2022 was another successful year in our transformational journey. With value delivered from combustibles and improving financial delivery from New Categories, we believe we are well placed to navigate the turbulent macro-economic environment.

Furthermore, while translational foreign exchange has negatively impacted the value of our borrowings (in sterling terms), we believe our continued cash generation places the Group in a strong position for future growth.

**Revenue Higher Driven by New Categories**
Revenue increased 7.7% to £27,655 million compared to 2021 (while 2021 was marginally lower than 2020, down 0.4% to £25,684 million).

Revenue from New Categories was up 40.9% in 2022 and 42.4% in 2021. Combustibles pricing remained strong, with Group price/mix of 4.6% in 2022 compared to 4.3% in 2021.

Foreign exchange movements affected the Group’s reported results in both periods, being a tailwind of 5.4% in 2022 and a headwind of 7.3% in 2021.

On a constant currency basis, revenue was up 2.3% in 2022 and 6.9% in 2021.

**Improving Financial Performance from New Categories Drives Growth**
Profit from operations increased 2.8% to £10,523 million, with 2021 up 2.7% to £10,234 million. In 2022, higher revenue, a further reduction in losses from New Categories and a translational foreign exchange tailwind of 7.0% were offset by higher adjusting items, which were largely due to:

- The charges recognised related to the proposed transfer of the Russian (and Belarusian) business of £612 million;
- Restructuring and integration charges, including in respect of Quantum, of £771 million (2021: £150 million), as we streamline our business to drive agility, and further enhance organisational capabilities as we move forward into the next phase of our transformation;
- A charge of £460 million recognised in respect of the investigations by the United States Department of Justice (DOJ) and the United States Department of the Treasury’s Office of Foreign Assets Control (OFAC) into alleged historical breaches of sanctions; and
- A charge of £79 million related to the conclusion of the investigation into alleged violations of the Nigerian Competition and Consumer Protection Act and National Tobacco Control Act.

These were partly offset by a net credit of £460 million in Brazil related to the calculation of VAT on social contributions in prior periods (as the Group’s litigation was successfully concluded in the year). Such adjusting items were higher than those recognised in 2021, which included a charge of £358 million related to the disposal of the Group’s Iranian business. Our operating margin was consequently 170 bps lower at 38.1% in 2022 (2021: up 120 bps to 39.8%).

On an adjusted constant currency basis, profit from operations grew by 4.3% (2021: up 5.2%). This was driven by higher revenue, a reduction in losses to £578 million from New Categories and efficiencies delivered in both 2022 and 2021 as part of Project Quantum (which has delivered £1.9 billion of annualised savings since 2020).

Adjusted operating margin (at current rates) increased 150 bps to 44.9% (2021: down 70 bps to 43.4%), largely driven by the reduction in New Categories losses.

**EPS Impacted by Substantial Adjusting Items, Partly Offset by FX Tailwind**
On a reported basis, basic EPS was down 1.2% at 293.3p (2021: up 6.0% at 296.9p) with diluted EPS down 1.3% to 291.9p (2021: up 6.0% to 295.6p), as the impact of higher adjusting charges in 2022 more than offset the improved operational delivery and a translational foreign exchange tailwind.

Excluding the adjusting items (discussed on pages 100 and 101) and the effect of foreign exchange on the Group’s results, adjusted diluted earnings per share, at constant rates, increased by 5.8% to 348.1p, building on the 6.6% growth in 2021.

**Strong Cash Generation But Currency Negatively Impacts Net Debt**
We continue to focus on a balanced approach to deleveraging, while investing for the future and providing a return via dividends to shareholders.

The Group’s cash conversion ratio, based upon net cash generated from operations, was 99% (2021: 95%) and the operating cash conversion ratio was 100% (2021: 104%). The Group realised £10.4 billion (2021: £9.7 billion) of net cash generated from operating activities, or £3.1 billion (2021: £2.5 billion) of free cash flow after dividends – which is a measure the Group uses to assess total cash generated by the Group with which to repay borrowings.

Due to the relative weakness of sterling against the US dollar (currency headwind of £3,911 million), which more than offset the net repayment of borrowings in the year, in 2022, total borrowings (including lease liabilities) have increased from £39,658 million in 2021 to £43,139 million in 2022.

Despite the currency headwind on borrowings, we continue to deleverage, with an adjusted net debt to adjusted EBITDA ratio decreasing from 2.99 times to 2.89 times.
The Group continues to deliver against its financial objectives. This has allowed the Group to continue to reward shareholders with growth in dividends (up a further 6.0%).

Strong, sustainable, cash flow generation underpins confidence in the future.

We remain committed to our medium-term targets of 3-5% revenue growth (excluding currency), high single figure adjusted diluted EPS growth and growth in dividends.

Profit from operations was up 2.8% (2021: up 2.7%), being growth of 4.3%, excluding adjusting items and translational FX.

Our liquidity profile remains strong, with average debt maturity close to 9.9 years and maximum debt maturities in any one calendar year of around £4 billion. Our medium-term rating target remains BBB+/Baa1, with a current rating of BBB+/Baa2*.

Net finance costs in 2022 were £1,641 million, an increase of 10.5% on 2021, which had declined to £1,486 million from £1,745 million in 2020. The increase in 2022 was partly driven by a foreign exchange headwind. On an adjusted, constant rate basis, net finance costs increased 2.5% in 2022 (2021: down 4.5%), driven by higher interest costs on debt issued in the year.

As part of the Group’s de-risking of future funding, during 2020, gross interest cover ceased to be a covenant in the Group’s debt facilities.

The Group has debt maturities of around £4 billion annually in the next two years. Due to higher interest rates, net finance costs are expected to increase as debts are refinanced.

Active Capital Allocation Framework
We are committed to our active capital allocation framework, which will deliver long-term value to our shareholders, driven by our cash flow generation and deleverage plans.

These include:
- Continuing to grow the dividend;
- Maintaining our target leverage corridor of 2-3x adjusted net debt / adjusted EBITDA®;
- Potential bolt-on M&A opportunities; and
- Share buy-backs to enhance shareholder returns.

Our business is extremely well placed for the future.

Navigating the Near Term Challenges With Confidence
With a diversified geographic and product portfolio, and a track record of delivering robust and consistent cash generation, we believe the Group is well positioned to continue to invest for future growth while navigating the near-term macro-economic uncertainties and challenges.

Notes:
* A credit rating is not a recommendation to buy, sell or hold securities. A credit rating may be subject to withdrawal or revision at any time. Each rating should be evaluated separately of any other rating.
* Denotes phrase, paragraph or similar that does not form part of BAT’s Annual Report on Form 20-F as filed with the SEC.