

## Overview

# Chief Executive's Review

## Building a Smokeless World

**For BAT, A Better Tomorrow™ is very clear. We will work to Build a Smokeless World. The way we will do this is by switching as many smokers as we can to our smokeless products.**

**Tadeu Marroco**  
Chief Executive

### Dear Stakeholders,

I was very proud to be appointed Chief Executive in May 2023. Having worked at BAT for over three decades, it was an honour to be given the opportunity to lead the business.

Despite an increasingly difficult external environment, I believe we are at a moment of enormous potential for BAT and the tobacco and nicotine sector as a whole.

In order to realise that potential, we must address a number of strategic choices.

Fundamentally, BAT today is a business built to deliver resilient performance, even during uncertain times.

Our geographical diversity and multi-category product portfolio are underpinned by long-term investments in our brands.

Combined with a culture that values delivery today while pursuing future opportunities, we are well positioned to continue delivering stakeholder value over the years to come.

### Full-Year 2023 Performance

During 2023, the underlying strengths of BAT were reflected in our performance, despite a challenging environment. While total Group revenue declined 1.3%, revenue at constant currency was up 1.6%, despite the negative impact due to the sale of Russia and Belarus partway through the year.

I was pleased with the performances of AME (with revenue up 5.4%) and APMEA, although APMEA was impacted by a translational foreign exchange headwind which masked a good operating performance as revenue declined 4.0% (up 5.5% at constant rates<sup>1</sup>). As a result of a particularly difficult macro-economic environment, the U.S. was down 5.1%.

There was another strong performance from our New Categories which are now profitable at the category contribution level (two years ahead of our original plan), driven by higher revenue (up 15.6%, or 17.8% on a constant currency basis). We currently have 24 million consumers of Non-Combustible products and revenue from these products now accounts for 16.5% of Group revenue.

2023 has brought some unique challenges to the Group, including:

- Having concluded it was no longer sustainable in the current environment, I was pleased that we completed the sale of our Russian and Belarusian businesses in September 2023. As a result, we no longer have a presence in Russia or Belarus and will receive no financial gain from ongoing sales in these markets; and
- Reflecting the difficult trading environment in the U.S., uncertainty regarding the impact of the potential menthol ban and continued drag on our legal Vapour business by illicit single-use products, we have impaired certain U.S. assets (including goodwill and our combustible trademarks), recognising a non-cash charge of £27.3 billion.

In the face of significant turbulence in our operating environment, I am assured by the resilience demonstrated by the business. However, the prospect of ongoing volatility means that there is no room for complacency and this necessitates greater strategic clarity.

### A Refined Strategy

As I have said before, the direction of our strategy that was laid out in 2020 remains the right one. What is required now is a clearer articulation of our vision and an improved focus on sharper execution.

The ongoing success of our New Categories business, combined with the underlying strengths of BAT, mean that we are well placed to realise our potential.

Delivering long-term, multi-stakeholder value has long been our aim. What is now required is a clearer picture of how that can create A Better Tomorrow™.

As such, we have refined our strategy to map out how we plan to deliver for stakeholders going forward. Underpinning this is a revised set of values for our employees. Further details on our strategy and values can be found on pages 14-17.

For BAT, A Better Tomorrow™ is very clear. We will work toward Building a Smokeless World. The way we will do this is by switching as many smokers as we can to our smokeless products.

As a business, we are committed to becoming a predominantly smokeless business, targeting 50% of our revenue from Non-Combustibles by 2035. With a refined strategy, having refreshed my Management Board and having a new set of Group-wide values, I believe the business now clearly understands the areas we need to focus on.

These areas fall under three pillars: Quality Growth, Sustainable Future and Dynamic Business.

### Quality Growth

Quality Growth marks our transition from the first stage of our transformation journey. Where our New Categories focus was weighted toward revenue growth, it will now pivot to a more balanced focus on top-line and bottom-line delivery.

Key to delivering this is a focus on brands and innovation, efficiency and margin delivery across our business. We will do this while maintaining our competitive position, and progressing our pilot launches for the long-term into categories Beyond Nicotine.

A core part of this pillar will be stabilising the performance of our U.S. business. Despite recent challenges, the U.S. remains the most profitable tobacco and nicotine market in the world and a core part of our future plans to Build a Smokeless World.

While the FDA and state level regulatory proposals have driven some uncertainty in the U.S. operating environment, our long track record of managing regulatory change gives us confidence that we will be able to navigate these issues.



**Despite an increasingly difficult external environment, I believe we are at a moment of enormous potential for BAT and the tobacco and nicotine sector as a whole.**

**We have rearticulated our purpose to clarify our intention to move our business beyond cigarettes.**

**As part of our refined strategy, the areas we will focus on fall under three pillars: Quality Growth, Sustainable Future and Dynamic Business.**

**Key to delivering on our refined strategy are the people who underpin this business, our employees, and the culture that they operate in.**

**Science will continue to be a primary driver of our efforts.**

**We will work to enable more consumers around the world to have access to smokeless products.**

**Further embedding sustainability and integrity into all of our activities will continue to be a priority.**

**It is an exciting time to be part of BAT and I look forward to working with colleagues around the globe to Build a Smokeless World and drive A Better Tomorrow™.**

### Sustainable Future

The Sustainable Future pillar re-emphasises our overarching goal of creating A Better Tomorrow™.

Science will continue to be a primary driver of our efforts. We will support the science behind smokeless products through more active external engagement, including with regulators. We will work to provide more consumers around the world with access to smokeless products in a responsible manner.

Of course, further embedding sustainability and integrity into all of our activities will continue to be a priority and you can read more about our efforts there on page 60.

### Dynamic Business

The Dynamic Business pillar highlights our commitment to strengthening our already winning organisation and ensuring we are efficient and effective in all of our operations.

By focusing here and being data-driven, we believe we can create the financial flexibility to invest in our people, our products and provide returns to our investors.

Key to delivering on our refined strategy are the thousands of people around the world who work at BAT and the culture that they operate in.

#### Notes:

<sup>1</sup> Please refer to the Non-GAAP section from page 335 for the Non-GAAP measures definitions.

\* 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 new Chief People Officer, Dr Cora Koppe-Stahrenberg, and I will be working closely together, to foster the kind of human-centric, skills-enabled and performance-driven organisation that is essential to driving forward our strategic agenda.

Increasing our financial flexibility is another core part of the Dynamic Business pillar. Continuing our disciplined approach to capital allocation and debt management will be crucial. Having moved into the middle of our leverage range, <sup>at</sup> 2.57 times adjusted net debt to adjusted EBITDA<sup>at</sup>, we have increasing flexibility to deliver long-term value while taking into account macro-economic and regulatory developments.

### Facing the Future with Confidence

Looking to the future, it is clear to me that the fundamentals of our strategy remain correct.

We have rearticulated our purpose to clarify our intention to move our business beyond cigarettes, and we will continue to address the difficult decisions that this purpose entails.

We are sharpening our executional focus to enable high quality, repeatable growth, supported by science, stakeholder engagement and with sustainability and integrity at the core.

We are an organisation ready to deliver, with operational excellence and an ability to flexibly manage our capital allocation decisions for the benefit of all stakeholders.

It is an exciting time to be part of BAT and I look forward to working with colleagues around the globe to Build a Smokeless World and drive A Better Tomorrow™.



From left to right, Johan Vandermeulen, COO, Tadeu Marroco, Chief Executive, and Usman Zahur, Area Director Central Europe