about plastic and other waste. By 2025, we aim for 100% of our packaging to be reusable, recyclable or compostable. Find out more on page 54.

While the Vuse Go format in the Vapour category provides flexibility and convenience, which makes it a compelling alternative to cigarettes, we recognise that the rapid growth of the Modern Disposable segment presents additional environmental challenges. Reducing the environmental impact of the Modern Disposable segment is a key focus of our efforts, alongside our product Take-Back schemes and efforts to transition consumers to our pod-based products.

Biodiversity and Ecosystems: Sustainable agricultural practices help farming communities thrive and defend against deforestation and other loss of the natural environment.
We aim for Net Zero deforestation of managed natural forests in our tobacco, paper and pulp supply chains by 2025. Find out more on page 56.

Water: As water scarcity risks may increase with a changing climate, we are working to drive water efficiencies in the supply chain. By 2025, we aim to reduce the total amount of water we withdraw for our own operations by 35% vs 2017. See page 58.

Delivering a Positive Social Impact
From enhancing farmer livelihoods and respecting human rights – to creating a diverse, inclusive culture – we are working to contribute to a more socially sustainable world.

Human Rights: We are committed to respecting the human rights of our employees, the people we work with and the communities in which we operate. We continue to aim for zero child labour and zero forced labour in our tobacco supply chain by 2025. See page 60.

Farmer Livelihoods: Enhancing farmer livelihoods helps tackle rural poverty and strengthens our supply chain. We are committed to working to enable prosperous livelihoods for all farmers in our tobacco supply chain. Find out more on page 62.

People, Diversity and Culture: Attracting and retaining a diverse workforce and providing a welcoming, inclusive working environment are key drivers in BAT’s transformation. By 2025, we aim to increase the proportion of women in management roles to 45%. Find out more on page 84.

Health and Safety: We are committed to providing a safe and healthy working environment for our employees, and those in our supply chain. Our ambition is for zero accidents Group-wide and we audit Health & Safety (H&S) across the higher-risk areas of our supply chain. Find out more on page 92.

Robust Corporate Governance
Our global principles and policies set out how we work to promote consistent and robust corporate governance, in every market we operate in.

Responsible Marketing: Responsible marketing practices are crucial for ensuring only adult consumers use our tobacco and nicotine products. We have strict marketing requirements, and support our employees, partners and customers in effectively applying them.

We aim to have 100% adherence to our International Marketing Principles and our Youth Access Prevention Guidelines across our global operations. Find out more on page 64.

Ethics and Integrity: We are guided by a robust, global set of principles and policies in everything we do, in all our markets. We aim for 100% adherence to our Standards of Business Conduct (SoBC) in our own operations, and with our Supplier Code of Conduct (SCoC) in our supply chain. See page 66 for more information.

Sustainability Governance: We have leveraged our 2022 DMA process to review sustainability governance at BAT. We already had strong governance structures and arrangements in place. However, we are focused on continual improvement.

We also identified ‘climate and circularity’ as a principal risk for the first time in 2022, further recognising their significance to both society and BAT.

Going forward, we will continue to review our arrangements in this area – outlined on page 68 – to help ensure that they are fit for the future.

Our Approach to Sustainability Reporting
Our forward-looking view
BAT has continuously updated its reporting over the years, and this year marks another step forward. For example:

– we are reporting on the Principal Adverse Impact (PAI) indicators of the EU Sustainable Finance Disclosure Regulation (SFDR), within this report and on bat.com; and

– we are starting to align to draft standards for the CSRD, notably with respect to Double Materiality (see page 46), and looking towards the US Securities and Exchange Commission (SEC) plans on climate-related reporting.

Our Sustainability Journey
We challenge ourselves to take a forward-looking, future-oriented approach: in our products, our governance, our stakeholder engagement, our ESG goals and targets, and in our reporting.

Whilst we recognise that there remains much to be done to achieve a truly sustainable business and society, we are encouraged by our progress so far, working in partnership with others, and welcome feedback to sustainability@bat.com.

Notes:
* Based on the weight of evidence and assuming a complete switch from cigarette smoking. These products are not risk free and are addictive.† Our Vapour product Vuse (including Alto, Solo, Ciro and Vibe), and certain products, including Velo, Grizzly, Kodiak, and Camel Snus, which are sold in the U.S., are subject to FDA regulation and no reduced-risk claims will be made as to these products without agency clearance.
** Our Double Materiality Assessment and any related conclusions as to the materiality of sustainability or ESG matters do not necessarily refer to the evaluation of factors, results or other considerations that are financially material to our business taken as a whole, except where specified. In particular, the consideration of BAT’s impact on the sustainability of society and the environment may not be financially material and may not significantly alter the total mix of information available about our securities.