Overview

Chair's Introduction

Transforming for A Better Tomorrow™

In an increasingly complex world, BAT's North Star remains its purpose – to build A Better Tomorrow™. To succeed in delivering this, we must continue to win and nurture the trust of all our stakeholders, including shareholders.

Luc Jobin
Chair

Dear Fellow Shareholders

2022 marks a year of great progress against the strategy at BAT, given the backdrop of an increasingly complex external environment. I am proud of the delivery of the business in 2022.

Navigating a new economic cycle, characterised by rising inflation, higher interest rates and a tight labour market, has required the business to be more adaptable than ever.

Such complexities have been exacerbated by international conflict, political instability and supply chain constraints. In response, BAT has increased its focus on driving both a step change in New Categories and value from the combustibles business.

I believe BAT's strategy gets the balance right between these two drivers of value. On top of that, pursuing greater synergies and simplification across the business has delivered further savings for re-investment.

Over the last year, the business has demonstrated the agility required to adapt to a changing external environment.

One tool at our disposal is our active capital allocation framework, introduced in 2021, which allows us the flexibility to take into account macro and fiscal developments to deliver long-term value.

Progressing With Purpose

As a Board, our role is to work to ensure BAT continues to deliver for the consumer, investors and our wider stakeholders.

With international travel possible once again, I have been delighted to see first-hand how our A Better Tomorrow™ corporate purpose has become embedded across so many levels of the organisation.

As the business transforms, the goal of everyone across BAT is to maintain the high performance and rapid progress we have demonstrated since our A Better Tomorrow™ journey began in 2020.

With our New Category revenue and consumers of Non-Combustible products targets approaching, now is the time to keep our momentum and focus.

We must provide even more adult smokers with a portfolio of products that are a better choice than cigarettes[*†].

As we have said before, reducing the health impact of our business by offering consumers a greater choice of reduced risk[*†] products is a multi-year endeavour. It is unlikely to always proceed smoothly and may involve periods of turbulence owing to factors outside of our control. However, what is clear to me is that every level of the business is committed to delivering sustainable growth.

Driving ESG Progress

This year, we have taken the opportunity to embed sustainability reporting more extensively into our Annual Report. Ahead of forthcoming EU reporting requirements, we believe this new 'Combined Annual and ESG Report' provides a more holistic view of our business performance.

Sustainability and ESG have long been an intrinsic part of BAT's DNA. We published our first Sustainability Report in 2001. Since then, the business has been repeatedly recognised for its sustainability achievements. This year alone, we received the highest award - gold class - in the S&P Global Sustainability Yearbook 2022, and were named a Climate Leader by the Financial Times.

As part of our commitment to the UN-backed Race to Zero campaign, BAT published its Low-Carbon Transition Plan in 2022. This important document outlines the actions the business will take to reach its climate targets. This includes halving absolute emissions across its value chain by 2030, from a 2020 baseline, and to be Net Zero across its value chain by 2050 at the latest.

This is the latest milestone in BAT's journey to tackle climate change and to build A Better Tomorrow™. Crucially, targets and actions included in the Low-Carbon Transition Plan are in line with BAT's ambitious 1.5°C-aligned trajectory, approved by the Science Based Targets initiative in July 2022.

BAT is equally committed to protecting biodiversity. The COP-15 UN Biodiversity Conference took place in Canada in December 2022 and BAT joined more than 300 leading companies in signing Business for Nature's call to protect and restore biodiversity.

The need for mandatory requirements for businesses and financial institutions to disclose biodiversity impacts has never been clearer. Biodiversity and climate are inextricably linked and it is only through creating a level playing field for businesses that we hope to see meaningful progress on protecting biodiversity.

Ethos & Culture

I would also like to reflect on how important BAT's ethos and culture is to delivering BAT's future. After all, our people are a key stakeholder group; explicitly called out when we talk about creating sustainable, multi-pronged value.

In many ways BAT has a remarkable and unique culture: truly global, immensely diverse and marked out by a blend of new talent and capabilities, alongside long-standing experience. Of course, that culture needs nurturing and cherishing.

2022 marks a year of great progress against the strategy at BAT, given the backdrop of an increasingly complex external environment. I am proud of the delivery of the business in 2022.

During uncertain times, our role is to ensure BAT continues to deliver for the consumer and our wider stakeholders.

We must provide even more adult smokers with a portfolio of products that are a better choice than cigarettes*†.

Sustainability and ESG have long been an intrinsic part of BAT's DNA. We published our first Sustainability Report in 2001.

As part of our commitment to the UN-backed Race to Zero campaign, BAT published its Low-Carbon Transition Plan in 2022.

Each and every one of the people across BAT deserves huge credit for the achievements of 2022.

As the business transforms, the goal of everyone across BAT is to maintain the high performance and rapid progress we have demonstrated since our transformation journey began in 2020.

My Board colleagues and I have dedicated significant time this year to understanding that culture better and fostering its development with management. We are committed to making sure it develops through building on its provenance while also being contemporaneous and 'fit' for the challenges of the world today. We will continue to reflect further on that as part of the Board's programme through 2023.

Dividends

The Board has declared a dividend of 230.9p per ordinary share, payable in four equal instalments of 57.72p per ordinary share, to shareholders registered on the UK main register or the South Africa branch register and to American Depository Shares (ADS) holders, each on the applicable record dates.

The dividends receivable by ADS holders in US dollars will be calculated based on the exchange rate on the applicable payment dates.

Further information on dividends can be found on page 103 of the Financial Performance Summary and page 375 in the Shareholder Information section.

Board Changes

I was pleased to welcome Véronique Laury to the Board in September 2022. Véronique joined as an independent Non-Executive Director and member of the Nominations and Audit Committees.

With an extensive career in consumer goods, including Kingfisher plc for over 15 years where she was Group CEO between 2014 and 2019, Véronique brings with her impressive international, strategic, transformation and digital experience. I look forward to her contribution as we accelerate our strategy to build A Better Tomorrow™.

Confidence in BAT's Team

I have full confidence in the Management Board of BAT and in the leadership of Jack. I know that, as a team, they will continue to lead the accelerated transformation of BAT at pace.

Each and every one of the people across BAT deserves huge credit for the achievements of 2022. In testing circumstances, they have demonstrated resilience, dedication and an ability to adapt to change. On behalf of the Board, I offer them my thanks.

My Thanks

In an increasingly complex world, BAT's North Star remains its purpose – to build A Better Tomorrow™. To succeed in delivering this, we must continue to win and nurture the trust of all our stakeholders, including shareholders.

I am grateful to everyone who has shared in our transformation journey so far – equally so to those new shareholders who have joined us on the journey ahead.

Developments over the last few years have shown that it will not always be straightforward. However, with your support, I am confident that BAT will continue to transform at pace while delivering multi-stakeholder value long into the future.

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.

Colleagues meeting at our global headquarters in London, UK

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.

Jack Bowles
Chief Executive

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 that 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 40.9%). 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 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 products*† 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;
- 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.

"

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 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.

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.

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.

** 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.

Some of our employees at our office in Sacheon. South Korea

Overview

Our ESG Roadmap

Our ESG Roadmap contains key goals and targets, metrics, current performance and prior-year comparatives for our material sustainability topics.

● Improvement / target met ● Ongoing focus area ● Significant improvement required

Topic	Goals and targets	Metrics	Performance tracking 2022	2021	2020	Trend
H Harm reduction	**£5bn by 2025** in revenue from New Categories	New Category revenues (£bn)	**2.9**	2.1	1.4	Improvement / target met
	50m by 2030 consumers of our Non-Combustible products	No. of consumers (millions)♦	**22.5**	18.3	13.5	Improvement / target met
E Climate change	**Net Zero by 2050** across our value chain - comprising Scope 1, 2 & 3 greenhouse gas (GHG) emissions; **50% CO_2e emissions reduction by 2030** across our value chain - comprising Scope 1, 2 & 3 GHG emissions[1]; **Carbon neutral operations by 2030** comprising Scope 1 & 2 GHG emissions	Scope 1 & 2 (market based) CO_2e emissions (thousand tonnes)♦	**420**	495	541	Improvement / target met
		Scope 1 & 2 CO_2e emissions intensity (tonnes per £m revenue)♦	**15.2**	19.3	20.0	Improvement / target met
		% Scope 1 & 2 CO_2e emissions reduction vs 2020 baseline	**22.3**	8.4	N/A	Improvement / target met
		Scope 3 CO_2e emissions (thousand tonnes) including biogenic emissions and removals♦	–[2]	**5,243**	5,614	Improvement / target met
Circular economy	**<1% waste to landfill by 2025**	% waste sent to landfill from direct operations	**4.9**	8.70	8.90	Improvement / target met
	100% packaging reusable, recyclable or compostable by 2025	% packaging reusable, recyclable or compostable	**92**	92	80	Improvement / target met
		% markets selling Vuse and glo with Take-Back schemes	**100**	100	–	Improvement / target met
Biodiversity & ecosystems	**No gross deforestation** of primary native forests in our tobacco, paper and pulp supply chains; **Net Zero deforestation by 2025** of managed natural forests in our tobacco, paper and pulp supply chains	% sources of wood used by our contracted farmers for curing fuels that are from sustainable sources♦	**99.99**	99.89	99.70	Improvement / target met
		% paper and pulp volumes that is certified as sourced sustainably♦	**94**	89	–	Improvement / target met
Water	**35% less water use by 2025**	% reduction in water withdrawn vs 2017 baseline	**33**	28	23	Improvement / target met
	100% operations sites Alliance for Water Stewardship certified by 2025	% operations sites Alliance for Water Stewardship (AWS) certified	**36**	15	–	Improvement / target met
S Human rights[3]	**Zero child labour** aiming for zero incidents in our Tobacco Supply Chain by 2025	% farms with incidents of child labour identified♦	**0.38**	0.70	0.50	Improvement / target met
		% incidents of child labour reported as resolved by the end of the growing season♦	**100**	100	98.5	Improvement / target met
	Monitoring of supply chains	% farms monitored for child labour in our Tobacco Supply Chain♦	**99.99**	99.91	99.70	Improvement / target met
		% product material and higher-risk indirect service suppliers having an independent labour audit within a three-year cycle♦	**36.6**	22	–	Improvement / target met
Farmer livelihoods[3]	**Crop diversification** supporting prosperous livelihoods	% farmers in our Tobacco Supply Chain reported to grow other crops for food or as additional sources of income♦	**92.8**	95.6	93.4	Ongoing focus area
People, Diversity & Culture	**Increase to 45% by 2025** proportion of women in management roles	% female representation in management roles♦	**41**	39	38	Improvement / target met
	Zero accidents aiming for zero accidents Group-wide each year	Number of work-related accidents (including assaults) resulting in injury, causing absence of one shift or more	**83**	95	114	Improvement / target met
		Lost Time Incident Rate (LTIR)♦	**0.19**	0.20	0.22	Improvement / target met
		Number of serious injuries and fatalities to employees and contractors♦	**36**	31	39	Ongoing focus area
G Ethics & Integrity	**100% SoBC compliance** aiming for full adherence to our Standards of Business Conduct (SoBC)	Number of established SoBC breaches[4]♦	**84**	99	116	Improvement / target met
		Number of disciplinary actions taken as a result of established SoBC breaches that resulted in people leaving BAT♦	**58**	46	54	Ongoing focus area
Responsible marketing	**Full compliance** aiming for full compliance with marketing regulations	Incidents of non-compliance with marketing regulations resulting in a fine or penalty[5]♦	**3**	–	–	–

Notes: ♦2022 (2021 for Scope 3) metrics with independent limited assurance by KPMG in accordance with ISAE 3000; see page 94 for a full list of assured metrics. See BAT 'Reporting Criteria' for key terms and definitions, on bat.com/sustainabilityreporting. Environmental and Health & Safety data is reported for the period 1 December 2021 to 30 November 2022. In 2022, BAT changed its CO_2e emissions reduction baseline from 2017 to 2020, following SBTi approval of its near-term, 1.5°C-aligned, 2030 reduction target. See page 80 for CO_2e emissions reporting methodology. 1) Compared to 2020 baseline. Comprises 50% reduction in Scope 1, 2 and 50% reduction in Scope 3 GHG (CO_2e) emissions. Scope 3 emissions target includes purchased goods and services, upstream transportation and distribution, use of sold products and end-of-life treatment of sold products, which collectively comprised >90% of Scope 3 emissions in 2020. 2) Due to the complexity of consolidating and assuring Scope 3 data from our suppliers and value chain, Scope 3 data is reported one year later. 3) Our goals cover all tobacco used in our combustibles & THP products ('tobacco supply chain'). Our metrics, however, derive data from our annual Thrive assessment, which includes our directly contracted farmers and those of our strategic third party suppliers, representing over 80% of the tobacco purchased by volume in 2022 ('Tobacco Supply Chain'). 4) Consistent with previous years' reporting, cases are not included in the above if they were not resolved at year-end. 5) This is a new GRI-aligned metric for FY2022, with a new reporting system. Although similar data exists for FY2021 & 2020, because the reporting methodology has changed, prior data is not directly comparable.

Our Year in Numbers

Our Performance Metrics	2022	%	2021	%	2020	IFRS GAAP	KPI	NON GAAP
Consumer								
Number of Non-Combustible Product Consumers	**22.5m**		18.3m		13.5m			
Market Share								
Cigarette and THP volume share growth (bps)	**-10 bps**		+10 bps		+30 bps		●	
Cigarette and THP value share growth (bps)	**flat**		+20 bps		+20 bps			
Volume								
Vapour (mn 10ml units/pods)	**612**	**+14%**	535	+56%	344			
THP (bn sticks)	**24**	**+26%**	19	+79%	11			
Modern Oral (mn pouches)	**4,010**	**+22%**	3,296	+70%	1,934			
Traditional Oral (bn stick equivalents)	**7**	**-8%**	8	-4%	8			
Cigarettes (bn sticks)	**605**	**-5%**	637	0%	638			
Other Tobacco Products (bn stick equivalents)	**16**	**-10%**	18	-9%	20			
Financial								
Revenue (£m)	**27,655**	**+7.7%**	25,684	-0.4%	25,776	●		
Revenue at cc (%)[1, 2]		**+2.3%**		+6.9%			●	●
Revenue from New Categories (£m)	**2,894**	**+40.9%**	2,054	+42.4%	1,443	●		
Revenue from New Categories at cc (%)[1]		**+37.0%**		+50.9%			●	●
Profit from Operations (£m)	**10,523**	**+2.8%**	10,234	+2.7%	9,962	●		
Adjusted Profit from Operations at cc (%)[1, 2]		**+4.3%**		+5.2%			●	●
Operating Margin (%)	**38.1%**		39.8%		38.6%	●		
Adjusted Operating Margin (%)[2]	**44.9%**		43.4%		44.1%			●
Diluted Earnings per Share (p)	**291.9**	**-1.3%**	295.6	+6.0%	278.9	●		
Adjusted Diluted Earnings per Share (p)[2]	**371.4**	**+12.9%**	329.0	-0.8%	331.7		●	●
Adjusted Diluted Earnings per Share at cc (%)[1, 2]		**+5.8%**		+6.6%			●	●
Dividends per Share (p)	**230.9**	**+6.0%**	217.8	+1.0%	215.6			
Dividend Pay-Out Ratio (%)	**62%**		66%		65%			
Net Cash Generated from Operating Activities (£m)	**10,394**	**+7.0%**	9,717	-0.7%	9,786	●		
@Free Cash Flow after Dividends (£m)	**3,134**	**+23.2%**	2,543	-0.3%	2,550			●
Cash Conversion (%)	**99%**		95%		98%	●		
@Operating Cash Conversion (%)	**100%**		104%		103%		●	●
Borrowings, including Lease Liabilities (£m)	**43,139**	+8.8%	39,658	-9.8%	43,968	●		
@Adjusted Net Debt to Adjusted EBITDA (ratio)[2]	**2.9x**		3.0x		3.3x		●	●
@Adjusted Return on Capital Employed (%)[2]	**10%**		9%		10%			
Total Shareholder Return (rank)	**4 of 24**		17 of 24		20 of 23		●	

Find our key ESG goals, targets and metrics in our ESG Roadmap on page 6

Please refer to the Non-GAAP section from page 324 for the Non-GAAP measures definitions. See the section 'Non-Financial Measures' on page 322 for more information on these non-financial KPIs.

Notes:

@ Denotes phrase, paragraph or similar that does not form part of BAT's Annual Report on Form 20-F as filed with the SEC.

1. Where measures are presented 'at constant rates' or 'at cc', the measures are calculated based on a re-translation, at the prior year's exchange rates, of the current year results of the Group and, where applicable, its segments. See page 107 for the major foreign exchange rates used for Group reporting.
2. Where measures are presented as 'adjusted', they are presented before the impact of adjusting items. Adjusting items represent certain items of income and expense which the Group considers distinctive based on their size, nature or incidence.

Overview

Finance and Transformation Director's Overview

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.

Tadeu Marroco
Finance & Transformation Director

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 £450 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 @ of £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.

Strong cash generation has enabled us to return £6.9 billion of cash to shareholders in 2022, while still deleveraging @to 2.89x adjusted net debt to adjusted EBITDA@.

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.

The Board will prioritise capital allocation opportunities each year in line with this new longer-term active capital allocation framework, while continuing to take into account macro-economic influences and potential regulatory and litigation outcomes.

At this time, the Board has decided to take a pragmatic approach. Given our incremental investment plans in 2023 to further accelerate our transformation, and in light of the uncertain macro-environment, higher interest rates, outstanding litigation and regulatory matters, the Board has decided to prioritise strengthening the balance sheet. This will provide greater business resilience while continuing to support future financial agility, as we aim to reduce leverage more quickly @towards the middle of our target 2-3x corridor@.

We have announced a dividend increase of 6.0% to 230.9p (with a dividend pay-out ratio of 62.2%).

Navigating the Near Term Challenges With Confidence

Our business is extremely well placed for the future.

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.

Colleagues at BAT Mexico having a discussion over coffee

Overview

Investment Case

Transformation Driving Sustainable Growth

Delivering growth by reducing harm and expanding our portfolio

Our corporate purpose is to build A Better Tomorrow™. Reducing the health impact of our business, by encouraging those smokers who would otherwise continue to smoke to switch completely to scientifically-substantiated, reduced-risk alternatives*†, is the greatest contribution we can make to society. This means growing our New Categories business as quickly as possible and developing opportunities Beyond Nicotine to consolidate our position as a high growth, multi-category consumer products company.

Revenue growth in the global nicotine industry is accelerating through the development of New Categories, which offer reduced-risk alternatives to combustible products.*†

We are building strong global brands, specifically positioned in each target consumer segment through our established consumer-centric, multi-category strategy. In addition, we are taking a disciplined approach to our Beyond Nicotine strategy to further drive our transformation and long-term business sustainability.

We have set ourselves ambitious targets to reach 50 million consumers of our Non-Combustible products by 2030, with New Categories revenue to reach £5 billion (by 2025) and profitability in 2024, one year ahead of plan. These ambitions will be met through the delivery of our three clear strategic priorities:

– to drive a step change in New Categories, to accelerate growth supported by increased investment;
– to generate value through Combustibles, to provide the capabilities and funding; and
– to simplify the Group, to create a stronger, faster and more agile organisation.

Reducing our Health and Environmental Impact

Creating sustainable value for all our stakeholders

Our work to reduce the health and environmental impact of the business will drive growth and create shared value, delivering results that benefit shareholders and wider society.

We will continue to create a stronger BAT by:

– focusing on excellence in environmental management;
– delivering a positive social impact; and
– adhering to robust corporate governance.

This builds on our strong ESG foundations, including:

– our status as the first tobacco company to produce a Sustainability Report in 2001;
– publication of a Human Rights focus report in 2020, the first of its kind by a tobacco company to be aligned with the UN framework of Human Rights reporting;
– being named in the Dow Jones Sustainability Indices for 21 consecutive years; and
– receiving an 'A' rating from CDP (formerly know as the Carbon Disclosure Project) in climate change in 2022^.

Our commitments are anchored in challenging targets against which we will track and share the progress of our transformation, including achieving Net Zero across our value chain by 2050.

Meanwhile, our 'delivery with integrity' programme is focused on ensuring that our ethical standards are never compromised for the sake of results.

50mn
Non-Combustible product consumers targeted by 2030

1bn+
current consumers in global combustibles market with the potential to convert to reduced-risk products*†

£5bn
New Categories revenue targeted by 2025

14.8%
Group revenue from Non-Combustibles in 2022

21st
consecutive year in the Dow Jones Sustainability Indices

Carbon Neutral
Scope 1 & 2 targeted by 2030

Net Zero
across the value chain (Scope 1, 2 & 3) targeted by 2050

100%
packaging to be reusable, recyclable or biodegradable targeted by 2025

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.

^ A rating, whether by CDP or any other organisation, is not a recommendation to buy, sell or hold securities. A rating may be subject to withdrawal or revision at any time. Each rating should be evaluated separately from any other rating. In addition, the criteria used in ratings may differ among ESG rating organisations. Companies may also supply different information to such organisations (or none at all) and this lack of consistency may impact rankings.

Creating the Enterprise of the Future

Leveraging proven expertise and developing new capabilities to deliver our ambitions

Our New Category portfolio benefits from decades of insights and expertise that have driven our No. 1 global revenue position in combustibles (excl. China). This, combined with increased investment behind new capabilities, gives us confidence that we can deliver our medium- to long-term ambitions.

Our three global New Category brands leverage the benefits of our world-class R&D and our manufacturing, distribution, marketing and brand building capabilities. These are supported by new senior talent from a diverse range of industries to further enhance our capabilities and our global footprint.

Our long-standing experience operating within complex regulatory, legal and fiscal frameworks, provides BAT with a compelling competitive advantage to drive portfolio growth and transformation within the wider tobacco industry.

Through Project Quantum, our business simplification and efficiency programme, we have achieved £1.9 billion of annualised savings since 2020 to invest in new capabilities. Building on Quantum's success, QUEST will accelerate our organisational and business transformation programme, driving next generation innovations:

– building new digital capabilities;
– empowering our people; and
– enhancing our future sustainability.

Through QUEST, we are creating the Enterprise of the Future.

@Continuing our Track Record of Delivery

Commitment to delivering returns and cash to shareholders

We are confident in our growth outlook, and have a proven track record of performance whatever the external environment.

Over the last 10 years, we have delivered 9% adjusted diluted EPS growth (at constant rates) and a 6% dividend CAGR and are confident in our medium-term targets of 3-5% revenue growth, increased operating margin and high-single digit adjusted EPS growth (at constant rates).

This will be driven by:

– increasing New Category contribution to Group revenue growth and earnings;
– continued value growth in combustibles; and
– business simplification to become a stronger, simpler, more agile organisation.

With strong profitability, >90% operating cash conversion and leverage at c.2.89x adjusted net debt / adjusted EBITDA, we have adopted a more active capital allocation framework to deliver long-term value for shareholders. This will include:

– continuing to grow the dividend;
– maintaining our target leverage corridor of 2-3x adjusted net debt / adjusted EBITDA;
– considering potential bolt-on M&A opportunities; and
– share buybacks to enhance shareholder returns.@

22.5m
consumers of our Non-Combustible products

22m
consumers in our contactable consumer database

>170
markets in which we operate

£1.9bn
annualised savings delivered 2019- 2022

3,000
new capability hires since 2019

High Single Digit
medium-term adjusted diluted EPS growth target (at cc)@

>90%
operating cash conversion targeted annually@

9%
adj. diluted EPS average growth (at cc) over 10 years

3-5%
medium-term revenue growth target (at cc)@

6%
dividend CAGR over 10 years

Notes:
Use of the term "cc" refers to constant currency where measures are calculated based on a re-translation, at the prior year's exchange rates, of the current year's results of the Group.
@ Denotes phrase, paragraph or similar that does not form part of BAT's Annual Report on Form 20-F as filed with the SEC.

Strategic Management

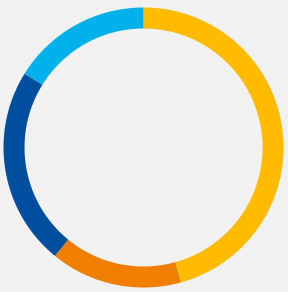
Our Global Business

To build A Better Tomorrow™, our marketplace analysis delivers insights regarding consumer trends and segmentation. This facilitates our geographic brand prioritisation across our regions and markets.

To achieve a step change in New Categories, we are creating the Enterprise of the Future – building new capabilities around the world focused on science, innovation and digital information.

Consumer preferences and technology are evolving rapidly, and we are staying ahead of the curve with our digital hubs, the creation of innovation hubs and further development of our world-class R&D laboratories. We are also leveraging the expertise of our external partners and are looking forward to exciting results from our venturing initiative, Btomorrow Ventures.

Revenue by Region



£27,655m
Total revenue

U.S.	£12,639m
AmSSA	£4,203m
Europe	£6,346m
APME	£4,467m

For more key detail on our Regional Performance, see pages 108 to 115

Effective from 2023, the Group will revise its regional structure and report on three regions, being;

- the United States of America;
- Asia-Pacific, Middle East and Africa (APMEA); and
- Americas and Europe (AME).

Our four complementary regions

Map is accurate as at 31 Dec 2022 and is representative of general geographic regions and does not suggest that the Group operates in each country of every region.

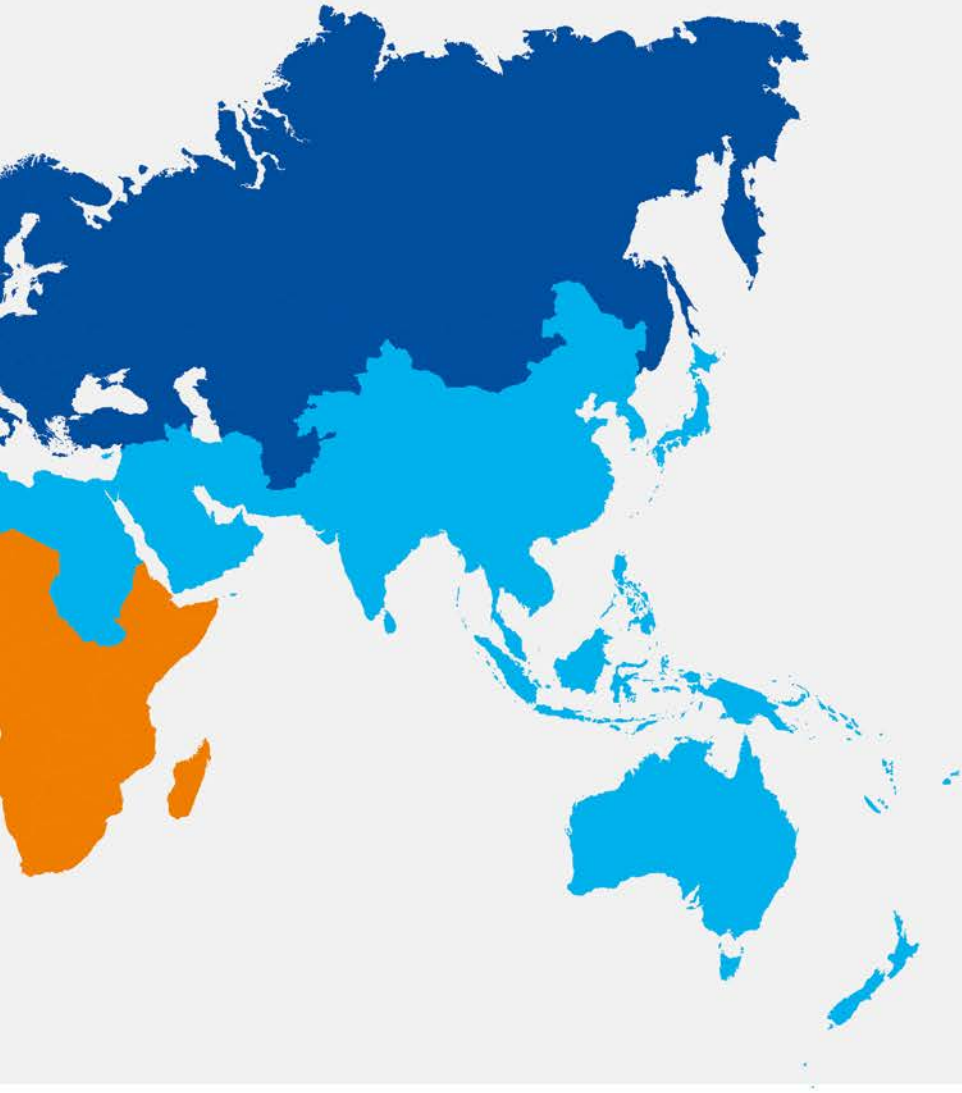
Our business is divided into four complementary regions, with a balanced presence in both high-growth emerging markets and highly profitable developed markets.

4
regions

5
major product categories

138
employee nationalities

50,000+
employees



United State of America (U.S.)

Key Markets:
United States of America

Americas and Sub-Saharan Africa (AmSSA)

Key Markets:
Argentina, Brazil, Canada, Chile, Colombia, Nigeria, Mexico, South Africa

Europe

Key Markets:
Belgium, Bulgaria, Czech Republic, Denmark, France, Germany, Greece, Hungary, Italy, Kazakhstan, Netherlands, Poland, Romania, Russia, Spain, Switzerland, Turkey, Ukraine, United Kingdom.

Russia will remain in the list of key markets until the transfer of the Russian business is complete.

Asia-Pacific and Middle East (APME)

Key Markets:
Algeria, Australia, Bangladesh, Egypt, Gulf Cooperation Council (including Saudi Arabia), Japan, Malaysia, Morocco, New Zealand, Pakistan, South Korea, Taiwan, Vietnam.

From 1 January 2022, Algeria, Sudan, Morocco, Libya, Tunisia and Egypt moved from Europe and North Africa (now Europe) to APME. No restatement of prior year figures has been made as the impact was not material to either Europe or APME.

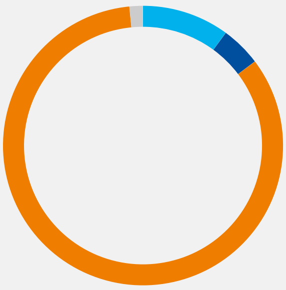
Read more on pages 108 to 115

Strategic Management

Our Consumer-Centric Multi-Category Portfolio

BAT is a leading consumer-centric, multi-category consumer goods business dedicated to stimulating the senses of adult consumers worldwide. Our portfolio reflects our commitment to meeting the evolving and varied needs of today's adult consumer who seeks sensorial enjoyment for different moods and moments.

Revenue by product category



New Categories	£2,894m	10.4%
Traditional Oral	£1,209m	4.4%
Combustibles	£23,030m	83.3%
Other	£522m	1.9%

£27,655m
Total revenue

Strategic Portfolio

These are our key brands in both the combustible and Non-Combustible categories. This ensures focus and investment on the brands and categories that will underpin the Group's future performance.
The strategic portfolio is:

Non-Combustibles

All brands within New Categories and the strategic Traditional Oral brands in moist and snus.

Combustibles

Dunhill, Kent, Lucky Strike, Pall Mall, Rothmans, Newport (U.S.), Natural American Spirit (U.S.), Camel (U.S.).

Notes:
BAT's New Category products are not smoking cessation devices and are not marketed for that purpose.
* 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.

	Category	
Our Reduced-Risk Portfolio (Non-Combustibles)*†	Vapour	Vapour products are handheld, battery-powered devices that heat a liquid (called an e-liquid) to produce an inhalable aerosol, commonly known as vapour. These products can be either open or closed systems. Open systems offer a customised vaping experience – using a refillable tank. Closed systems work with disposable, pre-filled cartridges, offering greater convenience.
Our Reduced-Risk Portfolio (Non-Combustibles)*†	THP	Tobacco Heating Products (THPs) are a new category of tobacco product designed to heat rather than burn tobacco. They create an inhalable aerosol that contains nicotine and are also known as 'heat-not-burn' products.
Our Reduced-Risk Portfolio (Non-Combustibles)*†	Modern Oral	Modern Oral products are our smoke-free oral nicotine products, sometimes called nicotine pouches, designed for use in the mouth. Consumers place a disposable nicotine pouch between their gum and upper lip where nicotine and flavours are released and nicotine is absorbed through the tissues lining the mouth.
Our Reduced-Risk Portfolio (Non-Combustibles)*†	Traditional Oral	Traditional oral products include snus and snuff. Snus is a moist form of oral tobacco originating from Sweden. It is available in loose form or as pouches. The tobacco is typically mixed with water, salt and aromas.
	Combustibles	The Group sold 605 billion cigarette sticks and 16 billion OTP (stick equivalents) in 2022. The Group operates in over 170 markets, with 41 fully integrated cigarette manufacturing facilities in 39 markets.

Global Drive Brands

Market Footprint

Vuse

33
markets where our Vapour products are currently available

glo

28
markets where our THPs are currently available

VELO

28
markets where our Modern Oral products are currently available

GRIZZLY

3
markets where our Traditional Oral products are currently available

DUNHILL · **PALL MALL** · **LUCKY STRIKE** · **KENT** · **Rothmans**

U.S. Specific

Newport · **Natural American Spirit** · **Camel**

Strategic Management

Our Business Model

As a global business, we strive to understand our diverse consumers, develop products to satisfy their preferences and ultimately distribute them across 170+ markets. Taking into account feedback from stakeholders also enables us to refine our strategy, deliver sustainable value and build A Better Tomorrow™.

Our eight-step business model

Our business model begins and ends with the consumer. The insights we gather from adult consumers, underpinned by robust science, unlocks value by ensuring we offer the right product choices to meet their preferences. Our product portfolio is constantly being enhanced through innovations designed to better serve adult consumers and build A Better Tomorrow™.

Following the responsible sourcing of raw materials and components, we utilise our global footprint to manufacture at speed and scale. We use our global distribution capabilities to ensure our products are where they need to be, when they are needed. Through our responsible marketing practices and powerful portfolio, we market and sell our products which, in turn, generate further insights.

Read more about our stakeholders on page 18

1

Seeing over the horizon

As one of the most long-standing and established consumer goods businesses in the world, we have a unique view of the consumer across our product categories, which is increasingly driven by powerful data and analytics. These insights ensure that the development and responsible marketing of our products are fit to satisfy consumer needs.

Driven by our unique and data-driven consumer insight platform (PRISM), we focus on product categories and consumer segments across our global business that have the best potential for long-term sustainable growth.

Link to risks

Tobacco, New Categories and other regulation interrupts growth strategy

Inability to develop, commercialise and deliver the New Categories strategy

Climate and circularity

2

Accelerating tobacco harm reduction

World-class science is needed to substantiate the quality, product safety and reduced-risk potential of our New Category products. This is crucial for building consumer trust and encouraging adult smokers to completely switch to less risky alternatives*†.

We have an extensive scientific research programme in a broad spectrum of scientific fields, including molecular biology, toxicology and chemistry. We are transparent about our science and publish details of our research programmes on our dedicated website, www.bat-science.com, and the results of our studies in peer-reviewed journals.

Link to risks

Inability to develop, commercialise and deliver the New Categories strategy

Read more about our science on pages 32, 34, 36 and 50

3

Staying ahead of the curve

As consumer preferences and technology rapidly evolve, we rely on our growing global network of digital hubs, innovation hubs, world-class R&D laboratories, external partnerships and our corporate venturing initiative, Btomorrow Ventures, to stay ahead of the curve.

Driving sustainable growth is at the core of our innovation. We make significant investments in research and development to deliver innovations that satisfy or anticipate consumer preferences and generate growth for the business.

Led by our strength in developing consumer insights, each innovation helps us on our journey to build A Better Tomorrow™ by reducing the health impact of our business.

Link to risks

Inability to develop, commercialise and deliver the New Categories strategy

4

Sourcing materials responsibly

The majority of our tobacco is sourced by BAT Group's vertically integrated Leaf Operations through direct contracts with c.81,000 farmers. The remainder is from third-party suppliers that, in turn, contract with an estimated 195,000 farmers. The vast majority of tobacco farms in our supply chain are smallholder family farms.

Beyond tobacco, we source product materials like paper and filters for cigarettes and, for our New Category products, we have a growing supply chain in consumer electronics and e-liquids. We also have a vast number of suppliers of indirect goods and services that are not related to our products, such as for IT services and facilities management.

Link to risks

Geopolitical tensions

Injury, illness or death in the workplace

Solvency and liquidity

Climate and circularity

Read more about our supply chain on pages 43 to 93

5

Utilising our global manufacturing footprint

We manufacture high-quality products in facilities all over the world. We also ensure that these products and the tobacco leaf we purchase are in the right place at the right time.

Our New Category products are manufactured in a mix of our own and third-party factories. We work to ensure that our costs are globally competitive and that we use our resources as effectively as possible.

Link to risks

Geopolitical tensions Injury, illness or death in the workplace

Disputed taxes, interest and penalties

Foreign exchange rate exposures

Solvency and liquidity

Climate and circularity

6

Moving our products seamlessly everywhere

By applying modern technologies, including AI and machine learning, we ensure our products are where they are needed when they are needed.

Our products are sold around the world and we distribute them effectively and efficiently using a variety of distribution models suited to local circumstances and conditions. These distribution models include retailers, supplied through our direct distribution capability or exclusive distributors, and our Direct-to-Consumer business – which has been accelerated through the deployment of owned e-commerce sites.

Link to risks

Tobacco, New Categories and other regulation interrupts growth strategy

Inability to develop, commercialise and deliver the New Categories strategy

Litigation

Foreign exchange rate exposures

Climate and circularity

7

Marketing our products responsibly

Tobacco and nicotine products should be marketed responsibly to adults only and not designed to appeal to youth.

Through a globally responsible approach to marketing, we help to raise standards and prevent underage access, while growing our market share by encouraging adult consumers to choose our products over those of our competitors.

Our International Marketing Principles (IMP) govern our marketing across all product categories. They include strict requirements to be responsible, accurate and targeted at adult consumers only. Our IMP are applied even when they are stricter than local laws.

Link to risks

Tobacco, New Categories and other regulation interrupts growth strategy

Inability to develop, commercialise and deliver the New Categories strategy

Litigation

Read more about responsible marketing on page 64

8

Offering the consumer choice

We have a powerful brand portfolio that we are proud of. Our global brands are well positioned, with leading-edge insights, science and innovation behind our product pipeline.

We offer adult consumers a range of products, including combustible products, Vapour, Modern Oral and THPs, in markets around the world. Our range of high-quality products covers all segments, from value-for-money to premium.

Link to risks

Competition from illicit trade

Geopolitical tensions

Significant increases or structural changes in tobacco, nicotine and New Categories related taxes

Inability to develop, commercialise and deliver the New Categories strategy

Foreign exchange rate exposures

Disputed taxes, interest and penalties

Climate and circularity

Strategic Management

Our Business Model
Continued

A Better Tomorrow™ for:

Read more about these Stakeholders pages 20 and 21

Consumers

Our consumers are at the core of everything we do and our success is underpinned by addressing their preferences, offering them a choice of enjoyable, innovative and less risky products*†.

Measured by

- 33 countries where Vapour products are available
- 28 countries where Tobacco Heating Products are available
- 28 countries where Modern Oral products are available

Suppliers

Across the BAT Group, we work with thousands of different suppliers worldwide. Our suppliers are valued business partners and we believe, by working together, we can raise standards, drive sustainable practices, create shared value and build A Better Tomorrow™ for all.

Customers

Our customers include retailers, distributors and wholesalers who are essential for driving growth and embedding responsible marketing practices.

Society

The greatest contribution we can make to society is by reducing the health impact of our business. We will do this by encouraging those smokers who would otherwise continue to smoke to switch completely to scientifically-substantiated, reduced-risk alternatives*†. Achieving this, while working to reduce our impact on the environment, is central to delivering A Better Tomorrow™.

Measured by

- 22.5m consumers of Non-Combustible products
- 84.3% of operating waste recycled
- 22% reduction in Scope 1 & 2 emissions from our new 2020 baseline

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 People

We employ 50,000+ people worldwide. Attracting and retaining an increasingly diverse workforce and providing a welcoming, inclusive working environment are key drivers in BAT's transformation journey to build A Better Tomorrow™. Our focus is on providing a dynamic, inspiring and purposeful place to work.

Measured by

- accredited as Global Top Employer by the Top Employers Institute
- 79% Engagement Index score in our Your Voice employee survey
- 0.19 Lost Time Incident Rate (LTIR) vs 0.20 in 2021
- proportion of women in management roles grew to 41%

Shareholders & Investors

We are committed to delivering sustainable and superior returns to our shareholders and investors. It is essential that we maintain the support of our shareholders and investors to enable access to capital. This allows us to implement our strategy and achieve our business objectives.

@Measured by

- 3-5% revenue growth over the medium-term
- high-single digit adjusted EPS growth at constant rates of exchange over the medium-term
- 65% dividend payout ratio over the long-term
- deleveraging the balance sheet to within our 2-3x adjusted net debt/adjusted EBITDA range@

Non-Financial Information Statement

Non-financial information reporting required under the UK Companies Act is included in the Strategic Report as referenced below:

Our business model is set out on pages 16 to 18

See pages 116 to 121 for Group Principal Risks

See pages 6 and 7 for the Group's financial and non-financial key performance indicators

Our reporting in the following areas includes information about the policies and principles that govern our approach, due diligence processes, outcomes and non-financial performance indicators:

Environmental matters pages 6, 45 and 52 to 59

Social matters pages 6, 45, 50 to 51 and 60 to 63

Anti-bribery and anti-corruption matters pages 6, 45 and 66 to 67

Employees pages 6, 45, 82 to 93

Respect for human rights pages 6, 45 and 60 to 63

Further details of our Group policies and principles can be found at www.bat.com

@ Denotes phrase, paragraph or similar that does not form part of BAT's Annual Report on Form 20-F as filed with the SEC.


A BETTER

Engaging with Our Stakeholders

We work with, take into account and respond to the views and concerns of our stakeholders. This enables us to adapt to emerging risks and work to meet the expectations placed upon us as a multinational business.

	Consumers	Shareholders & Investors	Our People
Why this stakeholder is important to us	As preferences and attitudes change in an evolving industry, understanding our consumers is essential to both successful portfolio and business growth.	It is essential that we maintain the support of our shareholders and bondholders to maintain access to capital. This allows us to implement our strategy and achieve our business objectives.	The quality of our people is a major reason why our Group continues to perform well. We understand the value of listening and responding to feedback from our people to maintain a fulfilling, rewarding and responsible work environment.
Examples of how we engaged in 2022	– Consumer panels, focus groups and interviews – Consumer care helplines – Responsible marketing and transparent communication – Real-time digital platforms	– Annual General Meeting – Investor relations programme and shareholder engagement on our Directors' Remuneration Policy – Institutional shareholder meetings – Capital Markets Days – Investor roadshows – Results announcements – Annual Report and Form 20-F – Suite of focused ESG reports and wider disclosures – Stock exchange announcements – Shareholder information on website	– Director market and site visits – Virtual forums – Employee town halls – Global and regional webcasts – Your Voice employee survey – Works councils and European Employee Council meetings – Graduate and management trainee events – Individual performance reviews – Speak Up channels
What matters to our stakeholders	– Health impact of our products and other social considerations – Product quality – Affordability and price – Ingredients/nicotine levels – Plastics/post-consumption product waste	– Business performance – ESG agenda – Corporate governance – Strength of Group leadership – Board succession planning	– Reward – Career development – Diversity and inclusion – Corporate responsibility – Health and safety – Business ethics
How we respond	– Development of innovative products – Product stewardship, quality and safety standards – Clear and accurate product information – International Marketing Principles – Circular economy strategy and initiatives	– Regular dialogue and communications with shareholders and investors – Robust corporate governance – Double Materiality Assessment and review of reporting landscape – Continual improvement of our Delivery with Integrity programme – Our range of enjoyable and innovative products – Product quality and safety standards – International Marketing Principles	– Extensive communications and engagement with our people worldwide during and following the pandemic – Board review of and feedback on workforce engagement – Training and development programme – Diversity & Inclusion Strategy – Delivery with Integrity programme
Principal risk impact	– Competition from illicit trade – Tobacco, New Categories and other regulation interrupts growth strategy – Significant increases or structural changes in tobacco, nicotine and New Categories related taxes – Inability to develop, commercialise and deliver the New Categories strategy – Climate and circularity	– Competition from illicit trade – Geopolitical tensions – Tobacco, New Categories and other regulation interrupts growth strategy – Litigation – Significant increases or structural changes in tobacco, nicotine and New Categories related taxes – Inability to develop, commercialise and deliver the New Categories strategy – Disputed taxes, interest and penalties – Foreign exchange rate exposures – Solvency and liquidity	– Geopolitical tensions – Injury, illness or death in the workplace

Listening to our stakeholders helps us better understand their views and concerns, and enables us to respond to them appropriately. It gives us valuable inputs to, and feedback on, our strategic approach, as well as our policies, procedures and ways of working.

Suppliers	Customers	Government & Wider Society
Effective relationships with farmers and suppliers of tobacco leaf, product materials and indirect services are essential to an efficient, productive and secure supply chain.	Our customers include retailers, global and local key accounts, distributors and wholesalers that are essential for driving growth and embedding responsible marketing practices.	We seek to be part of the debate that shapes the regulatory environment in which we operate, and to work collaboratively to develop joint solutions to common challenges.
– Extension Services farmer support – Ongoing dialogue and relationship management – 'Supplier Voice' survey, events and supplier summits – Strategic partnerships	– Ongoing dialogue and account management – 'Customer Voice' survey – Audits/performance reviews – Sales calls and visits by trade representatives – B2B programmes – Digital B2B eCommerce platforms	– Meetings and ongoing dialogue – Submissions to government and advisory committees – Multi-stakeholder partnerships and working groups, such as the ECLT Foundation – External Scientific Panel – Peer-reviewed research – Biodiversity action and pledges ahead of COP 15 summit – Community investment programmes and NGO partnerships – Double Materiality Assessment related engagements
– Productivity/quality/cost – Sustainable agriculture – Farmer livelihoods – Human rights – Health and safety – Climate change impacts – Impact of conflict in Ukraine – Ongoing impacts of COVID-19	– Route-to-market planning – Contingency planning – Cost, price and quality – Stock availability – Consumer buying behaviour – Youth access prevention – Ongoing impacts of COVID-19	– Product regulation – Tax/excise/illicit trade – Responsible marketing – Public health impacts – Human rights – Climate change impacts – Ongoing impacts of COVID-19
– Supplier Code of Conduct – Thrive sustainable agriculture and farmer livelihoods programme – Leaf operational standards for PPE and child labour prevention – Farmer Extension Services support and training – Ongoing COVID-19 support	– Customer loyalty programmes and incentives – Global Youth Access Prevention (YAP) Guidelines and initiatives – Ongoing COVID-19 support	– Standards of Business Conduct (SoBC) – Delivery with Integrity programme – Carbon neutrality target for 2030 and Net Zero target for 2050 – Human rights and climate impact assessments – Community investment programmes and charitable donations – Ongoing COVID-19 support
– Geopolitical tensions – Inability to develop, commercialise and deliver the New Categories strategy – Solvency and liquidity – Climate and circularity	– Competition from illicit trade – Geopolitical tensions – Significant increases or structural changes in tobacco, nicotine and New Categories related taxes – Inability to develop, commercialise and deliver the New Categories strategy – Climate and circularity	– Competition from illicit trade – Geopolitical tensions – Tobacco, New Categories and other regulation interrupts growth strategy – Significant increases or structural changes in tobacco, nicotine and New Categories related taxes – Inability to develop, commercialise and deliver the New Categories Strategy

UK Companies Act: Section 172(1) Statement

Our Directors have a duty, individually and collectively as the Board, to act as they consider most likely to promote the success of the Company for the benefit of our members as a whole.

As part of this duty, our Directors must have regard for likely long-term consequences of decisions and the desirability of maintaining a reputation for high standards of business conduct. Our Directors must also have regard for our employees' interests, business relationships with our wider stakeholders, the impact of our operations on the environment and communities in which we operate and the need to act fairly between shareholders. Consideration of these factors and other relevant matters is embedded into all Board decision-making, strategy development and risk assessment throughout the year.

Our key stakeholders and primary ways in which we engage with them are set out in the table to the left. Pages 88, 133, 136 to 140 and 167 to 169 provide further explanation of our Board's approach to understanding stakeholder interests to enable relevant considerations to be drawn on in Board discussion and decision-making.

Where the Board delegates authority for decision-making to management, our Group governance framework discussed on pages 130 and 131 mandates consideration of these factors and other relevant matters as a critical part of delegated authorities.

Examples of some of the ways that these factors have shaped Group strategy and initiatives during the year are referenced in the table to the left. Examples of how these factors have been taken into account in Board decision-making and strategy development during the year are provided on page 133.

Strategic Management

Our Markets and Megatrends

We are a global business, operating at scale, in a fast-paced world. Our markets are shaped by long-term consumer, economic, cultural and social trends, as well as the regulatory environment. Generational differences and shifts in taste are continuing to evolve, as health and wellness become ever more important. We continue to respond to this changing environment by advancing our strategy and long-term priorities.

Megatrend:

Costs of Living

Changes to Consumer Behaviour

Consumers worldwide faced a series of rises in the cost of living during 2022. This has been caused by sharp rises in commodity prices, as well as enduring strains on supply chains and increased demand for products and materials after the pandemic. The damage that inflation has caused to consumer confidence and purchasing power has led the public to look for savings in 'discretionary' areas, such as by deferring expenditure on non-essential items, or buying cheaper alternatives where possible.

In addition, the taxation policies pursued by many countries on traditional tobacco products, and increasingly on nicotine-based alternatives, have led to further increases in costs for nicotine consumers.

Costs & Health Choices

Consumer behaviour is also increasingly driven by longer-term trends, such as greater societal awareness of health issues. This can be seen in the increased popularity of health technology, such as wearable health devices, and the need for a greater understanding of 'life-style choices' in marketing.

The increasing availability of reduced-risk products*† (RRPs) in many markets, driven by technological innovation and significant industry investment, can play a huge role in responding to these behavioural changes by providing satisfying nicotine alternatives at affordable prices to consumers. However, for RRPs*† to realise their potential, they must be supported by effective regulatory regimes that enable responsibly managed growth and promote informed consumer choice.

Sustainability and Technology

The Climate and Technology

The impacts of climate change and the need for individuals, corporate bodies and states to reduce carbon footprints are becoming more pressing every year.

At the same time, technology is playing a greater role in our lives, meaning the environmental impact of electronic waste will command ever-greater attention, including offering smokers who do not want to quit access to RRPs*†.

As RRPs*† become more established as part of the nicotine market, demand for resources to build their technological components will increase, along with the need for solutions for their responsible disposal. It will be important to reconcile these pressures that growth creates with the need for businesses to operate in more sustainable ways.

Environmental Regulation

Extended producer responsibility policies, in which policymakers create incentives for producers to minimise their environmental impacts, are increasingly common policy tools. While there is a place for these schemes, they need to be balanced with other policy objectives, including ensuring that smokers who do not want to quit are able to access RRPs*†. Solutions to reduce the environmental impact of our business will ultimately come from innovation, as much as from changing behaviours.

Across our business, we continue to embed sustainability. We will continue to find ways to reduce our own impacts on the environment, including through enhanced ESG policies.

Supply Chains

After-Effects of COVID-19

The return to normality by large elements of the global economy after COVID-19 has eased many supply chain issues, removing barriers to operations such as lockdown restrictions and border checks.

However, COVID-19 lockdowns in China during 2022 meant that, while the effects of the pandemic appeared to be receding, they have not disappeared.

Additionally, as the global economy has emerged from the pandemic, some consumer behaviours have altered dramatically, creating new demands on already strained supply chains. For example, the increasing use of technology in more sectors and more elements of our lives has caused an unprecedented demand for microchips, including in the nicotine industry. The devastating conflict in Ukraine, and the restrictions placed on economic activity with Russia, also continue to affect fuel costs, which further exacerbate supply chain issues.

Geopolitical Disruptions

The truly globalised nature of supply chains has boosted global prosperity at an unprecedented scale in recent decades, raising living standards across the world. However, it is also becoming more evident that our mutual reliance on each other for industrial activity means that disruptions in one area of the world can have far reaching impacts.

Along with the strains caused by changes in business and consumer needs, supply chains are increasingly being tested by wider geopolitical issues. Carefully managing supply chain resilience is therefore an increasingly important factor for global businesses.

Overview

The modern nicotine market is evolving to increasingly comprise a wider range of products which cater to a broader set of consumer tastes and needs. As a result, traditional tobacco products, along with new nicotine products, such as Vapour, THP and Modern Oral, meet the needs of more than a billion consumers globally.

Global Combustible Market

The most recent sales data for the legal global tobacco market indicated that it was worth approximately US$935 billion. Combustible cigarettes were the largest product category within the market, representing 83% of the total value of tobacco sales worldwide and with over 2.8 billion cigarettes consumed (excl. China). This amounts to a cigarette market with a global value of US$518 billion (excl. China).

The value of the global Non-Combustible products market stands at some US$68 billion.

18% of the world's adult population (incl. China) still choose to smoke. Having remained broadly stable for a number of years, this figure indicates that a very sizable proportion of the global population is likely to continue to smoke unless they are offered suitable, Non-Combustible, alternatives. While the regulation of combustibles and changes in societal attitudes have contributed to declines in smoking prevalence in many countries, research is also increasingly attributing reductions in cigarette smoking to the uptake of RRPs*† among smokers, for example in Japan.

The illicit market

With the end of mobility restrictions in most jurisdictions after the pandemic, the size of the illicit tobacco market appears to be growing again. Illicit volumes are forecast to approach 14% of all sales by 2026, compared with 12.6% (excl. China) in 2021.

The tragic conflict in Ukraine has also had a destabilising impact on the market, leading to a dramatic rise in the illegal segment of the tobacco market in that part of the world: a quarter of Russians have switched to illegal cigarettes, according to some surveys.

Within the European Union, a 2021 KPMG report noted that illicit cigarette consumption was estimated to have increased by 3.9% vs 2020.

Price differentials between markets, regulatory changes and broader macro-economic pressures have the potential to exacerbate the problem. It is generally accepted that there is a direct correlation between steep and/or ad hoc increases in taxes and illicit sales.

Global combustible regulation

Combustible tobacco products are among the most highly regulated consumer products in the world. To date, legislators have focused on the introduction of demand-side regulatory measures. This has included plain packaging, product-specific regulations, graphic health warnings on packs, tougher restrictions on smoking in enclosed public places, bans on shops displaying tobacco products at the point of sale and restrictions on flavourings in tobacco.

While regulation is in many cases driven by global agreements on tobacco product regulation, it varies considerably from market to market.

In recent years, numerous countries have committed to smoke-free targets, setting a date by which they expect to reduce or contain the prevalence of tobacco use to less than 5%. An example of this is in New Zealand where, as part of their plan to achieve their smoke-free target by 2025, the Parliament in December 2022 passed a bill to ban "the sale of smoked tobacco products to anyone born on or after 1 January 2009".

Environmental concerns regarding litter associated with cigarette consumption have also led to an increased number of policy initiatives. The EU's Single-Use Plastics legislation has led the way by requiring EU Member States to introduce extended producer responsibility schemes for, amongst other things, cigarette filters.

Global New Categories Market

Technology and innovation continue to revolutionise the nicotine market. Non-Combustible products offer consumers less risky*† but compelling alternatives to cigarettes. These products include Vapour products, THPs and Modern Oral nicotine pouches. These can deliver nicotine without the process of combustion and are increasingly popular among smokers who are looking for alternatives to smoking but do not want to give up nicotine consumption completely.

Evidence of this shift can be seen in global revenues from these products, which are estimated to comprise US$55 billion for Vapour products, THPs and nicotine pouches, an increase from US$43 billion in 2020. The most recent external estimates value the Vapour product market at US$23 billion, with THPs valued at US$29 billion and Modern Oral estimated to be worth US$3 billion.

Nicotine pouches, the newest innovation in RRPs*†, are expected to achieve the fastest rate of growth among new nicotine products between 2021 and 2026, with some estimates projecting 500% growth in market value within that timeframe.

New Categories regulations

Globally, while the RRP*† market is becoming more established, regulation of the sector is still developing.

In some cases, the role that RRPs*† can play in reducing the harms from smoking has been embraced by regulators, such as in the UK, New Zealand and Canada. These markets have aimed to communicate to consumers that RRPs are better alternatives*† to smoking and have regulated these products accordingly, while at the same time being mindful of the need to prevent usage by youth.

Other markets, however, have not yet been convinced of the public health benefits that RRPs*† could provide and have sought instead to limit access to them, such as in Australia, Brazil and India, where sales of RRPs*† are currently banned. Some markets have also inadvertently confused nicotine consumers by seeking to treat the products in the same way as combustibles.

Public policy will play an important role in how RRPs*† are perceived among nicotine consumers, impacting their uptake and success, making this debate of increasing importance as the RRP*† market develops.

Other developments

The emerging and rapidly growing market for wellbeing products is expected to continue to grow. One such market, cannabidiol (CBD), is expected to gain wider use, as evidenced by its recent growth in market size and the increase in governments considering potential legalisation of its recreational use.

Some markets, such as Germany and the Czech Republic, are also re-examining the merits of maintaining their current prohibitionist stances on cannabis, in response to projected increases in adults using the black market to procure these products.

See pages 116 to 121 to read more about our Group Principal Risks

For further discussion regarding the regulation of our business, please see pages 362 to 366

Notes:

All data sources on this page are from Euromonitor International research published in 2022 and based on 2021 data (the latest full year available), unless otherwise stated.

* 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.

Strategic Management

A Strategy for Accelerated Growth

In 2022, 15% of Group revenue was from non-combustible products. This was achieved through a multi-category approach which is the very essence of our purpose to build A Better Tomorrow™ – providing adult consumers with a range of enjoyable and less risky*† choices for every mood and moment.

Our Mission

Stimulating the Senses of New Adult Generations

Today, we see opportunities to capture consumer moments which have, over time, become limited by societal and regulatory shifts, and to satisfy evolving consumer needs and preferences.

Our mission is to anticipate and satisfy this ever-evolving consumer: provide pleasure, reduce risk, increase choice and stimulate the senses of adult consumers worldwide.

> **We made great progress on our strategic targets in 2022. As part of our growth strategy, New Category revenue grew 41% and we now have a total of 22.5 million consumers of our Non-Combustible products (up 4.2 million).**
>
> **Kingsley Wheaton**
> Chief Growth Officer

Must Wins

High Growth Segments

Driven by our unique and data-driven consumer insight platform (PRISM), we will focus on product categories and consumer segments across our global business that have the best potential for long-term sustainable growth.

Priority Markets

By relying on a rigorous market prioritisation system (MAPS), we will focus the strengths of our unparalleled retail and marketing reach, as well as our regulatory and scientific expertise, on those markets and marketplaces with the greatest opportunities for growth.

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.

How We Win

Inspirational Foresights

Built on our successful history, we have a unique view of the consumer across all of our product categories, which is increasingly driven by powerful data and analytics. These insights ensure that the development and responsible marketing of our products are fit to satisfy consumer needs.

Remarkable Innovation

As consumer preferences and technology evolve rapidly, we rely on our growing global network of digital hubs, innovation super centres, world-class R&D laboratories, external partnerships and our corporate venturing initiative to stay ahead of the curve.

Powerful Brands

For over a century, we have built trusted and powerful brands that satisfy our consumers and serve as a promise for quality and enjoyment. We will build the brands of the future by focusing on fewer, stronger and global brands across all our product categories, delivered through our deep understanding and segmenting of our consumers.

The model below outlines the key components of how we are building A Better Tomorrow™, from our mission to stimulate the senses of adult consumers worldwide and the outcomes this will deliver for stakeholders, to the ethos that guides our decision-making.

Connected Organisation

Few companies can claim the global reach that we have. Cultivating an ecosystem that directly connects us with consumers and stakeholders, especially through the power of digital technology, ensures we can build the brands of the future, deliver access to markets and foster innovations that offer sensorial enjoyment and satisfy consumer needs.

People and Partnerships

Our highly motivated people are being empowered through a new ethos that is responsive to constant change, embodies a learning culture and is dedicated to continuous improvement. But we cannot succeed on our own, and our partnerships with farmers, suppliers and customers are also key for ensuring sustainable future growth.

U.S. Focus

The United States comprises nearly half of our global business. It is also the single largest economy in the world, the largest single centre for technology and the key driver of global consumer trends, and is where we have the deep consumer understanding and financial strength to support the delivery of our mission to stimulate consumer senses around the rest of the world.

Our Purpose

By stimulating the senses of new adult generations, our purpose is to create A Better Tomorrow™ for all our stakeholders. We will create A Better Tomorrow™ for:

Consumers
By responsibly offering enjoyable and stimulating choices for every mood and every moment, today and tomorrow;

Society
By reducing the health impact of our business by offering a range of alternative products, as well as by reducing our environmental and social impacts;

Employees
By creating a dynamic, inspiring and purposeful place to work; and

Shareholders & Investors
By delivering sustainable and superior returns.

For more information about our purpose see inside front cover

Short-Term Deliverables to Fuel A Better Tomorrow™

Simplify the Business

Our ongoing simplification programme, Project Quantum, which had realised £1.9 billion of annualised savings through simplification and efficiencies by the end of 2022.

For more key details see pages 28 to 29

Ensure a Step Change in New Categories Performance

With our unique cross-category consumer understanding, we are clear there is a huge opportunity for our New Categories.

For more key details see pages 32 to 37

Drive Value From Combustibles

We drive value from combustibles to fuel our investment in, and transition revenue to, New Categories.

For more key details see pages 39 to 40

Strategic Management

Integrating Sustainability for A Better Tomorrow™

> 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.
>
> **Kingsley Wheaton**
> Chief Growth Officer

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.

> 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.
>
> **Mike Nightingale**
> Chief Sustainability Officer

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.

Short-Term Deliverables to Fuel A Better Tomorrow™

Simplify the Business

QUEST is our Group-wide programme designed to accelerate our transformation into the Enterprise of the Future: a global, consumer-centric, multi-category company, with sustainability at its core.

Quantum
has achieved annualised savings of £1.9bn whilst we continue simplifying the organisation.

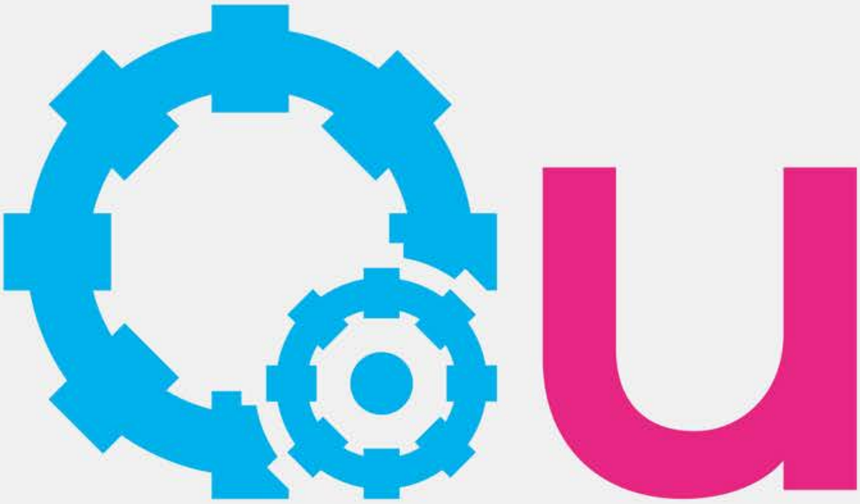
Unleash Innovation
is transforming our capabilities to win as a multi-category business.

Empowered Organisation
is strengthening our talent pool.

Shaping Sustainability
continues to put sustainability front and centre of everything we do.

Technology & Digital
is creating new channels to connect with our consumers and enabling the simplification of our organisation.

Five 'Accelerators' to enable the Enterprise of the Future



Deliver Quantum

£600m+
productivity savings in 2022

3
new Global Business Services (GBS) Hubs embedded in Mexico, Poland and Pakistan

15+
new capabilities added to our GBS Hubs, such as our Customer & Consumer Engagement Centres

Unleash Innovation

New
global device development centre in Shenzhen, China

150+
engineers, scientists and product developers recruited

~2x
New Categories R&D spend vs 2021

Each letter of QUEST represents one of the five priority areas we are focused on to re-define our business and re-shape our product portfolio – driven by digital transformation and underpinned by our ethos.

est

Empowered Organisation

3,000+
new capability hires since 2019

214
global graduates from 39 markets at our graduate academy for future leaders

5
consecutive years as a certified Global Top Employer

Shaping Sustainability

2
ground-breaking studies with New Category product consumers[1]

16
key environmental metrics tracked as part of our new, dynamic Green Impact Analytics tool

95+
stakeholder dialogues undertaken as part of our first Double Materiality Assessment

Notes:
1. indicating that consumers, who switched completely to Velo or to glo, had better results for several biomarkers linked to early developmental processes of smoking-related diseases compared with smokers.

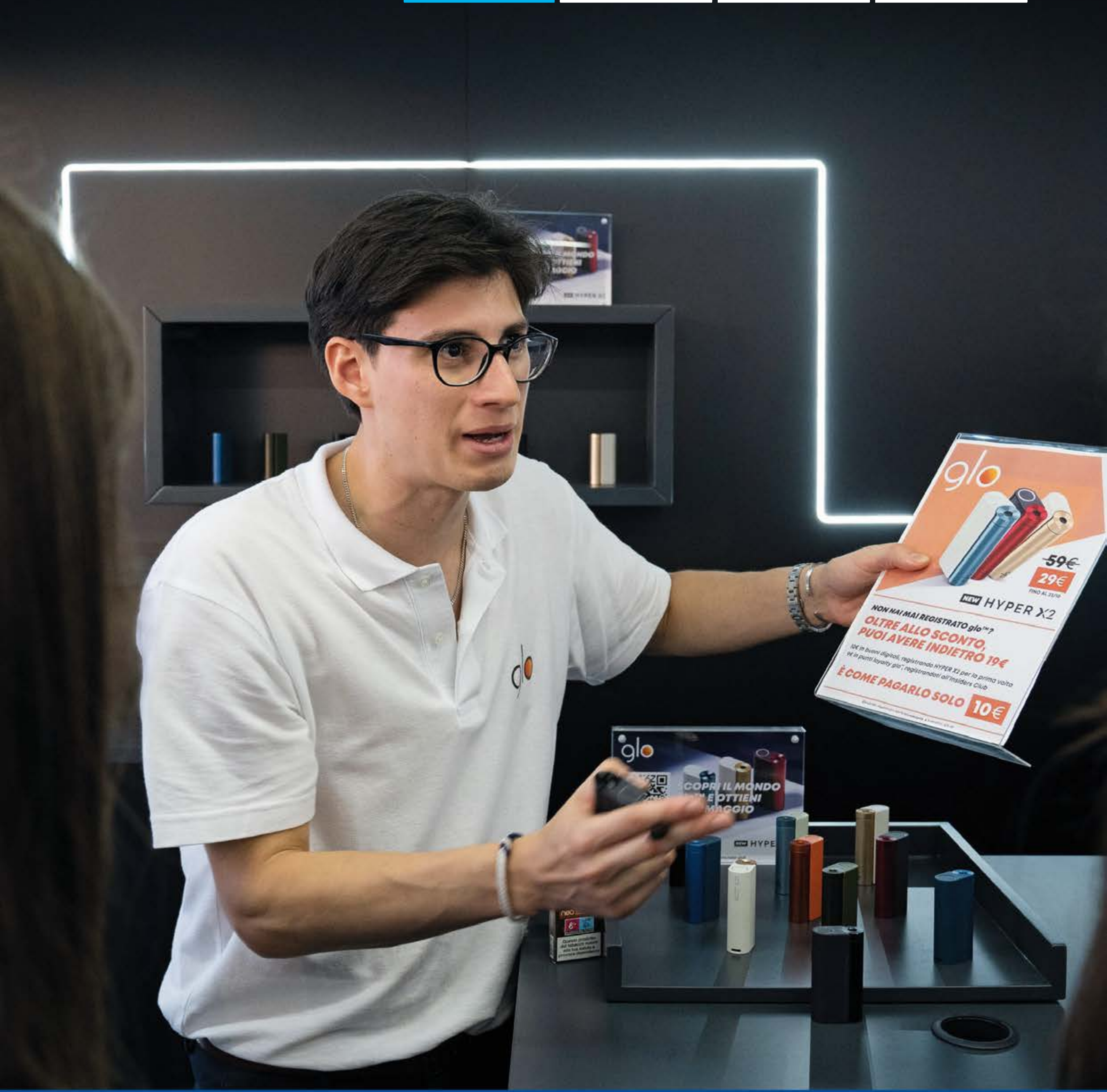
Technology & Digital

22m
consumers in our contactable consumer database (2021: 14.2m)

53.6%
increase in Active Subscriptions – @delivering 31.8% of total e-commerce revenue@

250k
hours saved via 290 new Robotic Process Automation bots

@ Denotes phrase, paragraph or similar that does not form part of BAT's Annual Report on Form 20-F as filed with the SEC.



A BETTER TOMORROW™

For Consumers

A Better Tomorrow™ For Consumers

We are enabling consumer choice

Multi-Category
portfolio of less risky products[*†] tailored to meet the evolving preferences of adult consumers

22.5 Million
adult consumers who have already chosen our reduced-risk[*†] products

New
Global Device Development Centre in Shenzhen, China, to generate further consumer insights

60 Markets
where our New Category products are available, offering adult smokers greater choice

We prioritise product quality

+150 Peer-Reviewed Papers
published to date on our cutting-edge research into New Category products

High Product Standards
based on decades of product stewardship experience, which we hope will become industry benchmarks and a basis for future regulation

Thousands of Hours of Testing
undertaken before our products reach the consumer, in line with our Group Quality Policy Statement

Quality
ingredients and clear and accurate product information

We market and communicate responsibly

Adult Only
consumers targeted for all our product marketing, enshrined in our International Marketing Principles (IMP)

Digital Confidence Unit
conducting 24/7 monitoring of all BAT digital channels globally for responsible marketing using cutting-edge technology

iCommit Training
to drive IMP and YAP compliance across our digital channels

Responsible Flavour
descriptors for our e-liquids that do not appeal to youth, or are not associated with youth culture

We are building brands with purpose

100% Markets
glo and Vuse markets with Take-Back schemes in place

92% of Packaging
capable of being reused, recyclable or compostable in 2022

30% Recycled Plastic
target for average recycled content in plastic packaging by 2025

<1% to Landfill
target for operating waste going to landfill by 2025

> Having launched our first Vapour product in 2013, 2022 marked a decade of portfolio transformation.
>
> **Kingsley Wheaton**
> Chief Growth Officer

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.

Short-Term Deliverables to Fuel A Better Tomorrow™

Ensure a Step Change in New Categories Performance

Our Vapour Products*†

Vapour products are battery-powered devices that heat liquid formulations – e-liquids – to create a vapour which is inhaled.

As Vapour products do not contain tobacco and do not involve combustion, the vapour contains substantially fewer and lower levels of the toxicants found in cigarette smoke.*†

Highlights

- Vuse value share up 250 bps vs 2021 to reach 35.9% share in our Top 5 markets.
- Vuse achieves national value share leadership position in the U.S., increasing 840 bps vs 2021 to 40.9%, and leading in 35 states.
- Consumer acquisition up 1.6 million, reaching 10.0 million, with growth in all Top 5 markets.
- Vapour volume up 14.3%, with revenue 44% higher at constant rates of exchange.
- Vuse Go (the Group's modern disposable offer) launched in 24 markets, including the UK, France, Spain, Canada, Greece, Germany and Ireland.

Vaping is not harmless. But there's overwhelming scientific agreement it's far less harmful than smoking. And that's what we need to compare it with.

Dr Colin Mendelsohn, Associate Professor, University of New South Wales, Chair, Australian Tobacco Harm Reduction Association, 2022

33

Number of markets where the Group's Vapour products are sold

Vapour Top 5 markets **

U.S., UK, France, Germany and Canada.

The Scientific Evidence

Organisations, such as Public Health England (PHE)**, are clear that vaping is likely to be much less risky than smoking traditional cigarettes when used as a complete substitute for continued cigarette smoking. Further evidence continues to emerge globally about the role of Vapour products as a reduced-risk*† alternative.

In 2022, we conducted a first-of-its-kind study of Vuse, designed to assess and provide insights into the real-world health impact of vaping.

The study provides a comprehensive analysis of biomarkers and physiological measures from Vuse consumers who have been using the product for over six months with the results from smokers, former smokers and never smokers. Protocol details explaining the innovative design of the latest study were published in the Journal of Health and Environmental Research.

The cross-sectional study design uses a single set of data readings to measure biomarkers of exposure to certain toxicants and biomarkers of potential harm relevant to smoking-related diseases.

What makes the study particularly relevant is that the samples, taken at a single time point, provide a snapshot of data that reflects the 'lived experience' of the adults in the study; whether using Vuse, smoking or having quit smoking. The participants had been using a product they had chosen in the way they wanted.

The results will provide important new insights and show us the differences between Vuse consumers, smokers, former and never smokers across a range of important biomarkers thought to be linked to the development of diseases. Results from the completed study will be published in due course.

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.

** Public Health England (PHE) was replaced in Oct 2021 by UK Health Security Agency and Office for Health Improvement and Disparities.

*** Key Vapour markets are defined as the Top 5 markets by industry revenue, being the U.S., the UK, France, Germany and Canada and accounting for 88% of total industry Vapour revenue (rechargeables and disposables).

Regulation and PMTA

The future of tobacco harm reduction has always depended on robust science, and ensuring that this is accessible to audiences outside the scientific community is critical. This need is growing stronger than ever and consumers want to be clear on the risk profile of these products.

In addition, consumer perceptions of nicotine are evolving with many consumers over-estimating the risks associated with nicotine generally.

This also demonstrates the importance of having, and enforcing, a robust and effective regulatory framework that ensures high product standards and prevents access and appeal to youth – things we have long advocated. Robust science has to be at the centre of any regulatory development and engagement.

We are fully committed to working in a regulated market. This approach is underscored by the U.S. Food and Drug Administration's Premarket Tobacco Product Application (PMTA) process.

PMTAs are based on a summary of all research findings to demonstrate that the marketing of a product meets the FDA's criteria as "appropriate for the protection of the public health".

In October 2021, Vuse Solo received the first of its kind FDA marketing authorisation for Vapour products in Original flavour. In May 2022, the FDA issued a marketing authorisation for tobacco flavoured Vuse Vibe and Ciro. This confirmed that the marketing of the authorised Vuse Solo, Vuse Vibe, and Vuse Ciro products are appropriate for the protection of the public health, the culmination of years of scientific study and research. The Vuse Alto PMTA, which was submitted nearly a year after Vuse Solo, shares the same foundational science. We are confident in the quality of our applications. We have received and are challenging the FDA's Market Denial Order dated January 2023 related to Vibe and Ciro (menthol variants) and are seeking a permanent stay**.

We support efforts by the FDA to both address the increasing availability of flavoured synthetic nicotine products and enhance enforcement actions against flavoured disposable Vapour products. While synthetic nicotine disposables in the U.S. continue to grow, driven by the availability of flavours, since March 2022, these products are now under FDA regulatory control, and are required to receive PMTA authorisation to remain on the market. The Group does not have synthetic nicotine disposable in the U.S. However, where possible, we continue to innovate across our Vuse portfolio to drive increased satisfaction for consumers.

Performance Summary

Vapour continued its strong momentum driven by Vuse. Total volume of consumables was up 14.3% to 612 million units, having grown 56% (to 535 million units) in 2021. Combined with consumable pricing across all Top 5 markets, this drove revenue up 55% to £1,436 million, or 44% at constant rates of exchange, with 2021 up 52% to £927 million (or an increase of 59.3% at 2020 rates of exchange).

Vuse maintained global Vapour value share leadership with a full year value share of 35.9% (up 250 bps vs 2021) led by the continued strong performance of Vuse Alto. The category accelerated, led by the modern disposable segment which, with its convenient and flexible format, presents a compelling alternative to cigarettes. We consolidated our volume share leadership of devices in all Top 5 markets, driven by industry-leading consumer acquisition up 1.6 million to 10.0 million consumers.

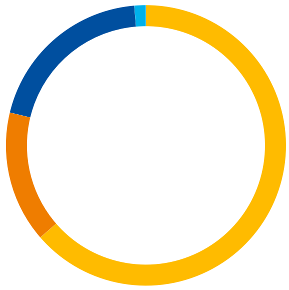
In the U.S., Vuse achieved the No.1 position in both value share and volume share, driven by the continued success of Vuse Alto. Total Vapour value share for the year was up 840 bps to 40.9%, maintaining the momentum of 2021 which was, itself, up from 24.9% in 2020. Vuse consumables volume grew 10% in 2022, having grown 67% (to 291 million units) in 2021. We retained our market-leading position (by volume) of closed system devices, with growth of 700 bps to 64.4% compared to 2021 (2021: up 370 bps to 57.3%*). In addition to volume growth, revenue growth of 63%, or 46% on a constant currency basis, was driven by price increases in both consumables and devices during the year, and by leveraging our Revenue Growth Management (RGM) tool as a key enabler of value creation.

In Canada, driven by ePod and supported by the launch of the Group's first connected Vapour device (Vuse ePod2+), we consolidated our value share leadership position, with total Vapour value share up a further 890 bps to 89.5% in 2022.

We have maintained value leadership in the rechargeable sub-category in all Top 5 markets. However, the growth of the disposable segment in 2022 has impacted our value share (on a total Vapour category basis) in a number of markets, with the launch of Vuse Go stabilising the value share performance in the final quarter of 2022. Specifically, on a full-year basis in 2022:

- in the UK, total Vapour value share of the category was 14.8%, compared to 29.5% in 2021;
- in France, Vapour value share was 38.8% in 2022, a decrease of 6.3 ppts (versus 2021); and
- in Germany, our value share of total Vapour was 21.4%, down 37.9 ppts (2021: 59.4%).

Proportion of Vapour revenue by region in 2022 (£m)



	2022 £m	2021 £m
U.S.	913	561
AmSSA	218	141
Europe	286	207
APME	19	18
Total	**1,436**	927

Note:
* 2020 rebased to 53.6%, leading to the movement in 2021 being revised to an increase of 370 bps.
** Menthol variants accounted for approximately 75% of total Vuse consumables in 2022

Short-Term Deliverables to Fuel A Better Tomorrow™

Ensure a Step Change in New Categories Performance

Our Tobacco Heating Products (THPs)*†

THPs heat tobacco to generate a nicotine-containing aerosol, with a tobacco taste, which the user inhales.

Because the tobacco is heated instead of burned, the resulting aerosol comprises mainly water, glycerol, nicotine and tobacco flavours – different to cigarette smoke.*†

Highlights

- glo THP category volume share up 140 bps in Top 9 markets vs 2021 to reach 19.4%.
- glo consumer acquisition up 2.0 million reaching 8.8 million.
- glo consumable volume up 26%, ahead of industry volume growth of 15%.
- glo revenue growth up 24% with sequential growth in H2 2022.

In terms of risk reduction, [THPs] avoid the intake of all those compounds that are released with the combustion of classic cigarettes.

Dr Piero Clavario,
Director of Anti-Smoking Centre and Cardiology Department at the Azienda Sanitaria Locale, Genoa, 2021

28

Number of markets where the Group's Tobacco Heating Products are sold

THP Top 9 markets **

Japan, South Korea, Russia, Italy, Hungary, Greece, Ukraine, Poland and the Czech Republic.

Russia will remain in the Top 9 markets until the sale of the Russian business is complete.

The Scientific Evidence*

In a cigarette, the tobacco is burned by combustion at temperatures over 900°C, releasing a highly complex mixture of gases, particles and compounds and leaving behind a grey ash. In contrast, THPs heat tobacco to much lower temperatures (~200–300°C).

As there is no combustion, the aerosol consists mainly of water, glycerol, flavourings, and nicotine. Also, odour is greatly reduced, and there is no ash.

By not burning the tobacco this dramatically changes the composition of the aerosol. Comparing cigarette smoke with glo aerosol, the weight of evidence shows that the levels of toxicants were reduced on average by 90-95%.*†

To date, most research has been conducted by industry scientists, but an increasing number of independent reports are broadly aligned with these findings and support the role of THPs as a less risky*† alternative to smoking.

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.

** The key THP markets are defined as the Top 9 markets by industry revenue. They were adjusted in 2022, with Greece and Hungary introduced, replacing Germany and Romania. Accordingly, glo's category volume share for 2021 was rebased on the new definition from 18.1% to 17.9%. Top 9 markets by revenue are Japan, South Korea, Russia, Italy, Greece, Hungary, Ukraine, Poland and the Czech Republic. Russia will remain in the Top 9 markets until the sale of the Russian business is completed. The Top 9 account for 80% (2021: 82%) of total industry THP revenue.

In 2022, we published the results of a year-long study which showed that smokers switching exclusively to glo, BAT's flagship THP, achieved significant and sustained improvements in several indicators of potential harm compared to those who continued to smoke.

The full results, which were published in Internal and Emergency Medicine, build upon the favourable changes reported at three and six months. The improvements observed were sustained over the 12 months of the study, adding to the weight of evidence that supports glo as a less risky* alternative for adult smokers who would not otherwise quit.

The results from this study are the most important data we have ever generated about glo and for the THP category in general. This real-world study allows us to assess the changes that adult smokers switching exclusively to glo experience, by assessing early indicators of potential harm associated with disease development. It provides much needed new evidence about the size of the change and durability of the effect switching completely to glo can have, and reinforces glo's potential as a reduced-risk product*.

Designed with Purpose

Our new glo Pro, Hyper, and Hyper+ models feature induction heating, enabling devices to reach their operating temperatures of around 240-280ºC faster. This makes them more efficient and enjoyable for consumers to use.

Building on glo Hyper+, which launched in 2020, Hyper X2 incorporates advanced induction heating technology encased in a smaller, lighter weight device. A separate boost function for faster heating, battery status LED indicator, a protective iris-shaped shutter and bold new colourways complete the new Hyper X2 offer.

The system also requires fewer components susceptible to temperature degradation, enabling the use of a wider range of temperatures, which are still substantially lower than temperatures needed for combustion. This helps to unlock a broader range of sensory experiences.

This more powerful heating system produces a faster and more precise device, offering consumers more flexibility, while still tightly controlling temperature and avoiding combustion.

Performance Summary

Driven by the continued success of glo Hyper in Japan and across Europe, total consumable volume grew 26% to 24.0 billion sticks in 2022. In 2021, consumables grew by 79% to 19.1 billion sticks, partly due to the withdrawal of Sens which negatively impacted 2020.

In 2022, glo achieved higher THP category volume share in the Top 9 markets, up 140 bps in 2022 to 19.4%, with growth in the majority of the Top 9 markets. Excluding Russia, our share of Top 8 markets (representing over 82% of total THP volumes) reached 18.7%, up 1.1 ppts.

This performance was driven by glo Hyper, including Hyper X2. glo Hyper was launched in 2020 and is powered by Advanced Induction Heating and provides a step change in consumer satisfaction with 30% more tobacco and a boost button.

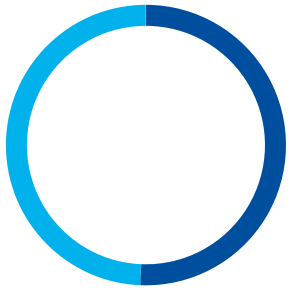
Revenue increased 24.3% to £1,060 million (2021: up 34.4% to £853 million), largely driven by the higher volume, with growth increasing between the first and second half of 2021. The increase in 2021 was partly due to the withdrawal of glo Sens in 2020 which negatively impacted that year by £50 million. Excluding the impact of the relative movements in sterling, at constant rates of exchange revenue grew 26.7% in 2022, compared to an increase of 46.1% in 2021.

In APME, where the most mature THP markets are, our consumable volume grew 17.0%, maintaining the momentum of 2021 when consumable volume increased 26.5%. Revenue was up 2.3% (2021: +2.8%) or 9.1% (2021: +13.0%) at constant exchange, driven by higher volume and consumable pricing, partly offset by a partial absorption of excise increases.

In Japan, glo's volume share of the tobacco market reached 7.4%, an increase of 60 bps on 2021 (2021: 6.8%), as consumers continue to switch to reduced-risk*† alternatives to cigarettes. In a fast growing market, our THP category volume share was 20.1%, down 120 bps from 21.2% in 2021. In the second half of 2022, we launched glo Hyper X2, our new upgraded device platform supported by strong marketing activation plans.

In Europe, which has seen strong industry volume growth of 17% in 2022 (2021: 45%), our consumable volume increased 33.8%, having grown 195% in 2021. Accordingly, revenue increased 57.3%, or 53.3% at constant rates of exchange, having grown 150% (or 167% at constant rates of exchange) in 2021. The region now represents over 54% of our global THP volume (or 43% excluding Russia) and 51% of our global THP revenue (or 41% excluding Russia).

Proportion of THP revenue by region in 2022 (£m)



	2022 £m	2021 £m
U.S.	—	1
AmSSA	—	—
Europe	537	341
APME	523	511
Total	**1,060**	853

Within this growing category, glo continued to increase its volume share across all key European markets, with aggregate category share in the Top European markets reaching 20.2%, up 3.8 ppts vs 2021. Excluding Russia, our aggregate share of the category reached 18.7%, up 4.7 ppts.

Driven by Hyper, glo performed well across the Top European markets:

- In Greece, glo category volume share reached 13.2%, up 470 bps;
- In Poland, category volume share reached 31.2%, up 14.4 ppts;
- In Italy, glo category volume share reached 14.5%, up 170 bps; and
- In Hungary, category volume share reached 14.4%, up 740 bps.

glo is now available in 28 markets. With Hyper X2 now in 21 markets globally, we plan to enter further new markets in 2023 and launch our new device Hyper X2 in selected European markets by the end of the year.

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.

Short-Term Deliverables to Fuel A Better Tomorrow™

Ensure a Step Change in New Categories Performance

Our Modern Oral Products[*†]

In recent years, a new category of Modern Oral products has emerged.

These come in the form of nicotine pouches that are placed under the lip so that nicotine can be effectively absorbed.

Highlights

- Continued strong global volume growth (up 21.7%), with consumer numbers up 0.6m to 2.7m.
- Category volume share in key Top 5 markets was 30.4%, down 440 bps, driven by a decline in the highly competitive U.S. market.
- Volume share leadership in Modern Oral in Europe at 68.8%.
- Europe revenue up 30.8%, with volume up 29.9%, as Velo remains volume share leader in 15 Modern Oral markets in Europe.
- U.S. revenue up significantly to £36 million despite 50.1% decline in volume.

> **One of the best solutions for smokers is snus (an oral smokeless tobacco product which is usually placed behind the upper lip), sold in Scandinavia, where they have reduced the number of smokers to 5%.**

Dr David Khayat
Former president of France's National Cancer Institute and head of medical oncology at the Clinique Bizet, Paris, 2022

28
Number of markets where the Group's Modern Oral Products are sold

Modern Oral Top 5 markets **
U.S., Sweden, Norway, Denmark and Switzerland.

The Scientific Evidence[*]

Modern Oral nicotine pouches are a relatively new product category, which build upon the extensive scientific evidence available for snus. However, Modern Oral products are designed to offer adult consumers an improved, tobacco-free reduced-risk[*†] alternative.

The weight of laboratory chemical studies for Velo, our flagship Modern Oral brand, show the pouches produce substantially lower levels of toxicants than is contained in cigarette smoke and lower levels than in snus.

The weight of evidence suggests Modern Oral nicotine pouches have a profile that is comparable to nicotine replacement therapy products (NRT).

In 2022, results from an innovative cross-sectional clinical study[i] of Velo[ii] were published in *Biomarkers Journal*. The study shows Velo consumers had significantly better results for several indicators linked to smoking-related diseases compared with smokers. In the study, consumers exclusively using Velo for over six months had significant favourable differences in several biomarkers of exposure and biomarkers of potential harm relevant to smoking-related diseases compared to the adults who smoked.

These results are very important for Velo and the Modern Oral nicotine product category. They build on the extensive scientific evidence, including epidemiological data, that already exists for snus. The results also add to the weight of evidence that supports our belief that Velo is a reduced-risk[*†] product for smokers who completely switch from cigarettes as compared to continued smoking.

Notes:

i Azzopardi, D. et al (2022). Assessment of biomarkers of exposure and potential harm, and physiological and subjective health measures in exclusive users of nicotine pouches and current, former and never smokers.

ii The study was conducted using Lyft, since re-branded as Velo.

* 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.

** Key Modern Oral markets are defined as the Top 5 markets by industry revenue, being the U.S., Sweden, Norway, Denmark and Switzerland and accounting for 80% of total industry revenue.

Our Products

Our Modern Oral products are white in colour and contain high-purity nicotine, water and other high-quality food-grade ingredients, including eucalyptus and pine tree fibres, flavouring and sweeteners.

Originating in Scandinavia, Velo is now a leading global brand of nicotine pouches. These typically appeal to a broader audience than Traditional Oral tobacco because of their attractive price positioning. With comparatively lower excise rates (versus Traditional Oral and combustibles) Modern Oral generally has higher margins than Traditional Oral.

We are also delivering a step change in Modern Oral manufacturing. Truly living our ethos, our Modern Oral factory in Pécs, Hungary, put together a bold plan to implement food industry standards for Modern Oral manufacturing. This has enabled us to ensure the availability of products that comply with regulations in different countries.

With a cross-functional team across quality, production, engineering and EHS teams delivering technical changes and process improvements, Pécs became the first site in BAT's history to obtain the ISO 22000 certification for food safety standard.

We have also built and recently commissioned a new facility in Trieste, Italy that will further enhance our capabilities and provide additional capacity (in Modern Oral and THP).

In line with the Group's ESG ambitions, Velo plastic cans are being upgraded to use single polymer plastics, with the use of bio-based materials also being trialled achieving International Sustainability and Carbon Certification.

Performance Summary

2022 has been a year of further growth in volume and value.

Our growth continued in 2022, with volume up 21.7% to 4.0 billion pouches (2021: up 70.5% to 3.3 billion pouches).

Revenue increased 45% to £398 million (2021: up 39% to £274 million). Excluding the impact of foreign exchange, this was an increase of 46% in 2022 and 41% in 2021, on a constant rates basis.

Volume share of the Modern Oral category in our Top 5 markets was 30.4%, down 440 bps compared to 2021, driven by a highly competitive pricing environment in the U.S.

In the U.S., our volume share of Modern Oral declined by 580 bps as volume was down 50% to 301 million pouches (2021: up 272% to 602 million pouches). The growth in 2021 was driven by discounting to drive consumer trial, which then partly reversed in 2022 as the Group has focused on delivering value, reducing promotional support for Velo and prioritising investment behind Vuse in the much larger Vapour category.

Accordingly, revenue increased in 2022 to £36 million, having declined 81.5% to £2 million in 2021.

The market remains highly competitive, with current low moisture product formulations continuing to result in low levels of average daily consumption and high poly-usage. As a result, we have submitted a PMTA for a superior Velo product, leveraging our international insights.

In Europe, we are volume share leaders of the Modern Oral category in 15 markets where we are active. Revenue increased by 30.8% (2021: up 43.9%) or 32.3% (2021: up 45.6%) at constant rates of exchange. From a high base, volume share was marginally lower at 68.8%, down 60 bps.

As the Modern Oral category continues to grow and become more established in Europe, we continue to see strong growth in average daily consumption, including in Sweden which reached 11 pouches (per consumer) in November 2022***.

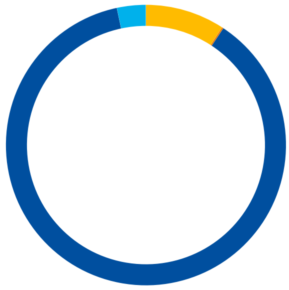
Furthermore:

- In Sweden, where Modern Oral has grown to represent 19.0% of the total oral category, our volume share of the Modern Oral category reached 58.1%, a decline of 170 bps on 2021, impacted by heavy competitor discounting, with volume share stabilising in the final quarter;
- In Norway, Modern Oral now represents 33.5% of the total oral category. We maintained our leadership position with volume share of the Modern Oral category at 64.1%, up 20 bps on 2021, building on the momentum of 2021 (up 180 bps on 2020);
- In Denmark (down 40 bps at 92.2%) and in Switzerland (up 160 bps to 93.2%), we maintained our volume share leadership position in the Modern Oral category from a high base; and
- In the UK, we gained market leadership with volume share of 51.6%, an increase of 2,220 bps from 29.4% in 2021.

We continue to seek opportunities and develop the category in other markets as we believe that Modern Oral is an exciting longer term opportunity to commercialise reduced risk products*†.

- In Kenya, after the category was reinstated as regulated under the Tobacco Control Act, we have reintroduced Velo to a limited retail universe with positive early momentum, as we focus on driving guided trial.
- In Pakistan, now our third largest Modern Oral market (by volume), we have rapidly achieved national coverage. Enabled by powerful, consumer-centric digital activations, Velo has reached a monthly volume in the country of over 40 million pouches.
- In South Africa, we have expanded our pilot in Johannesburg, with guided trial and expansion into key accounts delivering encouraging early results.
- Following a pilot in Japan (in Fukuoka), we have exciting expansion plans for 2023.
- The Group's pilot in Indonesia was terminated with valuable insights gained.

Proportion of Modern Oral revenue by region in 2022 (£m)



	2022 £m	2021 £m
U.S.	**36**	2
AmSSA	**1**	—
Europe	**348**	266
APME	**13**	6
Total	**398**	274

Note:
*** Source: Kantar New Category Tracker

Short-Term Deliverables to Fuel A Better Tomorrow™

Ensure a Step Change in New Categories Performance

Our Traditional Oral Products

The most common products in Traditional Oral are largely moist oral tobacco popular in the U.S., with the main brands being Grizzly and Kodiak.

These products are less finely ground than another Traditional Oral product referred to as Swedish-style snus. Both of these Traditional Oral products are available in loose form, as well as in pre-packed pouches.

Our Products

We also sell a range of Traditional Oral products, including Swedish-style snus and American moist snuff, available in loose tobacco form or as pre-packed pouches. We have long sold snus in Sweden and Norway through our Fiedler & Lundgren business, whose brands include Granit and Mocca; and in the U.S. we market snus under the Camel brand. Our American moist snuff products include our flagship Grizzly brand, as well as the premium moist snuff brand Kodiak.

During 2022, the decision was taken to withdraw the Modified Risk Tobacco Product (MRTP) applications for Camel Snus, as we have adjusted our near-term priorities and are focusing on providing a diverse portfolio of New Category products in line with our global harm reduction strategy. We remain committed to offering potentially reduced-risk*† products that help adult smokers migrate from combustible cigarettes while meeting the evolving needs of other adult nicotine consumers.

Performance Summary

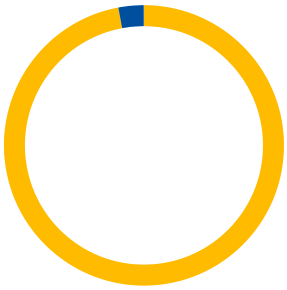
Total revenue increased 8.2% to £1,209 million (2021: down 3.6% to £1,118 million), as pricing underpinned both 2022 and 2021.

However, in 2022, volume was lower (down 8.3%) than the prior year (at 7.4 billion stick equivalents), with 2021 3.9% lower than 2020. Translational foreign exchange impacted both years, being a tailwind in 2022 of 10.5% (compared to a headwind of 6.6% in 2021) due to the relative movement of sterling. On a constant rates basis, revenue fell 2.3% in 2022 having grown 3.0% in 2021.

In the U.S., which accounts for approximately 97.1% of the Group's revenue from Traditional Oral, volume declined 8.1% in 2022 (2021: down 5.1%). Value share of Traditional Oral was down 60 bps (2021: up 10 bps), while volume share was down 70 bps (2021: down 50 bps). The decline in 2022 was driven by strong macro-economic headwinds leading to downtrading, accelerated cross-category switching and reduced consumption.

Outside the U.S., being 2.9% of the Group's revenue from the category, volume was 9.8% lower in 2022, driven by Sweden where the Group's volume share (as a proportion of total oral) declined 10 bps (2021: increased 50 bps). This was driven by Lundgrens Modern Oral launch and Granit's price strategy to drive value.

Proportion of Traditional Oral revenue by region in 2022 (£m)



	2022 £m	2021 £m
U.S.	**1,174**	1,077
AmSSA	**—**	—
Europe	**35**	41
APME	**—**	—
Total	**1,209**	1,118

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.

Short-Term Deliverables to Fuel A Better Tomorrow™

Drive Value From Combustibles

Our Combustible Products

We are focused on growing our strategic brands of Dunhill, Kent, Lucky Strike, Pall Mall, Rothmans, Newport (U.S.), Natural American Spirit (U.S.) and Camel (U.S.) which now account for 66% of our combustible volume.

Our combustibles business is founded on understanding and meeting the preferences of adult smokers in all parts of the world.

Highlights

– Group value share was flat, driven by the U.S., up 10 bps, but offset by Europe and AmSSA.

– Volume share down 20 bps.

– Strong price/mix +4.6%.

Value and Volume Share

Group cigarette value share was flat in 2022 (2021: up 10 bps), driven by the continued performance of the strategic cigarette brands in the U.S. (up 10 bps), with total U.S. value share up 10 bps. This combined with higher cigarette value share in Japan, Spain, Pakistan, Colombia, Saudi Arabia, the UK and Denmark, but was offset by lower value share in Canada, Russia, Brazil, South Korea, Romania, Bangladesh, New Zealand and Germany.

Group cigarette volume share was down 20 bps in 2022 (2021: down 10 bps). The decrease in 2022 was mainly driven by Brazil, Bangladesh, the U.S., South Korea, Russia, Poland and Romania, partially offset by volume share gains in Japan, Pakistan, Colombia and Spain. In 2021, this was a decrease of 10 bps driven by lower volume share in the U.S. (as we focused on value generation), South Africa, Australia, Saudi Arabia, Brazil, New Zealand and Russia more than offsetting growth in Bangladesh, Pakistan, Turkey and Japan.

41
Number of cigarette factories in 39 countries

Volume Performance

In 2022, Group cigarette volume was down 5.1%, at 605 billion sticks (2021: down 0.1% to 637 billion), with the total cigarette market returning to a more normalised decline of 2%, having been largely stable in 2021.

Volume declined in the U.S. in both 2022 and 2021 (discussed below) while both years were also impacted by the disposal of the Group's Iranian business partway through 2021. Furthermore, in 2022, volume was down in Turkey, Germany, Nigeria and Chile, largely due to an increase in illicit trade and a return to more normalised market performance post COVID-19. Volume grew in both years in Brazil (due to lower illicit trade) and Bangladesh (due to the strength of the local portfolio), with 2021 also benefiting from higher volume in South Africa (which recovered from the impact of the COVID-19 lockdown and sales ban in 2020). In 2022, as travel restrictions have started to relax, our Global Travel Retail business began to recover, having negatively impacted Group cigarette and THP volume by an estimated 1.0% compared to pre-pandemic levels. However, volume is still below the levels observed pre-COVID-19.

In the U.S., Group cigarette volume was down 15.4% to 59 billion, having declined 5.0% to 70 billion in 2021. The movement in 2022 was partly impacted by trade inventory movements (mainly linked to the timing of price increases and uncertainty about a potential excise increase) in the final quarter of 2021, which partially unwound in 2022. Furthermore, the low value segment has increased due to down trading as consumers' disposable income has reduced due to macro-economic pressures.

Change in cigarette value share in key markets (bps)

flat

2022		**flat**
2021	10	+10

Definition: Annual change in cigarette value share – being the value of cigarettes bought by consumers of the Group's brands in key markets as a proportion of the total value of cigarettes bought by consumers in those markets (see page 322).

Change in cigarette volume share in key markets (bps)

-20bps

2022	-20	**-20**
2021	-10	-10

Definition: Annual change in cigarette volume share – being the number of cigarettes bought by consumers of the Group's brands in key markets as a proportion of the total cigarettes bought by consumers in those markets (see page 322).

Short-Term Deliverables to Fuel A Better Tomorrow™

Drive Value From Combustibles

On 29 April 2021, the FDA announced it was setting into motion the process of advancing two tobacco product standards regarding menthol in cigarettes and all flavoured cigars. In April 2022, the FDA published proposed product standards.

The Group's U.S. business will evaluate any proposed regulation and will participate in any consultation and rulemaking processes by submitting robust comments grounded in science-based evidence. The Group submitted comments in August 2022. The weight of published science does not support regulating menthol cigarettes differently from non-menthol.The weight of scientific evidence neither shows a difference in health risks between menthol and non-menthol cigarettes, nor indicates that menthol cigarettes adversely affect initiation, dependence, or cessation. In December 2022, the sale of all tobacco products with characterising flavours (including menthol) other than tobacco was banned in the State of California. The Group will continue to monitor the impact in the coming periods.

Strategic Brand Performance

The performance was underpinned by the strategic cigarette brands, with value share 10 bps higher in 2022 (2021: up 20 bps):

- Dunhill's overall value share was flat (2021: down 10 bps) as growth in Brazil, Pakistan, Taiwan, Saudi Arabia and Romania was offset by declines in South Korea, USA, Germany and Chile. Volume was 7.3% higher (2021: down 8.9%), largely driven by Brazil and Pakistan;
- Kent's value share was down 10 bps (2021: flat) as growth in South Korea, Chile, Russia, Ukraine, Taiwan and South Africa was offset by lower value share in Brazil, Japan and Romania. Volume was down 6.1% (2021: down 2.6%) as growth in Ukraine was more than offset by lower volume in Brazil and Japan and the Middle East (due to the sale of the Iranian business partway through 2021);
- Lucky Strike's value share grew 60 bps (2021: up 30 bps), as growth in the U.S., Japan, Russia, Germany, Chile, Spain, Bangladesh, Italy and France more than offset lower value share in Taiwan, Mexico, Brazil and the Netherlands. Volume grew 14.5% (2021: up 19.6%) driven by Russia, the U.S., and Japan, partially offset by Algeria;
- Rothmans' value share was flat (2021: down 10 bps) as growth in the Czech Republic, Romania, Brazil and New Zealand was offset by lower value share in Russia, Poland, South Korea, Australia, Italy and Spain. Volume was 5.1% lower (2021: 3.0% down) as growth in Brazil, Cuba and the Czech Republic was more than offset by lower volume in Russia, Yemen, Algeria and Turkey; and
- Pall Mall's value share was 40 bps lower (2021: 20 bps down) as growth in Poland, Mexico and Pakistan was more than offset by lower value share in the U.S., Australia, Germany, Chile, Malaysia and Romania. Volume was down 9.5% (2021: up 2.2%) largely driven by the U.S., Germany and Chile.

The Group's US domestic strategic combustible portfolio performed well:

- Newport value share increased 10 bps (2021: up 70 bps), while volume declined 17.0% (2021: down 3.3%);
- Natural American Spirit performed well with value share up 10 bps (2021: up 20 bps). Volume was 9.2% down, having been marginally lower in 2021 (down 0.8%); and
- Camel's value share declined 30 bps in the U.S, (2021: down 30 bps) with volume 15.7% down (2021: 9.0% down), driven by competitive pricing pressures.

Volume of other tobacco products (OTP) declined 10.3% to 16.5 billion sticks equivalent (2021: 9.2% decline), being 3% of the Group's combustible portfolio (2021: 3%).

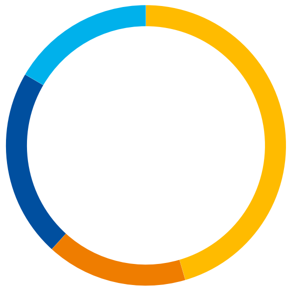
Revenue

In 2022, revenue from combustibles was up 4.5% at £23,030 million (2021: £22,029 million, down 3.2%). Pricing in both years was strong with price/mix in 2022 at 4.6%, and 4.3% in 2021. However, this was offset by the decrease in volume in 2022, including the partial unwinding of the 2021 U.S. trade inventory movement discussed earlier and the sale of the Group's Iranian business (as described on page 214 and 267) partway through 2021. 2021 was, itself, also impacted by an estimated £260 million impact of structural excise change and competitive pricing in Australasia, when compared to 2020.

Revenue is affected by the relative movement of sterling against the Group's reporting currencies. In 2022, this was a translational foreign exchange tailwind of 5.1%, compared to a headwind of 7.2% in 2021.

After adjusting for the currency headwinds, revenue from combustibles at constant rates of exchange was down 0.6% to £21,888 million. In 2021, this was an increase of 4.0%.

Proportion of combustibles revenue by region in 2022 (£m)



	2022 £m	2021 £m
U.S.	**10,470**	10,015
AmSSA	**3,751**	3,435
Europe	**4,996**	5,024
APME	**3,813**	3,555
Total	**23,030**	22,029

Beyond Nicotine

Our mission is to 'stimulate the senses of new adult generations' and we remain committed to reducing the health impact of our business.

As well as offering less risky*† nicotine-based alternatives, we see a new range of non-nicotine-based products forming an expanding part of our portfolio.

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.

As consumers increasingly seek products offering wellbeing and stimulation characteristics, we are working with our venturing unit, Btomorrow Ventures (BTV), and selected third parties to strengthen our positioning for this market. Our well-established market research has given us a detailed understanding of consumer needs, allowing us to invest in, acquire and develop natural ingredients and new delivery formats that satisfy these needs. We believe our supply chain strengths and trade market capabilities mean that, when ready, we can deliver associated products to consumers at speed and scale.

BTV has completed 22 investments since launch in 2020. In 2022, this included five new investments and two exits, which delivered on their strategic objectives for BAT whilst also achieving a positive financial return.

We continue to invest in innovative consumer, new sciences and technology businesses aligned with our strategic priorities. While we have impaired the investment in Organigram by £59 million (net of tax), partly due to the volatility in global cannabis stock prices, we remain pleased with our strategic collaboration. This includes our joint Product Development Collaboration Agreement focusing on research and development activities. Organigram is performing and we continue to explore opportunities to expand our cannabis ecosystem, including new investments in Sanity Group (Germany) and Charlotte's Web (U.S.) in the second half of the year, as discussed on page 266, as we monitor changes in the regulatory environment.

In January 2022, we announced the launch of KBio Holdings Limited (KBio) to accelerate the research, development and production of novel treatments for rare and infectious diseases. KBio will leverage the existing plant-based technology capabilities of BAT and Kentucky BioProcessing Inc. (KBP), the existing BAT-owned U.S. plant biologics organisation.

We continue to invest in companies that are carefully selected for original ideas across a range of criteria, as well as a cultural fit. This allows us to continue leveraging the strength of the Group in helping entrepreneurial candidates accelerate and sustain growth. This approach provides us with evolving capabilities for the future across both New Categories and Beyond Nicotine.

Find out more at
www.btomorrowv.com

Btomorrow Ventures

actronika
AWAKE
EXITED clearmetal
CM Venture Capital
PHILTER
platoscience neurostimulation
tru
UELLO
BLOCKHEAD
CANNOPEIA
moment
more LABS
PURISSIMA
trait
UNROOTED
vicara.

A BETTER TOMORROW™

For Society and the Environment

A Better Tomorrow™ For Society and the Environment

We are reducing our environmental impact

Net Zero by 2050

We have reduced our Scope 1 & 2 CO_2e emissions by 22% since 2020; and our Scope 3 emissions by 7% since 2020[1].

SBTi-Aligned targets

Our science-based targets for 50% Scope 1, 2 & 3 CO_2e emissions reduction by 2030 vs 2020 have been approved by the Science Based Targets initiative (SBTi)[2].

Greater Circularity

We have increased our operations' waste recycling rate to 84% (2021: 79%). In 2022, we reduced our total waste sent to landfill by 48%.

Water Stewardship

23% of our total water use was recycled in 2022, and 24 sites achieved Alliance for Water Stewardship (AWS) certification in 2022.

We are protecting biodiversity

Net Positive

In our Tobacco Supply Chain[3], we aim to have a net positive impact on forests by 2025 and we are advocating to strengthen legislation to protect biodiversity.

Risk Assessment

We undertook biodiversity risk assessments for our directly contracted farmers in 2022 to better understand and evaluate their potential impacts.

Sustainably Sourced

99.99% of wood used by our contracted farmers for tobacco curing in 2022 was from sustainable sources. 94% of paper & pulp volumes were certified sustainably sourced.

Soil Management

We have best practice soil management plans implemented across 82% of farm hectares in our Tobacco Supply Chain[3].

We respect human rights and help farmers to thrive

Farmers Thrive

We support our farmers to thrive through rigorous monitoring and by developing best practice and varieties via our Global Leaf Agronomy Development Centre.

Community-Focused

We are building community resilience through improving access to healthcare and supporting women's empowerment programmes.

Human Rights

We are assessing human rights across our supply chain through on-going due diligence, Human Rights Impact Assessments (HRIAs) and supplier audits.

Providing a Voice

Grievance mechanisms and supplier assessments help ensure that wherever we source tobacco, people always have a voice.

We act with integrity and market responsibly

100%

Of our employees completed training and compliance sign-off on our Standards of Business Conduct (SoBC) in 2022.

Speak Up

Channels are available for any employee to report concerns in confidence, by phone, email or online.

SoBC App

Available in 14 languages, providing easy access to our SoBC, Supplier Code of Conduct and Speak Up channels.

Responsible

In our marketing to consumers and transparent across our communications.

"We strive to add value to society by taking a long-term, collaborative approach to protecting the environment, enhancing farmer livelihoods, respecting human rights and supporting local communities.

Zafar Khan
Director, Operations

Notes:
1. Due to the complexity of consolidating and assuring Scope 3 data from our suppliers and value chain, we report Scope 3 data one year behind other metrics.
2. Compared to a 2020 baseline. Comprises 50% reduction in Scope 1, 2 and 50% reduction in Scope 3 GHG emissions. Scope 3 emissions target includes purchased goods and services, upstream transportation and distribution, use of sold products and end-of-life treatment of sold products.
3. 'Tobacco Supply Chain' refers to the tobacco supplied by our directly contracted farmers and those of our strategic third party suppliers, who participate in our annual Thrive assessment, representing over 80% of the tobacco purchased by volume in 2022.

Strategic Management

ESG Front and Centre

Our Sustainability Agenda is integral to our Group strategy and purpose to build A Better Tomorrow™. It reflects our commitment to reducing the health impact of our business as our principal focus area, while achieving excellence across environmental, social and governance (ESG) matters relevant to our business.

Our strategic approach is driven by extensive stakeholder engagement. In 2022, we undertook our first Double Materiality Assessment (DMA) through an independent, third-party consultant.

Through this robust process, we engaged with key stakeholder groups to understand the ESG matters most material for our business, complemented by our wider and ongoing stakeholder engagement processes (see page 20).

For more on our Double Materiality Assessment process, see pages 46 to 48

This has supported our efforts to keep pace with emerging topics and stakeholder expectations.

Outlined below are the priority areas that form the core of our Sustainability Agenda, reviewed and updated in 2022 through our DMA. These are backed by clear and measurable goals and targets, as detailed in our ESG Roadmap.

Find details of our ESG Roadmap on page 6

Going forward, we will continue to reflect and consult on our goals and targets, to ensure that they are sufficient and future-focused. As part of our regular review of the DMA, we will consider both impact and financial materiality (see page 46).

More details on all our sustainability reporting and ESG disclosures can be found online www.bat.com/sustainability

Our Sustainability Agenda

H

Reducing the health impact of our business

E

Excellence in Environmental management

- Climate Change
- Circular Economy
- Biodiversity & Ecosystems
- Water

S

Delivering a positive Social impact

- Human Rights
- Farmer Livelihoods
- People, Diversity & Culture

G

Robust corporate Governance

- Responsible Marketing & Transparent Communications
- Ethics & Integrity
- Sustainability Governance

Creating shared value for

- Consumers
- Society
- Employees
- Shareholders & investors

Read more on each of our Sustainability Agenda Material Topics across pages 50 to 93

ESG Framework

We have a clearly defined governance framework to support management control and Board-level oversight of our Sustainability Agenda and ESG priority areas.

This provides a flexible channel for the structured flow of information, management and oversight of ESG matters from local business units up to the Board level.

Our Group policies (indicated by * in the table below) are endorsed at Board level and are implemented for application by all Group companies.

Our Group policies are underpinned by a range of principles, statements, operating procedures, standards and guidelines to help support effective implementation of our commitments.

Together, this framework supports the effective identification, management and control of risks and opportunities for our business in these and other areas.

Policies and Procedures	Summary of areas covered	Key stakeholder groups
Standards of Business Conduct (SoBC)* Available at www.bat.com/principles	Sets out our policies for: Speak Up, respect in the workplace, human rights, health, safety and welfare, environmental, lobbying and engagement, conflicts of interest, anti-bribery and corruption, gifts and entertainment, political contributions, community investment, protection of corporate assets and financial integrity, competition and anti-trust, anti-money laundering and tax evasion, sanctions, anti-illicit trade, data privacy and information security.	Our People Governments and Wider Society
Supplier Code of Conduct* Available at www.bat.com/principles	Covers: compliance, human rights, environmental sustainability, marketing and trade and business integrity.	Customers Suppliers
Environment Policy* Available at www.bat.com/principles	Our commitments to following high standards of environmental protection, adhering to the principles of sustainable development and protecting biodiversity, covering our direct operations and supply chain, including agricultural, manufacturing and distribution operations. Our Environment Policy was revised in 2022 to include an assessment of our value chain impacts, our circular economy principles, our new biodiversity commitments and information on metrics and targets.	Our People Suppliers Customers Governments and Wider Society
International Marketing Principles (IMP)* Available at www.bat.com/principles	Govern marketing of all our products and include the requirement for all our marketing to be targeted at adult consumers only.	Consumers Customers Suppliers
Global Product Stewardship Framework Policy*	Sets out our approach to product stewardship and fulfilling our duty of care to consumers when bringing new products to market. This policy was revised in 2022 to articulate our approach to robust product stewardship across our multi-category portfolio.	Consumers Suppliers Customers Governments and Wider Society
Youth Access Prevention (YAP) Guidelines	Supports our strict IMP requirement to market our products to adult consumers only by setting out requirements for retailer-facing YAP activities to be carried out in all our markets.	Consumers Customers
Biodiversity Statement	Sets out the principles we follow to manage our impact on biodiversity and the wider environment.	Suppliers Governments and Wider Society
Circular Economy Position Statement	Our commitment to applying circular economy principles across our operations and product categories.	Consumers Suppliers Governments and Wider Society
Operational Standard on Child Labour Prevention	Detailed guidance and procedures for tackling the risk of child labour in BAT Group's own Leaf Operations.	Our People Suppliers Governments and Wider Society
Group Community Investment Framework	Sets out the Group strategy for community investment and charitable donations, aligned to the United Nations Sustainable Development Goals.	Our People Governments and Wider Society
Climate Change and Energy Standard	Provides guidance for all managers or others within BAT that have a duty for the application of implementing a climate change related initiative across all BAT's facilities and working environments.	Our People Suppliers Governments and Wider Society
Green Mobility Standard	Specifies BAT's green mobility strategy aimed at reducing the environmental impact of BAT's fleet, namely carbon dioxide equivalent emissions (CO_2e), air pollution, and noise, by deploying strategic beyond Internal Combustions Engine (ICE) options.	Our People Suppliers Governments and Wider Society

Strategic Management

Double Materiality Assessment

BAT has conducted Materiality Assessments^ since 2007 and, in 2022, we undertook our first Double Materiality Assessment (DMA). These allow us to understand the importance of sustainability topics both to stakeholders and our business. Topics with the highest level of importance form the basis of our sustainability agenda and reporting.

Introduction and Overview

In 2022, we undertook a significant update to our materiality approach, by conducting our first Double Materiality Assessment (DMA) through an external consultancy.

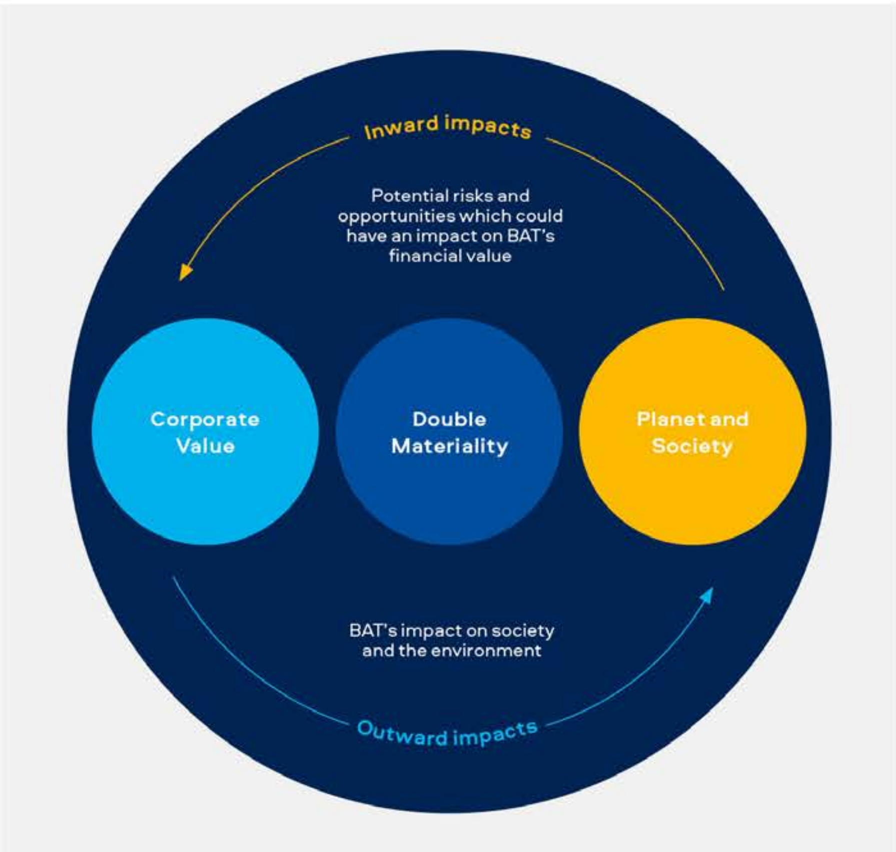
This has provided greater insight, focus and granularity on the sustainability / ESG matters which are significant in terms of:

1) BAT's impact on society and the environment; and

2) Potential risks and opportunities which could have an impact on BAT's financial value.

In December 2022, the EU adopted the final version of the Corporate Sustainability Reporting Directive (CSRD), which requires in-scope companies to report their sustainability performance in line with the European Sustainability Reporting Standards (ESRS) - drafts of which have been produced by the European Financial Reporting Advisory Group (EFRAG). In particular, the CSRD requires reporting on a double materiality basis.

While we have taken account of the CSRD and ESRS in our DMA, we recognise that this is an evolving area and, as such, we will review our DMA on a regular basis.



Our Double Materiality Process

Topic identification

Inventory and Benchmarking

This included a review of applicable sustainability standards, frameworks, and principles. BAT was benchmarked against leading companies from both inside and outside of our industry to evaluate the relative maturity of sustainability at BAT. Maturity was examined in seven ways:

1. Materiality approach and outcomes;
2. Reporting scope and frequency;
3. Use of frameworks and metrics;
4. Governance;
5. Risk assessment;
6. Policies; and
7. Supply and value chain coverage.

Risk assessment

The risk assessment collated a list of sustainability-related risks relevant to BAT. In order to arrive at a risk matrix, these were then evaluated according to their potential impact and likelihood. Such evaluation of issues according to risk is one of the key inputs to the assessment of impact and financial materiality.

The materiality thresholds were determined by evaluation of their potential impact on BAT's operations and wider value chain. This included consideration of potential occurrence across the value chain and risk type (e.g. financial, operational, legal or reputational), as well as the impact and likelihood based on geography, industry, stakeholders, public interest and developing trends. The risks were classified at a gross (not residual) level. This was one of the key inputs to the materiality matrix, along with the others, as set out below.

Extensive Stakeholder Engagement

The external consultancy used engaged with a large number of internal and external stakeholders as part of the DMA process.

External participants included representatives from a wide range of organisations, including shareholders and investors, NGOs, labour unions, suppliers, workforce representative groups and experts in areas, such as human rights.

Internally, this included employees at all levels and functions and across geographies. Several Directors also participated, including the Chair of the Board, our Chief Executive and our Finance & Transformation Director, as well as our Chief Growth Officer and our Chief Sustainability Officer. Site visits were undertaken in Brazil and the UK for an overview of our manufacturing, leaf and commercial operations, as well as for face-to-face interviews with our employees and others.

+95
Dialogues and semi-structured interviews with external and internal stakeholders

+2,600
Group company employees participated in a focus survey to provide their perspectives on ESG priorities

Impact Assessment

Prioritisation of BAT's impact on society and the environment

In order to prioritise the different 'outward' impacts on BAT, the findings of the risk assessment were combined with the learnings from the stakeholder engagement, alongside the results of benchmarking against other companies across a range of sectors.

This included assessing BAT's actual and potential negative impacts on people and their human rights, the environment and the economy; through the topics of the ESRS.

According to the European Sustainability Reporting Standards (ESRS), a sustainability matter is material from an impact perspective if it is connected to actual or potential significant impacts by the undertaking on people or the environment over the short-, medium- or long-term.

Financial Materiality

We analysed potential risks and opportunities which could have a significant impact on BAT's financial value. These pose potential 'inward impacts'.

For each issue and overall topic identified, several questions were used to establish whether they met our financial materiality criteria:

- Could it affect assets / liabilities recognised in financial reporting today, or be recognised because of future events?
- Could it affect Enterprise Value?
- Could it influence the possibility to continue to use or obtain resources needed for our business, as well as the quality and pricing of those resources?
- Could it affect our ability to rely on relationships needed in our business processes?

Double Materiality

Having undertaken our detailed assessments, the relative 'outward' and 'inward' importance of issues and overall topics was determined.

Double Materiality Matrix

The findings from this exercise produced the following results, in comparison to our previous materiality assessments:

Unchanged
Harm Reduction

New Additions
Circular Economy; Sustainability Governance

Increased Importance
Climate Change; Biodiversity & Ecosystems; Ethics & Integrity; People, Diversity & Culture

The conclusions of the DMA reflect the challenges that society, the global economy and our industry face today.

In line with our previous assessments and long-standing sustainability strategy, the top priority continues to be Harm Reduction, aligned with BAT's ongoing transformation into a multi-category consumer goods company selling reduced-risk products*†.

Climate Change and Circular Economy are also 'Tier 1' topics for BAT, in line with the increasing concern about their impact on, and importance for, society and the environment. Furthermore, "Climate and Circularity" is now recognised as a Principal Risk to the Group (see page 121).

The other significant topics identified reflect a mix of those that are specific to our business (e.g. Farmer Livelihoods), as well as expectations of good corporate citizenship (e.g. Sustainability Governance and Ethics) and environmental sustainability (e.g. Climate, Biodiversity & Ecosystem and Water).

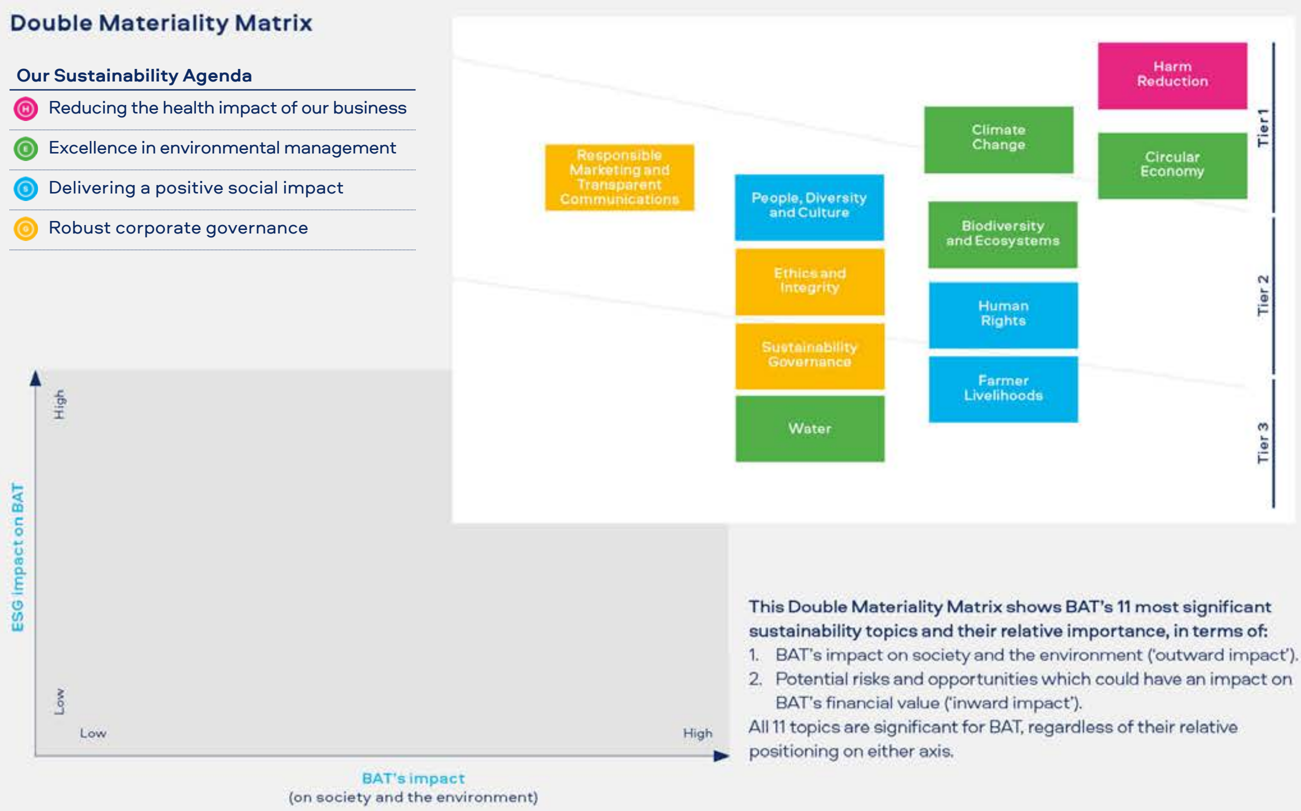
Next steps – Roadmap/Action Plan

The outcomes of the DMA have been reviewed by our Main Board and Management Board, and are playing an important role in shaping our current and future sustainability strategy and ESG reporting framework. This has included developing a more focused set of performance metrics and advancing our ESG Roadmap (see page 6), and combining the principal components of our ESG reporting into this Annual Report.

Also, in line with the findings relating to Sustainability Governance, BAT appointed its first Chief Sustainability Officer (CSO) in September 2022.

Looking ahead, the DMA outcomes will be used across the Group to inform ESG risk mitigation, adaptation and management, as well as to further develop our ESG Roadmap, goals, targets and action plans.

Note:
^ Although financial materiality has been considered in the development of our Double Materiality Assessment ("DMA"), our DMA and any related conclusions as to the materiality of sustainability or ESG matters do not imply that all topics discussed therein are financially material to our business taken as a whole, and such topics may not significantly alter the total mix of information available about our securities.



This Double Materiality Matrix shows BAT's 11 most significant sustainability topics and their relative importance, in terms of:

1. BAT's impact on society and the environment ('outward impact').
2. Potential risks and opportunities which could have an impact on BAT's financial value ('inward impact').

All 11 topics are significant for BAT, regardless of their relative positioning on either axis.

Strategic Management

Double Materiality Assessment
Continued

Our Double Materiality Assessment identified 11 key topics – each comprising several sub-topics – as being material in terms of a) BAT's impact on society and the environment, and b) the financial materiality of ESG impacts on BAT. These topics and sub-topics are listed here, along with where to find more information on them.

Material Topic	Descriptor	Sub-topics include
Harm reduction	Our work centres on the development and promotion of reduced-risk products*†. We aim to reduce negative health impacts and support high product quality and safety standards.	– Tobacco harm reduction – Reduced-risk products*† – Beyond Nicotine products – Product quality and safety
Climate change See page 52 for details	We will work to reduce GHG emissions and energy consumption and increase business resilience to climate change risks.	– GHG emissions / Net Zero – Energy consumption and efficiency – Climate change mitigation and adaptation – Renewable energy
Circular economy See page 54 for details	We will foster circularity principles throughout our value chain and the minimisation of value chain resource consumption.	– Resource use and circularity – Sustainable sourcing – Waste management
Responsible marketing and transparent communication See page 64 for details	We market our products responsibly by adhering to our International Marketing Principles (IMP) and through our Youth Access Prevention (YAP) initiatives. In addition, compliance with applicable product regulations and appropriate labelling of our products facilitate transparent and trustworthy product communications. We have a range of approval processes at local, regional and global levels which support our aim that all of our communications are transparent and trustworthy.	– Youth Access Prevention – International Marketing Principles – Product regulation – Transparent and trustworthy communications
People, Diversity and Culture See page 84 for details	We will continue to work to attract and retain talent across the Group. In the areas of employee wellbeing and capacity building, we aim to ensure diversity, equality and inclusion. We also respect freedom of association and the right to collective bargaining.	– Employee wellbeing – Diversity and inclusion – Talent attraction and retention – Health and safety
Biodiversity and ecosystems See page 56 for details	We will work to protect the ecosystems where we operate by strengthening their resilience, preventing deforestation and any subsequent form of biodiversity loss.	– Forest conservation – Land use change – Sustainable agriculture – Tobacco curing
Ethics and integrity See page 66 for details	We strive to uphold business ethics by, amongst other things, working to counteract all forms of corruption. We also aim to ensure data privacy and cyber security. We engage in constructive collaboration with law enforcement agencies and engage transparently with regulators, policymakers and governmental officials.	– Standards of Business Conduct – Anti-illicit trade – Tax transparency – Transparent engagement and advocacy
Human rights See page 60 for details	Our focus is to abolish child labour, forced labour and prevent modern slavery, as well as to respect human rights in our value chain.	– Respect for human rights – Child labour, modern slavery / forced labour – Standards in the supply and value chains
Sustainability governance See page 68 for details	Our aims and achievements in this area, and in capacity building, cover the topics of sustainability governance and communications, as well as management of sustainability risks and opportunities.	– Sustainability governance and communications – Sustainability risks and opportunities management – Accountability and assurance – Sustainability goals, metrics, milestones and targets
Farmer livelihoods See page 62 for details	We invest in farmer and community amenities to seek to enable prosperous livelihoods. We continue to promote occupational health and safety, as well as fair working practices - including access to grievance mechanisms.	– Living income – Working conditions – Community Impact – Crop and income diversification – Collective bargaining rights
Water See page 58 for details	We work to promote responsible water stewardship and the management of consumption and water risk. This includes our management of discharges to aquatic ecosystems.	– Water stewardship – Water consumption – Waste water discharges

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.

SDG Mapping of Our Material Sustainability Topics

The UN Sustainable Development Goals (SDGs) were designed to provide a shared blueprint for governments, civil society and the private sector to create a sustainable future. We have mapped our Sustainability Agenda and our material sustainability topics to the SDGs in order to determine those that are the most relevant for our business and stakeholders. Here, we provide a high-level mapping of our material sustainability topics to these key global goals for 2030.

SUSTAINABLE DEVELOPMENT GOALS

High-Level SDG Mapping

Goals		Link to our Material Sustainability Topics
Strategic These goals align with our principal focus area to reduce the health impact of our business. They also align with our global efforts to combat climate change, which extend across all aspects of our business.	3 Good Health and Well-Being	*See Tobacco Harm Reduction page 50* *See People, Diversity and Culture page 84*
	12 Responsible Consumption and Production	*See Circular Economy page 54* *See Responsible Marketing and Transparent Communications page 64*
	13 Climate Action	*See Climate Change page 52* *See Circular Economy page 54* *See Biodiversity and Ecosystems page 56* *See Water page 58*
Priority These are the global goals that align with our SDG priority areas, and where we can make a significant contribution through our global activities.	8 Decent Work and Economic Growth	*See Human Rights page 60* *See Farmer Livelihoods page 62*
	9 Industry, Innovation and Infrastructure	*See Tobacco Harm Reduction page 50* *See Farmer Livelihoods page 62* *See Circular Economy page 54*
	16 Peace, Justice and Strong Institutions	*See Ethics and Integrity page 66*
Localised These goals align with issues for which a localised response is needed, tailored to the specific circumstances.	10 Reduced Inequalities	*See Farmer Livelihoods page 62* *See People, Diversity and Culture page 84*
	15 Life on Land	*See Water page 58* *See Biodiversity and Ecosystems page 56*

Our Sustainability Agenda

- H Reducing the health impact of our business
- E Excellence in environmental management
- S Delivering a positive social impact
- G Robust corporate governance

Strategic Management

Harm Reduction

H Reducing the health impact of our business

Tobacco Harm Reduction*†

Our Goals

£5bn

in revenues from New Category products by 2025

50m

consumers of our Non-Combustible products by 2030

2022 performance highlights

40.9%

increase in New Category revenue, up to £2.9bn in 2022

22.5m

consumers of our Non-Combustible products in 2022

£323m

investment in Research and Development in 2022

GRI Standard

This topic is not mapped to a specified Standard

SFDR PAI Indicators

This topic is not mapped to a specified Indicator

SASB Standards

FB-TB 260a.1

Highlights

- Completed and published results from our landmark one-year, real-world study of our Tobacco Heating Product, glo.
- Published an important review of the behavioural, chemical, toxicological and clinical studies of glo and the potential for bridging existing data to new product iterations.
- Completed and published the results from our pivotal cross-sectional study of our Modern Oral nicotine pouches, Velo.
- Completed an innovative cross-sectional study of our Vapour product, Vuse. Results to be published in 2023.

For more information on our New Category products and the science associated with them, see pages 32 to 37 of this document.

Notes:

1. WHO: Tobacco, Key Facts. May 24 2022 (who.int).
2. The Global State of Tobacco Harm Reduction (GSTHR) Briefing Papers: February 2022. 82 million vapers worldwide in 2021: the GSTHR estimate — Global State of Tobacco Harm Reduction.
3. Cox et al (2019) Addict Behaviour Report and. Hajek et al. (2019).

* 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 Approach

We have a clear purpose: to build A Better Tomorrow™ by reducing the health impact of our business. That is why we are changing: creating new products, backed by science and tested to meet or exceed industry-leading standards, that provide adult smokers with reduced-risk*† alternatives.

Why Tobacco Harm Reduction Matters

We know combustible products pose serious health risks. The only way to avoid those risks is not to start smoking or to quit. Yet more than 1.3 billion people today continue to smoke[1]. Tobacco harm reduction is a well-recognised public health strategy that aims to minimise the harm caused by combustible cigarettes by encouraging adult smokers, who would otherwise continue to smoke, to switch completely to scientifically substantiated, reduced-risk*† alternatives.

Over 100 million[2] adults worldwide are now using reduced-risk*† products as an alternative to cigarettes. For those who would otherwise continue to smoke, we encourage making the switch by providing consumers with a range of scientifically-substantiated reduced-risk*† alternatives to smoking that deliver comparable satisfaction in nicotine delivery, use and sensorial aspects.

For example, some studies suggest that Vapour products are more successful than nicotine replacement therapy in helping people stop smoking, by providing a satisfactory alternative to cigarettes[3] despite not being smoking cessation products nor marketed as such.

These products need to be supported by world-class science and industry-leading product safety and quality standards. Responsible, science-backed, and well-thought-through regulation is also crucial for enabling adult smokers to access and enjoy reduced-risk*† products with confidence, while allowing governments and health bodies to know that these products are manufactured to high product safety and quality standards.

Consumer Choice

Smokers are most likely to switch to less risky alternatives*† when they find a product that meets their preferences.

That is why we offer a multi-category portfolio of New Category products tailored to meet these preferences. Our portfolio for adult consumers includes Vapour Products, Tobacco Heating Products and Modern Oral nicotine pouches.

Our new or enhanced products are backed by science and industry-leading standards. We utilise our deep consumer insights to anticipate trends in order to meet evolving consumer needs.

We do this through the innovative work of our state-of-the-art R&D centres in Southampton, UK and Winston-Salem, U.S. This is also supported by our new Global Device Development Centre in Shenzhen, China.

Collaborations with external partners and our corporate venture capital initiative, Btomorrow Ventures (BTV), also help us to stay at the forefront. Our Open Innovation team, as part of our New Categories R&D function, works in partnership with BTV to identify partners (including start-ups) that have innovative technologies and materials that hold promise for our product pipeline.

Find out more on our New Category products on pages 32 to 37

World-class Science

World-class science is crucial to providing a robust evidence base to substantiate the role of New Category products in tobacco harm reduction.

We apply our robust nine-step risk assessment framework to evaluate the emissions, exposure and risk of our products. We also openly share our science and publish our research in peer-reviewed journals.

For over 60 years, R&D has been a critical part of our business. We invest more than £300 million a year in R&D to deliver innovations that satisfy or anticipate new consumer preferences.

The main focus of our R&D investment is on developing and scientifically substantiating New Category products to assess their reduced-risk potential.

We use a wide range of analytical techniques, specialised laboratory technology and expertise to test our products and aim to ensure they meet high quality standards. This is supplemented by collaborations with an ecosystem of global external researchers who bring independent and specialist expertise that enhance our internal capabilities.

We aim to follow best practice and adhere to high standards of governance and ethics in all our scientific research. Regardless of the results of such research, we are committed to sharing the outcomes.

We work hard to make our science accessible and understandable to a wider audience. In 2021, we refreshed our dedicated website www.bat-science.com, and published a Science and Innovation Report.

We also introduced a new 'At a glance' e-zine to provide a concise overview of how science and innovation are transforming our business at pace.

Our new R&D Virtual Visitor Experience utilises the latest technology to offer global audiences an immersive tour of our facilities in Southampton, UK, reinforcing our commitment to openly share our science.

Find details of our world-class science on pages 32 to 37

Testing Our Products: Our Nine-Step Risk Assessment Framework

Most alternative tobacco and nicotine products are relatively new to the market. As a consequence, in most cases, there is a lack of long-term epidemiological data needed to demonstrate the overall impact on public health. That is why it is necessary to take a 'weight of evidence' approach.

Drawing on work by the U.S. Institute of Medicine, we developed a nine-step risk assessment framework. This evaluates the emissions, exposure and risk profile of our New Category products and compares them to smoking cigarettes or other comparators, such as nicotine replacement therapy. The graph below shows the evidence generated at each of the steps to develop a weight of evidence that supports our products as reduced-risk*† alternatives to cigarettes.

Our scientists have published more than 150 scientific papers to date about our New Category products utilising this framework. As well as publishing our own research, our scientists also constantly monitor and review external publications to gain a holistic view of the evidence base.

+150
Number of peer-reviewed papers published to date on our New Category products

Standards and Regulation

Access and availability of less risky*† products depend on having the right regulatory and market conditions. High standards and responsible industry practices are also key.

We hold ourselves to high standards and hope some of these will become industry benchmarks and the basis for future regulation. So we share our approach, information and expertise with industry groups, standards bodies and regulators.

Regulation of New Category products continues to evolve. Globally, there are regulators passing progressive laws that encourage adult smokers who would otherwise continue to smoke to switch to New Category products, but there are other regulators who view them more cautiously. As the science and evidence to substantiate these products grow, we hope to see more countries passing progressive regulations, further accelerating New Category growth and tobacco harm reduction.

We believe a stakeholder-inclusive, whole-of-society dialogue that includes regulators, policymakers, consumers and the industry is key to developing effective policies that can accelerate tobacco harm reduction as quickly as possible. Regulation around New Category products should be founded on science, not opinion.

Assessing the Reduced-Risk Potential of our Products*†

Our multi-disciplinary risk assessment framework

Emissions
What chemicals or compounds do our products release during use?

Exposure
What happens to the cells when they are exposed to those chemicals or chemical compounds?

Risk
What does that mean for individual and population health risk in the long term?

Strategic Management

Climate Change

E Excellence in environmental management

Climate Change

Our Goals

50%

reduction in Scope 1, 2 & 3 CO_2e emissions by 2030[1,2]

Net Zero

across our value chain by 2050 at the latest

Carbon neutral

direct operations (Scope 1 & 2 emissions) by 2030

50%

renewable energy use by 2030 (Updated Target)

2022 Performance Highlights

22.3%

reduction in Scope 1 & 2 CO_2e emissions vs 2020 baseline

7%

reduction in Scope 3 CO_2e emissions in 2021[2] vs 2020 baseline

33%

renewable energy use: achieving our 30% 2025 target three years early

GRI Standards

GRI 302-1, GRI 302-3, GRI 302-4, GRI 305-1, GRI 305-2, GRI 305-3, GRI 305-4, GRI 305-5

SFDR PAI Indicators

5, 6, E4, E5

SASB Standards

FB-AG-110a.1, FB-AG-110a.2, FB-AG-110a.3, FB-AG-130a.1

Relevant Policies and Standards

- Environment Policy
- Environment, Health and Safety (EHS) management system
- Supplier Code of Conduct
- Climate Change and Energy Standard
- Green Mobility Standard

Find out more:

Refer to the BAT 'Reporting Criteria' for a full description of key terms and definitions: **bat.com/reporting**

For more performance metrics and operational data refer to the BAT 'ESG Performance Data Book': **bat.com/sustainability reporting**

Note:

1. Compared to 2020 baseline. Comprises 50% reduction in Scope 1 & 2 and 50% reduction in Scope 3 GHG emissions. Scope 3 emissions target includes purchased goods and services, upstream transportation and distribution, use of sold products and end-of-life treatment of sold products, which collectively comprised >90% of Scope 3 emissions in 2020.

Our Approach

We have an integrated climate strategy that includes our products' whole value chain: to help mitigate climate change and reduce emissions; adapt and be resilient to the impacts of climate change; and, overall, effectively manage associated risks.

Why Climate Change Matters

We rely on natural resources to run our business. Our ability to secure these resources is directly linked to the effects of climate change and, as a global organisation, we have a responsibility to our planet. Minimising impacts across our value chain and reducing our carbon footprint is simply the right thing to do - and makes sound business sense.

Our Integrated Climate Strategy

BAT's approach to mitigating and adapting to climate change is shaped by our climate strategy, which is supported by our Environment Policy and by ambitious goals and targets. These include: halving GHG emissions across Scope 1, 2 & 3[1] by 2030 and achieving Net Zero across our value chain by 2050 at the latest. We are focused on our near-term, 2030 target, which has been approved by Science Based Target initiative (SBTi). In parallel, our mitigation activities are helping our business and supply chain become more resilient to the transitional and operational effects of climate change.

See our TCFD report on page 70 for full details of our GHG emissions and page 45 for our Environment Policy.

To reduce Scope 1 & 2 GHG emissions, we are:

- Using site-specific decarbonisation roadmaps for all our manufacturing facilities and investing in energy efficiency projects and management systems;
- Implementing on-site renewable energy generation projects, increasing renewable energy use by purchasing green electricity and assessing options for power purchase agreements; and
- Rolling out electric and hybrid vehicles across our fleet.

Scope 3 GHG emissions (including biogenic emissions and removals) comprise most of our total carbon footprint, contributing to 91% of our total value chain emissions in 2021.

In order to reduce Scope 3 emissions, we are focusing our efforts on the most carbon-intensive categories first, taking the following approach:

- Collaborating with tobacco farmers through carbon-smart farming;
- Using sustainable tobacco curing fuels, aligned with no gross deforestation, and eliminating residual use of coal for curing;
- Building a climate-resilient supply chain partnership with direct and indirect suppliers; and

– Fostering a circular economy throughout our value chain by increasingly using readily recyclable materials, designing for end-of-life, and implementing product Take-Back schemes[3] for our New Category devices.

For more information on our decarbonisation strategy, read our Low-Carbon Transition Plan on www.bat.com/LCTP

Scope 1 & 2: Decarbonising our Operations

Our Climate Change and Energy Standard provides guidance and consistency on our approach to decarbonisation and its implementation across our global operations.

In 2022, we continued to enhance our decarbonisation strategy by engaging with stakeholders and other third-parties, which is helping us address harder-to-tackle decarbonisation areas. For example, for Scope 1, we are assessing renewable hydrogen development based on region-specific factors. Additionally, we implemented initiatives which resulted in the reduction of some 10,000 tCO_2e of emissions vs 2021. This is equivalent to 2% of our 2020 baseline. Initiatives included smart energy management systems that optimise consumption using artificial intelligence (AI), for example in Singapore, Mexico and Bangladesh; upgrading and replacing heating, lighting and air-conditioning systems; installing solar heating; and replacing fossil fuel boilers with low carbon alternatives, such as sustainable biomass in Germany and South Korea.

We monitor energy consumption across our business by comparing production output to benchmarks, setting high-usage alarms, and having experienced staff available to monitor energy consumption and address breakdowns or faults.

In 2022, we reduced our absolute Scope 1 & 2 GHG emissions by 120,000 tCO_2e, vs 2020, a decrease of 22.3%. We continued to expand the number of externally verified carbon neutral sites[4], reaching a total of 28 manufacturing and commercial facilities. At those carbon neutral sites, we purchased verified carbon offsets to offset the residual emissions. These credits are generated from projects such as improved forest management, afforestation and reforestation.

Renewable energy: Accelerating our progress

In 2022, 33% of our direct energy usage came from renewable sources, an increase of 4.3 pps from 2021. This includes biomass.

By the end of 2022, 39 of our operations sites were purchasing 100% renewable electricity and 26 were generating renewable energy on-site, avoiding some 36,000 tCO_2e emissions. In 2022, we achieved our 2025 target to increase our renewable energy use to 30%. In doing so, we have increased our target to reach 50% renewable energy use by 2030.

For more information and a breakdown of our energy usage see our ESG Performance Data Book

Our journey to reducing fleet emissions

In 2022, our vehicle fleet accounted for approximately 20% of our Scope 1 & 2 GHG emissions. Our Green Mobility Standard outlines our strategy to reduce the environmental impact of our fleet. We are working with our fleet partners to transition to electric battery, plug-in hybrid and self-charging hybrid vehicles, for example, in Australia, Italy, the U.S., South Korea and Jordan.

While we transition our fleet, we are also reducing associated emissions through several initiatives. We optimise travel routes through telematic systems in vehicles. These systems help alert drivers and us to improvements in driving that are designed to enhance both road safety, as well as fuel efficiency, which could lead to reduced emissions. Between 2020 and 2022, these combined efforts have reduced fleet emissions by around 10%.

Scope 3: Engaging with our Value Chain

Our Supplier Code of Conduct outlines the minimum expectations for suppliers, including specific elements related to environmental impacts and carbon reduction plans. To reach our near-term Scope 3 reduction target, we are focusing our efforts on our most carbon-intensive areas first, namely purchased tobacco and our largest direct and indirect suppliers of goods and services.

Purchased Tobacco

Tobacco growing is a key contributor to the emissions within our value chain. Almost 31% of our Scope 3 GHG emissions come from the tobacco we source, contributing 1,600,000 tCO_2e in 2021, with the majority coming from fuels used to cure tobacco leaves.

To help farmers reduce emissions, we have a range of initiatives covering farming practices, exploring new curing technologies, alternate fuel sources and new fertilisers with lower emissions, as well as 'carbon-smart' farming practices throughout the growing cycle.

The aim of carbon-smart farming is to reduce emissions from farming activities, whilst removing carbon from the atmosphere through reforestation and reduction of soil disturbance. The programme is currently underway in the Group's own Leaf Operations in Brazil, Bangladesh, Mexico, Pakistan and the U.S. - which represent our highest directly contracted tobacco volumes.

We are monitoring GHG emissions, removals and different agricultural practices in these countries to further develop and scale-up the programme as part of our broader climate strategy. The methods used also have additional benefits, such as increasing water retention capacity and improving drainage, as well as improving soil quality. As a result, many farmers are seeing increased yields and better-quality crops.

We have continued to support the elimination of the residual use of coal as a fuel for curing. In 2022, the Group's own Leaf Operations in China and Vietnam eliminated coal from their tobacco curing and replaced it with biomass, thereby reducing the use of coal for curing across our purchased tobacco to around 5%.

Direct and Indirect suppliers

Group-wide, we have more than 30,000 direct and indirect suppliers. For example, we source product materials, such as paper and filters for cigarettes, THPs, and packaging for all our products. For our New Category products, we have a growing supply chain in consumer electronics and e-liquids. We also have a large number of suppliers of indirect goods and service, such as IT services and facilities management.

In 2022, we invited over 200 priority suppliers to make climate change disclosures via CDP, with a completion rate of over 90%.

We have also requested those suppliers to commit to a series of environmental pledges, including:

– Submitting an annual climate change disclosure via CDP;
– Setting science-based targets via SBTi; and
– Initiatives to support removal and/or reduction of single-use plastics.

We estimate c.50% of our direct and indirect supplier emissions can be attributed to 60 suppliers. By engaging with these suppliers through data collection, information sharing, direct discussions and asking them to participate in the CDP Supply Chain Programme, we are focusing on areas where we believe we can make the biggest impact.

Our goal is to have 20% of suppliers of purchased goods and services by spend to set Science-Based Targets by 2025. At the end of 2022, we were more than half-way to achieving this goal, with 13% of suppliers having Science-Based Targets in place.

In 2023, we will continue to engage with our purchased goods and services supply base. We are aiming to cover 95% of the emissions in this area through our engagement, to make further progress towards our Scope 3 target.

For more information about our targets see TCFD report on page 70

Notes:

2. Due to the complexity of consolidating and assuring Scope 3 data from our suppliers and value chain, we report Scope 3 data one year behind other metrics.
3. For more information on our approach to Take-Back schemes, see page 55
4. 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.

Strategic Management

Circular Economy

E Excellence in environmental management

Circular Economy

Our Goals

100% of our packaging[1] to be reusable, recyclable or compostable by 2025

100% of Vuse and glo markets with device Take-Back schemes in place

30% average recycled content in plastic packaging by 2025

-25% reduction in waste generated by 2025 (Updated Target)[2]

90% recycling rate of waste generated by 2025 (Updated Target)

<1% waste going to landfill by 2025 (Updated Target)

2022 Performance Highlights

92% of packaging was reusable, recyclable or compostable

84.3% waste recycling rate

48% reduction in waste sent to landfill vs 2021

GRI Standards
GRI 306-1, GRI 306-2, GRI306-3, GRI-306-5a

SFDR PAI Indicators
9, E13, E9

SASB Standard
This topic is not mapped to a specified Standard

Relevant Policies and Standards

- Environment Policy
- Circular Economy Position Statement
- Supplier Code of Conduct
- Sustainable Tobacco Programme

Find out more:

Refer to the BAT 'Reporting Criteria' for a full description of key terms and definitions: **bat.com/reporting**

For more performance metrics and operational data refer to the BAT 'ESG Performance Data Book': **bat.com/sustainability reporting**

Notes:
1. In 2022, we expanded our target to include all types of packaging, rather than just plastic packaging.
2. vs 2017 baseline. In 2022 we increased this target to a 25% reduction by 2025, having surpassed our initial 15% reduction target already. The scope of this KPI relates to BAT's direct operations.

Our Approach

Our aim is to use fewer resources, create less waste and enable reuse, recycling and circularity in our products. We aim to do this by being smarter in how our products are designed, made, packaged, transported and in our products' end-of-life options.

Why a Circular Economy Matters

We have the responsibility to reduce our consumption of finite resources and work towards a circular economy. Discarded plastics and other waste impact the environment. Consumers are increasingly interested in products' environmental footprints.

Our transformation from Combustibles to New Categories brings additional challenges - products with different environmental profiles and changes to resource use. We need to be constantly improving our products' design and circularity, and creating less overall waste.

Our Circular Economy Strategy

To mitigate the environmental impacts of our current and future product portfolio, we are guided by three core principles, reflected in our Circular Economy Position Statement:

- **Simplify:** Simplifying the design of products and packaging to improve recyclability and to reduce our use of virgin materials and finite resources;
- **Maximise**: Maximising the longevity of our products to improve the experience for our consumers; and
- **Recover**: Minimising waste through increased product recovery, reusability and recycling.

Transitioning to a circular economy requires innovative approaches. As such, we carry out life cycle analysis (LCAs) across our products to identify areas for further improvement.

Adopting circular economy principles reduces the environmental impact of our products, creates more efficient operations and offers our employees opportunities to innovate.

Investing in R&D

We recognise that our portfolio transition to reduced risk*† alternatives brings additional challenges to the delivery of our environmental commitments as New Category products tend to have different and/or greater environmental footprints. To tackle this challenge, we are investing in the R&D of products that provide reduced risk*† alternatives to smokers that also have a lower environmental impact. We are seeking to design products that are easier to dismantle at end-of-life, with greater reusability and recyclability, and packaging that uses more recycled and recyclable content.

As part of our efforts towards a circular economy, we have a growing pipeline of initiatives that seek to develop products with lower environmental impact. Over the course of 2022, we have been working with an external partner in developing an integrated 'tool kit' to measure and inform the environmental impacts arising from any design decisions.

Promoting a Culture of Circularity

Improving product circularity is a key pillar of our circular economy strategy. However, we are also not losing sight of other opportunities to embed circularity across our business and value chain.

We continue to improve efficiencies in our manufacturing operations and logistics, as well as seeking to leverage our purchasing power, where possible, to drive materials, goods and services that have a lower environmental impact.

We are committed to implementing new solutions and technologies that will accelerate this journey, while nurturing a culture of innovation and collaboration with business partners across our value chain and other external partners in order to develop new solutions.

Reducing Product-related Waste

Our goals for 2025 include further eliminating plastic in our packaging, and increasing the recycled content of the plastic packaging that we do use. This sits alongside our efforts to minimise packaging overall, and our aim for all of our packaging to be reusable, recyclable or compostable by 2025. We are implementing this across our product categories:

Vapour products

In 2022, we changed the pack profile of our Vapour refills in Canada and included recycled cardboard content in them. The reduced pack profile has resulted in a 15% reduction in CO_2e per refill and a 45% saving in paper use in Canada. We plan to roll out the reduced pack profile and recycled board content across the Group over the course of 2023.

Tobacco Heating Products (THPs)

Our glo device packaging is recyclable, where local facilities exist, and we have worked to eliminate any unnecessary plastic packaging[1] from it. We've removed all plastic wrap from glo device packaging, which has resulted in a saving of 20 metric tonnes of plastic per year. In 2022, we also reduced the device box size by over 55% vs 2021, which has resulted in a saving of 300 metric tonnes of paper per year, and a 65% reduction in CO_2e footprint from the changes to our device packaging.

Traditional and Modern Oral products

Globally, over 80% of the cans used in our Velo products are recyclable, where local facilities exist. In the U.S., Traditional Oral product containers (Grizzly moist snuff and Camel Snus) are made from plastic (polypropylene) and steel, which are recyclable, where facilities exist.

Transforming cigarettes

We have made progress in improving the recyclability of plastic packaging in FMC. For example, 93% of our plastic packaging for cigarettes can be recycled and all poly film, as well as tear-off strips used on packs, can be recycled (subject to local recycling infrastructure). We are also conducting trials on alternative plastic-free materials for cellulose acetate cigarette filters (filters classified as having plastic content).

Other Tobacco Products (OTP)

In our OTP category, we are working on several projects to maximise recyclable material in our portfolio. The focus is on converting all non-recyclable plastic laminate pouches and standing bags to recyclable plastic. Our ambition is to have this portfolio migrated by 2025.

Designing for End-of-Life

Butt littering and disposal of New Category products are two big challenges we face.

Tackling cigarette butt littering

BAT recognises the impacts of cigarette butt littering. It is a complex topic with no easy answers. We are committed to working with consumers to enhance their understanding of the impact of butt littering and encourage responsible disposal.

Research shows that consumer education and awareness-raising initiatives are likely to be some of the most successful measures. At BAT, we support a number of such initiatives and education campaigns.

We have developed a new butt littering toolkit that will be rolled out across BAT in 2023. This utilises learning from our existing initiatives to focus on approaches that have proved to be most effective and resonated best with consumers. In 2022, we continued to implement campaigns across Italy, Denmark, France and Romania - among other countries.

Take-Back schemes

Since the end of 2021, BAT has had Take-Back schemes in all markets where we sell New Category devices. These comprise one or both of: device return containers in our directly-operated and third-party retail outlets; and participation in national electrical equipment return and recycling schemes.

Take-Back schemes allow for the responsible disposal of end-of-life products, which can range from recycling to incineration with energy recovery, depending on local infrastructure, capacities and regulatory environment.

Reducing Waste

In 2022, as well as achieving a further 8.6% reduction in absolute waste versus 2021, we also passed our initial target of a 15% reduction in waste from operations by 2025 against a 2017 baseline, achieving a 21.5% reduction. As a result, we have increased our target to a 25% reduction in waste from operations by 2025, against a 2017 baseline.

In 2022, we also increased the percentage of absolute waste we recycle by an additional 5.4pps, up to 84.3% against our updated target of 90%, by 2025.

In 2022, 52% of our operations sites achieved zero waste to landfill. To address waste to landfill more broadly across our direct operations, we have also updated our waste to landfill target to <1% globally by 2025.

These improvements were achieved by utilising existing processes from our Integrated Work System (IWS), conducting loss analysis and value stream mapping. This enabled a targeted approach to our more challenging waste streams, allowing our Global Waste Centre of Excellence (CoE) to focus on the 'waste top losses' and implement action plans, such as waste segregation and recycling programmes.

The CoE brings together subject matter experts from across our global operations to support the identification and implementation of solutions and best practices at a local level.

Optimising Agricultural Waste

Our approach is for all of our tobacco suppliers and their contracted farmers to dispose of empty agrochemical containers safely.

For example, in Brazil, we partner with an industry scheme that collects and recycles agrochemical containers from more than 100,000 farms through 1,800 collection points in almost 400 municipalities across the country. In Croatia, almost 80% of our directly contracted farmers participate in a municipal waste programme for recycling seedling trays and empty agrochemical containers.

We are also helping to reduce waste and by-products from other types of agriculture by using them as alternative, sustainable fuels for tobacco curing. Examples include jute sticks, rice husk briquettes and other agricultural waste in Bangladesh; candle nut shells in Indonesia; and rice husks in Sri Lanka and Vietnam.

Notes:

1. Any plastic packaging element technically replaceable by non-plastic materials without compromising product properties (i.e. quality, safety or other regulatory requirements), as classified by our R&D teams.

* 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.

Strategic Management

Biodiversity and Ecosystems

E Excellence in environmental management

Biodiversity and Ecosystems

Our Goals

100% of wood used by our contracted farmers for tobacco curing to be from sustainable sources

Zero gross deforestation of primary native forests in our paper, pulp and Tobacco Supply Chain[1]

Net Zero deforestation of managed natural forests in our paper, pulp and Tobacco Supply Chain[1]

Net positive impact in our Tobacco Supply Chain[1] on forests by 2025

Zero conversion of natural ecosystems in our Tobacco Supply Chain[1] by 2025 (Updated Target)

2022 Performance Highlights

100% of tobacco purchased free of gross deforestation of primary native forest

98% of tobacco purchased at no risk of net deforestation of natural forest and no conversion of ecosystems

94% of paper and pulp volumes are certified as sustainably sourced (FSC and PEFC)

GRI Standards
GRI 304-1, GRI 304-2

SFDR PAI Indicators
This topic is not mapped to a specified Indicator

SASB Standard
FB-AG-430a.3

Relevant Policies and Standards
– Environment Policy
– Biodiversity Statement
– Supplier Code of Conduct

Find out more:
Refer to the BAT 'Reporting Criteria' for a full description of key terms and definitions: **bat.com/reporting**

For more performance metrics and operational data refer to the BAT 'ESG Performance Data Book': **bat.com/sustainability reporting**

Note:
1. 'Tobacco Supply Chain' refers to the tobacco supplied by our directly contracted farmers and those of our strategic third party suppliers, who participate in our annual Thrive assessment, representing over 80% of the tobacco purchased by volume in 2022.

Our Approach

We continue to work with the farmers in our Tobacco Supply Chain[1] to help protect biodiversity and forest resources. We also aim to use only paper- and pulp-based packaging materials that are certified as sustainably sourced.

Why Biodiversity and Ecosystems Matter

As noted in our Biodiversity Statement, we have both an impact and a dependence on biodiversity, through our business operations and use of ecosystem services, such as forest products, soil and water.

Conventional agricultural practices can be resource-intensive as they can be associated with deforestation, pollution and biodiversity loss.

To avoid this, we continue to develop, advance and implement sustainable agricultural practices that help to preserve natural capital, enhance rural livelihoods and help increase farmers' resilience to climate change.

Advocating for Increased Biodiversity Protection

BAT was one of 300+ leading global companies that first signed a call to action by the business coalition Business for Nature. The coalition advocates for mandatory reporting by businesses, and asks governments to strengthen legislation protecting biodiversity.

Governments participating in the COP-15 UN Biodiversity Conference in December 2022 were urged to implement new reporting requirements for large and transnational businesses and financial institutions. Creating a level playing field for businesses, increasing accountability to investors and consumers, and empowering local communities are just some of the benefits of this call to action.

Working with our Paper and Pulp Supply Chain

For our paper- and pulp-based supply chain, we work with suppliers who can demonstrate that material is sourced sustainably. That means certification from the Forest Stewardship Council (FSC) or the Programme for the Endorsement of Forest Certification (PEFC).

94% of our pulp-based materials (including primary and secondary packaging, fine paper, acetate tow and point of sale materials) were certified as sustainably sourced in 2022. Certification must also be in place for any new paper or pulp suppliers we appoint.

Our Journey to Net Positive

In our Tobacco Supply Chain[1], we aim to have a net positive impact on forests by 2025. Our objective is to increase primary native forests and biodiversity value.

To achieve this goal, we provide our directly contracted farmers with tree saplings as sources of sustainable fuel for tobacco curing, as well as training in forest and biodiversity management. Our third-party suppliers are expected to follow similar practices with their contracted farmers.

Since the 1970s, we have provided more than 400 million saplings to our contracted farmers and their local communities to promote wood self-sufficiency in Brazil, Kenya, Bangladesh and Pakistan.

22% of our contracted farmers used alternative, locally available biomass fuels for tobacco curing in 2022. These include sugarcane bagasse briquettes in Kenya, and jute sticks and rice husks in Sri Lanka and Bangladesh.

In 2022, as part of our Thrive programme, we continued to engage with farmers on training. Training was delivered by the Group's own Leaf Operations and strategic third-party suppliers through farm visits and communication material, covering best practices on natural resource preservation, forest, biodiversity and soil management.

Protecting Forests in Partnership with Farmers and Suppliers

Forests or other natural areas being cleared to create farmland for tobacco is a risk that we are working hard to reduce.

We monitored 100% of our directly contracted farmers in 2022, regarding farmland expansion and the risk of natural ecosystems conversion (including wetlands, peatlands, grasslands, woodlands, and wet and dry savannah - in addition to forests). This includes the risk of encroaching on legally protected areas and/or recognised biodiversity areas.

Regular, scheduled farm visits are used alongside unannounced visits. Where non-compliance is found, prompt action is taken. Before we contract with new farmers, we undertake due diligence to check for no deforestation, no natural ecosystems conversion and relevant biodiversity practices.

If any cases of deforestation are observed, the relevant farmer will be put under remediation to reforest in the same eco-region and/or jurisdiction.

We ask our third-party suppliers to take equivalent steps.

Driving Actions Through our 2022 Biodiversity Risk Assessment

In 2022, we commissioned a new Biodiversity Risk Assessment. This mapped our directly contracted farmers against five global biodiversity risk indicators and categorised their farms as low, medium & high risk. The work was carried out by an external consultancy, which assessed data from 69,200 (91.5%) of our directly contracted farmers in the 2021 crop year.

Based on a combined Biodiversity Risk Score, 98% of farms assessed (representing 96.4% of the total assessed farmed area) were classified as low biodiversity risk.

High risk areas were identified in Brazil and Sri Lanka. Medium biodiversity risk areas were found in Brazil, Kenya and Venezuela. Overall, high and medium risk areas represented less than 1% of the total farm area assessed in each country.

One of the most relevant indicators assessed is proximity to World Heritage Sites (WHS) or Alliance for Zero Extinction (AZE) sites. Results showed a total of 127 farmers (0.2%) with farms covering 974 hectares (0.3%) of the total farmland assessed near or adjacent to WHS and / or AZE areas.

Additionally, 854 farmers (1.2%), covering 9,027 hectares of land (2.8% of the total farmland assessed), are near or adjacent to protected areas or Key Biodiversity Areas. In total, there are 10,001 hectares - representing 3% of the assess area - near critical biodiversity areas.

Sites were also assessed using the Species Threat Abatement and Restoration (STAR) indicator, a biodiversity metric based on the IUCN Red List of Threatened Species.

Our assessment results showed a relatively low level of risk to areas of high biodiversity significance. 75 hectares were classified with high Threat significance and one hectare with high Restoration significance. These are regions with high significance for threatened or endemic species of birds, mammals and/or amphibians. It does not mean the farmers are causing the threat or damaging the environment, but that there is increased risk or significance in areas relatively near to them. Over the course of 2023, we will work with the Group's own Leaf Operations to develop management plans to mitigate these risks.

We are also working on a new Biodiversity Operating Standard, further outlining requirements on biodiversity risk management and protection. This includes operational requirements and procedures mandatory for the Group's own Leaf Operations and to serve as guidance for the third-party Leaf suppliers in order for the Group to meet its forest-related targets.

Supporting Biodiversity and Natural Capital

To further support biodiversity and natural capital, we work to reduce the use of agrochemicals, reduce soil erosion and preserve soil fertility. Training on best practices in sustainable agriculture, appropriate to growing conditions, are provided to our directly contracted farmers in collaboration with our Global Leaf Agronomy Development Centre in Brazil.

Reducing agrochemical usage

Our standard is that only approved agrochemicals with the lowest possible toxicity according to the World Health Organization (WHO) classification are used in our purchased tobacco, avoiding any highly hazardous pesticides (HHPs). We monitor the level of adherence to our agrochemical standard from crop planning to the final packed leaf, ensuring suppliers' compliance.

Any HHPs used prior to 2018 were replaced or withdrawn by the Group's own Leaf Operations and third-party suppliers.

Our Global Leaf Agronomy Development Centre works to continuously enhance integrated pest management strategies, which are then deployed to the farmers by our Field Technicians. Ongoing developments include: selection of disease-resistant tobacco varieties; the use of biological control strategies that can lead to a reduction in the use of agrochemicals and biodiversity preservation.

In 2022, biological control strategies were recommended in 9 of the Group's own Leaf Operations.

For example, in Brazil, 33% of our directly contracted farmers use some form of biological control techniques for pest control. Additionally, an independent study found that the level of active chemicals used per hectare of tobacco in Brazil is 1.01 kilograms – the second lowest among 19 different crops analysed.

Promoting best practice in soil management

Soil plays a vital role in removing carbon from the atmosphere, storing and purifying water, preventing land erosion and supporting habitats.

In farms where we source tobacco, farmers receive training on best practice soil management and other land management practices. In 2022, it was reported via our Thrive assessments that 82% of tobacco hectares in our Tobacco Supply Chain[1] had best practice soil and water management plans in place.

Mono-cropping - growing the same crop continuously on the same land - is known to contribute to the depletion of soil nutrients. Crop rotation is a recognised best practice approach to protecting and enhancing soil health, which we encourage alongside diversification. Both increase farmers' resilience to economic factors, weather, climate issues and pests and they also help to enhance food security and preserve soil health.

In 2022, 92.8%[2] of farmers in our Tobacco Supply Chain[1] were growing other crops - such as rice, corn, vegetables, wheat, maize and soy - in addition to tobacco.

For more information on the scope and criteria of our Biodiversity Risk Assessment see: bat.com/sustainabilityreporting

Note:

2. This was marginally lower in comparison to 2021, due to changes in our purchasing mix.

Strategic Management

Water

E Excellence in environmental management

Water

Our Goals

35%
reduction in water withdrawn by 2025 vs 2017 baseline

100%
of operations sites Alliance for Water Stewardship (AWS) certified by 2025

30%
of water recycled by 2025

2022 Performance Highlights

33%
reduction in water withdrawn vs 2017 baseline

36%
of operations sites AWS certified in 2022

22.6%
of water recycled in 2022

7%
reduction in water withdrawn vs 2021

82%
of tobacco hectares in our Tobacco Supply Chain[1] have best practice soil and water management plans in place

GRI Standards
GRI 303-1, GRI 303-2, GRI 303-3, GRI 303-4, GRI 303-5

SFDR PAI Indicators
8, E6, E7, E8

SASB Standards
FB-AG-140a.1, 140a.2, 140a.3, FB-AG-430a.3 FB-AG-440a.2

Relevant Policies and Standards
– Group Environment Policy
– Water Security Standard
– Soil and Groundwater Protection Standard
– Supplier Code of Conduct
– Leaf Supplier Manual (LSM)
– Sustainable Tobacco Programme

Find out more:
Refer to the BAT 'Reporting Criteria' for a full description of key terms and definitions: **bat.com/reporting**

For more performance metrics and operational data refer to the BAT 'ESG Performance Data Book': **bat.com/sustainability reporting**

Why Water Matters
Good water management is vital to sustainable farming and running efficient operations. We recognise it is both our responsibility and good business practice to use water efficiently and wisely.

Our Approach
We are using less water by optimising processes, eliminating losses and increasing recycling. We are also helping our contracted farmers pursue more sustainable irrigation methods, while seeking to protect local communities' access to clean water.

High Standards in Water Management
Our Environment Policy is implemented by all Group companies. It outlines our commitment to high standards of environmental protection, the principles of sustainable development and the protection of biodiversity and water.

It is complemented by our Water Security Standard – aligned with CDP's requirements for managing water risk effectively – and Soil and Groundwater Protection Standard. These define the controls and standards we follow to help protect against spillages and leakages that could impact surface waters, groundwater or soil. For our suppliers, our Supplier Code of Conduct (SCoC) defines the minimum standards we expect, including specific criteria for environmental sustainability and water.

For our tobacco suppliers, the SCoC is complemented by our Leaf Supplier Manual (LSM). It includes requirements for water protection planning and water extraction for irrigation that we expect our suppliers to follow and monitor.

In addition, the industry's Sustainable Tobacco Programme (STP) includes water management criteria which also applies to our suppliers.

Rigorous Water Stewardship across our Operations
Through our long-standing environmental management systems, we have been steadily decreasing water withdrawal and increasing the Group's water recycling rate for a number of years.

We use water in our factories and Green Leaf Threshing sites and, to a lesser extent, in our offices and distribution sites. Although our manufacturing processes are not particularly water intensive, we do operate in some water-stressed locations around the world. Optimising water use is a high priority for the local environment and communities in those localities.

We use the World Resources Institute's (WRI) Aqueduct Water Risk Atlas to identify our sites located in water-stressed areas. In 2022, 16 of our sites in 11 countries were identified as being in a water-stressed area. For such sites, we have more stringent requirements for water management on site and water recycling rates, in line with our Water Security Standard.

Sites in water-stressed areas are required to have a plan to achieve a water recycling rate of at least 25% and a score of 3.5 out of 4 as per the Water Roadmap – an internal tool that allows us to assess key aspects of water management, such as water withdrawal, water efficiency and water discharge.

At a Group level, we seek to ensure all sites in water-stressed areas regularly self-assess in accordance with the 'Water use and discharge management' section of our EHS Roadmap. This covers water withdrawal and discharge compliance, as well as links to the Alliance for Water Stewardship (AWS) process.

Our sites implement a range of initiatives to eliminate water losses, improve water efficiency and replace fresh water with recycled water, wherever possible. Examples of water saving initiatives include replacing water-cooled chillers with air-cooled chillers in Turkey, and optimising water consumption when 'stem washing' across our green leaf threshing (GLT) operations.

70% of our operations sites currently reduce water withdrawn by recycling water on site, in manufacturing operations and utilities. Examples include upgrading our ultra-filtration and Reverse Osmosis (RO) systems - with significant success in our Sacheon factory, South Korea; condensate return to boilers; and reusing water for utilities and other technical needs after it has been treated for effluent. These initiatives are in operation across our sites in Pakistan, Croatia, Brazil, Indonesia and Turkey.

33%

Reduction in water withdrawn vs 2017 baseline

Across the Group, we achieved a 33% reduction in water withdrawn in 2022, versus our 2017 baseline. We have also increased the amount of water we recycle to 22.6% through our zero-loss mindset and focusing on identifying our 'top losses' across operations.

As members of the AWS, we committed to 100% of our operations sites to be certified against the AWS Standard by 2025. The AWS Standard is a globally recognised framework that allows water users to better understand their water use and impacts, and to work collaboratively and transparently towards sustainable water management within a catchment context.

At BAT, we use it across our operations, and believe its implementation can bring about many benefits for our sites on issues such as understanding water dependencies and impacts, mitigating operational and supply chain water risks, ensuring responsible water procedures are in place, building relationships with local water-related stakeholders and addressing challenges shared with others in the catchment.

In 2022, a further 24 sites were audited and recommended for AWS certification, which now takes the Group total to 34 sites. We plan to seek certifications for 19 additional sites during 2023.

34 sites

Group sites now audited/ recommended for AWS certification

Throughout the year, we delivered training on the AWS Standard for EHS practitioners across our operating sites. Further training is underway to equip key regional teams as specialist assessors to support the Group in meeting the governance and compliance requirements of AWS.

Water discharge monitoring

Monitoring water discharges means we are better able to assess and reduce our impact on the environment and comply with regulatory requirements. Across the Group, we track water discharge destination, treatment method, quantity and quality.

In 2022, we performed a screening for priority substances and pesticides, phosphates and nitrates. 100% of our operational sites reported no process use of these substances, and 38% reported not using them in any on-site ancillary or support services. BAT operates control measures globally in line with its Group procedures for hazardous substances management designed to avoid any uncontrolled emissions to water, soil or groundwater across its operations – including for ancillary and support processes.

An Active Approach to Water Stewardship in Tobacco Growing

Adopting a comprehensive approach - from assessing water risks and any subsequent water deficits from rainfall - is at the centre of how we support our contracted farmers in water stewardship. Across many regions of the world where we operate, there is sufficient annual rainfall to satisfy tobacco growing requirements.

Where rainfall levels are insufficient, farmers may also use irrigation to grow the crop. In 2022, 33% of the hectares of our tobacco sourcing area made some use of irrigation systems. A number of the locations where we source tobacco are identified as areas of 'water stress'.

We actively monitor the proportion of tobacco crops in areas with higher risk for water stress. We map tobacco supplier locations via the WRI Aqueduct tool, which is incorporated into the industry-led Sustainable Tobacco Programme.

In 2022, mapping identified that some of our tobacco sourcing areas in 18 countries - including India, Chile and Turkey - are located in water-stressed areas. 18.3% of the tobacco we purchased in 2022 originated from areas designated as water-stressed. In those areas, we seek to work directly with farmers to optimise and reduce crop water usage.

Where irrigation is used for tobacco growing, we monitor and report water use with our Thrive programme, which we also use to monitor wider best practice water and soil management. In 2022, these plans were in place for 82% of tobacco hectares in our Tobacco Supply Chain[1].

Through our Global Leaf Agronomy Development Centre, we are actively looking at ways to work with directly contracted farmers to reduce water usage, with different techniques applied depending on the local circumstances and growing conditions.

Where implemented, we believe our technology-driven approach is leading to increases in water efficiency, reducing the volume required of water per hectare.

For example, we have introduced our directly contracted farmers to drip irrigation technology in seven countries, including Brazil, Mexico and Pakistan. This helps save water, reduce soil erosion and salination, and boosts yields. In 2022, we ran pilot programmes in Bangladesh, Pakistan and Vietnam. Initial results showed savings of between 25-50% of water use when compared to traditional furrow irrigation methods.

We are currently running a global project using our Asian Agri-Tech Hub in Bangladesh, to identify opportunities for reducing the cost of the drip irrigation system by simplifying the components.

Another important initiative for water saving is the Alternate Furrow Irrigation system. In 2022, we continued with trials and commercial evaluations in Bangladesh and Pakistan. Initial results are promising and show potential water savings of up to 8% compared to traditional furrow irrigation - without compromising crop yield or quality.

Looking forward, new programmes to anticipate future challenges with water scarcity, water reduction and engagement with local communities are in development. These include innovative seedling floating systems, smart irrigation using real-time sensors and new drought resistant tobacco varieties.

Note:

1. Tobacco Supply Chain' refers to the tobacco supplied by our directly contracted farmers and those of our strategic third party suppliers, who participate in our annual Thrive assessment, representing over 80% of the tobacco purchased by volume in 2022.

Strategic Management

Human Rights

S Delivering a positive social impact

Human Rights

Our Goals[1]

Zero

aiming for zero child and forced labour* in our Tobacco Supply Chain[1] by 2025

100%

of product materials and high-risk indirect suppliers to have undergone at least one independent labour audit within a three-year cycle

2022 Performance Highlights[1]

100%

of farms monitored in our Tobacco Supply Chain[1] for child labour

0.38%

of farms with incidents of child labour identified vs 0.7% in 2021

10

HRIAs completed in our tobacco sourcing countries

96.4%

of farmers received training/capacity building on child labour issues

348,257

attendances via farmer human rights training/ capacity building

36.6%

of product material & higher-risk indirect suppliers having an independent labour audit within a three-year cycle

GRI Standards

GRI 408-1, GRI 413-1, GRI 413-2, GRI 414-1, GRI 414-2

SFDR PAI Indicators

S10 S13 S14

SASB Standards

FB-AG-430a.2, FB-AG-430a.3

Relevant Policies and Standards

– Standards of Business Conduct (SoBC)
– Our Supplier Code of Conduct
– Employment Principles

Note:

1. Our goals cover all tobacco used in our combustibles & THP products ('tobacco supply chain'). Our metrics, however, derive data from our annual Thrive assessment, which includes our directly contracted farmers and those of our strategic third party suppliers, representing over 80% of the tobacco purchased by volume in 2022 ('Tobacco Supply Chain').

* For further detail, see Modern Slavery Statement 2022, to be published in Q2 2023.

Find out more:
Refer to the BAT 'Reporting Criteria' for a full description of key terms and definitions:
bat.com/reporting

For more performance metrics and operational data refer to the BAT 'ESG Performance Data Book':
bat.com/sustainability reporting

Our Approach

We have a long-standing commitment to respect fundamental human rights as affirmed by the Universal Declaration of Human Rights. This commitment is set out in our SoBC and Supplier Code of Conduct (see page 45). This includes respecting the rights of our employees, the people we work with and the communities in which we operate across our supply chains and business operations. Our human rights strategy is aligned to the UN Guiding Principles for Business and Human Rights (UNGPs) and focuses on strong policies, good due diligence and (where required) remediation programmes.

Why Human Rights Matter

Our business and supply chain covers several industries with inherent human rights risks and considerations, including agriculture, electronics and manufacturing.

Focusing on what matters

We want to focus on what matters most to people across our supply chain and business operations. To do this, we undertake a defined process, aligned to the UNGPs. We engage to understand the views of and impacts upon, our key stakeholders and rights-holders. We also aim to have a holistic approach that identifies emerging risks, trends and best practices.

Respecting Human Rights in our tobacco supply chain

Tobacco, due to inherent challenges in global agriculture, may be particularly vulnerable to human rights-related risks. This includes temporary workers' rights, rural poverty and the use of family labour on small family farms. It is estimated by the International Labour Organization (ILO) that 70% of child labour incidents globally occur in agriculture[2].

Supporting farmers and building trusted relationships

Human rights issues are complex and the l ocal situation on the ground can be nuanced. Remediation requires cooperation and dialogue, rather than confrontation. We believe this is where our relationship with directly contracted small-scale farmers enables us to have a real and lasting impact. Our Field Technicians visit our contracted farmers approximately once a month during the growing season. In addition to agronomy support, this is an important way to train and monitor farms on human rights.

Using our digital platform to protect Human Rights

Our Farmer Sustainability Management (FSM) system is a digital platform that our Field Technicians use to record data on each individual farm visit. More than 30% of the criteria are related to human rights, including monitoring for child and forced labour and interviews with farm workers.

Note:

2. International Labour Office and United Nations Children's Fund, Child Labour: Global estimates 2020, trends and the road forward, ILO and UNICEF, New York, 2021. License: CC BY 4.0.

Playing Our Part in the Sustainable Tobacco Programme

All of our Leaf suppliers are expected to participate in the industry's Sustainable Tobacco Programme (STP), which requires an annual self-assessment against priority themes, including Human Rights. Suppliers are assessed against Verisk Maplecroft's risk indices, including for human rights.

As part of a new STP pilot, those suppliers with a higher risk profile are prioritised for in-depth, on-site reviews conducted by an independent third party. Based on this process, during 2022, the overall STP programme piloted 10 in-depth assessments (IDAs) in four countries (Argentina, Brazil, North Macedonia and Mozambique), covering six Leaf suppliers which BAT sourced from. At this stage, there are plans to expand this pilot to an additional 22 suppliers in six countries during the course of 2023.

Reporting and Resolving Incidents of Child Labour in our Tobacco Supply Chain

The Operational Standard on Child Labour is mandatory for all of the Group's own Leaf Operations and is used as a guidance across our third-party leaf suppliers.

In 2022, a total of 942 incidents (2021: 1,790) of child labour were reported on 0.38% (2021; 0.70%) of farms in our Tobacco Supply Chain[1], of which 100% were reported as resolved during the growing season. The majority of these cases related to under-18-year-olds working on tasks such as harvesting. The 2022 reduction was supported by: ongoing implementation of child labour mitigation programmes, farmers training and stakeholder engagement within our Tobacco Supply Chain[1]; and improved data for our strategic third-party leaf suppliers, which, for 2022, comprised farmers specifically supplying BAT, when possible. We recognise the complexity of child labour and that monitoring cannot take place on every farm every day of the growing season, so incidents may be hidden or under-reported. That is why it is so important to work to address root causes.

We monitor the recurrence of child labour instances and remediation plans often involve local community support. In 2022, more than 90% of the farmers reporting child labour incidents identified this type of non-compliance for the first time. Where we identify recurring non-compliance, the farmer's contract is not renewed for the next growing season.

Delivering Human Rights Training to Farmers and Their Communities

The Group's own Leaf Operations and strategic third-party suppliers provide human rights training and awareness programmes for farmers and community members, with a focus on child labour and workers' rights / forced labour. In 2022, 348,257 attendees were reported to have received this training and we also provided refresher training about Prompt Action procedures and governance to the Group's own Leaf Technicians.

Giving Farmers a Voice

We track access to grievance mechanisms across our Tobacco Supply Chain[1] as part of our Thrive assessments. In 2022, Thrive identified that 100% of the farms are monitored for grievances, and 99.3% of farmers and farm labourers reported having access to at least one type of grievance mechanism.

Our Human Rights Impact Assessment Programmes

In recognising the need for a greater understanding of the root causes of human rights issues and complementing our own farm monitoring, we also undertake Human Rights Impact Assessments (HRIAs) for selected tobacco-sourcing countries, in line with the UNGPs and conducted by independent human rights experts. By the end of 2022, 10 HRIAs had been completed in eight of our tobacco sourcing countries, namely: Bangladesh, India, Indonesia, Mozambique, Pakistan,Turkey, Zimbabwe and North Macedonia. Collectively, these assessments have engaged more than 5,239 rights-holders in tobacco-growing communities. The outcomes include additional actions to address any impacts found and increased awareness - for example the use of Personal Protective Equipment at key stages during the crop cycle, women's empowerment training or farmer monitoring procedures.

Respecting Human Rights in our Product Materials Supply Chain

Beyond tobacco, we source product materials such as paper and filters for cigarettes, and electronics and e-liquids for our New Category products.

Prior to approval, suppliers must undergo an independent due diligence audit, performed by our partner Intertek and aligned to ILO standards. This covers forced labour, child labour, wages and hours, Health and Safety, Environment and Management systems. We expect suppliers to achieve a score of 70% to qualify. Existing suppliers are externally audited using a risk-based approach.

In addition, we have partnered with external provider EcoVadis to expand our due diligence programme. This means that direct materials suppliers identified as higher risk continue to be audited by Intertek, while all suppliers outside Intertek's scope are assessed through EcoVadis. In 2022, 354 social assessments of suppliers located in 55 countries were conducted through our appointed third parties, Intertek and EcoVadis. This comprised:

- Tier 1 product materials suppliers: 314;
- Lower tier product materials suppliers: 12;
- Indirect suppliers: 28.

Supplier audit findings 2022

Of all the issues identified, 82% were classified as 'moderate' and 18% as 'major'.

The 'major' non-compliances identified in these audits and actions included:

- Labour Standards/Human Rights 86%
- Environmental issues 14%

73% of corrective actions identified were completed and verified by year-end 2022, with the remainder on track to close by the end of Q2 2023.

By 2025, we are aiming for all our product materials and higher risk indirect suppliers to have undergone at least one independent labour audit within a three-year cycle. By the end of 2022, this had been achieved for 36.6% of those suppliers.

Respecting Human Rights in our Business Operations

The policies, procedures and controls adopted by businesses across our Group seek to mitigate human rights risks.

We recognise that circumstances in some countries present a higher risk for human rights issues, such as higher levels of corruption, criminality or unrest. Therefore, in addition to Group-wide procedures and controls, we have a process to identify and monitor BAT operations in higher-risk countries. This includes an annual risk assessment process for countries with Group companies present, using Verisk Maplecroft's human rights indices, including its Modern Slavery Index. The outcomes are submitted to and noted by the Group Corporate Committee and Audit Committee, and, by the relevant Regional Audit & Corporate Social Responsibility Committee (RACC), including action plans for any areas for improvement identified.

In 2022, 28 countries with BAT operations were identified as higher risk and underwent the enhanced human rights monitoring process and assessment.

Investigating and Remediating Workplace Breaches

Our Standards of Business Conduct (SoBC) set out how allegations of wrongdoing or SoBC breaches should be investigated and dealt with fairly and objectively.

In 2022, we received 117 reports of alleged SoBC breaches relating to our Respect in the Workplace and Human Rights Policy. Upon investigation, actual breaches were found to have occurred in 33 cases - related to Workplace issues - and appropriate actions were taken, including disciplinary actions that resulted in 8 people leaving BAT. In 40 cases, no evidence of wrongdoing was found, and the remaining cases were still under investigation at the end of the year.

Strategic Management

Farmer Livelihoods

S Delivering a positive social impact

Farmer Livelihoods

Our Goal[1]

Prosperous Livelihoods

We are committed to working to enable prosperous livelihoods for all farmers in our tobacco supply chain[1]

2022 Performance Highlights[2]

87,206
people engaged in crop diversification training

92.8%
crop diversification: % of farmers in our Tobacco Supply Chain[2] growing other crops

29,366
people engaged in women empowerment training

317,000
people with access to clean water and sanitation programmes

GRI Standards
GRI 203-1 , GRI 203-2
GRI 413-1 , GRI 413-2

SFDR PAI Indicators
This topic is not mapped to a specified Indicator

SASB Standards
This topic is not mapped to a specified Standard

Relevant Policies and Standards
– Supplier Code of Conduct
– Sustainable Tobacco Programme (STP)
– Community Investment Framework

Find out more:
Refer to the BAT 'Reporting Criteria' for a full description of key terms and definitions: **bat.com/reporting**
For more performance metrics and operational data refer to the BAT 'ESG Performance Data Book': **bat.com/sustainability reporting**

Notes:
1. Our goal covers all tobacco used in our combustibles & THP products and referred to in this report as 'tobacco supply chain'.
2. Our metrics derive data from our annual Thrive assessment, which includes our directly contracted farmers and those of our strategic third party suppliers, representing over 80% of the tobacco purchased by volume in 2022 and defined in this report as 'Tobacco Supply Chain'.

Our Approach
We recognise we have a vital role to play in delivering a positive social impact across our supply chain.

We support and work with farmers in enhancing their livelihoods and food security. Our community programmes help to build long-term resilience for rural communities. Our approach is underpinned by our Community Investment Framework and the requirements of our Supplier Code of Conduct (see page 45).

Why Farmer Livelihoods Matter
If farmers have sustainable living incomes, farming is made more attractive to the next generation. It also reduces the risks of exploitation, as well as child and forced labour, and helps encourage improved adherence to health & safety and environmental standards. The majority (63%) of our tobacco volume is sourced by the Group's own Leaf Operations through direct contracts with over 80,000 farmers. The remainder is from third-party suppliers.

Helping Farmers to Thrive
Our Thrive programme, an in house-developed 'ecosystem' to collect data and associated indicators across aspects of farmers' livelihoods, is based on the internationally recognised 'Five Capitals' framework.

To be sustainable, we believe that farming communities must be 'in credit' across five types of 'capital': financial, natural, physical, human and social. Strength in all five helps farmers and rural communities to prosper (see diagram on next page).

In 2022, we developed a new web-based platform for Thrive-related data – Thrive Digital – where suppliers complete their annual submissions. This is an agile tool integrated with data analytics dashboards.

Building on traceability, since 2022, we have been able to report based on farmers who supplied tobacco specifically to BAT, rather than our suppliers' total farmer base, as part of our Thrive assessment.

Boosting Farmers' Incomes Worldwide
We support our directly-contracted farmers worldwide to help enhance their livelihoods across the 'Five Capitals'.

For example, our Global Agronomy Centre in Brazil continues to develop new tobacco varieties that produce higher quality crops and increase yields by up to 20%. In 2022, the Group's own Leaf Operations in 12 countries adopted these varieties for commercial growing or performed field trials to improve their seed portfolio. This aims to increase yields, improve quality and reduce losses from diseases. We are also adapting and developing mechanised solutions and curing technologies to help farmers scale up production, use sustainable agriculture practices, reduce manual labour and minimise health & safety risks. These include soil tilling and fertilising machines and automated harvesters and curing systems. Automated curing barns reduce fuel use by up to 30% and make the curing process 45% less labour-intensive. The technology is being implemented in a number of countries from which we source tobacco, such as Pakistan, Bangladesh, Sri Lanka and India. In Brazil, this has been a commercial solution for over 20 years.

As part of our new Leaf Up innovation programme, in 2022, we worked with a start-up to explore the feasibility of new technology, such as artificial intelligence, to predict crop quality performance. The technology enables farmers to optimise their growing practices and more accurately forecast yields and productivity.

Farm productivity can also be increased through farmer training and capacity building. Our extension services of expert Field Technicians play a crucial role in this. They provide support for our directly contracted farmers throughout the growing cycle, helping to develop their skills, promote better yields and build their resilience. Our suppliers provide similar support services for their contracted farmers.

It was reported via our Thrive assessments that 89,294 people engaged with farm business management training in 2022 delivered by the Group's own Leaf Operations and strategic third-party suppliers.

Building Community Resilience

Our community programmes, which are underpinned by our Community Investment Framework, cover issues ranging from crop diversification, women's empowerment and rural development to providing access to healthcare, clean water and sanitation. For example, our mobile doctor units in Pakistan, operational since 1985, provided much-needed healthcare services to more than 100,000 people in remote tobacco-growing communities in 2022. Additionally, we have clean water and sanitation programmes in eight countries - including Bangladesh, Kenya, Pakistan, Sri Lanka and Uzbekistan - benefiting an estimated 317,000 people.

Enhancing Livelihoods Through Crop Diversification

Growing a diverse portfolio of crops alongside, or in rotation with, tobacco is crucial to enhancing farmer livelihoods. We believe it improves food security and increases farmers' resilience by providing additional sources of income. In 2022, 92.8% of our farmers in the Tobacco Supply Chain[2] were reported to be growing other crops. The Group's own Leaf Operations and strategic third-party suppliers educate and support tobacco farmers on crop diversification, with more than 87,206 people engaged via training delivered in 2022.

Our diversification programmes are tailored to local contexts and may include providing free seeds, crop inputs and training. For example, in Kenya, 95% of our directly contracted farmers grow diversified crop portfolios; and, in 2022, 20,000 avocado saplings were distributed to farmers in the country. Once in full production, this initiative has the potential to increase farmers' additional income by an estimated £2.6 million per year.

In Brazil, we have a long-term diversification programme in place. Established in 1985, this programme encourages the planting of grains and pastures immediately after the tobacco harvest. In 2022, the programme grew 128,252 hectares of corn, black beans and soybeans and provided an estimated total additional revenue for farmers of R$779 million (c.£120 million). In Sri Lanka, since 2013, we have provided free seeds of cereals and vegetables to contracted farmers and community members, enabling an additional source of income and enhancing food security. In 2022, the initiative involved 3,000 beneficiaries, distributing approximately 2,500 kgs of seeds and generating an estimated additional income of US$440,000 and the production of 300 tonnes of food.

Our Women Empowerment Programmes

Empowering women in farming communities can increase income, independence and self-sufficiency. In 2022, there were training programmes in 9 Thrive supplier countries.

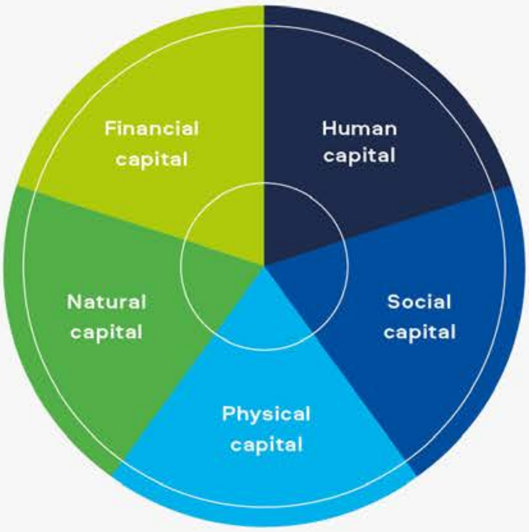
For example, our Pakistan Tobacco Company Women Empowerment programme designed specific training for rural women to contribute to their families' income by collaborating with the National Rural Support programme to conduct training in Child Health & Education, Health & Safety and Gardening. In 2022, 7,800 women were trained through the programme - covering 77% of the spouses of our directly contracted farmers in Pakistan. In addition, in Kenya 16,000 rural women were trained via the women's empowerment training programme.

Farmer Living Income Analysis 2022 – Promoting a Positive Impact

In 2022, we reviewed our living income methodology in partnership with an expert consultancy. We are processing the data analysing different yield ranges for the total farm income in the Group's own Leaf Operations.

The total farm income will be compared with global standard benchmarks on living income, and we will be working to create and implement tailored improvement plans with the view to bringing more positive impact and return to the farmers.

THRIVE – Five capitals of success



Skills, knowledge and human rights, including capacity building, developing the next generation of farmers, health and safety, and eliminating child and forced labour

Resources and safety nets for self-sufficiency and resilience, including networks, grievance mechanisms and women's empowerment

Technology to enhance growing practices and basic infrastructure to live and work, including clean water and sanitation, energy, housing and healthcare

Climate change resilience and the natural resources upon which farming and landscapes rely, including soil, water, biodiversity and forests

Profitable farms and sustainable living incomes, as well as crop diversification and food security

Strategic Management

Responsible Marketing

G Robust corporate governance

Responsible Marketing & Transparency in Communications

Our Goal

100%

of our marketing to be responsible

2022 Performance Highlights

3

Incidents of non-compliance with regulations resulting in a fine or penalty[1]

2

Incidents of non-compliance with regulations resulting in a regulatory warning[1]

GRI Standards

GRI 417-2, GRI 417-3

SFDR PAI Indicator

This topic is not mapped to a specified Indicator

SASB Standards

FB-TB-270.a.1, FB-TB-270.a.2

Relevant Policies and Standard(s)

– International Marketing Principles (IMP)
– Youth Access Prevention (YAP) Guidelines
– Supplier Code of Conduct (SCoC)

Find out more:
Refer to the BAT 'Reporting Criteria' for a full description of key terms and definitions: **bat.com/reporting**

For more performance metrics and operational data refer to the BAT 'ESG Performance Data Book': **bat.com/sustainabilityreporting**

Notes:
1. Incidents of non-compliance with regulations that result in warning or in fine or penalty are dealt with at end market level. To collect the 'Incidents of non-compliance with regulations resulting in warning/fine or penalty' compliance data, the local teams are asked to report any instances or potential instances of breach, which may include allegations of inappropriate marketing, or investigations regarding marketing non-compliance, that they are aware of in their market.

Why Responsible Marketing and Transparent Communications Matter

We firmly believe that tobacco and nicotine products should be marketed responsibly and to adults only.

We also believe that, with respect to our New Category products, marketing freedoms are critical for our ability to deliver on tobacco harm reduction. This is because informing adult tobacco and nicotine users about their attributes, including their reduced-risk*† profile in comparison to cigarettes, is key to motivating adult tobacco and nicotine users to switch to New Category products which would, in turn, reduce rates of smoking and smoking-related diseases.

Our Well-Established Approach to Marketing Products Responsibly

We grow our market share by encouraging adult consumers to choose our products over those of our competitors. In doing so, we aim to market our products responsibly while raising standards and preventing our products from ending up in the hands of those who are underage.

International Marketing Principles (IMP)

Our IMP govern our approach to marketing. They include five key principles, which mandate strict requirements for our marketing to be:

– Responsible;
– Accurate and not misleading;
– Targeted at adult consumers only;
– Transparent; and
– Compliant with all applicable laws.

We aim to apply these principles consistently across our product categories, even when they are stricter than local laws.

We hold our marketing suppliers to the same high standards. Compliance with the IMP is part of our Supplier Code of Conduct (SCoC), which sets the minimum standards expected of our suppliers. In addition, IMP compliance is explicitly set out as a requirement in our contracts with our marketing suppliers.

In addition to the IMP, detailed compliance procedures, guidance and toolkits help our IMP to be applied consistently and effectively in the market.

Youth Access Prevention (YAP) is key to responsible marketing. We have a number of guidelines, standards and toolkits relating to YAP. These apply to all markets where our products are sold, including where they are distributed through third parties.

Our Regional Audit and CSR Committees, as well as the Audit Committee, have oversight of IMP and YAP compliance. In 2022 we identified three incidents[1] of non-compliance with regulations resulting in fine or penalty and two incidents of non-compliance with regulations resulting in a warning. One incident of non-compliance was still pending appeal by the end of the year, therefore awaiting outcome.

Our ongoing iCommit training programme

We continue to invest in iCommit, a training programme on responsible marketing. Established in 2021, it seeks to drive IMP and YAP compliance across our digital channels.

In 2022, we achieved 100% completion of iCommit training across our regions for BAT employees and over 5,000 agency employees across 598 agencies, as well as one million retailers across 93 markets.

During 2022, iCommit was enhanced and implemented as a digitally enabled training programme for all our marketing colleagues and external agencies across all channels and markets. Looking forward, we plan to include the training as part of our onboarding process for new joiners. We also plan to incorporate training on responsible marketing as part of the annual SoBC sign-off process for all employees.

Responsible Marketing in a Digital Age

Our e-commerce and social media channels play an important role in accelerating our transformation, driving growth in New Categories, building strong brands of the future and digitising our business. However, it is critical that we do this in a responsible way, which is why we have clear rules and processes in place that seek to ensure responsible marketing in the digital space.

As a general rule, we only use social media sites where the majority of users are expected to be adults. Our social media accounts and our paid content on these platforms are only visible to those users who have confirmed that they are adults.

Where we use social media partnerships to promote New Category products, we select third-party partners who have at least an 85% adult following. When conducting social listening, our use of language-analysis algorithms is rapidly improving our ability to identify and exclude posts made by anyone underage, whatever the platform.

In addition, our digital marketing hub continues to provide guidance on how to achieve long-term consumer satisfaction and product awareness in a responsible way.

Monitoring compliance through our dedicated Digital Confidence Unit

The Digital Confidence Unit (DCU) was established in 2021. As a dedicated social media monitoring unit, it utilises cutting-edge technology to conduct 24/7 monitoring of:

- All BAT digital channels globally for IMP and YAP compliance;
- Social media channels for user-generated content, such as social media users tagging our products and brands; and
- Brand reputation monitoring of any news and digital content related to our brands and products.

This approach identifies any potentially non-compliant content in real-time, enabling swift remediation. For example, the DCU tracks all issues identified until they are resolved.

Over the course of 2022, the DCU reviewed 100% of our own content on social media and found that 99.4% of our own content was IMP/YAP compliant.

In relation to the 226 potential compliance issues identified in 2022, 99.8% have been resolved, with the remainder in the process of being resolved.

With regard to our combustible brands, we do not use open social media[2]. We use social media to communicate information about our New Category products, where legally permitted. This is important for supporting adult smokers who are looking for alternatives to smoking.

In 2022, we ran a successful DCU pilot across 44 combustible brands in 27 languages. In 2023, the DCU plans to expand its scope to integrate social listening and crisis detection for combustibles.

Committed to Communicating Transparently and Openly

At BAT, we recognise that the most stable and lasting relations are based on trust and transparency. For this reason, we always strive for our communication and marketing initiatives to be responsible across all channels, paying close attention to how, what and with whom we communicate.

This approach also extends to the quality of our data and associated ESG and Sustainability disclosures. Any claims or statements in our communications undergo a robust and thorough review process that involves representatives from all relevant functions, including our Business Communications and Legal and External Affairs (LEX) teams.

We also actively collaborate with our suppliers to obtain information regarding the materials and processes used during the various production phases and carry out all the checks needed to verify the accuracy of the contents.

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.

2. Open social media are networks that allow internet users to view content through search engines and interact with anyone who uses the platform.

Strategic Management

Ethics and Integrity

G Robust corporate governance

Ethics and Integrity

Our Goal

100%

aiming for adherence to our Standards of Business Conduct (SoBC)

2022 Performance Highlights

100%

of Group employees completed SoBC training and compliance sign-off procedure

84

number of established SoBC breaches[1]

58

number of disciplinary actions resulting in people leaving BAT

GRI Standards

GRI2-26, GRI 205-2, GRI 205-3, GRI 415-1

SFDR PAI Indicators

10, 11, 14, S5, S6, S7, S15, S16, S17

SASB Standard

This topic is not mapped to a specified Standard

Relevant Policies and Standards

– Standards of Business Conduct (SoBC)
– Supplier Code of Conduct (SCoC)
– Anti-Illicit Trade (AIT) Policy
– Supply Chain Compliance Procedure (SCCP)

Find out more:

Refer to the BAT 'Reporting Criteria' for a full description of key terms and definitions: **bat.com/reporting**

For more performance metrics and operational data refer to the BAT 'ESG Performance Data Book': **bat.com/sustainability reporting**

Notes:
1. Consistent with previous years' reporting, cases are not included in the above if they were not resolved at year-end.
2. Euromonitor International estimates.

Our Approach

Our Standards of Business Conduct (SoBC) cover areas such as: anti-bribery and anti-corruption (ABAC), political contributions, anti-money laundering and tax evasion.

Our Supplier Code of Conduct (SCoC) outlines the minimum standards expected of our suppliers and also includes provisions relating to ABAC, sanctions, anti-tax evasion and anti-illicit trade. We conduct a detailed review of our SoBC and SCoC every two years. The most recent reviews were undertaken in 2021.

Why Ethics and Integrity Matter

In an organisation as diverse and multinational as BAT, it is essential that we work to a consistent set of rules and standards of behaviour across the Group. Our culture is based on ethical values. Our Delivery with Integrity programme drives our consistent approach to managing key risks, including bribery and corruption.

Read about our Group Risk Factors relating to corporate behaviour and compliance with sanctions and competition laws on pages 353 to 355

Promoting an Ethical Culture

Our Delivery with Integrity global compliance programme was established in 2017. It promotes an ethical culture and communicates expected behaviours as set out in our SoBC. For example, our SoBC app provides easy access to policies, procedures and guidance, including our SCoC and our global 'Speak Up' channels. To date, the app has been downloaded c.36,000 times.

The programme includes the Third-Party Anti-Financial Crime Procedure, an updated AIT Intelligence Compliance Procedure, the Sanctions Compliance Procedure and the use of newly developed systems to conduct risk assessments. In addition, our Mergers and Acquisitions (M&A) Transactions Compliance Procedure is in place and defines due diligence requirements for corporate M&A transactions (including joint-ventures, acquisitions and disposals).

Enabling Everyone to 'Speak-Up'

Our SoBC and SCoC make it clear that our employees, business partners and suppliers should speak up if they have a concern about actual or suspected wrongdoing. We always listen to these concerns and treat them as a serious matter. We do not tolerate harassment, victimisation or reprisals of any kind against anyone raising a concern – such conduct is itself a breach of the SoBC.

People can speak up in various ways, including talking directly to a Group Designated Officer, Human Resources, Legal or to their line manager. Our externally managed global Speak Up channels can be used anonymously, and are available in multiple languages, 24 hours a day online, by text, or telephone. We have worked hard, via ongoing training and communication and the Integrity

Network, to help our people see Speak Up as a trusted channel.

Addressing Non-compliance with Our SoBC

Not all contacts made via our Speak Up channel involve alleged SoBC breaches. Some relate to questions regarding the SoBC or other matters. In 2022, 292 of all the 571 SoBC contacts were assessed as alleged SoBC breaches and reported to the Audit Committee. In 48% of these alleged breaches, the person raising the case chose to remain anonymous.

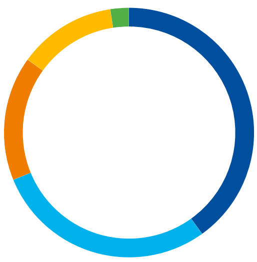
Our SoBC Assurance Procedure defines how all reports of alleged SoBC breaches should be triaged, investigated and remediated fairly and objectively. Our Business Integrity Panel helps to promote a consistent approach to this procedure.

In 2022, figures for detailed investigations conducted into all reported cases are:

- No wrongdoing was found in 111 cases (2021: 154);
- The investigation continued at year-end for 97[1] cases (2021: 51); and
- 84 cases were established as breaches and appropriate action taken (2021: 99).

We take appropriate action for all cases established as breaches, which will vary from case to case depending on the circumstances. In 2022, the established SoBC breaches resulted in 58 people leaving BAT (2021: 46) and 36 written warnings (2021: 72). Where any weakness in internal controls is identified, appropriate measures are taken to strengthen them.

Breakdown of reports of alleged SoBC breaches in 2022[1]



Policy areas	% breakdown
Social and Environment	40%
Corporate Assets and Financial Integrity	29%
Personal and Business Integrity	16%
Others not relating to a specific policy area	13%
National and International Trade	2%
External stakeholders	0%

Note:

1. Figures with independent limited assurance by KPMG.

Preventing and Tackling Illicit Trade in Tobacco Products

Approximately 372.2 billion cigarettes a year are smuggled, manufactured illegally or counterfeited[2]. Consequently, illicit trade deprives governments of billions in taxes each year. Revenue accumulated from illicit trade in tobacco products is also being used to fund terrorism, human trafficking and other illegal activities. In addition, counterfeit cigarettes are not manufactured to stringent product quality and safety standards.

The Anti-Illicit Trade (AIT) Policy in our SoBC sets out the controls all Group companies must put in place to prevent our products from being diverted into illicit trade channels. Our SCoC defines the minimum standards expected of our suppliers, including for AIT, and is incorporated into our contractual arrangements. In addition, our Supply Chain Compliance Procedure (SCCP) provides guidance on complying with our AIT Policy.

At every scheduled Board meeting, the Board reviews a report from our Legal and External Affairs (LEX) Director, which includes updates on AIT initiatives.

Our anti-Illicit trade strategy

We fully support regulators, governments and international organisations in tackling illicit tobacco trade.

Our approach to fighting the black market in tobacco includes: internal governance and supply chain compliance, gathering and analysing market information on the scope of illegal trade, working with authorities to help facilitate appropriate enforcement, engaging with international bodies such as the World Customs Organization to increase responsiveness on the issue, informing regulators about the impacts of the illegal tobacco trade and raising awareness of the topic among our employees, business partners and the public.

Our work to tackle illicit trade

We engage with key external stakeholders across our industry and other sectors on a range of AIT priorities. Our teams fully cooperate with enforcement agencies and local tax and customs authorities, where needed.

The AIT strategy is supported by our research activities to further understand the size and scope of the problem. We also use security systems to trace and authenticate our products, enhancing our supply chain controls by, for example, using digital coding technology. Our expert team is able to analyse seized products, determine counterfeits and identify illicit machinery used in their production.

We also work with governments and other organisations to make our combined efforts more effective. As part of our European Union Cooperation Agreement with the European Commission and its member states, we make contributions to the EU's efforts to fight the illicit tobacco trade.

We continue to further strengthen our AIT approach by appropriately updating our SCCP. Amongst other supply chain controls, we rolled out a dedicated eLearning programme for all relevant employees. The completion rate for the 2022 SCCP eLearning was approximately 90% across the Group.

Regulation and Engagement – Guided by Integrity and Openness

Our SoBC includes our Lobbying and Engagement Policy and Political Contributions Policy, implemented by all Group companies and applicable to all our employees. These policies require all our engagement activities with external stakeholders to be conducted with transparency, openness and integrity and our employees are committed to these policies.

For global regulatory priorities, the views we advocate are the same as those we publish on our website, and we have long supported the OECD's Principles for Transparency and Integrity in Lobbying. We also respect the call for transparent and accountable interaction between governments and relevant stakeholders, including the tobacco industry, established in Article 5.3 of the World Health Organization's Framework Convention on Tobacco Control.

We are open about what we think and always try to offer constructive solutions that will best meet the objectives of regulation, while minimising any negative unintended consequences. Regulatory engagement by our businesses is monitored throughout the year by our Regional Audit and CSR Committees. The Management Board's Regulation Committee, chaired by the LEX Director, meets three times a year and is responsible for reviewing key regulatory and excise trends, Group priority focus areas, and the execution of global plans regarding regulation, as well as monitoring progress.

Our Board is kept updated on regulatory engagement activities during the year.

Details of any political contributions are reported twice a year to the Audit Committee. The Group does not make contributions to UK or EU political organisations or incur UK or EU political expenditure. Details of political contributions outside these jurisdictions are set out on page 158.

Find details of our other governance priorities, including data privacy and cyber security on pages 344, 356 and 356

Strategic Management

Sustainability Governance

G Robust corporate governance

Sustainability Governance

Our Goal

Effective

management of sustainability governance

2022 Performance Highlights

CSO appointment
first Chief Sustainability Officer (CSO) appointed

Board oversight
of Sustainability and ESG matters

Advocating support
for progressive Climate Change and Biodiversity policies and actions

GRI Standards
This topic is not mapped to a specified Standard

SFDR PAI Indicators
This topic is not mapped to a specified Indicator

SASB Standard
This topic is not mapped to a specific Standard

Relevant Policies and Standards

– All Group Policies (see page 45)

Find out more:

Refer to the BAT 'Reporting Criteria' for a full description of key terms and definitions: **bat.com/reporting**

For more performance metrics and operational data refer to the BAT 'ESG Performance Data Book': **bat.com/sustainability reporting**

Why Sustainability Governance Matters

The evolution of and attention to sustainability and ESG matters have increased in recent years. Regulations and expectations have substantially broadened and deepened, not least because of the challenges associated with climate change and biodiversity loss which the world faces.

Having appropriate governance in place to deliver on our sustainability commitments is more important than ever before. In particular, this is why we believe effective oversight and management of sustainability-related risks and opportunities are essential to BAT's ability to deliver A Better Tomorrow™ and achieve long-term sustainable growth.

Our Approach

Our governance approach seeks to ensure Board-level oversight of our sustainability agenda across the Group (see page 72).

During 2022, the Board reviewed and approved new and updated Group environmental targets, and revised Group Health & Safety and Environment policies. More details are set out in the TCFD section on page 71.

To further strengthen our focus on Sustainability and ESG matters, we appointed our first Chief Sustainability Officer (CSO). Sustainability has been central to our business and Ethos for decades. The creation of this new role reflects a step change in our approach to Sustainability, placing it as a strategic priority for the organisation. Under the CSO's leadership, we are entering into a new phase, embedding sustainability firmly into the Group's strategy, as well as in everyday decision-making processes. The CSO and his team are dedicated to setting and driving the Sustainability and ESG agenda across the Group by working alongside other functions such as Operations, Marketing, R&D and Investor Relations.

Advocacy and actions

As a leading multi-category consumer goods business, we have the opportunity to build resilience into the system and advocate for a more sustainable world.

This year, we achieved two milestones in this area, by publishing our Low-Carbon Transition Plan and by joining 300+ leading companies in signing Business for Nature's call to protect and restore biodiversity. For more information see pages 52 and 56.

We know advancing sustainability across our value chain is the right thing to do and makes sound business sense. That is why we have set targets and signed commitments alongside our peers to increase accountability to investors and consumers and empower local communities. These actions demonstrate our commitment to building A Better Tomorrow™.

Ratings and Recognitions

Our sustainability efforts and commitment to high standards have received notable independent recognition from both investor ratings agencies and award bodies in 2022.

Sustainability and ESG Ratings* (examples)

A in CDP Climate and A- in Water Security & Forests

In 2022, we achieved A, A- and A-, respectively, in the CDP Climate Change, Water Security and Forests assessments; placed in the top 2% of companies CDP scored.

Dow Jones Sustainability Indices (DJSI)

BAT scored 88 (out of 100) in the 2022 S&P Global Corporate Sustainability Assessment (9 December 2022). Based on the S&P Global ESG Scores, BAT was selected for inclusion in the DJSI World Index; placed in the top 3% of companies assessed. We have been included in the DJSI indices for 21 consecutive years.

Best-in-class ISS Score

As of December 2022, BAT received an ISS Governance and Environment Quality Score of 1. Scores are ranked on a scale of 1 to 10. A governance score of 1 indicates a lower governance risk and an environment quality score of 1 indicates better environmental disclosure.

MSCI[1]

In December 2022, BAT received a rating of BBB (on a scale of AAA to CCC) in the MSCI ESG Ratings assessment.

Sustainalytics[2]

As of January 2023, BAT received an ESG Risk Rating of 33.4 from Sustainalytics and was assessed to be at high risk of experiencing material financial impacts from ESG factors.

Sustainability and ESG Awards* (examples)

Financial Times Climate Leader

In 2022, we were named as a Climate Leader by the Financial Times for the second successive year, for reduction in greenhouse gas emissions (GHG) intensity, and placed in the top 3% of companies surveyed.

Global Top Employer

We have been named as a Global Top Employer for five consecutive years, recognising our commitment to best-in-class working environments and career opportunities.

Race at Work Charter

We are signatories to the UK Race at Work Charter for supporting racial equality in the workplace.

Gold Class Sustainability Award

We were awarded the highest Gold Class in the S&P Global Sustainability Yearbook 2022.

Workforce Disclosure Initiative (WDI)

Our 2022 WDI submission received a score which placed us in the top 10% of participating companies.

Gartner Supply Chain Top 25

Our Supply Network Operations was recognised in the Gartner Supply Chain Top 25 global rankings for the third year in a row.

Notes:

1. The use by BAT of any MSCI ESG research llc or its affiliates ("MSCI") data, and the use of MSCI logos, trademarks, service marks or index names herein, do not constitute a sponsorship, endorsement, recommendation, or promotion of BAT by MSCI. MSCI services and data are the property of MSCI or its information providers, and are provided 'as-is' and without warranty. MSCI names and logos are trademarks or service marks of MSCI.
2. Copyright ©2022 Sustainalytics. All rights reserved. This publication contains information developed by Sustainalytics (www.sustainalytics.com). Such information and data are proprietary of Sustainalytics and/or its third party suppliers (Third Party Data) and are provided for informational purposes only. They do not constitute an endorsement of any product or project, nor an investment advice and are not warranted to be complete, timely, accurate or suitable for a particular purpose. Their use is subject to conditions available at https://sustainalytics.com/legal-disclaimers.

* A rating or award is not a recommendation to buy, sell or hold securities. A rating or award may be subject to withdrawal or revision at any time. Each rating and award should be evaluated separately of any other rating. The methodologies of any rating or award presented here may not be he same as those of other ratings, awards or methodologies that may be used by our stakeholders and may emphasise different aspects of ESG practices and performance, and, thus, may not be representative of our ESG performance in all respects.

Strategic Management

TCFD Reporting

A summary of our response to the Task Force on Climate-related Financial Disclosures (TCFD) recommendations is set out below. Under FCA's listing rules, our reporting is consistent with the four TCFD recommendations and 11 recommended disclosures set out in Figure 4 of Section C of the TCFD report "Recommendations of the Task Force on Climate-related Financial Disclosures"; including the guidance set out within the 2021 TCFD annex.

We will continue to develop our TCFD disclosures in coming years, for more information see page 81.

TCFD at a glance: Summary of our response

Governance: Disclose the organisation's governance around climate-related issues and opportunities		
a) Describe the board's oversight of climate-related risks and opportunities.	Our Board has oversight of our climate-related risks and opportunities. The Board approves the Group's environmental targets. It reviews the Group's environment strategy, targets and performance twice a year and the Group risk register, which includes climate-related risks, annually. In 2022, the Board approved a revised version of the Environment Policy. The Audit Committee reviews the Group risk register twice a year and oversees the Group's approach to TCFD reporting.	Read more on page 71-72
b) Describe management's role in assessing and managing climate-related risks and opportunities.	Management is responsible for identifying and assessing risks including climate-related risks. Mitigation plans are required to be in place to manage the risks identified and progress against those plans is monitored.	Read more on page 71-72
Strategy: Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material		
a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	We have identified 10 climate-related risks and opportunities. For each, the level of likelihood and impact has been analysed across three time horizons: short term (2023 – 2027), medium term (2028 – 2037), and longer term (2038 – 2050).	Read more on page 75-76
b) Describe the impact of climate-related risks and opportunities on the organisation's	We have assessed the impact of these risks and opportunities on our strategy and financial planning. The results show that, while there are financial risks that would need to be managed, these are not substantive enough to require a material change to our business model.	Read more on page 73-74
c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	We have conducted an assessment of the resilience of our strategy, taking into consideration two climate-related scenarios: sustainable transition (based on a global temperature increase scenario of 1.5°C) and climate change inaction (based on a global temperature increase scenario of 3°C or more).	Read more on page 74 -75
Risk management: Disclose how the organisation identifies, assesses, and manages climate-related risks		
a) Describe the organisation's processes for identifying and assessing climate-related risks.	Directly-reporting business units (DRBUs) and functions identify risks and opportunities, including climate-related physical risks, which are captured on risk registers and assessed against the materiality thresholds, impact (high/medium/low) and likelihood (probable/possible/unlikely), defined by our Risk Management Framework. Group KPIs are set to identify climate-related risks (where relevant).	Read more on page 78
b) Describe the organisation's processes for managing climate-related risks.	Mitigation plans are required to be in place to manage the risks, including climate-related risks identified, and progress against those plans is monitored. Decisions on how to manage the risk are based on a variety of considerations, including risk score, our ability to influence or control the risk and cost and effectiveness of mitigation.	Read more on page 78
c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	Our processes for identifying, assessing, and managing risks, including climate-related risks are integrated across the Group as part of our Risk Management Framework. This includes regular reviews of the Group risk register by our Group Risk Management Committee, chaired by the Finance and Transformation Director. The Group risk register is also reviewed annually by the Board and biannually by the Audit Committee.	Read more on page 78
Metrics and targets: Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material		
a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	We have clearly defined metrics for each of our ESG priority areas, including climate change, against which we report on our performance and progress each year.	Read more on page 79-81
b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	We disclose Scope 1, Scope 2 and Scope 3 GHG emissions and the related risks in our reporting.	Read more on page 79-81
c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	Our targets to manage climate-related risks and opportunities include targets to reduce Scope 1, 2 and 3 GHG emissions by 50% by 2030 (vs a 2020 baseline)[1] and to reach Net Zero carbon emissions across our value chain by 2050 at the latest. These are supported by a range of other environmental targets against which we report our performance and progress each year.	Read more on page 79-81

Note:
1. Compared to 2020 baseline. Comprises 50% reduction in Scope 1 and 2 and 50% reduction in Scope 3 GHG emissions. Where Scope 3 emissions target includes purchased goods and services, upstream transportation and distribution, use of sold products and end-of-life treatment of sold product, which collectively comprised >90% of Scope 3 emissions in 2020.

We recognise the importance of providing consistent and reliable climate-related information to investors and other stakeholders. Our reporting with reference to other frameworks, including the Sustainable Accounting Standards Board (SASB) framework and the Sustainable Finance Disclosure Regulation (SFDR PAI), can be found at www.bat.com/sustainabilityreporting.

In 2022, the Group progressed its work to further understand our resilience against key risks and opportunities. This process included:

- Developing our first Double Materiality Assessment;
- Developing our Low Carbon Transition Plan to achieve Net Zero GHG emission by 2050;
- Working to embed best practice recommendations into our TCFD disclosures; and
- Trialling a balanced scorecard to further enhance consideration of environmental and social impacts into investment appraisal.

Details are outlined in the following pages.

Governance

Board oversight

The Board is collectively responsible for the sustainable, long-term success of the Company and the Group's strategic direction, purpose, values and governance. This includes responsibility for the Group's strategy and ensuring that resources are in place to meet the objectives and to manage risks, including internal controls.

Our Board has strategic oversight of our sustainability agenda and takes climate-related considerations into account where applicable when making strategic decisions, including in relation to budgeting, risk management and overseeing capital expenditure. The Board has approved all Group environmental targets (including for carbon emissions) and receives an update on performance twice a year from the Director, Operations.

The Board reviews the Group risk register annually, which incorporates climate-related risks, and the Group budget which takes into account capital allocation to deliver the Group's sustainability agenda and associated targets. In 2022, the Board approved a revised version of the Group's Environment Policy, with policy reviews developed by management, and the Board was briefed on preparations for the Group's first Low Carbon Transition Plan, detailing the Group's roadmap to reach Net Zero emissions by 2050.

Details of Board oversight of climate-related matters and related activities can be found on **pages 135 and 139**

The Board has delegated certain responsibilities to the Audit Committee which is responsible for reviewing the effectiveness of the Group's risk management and internal controls systems, including those relating to climate change.

Read more about our Climate and Circularity risk in the Group Principal Risks on **page 121** and in the Group Risk Factors on **page 344**

The Audit Committee reviews the Group risk register twice a year and regularly reviews the Group's progress against sustainability and ESG targets, including emission targets that address climate-related issues (including carbon neutrality across Scope 1 and 2 GHG emissions by 2030, and Net Zero emissions across our value chain by 2050). The Audit Committee also receives reports from the Group's Regional Audit and CSR committees and Corporate Audit Committee, which monitor the effectiveness of business risk management and internal controls across regions and central functions. In 2022, the Audit Committee oversaw the evolution of our approach to reporting in alignment with the TCFD framework. The Chair of the Audit Committee provides a full briefing to the Board following each Audit Committee meeting, including decisions taken and key topics discussed by the Audit Committee.

Details of Audit Committee oversight of climate-related matters, metrics and reporting can be found on **pages 150 to 151, 153, 155 and 157**

Management's role

The assessment and management of climate-related risks is embedded across relevant business areas at Group, regional and local levels, with appropriate management oversight at each level, as shown on the chart on page 72. This approach provides a flexible channel for the structured flow of information, monitoring and oversight of climate-related risks and environmental matters at the level and format best suited to the context.

Our Management Board, chaired by our Chief Executive, is responsible for overseeing the implementation of the Group's strategy and policies set by the Board, and for creating the framework for the day-to-day operation of the Group's subsidiaries.

Management Board members receive regular updates on material risks and strategic plans, including those relating to climate change, along with associated risk mitigation plans, from risk owners, risk managers and their respective teams. This includes regular monitoring by the Group Risk Management Committee, chaired by the Finance and Transformation Director. The Chief Growth Officer has overall responsibility for the delivery of the Group Sustainability Agenda, supported by the Sustainability team, including our newly appointed Chief Sustainability Officer, Head of Corporate Sustainability and sustainability subject-matter experts across the Group.

The Shaping Sustainability Programme Board oversees the cross-functional delivery of the 'Shaping Sustainability' pillar of our QUEST transformation programme. Members of the programme board include the Chief Growth Officer and the Director, Operations. The programme is underpinned by a drive team, including the Head of Corporate Sustainability and Head of Operations Development and Sustainability.

The Chief Sustainability Officer has overall responsibility for delivery of the Group's climate strategy and environmental targets, supported by the Group Head of Operations Development and Sustainability, and the Operations Sustainability team, including the central Sustainability team and regional sustainability managers.

Each reporting unit reports on a monthly basis. In 2022, we strengthened our reporting approach by increasing the frequency of reporting from quarterly in the first quarter of the year to monthly from March onwards. Monitoring and reporting of consolidated Group performance and metrics is completed quarterly by the Group Operations Sustainability team. Each directly-reporting business unit of the Group (DRBU) has an Environment, Health & Safety (EHS) Steering Committee, with overall responsibility to deliver environmental targets at site level held by the General Manager or site manager. EHS is also a standing agenda item for management meetings and governance committees at area, regional and global levels.

These local management meetings and committees report into the Operations Sustainability Forum, chaired by the Director, Operations. This acts as a conduit to track delivery of environmental targets and gain visibility of new and emerging risks posed by climate change. The Operations Sustainability Forum oversees business plans to mitigate risks identified, reviews performance and tracks progress of our regions and business units in delivering the Group's environmental targets. The Environmental Sustainability Committee, also chaired by the Director, Operations, is responsible for reviewing environmental strategies for the Operations Leadership Team.

Read more about our QUEST programme on **pages 28 to 29**

Strategic Management

TCFD Reporting
Continued

Governance of ESG & Sustainability

Board Level Oversight

Board of Directors

At least six meetings per year

Responsible for the long-term sustainable success of BAT and for the Group's strategic direction, purpose, values and governance, including climate strategy

Audit Committee

At least five meetings per year

All members are independent, Non-Executive Directors

Monitors and reviews the effectiveness of the Group's accounting, internal accounting controls, auditing matters and business risk systems and oversees reporting against the Group's ESG metrics

Reporting and Feedback

Management Board Level Oversight

Management Board

Meets at least seven times per year

Chaired by the Chief Executive and comprises the Executive Directors and 11 other senior Group executives[1]

Responsible for overseeing the implementation of Group strategy, policies and monitoring Group operating performance, including in relation to climate and the environment

Group Risk Management Committee

Meets twice per year

Chaired by the Finance and Transformation Director and composed of senior leadership

Oversees assessment and monitoring of risks to the Group

Corporate Audit Committee (CAC) and Regional Audit & CSR Committees (RACCs)

Meet at least twice a year

CAC chaired by a Regional Director and RACCs by an Executive Director of BAT. All are composed of Group executives.

Reviews the effectiveness of the accounting, internal control and business risk identification and management systems within the central business functions for the CAC and the regions for the RACCs

Shaping Sustainability Programme Board

Meets around six times per year

Chaired by the Chief Growth Officer and composed of Management Board members, the Chief Sustainability Officer and senior leadership

Oversees the implementation of the Group's transformation programme and Sustainability Agenda

Reporting and Feedback

Leadership Team Oversight

Environmental Sustainability Committee

Meets around four times per year

Chaired by the Director, Operations and composed of senior leadership

Reviews environmental roadmaps, strategies, risks and opportunities

Operations Sustainability Forum

Meets around four times per year

Chaired by the Director , Operations and composed of senior leadership

Reviews performance against environmental and social metrics and targets

Has oversight of the Leaf Sustainability Forum and Supply Chain Due Diligence Committee

Leaf Sustainability Forum

Meets around four times per year

Chaired by the Group Head of Leaf and composed of senior leadership

Reviews strategic direction and targets for addressing ESG risks across the leaf supply chain, and performance against leaf supply chain targets

Supply Chain Due Diligence Committee

Meets around three times per year

Chaired by the Group Head of Procurement and composed of senior leadership

Reviews direct materials supply chain performance (excl. leaf) against environmental and social metrics and targets

Reporting and Feedback

Group Sustainability Department and Business Functions

Group Sustainability Department

Composed of the Chief Sustainability Officer and the Group Sustainability Team with sustainability subject-matter experts

Develops the Group Sustainability Agenda and supports business functions, regions and markets in driving its implementation

Business Functions, Regions and Markets

Implementation and execution of the Group Sustainability Agenda, including by Leadership Teams and cross-functional workstreams and programmes

Tracking and monitoring performance

Note:
1. For the period 1 to 28 February 2023, the Management Board comprises 12 senior Group executives. Read more on pages 128 to 129.

Strategy

Our purpose to build A Better Tomorrow™ and our Group strategy are set-out on pages 4 and 24. Our Sustainability Agenda, with climate change as a key priority under the environmental pillar, is set out on page 44.

As a global organisation, we have a responsibility towards our planet. Further, we rely on natural resources to run our business and our ability to secure these resources is directly linked to the effects of climate change. This is why minimising impacts across our operations and supply chain is not only the right thing to do, but it makes business sense. Governments, businesses and individuals must transition to a low-carbon economy.

In this context, BAT has established targets to reach carbon neutrality by 2030 for our operations and, by 2050, to be Net Zero across our value chain. To report on our progress, in 2022, taking into account – amongst other things – the UK's commitment to a Net Zero Economy by 2050, we developed our first Low Carbon Transition Plan, which details how we intend to:

- Align our business model with a world in which the rise in global average temperature should be limited to no more than 1.5°C above pre-industrial levels; and
- Contribute to a thriving economy that works for people and planet in the long-term by addressing climate-related risks and opportunities.

Read more about our 2022 Low-Carbon Transition Plan on bat.com/LCTP

Our Low-Carbon Strategy

To deliver on our ambitious climate goals, we have an integrated climate strategy covering both our own business operations and our wider value chain. Key attributes of our climate strategy include:

- **the performance of climate scenario analysis** to understand the resilience of our business against a set of identified climate-related risks and opportunities;
- **reducing the environmental impact of our direct operations**, including the reduction of CO_2e emissions generated by our sites and fleet through the development of site-specific decarbonisation roadmaps, which include energy saving initiatives, and increased use of renewable energy (both purchased and self-generated), as well as reducing the waste generated and maximising the share of waste directed to recycling;
- **responding to the environmental impact of our value chain**, including the development of a supplier engagement programme to achieve our ambition to be a Net Zero company by 2050, and the introduction of low-carbon farming practices for our directly contracted farmers (such as fertilisers, curing and other carbon-smart farming);

Read more about our approach on climate change on page 52

- **the promotion of a circular economy model to reduce downstream emissions**, including performance of life cycle assessments of our products and the incorporation of end of life treatment to reduce their environmental impact, reducing the use of embodied carbon and single use plastic and increasing recyclability to reduce the level of waste generated is at the core of our processes;
- **investments in R&D activity** to develop products at a lower environmental impact and to underpin product innovations, technical deployment of agronomy best practices, low carbon curing technologies and farming techniques based on science; and

Read more about our approach on Circular Economy on page 54

- **the protection of our ecosystems**, to enhance the resilience of our internal supply chain and wider value chain to maintain access to critical raw materials, while demonstrating our commitment to nature by using more renewable energy and reducing water usage and waste generation where possible.

This supports the allocation of these critical natural resources to food generation and other activities, and reduces our susceptibility to energy cost premiums and future carbon taxes.

Read more about our approach to protecting biodiversity and restoring ecosystems on page 56

Financial planning in decarbonisation

The risk and opportunities posed by climate change continue to be deeply embedded within our financial planning and form a critical part of our Net Zero strategy. In 2021, we incorporated Internal Carbon Pricing (ICP) in our financial planning and in 2022, we have broadened our approach through the trialling of a Balanced Scorecard for capital investment activities across our Global Operations, whereby the environmental and social impacts of potential projects are considered against our commitments and targets. Through this approach, we are able to enhance our decision-making and governance processes to consider these impacts, particularly where policy and regulation is yet to exist and, therefore, the effectiveness of conventional financial appraisal tools such as NPV and payback analysis is reduced.

Read more about our approach on ICP on page 81

Our Low-Carbon Strategy

Strategic Management

TCFD Reporting
Continued

Short-, medium-, and long-term financial planning is performed by the Group and considers factors likely to influence business performance as outlined on pages 75-76.

In 2022, financial planning has been influenced by climate-related risks and opportunities.

Revenue and operating costs
Physical risks of climate change have the potential to impact business continuity and supply chain constraints; our business planning helps us to mitigate impacts on revenue. Climate change-related risks and opportunities also have the potential to impact our operating costs through:

- Tobacco leaf cost increases due to potential supply constraints caused by chronic or extreme weather events;
- Raw materials and innovation cost increases due to raw material shortages and enhancements to our product designs to reduce waste and increase recyclability; and
- The cost of emerging regulation, as well as taxes on carbon emissions and potential increases to the cost of energy impacting our direct operations and our wider value chain as we transition to a low carbon model.

Assets and capital expenditure
Climate change considerations are integrated in our approach to capital expenditure as follows:

- Capital allocation: We require that significant resource allocation includes climate-related considerations through the use of ICP, marginal abatement cost, and most recently, balanced scorecard appraisal tools;
- Capital investments: We fund a dedicated capital investment budget used to progress the delivery of our ESG commitments. In 2022, this amounted to £27.1 million, with investments directed towards equipment to drive energy efficiency and renewable energy generation, water recycling and efficiency projects, waste reduction, and product innovation-led specification improvements to drive recyclability and reduce waste; and
- Physical risks also influence our financial planning strategy to enable us to mitigate supply constraints from impacting our consumers and business continuity.

By having clear visibility of climate-related risks and opportunities and mitigating these where possible, the Group expects to be able to continue to access capital and to be in a position to undertake acquisitions or divestments, as needed.

Read more about our approach to Financial Planning in Decarbonisation in 2022 Low-Carbon Transition Plan on bat.com/LCTP

Climate scenario modelling
Identification
Identification of risks and opportunities posed by climate change is an ongoing process and draws upon internal and external expertise, resources and other information, including:

- internal senior management spanning all functions of the Group, based at DRBU, Regional, and Group levels;
- external consultants supporting our preparations for and resilience to climate change;
- relevant industry publications outlining expected impacts of climate change on our key inputs (including agriculture);
- relevant regulation (enacted or draft) that may impact the Group's products, locations or operations;
- TCFD guidance on potential risks and opportunities; and
- existing risks and opportunities identified and managed as part of our Group risk management processes.

The selection of the risks and opportunities in our TCFD report was the result of a thorough identification and materiality assessment process, which was undertaken with the assistance of an external party. Initially, 30 risks and opportunities were identified, which were subsequently reduced down to the 10 key risks and opportunities detailed on pages 75-77 based on climate scenario analysis, further materiality assessment, the input from BAT's subject matter specialists and using the methodology defined in the Group Risk Management Framework.

The classification of low/medium/high impact and likelihood is described on page 78 in the Risk Management section.

This assessment will be reviewed annually to help ensure it remains appropriate in the context of a dynamic business and physical environment, and to take account of improved data or modelling which may become available.

Understanding climate scenario analysis
We have considered the impact of risks and opportunities arising from climate change to help inform our strategies and financial planning to enhance the overall resilience of our business. In this assessment we considered two climate scenarios across three time horizons.

The most recent Intergovernmental Panel on Climate Change (IPCC) assessment indicates that limiting global warming to 1.5°C is necessary to prevent the most severe consequences of climate change and as such we have aligned our analysis to this IPCC methodology, and GHG concentration trajectories known as Representative Concentration Pathways (RCP) 2.6 and 8.5, specifically considering climate scenarios of 1.5°C and 3-4°C.

In containing global warming to 1.5°C, a wide-ranging transition of our global economy would be required, encompassing policy and regulation, economic and societal shifts, and the development and deployment of new infrastructure and technologies. In this scenario, transition risks are most significant but the severity of physical risks that may otherwise arise is reduced.

Conversely, in a scenario of continued warming of 3-4°C, transition risks are considered to be much lower, and physical risks much higher.

Our analysis was performed against three time horizons reflecting how risks and opportunities are internally considered and prioritised and are aligned to a number of our key ESG-related targets, including:

- Short-term (2023–2027): This time period is linked to our most recent business plans, including glide-paths across our operations to mitigate risks posed, maximise opportunities that may arise and the delivery of our business objectives and external commitments;
- Medium-term (2028–2037): This time period is focused on monitoring of risks and opportunities, considering how these may impact our Transformation strategy and investment requirements to deliver future business objectives and external commitments; and
- Longer-term (2038–2050): This time frame aligns to our Low Carbon Transition Plan across our value chain, which incorporates an awareness of the highly uncertain potential risks and opportunities.

Qualitative assessments were performed to understand how the potential impact and likelihood of risks and opportunities may change under each time horizon and climate scenario, with more detailed modelling undertaken to quantitatively assess those risks and opportunities that were considered to be most material to our business. Material risks are those that could have a significant effect on our operations, strategy, and financial planning if they are not managed appropriately. In contrast, material opportunities may improve our financial performance over time in the event they can be realised.

The modelling performed drew on internal and external data sources, such as carbon and energy pricing projections, potential future surcharges on single-use plastics in our products, Group financial data, energy consumption and costs by BAT site, business growth projections and consumer trends. This allowed us to refine our initial qualitative assessment and quantify the expected financial impact based on assumptions of future developments.

Climate scenario models used

Greater transition risk ◄ ► Greater physical risk

Scenario 1 Sustainable Transition	Scenario 2 Climate Inaction
Warming 1.5°C	**Warming 3-4°C**
Early decisive action by society to reduce global emissions	Governments fail to introduce further policies to address climate change beyond those already known and in place
Coordinated policy action towards low-carbon economy	Global temperature increase above 3°C by 2050
Actions sufficient to limit global warming to 1.5°C in line with the long-term temperature goal in the Paris Agreement	

Material Climate-Related Risks and Opportunities Identified

We identified three climate-related opportunities and seven climate-related risks. The opportunities are moderate and mainly relate to the potential launch of products with ESG-related features that consumers value. The two principal physical risks are more significant in the 3-4°C scenario and relate to the impact of extreme weather events and changes to precipitation patterns principally on our tobacco supply chain. Transition risks are most notable in relation to new regulation on products, higher insurance premiums and higher cost of capital.

In summary, while there are challenges ahead, we believe that the Group is well placed to address them supported by our global reach, supply chain flexibility, diverse product portfolio, leading brands and capital strength.

Material climate-related opportunities identified

Type		Scenario	Level of likelihood/ impact by 2027	2037	2050	Assumptions & Methodology
Opportunities associated with transitioning to low carbon economy						
Products & services	Shift in consumer preferences results in increased revenue from access to new and emerging markets and new demand for our products **Impact:** Higher opportunity in the 1.5°C scenario as consumers value products with more ESG-related features	1.5°C	Low	Medium	Medium	**Methodology:** Modelling based on additional growth opportunities if BAT differentiates itself from competitors based on ESG-related features **Scenarios:** Consumer sensitivity to ESG-related features assumed to be higher in outer years, with greater opportunity for additional growth in New Categories compared to combustibles
		3-4°C	Low	Low	Medium	
Energy sourcing	Use of lower-emission sources of energy within our direct operations reduce costs **Impact:** Low savings opportunity in both scenarios due to BAT's commitment to energy use reductions	1.5°C	Low	Low	Low	**Methodology:** Assessment of energy demand and cost over time with emissions trajectory per our 2022 published Low-Carbon Transition Plan and our emission reduction commitments (refer to page 79) **Scenarios:** As BAT plans to deliver Net Zero through continued investment in technology, reduced emissions and product development in both scenarios, the main variable is cost of energy, which is higher in the 1.5°C scenario. Cost impacts are mitigated by energy use reductions
		3-4°C	Low	Low	Low	
Energy efficiency	Use of more efficient production and distribution processes within our direct operations reduce costs **Impact:** Low savings opportunity in both scenarios due to BAT's commitment to energy use reductions	1.5°C	Low	Low	Low	
		3-4°C	Low	Low	Low	

Low Medium High[1]

Note:
1. The risk rating is the product of the impact assessment and the likelihood assessment, see page 78, in accordance with the methodology in the Group Risk Management Manual.

Strategic Management

TCFD Reporting
Continued

Material climate-related risks identified Continued

Type		Scenario	Level of likelihood/ impact by 2027	2037	2050	Assumptions & Methodology
Transition risks associated with transitioning to low carbon economy						
Emerging regulation	New carbon pricing mechanisms on the emissions within our value chain increase costs **Impact:** Costs higher in the 1.5°C scenario due to expected significant rises in carbon prices	1.5°C	Low	Medium	Medium	**Methodology:** Assessment of carbon usage and carbon pricing costs over time with emissions trajectory per our 2022 published Low-Carbon Transition Plan and our emission reduction commitments (refer to page 79) **Scenarios:** The 1.5°C scenario assumes carbon tax price projections by country of between £140 - £1,050 per tCO2e (world average of £412 per tCo2e) by 2050. The 3-4°C scenario assumes Current Policies' carbon tax price of between £2 - £13 per tCO2e (world average of £6 per tCo2e) by 2050. REMIND-MAgPIE 3.0-4.4 carbon tax projections at a country level used to estimate future potential tax charges. No tax assumed on biogenic emissions under all scenarios
		3-4°C	Low	Low	Low	
Emerging regulation	Mandates on, and regulation of, products and services increase costs **Impact:** Potential for global transition regulation significantly greater in the 1.5°C scenario	1.5°C	Low	Medium	High	**Methodology:** European and UK Extended Producer Responsibility costs and UK plastic packaging tax used as proxy to estimate potential future impacts of product regulation **Scenarios:** Under the 1.5°C scenario, emerging regulation assumed to be in place in most of our markets by 2050, although high uncertainty on speed and extent. Less pervasive regulation expected in the 3-4°C scenario
		3-4°C	Low	Low	Low	
Market	Contraction of insurance markets, higher premiums or losses arising from uninsured assets increase costs **Impact:** Premiums higher in both scenarios, with greater impact in the 3-4°C scenario	1.5°C	Low	Medium	Medium	**Methodology:** High-level assessment of expected increases in premiums, reduction in cover, or insurers seeking to withdraw from providing cover for certain classes of insurance **Scenarios:** Localised damage to properties and supply chain disruption arising under the 1.5°C scenario. More widespread damage to properties and disruption to supply chains in the 3-4°C scenario
		3-4°C	Low	Medium	High	
Market	Increasing energy prices impacting direct operating costs as well as the cost of raw materials lead to increased costs **Impact:** Costs higher in the 1.5°C scenario due to expected significant rises in energy prices	1.5°C	Low	Medium	Medium	**Methodology:** Assessment of energy usage requirements and costs over time based on business forecasts **Scenarios:** In the 1.5°C scenario, electricity price rises between 30-35% by 2050, and gas price rises between 150-200% by 2050 - based on REMIND-MAgPIE 3.0-4.4 energy cost projection model. The 3-4°C scenario assumes electricity and gas prices rise 35-40% by 2050
		3-4°C	Low	Low	Low	
Market	Climate change-driven increases to operating costs and ESG concerns from investors increase costs and/ or reduce access to capital markets **Impact:** Higher climate related credit quality impact in the 3-4°C scenario	1.5°C	Low	Medium	Medium	**Methodology:** Increase in cost of debt driven by impact to credit quality from climate change **Scenarios:** Potential 25 bps-50 bps impact; at the higher end in the 3-4°C scenario. Full impact of credit adjustment over time as c.50% of currently issued bonds mature by 2030, with over 90% by 2050
		3-4°C	Low	Medium	High	

Low | Medium | High[1]

Note: 1. The risk rating is the product of the impact assessment and the likelihood assessment, in accordance with the methodology in the Group Risk Management Manual.

While the products we offer continue to evolve, we will continue to need to access raw materials, including tobacco and tobacco extracts.

This increases our exposure to the physical risks of climate change due to potential tobacco growing disruption, damage or loss.

As outlined in the summary below, a climate model used by IPCC was chosen to project likely changes to regional temperature behaviour, precipitation, and soil water levels (surplus or deficit), enabling us to estimate the likely impact on crop yields, and the cost of, or access to, tobacco in the future.

The analysis demonstrated that whilst there were some favourable and unfavourable impacts on yield, the potential financial impact on annual cost of tobacco is less than 5% and current climate change trajectories indicate it is unlikely that the Group would face reduced production capacity due to consistent supply constraints.

We believe the impacts on yield can be effectively mitigated through agronomy action plans to avoid yield-driven cost of production increases. In an extreme climate change scenario, some of our Leaf Operations could run a significant risk, particularly if they face constraints on the areas from which they can access tobacco. This is monitored and considered less probable based on our approach to building resilience in the agricultural supply chain.

Transition risks are expected to have a higher impact and increased likelihood of occurring under the 1.5°C scenario, with a consequential reduction to the severity of physical risks, as policies are implemented to slow climate warming. Our analysis has considered the potential impact of policies impacting fossil fuel-generated energy costs, product and carbon emission taxes, as well as resulting increases in cost of capital and insurance premiums.

We are taking widespread action to reduce our impact on the environment, including significant steps to decarbonise our operations and wider value chain through the upgrading of energy efficient technology and use of renewable energy within our factories, collaboration with our suppliers and the setting of targets to reduce emissions across our value chain.

We are also engaging in extensive product innovation efforts, including product life cycle analysis to increase recycled material content and reduce the use of plastics and waste generated from our products and operations. We support EPR policies and continue to invest in Take-Back schemes.

We believe these mitigations should leave us well placed to limit the financial impact of regulation that may arise and continue to access capital competitively.

Material climate-related risks identified Continued

Type		Scenario	Level of likelihood/ impact by 2027	2037	2050	Assumptions & Methodology
Physical risks associated with physical impacts of climate change – either acute risks (such as relating to extreme weather events) or chronic risks (such as relating to longer-term shifts in climate patterns and higher temperatures)						
Acute	Increased severity and frequency of extreme weather events such as cyclones and floods, leading to agricultural supply chain disruption and reduced production capacity and so increased costs **Impact:** Greater production shortfalls possible in the 3-4°C scenario	1.5°C	Low	Low	Medium	**Methodology:** Assessed the cost to replace in-country production shortfall up to 50% within our top 3 sourcing countries, with imported tobacco that is subject to incremental landed costs **Scenarios:** More extreme weather events anticipated in the 3-4°C scenario utilising the Intergovernmental Panel on Climate Change (IPCC) and other international bodies' assumptions of temperature and precipitation levels across our regions
		3-4°C	Low	Medium	High[1]	
Chronic	Changes in precipitation patterns, such as water stress and extreme variability in weather patterns leading to agricultural supply chain disruption and reduced production capacity and thus increased costs **Impact:** Greater production shortfalls possible in the 3-4°C scenario	1.5°C	Low	Low	Low	**Methodology:** Assessed the yield impacts in our top 10 tobacco sourcing countries, including Brazil, Pakistan and Bangladesh, which account for 83% of Group tobacco volume grown or purchased in 2022 **Scenarios:** More extreme weather events anticipated in the 3-4°C scenario utilising the HadGEM2 climate model, as recognised by the IPCC, used to forecast temperature and precipitation levels across growing regions
		3-4°C	Low	Medium	High[1]	

Low | Medium | High[1]

Note: 1. The risk rating is the product of the impact assessment and the likelihood assessment, in accordance with the methodology in the Group Risk Management Manual.

Physical risks are expected to increase in severity and frequency under the >3°C scenario, with a lower impact from transition risks. Our analysis has demonstrated that weather events may impact unhindered access to raw materials and disrupt our operations.

Actions taken to mitigate these risks include our wide-ranging efforts to prevent deforestation, enhance biodiversity and continue to drive agricultural best practice. We seek to ensure our products and operations are resource efficient and, in doing so, seek to reduce the likelihood of these events occurring. In addition, we have robust business continuity plans in place, including alternative manufacturing locations, a diversified supplier base spanning tobacco, raw materials and finished goods purchasing, as well as defined and regularly reviewed inventory duration policies to enhance the resilience of our supply chain to mitigate events should they occur.

Climate-related risks and opportunities have the potential to impact our business over time. Through the identification and measurement processes outlined above, which are aligned to TCFD recommendations, we are taking the necessary steps to assess the likelihood and severity of these impacts to enable us to maximise positive impacts and minimise adverse impacts on our business.

The majority of our risks and opportunities are not expected to be driven by significant regional variations, for example access to capital markets, or any future regional variation is sufficiently unpredictable that it is not part of our methodology at this time. The most notable regional variations are within our two physical risks given they relate to the sourcing of tobacco, which is particularly sourced from South America, Sub-Saharan Africa, South Asia and the US.

Summary

While there are challenges ahead, we believe that the Group is well placed to address them. Supported by our global reach, supply chain flexibility, diverse product portfolio, leading brands and capital strength, we believe that we have the resilience and agility to transition and create new growth opportunities.

The insights gained from the modelling performed further strengthen the importance and relevance of our climate strategy and Net Zero carbon emissions target to mitigate these risks. We will continue to review each material climate-related risk and opportunity and build upon our existing mitigation strategies to enhance the resilience of our strategy and our business to climate change.

Strategic Management

TCFD Reporting
Continued

Risk Management

Our Risk Management Framework and procedures are clearly defined and well-established across the Group.

Risk registers, based on a standardised methodology, are used at Group, functional, and DRBU levels to identify, assess, monitor and mitigate the risks (both financial and non-financial).

The potential size and scope of climate-related risks are assessed in the same manner as the Group's other risks, which are assessed and prioritised at three levels by reference to their impact (high/medium/low) and likelihood (probable/possible/unlikely), as defined in our Group Risk Management Manual.

There are various criteria, both qualitative and quantitative, against which impact may be measured. In financial (quantitative) terms, high impact is deemed as in excess of £250 million, with medium impact £120- £250 million, and low impact £60-£120 million at present. Risks below £60million are not included in the Group reporting but managed by the business. Qualitative impact criteria are legal, reputational and environmental. The impact is assessed based on the current net impact for a single year.

The methodology, including financial thresholds and the likelihood overlay, was also applied in the allocation of the high/medium/low materiality levels for the 10 TCFD risks and opportunities.

Mitigation plans are required to manage the risks (including climate change-related) identified, and progress against those plans is monitored. Decisions on how to manage the risks are based on a variety of considerations, including risk score, the ability to influence or control the risk, and cost and effectiveness of mitigation. Functional risk registers are reviewed on a biannual basis by functional and DRBU leadership teams.

At the Group level, specific responsibility for managing each identified risk is allocated to a member of the Management Board. The Group risk register is reviewed biannually by the Group Risk Management Committee, chaired by the Finance and Transformation Director.

In addition, the Group risk register is reviewed biannually by the Audit Committee and annually by the Board.

Identification process

ESG is core to the Group's long-term business strategy and ESG risk factors are embedded across the Group's risks in accordance with the Risk Management Framework. The TCFD identification and materiality assessment process undertaken in 2021 supported the Double Materiality Assessment (DMA) conducted during 2022.

The DMA, which considered existing and emerging regulatory requirements related to climate change, as well as our 2021 TCFD report, highlighted existing ESG focus areas of Harm Reduction, Climate Change and Circular Economy for the Group.

Read more about our Double Materiality Assessment on pages 46 to 48

"Climate and Circularity" is now recognised as a Principal Risk to the Group, highlighting the Group's existing commitments in relation to climate change and circular economy matters and mitigation of associated risks.

A further review of ESG risks was undertaken alongside the DMA to ensure completeness of the Group risk register. The review identified 43 ESG risks, most of these risks had already been considered within the Group risk register. Moreover the 7 TCFD risks were also covered within both the 43 risks and the Group risk register. Engagement is ongoing to embed and refine the ESG risks within the risk management reporting process. In 2023, in addition to the current Group risk register, where ESG factors are embedded, there will be an additional 'ESG risk register' to enable greater visibility of each ESG risk and its risk mitigation activities.

To support the biannual review of climate-related risks, we have developed a dashboard that enables us to understand the impact to our physical property locations and subsequent business interruption of climate change. This analysis has been conducted over three different time periods and across various climate change scenarios and hazards. This will be used to support risk management and decision making within the Group.

Read more about our approach on Risk Management on pages 116 to 121

Integration of climate-related risks into Group Risk Management Framework

Group	Climate and circularity "Direct and indirect adverse impacts associated with Climate Change and the move towards a Circular Economy" is recognised as a Principal Risk to the Group; impact and mitigations are set out on page 119.	Group relevant climate-related objectives, targets and KPIs articulated and monitored.	Climate and other sustainability risks are embedded as risk factors in each relevant risk.
Functional	Functions are required to identify and assess risks and opportunities, including climate-related physical and transitional risks.	Environmental threshold is set out in the Group Risk Management Manual and used by the Group when assessing risks.	Review all physical asset values and associated business interruption impact across the Group to understand potential impact from climate change.
DRBUs	DRBUs are required to identify and assess risk and opportunities, including climate-related physical risks.		

Metrics and Targets

We measure and track a wide range of ESG metrics and targets which help us assess and manage climate-related risks and opportunities.

Read more about our ESG Metrics and Targets on page 6

Our Harm Reduction metrics and targets link to the opportunity we have identified in Products and Services, while our climate metrics and targets link both to the opportunities identified in Energy Sourcing and Energy Efficiency and to our transition and physical risks. The latter are particularly important to our climate targets, as outlined in 'Our Path to Net Zero by 2050' below, as inaction would result in product shortfalls.

Read more about our climate-related risks and opportunities on pages 75 to 76

Limiting the rise in average global temperature to 1.5°C above pre-industrial levels requires major and widespread action and companies have an important role to play.

This is why, in 2021, we joined the UN-backed Race to Zero Campaign and the Science-Based Targets Initiative Business Ambition for 1.5°C, an alliance to halve global emissions by 2030 and achieve Net Zero carbon emissions by 2050. Race to Zero represents more than 1,000 cities, 5,000 businesses, 400 investors and 1,000 higher education institutions, estimated to cover nearly 25% of global CO2 emissions and more than 50% of global GDP.

Previously, our targets were SBTi approved based on a 2°C trajectory. The latest climate science shows we need to limit the rise in average global temperatures to 1.5°C above pre-industrial levels.

As such, we have set 1.5°C-aligned, absolute reduction targets that accommodate Net Zero criteria and definitions, which were validated by the SBTi in July 2022. With these targets we aim to:

- Reduce absolute Scope 1 & 2 GHG emissions by 50% by 2030 from a 2020 base year;
- Reduce absolute Scope 3 GHG emissions from purchased goods and services, upstream transportation and distribution, use of sold products and end-of-life treatment of sold products by 50% by 2030 from a 2020 base year; and
- Have 20% of our suppliers by spend covering purchased goods and services adopt SBTs by 2025.

Reporting methodology – CO_2e Emissions

We use the World Business Council for Sustainable Development GHG Protocol Corporate Standard to guide our reporting of Carbon Dioxide equivalent (CO_2e) emissions. We also use supporting standards including:

- GHG Protocol Scope 2 Guidance, 2015
- GHG Protocol Corporate Value Chain (Scope 3) Standard, 2011

Our Path to Net Zero by 2050

Our Climate Targets

- 50% Scope 1 & 2 GHG emissions by 2030[1]
- 50% Scope 3 GHG emissions by 2030[1]
- Net Zero value chain by 2050
- 50% total renewable energy use by 2030
- Carbon neutral in Scope 1 & 2 operations by 2030
- 20% of suppliers by spend to set Science-Based Targets by 2025

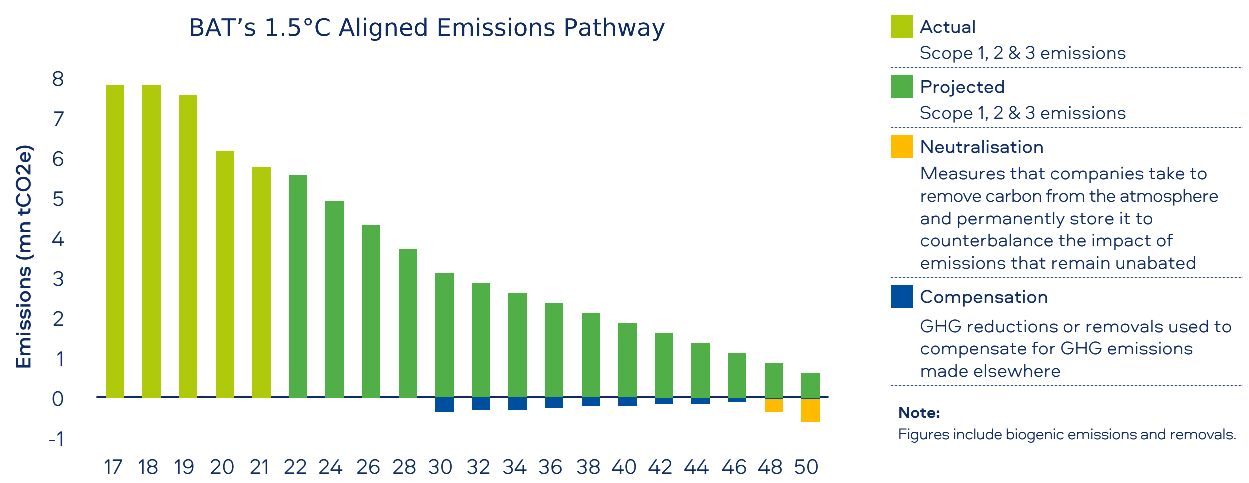
How we intend to reduce Scope 1 & 2 GHG emissions

- Creating site-specific decarbonisation roadmaps and investing in energy efficient projects and management systems
- Increasing renewable energy use by entering into longer-term power purchase agreements and investing in on-site renewable energy generation projects
- Rolling out electric and hybrid vehicles in our fleet

How we intend to reduce Scope 3 Emissions

- Building a climate-resilient supply chain with direct and indirect suppliers
- Eliminating the use of coal for curing and using sustainable curing fuels
- Fostering circularity in our value chain
- Designing for end-of-life
- Increasing the use of sustainable materials

Note:
1. Compared to 2020 baseline. Comprises 50% reduction in Scope 1 & 2 and 50% reduction in Scope 3 GHG emissions. Scope 3 emissions target includes purchased goods and services, upstream transportation and distribution, use of sold products and end-of-life treatment of sold product, which collectively comprised >90% of Scope 3 emissions in 2020.



Note:
Figures include biogenic emissions and removals.

Strategic Management

TCFD Reporting
Continued

We report emissions where we have Operational Control and include CO_2, CH_4 and N_2O within our CO_2e emission reporting. We do not include data on other GHG emissions (HFCs, PFCs, SF6 and NF3) as they are estimated to be insignificant. While we account for the contribution CO_2, CH_4 and N_2O make to our CO_2e emissions, we do not disclose the breakdown of CO_2e data on an individual GHG basis.

BAT's carbon neutral sites are externally verified as adhering to internationally recognised standards/carbon neutrality methodologies such as PAS 2060.

Carbon neutral sites purchase carbon credits verified by third parties, such as Verified Carbon Standard (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.

Baseline

In 2022, BAT had its new set of 1.5°C aligned targets approved by SBTi, replacing the previous set of 2°C aligned targets. The targets revision led to change of baseline year from 2017 to 2020. Currently, we use a 2020 baseline year for emissions reporting, which has a total of 6,154,756 tCO_2e split as follows:

– Scope 1: 342,034 tCO_2e
– Scope 2: 198,830 tCO_2e market-based (Scope 2: 417,572 tCO_2e location-based)
– Scope 3: 5,613,892 tCO_2e

Data Collection & Validation

GHG emissions data for Scope 1 & 2 is collected within our internal reporting system (C360); it includes 180 reporting units located across 91 countries.

BAT's Scope 3 GHG emissions reporting process aligns with the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard. We report emission where the Group has Operational Control and includes CO_2, CH_4 and N_2O within our CO_2e emission reporting.

A full breakdown of our GHG emissions is presented below. The metrics subjected to limited assurance process have been marked with '♦'. Please refer to page 94 for the complete list of assured metrics.

BAT Group Greenhouse gas emissions

	Total emissions (thousand tonnes CO_2e)			
Emission Source	2019	2020	2021	**2022**
Total Scope 1[1] CO_2e♦	396	342	325	**308**
Total Scope 2 CO_2e Market-based[1]♦	386	199	170	**113**
Total Scope 2 CO_2e Location-based♦	453	418	393	**356**
Total Scope 3 CO_2e[2]♦	6,781	5,614	5,243	**N/A**
Total Scope 3 CO_2e non biogenic emissions	4,502	3, 506	3,563	**N/A**
Total Scope 3 CO_2e biogenic emissions (including biogenic removals)	2,279	2,108	1,681	**N/A**
Category 1: Purchased Goods and Services (Total)	4,049	4,011	3,703	**N/A**
Category 1: Purchased Goods	1,543	1,187	1,278	**N/A**
Category 1: Purchased Services	107	720	677	**N/A**
Category 1: Purchased Tobacco Leaf	2,189	1,969	1,600	**N/A**
Category 1: Other Purchased Goods & Services	210	135	149	**N/A**
Category 2: Capital Goods	463	177	142	**N/A**
Category 3: Fuel and Energy Related Emissions	166	134	188	**N/A**
Category 4: Upstream Transportation & Distribution	197	225	208	**N/A**
Category 5: Waste Generated in Operations	5	9	8	**N/A**
Category 6: Business Travel	33	8	14	**N/A**
Category 7: Employee Commuting	23	53	59	**N/A**
Category 9[3]: Downstream Transportation and Distribution	N/A	27	31	**N/A**
Category 11: Use of Sold Products	587	641	662	**N/A**
Category 12: End-of-Life Treatment of Sold Products	1,253	324	227	**N/A**
Category 14: Franchises	5	5	1	**N/A**

2022 Performance

Our combined Scope 1 & 2 (market-based) emissions are decreasing year on year. In 2022 these reduced by 15% vs 2021 (-22% vs 2020 baseline).

Scope 1 emissions decreased by 5% vs 2021 (-10% vs 2020 baseline).This is driven by energy efficiency activities and projects across our operational sites, lower production output and changes in footprint in certain geographies.

Scope 2 emissions decreased by 34% vs 2021 (-43% vs 2020 baseline). This is driven by an increase in renewable energy sourcing for our sites, including an expansion to new geographies where renewable energy sourcing opportunities emerged and maximised the proportion of renewable electricity we source. This was further supported by energy efficiency activities and increase of on-site renewable energy generation, mostly from solar technologies. Our targets cover Scope 2 emissions aligned with the market-based approach, but we are also monitoring and disclosing Scope 2 emissions as per the location-based approach. Scope 2 emissions (location based) decreased by 9% vs 2021 (-15% vs 2020 baseline).

Our total Scope 3[2] emissions decreased by 7% vs 2020. This reduction includes strengthening our approach to on-the-ground farmer-related data collection and associated wood density factors, in order to be able to more accurately calculate their associated emissions.

Reporting methodology - Energy

Energy consumption is reported in line with GRI 302, Energy, 2016, Disclosure 302-1, Energy consumption within the organisation. Energy Consumption is calculated from raw data of fuel, electricity, hot water and steam consumption, which is submitted by reporting units across the Group via our Internal Reporting Tool. The data used in calculations is the same as used for Scope 1 and 2 CO_2e emissions.

2022 Performance

While details of the principal measures taken for the purpose of increasing energy efficiency across the Group are available at pages 53-54, our energy consumption performance is outlined as follows:

- Energy consumption[4] from activities for which the Group is responsible (in million kWh): 2022: 1,435; 2021: 1,508; 2020: 1,572. Of the total figure reported for the Group for 2022, 11 million kWh is from UK-based activities (2021: 10 million kWh, 2020: 10 million kWh).
- Energy consumption resulting from the purchase of energy by the Group for its own use (in million kWh): 2022: 909; 2021: 972; 2020: 996.
- Of the total figure reported for the Group for 2022, 15 million kWh is from UK-based activities (2021: 16 million, 2020: 17million).

Other Metrics and Targets

Internal Carbon Pricing

As part of our decarbonisation strategy, in 2021, we incorporated Internal Carbon Pricing (ICP) into our financial appraisal to facilitate delivery against our targets. ICP is helping enhance decision-making and prioritise capital expenditure allocation. Prices are reviewed annually because we aim to ensure they remain appropriate drawing on a number of benchmarks, including UNFCCC initiatives.

For 2022, a price of £60 per tCO_2e was used, with assumptions that prices will increase between 2022 and 2030 up to £120 per tCO_2e as a consequence of anticipated increasing demand for carbon credits. The trialling of a scorecard in appraising capital investment across the Group's operations in 2022 allowed us to enhance our consideration of the cost of carbon to more widely consider the environmental and social impacts of projects against our external commitments and targets, further strengthening our decision-making and internal governance processes.

Read more about our Internal Carbon Pricing in 2022 in our Low Carbon Transition Plan on bat.com/reporting

Remuneration

Where relevant, employees, from the Management Board (including the Director, Operations) to local management, have individual performance objectives that form part of their responsibilities and are linked to remuneration, including delivery against ESG and climate-related priorities and metrics.

Delivery against individual performance objectives is a key consideration in determining employee performance ratings, which in turn have a direct impact on compensation as they are used to determine salary adjustments.

In addition, the Group retains the discretion to make downward adjustments to individual bonus payments in the event of persistent underperformance against performance objectives.

The ESG objectives within the remuneration of Jack Bowles, Chief Executive, and Tadeu Marroco, Finance and Transformation Director, are focused on Harm Reduction. We intend to keep further integration of ESG and climate-related metrics in Management Board remuneration under active review.

Read more about our approach to Remuneration for directors and employees on pages 159 to 169

Next steps

We know that the effects of climate change are undeniable and they will continue to impact the world, including the countries where we operate and the communities who live in them.

Through the adoption of the TCFD recommendations and recommended disclosures, we continue to analyse the resilience of our strategy and business against two potential climate scenarios and three time horizons. We recognise that this is a process of continuous improvement, therefore we will keep mitigating risks, adapting to a changing landscape, seeking new opportunities and responding to new regulations.

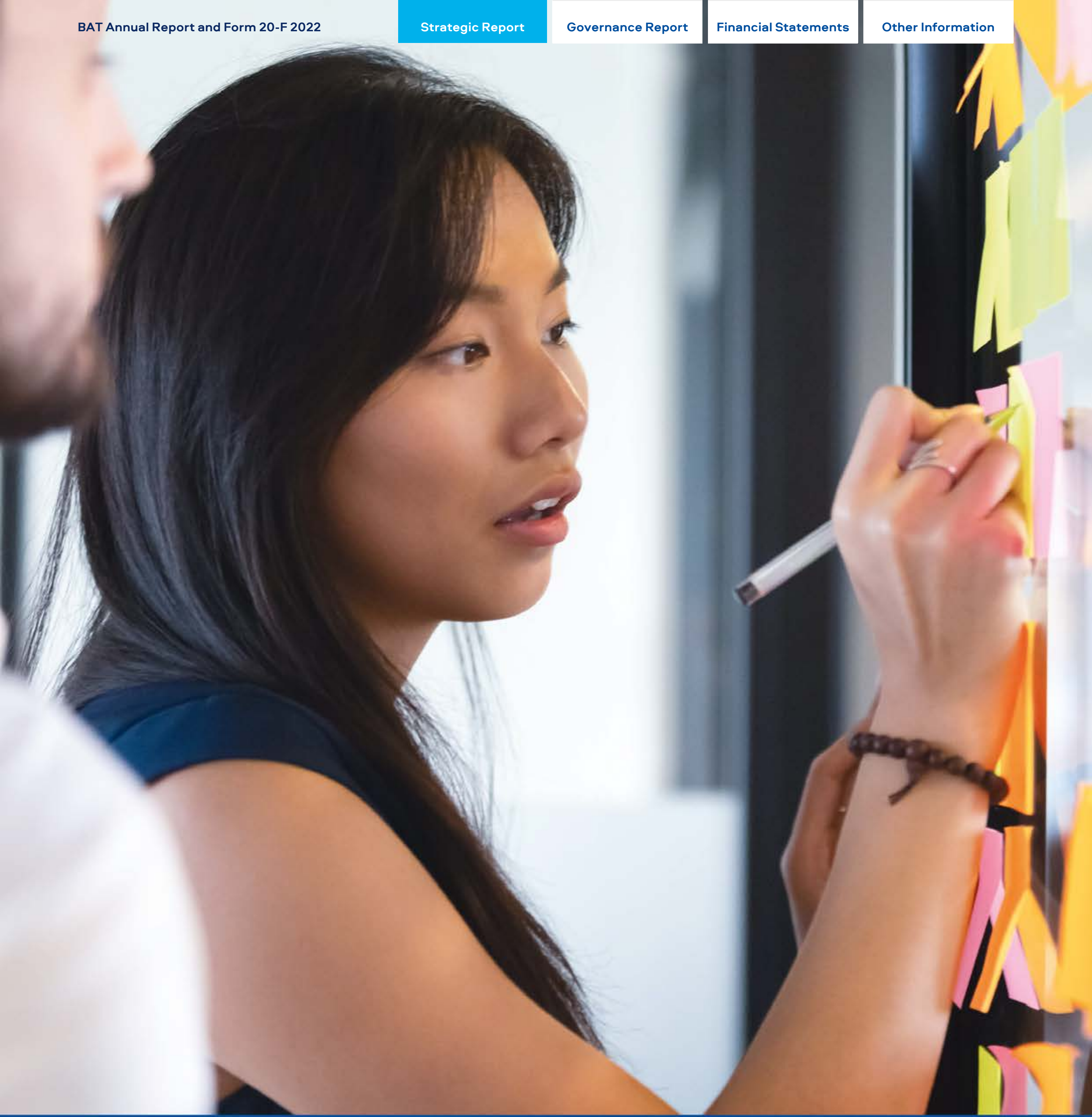
In light of this evolving landscape, we will keep strengthening our understanding and management of climate-related risks and opportunities by:

- Reviewing our governance structure, reflecting the leadership of our newly appointed Chief Sustainability Officer;
- Reviewing the assessment of our identified climate-related risks and opportunities on an annual basis;
- Embedding the dashboard that enables us to understand the potential impact of climate change on our physical property locations across the Group and subsequent business interruptions;
- Outlining our mitigation activities' approach in relation to climate-related risks and opportunities identified in addition to keeping those under review;
- Further aligning our metrics and targets to our identified climate-related risks and opportunities;
- Keeping further integration of ESG- and climate-related metrics in Management Board remuneration under active review; and
- Continuing to work with other BAT colleagues and external partners and suppliers to reduce the environmental impact of our operations and value chain.

Notes:

♦ 2022 (2021 for Scope 3) metrics with independent limited assurance by KPMG, see page 94 for a full list of metrics.

1. In 2022, UK-based activities included 2,376 tonnes of Scope 1 CO2e emissions (2021: 2,276) and 10 tonnes of our Scope 2 CO2e emissions (2021: 173). Scope 1 & 2 CO2e emissions intensity (tonnes per £m revenue) 15.2 (2021: 19.3), (2020: 20.0).
2. Total Scope 3 includes biogenic emissions and biogenic removals. Due to the complexity of consolidating and verifying Scope 3 data in accordance with the GHG Protocol, we report one year behind. As such 2022 Scope 3 data will be reported in the 2023 Annual Report and Accounts and Form 20-F.
3. As part of our 1.5ºC Science-Based Targets approval process we have added Scope 3 Category 9 (Downstream Transportation and Distribution) to our 2020 baseline.
4. Energy intensity (GWh per £ million of revenue): 2022: 0.085; 2021: 0.097.



A BETTER TOMORROW™
For Employees

A Better Tomorrow™ For Employees

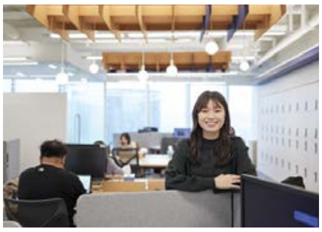
We embrace Diversity

Championing Inclusion
we have established mentoring programmes for female employees globally and ethnic minority talent in the UK.

41% Women in Management Roles*
overall representation in 2022, compared to 39% in 2021.

64% Ethnically Diverse Groups*
in our total workforce, with 138 nationalities at management level globally.

BUnited
global network for our LGBT+ employees and allies.



We invest in Talent

Global Careers Site
our careers site leverages the latest technologies to personalise a candidate's experience, and is supported across 13 languages.

100% of Employees
in management roles with access to our award-winning digital learning platform, The Grid, providing personalised learning anytime, anywhere.

Women in Leadership
training, Women in STEM programme and Global Graduate Academy all focused on developing future diverse leaders.

3,000+ New Capability Hires
includes data analytics, ESG, digital, innovation, IP and sciences, of which 47% are women.

We reward our employees equitably

Fit for Purpose
we reward high levels of sustainable, long-term performance in an appropriate and competitive way.

Close, Long-Term Links
between Group company employees and shareholders established through reward offerings – c.17,000 employees participate in our Global IEIS or corporate bonus schemes.

Globally Certified
across 44 markets, covering approximately 40,000 employees, we are globally certified as providing equal pay for work of equal value.

Reimagining Benefits
we continue to evolve our benefits portfolio to meet the changing needs of our global population.

We provide a safe workplace

6% Reduction
in total work-related accidents and incidents across the Group (vs 2021).

Mental Health
support and wellbeing programmes across the Group and dedicated 'healthy minds champions' in many markets.

COVID-19 Secure
workplace measures in place for all employees returning to their workplace.

Focused on Driver Safety
our ongoing focus has seen vehicle-related accidents, attacks and assaults decline by 11% in 2022 (vs 2021).

* Refer to BAT Reporting Criteria for a full description of key terms and definitions used throughout.

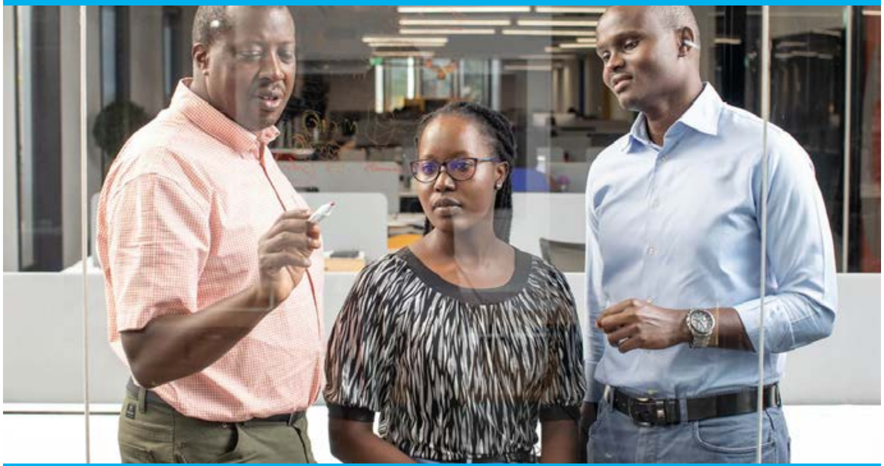
"Our ongoing commitment to fostering a diverse and inclusive culture at BAT is underpinned by our Ethos, which encourages employees to be Bold, Fast, Empowered, Responsible and Diverse. By combining existing and new capabilities, we are radically redefining our organisation. Together, we will build A Better Tomorrow™.

Hae In Kim
Talent, Culture and Inclusion Director

Strategic Management

People, Diversity and Culture

Delivering a positive social impact



People, Diversity and Culture

Our 2025 Goals

45%
increase the proportion of women in management roles* to 45%

40%
increase the proportion of women on senior leadership teams* to 40%

50%
achieve at least 50% spread of distinct nationalities in all key Regional/Functional leadership teams*

2022 Performance Highlights

41%
proportion of women in management roles* (compared to 39%: 2021)

30%
proportion of women on senior leadership teams* (compared to 27%: 2021)

100%
all key Regional/Functional leadership teams* achieved +50% spread of distinct nationalities

79%
Engagement Index score in Your Voice 2021 employee survey, 1 ppt higher than our FMCG comparator group

78%
High Performance Index score in Your Voice 2021 employee survey, 4 ppts higher than our FMCG comparator group

64%
ethnically diverse groups* in total workforce

GRI Standard(s)
GRI 2-7, 2-8, 2-30, 401-1, 401-3, 404-1, 404-2, 405-1, 405-2

SFDR / PAI Indicators
12., 13., S4., S5.

SASB Standard(s)
This topic is not mapped to a specified Indicator

Relevant Policies and Standards

– Standards of Business Conduct (SoBC)
– Employment Principles
– Health and Safety Policy
– Group Data Privacy Procedure

*Find out more:
Refer to the BAT 'Reporting Criteria' for a full description of key terms and definitions: **bat.com/sustainabilityreporting**

Our Talent Strategy

Attracting, developing and retaining a talented workforce are key drivers in BAT's transformation journey to build A Better Tomorrow™.

Our ethos guides our culture and behaviours across the Group and plays a key role in delivering our purpose. Developed with significant input from our employees, it ensures an organisation that is future fit for sustainable growth. The five key principles – bold, fast, empowered, diverse and responsible – underpin how we deliver on both our purpose and our strategy. The policies and principles that support implementation of our strategy are discussed on page 91.

Our Ethos

We are **Bold**
We are **Fast**
We are **Empowered**
We are **Diverse**
We are **Responsible**

Investing in Talent

Our transformation is driven by our talent. We are investing heavily in attracting talent with future capabilities, using an increasingly data-led, digitally enabled approach.

We continue to invest across our hiring needs by seeking to ensure our process and technology are effective in meeting our evolving business requirements. Our careers site leverages the latest technologies to personalise a candidate's experience, supported across 13 languages. This drives engagement and applications from early career to cross-industry experienced hires.

In 2022, 45% of our external management recruits brought new capabilities into the organisation to accelerate our business transformation. Since 2019, the total number of hires bringing new capabilities – such as data analytics, digital, ESG, innovation, IP and science – is more than 3,000, and of these some 47% are female.

We continue to strengthen our employer brand in line with our corporate purpose and ethos by investing in early careers across our flagship Battle of Minds competition with a key focus on ESG topics. Battle of Minds is a global competition targeting early career talent with an entrepreneurial mindset. The competition not only connects BAT with early-stage start-ups but also serves as a talent pipeline into junior roles such as our Global Graduate Programme.

Our commitment to fairness and inclusivity is embedded throughout our recruitment process, helping to ensure equal access to opportunities at BAT.

We use specialist technology to assist with gender-neutral language in our job advertisements (where permissible) and to support detection and removal of potential bias ahead of posting jobs.

Candidate screening is supported by AI technology to ensure a fair process and increase accessibility, where appropriate. The interview process is conducted according to clear guidelines for fairness and inclusivity, such as ensuring diverse interviewing panels. Once appointed, successful candidates undergo robust pre-employment checks, such as age verification and right-to-work, to mitigate the risks of child or forced labour.

In 2022, we won for a fifth consecutive year the Global Top Employer award, a globally certified award recognising organisational excellence in people practices. And in early 2023, this success continued into a sixth year when we were again recognised for this global award.

Learning and Development (L&D)

Delivering world-class L&D opportunities for our employees has always been an integral part of our culture. L&D is becoming an increasingly important enabler to accelerate our transformation.

Our firm commitment to the development of leadership and functional 'must win' capabilities resulted in:

– an average of 22 hours of learning over the year for each of our 13,000 managers; and
– an average of £326 investment in learning per employee.

We have refreshed the content on many of our leadership, digital and functional programmes and increased the size of our portfolio by 25% from 57 programmes at the end of 2020 to 71 at the end of 2022.

All functional 'must win' capabilities have foundational learning programmes in place, creating a level playing field of knowledge and skills – with 38% of programmes now developing advanced level capabilities.

In 2022, we launched a new programme for the most senior 120 executives in the Group called the GLM120 A Better Tomorrow™ Programme. The programme provided learning in:

– sustainable net turnover growth;
– ESG, science and regulation;
– impact and influence; and
– leading innovation.

All of the above are critical capabilities to enable the acceleration of our transformation.

In 2022, we also continued to develop our flagship learning programme – Made@BAT by launching advanced level skills development for all our marketing managers, equipping them with the best external, off-the-shelf learning content to be able to build brands in the digital era. To date, 85% of marketing managers have taken part in the Made@BAT programme.

Over 3,200 managers attended our core leadership programmes in 2022, including the Women in Leadership programme and the Global Graduate Academy.

The Academy provides intensive two-week training as part of our one-year Global Graduate programme. The programme focuses on developing the next generation of diverse leaders and accelerating the development of their commercial and leadership skills.

In 2022, the Global Graduate Academy was awarded a Brandon Hall Group L&D Gold Award for best blended learning programme.

We continue to accelerate and broaden the capability development of all managers in the Group via our digital learning platform, The Grid. The platform provides leadership, digital and functional learning content for all 13,000 managers, anytime, anywhere, promoting a culture of self-development and continuous learning.

In addition, we have continued with 'Leadermeter', our flagship talent development tool, that is supported by an externally benchmarked and factual leadership potential assessment methodology. 'Leadermeter' focuses on transformational leadership attributes, is forward-looking and provides robust individual insights. It facilitates an active focus on an individual's development and allows for talent actions to build the leadership pipeline. We completed a pilot in 2021, which covered c.13,000 managers and, in 2022, reached c.2,200 new hires and recently promoted managers.

Diversity and Inclusion

At BAT, we are proud to be a diverse global organisation that encourages our people to value their differences.

We think of diversity in its widest sense, as those attributes that make each of us unique. These include our race, ethnicity, cultural and social backgrounds, geographical origin, nationality, gender, age, any disability, sexual orientation, religion, skills, experience, education, socio-economic and professional background, perspectives and thinking styles.

D&I Strategy Overview

Driving ownership and accountability
- Board Diversity Policy
- Group D&I dashboard and regular Management Board reviews for tracking progress
- Diversity Champions

Building diverse talent pipelines
- Inclusive recruitment
- Women in Leadership training and mentoring
- IGNITE returners programme
- Women in STEM programme

Creating enablers
- Parents@BAT: our global programme for new parents
- Employee networks and communities
- Independent certifications

Inclusive culture

Collaboration with Employee Resource Groups, building allyship and D&I awareness campaigns

Mastering Inclusion' training for all employees and D&I toolkit and guides

Continuous feedback, action planning, review cycles. Employee engagement and listening sessions

Strategic Management

People, Diversity and Culture
Continued

In 2020, we set ourselves bold ambitions for 2025, to accelerate the pace of progress. We have made great progress in all three of our strategic pillars, driving ownership and accountability, building diverse talent pipelines, and creating enablers that support our commitment to creating a diverse and inclusive culture.

Find more details of our efforts to accelerate gender diversity in our Diversity and Inclusion Report 2022

Driving Ownership and Accountability

We seek to monitor, track and support the progression of diverse groups. In 2022, we expanded the scope of our confidential voluntary ethnicity identity collection and reporting beyond the UK to six additional markets (Australia, Brazil, Canada, Malaysia, South Africa and the US). Together with the UK, these countries represent approximately 30% of all our Group company employees worldwide, covering approximately 14,000 people. In these seven markets, 92% of our employees and 82% of our senior teams have confidentially disclosed their ethnic background. Collecting this data offers an opportunity to better understand the experience of different groups and their movement throughout the talent lifecycle at BAT and subsequently inform further targeted initiatives.

Our D&I governance structure ensures clear accountability for our business leaders and leadership teams for achieving our 2025 D&I ambitions. This includes a D&I dashboard and regular reviews by our Management Board to ensure close monitoring of progress and plans. D&I remains fully embedded in our talent review processes and meetings. Each Region and Function has five-year glidepaths to showcase plans and estimated year-end forecasts.

In 2021, we released our first Group D&I report which outlined a more complete picture of gender, ethnicity and pay, allowing us to measure our progress in building a diverse and inclusive culture. We voluntarily reported UK ethnicity pay and expanded gender pay reporting to eight new markets which represented c.40% of all our employees worldwide.

Building on the progress made in 2021, we are further expanding our reporting in 2022, with more than 80% of our employees now included in our Gender Pay Equity Reporting, and for the first time, approximately 14,000 employees were included in an Ethnicity Pay Equity review. Our focus on pay equity is intended to ensure that all employees performing the same work or work of equal value are paid equitably and pay is not influenced by factors such as gender or ethnicity.

Building Diverse Talent Pipelines

We require all recruitment agencies we work with to provide gender-balanced longlists of candidates. In the UK, we partner with firms accredited under the UK Government's Enhanced Code of Conduct for Executive Search Firms. This acknowledges firms with a strong track record in, and promotion of, gender diversity in the FTSE 350.

Since 2019, our Women in STEM strategy has focused on attracting, developing, and retaining more women in our R&D, Operations, Finance and Digital Business Solutions functions. In the UK, we continue to be members of the multi-stakeholder group WISE and official signatories of its 10-step framework. This provides evidence-based action, knowledge, and tools for achieving gender balance in the STEM workforce, and against which we achieved Rank 1 in 2022. These activities help increase the level of STEM representation, as we work to our goal of 40% female representation on senior leadership teams.

Delivering development opportunities for our employees and contributing to the strengthening of our talent pipelines has always been an integral part of our D&I strategy. 'Women in Leadership' (WIL) is our long-running programme within our leadership portfolio, which supports the accelerated development of women at middle to senior levels. It is a key initiative within our D&I agenda to grow the proportion of women in management roles across the business to 45% by 2025.

In 2022, we expanded the scope and launched new WIL Foundation programmes for women at a junior management level and have grown the coverage to c.1,000 women managers.

Following a successful launch of our global IGNITE returners programme in nine markets (Argentina, Australia, Colombia, Mexico, Pakistan, Poland, Trinidad & Tobago, Turkey and the UK), we have continued to recruit returners across the world. IGNITE focuses on supporting experienced professionals returning to the workplace after a career break. It includes flexible working, training and coaching for returners, and training for line managers on how to best support them.

We launched a new training programme 'Mastering Inclusion' with the main purpose to raise awareness and build skill sets around key D&I concepts and opened it up to all our non-management employees too. It is compulsory for all new hires and new managers and, so far, more than 9,500 employees have completed the training.

D&I toolkits are available for all our managers. Along with Allyship Guides on LGBT+, Race and Ethnicity and Disability Allyship, these continue to provide practical information to help debunk myths and misconceptions, understand unconscious bias, micro-aggressions and micro-inequalities, and provide tips on how to proactively create an inclusive environment and promote a sense of belonging for us all.

These guides were built through a robust co-creation process and they complement existing D&I training embedded across the business, such as our 'Mastering Inclusion' e-learning available to all colleagues, and the D&I modules of our leadership programmes like Leading Self; Leading Teams; and Leading Through People.

We expanded the scope of 'Mission Gender Equity' which is a cross-company mentoring programme focusing on female talent to build and strengthen our internal talent pipeline to markets outside the UK and the programme will cover 73 pairs of mentors-mentees. We are piloting 'Mission Include' in the UK, which is a similar cross-company mentoring programme focusing on talent from ethnic minority under-represented groups, covering 13 pairs of mentors-mentees. Both these programmes are provided by our external partner Moving Ahead.

Creating Enablers

'We are Diverse' is at the core of BAT's Ethos. As well as striving for gender balance, our D&I strategy focuses on diversity of nationalities and ethnicities. Our employees remain at the heart of our success without whom we are unable to achieve our strategy. Together we continue to build an inclusive culture where difference is valued, where employees from diverse backgrounds and experience feel they belong, are at their best and inspired. We have worked hard to set strong foundations and create enablers to realise genuine change.

We are signatories to the UK Race at Work Charter for supporting racial equality in the workplace. We strive to get the full value and potential of diversity through inclusion.

Our target is for at least a 50% spread of distinct nationalities in all our regional and functional leadership teams. We have 138 different nationalities, from a wide range of ethnic backgrounds, in management roles across the Group.

Progressive programmes and policies have helped to cultivate an inclusive culture. Our Parents@BAT programme also continues to provide a range of benefits to support new parents. This offers minimum requirements for fully paid leave for new mothers and adoptive parents and a return-to-work guarantee, exceeding legal requirements in many countries. It also includes flexible working opportunities and an online advice service offering coaching support for all parents whenever required.

This year, we have offered enhanced support to our new parents, working families and their managers, with coverage of expanded topics including hybrid working, wellbeing, D&I, caregiving, parenting older children and more. It has been designed based on user research to be easily accessible and deliver maximum support with minimum time spent.

This also includes 'Ask a Coach' which provides access to Talking Talent's executive coaches who are only a click away, 24 hours a day. This new messaging service includes unlimited, confidential, one-to-one coaching support to build well-being and navigate life/work success. In 2022, the return rate from parental leave was 97% for women and 99% for men.

We launched confidential assisted fertility support to our UK employees via Apricity, our partner to our private medical plans. Apricity offers a fertility concierge service which employees can access via the Apricity App.

In May 2022, we were recognised by a major UK government-backed accreditation scheme for the way we attract, develop and support people with disabilities and long-term health conditions, and awarded Level 2 Disability Confident Employer status – building on our success in achieving Level 1 status two years ago.

This demonstrates our commitment to equal opportunities for disabled employees and applicants, training and development for disabled employees and reasonable adjustments and support in the workplace and recruitment processes.

Independent accreditation like this recognises the impact of our D&I strategy. Being acknowledged as a Disability Confident Employer is a clear indication that we recognise the diversity, experience, insight, talent, and value that disabled people and others bring to our business.

In 2022, we commenced participation in the Brandon Hall Group awards programme. Brandon Hall Group is a leading research and analyst firm that specialises in L&D, Talent Management, Leadership Development, Talent Acquisition, and Workforce Management. Its award programme is the largest and longest running for Human Capital Management, and attracts entrants from leading corporations around the world.

We were delighted to receive 3 awards, Gold – Best Diversity, Equity and Inclusion Strategy, Gold – Best Learning Program that supports and promotes Diversity, Equity and Inclusion and Silver – Best Advance in Diversity Recruiting Strategy.

Inclusive culture

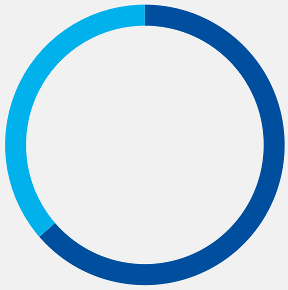
By fostering inclusion and belonging, building allyship, and supporting the career growth of colleagues, our Employee Resource Groups (ERGs) collaborate with the D&I team to deliver on our business objectives and strategic imperatives.

Members of the leadership teams serve as executive sponsors for ERGs to build allyship and understanding while also maximising the success and impact of these groups.

Our ERGs then activate and embed this work deep within our organisation and our local communities. We have ERGs across all levels of the Group, including our Women in BAT, Healthy Minds Champion and BUnited, which is our LGBT+ employee resource group. In 2022, we opened several new chapters in our local markets, including the women employee group in Saudi Arabia and disability inclusion group in Nigeria.

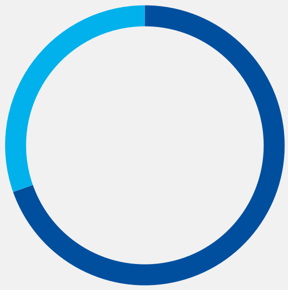
Group Diversity as at 31 December 2022

Main Board



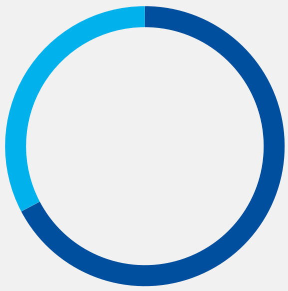
Male	7	64%
Female	4	36%

Senior leadership teams



Male	600	70%
Female	262	30%

Total Group employees



Male	33,907	67%
Female	16,490	33%

Nationalities represented

Main Board	5
Global headquarters	81
Management level globally	138

Senior Managers: Companies Act 2006

For the purposes of disclosure under Section 414C(8) of the Companies Act 2006, the Group had 175 male and 48 female senior managers as at 31 December 2022. Senior managers are defined here as the members of the Management Board (excluding the Executive Directors) and the directors of the Group's principal subsidiary undertakings. The principal subsidiary undertakings, as set out in the Financial Statements, represented approximately 70% of Group company employees and contributed over 90% of Group revenue in 2022.

Strategic Management

People, Diversity and Culture
Continued

Global Top Employer
In 2022, we won the Global Top Employer award, for the fifth consecutive year, a globally certified award recognising organisational excellence in people practices.

Disability Confident Employer
BAT was recognised by a major UK government-backed accreditation scheme for the way we attract, develop and support people with disabilities and long-term health conditions.

Race at Work Charter
We are signatories to the UK Race at Work Charter for supporting racial equality in the workplace.

Corporate Equality Index
In 2022, our U.S. and Mexico businesses scored 100% on the Human Rights Campaign Foundation's Corporate Equality Index for LGBT+ workplace equality.

Women in STEM awards (WISE)
In 2022, we achieved a Rank 1 certification in the UK for our Science, Technology & Engineering strategy.

Brandon Hall Awards
In 2022, we achieved Gold Awards from the Brandon Hall Group.

Workforce Engagement
Ensuring we have open engagement, where we can listen to and learn from our employees, is crucial to an inclusive culture. We have a range of engagement channels covering our global workforce, including:

- Market and site visits by our Directors and Management Board members to meet local employees;
- Town halls and Q&A sessions;
- Meetings with works councils, trade unions and the European Employee Council;
- Our annual global leaders meeting with the top 120 senior leaders across the Group;
- Global, functional and regional webcasts;
- Webcasts and podcasts with the Chief Executive and Management Board members;
- Global, independently-managed and multilingual Speak Up channels; and
- Our global Your Voice employee survey every two years, most recently in 2021.

Our 'Workforce Voice in the Boardroom' programme focuses on ensuring the Board understands the views of our workforce, and reviews details of the key themes identified and how we have responded to them.

Feedback from the Board, with associated action, is cascaded back across our workforce and the Board is kept updated on progress against identified actions during the year.

In 2022, the key themes identified were related to continuation of regular updates on transformation, including sustainability and innovation, and continuous focus on prioritisation.

We have responded to this feedback with a range of activities. For example, during a five-day long Sustainability Week of events held in July, we welcomed c.14,000 attendees to various webcast panel sessions. Each day was allocated to key ESG agenda themes, including operations, diversity and innovation. During the week, senior leaders explained our ESG ambitions and initiatives that we are undertaking and attendees also had the opportunity to ask questions and were able to share their views on ESG topics.

In the Year-End and Half-Year Results live webcasts, the Chief Executive, Finance and Transformation Director, and Chief Growth Officer re-emphasised the Group's purpose and ambitions, shared the progress made by the Group and highlighted the priorities for the upcoming period. These live events are also supported by complementary communications which are accessible to all employees. For example, the Year-End Results email sent by the Chief Executive was read by more than 25,000 employees.

Bloomberg Gender-Equality
We are proud to be included in the 2023 Bloomberg Gender-Equality Index (GEI). The GEI helps bring transparency to gender-related practices and policies. This recognition is a demonstration of our continued commitment and focus on providing an inclusive work environment and our desire to build on the strengths gained through gender diversity, equality and transparency.

Our efforts to create an inclusive culture for women through our recruiting initiatives, adoption of family-friendly policies, sponsoring programmes dedicated to educating women and support of community programmes, were identified as strengths.

Your Voice
We conduct our global Your Voice survey every two years, with the most recent survey conducted in 2021.

In the 2021 Your Voice survey, we were pleased to surpass our 2019 response rate with 93% of all employees globally choosing to respond (seven percentage points higher than the average of our global FMCG comparator group).

Our 2021 Your Voice results outperform our FMCG comparator group in most categories, with strong results in D&I, people management, corporate responsibility and empowerment. Our 2021 results were one percentage point higher than our global FMCG comparator group for our Employee Engagement Index and four percentage points higher than the average of our FMCG comparator group for our High Performance Index.

These results reflect a connected, committed, energised and high performing organisation. The next Your Voice survey will be undertaken in 2023. Results from that survey will serve as the basis for further shaping the priorities for the organisation.

Find out more about how our Board engages with our global workforce on pages 132, 140 and 169

Rewarding People

Our SoBC makes clear our commitment to providing fair, clear and competitive wages and benefits. In line with good equal pay practices, we have clearly defined pay scales for all roles across the Group worldwide. This approach ensures pay, bonuses and benefits are consistently applied and not influenced by factors such as gender or ethnicity.

Reward is a key pillar in ensuring that we have the right people to drive the business forward. Reward is necessarily local and we strongly support this approach through global frameworks to ensure leading-edge policies, processes and technology are available to all markets.

Base pay rewards core competence relative to skills, experience and contribution to the Group, while annual bonuses, long-term incentives, recognition schemes and ad hoc incentives provide the right mix to ensure that sustained high performance is recognised and rewarded.

Our annual bonus and long-term incentive plans are aligned throughout the organisation, with eligible employees participating in plans with the same performance metrics as the Executive Directors, supporting line of sight throughout the organisation.

We also offer our UK employees the chance to share in our success via our Sharesave Scheme, Partnership Share Scheme and Share Reward Scheme, and operate several similar schemes for employees in our Group companies.

Find details of our Directors' Remuneration Policy on pages 163 to 169

Benefits and Reward

Our benefits offering is a core component of our reward strategy. We aim to deliver benefits that are fair and competitive.

During 2022, we reviewed our global benefits strategy and introduced new innovations to provide employees with greater choice and flexibility, including investments in technology. Changes were accompanied by enhancements to our benefit programmes in the areas of financial wellbeing, employee health and assistance while re-appraising benefit design to create greater value for employees.

Our approach to rewarding Group company employees and engagement on remuneration matters is discussed further on pages 167 to 169.

Equal Pay for Equal Work

Our focus on pay equity is intended to ensure that all employees performing the same work or work of equal value are paid equitably and pay is not influenced by factors such as gender or ethnicity.

In 2022, we partnered with Fair Pay Workplace (FPW) to conduct a Pay Equity Review. FPW is an independent specialist consultancy that supports companies to gain recognition for their commitment to true pay equity using a trusted and transparent methodology.

The review covered approximately 40,000 employees in 44 markets from a gender perspective. Our broader D&I strategy also focuses on diversity of ethnicities across our business. This allowed us, for the first time, to undertake an Ethnicity Pay Equity Review for our employees in seven countries, approximately 14,000 of our people.

The markets were selected to ensure relevant international representation comprising employees across all regions and to provide a cross-sectional view of BAT's business operations.

We evaluated the base salary for each employee at each level of the organisation, considering any reasons for any salary determinations, such as level or type of work performed, individual performance, location and experience.

The consolidated results of our global pay equity assessment show:

– Women and men are paid within 1% of one another for doing the same work or work of equal value
– Ethnically diverse groups and non-ethnically diverse groups are paid within 1% of each other for doing the same work or work of equal value

This confirms that our global efforts to provide consistent and fair compensation based on legitimate drivers of pay are working.

We were pleased to receive further accreditation from FPW for all the countries included in the scope of our Pay Equity review. FPW certification is a transparent and trusted standard of measurement to differentiate organisations dedicated to true pay equity, and this milestone represents another important step in the Group's D&I agenda.

Fair Pay Workplace CERTIFIED

Globally Certified across 44 markets

Certified organisations are recognised leaders in ensuring equal pay for equal work.

Find more details in our Diversity and Inclusion Report 2022

Responsible Restructuring

Where restructuring is necessary, we are committed to doing so in a responsible manner.

Responsible local approaches and procedures to address each instance include employee consultation periods, severance pay and any other measures that may be appropriate to the situation and location. Examples include outplacement support, career transition services, financial advice and training to help displaced employees to find alternative employment.

You can read about our Group risk factor related to talent on page 343

Employee retention

– 1,502 voluntary turnover of management-grade employees in 2022
– 10.6% voluntary turnover rate of management-grade employees in 2022
– 10.5% voluntary turnover rate for all employees in 2022

Collective bargaining

– 28.6% Group company employees covered by an independent trade union or collective bargaining agreement

Diversity

– 30.4% representation of women on senior leadership teams in 2022
– 27.1% representation of women on senior leadership teams in 2021
– 26.7% representation of women on senior leadership teams in 2020

Strategic Management

People, Diversity and Culture
Continued

Our Employment Principles

Our Employment Principles set out a common approach for our Group companies' policies and procedures, recognising that each Group company must take account of local labour law and practice, and the local political, economic and cultural context.

In developing our Employment Principles, we have sought the views of a cross-section of internal and external stakeholders, and have consulted with employee representatives and (where relevant) with our works councils.

Our Employment Principles are implemented by Group companies and, through our internal audit processes, Group companies are required to demonstrate how these are embedded into the workplace.

In addition to our Employment Principles, our Board Diversity Policy applies specifically to our Board and Management Board, discussed on page 148.

Our policies and principles

	Summary of areas covered	Stakeholder groups	
Employment Principles* Available at www.bat.com/principles	Employment practices, including commitments to diversity, reasonable working hours, family-friendly policies, employee wellbeing, talent, performance, equal opportunities, and fair, clear and competitive remuneration and benefits and responsible restructuring.	Our People	
Health and Safety Policy * Available at www.bat.com/principles	Health, safety and welfare of BAT employees, contractors, visitors and other relevant stakeholders.	Our People Suppliers	Customers
Standards of Business Conduct* Available at www.bat.com/principles	Topics include respect in the workplace, promoting equality and diversity, preventing harassment and bullying, fair wages and benefits, and supporting work-life balance. As well as human rights, health, safety, welfare and compliance with our Group Data Privacy Procedures.	Our People	
Group Data Privacy Procedure	The manner in which BAT processes personal data about all individuals, including consumers and employees, contractors and employees of suppliers.	Our People Consumers	Suppliers Customers

Note:

* These policies and principles are endorsed by our Board, implemented for application by all Group companies and support the effective identification, management and mitigation of risks and issues for our business in these and other areas. Available at www.bat.com/principles.

Strategic Management

Health and Safety

S Providing a safe working environment for all

Health and Safety

Our Goals

Zero
accidents Group-wide each year

100%
of farmers and workers each year with sufficient PPE for agrochemical use and tobacco harvesting

2022 Performance Highlights

6%
reduction in total Group-wide accidents vs 2021

0.19
Lost Time Incident Rate (LTIR) vs 0.20 in 2021

99.6%
farmers and workers in our Tobacco Supply Chain[1] with sufficient PPE for tobacco harvesting

83
Lost Time Incidents vs 95 in 2021

82%
of our sites achieved zero accidents in 2022

99.9%
farmers and workers Tobacco Supply Chain[1] with sufficient PPE for agrochemical use

GRI Standard(s)	SFDR / PAI Indicators	SASB Standard(s)
GRI 403.1-10 (Inclusive)	S1. , S2., S3., S4., S5.	FB-AG-320a.1

Relevant Policies and Standards

– Group Health and Safety
– Supplier Code of Conduct (SCoC)
– Operational Standard for PPE

Find out more:
Refer to the BAT 'Reporting Criteria' for a full description of key terms and definitions: **bat.com/reporting**

For more performance metrics and operational data refer to the BAT 'ESG Performance Data Book': **bat.com/sustainability reporting**

Notes:
1. 'Tobacco Supply Chain' refers to the tobacco supplied by our directly contracted farmers and those of our strategic third party suppliers, who participate in our annual Thrive assessment, representing over 80% of the tobacco purchased by volume in 2022.
2. Reference to 'tobacco supply chain' covers all tobacco used in our combustibles and THP products.

Our Approach

We are committed to providing a safe working environment for all our employees and contractors. We also require farmers in our Tobacco Supply Chain[1] to have access to personal protective equipment (PPE) for agrochemical use and harvesting.

Why Health and Safety Matters

Providing safe working conditions and continuing to strive for zero accidents across the Group supports the wellbeing of our employees, while enhancing our reputation as an employer of choice.

Safety risks vary across our business operations. For example, for our Trade Marketing & Distribution (TM&D) teams, the highest risks relate to road traffic accidents or attacks and assaults from armed robberies where our goods have a high street value.

In our Tobacco Supply Chain[1], farmers and workers can be at risk of pesticide poisoning from handling agrochemicals when growing tobacco. Green tobacco sickness (GTS) from handling wet, green tobacco leaves during harvesting is also a risk.

Policies and Accountabilities

Our Group Health and Safety Policy is implemented for application by all Group companies. It outlines our commitment to applying the highest international standards of health and safety for our employees, as well as third-party personnel on company premises.

For our suppliers, our Supplier Code of Conduct (the Code) defines the minimum standards we expect, including specific health and safety criteria.

Additionally, our Operational Standard for PPE in tobacco farming applies to all 81,285 farmers directly contracted by the Group's own Leaf Operations. It requires all our directly contracted farmers and their workers to have access to PPE for agrochemical use and harvesting.

Training and monitoring must be carried out for all our contracted farms on PPE, agrochemical use and GTS. We ask our third-party leaf suppliers to implement similar standards in their own operations.

Twice a year, the Board reviews performance against our health and safety targets and key performance indicators. The Board also regularly reviews our tobacco supply chain[2] strategy.

Protecting Health and Safety Across our Business Operations

Operating in diverse markets - including some of the world's most volatile regions - can be challenging. That is why we have a well-established approach to protect the health and safety of our employees and contractors across the Group.

We track health and safety performance across all our sites. A dedicated team analyses the information to identify trends or high-risk areas that require coordinated cross-functional action.

Our comprehensive approach is based on risk management. We then develop tailored initiatives for specific priorities and high-risk areas. For example, in manufacturing, our accident prevention programme focuses on preventing injuries when using equipment or machinery.

The result has been a steady reduction in accidents across the whole Group. Overall, there was a 6% reduction in reported incidents in 2022, to 116 (vs 123 in 2021), which mainly comprised a 10% reduction in Operations and 3.5% reduction in non-Operations activities (such as TM&D and commercial activities). In 2022, 82% of our sites achieved zero accidents. This performance was consistent with a positive downward trend of our global historical data in this area.

82%

of our operational sites achieved zero accidents during the year

In TM&D, where there are high risks of road traffic accidents or attacks and assaults, we have comprehensive driver safety and security programmes. This also includes telematic systems in all our vehicles to monitor driving behaviour and identify areas for improvements.

In locations that are high-risk for attacks and assaults, we constantly assess threats to ensure appropriate protocols are in place to keep our people safe. This can include placing limits on loads carried to reduce value, strategic route planning to avoid predictability, and providing security escorts.

In addition to our official and regular Health and Safety (H&S) forums, in 2022 we established a Centre of Excellence (COE) approach for our top four H&S losses (attacks and assaults, vehicle-related, slips and trips and manual handling), with monthly meetings providing solutions, guidelines and technical knowledge to the Group.

Every COE has representatives from all our Regions and Functions, with the main objectives of:

- Defining and updating global H&S guidelines and process standardisation; and
- Guiding end markets and sharing best practices.

Our work to develop or upgrade processes, and organise training and communication has seen vehicle-related accidents and attacks and assaults decline over recent years. In 2022, we recorded an 11% reduction, compared to 2021.

Sadly, there were four fatalities in 2022: a contractor in Papua New Guinea; a contractor in Brazil; an employee in Mexico; and a member of the public in South Africa. We deeply regret this loss of life and the suffering it has caused to family, friends and colleagues.

For every serious incident or fatality that occurs, we work with the relevant authorities on their investigations. These incidents were investigated by local teams and reviewed by the regional and global EHS teams to avoid recurrences. Learnings and action plans were disseminated across all regions.

To prevent similar incidents from happening again, we conduct rigorous internal investigations to determine the cause, identify lessons and develop an action plan.

The Management Board receives details of any serious incidents and associated investigations that arise in the context of Group operations. The Board is also updated on such incidents and the implementation of action plans.

Protecting the Occupational Health and Wellbeing of all Employees

We aim to be among the leaders in occupational health management. We focus on identifying hazards, assessing risks to people's health at work and introducing appropriate controls and support.

We also have programmes around the world that protect and promote health and wellbeing for employees, their families and local communities. These include:

- Medical services, health screening, vaccinations and insurance;
- Mental health support and counselling services;
- Healthy lifestyle and fitness schemes;
- Family-friendly initiatives, such as flexible working and help with childcare; and
- Where relevant, targeted programmes to address significant endemic diseases, such as HIV and malaria.

Throughout the COVID-19 pandemic, our digital transformation enabled us to swiftly shift to remote home working where needed. In many parts of the world, including our global headquarters in the UK, we now have a hybrid working model.

We introduced 'COVID-19-secure' workplace measures for employees who returned to their workplace. These include regular cleaning and sanitising, temperature checkpoints and free access to COVID-19 testing.

We also provide our employees with regular communications regarding vaccination programmes and how to access them. And, in over 25 countries, we provided direct vaccine support, with vaccines available on-site or free transportation to vaccination centres.

Promoting Health and Safety Throughout our Tobacco Supply Chain

The main health and safety risks when growing tobacco relate to exposure to pesticides, and GTS, which can be contracted from handling wet green tobacco leaves during harvesting. However, both these risks can be minimised with appropriate use of PPE.

Our operational standard for PPE in tobacco farming details our mandatory requirements for 100% access and use of PPE for contracted farmers and their workers. This includes technical specifications for the types of PPE appropriate for agrochemical use and harvesting, and for different climates and conditions.

Our Extension Services team monitor our contracted farms for compliance with our standards. Our third-party suppliers are responsible for monitoring the farmers they buy tobacco from. In 2022, 99.9% of our contracted farmers and those supplying our strategic third-party suppliers were reported to have sufficient PPE for agrochemical use and 99.6% for use when harvesting.

The Group's own Leaf Operations and strategic third-party suppliers provide regular training and guidance on how to use, clean and care for PPE. The training also covers health and safety best practice and preventative measures against GTS, and is supported by ongoing farmer communications.

Training is also provided on the correct and safe use, storage and disposal of agrochemicals to protect the environment and farmers' health. During 2022 these health and safety training sessions reached 325,260 attendants.

Find out about our Group risk factors related to workplace health and safety on pages 120 and 352

Strategic Management

ESG 2022 Assured Metrics

KPMG have conducted independent, limited assurance in accordance with ISAE 3000 over the 2022 ESG 'Selected Information' listed below, as contained in this Annual Report. KPMG's Independent Limited Assurance Report is provided on page 95.

^ Refer to KPMG Independent Limited Assurance Report on page 95 for details on selected information.

Underlying Selected Information	Selected Information
Consumers of non-combustible products (number of, in millions)	22.50
Scope 1 CO_2e emissions (thousand tonnes)	308
Scope 2 CO_2e emissions (market based) (thousand tonnes)	113
Scope 2 CO_2e emissions (location based) (thousand tonnes)	356
Scope 1 and Scope 2 CO_2e emissions intensity ratio (tonnes per £m revenue)	15.20
Scope 1 and Scope 2 CO_2e emissions intensity ratio (tonnes per EUR m revenue)	13.00
Total Scope 3 CO_2e emissions (thousand tonnes) ^ - for 2021, Scope 3 emissions are reported one year later	5,243
Total energy consumption (GWh)	2,344
Energy consumption intensity (GWh per million £ revenue)	0.08
Energy consumption intensity (GWh per million EUR revenue)	0.07
Renewable energy consumption (GWh)	771
Non-Renewable energy consumption (GWh)	1,574
Waste generated (tonnes)	125,686
Hazardous waste and radioactive waste generated (tonnes)	1,753
Total waste recycled (tonnes)	105,997
Total water withdrawn (million m^3)	3.50
Total water recycled (million m^3)	1.02
Total water discharged (million m^3)	1.66
% of operations sites reported no production process use of priority substances ^	100
% operations sites not using priority substances in any on-site ancillary / support processes ^	38
Number of operations sites in areas of high-water stress with and without water management policies	16 / 0
% of sources of wood used by our contracted farmers for curing fuels that are from sustainable sources ^	99.9
% of all paper and pulp volume that is certified as sustainably sourced	94
% of tobacco hectares reported to have appropriate best practice soil and water management plans implemented ^	82
% of tobacco farmers reported to grow other crops for food or as additional sources of income ^	92.8
% of farms monitored for child labour ^	99.99
% of farms with incidents of child labour identified ^	0.38
Number of child labour incidents identified ^	942
% of child labour incidents reported as resolved by end of the growing season ^	100
% of farms monitored for grievance mechanisms ^	100
% of farms reported to have sufficient PPE for agrochemical use ^	99.9
% of farms reported to have sufficient PPE for tobacco harvesting ^	99.6
H&S - Lost Time Incident Rate (LTIR)	0.19
H&S - Number of serious injuries (employees)	22
H&S - Number of serious injuries (contractors)	11
H&S - Number of fatalities (employees)	1
H&S - Number of fatalities (contractors)	2
H&S - Number of fatalities to members of public involving BAT vehicles	1
% female representation in management roles	41
% female representation on senior leadership teams	30
% of key leadership teams with at least a 50% spread of distinct nationalities	100
Unadjusted gender pay gap (average %)	24
Incidents of non-compliance with regulations resulting in fine or penalty	3
Incidents of non-compliance with regulations resulting in a regulatory warning	2
Number of established SoBC breaches	84
Number of disciplinary actions taken as a result of established SoBC breaches that resulted in people leaving BAT	58
Number of established SoBC breaches - relating to workplace and human rights	33
% of product materials and high-risk indirect service suppliers that have undergone at least one independent labour audit within a three-year cycle	36.6

ESG Limited Assurance Report

Independent Limited Assurance Report to British American Tobacco p.l.c.

KPMG LLP ("KPMG" or "we") were engaged by British American Tobacco p.l.c ("BAT") to provide limited assurance over the Selected Information described below for the year ended 31 December 2022.

Our conclusion

Based on the work we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Selected Information on pages 6 and 80 marked with a ♦ and listed as 'Assured' on page 94 has not been properly prepared, in all material respects, in accordance with the Reporting Criteria.

This conclusion is to be read in the context of the remainder of this report, in particular the inherent limitations explained below and this report's intended use.

Selected Information

The scope of our work includes only the information included on pages 6 and 80 marked with a ♦ and that listed as 'Assured' on page 94 (being together 'the Selected Information') within BAT's Combined Report ('the Report') for the year ended 31 December 2022.

We have not performed any work, and do not express any conclusion, over any other information that may be included in the Report or displayed on BAT's website for the current year or for previous periods unless otherwise indicated.

Where Selected Information is calculated in arrears or includes periods outside of the year ended 31 December 2022, this is outlined within the reporting criteria.

Reporting Criteria

The Reporting Criteria we used to form our judgements are BAT's Reporting Guidelines 2022 as set out at www.bat.com/sustainabilityreporting ('the Reporting Criteria'). The Selected Information needs to be read together with the Reporting Criteria.

Inherent limitations

The nature of non-financial information, the absence of a significant body of established practice on which to draw, and the methods and precision used to determine non-financial information, allow for different, but acceptable evaluation and measurement techniques and can result in materially different measurements, affecting comparability between entities and over time.The Reporting Criteria has been developed to assist BAT in reporting ESG information selected by BAT as key KPIs to measure the success of its ESG strategy. As a result, the Selected Information may not be suitable for another purpose.

Directors' responsibilities

The Board of Directors of BAT are responsible for overseeing:

- the designing, operating and maintaining of internal controls relevant to the preparation and presentation of the Selected Information that is free from material misstatement, whether due to fraud or error;
- the process of selecting and/or developing objective Reporting Criteria;
- the measurement and reporting of the Selected Information in accordance with the Reporting Criteria; and
- the contents and statements contained within the Report and the Reporting Criteria.

Our responsibilities

Our responsibility is to plan and perform our work to obtain limited assurance about whether the Selected Information has been properly prepared, in all material respects, in accordance with the Reporting Criteria and to report to BAT in the form of an independent limited assurance conclusion based on the work performed and the evidence obtained.

Assurance standards applied

We conducted our work in accordance with International Standard on Assurance Engagements (UK) 3000 – 'Assurance Engagements other than Audits or Reviews of Historical Financial Information' ('ISAE (UK) 3000') issued by the Financial Reporting Council and, in respect of the greenhouse gas emissions information included within the Selected Information, in accordance with International Standard on Assurance Engagements 3410 – 'Assurance Engagements on Greenhouse Gas Statements' ('ISAE 3410'), issued by the International Auditing and Assurance Standards Board.

Those standards require that we obtain sufficient, appropriate evidence on which to base our conclusion.

Independence, professional standards and quality control

We comply with the Institute of Chartered Accountants in England and Wales ("ICAEW") Code of Ethics, which includes independence, and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour, that are at least as demanding as the applicable provisions of the IESBA "Code of Ethics". We apply International Standard on Quality Control (UK) 1 Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements and accordingly we maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Summary of work performed

A limited assurance engagement involves planning and performing procedures to obtain sufficient appropriate evidence to obtain a meaningful level of assurance over the Selected Information as a basis for our limited assurance conclusion. Planning the engagement involves assessing whether the Reporting Criteria are suitable for the purposes of our limited assurance engagement. The procedures selected depend on our judgement, on our understanding of the Selected Information and other engagement circumstances, and our consideration of areas where material misstatements are likely to arise.

The procedures performed included:

- conducting interviews with BAT management to obtain an understanding of the key processes, systems and controls in place over the preparation of the Selected Information;
- selected limited substantive testing, including agreeing a selection of the Selected Information to the corresponding supporting information;
- considering the appropriateness of the carbon conversion factor calculations and other unit conversion factor calculations used by reference to widely recognised and established conversion factors;
- reperforming a selection of the carbon conversion factor calculations and other unit conversion factor calculations;
- performing analytical procedures over the aggregated Selected Information, including a comparison to the prior period's amounts having due regard to changes in business volume and the business portfolio; and
- reading the narrative accompanying the Selected Information in the Report with regard to the Reporting Criteria, and for consistency with our findings.

The work performed in a limited assurance engagement varies in nature and timing from, and is less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

For the KPIs marked with a ^ symbol on page 94, our procedures did not include physical visits to the farms which provided the source data for the Leaf Data and Human Rights KPIs and testing the accuracy of the sales volumes in BAT's Procurement IT system which were used in calculating Scope 3 CO_2e emissions (thousand tonnes) including the Scope 3 supply chain CO_2e emissions (thousand tonnes) from purchased goods and services. Additionally, our procedures did not include physical visits to the operational sites which provided the source data for the Emissions to Water KPIs.

This report's intended use

This assurance report is made solely to BAT in accordance with the terms of the engagement contract between us. Those terms permit disclosure to other parties, solely for the purpose of BAT showing that it has obtained an independent assurance report in connection with the Selected Information.

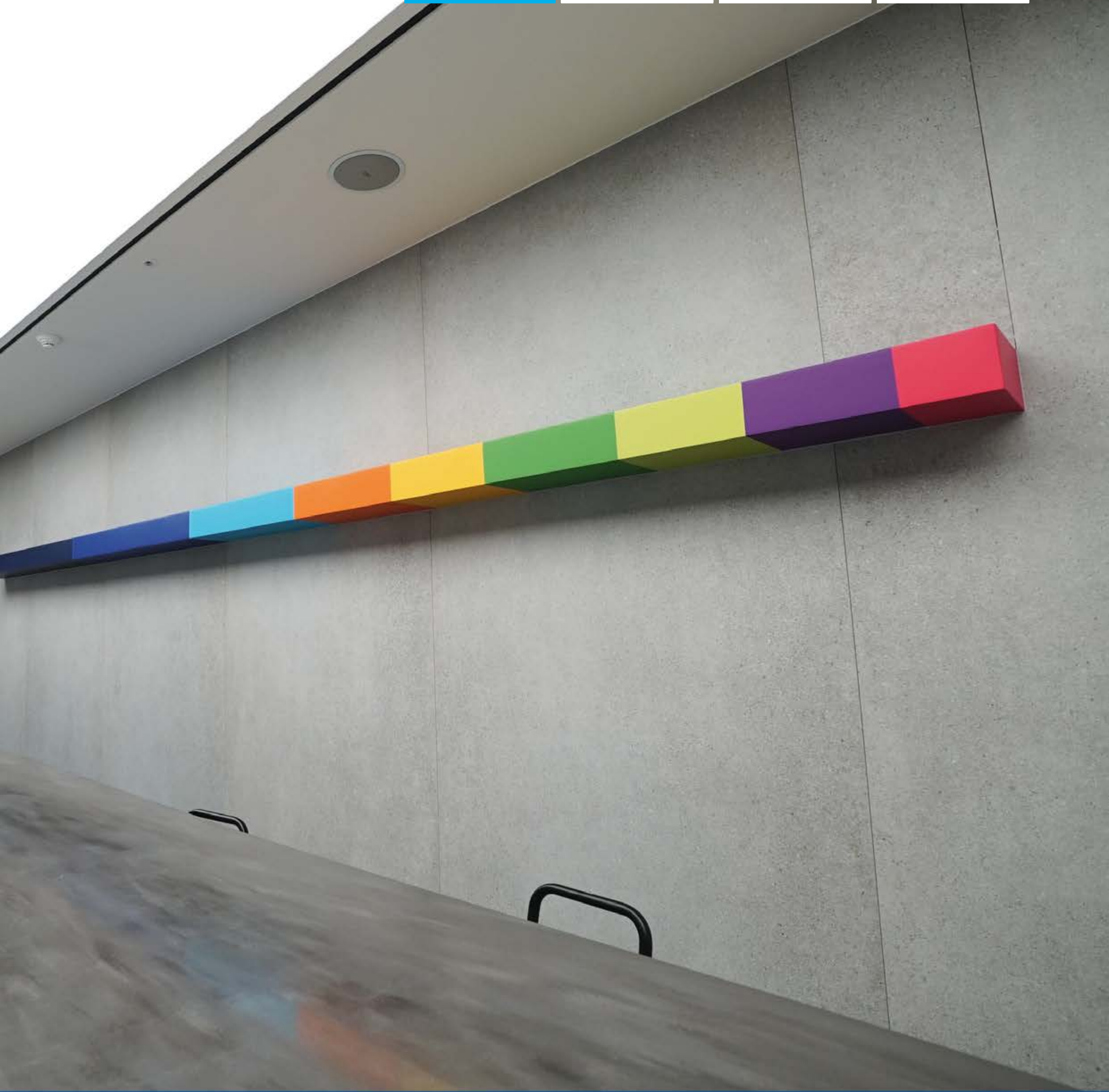
We have not considered the interest of any other party in the Selected Information. To the fullest extent permitted by law, we accept no responsibility and deny any liability to any party other than BAT for our work, for this assurance report or for the conclusions we have reached.

George Richards

for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London E14 5GL

08 February 2023

The maintenance and integrity of BAT's website is the responsibility of the Directors of BAT; the work carried out by us does not involve consideration of these matters and, accordingly, we accept no responsibility for any changes that may have occurred to the reported Selected Information, Reporting Criteria or Report presented on BAT's website since the date of our report.



A BETTER TOMORROW™

For Shareholders and Investors

A Better Tomorrow™ For Shareholders and Investors

We have strong foundations

Founded in 1902
and first listed on the London Stock Exchange in 1912 – a constituent of the FTSE 100 since its creation in 1984

6.0%
dividend growth, to 230.9p per share

200+
brands in our portfolio specifically positioned in each target consumer segment

Long History
of delivering returns and cash flow to our shareholders with £6.9 billion paid in 2022

We have a strategy for accelerated growth

Consumer-Centric
multi-category strategy focused on being a high-growth, consumer goods business

Driving Value
from our combustibles business to generate the funds for investment

Accelerated growth
in New Categories supported by continuous investment

Simplifying
the business to create the Enterprise of the Future

We are transforming our business

Investing
in New Category products and expanding our portfolio 'beyond nicotine'

14.8% of Group Revenues
in Non-Combustible, reduced-risk products*†

£629m Savings
in 2022 (annualised), with £1.9 billion realised over 3 years, in excess of original £1.0 billion target

New Capabilities
combined with our existing skills and experience are helping to radically redefine our organisation

We are building a sustainable enterprise of the future

Brands With Purpose
to satisfy the evolving preferences of adult consumers

21 Years
in the Dow Jones Sustainability Indices, as well as open and transparent ESG reporting aligned to best practice frameworks

Sustainability
front and centre in all that we do, focused on reducing the health impact of our business, underpinned by excellence across our ESG priorities

60 Markets
where our New Category products are available

> Our 2022 full year performance demonstrates that we are delivering and transforming at speed, driven by the strength of our multi-category portfolio of global brands.

Tadeu Marroco
Finance and Transformation Director

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.

Financial Review

Financial Performance Summary

Highlights

Revenue up

+7.7%

New Categories revenue growth and strong pricing in combustibles supported by currency tailwinds, with revenue up 7.7%

Profit from Operations

+2.8%

Profit from operations was up 2.8%. On an adjusted, constant currency basis, profit from operations grew 4.3%, with an improvement in the financial performance of New Categories as losses reduced @by 62%@

Diluted EPS down

-1.3%

Adjusted diluted EPS up 5.8% at constant rates of exchange

@Deleveraging ratios

2.89x

Deleveraging ratio improved -0.10x to 2.89x, driven by strong cash generation despite devaluation of sterling against US dollar impacting borrowings@

Dividend per share

230.9p

Dividend per share up 6.0% at 230.9p

Non-GAAP Measures

In the reporting of financial information, the Group uses certain measures that are not defined by IFRS, the Generally Accepted Accounting Principles (GAAP) under which the Group reports. The Group believes that these additional measures, which are used internally, are useful to users of the financial information in helping them understand the underlying business performance.

The principal non-GAAP measures which the Group uses are revenue at constant rates of exchange, revenue from New Categories, Category contribution, adjusted profit from operations, adjusted diluted earnings per share, adjusted net finance costs, adjusted taxation, @operating cash flow conversion ratio, adjusted cash generated from operations and free cash flow (before and after) dividends@. Adjusting items are significant items in profit from operations, net finance costs, taxation, the Group's share of the post-tax results of associates and joint ventures and cash flow which individually or, if of a similar type, in aggregate, are relevant to an understanding of the Group's underlying financial performance.

As an additional measure to indicate the results of the Group before the impact of exchange rates on the Group's results, the movement in revenue from New Categories, Category contribution, adjusted profit from operations, adjusted net finance costs and adjusted diluted earnings per share are all shown at constant rates of exchange.

These non-GAAP measures are explained, defined and reconciled from the most comparable GAAP metric on pages 324 to 336 and note 2 in the Notes on the Accounts.

The discussion of 2020 results that are not necessary to an understanding of the Group's financial condition, changes in financial condition and results of operations is excluded from this Financial Review in accordance with applicable US securities laws. Discussion of such 2020 metrics is contained in the Group's Annual Report on Form 20-F 2021, which is available at bat.com/annualreport and has been filed with the SEC. Information contained in pages 34 to 43, pages 75 to the first column on page 82 and from the heading 'Retirement benefit schemes' on page 82 to page 83 of the Annual Report on Form 20-F 2021 are accordingly incorporated by reference into this Annual Report on Form 20-F 2022 only to the extent such information pertains to the Group's financial condition and results of operations for the fiscal year ended 31 December 2020.

Revenue

In 2022, revenue was £27,655 million (up 7.7%), with 2021 marginally lower (down 0.4%) than 2020 at £25,684 million. New Categories continued to perform well in both years with revenue up 40.9% in 2022 and 42.4% in 2021. Despite continued robust price/mix (of 4.6% in 2022, compared to 4.3% in 2021), revenue from combustibles was down 0.6% in 2022. This decline was partly due to the full year impact of the sale of the Group's Iranian business (which completed midway through 2021), with the prior year also including an estimated £200 million benefit from trade inventory movements in the U.S., mainly linked to the timing of price increases and uncertainty about a potential excise increase, and which partially unwound in 2022. Cigarette volume was down 5.1% in 2022 at 605 billion sticks (2021: 0.1% decline to 637 billion sticks).

Translational foreign exchange impacted both years, being a tailwind of 5.4% in 2022 and a headwind of 7.3% in 2021, due to the relative movement of sterling. Excluding the impact of currency, revenue at constant rates of exchange increased 2.3% (2021: up 6.9%).

Profit From Operations

Profit from operations was up 2.8% to £10,523 million compared to 2021, itself an increase of 2.7% to £10,234 million on 2020. 2022 was supported by a translational foreign exchange tailwind (2021: headwind) due to the relative movement of sterling compared to the Group's operating currencies, including the US dollar. During 2022, Project Quantum (the Group's restructuring and efficiency programme) delivered incremental annualised savings of £629 million, having delivered £595 million in 2021.

Raw materials and other consumables costs increased 5.3% to £4,781 million in 2022, following a decline of 0.9% to £4,542 million in 2021. The results in both years are impacted by translational foreign exchange (a headwind in 2022, and a tailwind in 2021). Both years were also negatively impacted by a transactional foreign exchange headwind of 1.5% in 2022 and 1.7% in 2021, and the impact of underlying inflation on costs, although this was partly offset by the Group's continued drive for operational savings.

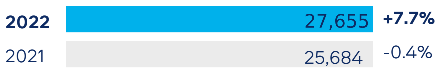
Employee benefit costs increased 9.4% to £2,972 million (2021: down 1.0% to £2,717 million). While the reduction in 2021 was partly due to a translational foreign exchange tailwind, this was a headwind in 2022 due to the relative weakness of sterling. Furthermore, in 2022, the Group incurred higher charges in respect of redundancies related to Quantum.

Depreciation, amortisation and impairment costs increased by £229 million to £1,305 million in 2022 compared to a decrease of £374 million to £1,076 million in 2021. This includes the amortisation and impairment charges of £317 million (2021: £306 million) related to the trademarks and similar intangibles capitalised following recent acquisitions. The higher charge in 2022 was largely in respect of Quantum (recognised as a non-cash adjusting item) of £220 million which included impairment of assets as part of the factory closures announced in the U.S., Singapore and Switzerland. In 2021, the charge included goodwill impairment charges of £54 million in Peru and £3 million following the exit from Myanmar.

Revenue (£m)

£27,655m

+7.7%

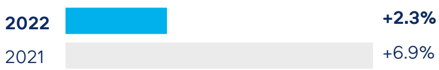


Definition: Revenue recognised, net of duty, excise and other taxes.

● IFRS GAAP ○ KPI ○ NON-GAAP

Change in revenue at constant rates (%)

+2.3%



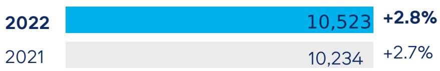
Definition: Change in revenue before the impact of fluctuations in foreign exchange rates.

○ IFRS GAAP ● KPI ● NON-GAAP

Profit from operations (£m)

£10,523m

+2.8%

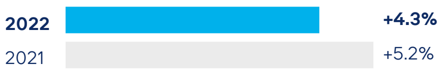


Definition: Profit for the year before the impact of net finance costs/income, share of post-tax results of associates and joint ventures and taxation on ordinary activities.

● IFRS GAAP ○ KPI ○ NON-GAAP

Change in adjusted profit from operations at constant rates (%)

+4.3%



Definition: Change in profit from operations before the impact of adjusting items and the impact of fluctuations in foreign exchange rates.

○ IFRS GAAP ● KPI ● NON-GAAP

Reconciliation of revenue to revenue at constant rates

	2022		2021		2020
	£m	Change % (vs 2021)	£m	Change % (vs 2020)	£m
Revenue	**27,655**	**+7.7%**	25,684	-0.4%	25,776
Impact of exchange	**(1,382)**		1,877		
Revenue at constant rates	**26,273**	**+2.3%**	27,561	+6.9%	25,776

Financial Review

Financial Performance Summary
Continued

Expenditure on research and development was £323 million in 2022 (2021: £304 million) with a focus on products that could potentially reduce the risk associated with smoking conventional cigarettes.

Other operating income increased by £526 million to £722 million (2021: £196 million), largely due to the resolution of the Brazilian VAT on social contributions claims in the Group's favour, as the Group recognised gross income of £472 million, which has been included within adjusting items.

Other operating expenses increased by £1,550 million to £9,018 million (2021: decrease of £199 million to £7,468 million). The Group continued to invest in New Categories, maintaining the gross investment in line with 2021, itself an increase on 2020 of £377 million, in part funded by the efficiencies delivered by Quantum.

Adjusting items included within profit from operations totalled £1,885 million in 2022 (2021: £916 million). These related to:

– trademark amortisation and impairment (2022: £285 million; 2021: £306 million);
– other litigation costs of £170 million (2021: £80 million) which in 2022 was mainly in respect of U.S. litigation costs including *Engle* progeny. In 2021, the Group recognised a net charge from settlements in Turkey and South Korea of £26 million;
– restructuring and integration costs of £771 million (2021: £150 million) largely related to Quantum which will simplify the business and create a more efficient and agile organisation to support the growth of New Categories;
– charges of £612 million in respect of the proposed sale of the Group's operations in Russia and Belarus, with the assets and liabilities classified as held for sale at 31 December 2022. In 2021, the Group sold its operations in Iran recognising a charge of £358 million, largely in respect of the write-off of certain assets and the reclassification, from reserves to the income statement, of foreign exchange;
– a charge of £450 million, in 2022, recognised in respect of the investigations by the DOJ and OFAC into alleged historical breaches of sanctions;
– 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);
– a credit of £460 million, in 2022, related to the calculation of VAT on social contributions in Brazil; and
– a credit, in 2022, of £16 million (2021: credit of £35 million) following the partial buy-out of the pension fund in the U.S.

In 2021, the Group also recognised charges in respect of the impairment of goodwill of £57 million (related to Peru and Myanmar) and a credit of £59 million as an accrual related to the Reynolds American dissenting shareholders was released on successful conclusion of that complaint.

Adjusted profit from operations is the Group's profit from operations before adjusting items referred to above.

Adjusted profit from operations increased by 11.3% to £12,408 million, partly driven by the foreign exchange tailwind. On a constant currency basis this would have been an increase of 4.3%. In 2021, adjusted profit from operations fell 1.9% to £11,150 million, being an increase of 5.2% on a constant currency basis.

Analysis of profit from operations, net finance costs and results from associates and joint ventures

	2022 Reported £m	2022 Adjusting items £m	2022 Adjusted £m	2022 Impact of exchange £m	2022 Adjusted at CC £m	2021 Reported £m	2021 Adjusting items £m	2021 Adjusted £m
Profit from operations								
U.S.	**6,205**	**630**	**6,835**	**(740)**	**6,095**	5,566	321	5,887
AmSSA	**2,022**	**(280)**	**1,742**	**(83)**	**1,659**	1,496	94	1,590
Europe	**1,270**	**812**	**2,082**	**21**	**2,103**	1,885	71	1,956
APME	**1,026**	**723**	**1,749**	**20**	**1,769**	1,287	430	1,717
Total regions	**10,523**	**1,885**	**12,408**	**(782)**	**11,626**	10,234	916	11,150
Net finance (costs)/income	**(1,641)**	**34**	**(1,607)**	**140**	**(1,467)**	(1,486)	55	(1,431)
Associates and joint ventures	**442**	**92**	**534**	**(24)**	**510**	415	12	427
Profit before tax	**9,324**	**2,011**	**11,335**	**(666)**	**10,669**	9,163	983	10,146

Analysis of profit from operations, net finance costs and results from associates and joint ventures

	2021 Reported £m	2021 Adjusting items £m	2021 Adjusted £m	2021 Impact of exchange £m	2021 Adjusted at CC £m	2020 Reported £m	2020 Adjusting items £m	2020 Adjusted £m
Profit from operations								
U.S.	5,566	321	5,887	456	6,343	4,975	809	5,784
AmSSA	1,496	94	1,590	98	1,688	1,553	65	1,618
Europe	1,885	71	1,956	132	2,088	1,962	148	2,110
APME	1,287	430	1,717	116	1,833	1,472	381	1,853
Total regions	10,234	916	11,150	802	11,952	9,962	1,403	11,365
Net finance (costs)/income	(1,486)	55	(1,431)	(89)	(1,520)	(1,745)	153	(1,592)
Associates and joint ventures	415	12	427	29	456	455	(13)	442
Profit before tax	9,163	983	10,146	742	10,888	8,672	1,543	10,215

Operating Margin

Operating margin in 2022 decreased by 170 bps to 38.1% due to the higher one-off charges related to the Group's proposed transfer of the Russian and Belarusian businesses and charges related to Quantum and the Nigerian investigations and to the investigations by the DOJ and OFAC into alleged historical breaches of sanctions. This was partly offset by the reduction in losses from New Categories and the credit in respect of the calculation of VAT on social contributions in Brazil. In 2021, operating margin was 39.8%, an increase of 120 bps which was largely driven by lower charges in respect of items such as trademark amortisation, goodwill impairment, litigation and Quantum in 2021, despite the impact of the sale of the Group's Iranian business described earlier. These are described in notes 5, 6 and 7 in the Notes on the Accounts.

In 2022, adjusted operating margin increased 150 bps to 44.9%, compared to a decline of 70 bps in 2021 (to 43.4%). This was largely driven by the reduction in losses from New Categories as these products improved their financial contribution compared to the prior year and the savings realised through Quantum.

Net Finance Costs

In 2022, net finance costs were £1,641 million, an increase of £155 million on 2021 which, at £1,486 million, were £259 million lower than 2020.

The movement in 2022 was mainly due to the impact of translational foreign exchange due to the weakness of sterling compared to the US dollar. Also in 2022, interest expense increased, as debt issuances in the year were at higher interest rates than those maturing, although this was partly offset by higher interest income, driven by higher interest rates on local deposits and an increase in interest income in Canada due to the cash build up in that market.

In 2021, the Group issued perpetual hybrid bonds totalling €2 billion, recognised, in line with IAS 32 *Financial Instruments*, as equity. Interest on such instruments is recognised in reserves rather than as a charge to the income statement in net finance costs. Accordingly, in 2022, in line with IAS 33 *Earnings Per Share*, £49 million (2021: £12 million) has been recognised as a deduction from earnings similar to non-controlling interests.

The reduction in 2021 was also driven by charges incurred in 2020 as the Group derisked the future financing requirements through the early repurchase of certain bonds, incurring charges that did not repeat.

Before adjusting items in respect of the Franked Investment Income Group Litigation Order (FII GLO), as discussed on page 220 (£33 million; 2021: £20 million), interest on a settlement in Turkey in 2021 (£11 million) and the impact of translational foreign exchange in both years, adjusted net finance costs were 2.5% higher in 2022 and 4.5% lower in 2021. The Group's average cost of debt in 2022 was 4.0%, compared to 3.5% in 2021.

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.

Associates and Joint Ventures

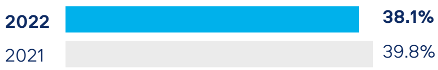
Associates largely comprised the Group's shareholding in its Indian associate, ITC. The Group's share of post-tax results of associates and joint ventures, included at the pre-tax level under IFRS, increased from £415 million to £442 million in 2022. This follows a decline in 2021 of 8.8% (from £455 million in 2020). The movements are largely due to the economic recovery in India in 2022 from COVID-19 which led to difficult trading conditions in 2021.

Included in the results for 2022 and 2021 are adjusting items, which included a deemed loss of £3 million in 2022 (2021: £6 million deemed gain), arising on the deemed disposal of part of the Group's shareholding in ITC (due to issuances of ordinary shares under the ITC Employee Share Option Scheme).

In both 2022 and 2021, the Group impaired its investments in Yemen, recognising a charge of £18 million in 2022 and £18 million charge in 2021. Also, in 2022, due to the volatility in global cannabis stock prices, the Group recognised an impairment charge of £59 million related to the Group's investment in Organigram Holdings Inc. Excluding such adjusting items and the impact of translational foreign exchange, the Group's share of associates and joint ventures on an adjusted, constant currency basis increased 19.6% in 2022, to £510 million. In 2021, this was an increase of 3.3% on 2020.

Operating margin
(%)

38.1%

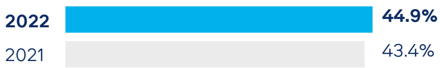


Definition: Profit from operations as a percentage of revenue.

IFRS GAAP KPI NON-GAAP

Adjusted operating margin
(%)

44.9%



Definition: Adjusted profit from operations as a percentage of revenue.

IFRS GAAP KPI NON-GAAP

Financial Review

Financial Performance Summary
Continued

Tax

In 2022, the tax charge in the income statement was £2,478 million, compared to £2,189 million in 2021 and £2,108 million in 2020.

The effective tax rates in the income statement are therefore a charge of 26.6% in 2022, 23.9% in 2021 and 24.3% in 2020. These are also affected by the inclusion of adjusting items described earlier and the associates and joint ventures' post-tax profit in the Group's pre-tax results.

Excluding these items, the underlying tax rate for subsidiaries was 24.8% in 2022, 24.7% in 2021 and 24.9% in 2020. The marginal increase in the underlying tax rate in 2022 largely reflects the corporate tax rate rises in Sri Lanka and Pakistan, while the decrease in 2021 largely reflects the prior and current year tax reclaims in Brazil together with mix of profits.

See the section Non-GAAP measures on page 331 for the computation of underlying tax rates for the periods presented.

Tax strategy

The Group's global tax strategy is reviewed regularly by the Board. The operation of the strategy is managed by the Finance and Transformation Director and Group Head of Tax with the Group's tax position reported to the Audit Committee on a regular basis. The Board considers tax risks that may arise as a result of our business operations. In summary, the strategy includes:

- complying with all applicable laws and regulations in countries in which we operate;
- being open and transparent with tax authorities and operating to build mature professional relationships;
- supporting the business strategy of the Group by undertaking efficient management of our tax affairs in line with the Group's commercial activity;
- transacting on an arm's-length basis for exchanges of goods and services between companies within the Group; and
- engaging in pro-active discussions with tax authorities on occasions of differing legal interpretation.

Where resolution is not possible, tax disputes may proceed to litigation. The Group seeks to establish strong technical tax positions.

Where legislative uncertainty exists, resulting in differing interpretations, the Group seeks to establish that its position would be more likely than not to prevail. Transactions between Group subsidiaries are conducted on arm's-length terms in accordance with appropriate transfer pricing rules and OECD principles.

The tax strategy outlined above is applicable to all Group companies, including the UK Group companies. Reference to tax authorities includes HMRC.

The publication of this strategy is considered to constitute compliance with the duty under paragraph 16(2) Schedule 19 Part 2 of the UK Finance Act 2016.

The taxation on ordinary activities was a charge of £2.5 billion in 2022, £2.2 billion in 2021 and £2.1 billion in 2020. Corporation Tax paid (due to the timing of Corporation Tax instalment payments which straddle different financial years) was £2.5 billion in 2022, £2.3 billion in 2021 and £2.1 billion in 2020.

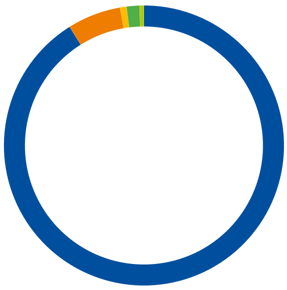
Our tax footprint extends beyond Corporation Tax, including significant payment of employment taxes and other indirect taxes, including customs and import duties. The Group also collects taxes on behalf of governments (including tobacco excise, employee taxes, VAT and other sales taxes). The total tax paid in 2022 of £40.4 billion (2021: £40.5 billion, 2020: £41.1 billion) therefore consists of both taxes borne and taxes collected as shown in the table provided.

In addition to the major taxes, there are a host of other taxes the Group bears and collects such as transport taxes, energy and environmental taxes, and banking and insurance taxes.

The movements in deferred tax, taken through other comprehensive income, mainly relate to the change in the valuation of retirement benefits in the year, as disclosed in note 16 in the Notes on the Accounts.

Major taxes paid 2022 (£bn)

£40.4bn



	2022 £bn	2021 £bn
Tobacco excise, net VAT and other sales taxes (collected)	**36.8**	37.2
Corporation Tax (borne)	**2.5**	2.3
Customs and import duties (borne)	**0.3**	0.3
Taxes by employees paid (collected)	**0.6**	0.5
Employment taxes (borne)	**0.2**	0.2
Total	**40.4**	40.5

Deferred tax asset/(liability)

	2022 £m	2021 £m	2020 £m
Opening balance	**(15,851)**	(15,780)	(16,626)
Difference on exchange	**(2,007)**	(148)	506
Other credits/(charges) to the income statement	**174**	29	184
Changes in tax rates	**66**	158	133
Other (charges)/credits to other comprehensive income	**(106)**	(110)	23
Net reclassification as held-for-sale	**(22)**	—	—
Closing balance	**(17,746)**	(15,851)	(15,780)

Earnings Per Share

Profit for the year was £6,846 million, a 1.8% decrease compared to £6,974 million in 2021 (itself an increase of 6.2% on 2020). A reduction in losses from New Categories underpinned a good operational performance in 2022, which was further enhanced by translational foreign exchange tailwinds. However, this was offset by higher adjusting charges (due to Russia and Belarus and charges related to Nigeria and the DOJ and OFAC investigations into alleged historical breaches of sanctions).

In 2022, the Group undertook a £2 billion share repurchase programme, reducing the number of shares (for the purposes of the EPS calculation) by 1.3%. After accounting for the movement in non-controlling interests in the year, basic earnings per share were 1.2% lower at 293.3p (2021: 296.9p; 2020: 280.0p). After accounting for the dilutive effect of employee share schemes, diluted earnings per share were 291.9p, 1.3% lower than 2021 (2021: 295.6p; 2020: 278.9p).

Earnings per share are impacted by the adjusting items discussed earlier. Adjusted diluted EPS, as calculated in note 11 in the Notes on the Accounts, was up against the prior year by 12.9% at 371.4p, with 2021 behind 2020 by 0.8% at 329.0p. Adjusted diluted EPS at constant rates would have been 5.8% ahead of 2021 at 348.1p, with 2021 up 6.6% against 2020.

Dividends

The Group pays its dividends to shareholders over four quarterly interim dividends. Quarterly dividends provide shareholders with a more regular flow of dividend income and allow the Company to spread its substantial dividend payments more evenly over the year, aligning better with the cash flow generation of the Group and so enable the Company to fund the payments more efficiently. The Board seeks to reward shareholders with an increase in dividend, by reference to 65% of adjusted diluted EPS over the long term.

The Board has declared an interim dividend of 230.90p per ordinary share of 25p, payable in four equal quarterly instalments of 57.72p per ordinary share in May 2023, August 2023, November 2023 and February 2024. This represents an increase of 6.0% on 2021 (2021: 217.8p per share, up 1.0%) and a payout ratio, on 2022 adjusted diluted earnings per share, of 62.2% (2021: 66.2%).

The quarterly dividends will be paid to shareholders registered on either the UK main register or the South Africa branch register and to ADS holders, each on the applicable record dates.

Under IFRS, the dividend is recognised in the year that it is approved by shareholders or, if declared as an interim dividend, by Directors, in the period that it is paid.

The cash flow, prepared in accordance with IFRS, reflects the total cash paid in the period. Further details of the total amounts of dividends paid in 2022 and 2021 (with 2020 comparatives) are given in note 22 in the Notes on the Accounts.

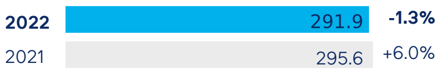
Dividends are declared and payable in sterling except for those shareholders on the branch register in South Africa, where dividends are payable in rand. The equivalent dividends receivable by holders of ADSs in US dollars are calculated based on the exchange rate on the applicable payment date.

Further details of the quarterly dividends and key dates are set out under 'Shareholder information' on pages 375 and 376.

Diluted earnings per share (p)

291.9p

-1.3%



Definition: Profit attributable to owners of BAT p.l.c. over weighted average number of shares outstanding, including the effects of all dilutive potential ordinary shares.

IFRS GAAP | KPI | NON-GAAP

Change in adjusted diluted EPS (%)

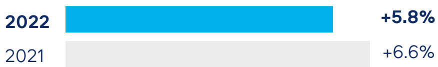
+12.9%

Definition: Change in diluted earnings per share before the impact of adjusting items.

IFRS GAAP | KPI | NON-GAAP

Change in adjusted diluted EPS at constant rates (%)

+5.8%



Definition: Change in diluted earnings per share before the impact of adjusting items and the impact of fluctuations in foreign exchange rates.

IFRS GAAP | KPI | NON-GAAP

Financial Review

Treasury and Cash Flow

Treasury, Liquidity and Capital Structure

The Treasury Function is responsible for raising finance for the Group and managing the Group's cash resources and the financial risks arising from underlying operations. Clear parameters have been established, including levels of authority, on the type and use of financial instruments to manage the financial risks facing the Group. Such instruments are only used if they relate to an underlying exposure; speculative transactions are expressly forbidden under the Group's treasury policy. All these activities are carried out under defined policies, procedures and limits, reviewed and approved by the Board, delegating oversight to the Finance and Transformation Director and Treasury Function. See note 26 in the Notes on the Accounts for further detail.

It is the policy of the Group to maximise financial flexibility and minimise refinancing risk by issuing debt with a range of maturities, generally matching the projected cash flows of the Group and obtaining this financing from a wide range of sources. The Group targets an average centrally managed debt maturity of at least five years of which no more than 20% matures in a single rolling year. As at 31 December 2022, the average centrally managed debt maturity was 9.9 years (2021: 10.1 years) with the highest proportion maturing in a single rolling 12-month period being 18.6% (2021: 18.6%).

In order to manage its interest rate risk, the Group maintains both floating rate and fixed rate debt. The Group sets targets (within overall guidelines) for the desired ratio of floating to fixed rate debt on a net basis (at least 50% fixed on a net basis in the short to medium term). The interest rate profile of liquid assets included in net debt are considered to offset floating rate debt and are taken into account in determining the net interest rate exposure. At 31 December 2022, the relevant ratios of floating to fixed rate borrowings after the impact of derivatives were 12:88 (2021: 18:82). On a net debt basis, after offsetting liquid assets, the relevant ratios of floating to fixed rate borrowings were 3:97 (2021: 10:90). Excluding cash and other liquid assets in Canada, which are subject to certain restrictions under Companies' Creditors Arrangement Act (CCAA) protection, the ratios of floating to fixed rate borrowings were 7:93 (2021: 13:87). As part of the management of liquidity, funding and interest rate risk, the Group regularly evaluates market conditions and may enter into transactions, from time to time, to repurchase outstanding debt, pursuant to open market purchases, tender offers or other means.

The Group continues to maintain investment-grade credit ratings*, with ratings from Baa2 (stable outlook)/BBB+ (negative outlook), respectively, @with a medium-term rating target of Baa1/BBB+@.

The strength of the ratings has underpinned debt issuance and the Group is confident of its ability to successfully access the debt capital markets.

The Group is party to the ISDA fallback protocol and in January 2022, it automatically replaced GBP LIBOR with an economically equivalent interest rate referencing SONIA for derivatives on their reset date. For further information please refer to note 26 in the Notes on the Accounts.

Available facilities

The Group maintains a £25 billion Euro Medium Term Note (EMTN) programme, and U.S. (US$4 billion) and European (£3 billion) commercial paper programmes to accommodate the liquidity needs of the Group. At 31 December 2022, there was £27 million commercial paper outstanding (2021: £269 million outstanding). Cash flows relating to commercial paper that have maturity periods of three months or less are presented on a net basis in the Group's cash flow statement.

The Group's main bank facility is a syndicated £5.7 billion committed revolving credit facility. This facility was undrawn at 31 December 2022 (31 December 2021: undrawn). In 2022, the Group exercised the second of the one-year extension options in February 2022. Therefore, the £2.85 billion 364-day tranche was extended to March 2023 at the reduced amount of £2.7 billion and £2.5 billion of the five-year tranche was extended from March 2026 to March 2027 (with £3.0 billion of this tranche remaining available until March 2025 and £2.85 billion remaining available from March 2025 to March 2026). The Group expects to refinance the £2.7 billion 364-day tranche in the first half of 2023.

During 2022, the Group extended short-term bilateral facilities totalling £3 billion from March to December 2023, some with extension options to extend for further periods. As at 31 December 2022, £875 million was drawn on a short-term basis.

Cash flows relating to bilateral facilities that have maturity periods of three months or less are presented on a net basis in the Group's cash flow statement.

Following the initial filing in 2019, the Group's shelf registration statement on Form F-3 was renewed with the SEC in 2022, pursuant to which B.A.T Capital Corporation, BAT p.l.c. and B.A.T. International Finance p.l.c. may issue debt securities guaranteed by certain members of the Group from time to time. This forms part of the Group's strategy to ensure flexible and agile access to capital markets and the registration statement is initially valid for three years.

Use of facilities

These facilities ensure that the Group has access to funding to supplement the cash available or generated by the business in the period to meet the operational (including working capital) and general corporate requirements including, but not limited to, the timing of payments in relation to:

- dividends (2022: £4.9 billion; 2021: £4.9 billion);
- capital expenditure (2022: £0.6 billion; 2021: £0.6 billion);
- MSA in the U.S. (2022: £2.5 billion; 2021: £2.7 billion);
- refinancing obligations;
- share repurchase programme, as applicable; and
- other corporate activity, such as litigation or acquisitions as relevant.

Management believes that the Group has sufficient working capital for present requirements, taking into account the amounts of undrawn borrowing facilities and levels of cash and cash equivalents, and the ongoing ability to generate cash.

Issuance, drawdowns and repayment in the period

- In March 2022, the Group accessed the US dollar market under its SEC Shelf Programme, raising a total of US$2.5 billion across two tranches;
- In May 2022, the Group repaid €600 million bond at maturity;
- In June 2022, the Group repaid US$419 million and £180 million bonds at maturity;
- In August 2022, the Group repaid US$750 million and US$601 million bonds at maturity; and
- In October 2022, the Group raised US$600 million in the US dollar market under its SEC Shelf Programme.

In 2021, the Group repaid €650 million, £500 million, €1.1 billion, CHF 400 million and €500 million bonds at maturity, and a £1,929 million term loan that had a maturity date in January 2022.

Note:

* 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.

Also in 2021, the Group issued perpetual hybrid bonds totalling €2 billion. The issuance allowed the Group to raise incremental euro-denominated securities, which contributed to a more efficient alignment of the Group's earnings currency. It also contributed to the diversification of the Group's sources of funding and further strengthened its capital structure. The issuance provided the additional benefit of supporting the deleveraging journey with the addition of a small benefit to the credit metrics.

Cash Flow

Net cash generated from operating activities

Net cash generated from operating activities increased by 7.0% to £10,394 million in 2022, compared to a decrease of £69 million to £9,717 million in 2021. In 2022, translational foreign exchange was a tailwind, while it was a headwind in 2021 due to the relative movements of sterling against the Group reporting currencies, notably the US dollar, in those periods. The growth in 2022 was also due to an increase in provisions (partly related to the DOJ and OFAC investigations) and other non-cash items, including depreciation, amortisation and impairment, while payments in respect of litigation were £231 million in 2022, compared to £248 million in 2021. 2021 was also impacted by the timing of MSA payments in the U.S. and higher tax payments (mainly in Canada and the U.S.), compared to 2020.

Net cash used in investing activities

In 2022, net cash used in investing activities decreased to £705 million (2021: £1,140 million), partly due to a lower net outflow of £129 million from short-term investment products, including treasury bills (2021: £228 million net outflow). 2021 was negatively impacted by the disposal of the Group's operations in Iran (£98 million) and the purchase of the equity stake in Organigram. Purchases of property, plant and equipment were largely in line with 2021, at £523 million (2021: £527 million).

In 2022, the Group invested £630 million in gross capital expenditure, a decrease of 5.0% on the prior year (2021: £664 million). This includes purchases of property, plant and equipment and certain intangibles, and the investment in the Group's global operational infrastructure (including, but not limited to, the manufacturing network, trade marketing software and IT systems and the expansion of our New Categories portfolio). The Group expects gross capital expenditure in 2023 of £600 million.

Net cash used in financing activities

Net cash used in financing activities was an outflow of £8,878 million in 2022 (2021: £8,749 million outflow), with the outflow in each year largely driven by:

– dividend payments (2022: £4,915 million, up 0.2%; 2021: £4,904 million, up 3.4%). The movement in both years was affected by the higher dividend per share. The marginal increase in 2022 was partially offset by the reduction in number of shares due to the share buy-back programme undertaken in 2022;

– purchases of shares under the share buy-back programme in 2022 of £2,012 million and

– the net issuance of borrowings (2022: £223 million; 2021: £3,865 million net repayment). In 2021, this was partly due to the issuance of the hybrid bonds totalling £1,685 million.

In 2022, interest paid increased 7% to £1,578 million (2021: £1,479 million), driven by higher interest charges as new debt issued replaced cheaper debt on maturity.

In 2022, the Group repaid borrowings of £3.0 billion and issued £3.3 billion of new borrowings. The Group repaid borrowings of £4.8 billion in 2021, and issued £1.0 billion of new borrowings and issued perpetual hybrid bonds totalling €2 billion (£1.7 billion). Please refer to note 26 in the Notes on the Accounts for further details.

@Free cash flow (before and after dividends paid to shareholders)

Free cash flow (before dividends paid to shareholders), as defined on page 333, was £8,049 million, up 8.1% on the prior year (2021: up 2.1% to £7,447 million; 2020: £7,295 million). The increase in 2022 was driven by higher net cash generated from operating activities, while an increase in net interest paid, up £99 million to £1,588 million, was partly offset by a reduction in net capital expenditure (2022: £599 million; 2021: £632 million).

After payment of dividends to shareholders, free cash flow was £3,134 million (2021: £2,543 million; 2020: £2,550 million).@

Cash flow conversion

The conversion of profit from operations to net cash generated from operating activities may indicate the Group's ability to generate cash from the profits earned. Net capital expenditure was marginally lower (2022: £599 million; 2021: £632 million).

Based upon net cash generated from operating activities, the Group's conversion rate was 99% compared to 95% in 2021, which was largely in line with 2020.

@Operating cash flow conversion ratio (based upon adjusted profit from operations) was once again ahead of the Group's target of 90%, being 100% in 2022 compared to 104% in 2021 and 103% in 2020. The performance in 2022 was driven by the increase in net cash generated from operating activities, partly offset by higher tax paid, leading to a growth of operating cash flow that was largely in line with adjusted profit from operations. See page 332 for further information on this measure.@

Restricted cash

Cash and cash equivalents include restricted amounts of £1,411 million (2021: £1,024 million) due to subsidiaries in CCAA protection (note 32 in the Notes on the Accounts) as well as £324 million (2021: £305 million) principally due to exchange control restrictions.

@ Denotes phrase, paragraph or similar that does not form part of BAT's Annual Report on Form 20-F as filed with the SEC.

Summary cash flow

	2022 £m	2021 £m	2020 £m
Cash generated from operating activities	**12,537**	11,678	11,567
Dividends received from associates	**394**	353	351
Tax paid	**(2,537)**	(2,314)	(2,132)
Net cash generated from operating activities	**10,394**	9,717	9,786
Net cash used in investing activities	**(705)**	(1,140)	(783)
Net cash used in financing activities	**(8,878)**	(8,749)	(7,897)
Transferred to held-for-sale	**(368)**	—	—
Differences on exchange	**431**	(253)	(253)
(Decrease)/increase in net cash and cash equivalents in the year	**874**	(425)	853

Financial Review

Other

Borrowings and Net Debt

Total borrowings (which includes lease liabilities) increased to £43,139 million in 2022 (2021: £39,658 million) largely due to the relative movement of sterling against other currencies, particularly the US dollar and the euro. In 2022, this was a headwind of £3,911 million (2021: £409 million tailwind).

Total borrowings include £798 million (31 December 2021: £754 million) in respect of the purchase price adjustments related to the acquisition of Reynolds American Inc.

As discussed on page 104, the Group remains confident about its ability to access the debt capital markets successfully and reviews its options on a continuing basis.

Net debt is a non-GAAP measure and is defined as total borrowings (including related derivatives and lease liabilities) less cash and cash equivalents and current investments held at fair value.

Net debt, at 31 December 2022, was £39,281 million (2021: £36,302 million; 2020: £40,241 million), with the movement in net debt largely due to the relative movement of sterling against other currencies, particularly the US dollar and the euro, which was a headwind of £3,030 million in 2022 (2021: £124 million tailwind).

@The movement in net debt also includes the free cash flow before dividends earned in the year (2022: £8,049 million; 2021: £7,447 million) as described on page 105. This is partly offset by dividends paid to owners of the parent of £4,915 million (2021: £4,904 million).@

@Adjusted Net Debt to Adjusted EBITDA

The Group uses adjusted net debt to adjusted EBITDA, as defined on page 335, to assess its level of adjusted net debt in comparison to the earnings generated by the Group. This is deemed by management to reflect the Group's ability to service and repay borrowings.

In 2022, the ratio of adjusted net debt to adjusted EBITDA was 2.89x, representing a decrease from 2.99x at the end of 2021, itself an improvement from 3.26x at the end of 2020.

The Group's adjusted net debt to adjusted EBITDA ratio is subject to the fluctuations in the foreign exchange markets. In 2022, due to the relative movement in sterling, the sterling value of adjusted net debt increased by £2,406 million.

Refer to page 335 for a full reconciliation from borrowings to adjusted net debt, profit for the year to adjusted EBITDA and the ratio of adjusted net debt to adjusted EBITDA, at both current and constant rates of exchange.@

@Return on Capital Employed (ROCE)

The Group's ROCE, calculated in accordance with our reported numbers, was 8.2% (2021: 8.4%), with the movement in 2022 largely due to the foreign exchange headwind on borrowings and higher adjusting items impacting profit from operations.

On an adjusted basis, as defined on page 336, including dividends from associates and joint ventures (as a proxy to a return in the period, given the inclusion of the investment in associates and joint ventures in the Group's calculation of capital employed), adjusted ROCE declined from 9.6% in 2020 to 9.4% in 2021, and grew to 9.9% in 2022. This was due to the movement in adjusted profit from operations in the year and translational foreign exchange described earlier.@

@ Denotes phrase, paragraph or similar that does not form part of BAT's Annual Report on Form 20-F as filed with the SE-38,131C.

Reconciliation of total borrowings to adjusted net debt@

	2022 £m	2021 £m	2020 £m
Total borrowings (including lease liabilities)	**(43,139)**	(39,658)	(43,968)
Derivatives in respect of net debt	**(167)**	91	346
Cash and cash equivalents	**3,446**	2,809	3,139
Current investments held at fair value	**579**	456	242
Net debt	**(39,281)**	(36,302)	(40,241)
Purchase price adjustment (PPA) to Reynolds American Inc. debt	**798**	754	790
Net debt items in assets held-for-sale	**352**	—	—
Adjusted net debt	**(38,131)**	(35,548)	(39,451)

Retirement Benefit Schemes

The Group's subsidiary undertakings operate defined benefit schemes, including pension and post-retirement healthcare schemes, and defined contribution schemes. The most significant arrangements are in the U.S., the UK, Canada, Germany, Switzerland and the Netherlands. Together, schemes in these territories account for over 90% of the total underlying obligations of the Group's defined benefit arrangements and over 70% of the current service cost. Benefits provided through defined contribution schemes are charged as an expense as payments fall due. The liabilities arising in respect of defined benefit schemes are determined in accordance with the advice of independent, professionally qualified actuaries, using the projected unit credit method. It is Group policy that all schemes are formally valued at least every three years. Contributions to the defined benefit schemes are determined after consultation with the respective trustees and actuaries of the individual externally funded schemes, taking into account regulatory environments.

The present total value of funded scheme liabilities as at 31 December 2022 was £6,515 million (2021: £10,084 million), while unfunded scheme liabilities amounted to £797 million (2021: £1,037 million). The schemes' assets decreased to £7,424 million from £10,816 million in 2021, itself a decrease from £12,576 million in 2020. The overall position for all pension and healthcare schemes in Group subsidiaries amounted to a net asset of £51 million at the end of 2022, compared to a net liability of £321 million at the end of 2021, driven by the impact of higher discount rates applied in the U.S. (2022: 5.5%; 2021: 3.0%) and elsewhere, offset by inflation-related experience adjustments and increases in the assumptions for the impact of future inflation on pensions across the Group.

In addition, during 2022 and 2021, the risk profiles and values of amounts relating to retirement benefit arrangements were impacted by partial buy-outs in the U.S. and through buy-ins in the UK. Furthermore, in 2021, there was also a buy-in in Canada. Please refer to note 15 in the Notes on the Accounts for further details.

Litigation and Settlements

As discussed in note 31 in the Notes on the Accounts, various legal proceedings or claims are pending or may be instituted against the Group.

Government Activity

The marketing, sale, taxation and use of tobacco products have been subject to substantial regulation by government and health officials for many years.
For information about the risks related to regulation, see page 118 and pages 348 to 356.

Off-balance Sheet Arrangements and Contractual Obligations

Except for certain indemnities, the Group has no significant off-balance sheet arrangements other than in respect of leaf purchase obligations. The Group has contractual obligations to make future payments on debt guarantees. In the normal course of business, it enters into contractual arrangements where the Group commits to future purchases of goods and services from unaffiliated and related parties. See page 338 for a summary of the contractual obligations as at 31 December 2022.

Accounting Policies

The application of the accounting standards and the accounting policies adopted by the Group are set out in the Group Manual of Accounting Policies and Procedures (GMAPP).

GMAPP includes the Group instructions in respect of the accounting and reporting of business activities, such as revenue recognition, asset valuations and impairment testing, adjusting items, the accrual of obligations and the appraisal of contingent liabilities, which include taxes and litigation. Formal processes are in place whereby central management and end-market management confirm adherence to the principles and the procedures and to the completeness of reporting. Central analyses and revision of information are also performed to ensure and confirm adherence.

In order to prepare the Group's consolidated financial information in accordance with IFRS, management has used estimates and assumptions that affect the reported amounts of revenue, expenses and assets, and the disclosure of contingent liabilities, at the date of the financial statements.

The critical accounting estimates are described in note 1 in the Notes on the Accounts and include:

- review of asset values, including goodwill and impairment testing;
- estimation and accounting for retirement benefit costs; and
- estimation of provisions, including as related to taxation and legal matters.

The critical accounting judgements are described in note 1 in the Notes on the Accounts and include:

- identification and quantification of adjusting items;
- the identification of disposal groups, including assets classified as held-for-sale and liabilities associated with assets classified as held-for-sale;
- determination as to whether to recognise provisions and the exposures to contingent liabilities related to pending litigation or other outstanding claims;
- determination as to whether control (subsidiaries), joint control (joint arrangements), or significant influence (associates) exist in relation to investments held by the Group;
- review of applicable exchange rates for transactions with and translation of entities in territories where there are restrictions on the free access to foreign currency or multiple exchange rates; and
- the determination as to whether perpetual hybrid bonds should be classified as equity instead of borrowings.

Foreign Exchange Rates

The principal exchange rates used to convert the results of the Group's foreign operations to sterling, for the purposes of inclusion and consolidation within the Group's financial statements, are indicated in the table below.

Where the Group has provided results at constant rates of exchange, this refers to the translation of the results from the foreign operations at rates of exchange prevailing in the prior period - thereby eliminating the potentially distorting impact of the movement in foreign exchange on the reported results.

Going Concern

A description of the Group's business activities, its financial position, cash flows, liquidity position, facilities and borrowings position, together with the factors likely to affect its future development, performance and position, are set out in this Annual Report and Form 20-F.

The key Group risks include analyses of financial risk and the Group's approach to financial risk management.

Notes 23 and 26 in the Notes on the Accounts provide further detail on the Group's borrowings and management of financial risks.

The Group has, at the date of this report, sufficient existing financing available for its estimated requirements for at least the next 12 months and beyond in respect of general corporate purposes, including in respect of the Master Settlement Agreement due in the U.S. in 2023 and other known liabilities or future payments (including interim dividends).

The Group has £80 million of future contractual commitments (2021: £90 million) related to property, plant and equipment, as discussed in note 13 in the Notes on the Accounts.

This, together with the ability to generate cash from trading activities, the performance of the Group's Strategic Portfolio and its leading market positions in a number of countries, as well as numerous contracts with established customers and suppliers across different geographical areas and industries, provides the Directors with the confidence that the Group is well placed to manage its business risks successfully in the context of current financial conditions and the general outlook in the global economy.

After reviewing the Group's annual budget, plans and financing arrangements, the Directors consider that the Group has adequate resources to continue operating and that it is therefore appropriate to continue to adopt the going concern basis in preparing the Annual Report and Form 20-F.

Foreign exchange rates

			Average			Closing
	2022	2021	2020	**2022**	2021	2020
Australian dollar	**1.779**	1.832	1.862	**1.774**	1.863	1.771
Bangladeshi taka	**115.040**	117.023	108.977	**123.502**	116.212	115.849
Brazilian real	**6.384**	7.421	6.616	**6.351**	7.544	7.100
Canadian dollar	**1.607**	1.724	1.720	**1.630**	1.711	1.741
Chilean peso	**1,076.291**	1,045.816	1,015.016	**1,024.811**	1,153.991	971.218
Euro	**1.173**	1.164	1.125	**1.127**	1.191	1.117
Indian rupee	**97.030**	101.702	95.097	**99.516**	100.684	99.880
Japanese yen	**161.842**	151.124	137.017	**158.717**	155.972	141.131
Romanian leu	**5.783**	5.727	5.442	**5.577**	5.894	5.438
Russian ruble	**87.184**	101.388	92.844	**87.812**	101.592	101.106
South African rand	**20.176**	20.335	21.099	**20.467**	21.617	20.079
Swiss franc	**1.179**	1.258	1.204	**1.113**	1.234	1.208
U.S. dollar	**1.236**	1.376	1.284	**1.203**	1.354	1.367

Regional Review

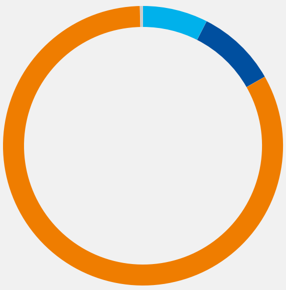
U.S.

United States

Our transformation continued at speed, with Vuse driving 69% growth in New Categories revenue. This was despite macro-economic pressures and an inventory unwind impacting combustibles volumes.

Guy Meldrum
President and CEO
(Reynolds American Inc.)

2022 revenue by category



Revenue by category as % of total Region

	2022	2021
New Categories	**7.5%**	4.8%
Traditional oral	**9.3%**	9.2%
Combustibles	**82.8%**	85.7%
Other	**0.4%**	0.3%

Key markets
Our products are available in all regions of the U.S.

Volume

	2022 units	vs 2021 %	2021 units	vs 2020 %	2020 units
New Categories:					
Vapour (10ml units / pods mn)	**320**	+10.0%	291	+66.7%	174
THP (sticks bn)	**—**	—	—	—	—
Modern Oral (pouches mn)	**301**	-50.1%	602	+272%	162
Traditional Oral (stick eq bn)	**7**	-8.1%	7	-5.1%	8
Cigarettes (bn sticks)	**59**	-15.4%	70	-5.0%	73
Other (bn sticks eq)*	**—**	-17.8%	—	—	—
Total Combustibles	**59**	-15.5%	70	-5.0%	73

* Other includes MYO/RYO.

Revenue

	2022 £m	vs 2021 %	vs 2021 (adj at cc) %	2021 £m	vs 2020 %	vs 2020 (adj at cc) %
New Categories:						
Vapour	**913**	+62.9%	+46.4%	561	+46.4%	+56.9%
THP	**—**	-69.1%	-72.3%	1	-21.8%	-16.2%
Modern Oral	**36**	n/m	n/m	2	-81.5%	-80.1%
Total New Categories	**949**	+68.7%	+51.6%	564	+43.0%	+53.3%
Traditional Oral	**1,174**	+8.9%	-2.1%	1,077	-4.3%	+2.6%
Combustibles	**10,470**	+4.5%	-6.1%	10,015	+0.9%	+8.1%
Other	**46**	+27.9%	+14.9%	35	+26.9%	+36.0%
Revenue	**12,639**	+8.1%	-2.8%	11,691	+1.9%	+9.2%

Profit from operations/operating margin

	2022 £m	vs 2021 %	vs 2021 (adj at cc) %	2021 £m	vs 2020 %	vs 2020 (adj at cc) %
Profit from operations	**6,205**	+11.5%	+3.5%	5,566	+11.9%	+9.7%
Operating margin (%)	**+49.1%**	+150 bps	+330 bps	+47.6%	+420 bps	+20 bps

+10 bps
Cigarette value share change

+69%
Revenue growth in New Categories

Revenue and Profit from Operations

In 2022, reported revenue grew 8.1% to £12,639 million, with 2021 up 1.9% to £11,691 million. Excluding the impact of translational foreign exchange, this was a decline of 2.8% in 2022 (2021: up 9.2%). Continued growth in New Categories and pricing in combustibles in both years was more than offset, in 2022, by lower cigarette volume. 2022 was also negatively impacted by the 2021 movements in trade inventory. This benefited 2021 by an estimated £200 million and was partially unwound in 2022, and was mainly linked to the timing of price increases and uncertainty about a potential excise increase.

Reported profit from operations increased 11.5% to £6,205 million in 2022 (2021: up 11.9% to £5,566 million). This was driven by a continued improvement in the financial performance of Vuse in both years and, in 2022, the translational foreign exchange tailwind of 12.9%. Adjusting items were higher in 2022, largely in respect of our restructuring programme (Quantum), including the factory rationalisation. Both 2022 and 2021 benefited from credits related to the partial buy-out of the pension fund (2022: £16 million; 2021: £35 million). 2021 also benefited from the finalisation of the dissenting shareholders litigation (£59 million).

Excluding the adjusting items and the impact of a translational foreign exchange headwind, adjusted profit from operations increased by 3.5% (2021: 9.7%) on a constant currency basis.

New Categories

In 2022, Vuse performed well, becoming the market leader by Vapour value share (up 840 bps to 40.9% from 32.5% in 2021 and 24.9% in 2020) and Vapour volume share (up to 64.4% from 57.3% in 2021). During 2022, the Group also maintained device leadership, up 700 bps to reach 64.4% volume share, a strong lead indicator for future consumable volume and revenue growth.

Vapour consumable volume increased 10.0% (2021: up 67%), with revenue increasing 62.9% to £913 million (2021: up 46.4% to £561 million). This was an increase of 46.4% (2021: increase of 56.9%) at constant rates of exchange, with pricing on consumables supporting the growth in volume.

Industry Vapour volumes declined 3.3% in 2022, following an increase of 19.1%* in 2021.

While the Group does not sell synthetic nicotine disposables in the U.S., the category continues to grow driven by the availability of flavours. However, since March 2022, these products are now under FDA regulatory control and are required to receive PMTA authorization to remain on the market. We continue to innovate across our Vuse portfolio to drive increased satisfaction for consumers.

Having received the first marketing authorisation from the FDA (for Vuse Solo) in October 2021, in May 2022, the FDA issued marketing authorisations for tobacco flavoured Vuse Vibe and Ciro. This confirmed that the marketing of the authorised Vuse Solo, Vuse Vibe, and Vuse Ciro products are appropriate for the protection of the public health, the culmination of years of scientific study and research. The Vuse Alto PMTA, which was submitted nearly a year after Vuse Solo, shares the same foundational science and we are confident in the quality of our applications. We have received and are challenging the FDA's Market Denial Order dated January 2023 related to Vibe and Ciro (menthol variants) and are seeking a permanent stay**.

In Modern Oral, volume declined by 50.1% (2021: 272% higher) with volume share down 580 bps in 2022, having grown 410 bps in 2021, as the Group pivoted to drive for value after a period of investment in awareness and trial. Revenue increased to £36 million (2021: £2 million). The market remains highly competitive, with current low moisture product formulations continuing to result in low levels of average daily consumption and high poly-usage. As a result, we have submitted a PMTA for a new Velo product, leveraging our international insights.

Combustibles

Combustibles revenue was 4.5% higher in 2022 at £10,470 million (2021: up 0.9% to £10,015 million). However, excluding a translational foreign exchange tailwind in 2022 (2021: headwind), this was a decrease of 6.1% (2021: 8.1% higher) at constant rates of exchange. Pricing was more than offset by a decline in volume of 15.5% to 59 billion sticks in 2022.

In 2021, cigarette volume decreased 5.0% to 70 billion sticks as the Group benefited from trade inventory movements (mainly linked to the timing of price increases and uncertainty about a potential excise increase and which partially unwound in 2022), impacting revenue by an estimated £200 million.

Industry volume was down 10% (2021: down 6%), driven by rising gas prices, inflation and macro-economic pressures impacting consumer disposable income. To offset early signs of accelerated downtrading, we have activated commercial plans in specific brands, channels, and states.

Value share of cigarettes increased 10 bps (2021: up 60 bps), driven by our strategic brands (up 10 bps) including Newport and Natural American Spirit. Total volume share declined 30 bps (2021: 40 bps decrease) as we continued to focus on value generation from combustibles in 2022.

The strategic portfolio performed well, partly due to Lucky Strike which reached 2.2% national volume share, having been reintroduced in 2020.

On 29 April 2021, the FDA announced it is setting into motion the process of advancing two tobacco product standards regarding menthol in cigarettes and all flavoured cigars. The Group's U.S. business will evaluate any proposed regulation and will continue to participate in any consultation and rulemaking processes by submitting robust comments grounded in science-based evidence, submitting comments in August 2022. The weight of published science does not support regulating menthol cigarettes differently from non-menthol. The weight of scientific evidence neither shows a difference in health risks between menthol and non-menthol cigarettes, nor indicates that menthol cigarettes adversely affect initiation, dependence, or cessation. In December 2022, the sale of all tobacco products with characterising flavours (including menthol) other than tobacco were banned in the State of California. The Group will continue to monitor the impact in the coming periods.

Traditional Oral

Traditional Oral revenue increased 8.9% (2021: down 4.3%), being a decline of 2.1% (2021: up 2.6%) at constant rates of exchange, driven by strong pricing in both years, while volume declined 8.1% in 2022, and 5.1% in 2021.

Value share of moist was down 60 bps (2021: up 10 bps), while volume share was down 70 bps (2021: down 50 bps). The decline in 2022 was driven by strong macro-economic headwinds leading to consumer changing behaviour, impacting our premium skewed portfolio.

During 2022, the decision was taken to withdraw the MRTP applications for Camel Snus, as we have adjusted our near-term priorities and are focusing on providing a diverse portfolio of New Category products in line with our global harm reduction strategy.

Note:

* U.S. industry Vapour growth was rebased in 2022, leading to a revision to the growth previously reported for 2021, from +21.2% to +19.1%

** Menthol variants accounted for approximately 75% of total Vuse consumables in 2022

Regional Review

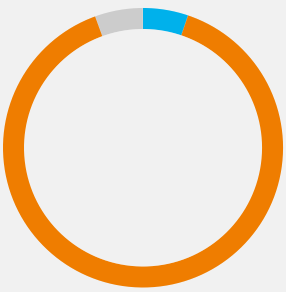
AmSSA

Americas and Sub-Saharan Africa

An increase in profit from operations was fuelled by continued growth in New Categories, coupled with strong combustibles pricing, which enabled further investment in our transformation.

Luciano Comin
Regional Director

2022 revenue by category



Revenue by category as % of total Region

	2022	2021
New Categories	**5.2%**	3.7%
Traditional oral	**—**	—
Combustibles	**89.2%**	90.4%
Other	**5.6%**	5.9%

Key markets
Argentina, Brazil, Canada, Chile, Colombia, Mexico, Nigeria, South Africa

Volume

	2022 units	vs 2021 %	2021 units	vs 2020 %	2020 units
New Categories:					
Vapour (10ml units / pods mn)	**83**	+33.3%	62	+102%	31
THP (sticks bn)	**—**	n/m	—	—	—
Modern Oral (pouches mn)	**10**	n/m	—	-100%	19
Traditional Oral (stick eq bn)	**—**	—	—	—	—
Cigarettes (bn sticks)	**148**	+0.7%	147	+0.1%	147
Other (bn sticks eq)*	**1**	-5.1%	1	-7.7%	2
Total Combustibles	**149**	+0.7%	148	0.0%	149

* Other includes MYO/RYO.

Revenue

	2022 £m	vs 2021 %	vs 2021 (adj at cc) %	2021 £m	vs 2020 %	vs 2020 (adj at cc) %
New Categories:						
Vapour	**218**	+55.1%	+47.0%	141	+115%	+115.0%
THP	**—**	—	—	—	—	—
Modern Oral	**1**	n/m	-99.3%	—	-100%	-100.0%
Total New Categories	**219**	+55.6%	+47.5%	141	+114%	+113.8%
Traditional Oral	**—**	—	—	—	—	—
Combustibles	**3,751**	+9.2%	+3.8%	3,435	-2.8%	+4.1%
Other	**233**	+3.2%	-8.7%	225	+32.3%	+44.7%
Revenue	**4,203**	+10.6%	+4.7%	3,801	+0.8%	+7.8%

Profit from operations/operating margin

	2022 £m	vs 2021 %	vs 2021 (adj at cc) %	2021 £m	vs 2020 %	vs 2020 (adj at cc) %
Profit from Operations	**2,022**	+35.2%	+4.3%	1,496	-3.7%	+4.3%
Operating Margin (%)	**+48.1%**	+880 bps	-10 bps	+39.3%	-190 bps	-140 bps

-60 bps
Cigarette value share change

+56%
Revenue growth in New Categories

Revenue and Profit from Operations

In 2022, reported revenue increased 10.6% to £4,203 million (2021: 0.8% increased to £3,801 million). Excluding the translational tailwind (2021: headwind), on a constant currency basis, revenue grew by 4.7% in 2022 (2021: increase of 7.8%), driven by combustibles pricing and growth in New Categories in both years. The reported results are impacted by translational foreign exchange due to the relative movement of sterling against a number of currencies, particularly the Brazilian real, Argentinian peso, Nigerian naira and Kenyan shilling.

Reported profit from operations increased 35.2% to £2,022 million, mainly due to the recognition (in the second half of 2022) of £460 million in Brazil in relation to the calculation of VAT on social contributions in prior periods (as the Group's litigation was successfully concluded in the year). This was partly offset by 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).

In 2021, reported profit from operations declined by 3.7% to £1,496 million, partly due to the recognition of a £54 million charge related to goodwill in Peru and by the impact of translational foreign exchange on our reported results.

Excluding the adjusting items (largely related to credit of the VAT on social contributions in Brazil and charges in respect of the Nigerian investigation in 2022, Peru in 2021 and Quantum in both periods) and the impact of foreign exchange in both periods, adjusted profit from operations increased 4.3% (2021: increase of 4.3%) on a constant currency basis, largely driven by the growth in revenue.

New Categories

In 2022, New Categories revenue grew 56% to £219 million (2021: up 114% to £141 million) driven by the growth of Vapour (notably in Canada and South Africa) in both years.

In Canada, Vuse consolidated its leadership position with total value share up 8.9 ppts in 2022 (to 89.5%), having grown 34.3 ppts in 2021. This was driven by the launch of the Group's first connected Vapour device (Vuse ePod2+).

In Kenya, after the category was reinstated as regulated under the Tobacco Control Act, we reintroduced Velo to a limited retail universe with positive early momentum, as we focus on driving guided trial.

In South Africa, we have expanded our pilot in Johannesburg, with guided trial and expansion into key accounts, delivering encouraging early results.

We continue to believe that Modern Oral represents an exciting opportunity to offer affordable New Category alternatives* to adult nicotine consumers in emerging markets, given the absence of an electronic device and a pre-existing ritual of oral product consumption in a number of markets.

Combustibles

Combustibles revenue increased 9.2% to £3,751 million (2021: 2.8% decrease to £3,435 million). Excluding a translational foreign exchange tailwind in 2022 (2021: headwind) revenue, on a constant currency basis, was up 3.8% in 2022 and 4.1% in 2021.

Combustibles pricing was strong in both years. An improvement in mix in 2022 was supported by marginally higher combustibles volume (up 0.7% in 2022 to 149 billion sticks), as volume benefited from a reduction in illicit trade in Brazil. This is in comparison to 2021 where regional revenue fell, partly due to a negative mix as volume recovered from the impact of COVID-19 in a number of markets including in South Africa (impacted by the sales suspension in 2020, with the market still recovering from the growth in illicit trade in 2020) and Colombia. In 2021, combustible volume in AmSSA was flat compared to 2020.

Value share declined 60 bps driven by Canada, Brazil, Mexico and South Africa. This compared to a decline in 2021 of 70 bps.

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

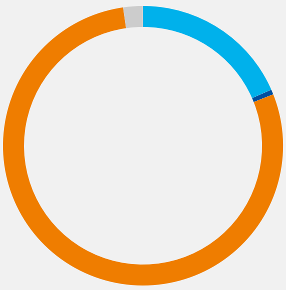
Regional Review

Europe

With revenue growth across all New Categories now representing 18.5% of total revenue, we are demonstrating how the investments behind our ambitious change agenda are delivering results.

Johan Vandermeulen
Regional Director

2022 revenue by category



Revenue by category as % of total Region

	2022	2021
New Categories	**18.5%**	13.6%
Traditional oral	**0.6%**	0.7%
Combustibles	**78.7%**	83.7%
Other	**2.2%**	2.0%

Key markets

Belgium, Bulgaria, Czech Republic, Denmark, France, Germany, Greece, Hungary, Italy, Kazakhstan, Netherlands, Poland, Romania, Russia, Spain, Switzerland, Turkey, Ukraine, the UK

From 1 January 2022, Algeria, Sudan, Libya, Morocco, Tunisia and Egypt moved to APME and ENA has been renamed Europe. No restatement of prior year figures has been made as the impact was not material to either Europe or APME.

Volume

	2022 units	vs 2021 %	2021 units	vs 2020 %	2020 units
New Categories:					
Vapour (10ml units / pods mn)	**197**	+13.9%	173	+29.8%	133
THP (sticks bn)	**13.0**	+33.8%	9.8	+195%	3.3
Modern Oral (pouches mn)	**3,169**	+29.9%	2,440	+46.4%	1,667
Traditional Oral (stick eq bn)	**1**	-9.8%	1	+6.1%	1
Cigarettes (bn sticks)	**193**	-9.9%	214	-2.7%	220
Other (bn sticks eq)*	**13**	-11.1%	15	-8.7%	16
Total Combustibles	**206**	-10.0%	229	-3.1%	236

* Other combustibles includes MYO/RYO.

Revenue

	2022 £m	vs 2021 %	vs 2021 (adj at cc) %	2021 £m	vs 2020 %	vs 2020 (adj at cc) %
New Categories:						
Vapour	**286**	+37.9%	+38.5%	207	+40.2%	+43.8%
THP	**537**	+57.3%	+53.3%	341	+150%	+167%
Modern Oral	**348**	+30.8%	+32.3%	266	+43.9%	+45.6%
Total New Categories	**1,171**	+43.7%	+42.7%	814	+73.6%	+80.3%
Traditional Oral	**35**	-12.3%	-7.7%	41	+18.2%	+18.1%
Combustibles	**4,996**	-0.6%	+1.2%	5,024	-6.2%	+1.1%
Other	**144**	+16.9%	+15.1%	122	-8.9%	-4.9%
Revenue	**6,346**	+5.7%	+7.0%	6,001	+0.1%	+7.3%

Profit from operations/operating margin

	2022 £m	vs 2021 %	vs 2021 (adj at cc) %	2021 £m	vs 2020 %	vs 2020 (adj at cc) %
Profit from Operations	**1,270**	-32.6%	+7.5%	1,885	-3.9%	-1.0%
Operating Margin (%)	**+20.0%**	-1,140 bps	+10 bps	+31.4%	-130 bps	-270 bps

-10 bps
Cigarette value share change

+44%
Revenue growth in New Categories

Revenue and Profit from Operations

Reported revenue in 2022 was 5.7% higher than 2021 (2021: up 0.1%) driven by pricing in combustibles and the continued growth in New Categories revenue (2022: up 44%, 2021: up 74%). This was, in 2022, partly offset by lower combustible volume (down 10.0% in 2022 (impacted by the regional re-allocation of North Africa to APME) and 3.1% lower in 2021). While translational foreign exchange was a marginal headwind in 2022 of 1.3%, in 2021 it was a headwind of 7.2%.

Excluding the impact of currency, revenue grew 7.0% on an adjusted constant rates basis (2021: up 7.3%), driven by higher revenue in Romania, Poland, Italy and the Czech Republic.

Reported profit from operations declined by 32.6% to £1,270 million, largely due to the charges recognised in respect of the proposed transfer of the Group's operations in Russia and Belarus (which have been classified as held-for-sale at 31 December 2022, with an associated charge of £612 million in the period) and charges related to Quantum and the factory rationalisation programme.

In 2021, reported profit from operations decreased 3.9% to £1,885 million, as the strong New Category revenue growth, in combination with tight control of overheads and Quantum cost savings, were more than offset by incremental investment in New Categories and foreign exchange headwinds (2020: up 19%).

Excluding the impact of currency and adjusting items (in respect of Russia and Belarus, Quantum and the factory rationalisation programme), adjusted profit from operations at constant rates was up 7.5% in 2022 (2021: down 1.0%) driven by the performance of New Categories, together with tight control of overheads and Quantum cost savings. The decline in 2021 was largely driven by the net investment in New Categories in that year.

New Categories

In 2022, revenue from Vapour was up 37.9% reflecting volume growth (up 13.9%) and pricing. In 2021, revenue from Vapour was 40.2% higher as volume grew 29.8%, driven by an increase in industry volume and higher consumables pricing.

However, the growth of the disposable segment in 2022 has impacted our value share of total Vapour across a number of markets. For example:

– In France, we maintained value share leadership despite a decline of 6.3 ppts to 38.8%;

– In Germany, we also maintained value share leadership despite a decline of 37.9 ppts to 21.4%; and

– In the UK, having been value share leader in previous periods, Vuse's value share declined 14.7 ppts to 14.8%, but stabilised in the final quarter post Vuse Go launch (May 2022) .

We rapidly rolled out our new modern disposable product, Vuse Go, over the second half through our broad distribution footprint and consumer reach in multiple markets including the UK, France, Spain, Germany, Greece and Ireland.

In 2022, Vuse won the Gold award at the Transform Awards Europe 2022 for "Best Use of Sustainable Packaging", as well as the SEAL business sustainability award.

In 2022, THP volume grew by 33.8% (2021: up 195%), with revenue 57.3% higher at £537 million (2021: up 150% to £341 million). The region now represents over 54% of our global THP volume (or 43% excluding Russia) and 51% of our global THP revenue (or 41% excluding Russia). glo continued to grow category volume share across all key European markets, with aggregate category volume share in key THP markets reaching 20.2%, up 380 bps on 2021. Excluding Russia, our aggregate share of the category reached 18.7% up 470 bps. Driven by Hyper, glo performed well across the top European markets:

– Poland (up 14.4 ppts to 31.2%);

– Italy (up 170 bps to 14.5%);

– Greece (up 470 bps to 13.2%); and

– Hungary (up 740 bps to 14.4%).

Hyper also continued to make good progress in Kazakhstan, the Czech Republic and across other smaller European launch markets. In the final quarter of 2022, we launched the new Hyper X2 device in our THP markets with encouraging early results.

In 2022, Modern Oral revenue grew 30.8% (2021: up 43.9%), led by 29.9% volume growth (2021: 46.4% increase).

We remain the clear market leaders (by volume share) in 15 Modern Oral markets. From a high base, volume share was marginally lower at 68.8%, down 60 bps. As the Modern Oral category continues to grow and become more established in Europe, we continue to see strong growth in average daily consumption, including in Sweden which reached 11 pouches (per consumer) in November 2022***.

Specifically in respect of the key markets:

– In Sweden, where Modern Oral has grown to represent 19.0% of the total oral category, our volume share of the Modern Oral category was 58.1%, a decrease of 170 bps on 2021, impacted by heavy competitor discounting, with volume share stabilising in the final quarter;

– In Norway, where Modern Oral now represents 33.5% of the total oral category, we maintained our leadership position with volume share of the Modern Oral reaching 64.1%, up 20 bps vs 2021;

– In Denmark (with volume share marginally lower than 2021, down 40 bps at 92.2%) and in Switzerland (volume share up 160 bps to 93.2%), we maintained our volume share leadership position in the Modern Oral category from a high base; and

– In the UK, we gained market leadership with volume share reaching 51.6%, an increase of 2,220 bps from 29.4% in 2021.

Combustibles

In 2022, revenue was 0.6% lower, compared to a decline of 6.2% in 2021. Good price/mix in both years (of 11.2% in 2022 and 4.2% in 2021) was offset by the impact of lower combustible volume, down 10.0% in 2022 and 3.1% in 2021. In both years revenue was impacted by the foreign exchange headwind described earlier. At constant rates of exchange, revenue increased 1.2% (2021: 1.1%).

The decrease in combustible volume in 2022 was driven by the move of the North African markets to APME and lower volume in Turkey, Germany, Denmark and France. The decrease in combustible volume in 2021 was driven by lower volume in Ukraine, Russia and Kazakhstan, in part due to industry contraction in those markets.

Cigarette value share was down 10 bps in 2022, while 2021 was down 20 bps. Cigarette volume share declined 20 bps (2021: down 30 bps) with volume share up in Spain, the UK, Denmark, France and the Ukraine, which was more than offset by reductions in Russia, Poland, Romania, Germany, Hungary, Italy, the Netherlands, Switzerland, Greece and Belgium.

Note:
*** Source: Kantar New Category Tracker.

Regional Review

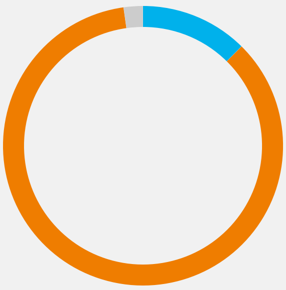
APME

Asia-Pacific and Middle East

Higher revenue across all New Categories and pricing in combustibles contributed to a strong year and more than offset the headwind from the sale of our Iranian business partway through 2021.

Michael (Mihovil) Dijanosic
Regional Director

2022 revenue by category



Revenue by category as % of total Region

	2022	2021
New Categories	**12.4%**	12.8%
Traditional oral	**—**	—
Combustibles	**85.4%**	84.8%
Other	**2.2%**	2.4%

Key markets

Algeria, Australia, Bangladesh, Egypt, Gulf Cooperation Council (inc the Kingdom of Saudi Arabia (Saudi Arabia)), Japan, Malaysia, Morocco, New Zealand, Pakistan, South Korea, Taiwan, Vietnam

From 1 January 2022, Algeria, Sudan, Libya, Morocco, Tunisia and Egypt moved to APME. No restatement of prior year figures has been made as the impact was not material to either Europe or APME.

Volume

	2022 units	vs 2021 %	2021 units	vs 2020 %	2020 units
New Categories:					
Vapour (10ml units / pods mn)	**12**	+31.1%	9	+65.6%	6
THP (sticks bn)	**11.0**	+17.0%	9.3	+26.5%	7.4
Modern Oral (pouches mn)	**530**	+108.4%	254	+197%	86
Traditional Oral (stick eq bn)	**—**	—	—	—	—
Cigarettes (bn sticks)	**205**	-0.8%	206	+4.6%	198
Other (bn sticks eq)*	**2**	-6.8%	2	-14.1%	2
Total Combustibles	**207**	-0.8%	208	+4.4%	200

* Other combustibles includes MYO/RYO.

Revenue

	2022 £m	vs 2021 %	vs 2021 (adj at cc) %	2021 £m	vs 2020 %	vs 2020 (adj at cc) %
New Categories:						
Vapour	**19**	+4.3%	+1.7%	18	+26.0%	+27.5%
THP	**523**	+2.3%	+9.1%	511	+2.8%	+13.0%
Modern Oral	**13**	+117.0%	+121.2%	6	+179%	+199%
Total New Categories	**555**	+3.7%	+10.1%	535	+4.2%	+14.2%
Traditional Oral	**—**	—	—	—	—	—
Combustibles	**3,813**	+7.3%	+7.8%	3,555	-9.6%	-2.3%
Other	**99**	-0.9%	-7.8%	101	+13.0%	+20.1%
Revenue	**4,467**	+6.6%	+7.7%	4,191	-7.6%	0.0%

Profit from operations/operating margin

	2022 £m	vs 2021 %	vs 2021 (adj at cc) %	2021 £m	vs 2020 %	vs 2020 (adj at cc) %
Profit from Operations	**1,026**	-20.3%	+3.0%	1,287	-12.6%	-1.1%
Operating Margin (%)	**+23.0%**	-770 bps	-180 bps	+30.7%	-170 bps	-40 bps

+10 bps
Cigarette value share change

+3.7%
Revenue growth in New Categories

Revenue and Profit from Operations

Reported revenue increased 6.6% to £4,467 million (2021: declined 7.6% to £4,191 million).

The performance in 2022 was driven by the continued growth in New Categories and pricing in combustibles, which more than offset marginally lower combustibles volume (down 0.8%). Volume benefited from the continuing emerging market recovery from COVID-19 and the regional re-allocation of North Africa, partly offset by the sale of the Group's Iranian business midway through 2021.

Revenue in 2021 (when compared to 2020) was impacted by the structural excise changes in Australia and New Zealand, and competitive pricing dynamics in Australia (in combination, an estimated headwind of £260 million), and negative geographic mix due to volume share growth and recovery from COVID-19 in emerging markets, leading to a growth in combustible volume of 4.4% (largely due to Bangladesh, Vietnam and Pakistan). Revenue in 2021 was also negatively impacted by the sale of the Group's Iranian business partway through the year.

Excluding the impact of translational foreign exchange, in 2022 revenue was up 7.7% against 2021 (2021: in line with 2020) on an adjusted constant rate basis.

Reported profit from operations declined 20.3% to £1,026 million, while 2021 was down 12.6% to £1,287 million. 2022 was impacted by increased one-off charges related to the allegations of historical breaches of sanctions (£450 million) and the exit from Egypt (£118 million). In 2021, the Group recognised a charge of £358 million in relation to the disposal of the Group's Iranian business (mainly in respect of foreign exchange previously charged to other comprehensive income).

Excluding adjusting items and the impact of translational foreign exchange, adjusted profit from operations at constant rates of exchange increased 3.0% in 2022 (2021: fell 1.1%), driven by the top line growth (despite negative mix due to volume growth in lower margin markets) and efficiencies delivered through Quantum, which more than offset a transactional foreign exchange headwind of 4.5%. Furthermore, the sale of the Iranian business, due to its timing in 2021, acted as a drag on adjusted profit from operations in both years.

New Categories

Total revenue from New Categories increased 3.7% to £555 million (2021: increased 4.2% to £535 million).

In 2022, this was driven by a 17.0% increase in THP consumable volume to 11 billion sticks, compared to an increase of 26.5% to 9 billion sticks in 2021. This was driven by the success of glo Hyper including the new variant Hyper X2. glo Hyper is powered by Advanced Induction Heating and provides a step change in consumer satisfaction with 30% more tobacco and a boost function.

THP revenue increased 2.3% (2021: increase of 2.8%), or 9.1% (2021: up 13.0%) excluding the impact of translational foreign exchange. The growth in both years was driven by increased Hyper volume, while the growth in 2021 was also due to a £50 million charge to revenue in 2020, that did not repeat in 2021, in respect of the withdrawal of glo Sens.

In Japan, the largest THP market in the world, glo performed well, maintaining the momentum of 2021 with volume share of total tobacco (being FMC and THP combined) increasing to 7.4% in 2022, up 60 bps, having grown 140 bps in 2021. However, in 2022, glo's volume share of the THP category declined 120 bps to 20.1% from 21.2% in 2021 as glo volume grew at a slower rate than the category due to competitive competitor pricing.

In Modern Oral, revenue grew 117% (or 121% at constant rates of exchange) with volume up 108% to 530 million pouches.

We believe that Modern Oral is an exciting longer-term opportunity to unlock reduced risk products*† in Emerging Markets. We are particularly proud of Velo's performance in Pakistan, now our third largest Modern Oral market by volume, where we have rapidly achieved national coverage. Enabled by powerful, consumer-centric digital activations, Velo has reached a monthly volume in the country of over 40 million pouches.

Combustibles

Revenue from combustibles increased by 7.3% to £3,813 million (2021: down 9.6% to £3,555 million), or by 7.8% (2021: down 2.3%) at constant rates of exchange.

In 2022, this was driven by improved pricing and a partial recovery of Global Travel Retail following the COVID-19 restrictions of 2020 and 2021. These more than offset a decrease in combustible volume of 0.8% and the negative impact of the sale of the Group's Iranian business partway through 2021.

The sale of the Iranian business also impacted 2021 (versus 2020) which contributed to the decline in combustibles revenue despite an increase in combustible volume (up 4.4%) as emerging markets recovered from COVID-19. However, this led to a negative geographic mix which, combined with structural excise changes in Australia and New Zealand and competitive pricing dynamics in Australia (totalling approximately £260 million), drove revenue down.

In 2022, value share increased 10 bps (2021: down 20 bps), with volume share flat (2021: 20 bps higher), as volume share gains (including in Japan, Pakistan and Saudi Arabia) were offset by losses in Bangladesh and South Korea.

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.

Group Principal Risks

Overview

The Principal Risks that may affect the Group are set out on the following pages.

Each risk is considered in the context of the Group's strategy and business model, as set out in this Strategic Report beginning on page 2 and page 12. On the following pages is a summary of each Principal Risk, its potential impact @and management by the Group@. The Group defines the Principal Risks as those assessed with a high impact and probable likelihood. Additionally, "Litigation" and "Solvency and liquidity" risks are also recognised as Principal Risks; they are not assessed as having high impact and probable likelihood but are material to the delivery of the Group's strategic objectives.

@The Group has identified risks and is actively monitoring and mitigating these risks, including those related to climate change and other sustainability matters.@ This section focuses on those risks that the Directors believe to be the Principal Risks to the Group. Not all of these risks are within the control of the Group and other risks besides those listed may affect the Group's performance. Some risks may be unknown at present. Other risks, currently regarded as less material, could become material in the future. Clear accountability is attached to each risk through the risk owner.

The risks listed in this section @and the activities being undertaken to manage them@ should be considered in the context of the Group's internal control framework.

This is described in the section on risk management and internal control in the corporate governance statement from page 150. This section should also be read in the context of the cautionary statement on page 373.

A summary of all the risk factors (including the Principal Risks) which are monitored by the Board through the Group's risk register is set out in the Additional Disclosures section from page 340.

Assessment of Group Principal Risks@

During the year, the Directors carried out a robust assessment of the Principal Risks, uncertainties and emerging risks facing the Group, including those that could impact delivery of its strategic objectives, business model, future performance, solvency or liquidity.

ESG is core to the Group's long-term business strategy and ESG risk factors are embedded across the Group's risks in accordance with how risks are managed within the Group.

The Double Materiality Assessment conducted during 2022 highlighted the existing ESG focus areas of Harm Reduction, Climate Change and Circular Economy for the Group. Harm Reduction is captured as part of "Inability to develop, commercialise and deliver the New Categories strategy". The Board further highlighted "Climate and circularity" as a Principal Risk to the Group, recognising the Group's existing commitments in relation to climate change and circular economy matters and mitigation of associated risks.

Due to the embeddedness of ESG across the Group, other elements of environmental, social and governance are captured across other risks.

The viability statement below provides a broader assessment of long-term solvency and liquidity. The Directors considered a number of factors that may affect the resilience of the Group. Except for the risk "Injury, illness or death in the workplace", the Directors also assessed the potential impact of the Principal Risks that may impact the Group's viability.

Time frame
- Short-term
- Medium-term
- Long-term

Strategic impact
- Simplification
- New Categories
- Combustibles

Key Stakeholders
- Consumers
- Society
- Our people
- Shareholders & Investors

Considered in viability statement
- Yes
- No

@ Denotes phrase, paragraph or similar that does not form part of BAT's Annual Report on Form 20-F as filed with the SEC.

Viability statement@

The Board has assessed the viability of the Group taking into account the current position and principal risks, in accordance with provision 31 of the UK Corporate Governance Code 2018. Whilst the Board believes the Group will be viable over a longer period, owing to the inherent uncertainty arising due to ongoing litigation and regulation, the period over which the Board considers it possible to form a reasonable expectation as to the Group's longer-term viability (that it will continue in operation and meet its liabilities as they fall due) is three years.

In making this assessment, the Board considered the Group's:

– strong cash generation from operating activities;

– access to, and ability to raise, external sources of financing, including the removal, in prior years, of any financial covenants in such credit facilities; and

– the current macro-economic environment, including the impact of inflation and higher interest rates.

This assessment included a robust review of the Group's operational and financial processes, (which cover both short-term financial forecasts and capacity plans) and the Principal Risks (as indicated on pages 117 to 121) that may impact the Group's viability. These are considered, with the mitigating actions, at least once a year. The assessment included a reverse stress test of the principal risks and did not identify any individual risk, based upon a prudent annual forecast, that would, if arising in isolation and without mitigation, impact the Group's viability within the three-year confirmation period. Furthermore, the Board recognised that even if all the principal risks arose simultaneously, given the underlying strong free cash flow generation before the payment of dividends (2022: £8.0 billion), the Group would be able to undertake mitigating actions to meet the liabilities as they fall due. The assessment also reviewed the potential impact of inflation on the Group's delivery and the impact of climate-related risks and concluded that these, including the potential cost implications and noting the mitigating actions, would not impact the Group's viability (see discussion commencing on page 70 with respect to TCFD).

The Board noted that the Group has access to a £5.7 billion credit facility (2022: undrawn), US (US$4 billion) and Euro (£3 billion) commercial paper programmes (2022: £27 million drawn) and £3.0 billion of bilateral agreements which may be utilised to support the Group's ability to operate. However, the Group is subject to inherent uncertainties with regards to regulatory change and litigation, the outcome of which may have a bearing on the Group's viability. The Group maintains, as referred to in note 31 in the Notes on the Accounts 'Contingent Liabilities and Financial Commitments,' that, whilst it is impossible to be certain of the outcome of any particular case, the defences of the Group's companies to all the various claims are meritorious on both law and the facts. If an adverse judgment is entered against any of the Group's companies in any case, an appeal may be made, the duration of which can be reasonably expected to last for a number of years.

Risks

Competition from illicit trade

Increased competition from illicit trade and illegal products – either local duty evaded, smuggled, counterfeits, or non-regulatory compliant, including products diverted from one country to another.

Time frame	Strategic impact	Key Stakeholders	Considered in viability statement
Short-/medium-/long-term	Simplification/New Categories/ Combustibles	Consumers, Society, Shareholders & Investors	Yes

Impact	Mitigation activities across all categories
Erosion of goodwill, with lower volumes and/or increased operational costs (e.g. track and trace costs) and reduced profits. Reduced ability to take price increases. Investment in trade marketing and distribution is undermined and the product is commoditised. Counterfeit products (especially in New Categories) and other illicit products could harm consumers, damaging goodwill, and/or the category (with lower volumes and reduced profits), potentially leading to misplaced claims against BAT, further regulation and a failure to deliver the corporate harm reduction objective. Breach of legislation, criminal offences, contract breaches under the EU Cooperation Agreement, allegations of facilitating smuggling and reputational damage, including negative perceptions of our governance. Existence of illicit trade reduces our ability to reduce the health impact of our business.	Dedicated Anti-Illicit Trade (AIT) teams operating at regional and country levels; internal cross-functional levels; compliance procedures, toolkit and best practice shared. Active engagement with key external stakeholders. Cross-industry and multi-sector cooperation on a range of AIT issues. Regional AIT strategy supported by a research programme to further the understanding of the size and scope of the problem. AIT Engagement Teams (including a dedicated analytical laboratory and a forensic and compliance team) work with enforcement agencies in pursuit of priority targets.

Geopolitical tensions

Geopolitical tensions, civil unrest, economic policy changes, global health crises, terrorism and organised crime have the potential to disrupt the Group's business in multiple markets.

Time frame	Strategic impact	Key Stakeholders	Considered in viability statement
Short-/medium-term	Simplification/New Categories/ Combustibles	Society, Our people, Shareholders & Investors	Yes

Impact	Mitigation activities across all categories
Potential injury or loss of life, loss of assets and disruption to supply chains and normal business processes. Increased costs due to more complex supply chain and security arrangements and/or the cost of building new facilities or maintaining inefficient facilities. Lower volumes as a result of not being able to trade in a country. Higher taxes or other costs of doing business as a foreign company or the loss of assets as a result of nationalisation. Reputational damage, including negative perceptions of our governance and protection of our people and our ESG credentials. Disruption to the supply chain impacts our ability to reduce the health impact of our business.	Physical and procedural security controls are in place, and regularly reviewed in accordance with our Security Risk Management process, for all field force and supply chain operations, with an emphasis on the protection of Group employees. Globally integrated sourcing strategy and contingency sourcing arrangements are in place. Security risk modelling, including external risk assessments and the monitoring of geopolitical and economic policy developments worldwide. Insurance coverage and business continuity planning, including scenario planning and testing, and risk awareness training. Geopolitical assessment and monitoring by the Group Security Centre of Excellence and regions inform the Business Continuity Management organisation plans and responses to geopolitical risks, including readiness of Crisis Management Teams at all levels.

Group Principal Risks

Group Principal Risks
Continued

Risks continued

Tobacco, New Categories and other regulation interrupts growth strategy

The enactment of, proposals for, or rumours of, regulation that significantly impairs the Group's ability to communicate, differentiate, market or launch its products, and/or the lack of appropriate regulation for New Categories.

Time frame	Strategic impact	Key Stakeholders	Considered in viability statement®
Short-/medium-/long-term	New Categories/Combustibles	Consumers, Society, Shareholders & Investors	Yes

Impact	Mitigation activities across all categories®
A lack of acceptance or rejection of tobacco harm reduction as a tobacco control policy could prevent a balanced regulatory framework for New Categories. Restricted ability to sell and communicate New Categories could lead to failure of the harm reduction objective and loss of confidence in the Group's ESG performance. Disproportionate regulations for New Categories, such as questionable regulatory classifications or total bans, that may not be science-based and/or risk-proportionate and that neither recognise unintended consequences nor respect legal rights (e.g. wrong regulatory classifications or total bans). Reduced ability to make scientific claims and compete in future product categories and make new market entries. Erosion of brand value through commoditisation and the inability to launch innovations may negatively affect our ability to generate value growth. Regulation with respect to bans or severe restrictions on menthol flavours, product design & features and nicotine levels may adversely impact individual brand portfolios. Reduced consumer acceptability of new product specifications, leading to consumers seeking alternatives in illegal markets or irresponsible operators exploiting regulatory loopholes. Shocks to share price on rumours of, or the announcement or enactment of, restrictive regulation (e.g. sales ban to future generations). Failure to deliver appropriate and proportionately costed Extended Producer Responsibility (EPR) schemes.	Establishment of Management Board Regulatory Committee. Engagement and litigation strategy coordinated and aligned across the Group to drive a balanced global policy framework for combustibles and New Categories. Stakeholder mapping and prioritisation, developing robust compelling advocacy materials (with supporting evidence and data) and regulatory engagement programmes. Regulatory risk assessment of marketing plans to ensure decisions are informed by an understanding of the potential regulatory environments. Advocating the application of integrated regulatory proposals to governments and public health regulators and practitioners based on the harm reduction potential of New Categories. Development of an integrated regulatory strategy that spans conventional combustibles and New Categories. Training and capability programmes for End Markets to upskill Legal and External Affairs managers on combustible and New Categories regulatory engagement, including product knowledge. Direct access to online portal providing latest position and advocacy material for End Market engagement on combustibles and New Categories. Working to define a sustainable EPR model and markets negotiating to implement effective EPR schemes.

Please refer to the to the description of the tobacco and nicotine regulatory regimes under which the Group's businesses operate set out from page 362

Litigation

Product liability, regulatory or other significant cases (including investigations) may be lost or settled resulting in a material loss or other consequence.

Time frame	Strategic impact	Key Stakeholders	Considered in viability statement®
Short-/medium-/long-term	New Categories/Combustibles	Shareholders & Investors	Yes

Impact	Mitigation activities across all categories®
Damages and fines, negative impact on reputation (including ESG credentials), disruption and loss of focus on the business. Consolidated results of operations, cash flows and financial position could be materially affected by an unfavourable outcome or settlement of pending or future litigation, criminal prosecution or other contentious action, or by the costs associated with bringing proceedings or defending claims. Inability to sell products as a result of an injunction arising out of a patent infringement action against the Group may restrict growth plans and competitiveness. Potential share price impact. ESG-related litigation could also result in a reduction in the investor base due to sustainability and ESG-related concerns.	Consistent litigation and patent management strategy across the Group. Expertise and legal talent maintained both within the Group and external partners, including for New Categories and ESG-related matters. Ongoing monitoring of key legislative and case law developments related to our business. Delivery with Integrity compliance programme.

Please refer to note 31 in the Notes on the Accounts for details of contingent liabilities applicable to the Group.

Risks continued

Significant increases or structural changes in tobacco, nicotine and New Categories related taxes

The Group is exposed to unexpected and/or significant increases or structural changes in tobacco, nicotine and New Categories related taxes in key markets.

Time frame	Strategic impact	Key Stakeholders	Considered in viability statement
Short-/medium-/long-term	New Categories/Combustibles	Consumers, Society, Shareholders & Investors	Yes

Impact	Mitigation activities across all categories
Consumers reject the Group's legitimate tax-paid products for products from illicit sources or cheaper alternatives. Reduced legal industry volumes. Reduced sales volume and/or portfolio erosion leading to inability to invest in, develop, commercialise and deliver New Category products. Partial absorption of excise increases leading to lower profitability.	Formal pricing and excise strategies, including Revenue Growth Management using a data science-led approach, with annual risk assessments and contingency plans across all products. Pricing, excise and trade margin committees in markets, with global support. Engagement with relevant local and international authorities where appropriate, in particular in relation to the increased risk to excise revenues from higher illicit trade. Portfolio reviews to ensure appropriate balance and coverage across price segments. Monitoring of economic indicators, government revenues and the political situation.

Inability to develop, commercialise and deliver the New Categories strategy

Risk of not capitalising on the opportunities in developing and commercialising successful, safe and consumer-appealing innovations.

Time frame	Strategic impact	Key Stakeholders	Considered in viability statement
Short-/medium-/long-term	Simplification/New Categories/Combustibles	Consumers, Society, Shareholders & Investors	Yes

Impact	Mitigation activities across all categories
Failure to deliver Group strategic imperative, 2025 growth ambition and 2030 consumer targets. Potentially missed opportunities, unrecoverable costs and/or erosion of brand, with lower volumes and reduced profits. Reputational damage and recall costs may arise in the event of defective product design or manufacture. Loss of market share due to non-compliance of product portfolio with regulatory requirements. Loss of investor confidence in ESG performance. Failure to deliver our corporate purpose of harm reduction.	Focus on product stewardship to ensure high-quality standards across the portfolio. Brand Expression, which sets out how our brand expresses itself (including through its logo, name, product, packaging, etc.) deployed to lead End Markets via activation workshops and best practices shared. Generating sufficient IP to develop competitive and sustainable products. Accelerating digital and consumer analytics along with data management platforms for enhanced methodologies, insight generation and line of sight across the Group. R&D is accredited to ISO9001 standard and laboratories are accredited to ISO17025 for key methods.

Group Principal Risks
Continued

Risks continued

Injury, illness or death in the workplace

The risk of injury, death or ill health to employees and those who work with the business is a fundamental concern of the Group and can have a significant effect on our operations.

Time frame	Strategic impact	Key Stakeholders	Considered in viability statement
Short-term	Simplification/New Categories/ Combustibles	Our people	No

Impact	Mitigation activities across all categories
Serious injuries, ill health, disability or loss of life suffered by employees and the people who work with the Group. Exposure to civil and criminal liability and the risk of prosecution from enforcement bodies and the cost of associated legal costs, fines and/or penalties. Interruption of Group operations if issues are not addressed promptly. High staff turnover or difficulty recruiting employees if perceived to have a poor Environment, Health and Safety (EHS) record. Reputational damage to the Group and negative impact on our ESG credentials.	Risk control systems in place to ensure equipment and infrastructure are provided and maintained. EHS strategy aims to ensure that employees at all levels receive appropriate EHS training and information. Behavioural-based safety programme to drive operations' safety performance, culture and closer to zero accidents. Analysis of incidents undertaken regionally and globally by a dedicated team to identify increasing incident trends or high potential risks that require coordinated action. Global monthly Health & Safety (H&S) Committee established, formed by senior members from the H&S and Operations Sustainability leadership team.

Disputed taxes, interest and penalties

The Group may face significant financial penalties, including the payment of interest, in the event of an unfavourable ruling by a tax authority in a disputed area.

Time frame	Strategic impact	Key Stakeholders	Considered in viability statement
Short-/medium-term	Simplification/New Categories/ Combustibles	Shareholders & Investors	Yes

Impact	Mitigation activities across all categories
Significant fines and potential legal penalties. Disruption and loss of focus on the business due to diversion of management time. Impact on profit and dividend.	End market tax committees. Internal tax function provides dedicated advice and guidance, and external advice sought where needed. Engagement with tax authorities at Group, regional and individual market level.

Foreign exchange rates exposures

The Group faces translational and transactional foreign exchange (FX) rate exposure for earnings/cash flows from its global businesses.

Time frame	Strategic impact	Key Stakeholders	Considered in viability statement
Short-/medium-term	New Categories/Combustibles	Shareholders & Investors	Yes

Impact	Mitigation activities across all categories
Fluctuations in FX rates of key currencies against sterling introduce volatility in reported earnings per share (EPS), cash flow and the balance sheet driven by translation into sterling of our financial results and these exposures are not normally hedged. The dividend may be impacted if the payout ratio is not adjusted. Differences in translation between earnings and net debt may affect key ratios used by credit rating agencies. Volatility and/or increased costs in our business, due to transactional FX, may adversely impact financial performance.	While translational FX exposure is not hedged, its impact is identified in results presentations and financial disclosures; earnings are restated at constant rates for comparability. Debt and interest are matched to assets and cash flows to mitigate volatility where possible and economic to do so. Hedging strategy for transactional FX is defined in the treasury policy, a global policy approved by the Board. Illiquid currencies of many markets where hedging is either not possible or uneconomic are reviewed on a regular basis.

Solvency and liquidity

Liquidity (access to cash and sources of finance) is essential to maintaining the Group as a going concern in the short-term (liquidity) and medium-term (solvency).

Time frame	Strategic impact	Key Stakeholders	Considered in viability statement@
Short-/medium-term	Simplification/New Categories/ Combustibles	Shareholders & Investors	Yes

Impact	Mitigation activities across all categories@
Inability to access the Group's cash resources and to fund the business under the current capital structure resulting in missed strategic opportunities or inability to respond to threats. Decline in our creditworthiness and increased funding costs for the Group. Requirement to issue equity or seek new sources of capital. Reputational risk of failure to manage the financial risk profile of the business, resulting in an erosion of shareholder value reflected in an underperforming share price. Inability to mitigate accounting and economic exposures. Economic loss as a result of devaluation/revaluation of assets (including cash) valued or held in local currency, and additional costs as a result of paying premiums to obtain hard currency.	Group policies include a set of financing principles and key performance indicators, including the monitoring of credit ratings, interest cover, solvency and liquidity with regular reporting to the Corporate Finance Committee and the Board. Controls in place to ensure full compliance with Sanctions regimes. Plans implemented to manage the risk in key geographies. The Group targets an average centrally managed debt maturity of at least five years with no more than 20% of centrally managed debt maturing in a single rolling year. The Group holds a two-tranche revolving credit facility of £5.7bn syndicated across a wide banking group, consisting of a 364-day tranche (with a one-year term-out option remaining) and a five-year tranche. Liquidity pooling structures are in place to ensure that there is maximum mobilisation of cash liquidity within the Group. Going concern and viability support papers are presented to the Board on a regular basis.

Climate and circularity

Direct and indirect adverse impacts associated with Climate Change and the move towards a Circular Economy.

Time frame	Strategic impact	Key Stakeholders	Considered in viability statement@
Short-/medium-/long-term	New Categories/Combustibles	Consumers, Society, Shareholders & Investors	Yes

Impact	Mitigation activities across all categories@
Poor ESG ratings by investors or platforms/indices used by them may lead to reduced access to capital, increased cost of capital or impact the share price. Loss or damage to reputation may reduce market share and revenue, due to retail customers and/or consumers having a reduced or negative perception of BAT and its products in comparison to its competitors, or of specific products/product categories overall. Failure to adequately manage supply chain risks associated with transitional and operational impacts (of Climate Change particularly) may cause increased volatility in supply volume, quality or cost of raw materials and services necessary for the effective and efficient operation of BAT's business across its value chain. Negative impact upon the attraction, retention and motivation of skilled employees and contractors. Punitive actions against the Group or an inability to sell its products in key markets, due to failure to comply in an effective, competitive or economic manner with evolving regulations and requirements relevant to business operations, products and supply chain, and reporting.	The Group has a well-established Environmental Sustainability Committee and Operations Sustainability Forum. ESG matters overall, and Climate Change and Circular Economy specifically, are under the governance remit of the Audit Committee. Life Cycle Assessment is used in the development and approval processes for new products to understand and improve their Climate Change and Circular Economy impacts. Monitoring of Climate Change- and Circular Economy-related governmental policy and regulations, and taking proactive actions to meet and/or surpass it. Working to mitigate Climate Change impacts and optimise Circular Economy alignment across the value chain by designing for the reuse and recycling of end-of-life products and increasing the use of recycled and environmentally preferable materials. 2022 review of future ESG reporting requirements and frameworks, globally, and increasing alignment with them, ahead of required timescales. Including public provision to financial actors of information required by investors for their own reporting. Internal and external goals and targets related to the risks and opportunities posed by Climate Change and Circular Economy to the Group's business and wider society, along with comprehensive programmes for review of progress against these goals. Climate Change- and Circular Economy-related objectives, targets and metrics publicly reported and externally assured and integrated into personal performance objectives of those functionally responsible for their delivery. In 2022, the Group proactively engaged with over 200 top suppliers on Climate Change and Circular Economy matters.

The Strategic Report was approved by the Board of Directors on 08 February 2023 and signed on its behalf by Paul McCrory, Company Secretary.