Overview

Chief Executive’s Review

Transforming and Delivering

2022 shows that our strategy is working. We have strong, global New Category brands, targeted geographic expansion plans and an unwavering commitment to innovation that means we are delivering for the consumer.

Dear Stakeholders,

During 2022, the business demonstrated once again that it can transform while also delivering strong results.

Our people have always been one of our greatest strengths and this year has never been more evident. Their focus and resolve in the face of global economic and political upheaval have delivered excellent progress against our three strategic priorities to:

- Generate a step change in New Categories performance;
- Drive value from combustibles; and
- Simplify the business.

As Tadeu highlights on page 8, Group revenue was up 7.7% on 2021. New Categories have become a significant contributor to this, delivering £2.894 million in 2022 (up 40.3%). We remain on track to meet our New Category revenue target of £5 billion by 2025, and now expect profitability (on a category contribution basis) by 2024, one year ahead of plan.

Combined with a resilient performance across our combustibles business during the year, we believe we are well placed to navigate an increasingly challenging external environment.

On 11 March 2022, we announced our intention to transfer our businesses in Russia and Belarus while remaining compliant with all local and international regulations. I can now confirm that we are compliant with all local and international regulations. I can now confirm that we are in advanced discussions with a joint management-distributor consortium with a view to completing the transaction in 2023, albeit that process remains unprecedented, complicated and complex.

A Purpose-Driven Strategy

At the centre of our strategy is our corporate purpose to build A Better Tomorrow™. This means offering a greater choice of enjoyable and less risky products¹ for our consumers.

2022 shows that our strategy is working. We have strong, global New Category brands, targeted geographic expansion plans and an unwavering commitment to innovation that means we are delivering for the consumer.

We now have 22.5 million consumers of Non-Combustible products and revenue from these products now accounts for 14.8% of Group revenue.

Across our three global New Category brands, we are seeing the benefits of our investments, driving sustainable growth while reducing operating losses.

In the Vapour category:

- Revenue was up 55% (from 2021), with our global brand, Vuse, extending its global value share leadership position; and
- Our recently launched Vuse Go product has achieved No.2 value share in the modern disposables segment in the UK and France and is now available in 24 markets.

In the Tobacco Heating Product category:

- Our flagship THP, glo, continued to make category volume share gains while also increasing revenue (up 24%) in 2022; and
- We are seeing encouraging early results from our Hyper X2 launch in Japan, following the national rollout in October 2022. Hyper X2 is now available in 21 markets around the world.

In the Modern Oral category:

- Velo continued its strong volume share leadership in Europe (now 69%), largely driven by innovations including Velo Mini pouches and Velo Max ranges; and
- Revenue in the Modern Oral category, predominantly through Velo, was up 45%.

Driving value from combustibles:

Of course, our continuing drive for value from the combustibles business is what powers our investment in New Categories. As such, the performance of that part of the business remains an important driver of growth.

We have a targeted portfolio of brands across price tiers which have delivered a robust performance across our APME, AmSSA and Europe regions, driven by resilient volumes.

With U.S. volumes continuing to face pressure as a result of macro-economic factors, we have activated commercial plans across specific brands, channels and states.

Beyond Nicotine

Our aspirations in the Beyond Nicotine space have also evolved in 2022:

- In September, we invested in one of Germany’s leading cannabis companies, Sanity Group, with a non-controlling minority stake; and
- In November, we invested via a loan in Charlotte’s Web, an independent leading U.S. producer of hemp extract wellness products; and
- At the start of the year, we created a new biotech company, KBio, to accelerate the development of our existing plant-based technology capabilities.

Together, these exciting developments represent another step in our exploration beyond tobacco and nicotine.

Embedding Sustainability

I was delighted with the appointment of our first Chief Sustainability Officer (CSO) in August 2022, further embedding our decades-long commitment to sustainability.

On page 26, Mike, our new CSO, and Kingsley, our Chief Growth Officer, discuss:

- The ESG and sustainability landscape;
- Our strategic approach; and
- How our reporting on this critical area of the business is evolving.

¹. New Category revenue includes revenue from combustibles and non- combustibles.
During 2022, the business demonstrated once again that it can transform while also delivering strong results.

Our people have always been one of our greatest strengths and this year that has never been more evident.

Their focus and resolve in the face of global economic and political upheaval have ensured excellent progress against our three strategic priorities.

At the centre of our strategy is our corporate purpose to build A Better Tomorrow™.

We remain on track to meet our New Category revenue target of £5 billion by 2025 and now expect profitability by 2024, one year ahead of plan.

Across our three global New Category brands, we are seeing the benefits of our investments; driving sustainable growth while reducing operating losses.

We have also made great progress on our existing ESG commitments this year.

With the external environment becoming ever more complex, I am confident that BAT’s proven resilience will ensure we can capitalise on the opportunities that will emerge.

One important development in this area in 2022 has been the application of a Double Materiality Assessment approach to inform our strategy, as further detailed on page 138. We took the opportunity during 2022 to be among the first companies globally to conduct and disclose results from a Double Materiality Assessment.

Such an approach looks not only at how our business impacts ESG issues but also how ESG-related matters impact our business. Key to understanding this has been an extensive stakeholder consultation process.

The results of the Double Materiality Assessment have already helped inform my management team and me on strategy and will continue to do so as we guide the business through 2023 and beyond.

We also made great progress on our existing ESG commitments this year:

- Our new Low-Carbon Transition Plan charts a course for how we will halve absolute emissions across our value chain by 2030;
- We now have 28 certified carbon neutral manufacturing and commercial facilities; and
- As we progress towards 100% Group certification by 2025, we achieved Alliance for Water Stewardship certification at our largest U.S. manufacturing facility.

Notes:
* Based on the weight of evidence and assuming a complete switch from cigarette smoking. These products are not risk free and are addictive.
1 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.

More details on our ESG Roadmap, which is pivotal to our building A Better Tomorrow™, can be found on page 6.

Opportunities and Resilience
With the external environment becoming ever more complex, I am confident that BAT’s proven resilience will ensure we can capitalise on the opportunities that will emerge.

One key to this is our Group-wide transformation programme, QUEST. Quantum, our business simplification and efficacy programme, is the first pillar of QUEST and has delivered £1.9 billion annualised cost savings over the last three years. The other pillars are described in detail on page 28 and highlight how we are becoming the Enterprise of the Future.

As BAT, and the world around us evolves, we need to make sure we are fit for the future. QUEST is one way that we are becoming more responsive, transformational and resilient in the face of change.

Of course, our people remain at the heart of the transformation we are undertaking.

As they have proven time and again, it is through their hard work and determination that we will continue to deliver for stakeholders now and in the future.

** BAT’s carbon neutral sites are externally verified as adhering to internationally recognised standards / carbon neutrality methodologies such as PAS 2060 and purchase carbon credits verified by third parties, such as VCS, Gold Standard and American Carbon Registry, to offset residual emissions for which immediate plans do not offer financially viable and/or real emission reductions.