

## Overview

# Our Global Business

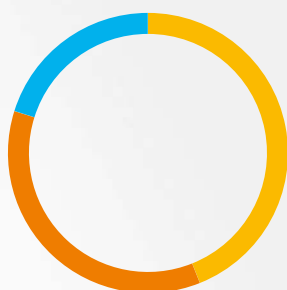
**Our regional profile maximises opportunities for quality growth in our sector.**  
Each of our markets is accountable for its own performance and driving growth.

Our in-depth marketplace analysis delivers insights on consumer trends and segmentation, which facilitates our geographic brand prioritisation across our regions and markets.

Consumer preferences and technology are evolving rapidly, and we are staying ahead of the curve with our digital hubs and innovation centres. We are also leveraging the expertise of our external partners and are looking forward to exciting results from our venturing initiative, Btomorrow Ventures.

**+** Read more about our Markets and Megatrends on [page 26](#)

## Revenue by Region



**£27,283m**

Total revenue

<span style="color: yellow;">■</span> U.S.	£11,994m
<span style="color: orange;">■</span> AME	£9,791m
<span style="color: blue;">■</span> APMEA	£5,498m

**+** For more key detail on our Regional Performance, see [pages 44 to 49](#)

## Our Three Complementary Regions

Map is accurate as at 31 December 2023 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 three complementary regions, with a balanced presence in both high-growth emerging markets and highly profitable developed markets.



3

regions



5

major product categories



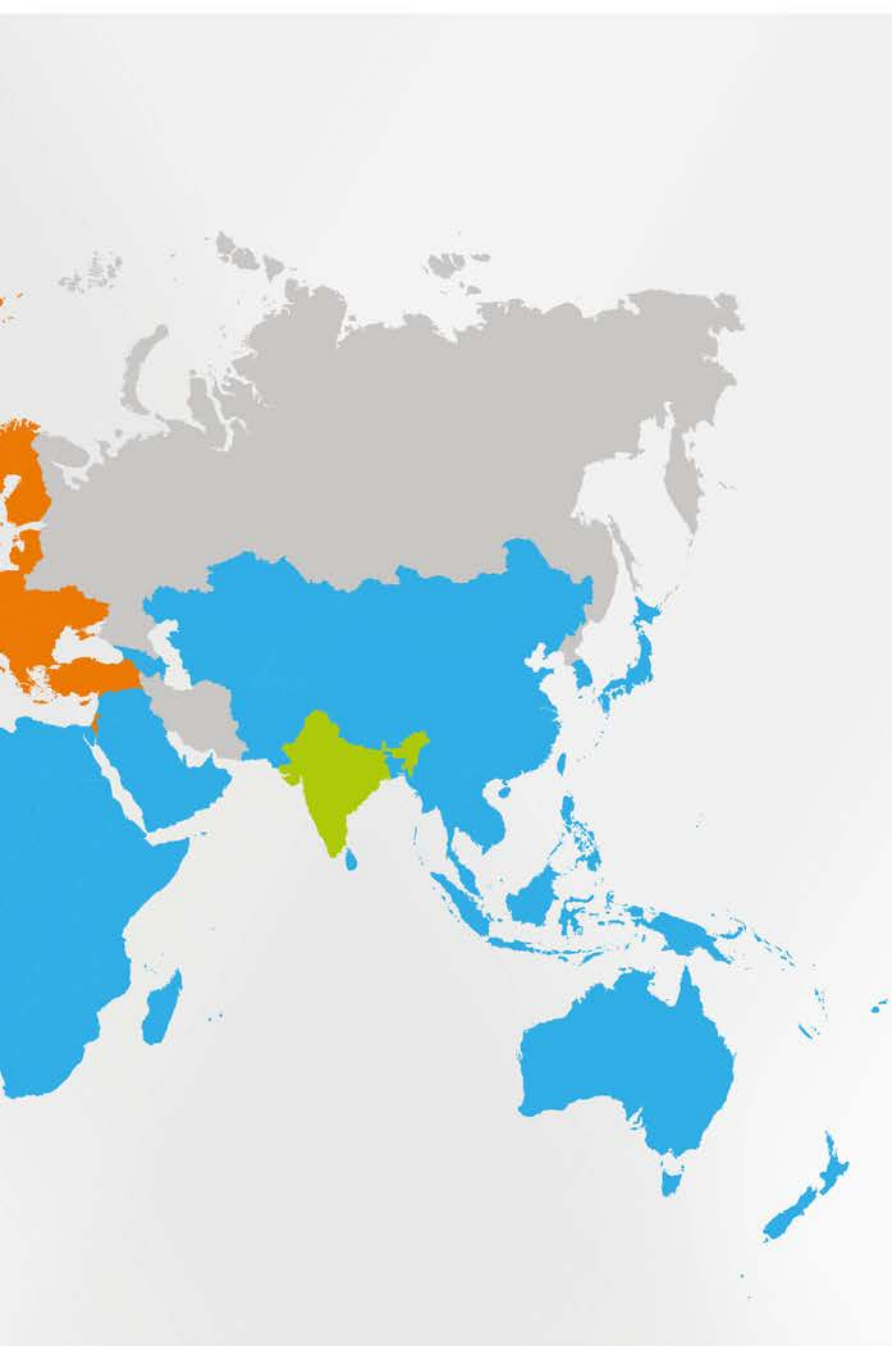
135

employee nationalities



46,000+

employees



#### United States of America (U.S.)

**Key Markets:**  
U.S.

#### Americas and Europe (AME)

**Key Markets:**  
Belgium, Brazil, Canada, Chile, Colombia, the Czech Republic, Denmark, France, Germany, Greece, Hungary, Italy, Mexico, Netherlands, Poland, Romania, Spain, Switzerland, Ukraine, the UK.

#### Asia-Pacific, Middle East and Africa (APMEA)

**Key Markets:**  
Australia, Bangladesh, Japan, Kazakhstan, Malaysia, New Zealand, Pakistan, Saudi Arabia, South Africa, South Korea, Taiwan, Vietnam.

[+ Read more on pages 44 to 49](#)

#### Associates and joint ventures

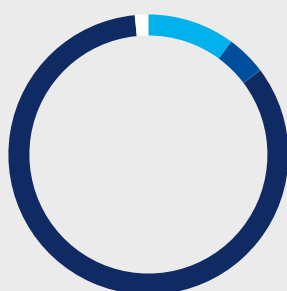
**Key Markets:**  
India

## Strategic Management

## Our Multi-Category Portfolio

**BAT is a consumer-focused business operating internationally. Our multi-category approach means we are well placed to provide adult consumers with products designed for every mood and moment.** Our portfolio reflects our commitment to meeting the evolving and varied needs of today's adult consumers.

## Revenue by Product Category



New Categories	£3,347m	12.3%
Traditional Oral	£1,163m	4.2%
Combustibles	£22,108m	81.0%
Other	£665m	2.5%

**£27,283m**  
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 smokeless portfolio	<b>Vapour</b> Vapour products are battery-powered devices that heat e-liquids to produce an inhalable aerosol, commonly known as vapour. Although e-liquids usually contain nicotine, there is no tobacco in Vapour products. <a href="#">+ Read more on page 30</a>
	<b>Heated Products</b> Heated Products (HPs) comprise two main functional parts; an electronic handheld device that contains a lithium-ion battery that powers a heating chamber; and a specially designed consumable that is inserted into the device. Everything has been designed so that nicotine and flavour are released through precision heating. <a href="#">+ Read more on page 32</a>
	<b>Modern Oral</b> Modern Oral products are pouches which contain high purity nicotine, water, and other high-quality ingredients. Consumers place the disposable pouch between their gum and upper lip, typically for around 30 minutes, during which time nicotine and flavours are released and the nicotine is absorbed through the tissues lining the mouth. <a href="#">+ Read more on page 34</a>
	<b>Traditional Oral</b> 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. <a href="#">+ Read more on page 36</a>
<b>Combustibles</b> The Group sold 555 billion cigarette sticks and 15 billion OTP (stick equivalents) in 2023. The Group operates internationally, with 38 fully integrated cigarette manufacturing facilities in 36 markets. <a href="#">+ Read more on page 37</a>	

Global Drive Brands		Market Footprint
		<p><b>63</b></p> <p>markets where our Vapour products are currently available</p>
		<p><b>31</b></p> <p>markets where our HPs are currently available</p>
		<p><b>34</b></p> <p>markets where our Modern Oral products are currently available</p>
		<p><b>3</b></p> <p>markets where our Traditional Oral products are currently available</p>
		<p>U.S. Specific</p>  

## Overview

## Chair's Introduction

## Transformation in Action

**Our strategy and purpose were discussed extensively during 2023. The result of these discussions was the decision to provide greater clarity on what we mean by A Better Tomorrow™. It means we are committed to Building a Smokeless World.**

**Luc Jobin**  
Chair

### Dear Fellow Shareholders,

During 2023, the world continued to experience a period of extensive and prolonged uncertainty.

The global economy has entered an era of upheaval, as geopolitical tensions continue to destabilise economies and societies.

Cost-of-living pressures are being compounded by inflation, and this represents a significant challenge for major economies. This has resulted in re-adjustments in work habits and in consumer behaviour.

Ambiguity and uncertainty have long occupied discussions in boardrooms, but I cannot recall a time when this was so pronounced.

As always, my colleagues around the world have responded to the operating environment with resilience and resourcefulness. I would like to thank them, on behalf of the Board, for their ongoing dedication and diligence.

### Leadership for the Future

In May 2023, the Board announced a change in the leadership of BAT, with Tadeu Marroco appointed as Chief Executive.

With 30 years of experience across the entire business, Tadeu was the outstanding choice to lead BAT into the next chapter of its history.

With his track record of delivering transformation, building strong teams and ensuring financial discipline, Tadeu is well placed to build on our A Better Tomorrow™ strategy that was first articulated in 2020.

Following his appointment, in June 2023 Tadeu reshaped his Management Board to support a greater focus on improved execution and operational excellence. Having also appointed a new Chief People Officer and with a new Chief Financial Officer due to join us from 1 May 2024, the Board believes the management team at BAT is well placed to execute on the strategy of the business to deliver long-term value for stakeholders.

### Refining our Strategy and Purpose

In the context of a rapidly changing world, it is important that shareholders have a holistic view of BAT and our place in it.

This is the second year that we have embedded our sustainability data into our Annual Report.

Our Combined Annual and Sustainability Report again represents the fullest depiction of BAT's business strategy and performance.

Our strategy and purpose were discussed extensively during 2023. The result of these discussions was the decision to provide greater clarity on what we mean by A Better Tomorrow™. It means we are committed to Building a Smokeless World.

This is a commitment to migrate our cigarette consumers actively, sustainably and responsibly to reduced risk<sup>†</sup>, smokeless alternatives. In so doing, BAT will deliver for consumers, investors and society, while employees will benefit from a purpose-driven business that they can feel excited about.

Built around the three pillars of Quality Growth, Sustainable Future and Dynamic Business the Board believes this refined strategy is right for the long-term success of BAT. Tadeu discusses this in more detail on page 8 and further information on the refined strategy can be found on page 14.

The refined strategy is a natural extension of the foundations that were laid in 2020 and provides clarity on what BAT intends to focus on in the years to come.

The Board has been engaged in much discussion during the year about 'what' the business should deliver in the future. It is, of course, important for shareholders to understand 'how' we have delivered this year and how we think success should be measured against the refined strategy going forward. Our Combined Annual and Sustainability Report seeks to do that, while honing our non-financial disclosures towards the reporting requirements of the EU Corporate Sustainability Reporting Directive (CSRD).

### Our Values and Culture

A strategy is little without the right culture instilled across the organisation to deliver it. A truly dynamic business is one where the people within it understand the strategic aims and the expected behaviours to achieve them.

Values are an important facet of continuing to be an exciting and winning company. It is why the Board was pleased to see a set of rearticulated values being developed in parallel with the refined strategy.

### Long-Term View of the Business

Despite an increasingly turbulent external environment, the fundamentals of the tobacco and nicotine sector remain attractive, and the Board believes BAT is in a strong position to realise its potential.

The growth of adult smokers seeking smokeless alternatives is a long-term, sectoral trend. There remain more than one billion adult smokers in the world and there are many jurisdictions which, with the right regulatory approach, could see smoking rates decline faster through greater acceptance of smokeless products.

With our multi-category portfolio, BAT is well placed to capitalise on this consumer shift to smokeless products while continuing to manage the combustible cigarette business in a responsible manner.







**Ambiguity and uncertainty have long occupied discussions in boardrooms, but I cannot recall a time when this was so pronounced.**

**As always, my colleagues around the world have responded to the operating environment with resilience and resourcefulness.**

**A truly dynamic business is one where the people within it understand the strategic aims and the expected behaviours to achieve them.**

**Despite an increasingly turbulent external environment, the fundamentals of the tobacco and nicotine sector remain attractive, and BAT is well placed to realise its potential.**

**The growth of adult smokers seeking smokeless alternatives is a long-term, sectoral trend.**

**With our geographic footprint and multi-category portfolio, BAT is well placed to capitalise on this consumer shift to smokeless products, while managing the combustible cigarette business in a responsible manner.**

**BAT's Board and leadership team remain focused on securing long-term, sustainable value creation, by nurturing BAT's culture, building our brands, and delivering A Better Tomorrow™.**

We believe that growth within the smokeless category will be driven by sustained investment in our brands and targeted innovation to respond to evolving consumer preferences and tastes. Combined with active portfolio management, we believe that continuing to invest in our brands is fundamental to sustaining BAT's performance for the future.

#### Dividends

Reflecting the confidence in our business and its future prospects, the Board has declared a dividend of 235.52p per ordinary share, payable in four equal instalments of 58.88p per ordinary share, to shareholders registered on the UK main register or the South Africa branch register and to American Depositary 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 55 of the Financial Performance Summary and page 388 in the Shareholder Information section.

#### Board Changes

I was very pleased to welcome Murray Kessler and Serpil Timuray to our Board this year.

Both Murray and Serpil join the Board as independent Non-Executive Directors and members of the Nominations and Remuneration Committees.

Murray possesses extensive leadership experience in growing consumer product companies and managing regulated businesses.

Serpil also brings experience in growing consumer and enterprise product companies, as well as managing global strategy, marketing, innovation and digital transformation.

I am looking forward to their respective contributions as we accelerate our strategy to build A Better Tomorrow™.

#### Summary and Outlook

While sustained volatility and uncertainty will continue to present challenges, we believe BAT remains well-positioned and resilient.

We are diversified by category, price point and geography. Our smokeless portfolio has been designed to take advantage of sectoral shifts. Our people are highly engaged and have a track record of delivery during uncertain times.

Additionally, our continued investment in our brands and deep understanding of our consumers position us well to capture opportunities in tobacco, nicotine and beyond, markets we believe have very attractive fundamentals.

BAT's Board and leadership team remain focused on securing long-term, sustainable value creation, by nurturing BAT's culture, building our brands, and delivering A Better Tomorrow™.

#### 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.



From left to right, Group Chair, Luc Jobin, Non-Executive Director Kandy Anand and Chief Executive, Tadeu Marroco

## 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



## Overview

## Our Year in Numbers

Our Performance Metrics							2023	%	2022	%	2021	IFRS GAAP KPI	NON GAAP
Consumer													
Number of Non-Combustible Product Consumers <sup>1</sup>							23.9m		20.7m		17.1m		
Market Share													
Cigarette and HP volume share growth (bps)							-10 bps		-10 bps		+10 bps	●	
Cigarette and HP value share growth (bps)							-50 bps		flat		+20 bps		
Volume													
Vapour (mn 10ml units/pods)							654	+7%	612	+14%	535		
HP (bn sticks)							24	-1%	24	+26%	19		
Modern Oral (mn pouches)							5,360	+34%	4,010	+22%	3,296		
Traditional Oral (bn stick equivalents)							7	-10%	7	-8%	8		
Cigarettes (bn sticks)							555	-8%	605	-5%	637		
Other Tobacco Products (bn stick equivalents)							15	-11%	16	-10%	18		
Financial													
Revenue (£m)							27,283	-1.3%	27,655	+7.7%	25,684	●	
Revenue at cc (%) <sup>2,3</sup>								+1.6%		+2.3%		● ●	
Revenue from New Categories (£m)							3,347	+15.6%	2,894	+40.9%	2,054	●	
Revenue from New Categories at cc (%) <sup>2</sup>								+17.8%		+37.0%		● ●	
(Loss)/Profit from Operations (£m)							-15,751	-250%	10,523	+2.8%	10,234	●	
Adjusted Profit from Operations at cc (%) <sup>2,3</sup>								+3.1%		+4.3%		● ●	
Operating Margin (%)							-57.7%		38.1%		39.8%	●	
Adjusted Operating Margin (%) <sup>3</sup>							45.7%		44.9%		43.4%		●
Diluted (Loss)/Earnings per Share (p) <sup>4</sup>							-646.6	-322%	291.9	-1.3%	295.6	●	
Adjusted Diluted Earnings per Share (p) <sup>3,4</sup>							375.6	+1.1%	371.4	+12.9%	329.0	● ●	
Adjusted Diluted Earnings per Share at cc (%) <sup>2,3</sup>								+4.0%		+5.8%		● ●	
Dividends per Share (p)							235.5	+2.0%	230.9	+6.0%	217.8		
Dividend Payout Ratio (%)							63%		62%		66%		
Net Cash Generated from Operating Activities (£m)							10,714	+3.1%	10,394	+7.0%	9,717	●	
®Free Cash Flow after Dividends (£m)							3,305	+5.5%	3,134	+23.2%	2,543		●
Cash Conversion (%)							-68%		99%		95%	●	
®Operating Cash Conversion (%)							100%		100%		104%	● ●	
Borrowings, including Lease Liabilities (£m)							39,730	-7.9%	43,139	+8.8%	39,658	●	
®Adjusted Net Debt to Adjusted EBITDA (ratio) <sup>3</sup>							2.6x		2.9x		3.0x	● ●	
®Adjusted Return on Capital Employed (%) <sup>3</sup>							11%		10%		9%		
Total Shareholder Return (rank)							13 of 24		4 of 24		17 of 23	●	

**+** Find our key ESG goals, targets and metrics in our ESG Roadmap on [page 11](#)

Please refer to the Non-GAAP section from page 335 for the Non-GAAP measures definitions. See the section 'Non-Financial Measures' on page 333 for more information on these non-financial KPIs.

**Notes:**

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

- Excludes Russia and Belarus.
- 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 59 for the major foreign exchange rates used for Group reporting.
- 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.
- In 2023, the Group reported a loss for the year. Following the requirements of IAS 33, the impact of share options would be antidilutive and is therefore excluded, for 2023, from the calculation of diluted earnings per share, calculated in accordance with IFRS, for that year. For remuneration purposes, and reflective of the Group's positive earnings on an adjusted basis, management have included the dilutive effect of share options in calculating adjusted diluted earnings per share.

# Our ESG Roadmap

Our ESG Roadmap contains some of our key sustainability ambitions and targets, metrics and performance tracking.

<b>Key</b> Achieved – Met target/ambition on or ahead of time     On track – Likely to meet target/ambition on time     Ongoing focus – Continued progress towards target/ambition required     Not on track – Significant progress required to meet target/ambition on time						
Topic	Ambitions and targets	Metrics	Performance tracking			
			2023	2022	2021	Status
<b>Harm reduction</b>	<b>£5bn by 2025</b> in revenue from New Categories	New Category revenues (£bn)	<b>3.3</b>	2.9	2.1	
	<b>50m by 2030</b> consumers of our Non-Combustible products	No. of consumers (millions), <sup>①②</sup> excluding Russia and Belarus	<b>23.9</b>	20.7	17.1	
<b>Climate change</b>	<b>Net Zero GHG emissions by 2050</b>	Scope 1 and 2 (market-based) CO <sub>2</sub> e emissions (thousand tonnes) <sup>③④</sup>	<b>362</b>	420	495	
	<b>50% reduction</b> in Scope 1 and 2 GHG emissions by 2030 (vs 2020 baseline) <sup>1</sup>	Scope 1 and 2 CO <sub>2</sub> e emissions intensity (tonnes per £m revenue) <sup>③④</sup>	<b>13.3</b>	15.2	19.3	
		% Scope 1 and 2 CO <sub>2</sub> e emissions reduction vs 2020 baseline	<b>33.1</b>	22.3	8.4	
	<b>50% reduction in Scope 3 GHG emissions by 2030</b> (vs 2020 baseline) <sup>1</sup>	Scope 3 CO <sub>2</sub> e emissions (thousand tonnes) including biogenic emissions and removals <sup>③④</sup>	<b>–<sup>2</sup></b>	6,045	6,496	
<b>Circular economy</b>	<b>25% reduction in waste generated</b> in own operations by 2025 (vs 2017 baseline)	% reduction in waste generated	<b>28.2</b>	21.5	14.1	
	<b>100% packaging</b> to be reusable, recyclable or compostable by 2025	% packaging reusable, recyclable or compostable	<b>94</b>	92	92	
		% markets selling Vuse and glo with Take-Back schemes	<b>100</b>	100	100	
<b>Biodiversity and ecosystems</b>	<b>Deforestation and Conversion Free</b> tobacco supply chain by 2025	% sources of wood used by our contracted farmers for curing fuels that are from sustainable sources <sup>③④</sup>	<b>99.99</b>	99.99	99.89	
	<b>Deforestation Free</b> pulp and paper supply chain by 2025	% of pulp and paper materials sourced with low risk of deforestation	<b>69.3</b>	N/A	N/A	
	<b>Forest Positive</b> in our tobacco supply chain by 2025 (vs 2021 baseline)	Hectares of forests planted for conservation and Forest Positive	<b>68.8</b>	27.6	N/A	
<b>Water</b>	<b>35% less water use by 2025</b>	% reduction in water withdrawn vs 2017 baseline	<b>39.2</b>	32.6	27.6	
	<b>100% operations sites</b> Alliance for Water Stewardship certified by 2025	% operations sites Alliance for Water Stewardship (AWS) certified	<b>68.8</b>	36.4	15.0	
<b>Employees, diversity and culture</b>	<b>Increase to 45% by 2025</b> proportion of women in Management roles <sup>⑤⑥</sup>	% female representation in Management roles <sup>⑤⑥</sup>	<b>42</b>	41	39	
	<b>Increase to 40% by 2025</b> proportion of women on Senior Leadership teams <sup>⑤⑥</sup>	% female representation on Senior Leadership teams <sup>⑤⑥</sup>	<b>33</b>	30	27	
	<b>Zero accidents</b> aiming for zero accidents Group-wide each year	Lost Time Incident Rate (LTIR) <sup>⑦⑧</sup>	<b>0.17</b>	0.19	0.20	
		Number of serious injuries and fatalities to employees and contractors <sup>⑦⑧</sup>	<b>25</b>	36	31	
<b>Human rights<sup>3</sup></b>	<b>Zero child labour</b> aiming for zero incidents in our tobacco supply chain by 2025	% farms with incidents of child labour identified <sup>⑨⑩</sup>	<b>0.15</b>	0.38	0.70	
		% incidents of child labour identified and reported as resolved by the end of the growing season <sup>⑨⑩</sup>	<b>100</b>	100	100	
<b>Farmer livelihoods and communities<sup>3</sup></b>	<b>Prosperous livelihoods</b> we are committed to working to enable prosperous livelihoods for all farmers in our tobacco supply chain	% farmers in our Thrive Supply Chain <sup>3</sup> reported to grow other crops for food or as additional sources of income <sup>③④</sup>	<b>93.3</b>	92.8	95.6	
<b>Marketing and communications</b>	<b>Full compliance</b> aiming for full compliance with marketing regulations	Incidents of non-compliance with marketing regulations resulting in a fine or penalty <sup>⑪⑫</sup>	<b>3</b>	2	N/A	
	<b>100% SoBC compliance</b> aiming for full adherence to our Standards of Business Conduct (SoBC)	Number of established SoBC breaches <sup>⑬⑭</sup>	<b>123</b>	84	99	
		Number of disciplinary actions taken as a result of established SoBC breaches that resulted in people leaving BAT <sup>⑬⑭</sup>	<b>79</b>	58	46	
<b>Supplier engagement</b>	<b>100%</b> of product material and high-risk indirect suppliers having at least one independent audit within a three-year cycle	% product material and higher-risk indirect service suppliers having an independent labour audit within a three-year cycle <sup>⑮⑯</sup>	<b>58.8</b>	36.6	22.0	

## Notes:

①② 2023 (2022 for Scope 3) metrics with independent limited assurance by KPMG in accordance with ISAE (UK) 3000; see page 119 for a full list of assured metrics. ③ Environmental and health and safety data is reported for the period 1 December 2022 to 30 November 2023. See page 115 for CO<sub>2</sub>e emissions reporting methodology. 1. Compared to a 2020 baseline. Our near-term 2030 science-based targets comprise 50% reduction in Scope 1 and 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. 2. Due to the complexity of consolidating and assuring Scope 3 data from our suppliers and value chain, this is reported one year later. In 2022 we further enhanced our Scope 3 calculation methodology leading to the reporting periods 2020 and 2021 being restated accordingly. 3. Our ambitions cover all tobacco we purchase for our products ('tobacco supply chain'), which is used in our combustibles, Traditional Oral and Tobacco Heated Products. Our metrics, however, derive data from our annual Thrive assessment, which includes our directly contracted farmers and those of our third-party suppliers, which represented over 94% of the tobacco we purchased by volume in 2023 ('Thrive Supply Chain'). 4. In line with a reclassification of 'ongoing incidents' (which, from 2023 reporting will be included as an 'incident' when the final decision is issued), the 2022 number has been restated (three previously reported for 2022). 5. Consistent with previous years' reporting, cases are not included if investigations were not resolved at year-end.

## Overview

## Interim Finance Director's Overview

**Despite the U.S. impairment negatively impacting our reported results, the Group's operational financial performance demonstrates the resilience of the business. We are highly cash generative and remain committed to our capital allocation framework.**

**Javed Iqbal**

Interim Finance Director



2023 has been a challenging year as we navigated a number of issues in our performance.

Our New Categories business is already profitable (at the category contribution level), two years earlier than our original plan, while our global footprint allows us to deliver on our financial priorities despite a challenging U.S. environment.

① I am particularly pleased that our disciplined approach to capital allocation and debt management has brought us closer to the middle of our leverage range (at 2.6x adjusted net debt to adjusted EBITDA). ② We remain highly cash generative, allowing us to balance investment in the future while rewarding shareholders with a further increase in dividends (up 2.0% to 235.5p, being 25 years of annual dividend increases).

The sale of our businesses in Russia and Belarus was completed in September 2023, and due to the timing of the transaction partway through the year, this was a headwind on our comparative performance as 2023 does not include a full year's performance from those markets. Combined with a lower underlying performance in Russia as we reduced investment and focus, the comparative impact on revenue was £456 million.

During 2023, we have observed an acceleration of the decline rates in cigarette volume in the U.S., after a period of instability in market trends driven by the COVID-19 pandemic. In response to these increased decline rates, we have revised our forecast performance for the U.S. market, reflecting the ongoing difficult macro-economic environment, uncertainty regarding the impact of the potential menthol ban and continued drag on our legal Vapour business by the illicit single-use products. Accordingly, we have recognised a non-cash impairment charge of £27.3 billion, of which £4.3 billion is in respect of goodwill.

The balance of £23.0 billion mainly relates to the acquired U.S. combustibles brands of Newport, Camel, Natural American Spirit and Pall Mall which are now considered to have a useful economic life not exceeding 30 years, rather than into perpetuity, aligned with our strategy to Build a Smokeless World.

We will, therefore, be commencing amortisation of the U.S. cigarette brands (previously recognised for accounting purposes as indefinite-lived) from 1 January 2024. This non-cash charge of £1.4 billion per annum will be treated as an adjusting item.

### @New Categories Driving Group Revenue Growth@

Total Group revenue declined 1.3% to £27,283 million in 2023 (having grown 7.7% in 2022 to £27,655 million).

However, excluding foreign exchange movements (which were a headwind of 2.9% in 2023 and a tailwind of 5.4% in 2022) on a constant currency basis, revenue was up 1.6% in 2023 and 2.3% in 2022.

This was driven by:

- New Categories revenue, up 17.8% in 2023 and 37.0% in 2022; and
- continued combustibles pricing, with Group price/mix of 7.5% in 2023 (4.6% in 2022);

and partly offset by:

- the impact of the sale of the Russian and Belarusian businesses; and
- lower combustibles volume (down 8.3% in 2023) largely due to the difficult trading in the U.S. where volume was 11.3% lower.

Profit from operations declined 250% to be a loss of £15,751 million, compared to a profit of £10,523 million in 2022, an increase of 2.8%.

The decline in 2023 was due to the impairment charges referred to earlier in respect of the U.S. (goodwill and brands). 2022 was negatively impacted by a number of other adjusting charges which did not repeat or were substantially lower in 2023. These include the previously disclosed charges in respect of:

- The sale of the Russian (and Belarusian) business (2023: £353 million, 2022: £612 million);
- Restructuring and integration programmes, including Quantum, being a release in 2023 of £2 million from the previously recognised provision, which was a charge of £771 million in 2022;
- The agreement with the United States Department of Justice (DOJ) and the United States Department of the Treasury's Office of Foreign Assets Control (OFAC) to resolve historical breaches of sanctions (2023: £75 million, 2022: £450 million); and
- A charge in 2022 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 charges were partly offset by a net credit of £167 million (2022: £460 million) in Brazil as the Group revised the calculation of VAT and excise on social contributions in prior periods following updated guidance and the conclusion of litigation.

Our operating margin was consequently 95.8 ppts lower at -57.7% in 2023 (2022: down 170 bps to 38.1%).



**We aim to continue to reward shareholders and our financial performance allows us to further increase our dividend by 2.0% - marking 25 years of annual dividend increases.**

**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), mid-single figure adjusted profit from operations growth (excluding currency) and growth in dividends. @**

**Profit from operations was down -250% (2022: up 2.8%), impacted by the impairment charges largely in respect of the U.S. goodwill and brands.**

**Strong cash generation has enabled us to return £5.1 billion of cash to shareholders in 2023, while still deleveraging @to 2.6x adjusted net debt to adjusted EBITDA@.**

Excluding these significant adjusting items, and a translational foreign exchange headwind of 2.6%, on an adjusted constant currency basis (which we believe reflects the operational performance of the Group) profit from operations grew by 3.1% (2022: up 4.3%), due to the continued reduction in losses @of £398 million@ from New Categories, which are now profitable at a category contribution level- two years ahead of our original plan.

Adjusted operating margin (at current rates) increased 80 bps to 45.7% (2022: up 150 bps to 44.9%) driven by the reduction in New Categories losses in both years, combined with the impact of the disposal of the Group's businesses in Russia and Belarus, as the margins of those businesses were lower than the Group average.

#### **EPS Impacted by U.S. Impairment, Offsetting Resilient Operating Performance**

On a reported basis, basic EPS was down 320% at -646.6p (2022: down 1.2% at 293.3p) with diluted EPS 322% lower at -646.6p (2022: down 1.3% to 291.9p), as 2023 was impacted by the impairment charges recognised in respect of the U.S.

Excluding both the adjusting items (discussed on pages 52 and 53) and the effect of foreign exchange on the Group's results, adjusted diluted earnings per share, at constant rates, increased by 4.0% to 386.4p, building on the 5.8% growth in 2022. The performance in 2023 was also impacted by the timing of the sale of the Group's businesses in Russia and Belarus during the year, a negative headwind on the performance of 1.2%.

#### **Active Capital Allocation Framework Ensures Deleverage, Investment and Investor Returns**

We remain committed to our active capital allocation framework, which we expect 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 to adjusted EBITDA@;
- Potential bolt-on M&A opportunities; and
- Share buy-backs to enhance shareholder returns.

The Group remains highly cash generative, realising £10.7 billion (2022: £10.4 billion) of net cash generated from operating activities. @This translates to £3.3 billion (2022: £3.1 billion) of free cash flow after dividends. @

This allowed for a net repayment of borrowings in the year, with total borrowings (including lease liabilities) down from £43,139 million in 2022 to £39,730 million in 2023.

Consequently, our leverage ratio has improved towards the middle of our range@, with an adjusted net debt to adjusted EBITDA ratio decreasing from 2.9 times to 2.6 times@.

Our liquidity profile remains strong, with average debt maturity close to 10.5 years and maximum debt maturities in any one calendar year of around £4 billion@. Our medium-term rating target remains Baa1/BBB+@, with a current rating of Baa2 (positive outlook), BBB+ (negative outlook), BBB (positive outlook) from Moody's, S&P and Fitch\*, respectively.

In August 2023, the Group completed a tender offer to repurchase sterling-equivalent £3,133 million of bonds, including £43 million of accrued interest, reducing future refinancing risk. The Group has debt maturities of around £3.2 billion annually in the next two years. Due to higher interest rates, net finance costs are expected to increase as debts are refinanced.

#### **25 Years of Consistent Dividend Growth**

We are extremely proud of our long history of dividend growth.

2023 marks the 25th consecutive year of sterling dividend increases, with a further increase of 2.0% to 235.52p (with a dividend payout ratio of 62.7%).

#### **Facing the Future with Increasing Confidence**

Our business is 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.



## Our Strategy

# Our Refined Strategy

**To accelerate the next phase of our transformation, we are committing to Building a Smokeless World.**

This means we will deploy our global multi-category portfolio to actively encourage smokers to switch to smokeless products – in nicotine and beyond.

## A BETTER TOMORROW™

### Building a Smokeless World

The tobacco and nicotine industry has undergone a seismic shift in recent years. Increasing numbers of adult smokers are migrating to smokeless products like Vapour products, Heated Products and Modern Oral nicotine pouches.

With an increasing amount of scientific research behind these products, they represent an opportunity for Tobacco Harm Reduction on a global scale.

We have played a significant part in the ongoing industry transformation towards Tobacco Harm Reduction. Our multi-category strategy continues to be the right one to meet the evolving preferences of adult consumers around the world and deliver business growth.

We have built a portfolio of three powerful smokeless product brands: Vuse, glo and Velo, which have delivered more than £3 billion of annual revenue in just a decade. After significant early-stage investments, we are encouraged that our New Categories are profitable (at a category contribution level) two years ahead of our original target. Our focus on driving revenue growth and margin expansion will continue.

To accelerate the next phase of our transformation, we are committing to Building a Smokeless World. This means we will deploy our global multi-category portfolio to actively encourage smokers to switch to smokeless products – in nicotine and beyond. In essence, to encourage smokers to 'Switch to Better'. In turn, this will realise the multi-stakeholder benefits of A Better Tomorrow™.

At a business level, our aim is to become a predominantly smokeless business, with 50% of our revenue from Non-Combustibles by 2035.

To deliver this, we have refined our Group strategy to ensure clear lines of sight across the entire organisation.

Built around the three pillars of Quality Growth, Sustainable Future and Dynamic Business, our Strategic Navigator outlines the nine priority building blocks that support the achievement of our ambition to Build a Smokeless World.

Through these priorities, we will deliver the strategic outcomes against which our performance will be measured.

#### Quality Growth

Transitioning to a more balanced focus on top-line and bottom-line delivery, focusing on our brands and innovation, and continuing to seek long-term opportunities Beyond Nicotine.

#### Sustainable Future

Seeking to actively migrate consumers away from cigarettes and to smokeless alternatives sustainably, responsibly and with integrity.

#### Dynamic Business

Building a future-fit, data-driven organisation and ensuring we are efficient and effective in all of our operations. This will create the greatest financial flexibility possible to invest in our people, our products and provide returns to our investors.



**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



# Our Strategic Navigator



**Purpose/Vision/Mission**



**Pillars & Building Blocks**



**We are BAT: Our Values**

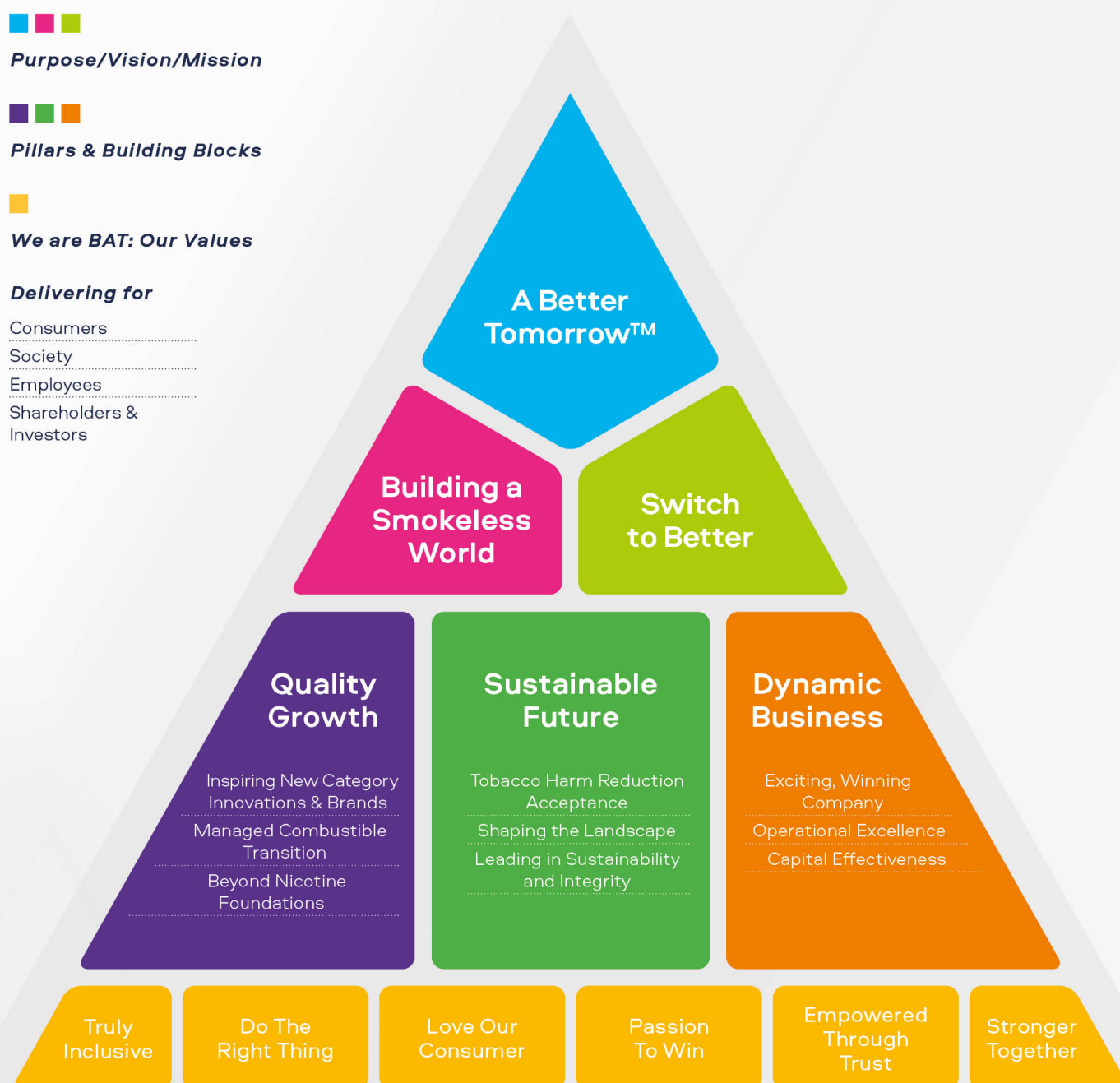
**Delivering for**

Consumers

Society

Employees

Shareholders &  
Investors



## Our Strategy

## Strategic Summary

**Our Purpose:**

A Better Tomorrow™

**Our Vision:**

Building a Smokeless World

**Our Mission:**To encourage smokers  
to Switch to Better**A Better Tomorrow™ — Building a Smokeless World**

To deliver on our vision of Building a Smokeless World, our aim is to become a predominantly smokeless business – with 50% of our revenue in Non-Combustible products by 2035. To enable this, we have refined our Group strategy to ensure clear lines of sight across the entire organisation.

Built around the three pillars of **Quality Growth**, **Sustainable Future** and **Dynamic Business**, our Strategic Navigator outlines the nine priority building blocks that support the achievement of our ambition to Build a Smokeless World. Through these priorities, we will deliver the strategic outcomes against which our performance will be measured.



## Quality Growth

**Transitioning to a more balanced focus on top-line and bottom-line delivery, focusing on our brands and innovation, and continuing to seek long-term opportunities Beyond Nicotine.**

In the tobacco and nicotine industry, stable combustibles revenues and accretive New Category growth underpin continued revenue growth.

Yet, only around 10% of the world's one billion smokers have made the Switch to Better and replaced combustibles with smokeless products.

The long-term opportunity for growth, as we strive to accelerate this transformation, remains vast.

Prioritising where and what products to focus on, via our market archetype model, will guide our human and financial resource allocation decisions.

We will enhance our innovation ecosystem with a single-minded aim: developing an outstanding pipeline of new, scientifically substantiated products.

Our combustibles business remains essential to funding our transformation and continuing to reward our shareholders.

In Beyond Nicotine, we will build a pathway to a new portfolio of non-nicotine-based products that can enhance BAT's growth beyond 2025.

Within Beyond Nicotine there are two categories that BAT is exploring: Wellbeing and Stimulation – functional consumable products that help people manage their mood and wellbeing; and cannabis.

### Our commitments under Quality Growth:

Progressing toward quality, margin-accretive growth in smokeless products

FMC volume decline but expecting continuing value delivery

Sensibly investing for the future Beyond Nicotine

**+** For more details on the Quality Growth pillar of our refined strategy see [page 28](#)

## Sustainable Future

**Seeking to actively migrate consumers away from cigarettes and to smokeless alternatives sustainably, responsibly and with integrity.**

There has been significant progress in the global Tobacco Harm Reduction (THR) journey over the past decade. Today, there are three significant global smokeless tobacco and nicotine product categories: Vapour products, Heated Products and Modern Oral nicotine products.

Our ambition is to reduce the health impact of our business via THR – migrating more smokers to smokeless products and advocating for the right regulatory environments for these products to flourish. We must do this responsibly and with integrity.

We recognise and support the objective of governments to reduce smoking rates and its associated health impact.

Combustible tobacco products pose serious health risks. The only way to avoid these risks is not to start or to quit smoking.

For those adults who would otherwise continue to smoke or start smoking, we believe they should be able to make better choices by opting for smokeless alternatives instead of cigarettes.

Science will be a primary driver of our efforts, supported by more active external engagement with regulators and other key stakeholders, while embedding sustainability across our organisation.

As we transition from cigarettes to smokeless products, our transformation must be comprehensive – addressing not only our products' public health impact but also our other material sustainability topics.

### Our commitments under Sustainable Future:

Building a Smokeless World

Investing in the products, science and engagement to make A Better Tomorrow™ a reality

Conducting our business sustainably and with integrity

**+** For more details on the Sustainable Future pillar of our refined strategy see [page 60](#)

## Dynamic Business

**Building a future-fit, data-driven organisation and ensuring we are efficient and effective in all of our operations.**

We believe we can create the financial flexibility to invest in our people, our products and provide returns to our investors.

We are committed to building a company where people and performance come together to create the extraordinary.

That is why creating an Exciting, Winning Company is one of the building blocks under the Dynamic Business pillar.

Additionally, generating shareholder value, via sustainable returns, remains an integral part of our strategic ambition. Over the past 25 years we have consistently grown the dividend per ordinary share in absolute terms.

@The Group targets operating cash conversion of at least 90% annually - and has delivered in excess of 100% for the last four years.@

Reducing debt is another core component of the Dynamic Business pillar. @An important part of this is our medium-term rating target of Baa1/BBB+/BBB+ by Moodys/S&P/Fitch, and we continue to work towards reaching the middle of our leverage corridor being 2-3x adjusted net debt to adjusted EBITDA.@

Given current geopolitical and economic challenges, the Group aims to de-lever its gross debt levels (c.£39.7 billion in 2023) and moderate the annual Net Financing Cost levels (c.£1.9 billion in 2023) to better support the overall strategy of the Group.

### Our commitments under Dynamic Business:

Creating a diverse, inclusive and people-oriented place to work

Being data-driven and delivering operational excellence/cost management

Focused on investors returns

**+** For more details on the Dynamic Business pillar of our refined strategy see [page 40](#)



## Our Strategy

# Our Business Model

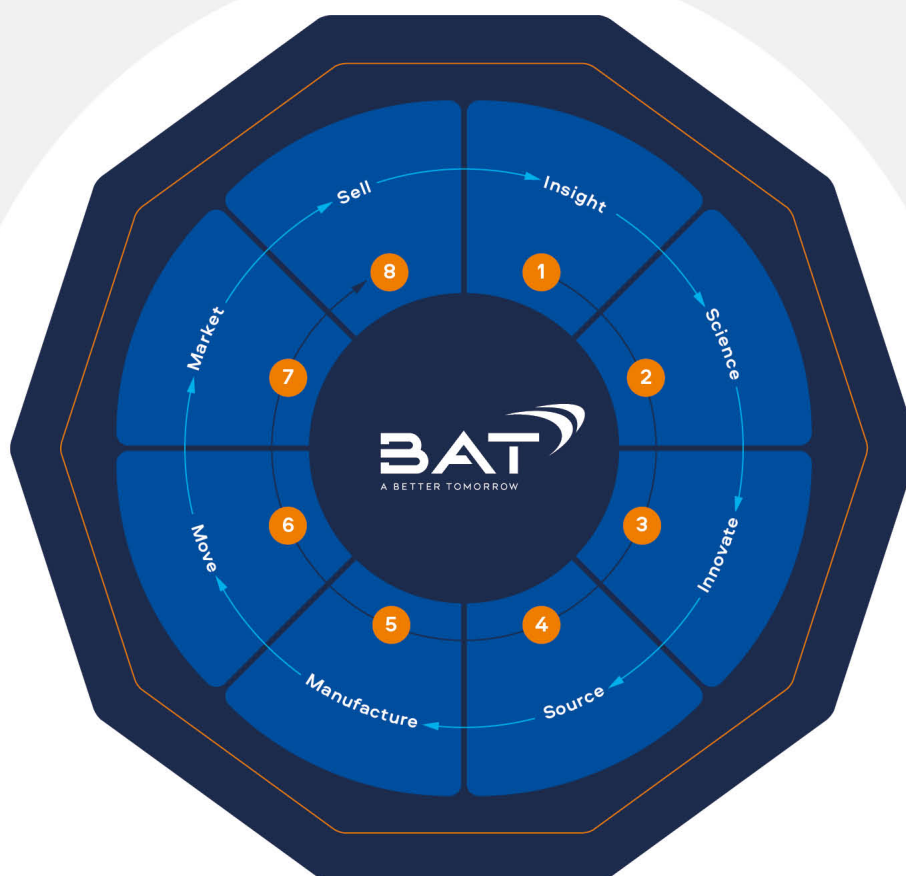
**As a global business, we strive to understand our diverse consumers, develop products to satisfy their preferences and ultimately distribute them to markets around the world.** Taking into account feedback from stakeholders also enables us to refine our strategy, deliver sustainable value and build 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, unlock 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™.

[+ Read more about our stakeholders on page 20](#)

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, based on our market archetype model. Through our responsible marketing practices and powerful portfolio, we market and sell our products which, in turn, generate further insights.



**A Better Tomorrow™ for:**



1

## Seeing over the horizon

As one of the most long-standing and established tobacco and nicotine businesses in the world, we have a unique view of the consumer across our product categories. This 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 preferences.

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

### Link to Principal Risks

*Tobacco, New Categories and other regulation interrupts growth strategy; Inability to develop, commercialise and deliver the New Categories strategy; Climate change and circular economy; Cyber security*

2

## Tobacco Harm Reduction Acceptance

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

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](http://www.bat-science.com), and the results of our studies in peer-reviewed journals.

### Link to Principal Risks

*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*

**+** Read more about our science on [pages 30, 32, 34, 66 and 78](#)

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.

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 Principal Risks

*Inability to develop, commercialise and deliver the New Categories strategy; Climate change and circular economy; Cyber security*

4

## Sourcing materials responsibly

The majority of our tobacco is sourced by BAT Group's vertically integrated Leaf Operations through direct contracts with c.91,000 farmers. Of the remainder, the majority is from third-party suppliers that, in turn, contract with an estimated 155,000 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 Principal Risks

*Geopolitical tensions; Supply chain disruption; Inability to develop, commercialise and deliver the New Categories strategy; Injury, illness or death in the workplace; Solvency and liquidity; Foreign exchange rate exposures; Climate change and circular economy; Cyber security*

**+** Read more about our supply chain on [page 41](#)

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 optimised for distribution and sale.

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 Principal Risks

*Geopolitical tensions; Supply chain disruption; Disputed taxes, interest and penalties; Injury, illness or death in the workplace; Solvency and liquidity; Foreign exchange rate exposures; Climate change and circular economy*

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 distributed 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 Principal Risks

*Geopolitical tensions; Tobacco, New Categories and other regulation interrupts growth strategy; Supply chain disruption; Inability to develop, commercialise and deliver the New Categories strategy; Foreign exchange rate exposures; Climate change and circular economy; Cyber security*

7

## Marketing our products responsibly

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

Through a globally responsible approach to marketing, we seek to help raise standards and prevent under-age 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 our tobacco, nicotine and nicotine-free products and brands. 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 Principal Risks

*Competition from illicit trade; Tobacco, New Categories and other regulation interrupts growth strategy; Inability to develop, commercialise and deliver the New Categories strategy; Litigation; Foreign exchange rate exposures*

**+** Read more about responsible marketing on [page 96](#)

8

## Offering the consumer choice

We have a powerful brand portfolio that we are very proud of. This includes our combustibles portfolio and our portfolio of smokeless product brands which will contribute to Building a Smokeless World.

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 Heated Products, in markets around the world. Our range of high-quality products covers all segments, from value-for-money to premium.

### Link to Principal Risks

*Competition from illicit trade; Geopolitical tensions; Tobacco, New Categories and other regulation interrupts growth strategy; Supply Chain disruption; 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; Climate change and circular economy*

## Our Strategy

# Our Business Model Continued

## A Better Tomorrow™ for:

**+** Read more about these Stakeholders  
pages 22 and 23

### 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<sup>†</sup>.

#### Measured by

- 63 countries where Vapour products are available
- 31 countries where Heated Products are available
- 34 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.

### Our People

We employ 46,000+ 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
- 80% Engagement Index score in our Your Voice employee survey
- 0.17 Lost Time Incident Rate (LTIR) vs 0.19 in 2022
- proportion of women in Management<sup>‡</sup> roles grew to 42%

### Society

We believe the greatest contribution we can make to society is Building a Smokeless World and 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 smokeless alternatives. Achieving this, while working to reduce our impact on the environment, is central to delivering A Better Tomorrow™.

#### Measured by

- 23.9m consumers of Non-Combustible products
- 28% reduction of waste generated
- 33.1% reduction in Scope 1 & 2 emissions from our 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.

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

### 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
- medium-term, mid single figure adjusted profit from operations growth (excluding currency)
- a progressive dividend being a 65% dividend payout ratio over the long term
- deleveraging the balance sheet towards the middle of our 2-3x adjusted net debt/adjusted EBITDA range<sup>@</sup>

## Non-Financial and Sustainability Information Statement

Non-financial and sustainability 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 18 to 20

**+** See pages 121 to 128 for Group Principal Risks

**+** See pages 10 and 11 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 11, 72 and 80 to 87

**+** Social matters pages 11, 72, 78 to 79 and 92 to 94

**+** Anti-bribery and anti-corruption matters pages 11, 72 and 98 to 99

**+** Employees pages 11, 72 and 88 to 91

**+** Respect for human rights pages 11, 72 and 92 to 94

Our climate-related financial disclosures are set out on pages 102 to 116. Further details of our Group policies and principles can be found on pages 72 and 73 and at www.bat.com

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










## Our Strategy

## 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	
<b>Why this stakeholder is important to us</b>	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.	
<b>Examples of how we engaged in 2023</b>	<ul style="list-style-type: none"> <li>– Consumer panels, focus groups and interviews</li> <li>– Consumer care helplines</li> <li>– Responsible marketing and transparent communication</li> <li>– Real-time digital platforms</li> </ul>	<ul style="list-style-type: none"> <li>– Annual General Meeting</li> <li>– Investor relations programme and shareholder engagement on our Directors' Remuneration Policy</li> <li>– Institutional shareholder meetings</li> <li>– Capital Markets Days</li> <li>– Investor roadshows</li> <li>– Results announcements</li> <li>– Annual Report and Form 20-F</li> <li>– Suite of focused ESG reports and wider disclosures</li> <li>– Stock exchange announcements</li> <li>– Shareholder information on website</li> </ul>	<ul style="list-style-type: none"> <li>– Director market and site visits</li> <li>– Virtual forums</li> <li>– Employee town halls</li> <li>– Global and regional webcasts</li> <li>– Your Voice employee survey</li> <li>– Works councils and European Employee Council meetings</li> <li>– Graduate and management trainee events</li> <li>– Individual performance reviews</li> <li>– Speak Up channels</li> </ul>	
<b>What matters to our stakeholders</b>	<ul style="list-style-type: none"> <li>– Health impact of our products and other social considerations</li> <li>– Product quality</li> <li>– Affordability and price</li> <li>– Ingredients/nicotine levels</li> <li>– Plastics/post-consumption product waste</li> </ul>	<ul style="list-style-type: none"> <li>– Business performance</li> <li>– ESG agenda</li> <li>– Corporate governance</li> <li>– Strength of Group leadership</li> <li>– Board succession planning</li> </ul>	<ul style="list-style-type: none"> <li>– Reward</li> <li>– Career development</li> <li>– Diversity and inclusion</li> <li>– Corporate responsibility</li> <li>– Health and safety</li> <li>– Business ethics</li> </ul>	
<b>How we respond</b>	<ul style="list-style-type: none"> <li>– Development of innovative products</li> <li>– Product stewardship, quality and safety standards</li> <li>– Clear and accurate product information</li> <li>– International Marketing Principles</li> <li>– Circular economy strategy and initiatives</li> </ul>	<ul style="list-style-type: none"> <li>– Regular dialogue and communications with shareholders and investors</li> <li>– Robust corporate governance</li> <li>– Double Materiality Assessment<sup>^</sup> and review of reporting landscape</li> <li>– Continual improvement of our Delivery with Integrity programme</li> <li>– Our range of enjoyable and innovative products</li> <li>– Product quality and safety standards</li> <li>– International Marketing Principles</li> </ul>	<ul style="list-style-type: none"> <li>– Extensive communications and engagement with our people worldwide during and following the pandemic</li> <li>– Board review of and feedback on workforce engagement</li> <li>– Training and development programme</li> <li>– Diversity &amp; Inclusion Strategy</li> <li>– Delivery with Integrity programme</li> </ul>	
<b>Principal risk impact</b>	<ul style="list-style-type: none"> <li>– Competition from illicit trade</li> <li>– Tobacco, New Categories and other regulation interrupts growth strategy</li> <li>– Supply chain disruption</li> <li>– Significant increases or structural changes in tobacco, nicotine and New Categories related taxes</li> <li>– Inability to develop, commercialise and deliver the New Categories strategy</li> <li>– Climate change and circular economy</li> <li>– Cyber security</li> </ul>	<ul style="list-style-type: none"> <li>– Competition from illicit trade</li> <li>– Geopolitical tensions</li> <li>– Tobacco, New Categories and other regulation interrupts growth strategy</li> <li>– Litigation</li> <li>– Significant increases or structural changes in tobacco, nicotine and New Categories related taxes</li> <li>– Inability to develop, commercialise and deliver the New Categories strategy</li> <li>– Disputed taxes, interest and penalties</li> <li>– Solvency and liquidity</li> <li>– Foreign exchange rate exposures</li> <li>– Climate change and circular economy</li> <li>– Cyber security</li> </ul>	<ul style="list-style-type: none"> <li>– Geopolitical tensions</li> <li>– Supply chain disruption</li> <li>– Injury, illness or death in the workplace</li> <li>– Climate change and circular economy</li> <li>– Cyber security</li> </ul>	

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.
<ul style="list-style-type: none"> <li>– Extension Services farmer support</li> <li>– Ongoing dialogue and relationship management</li> <li>– ‘Supplier Voice’ survey, events and supplier summits</li> <li>– Strategic partnerships</li> </ul>	<ul style="list-style-type: none"> <li>– Ongoing dialogue and account management</li> <li>– ‘Customer Voice’ survey</li> <li>– Audits/performance reviews</li> <li>– Sales calls and visits by trade representatives</li> <li>– B2B programmes</li> <li>– Digital B2B eCommerce platforms</li> </ul>	<ul style="list-style-type: none"> <li>– Meetings and ongoing dialogue</li> <li>– Submissions to government and advisory committees</li> <li>– Multi-stakeholder partnerships and working groups, such as the Eliminating Child Labour in Tobacco-Growing Foundation</li> <li>– External Scientific &amp; Regulatory Panel</li> <li>– Peer-reviewed research</li> <li>– Biodiversity standards and improvement programmes</li> <li>– Community investment programmes and NGO partnerships</li> <li>– Double Materiality Assessment related engagements</li> </ul>
<ul style="list-style-type: none"> <li>– Productivity/quality/cost</li> <li>– Sustainable agriculture</li> <li>– Farmer livelihoods</li> <li>– Human rights</li> <li>– Health and Safety</li> <li>– Climate change impacts</li> <li>– Impact of conflict in Ukraine</li> </ul>	<ul style="list-style-type: none"> <li>– Route-to-market planning</li> <li>– Contingency planning</li> <li>– Cost, price and quality</li> <li>– Stock availability</li> <li>– Consumer buying behaviour</li> <li>– Underage access prevention</li> </ul>	<ul style="list-style-type: none"> <li>– Product regulation</li> <li>– Tax/excise/illicit trade</li> <li>– Responsible marketing</li> <li>– Public health impacts</li> <li>– Human rights</li> <li>– Climate change impacts</li> </ul>
<ul style="list-style-type: none"> <li>– Supplier Code of Conduct</li> <li>– Thrive sustainable agriculture and farmer livelihoods programme</li> <li>– Leaf operational standards for PPE and child labour prevention</li> <li>– Farmer Extension Services support and training</li> </ul>	<ul style="list-style-type: none"> <li>– Customer loyalty programmes and incentives</li> <li>– Global Underage Access Prevention (UAP) Guidelines and initiatives</li> </ul>	<ul style="list-style-type: none"> <li>– Standards of Business Conduct (SoBC)</li> <li>– Delivery with Integrity programme</li> <li>– Targeting 50% GHG emissions reduction by 2030 and Net Zero by 2050</li> <li>– Human rights and climate impact assessments</li> <li>– Community investment programmes and charitable donations</li> </ul>
<ul style="list-style-type: none"> <li>– Geopolitical tensions</li> <li>– Supply chain disruption</li> <li>– Inability to develop, commercialise and deliver the New Categories strategy</li> <li>– Injury, illness or death in the workplace</li> <li>– Solvency and liquidity</li> <li>– Foreign exchange rate exposures</li> <li>– Climate change and circular economy</li> <li>– Cyber security</li> </ul>	<ul style="list-style-type: none"> <li>– Competition from illicit trade</li> <li>– Geopolitical tensions</li> <li>– Tobacco, New Categories and other regulation interrupts growth strategy</li> <li>– Supply chain disruption</li> <li>– Significant increases or structural changes in tobacco, nicotine and New Categories related taxes</li> <li>– Inability to develop, commercialise and deliver the New Categories strategy</li> <li>– Climate change and circular economy</li> <li>– Cyber security</li> </ul>	<ul style="list-style-type: none"> <li>– Competition from illicit trade</li> <li>– Geopolitical tensions</li> <li>– Tobacco, New Categories and other regulation interrupts growth strategy</li> <li>– Litigation</li> <li>– Significant increases or structural changes in tobacco, nicotine and New Categories related taxes</li> <li>– Inability to develop, commercialise and deliver the New Categories Strategy</li> <li>– Disputed taxes, interest and penalties</li> <li>– Climate change and circular economy</li> <li>– Cyber security</li> </ul>

### 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 138 to 141 and 144 to 149 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 138 and 139 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 149.

#### Note:

<sup>^</sup> Although financial materiality has been considered in the development of our Double Materiality Assessment (DMA), our DMA and any conclusions in this document as to the materiality or significance 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.

## Our Strategy

## Investment Case

## Transformation Driving Sustainable Growth

## Our New Category Transformation is Delivering Profitable Growth and Reducing Harm

Our corporate purpose is to build A Better Tomorrow™, reducing the health impact of our business, by offering adult consumers a greater choice of enjoyable and less risky<sup>†</sup> products compared to cigarettes. To accelerate the next phase of our transformation journey we are now committed to Building a Smokeless World. We will deploy our global multi-category portfolio to actively encourage smokers to 'Switch to Better' nicotine products, and continue to seek long-term opportunities Beyond Nicotine in Wellbeing and Stimulation, realising the multi-stakeholder benefits of A Better Tomorrow™.

Our commitment is demonstrated by our new ambition to become a predominantly smokeless business, with 50% of our revenue from Non-Combustibles by 2035. Revenue growth in the global nicotine industry is accelerating through the development of New Categories, which offer reduced-risk alternatives<sup>†</sup> to combustible products.

With only 10% of the world's 1 billion smokers currently using New Category products, our well established global multi-category strategy provides the greatest opportunity for long-term growth, reduced harm and portfolio transformation.

We continue to make progress towards our targets to reach £5 billion New Category revenue by 2025 and 50 million consumers of our Non-Combustible products by 2030.

Prioritising where and what products to focus on, via our market archetype model, will guide our resource allocation decisions. We are now profitable with our New Categories business, on a category contribution basis, and we expect to be increasingly profitable from 2024.

We strive to continue to profitably and responsibly manage our transition away from combustibles, driving funds to further invest in our transformation and deliver sustainable profit growth and cash flow over the long-term.

In order to achieve this, we have refined our Group strategy to ensure a clear line of sight across the entire organisation, and we have set ambitious targets to be met through the delivery of our three strategic pillars.

## Creating Sustainable Value for our Stakeholders

## Reducing our Health and Sustainability Impact

As we transition from cigarettes to reduced-risk smokeless products our transformation must address not only our products' public health impact – but also continue to integrate and embed sustainability into our business.

This requires us to address all our key sustainability topics such as climate change, circular economy, biodiversity and human rights. We also recognise the need to collaborate across our supply chain and work with our partners as we advance key sustainability initiatives.

This approach will allow us to create a stronger BAT through:

- **Responsible Leadership in New Categories** – we aim to set industry standards for the development, manufacturing and marketing of New Category products;
- **Create Positive Value in Agriculture** – by leveraging our agricultural sourcing model we seek to deliver a positive impact in our agricultural supply chain, particularly with respect to social and environmental issues;
- **Deliver Net Zero GHG Emissions across our Value Chain** – through working towards decarbonising our own operations, and collaborating with suppliers and others across our value chain;
- **Trusted Organisation Operating with Integrity** – working to create and maintain a culture where our people are proud of the role they play in our transformation and aim to always operate to the highest standards.

This builds on our ratings and recognition which include:

- Our Science Based Targets initiative (SBTi) approved commitment to a near-term 1.5°C emissions reduction trajectory, the most ambitious designation available;
- An A rating in 2023 in the latest MSCI ESG Rating assessment (upgraded from BBB)<sup>^</sup>; and
- Achieving A-, A- and A- in our 2023 CDP assessments for Climate Change, Water Security and Forests<sup>^</sup>.

By working to reduce the health and sustainability impact of our business we will drive growth and create shared value, delivering change as we work towards our objectives. Our commitments are rooted in targets against which we will track and share the progress as we transform our business.

50mn

Non-Combustible product consumers targeted by 2030

50%

Group revenue from Non-Combustibles by 2035

£5bn

New Category revenue by 2025

16.5%

Group revenue from Non-Combustibles in 2023

50%

Reduction in Scope 1 & 2 GHG emissions by 2030 (vs 2020 baseline)

50%

Reduction in Scope 3 GHG emissions by 2030 (vs 2020 baseline)

Forest Positive

in our tobacco supply chain by 2025 (vs 2021 baseline)<sup>^^</sup>

MSCI A Rating

Upgraded in latest 2023 assessment<sup>^</sup>

## 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.

<sup>^</sup> A rating 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.

<sup>^^</sup> Our ambitions cover all tobacco we purchase for our products. Our metrics, however, derive data from our Thrive assessment, covering over 94% of the tobacco purchased by volume in 2023.

## Dynamic Business Making Active Choices for the Future

### Leveraging our Established Strengths and Expertise While Continuing to Build New Capabilities to Deliver on our Ambitions

Our multi-category portfolio of New Category brands benefits from decades of consumer insights that have driven our No. 1 global revenue position in combustibles\*.

In addition, leveraging the benefits of our world-class expertise in science and R&D, our manufacturing, distribution, marketing and brand building has enabled us to build three global brands, Vuse, glo and Velo, delivering over £3 billion of revenue in less than a decade.

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. With our new Corporate and Regulatory Affairs function we will drive more proactive, science led engagement with all stakeholders to further our ambition to Build a Smokeless World.

We will continue to increase investment in new capabilities, including enhancing our innovation pipeline, leading responsible New Category development and further leveraging our broad digital enablers. This gives us confidence that we can deliver on our ambitions.

Sustainable success will also be accelerated by a culture of inclusivity and collaboration. Our transformation is supported by senior talent recruitment from a diverse range of industries. Together with our new role of Chief People Officer, we are focused on developing a skills-enabled and performance driven organisation that is essential to driving forward our strategic agenda.

We continuously monitor and assess our capital allocation framework to unlock shareholder value through; investing in the right opportunities; optimising the return on our investments; and maximising our cash generation; to reduce our leverage, and generate sustainable cash returns for our shareholders.

## @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.

Over the last 10 years, we have delivered 8% adjusted diluted EPS growth (at constant rates) and a 5% dividend CAGR and are confident in moving progressively to our medium-term targets of 3-5% revenue growth and mid-single digit adjusted profit from operations growth (organic basis at constant rates) by 2026.

The Group is highly cash generative. Over the last four years, we have delivered at least 100% operating cash conversion annually and returned, since 2019, a total of £26.2 billion to shareholders.

We remain committed to continuing our 25 year track record of consistent dividend growth, rewarding our shareholders through all economic cycles. Over the next 5 years, we are on track to generate around £40bn of free cash flow before dividends.

We have an active capital allocation framework to deliver long-term value for shareholders. This includes:

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

23.9m

consumers of our  
Non-Combustible products

22m

consumers in our contactable  
consumer database

>150

markets in which we operate

3,000

new capability hires  
since 2019

>90%

operating cash conversion  
targeted annually®

Mid Single Digit

medium-term adjusted profit  
from operations growth  
target (at cc)@

8%

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

3-5%

medium-term revenue  
growth target (at cc)@

5%

dividend CAGR over 10 years

Progressive  
dividend

**Note:**

\* Excluding China.



## Our Strategy

# Our Markets and Megatrends

**As a global business, operating at scale within a rapidly evolving landscape, our markets are shaped by long-term consumer, economic, cultural and social trends.** Along with regulatory developments, generational differences and tastes are evolving, as health and wellness become ever more important. We continue to respond to this changing environment by advancing our strategy and long-term priorities.

### Megatrends:

#### Technology and Innovation



##### Artificial Intelligence

The rapid development of artificial intelligence – particularly generative AI and large language models – has the potential to create a whole new set of opportunities for businesses, governments, and individuals.

The world's understanding of this new technology is still developing, but advances in AI have the potential to enable companies to increase productivity and unleash exciting new levels of creativity if used appropriately.

Understanding these opportunities and managing the transition to a world in which AI plays a greater role, from production to sales, is an increasing priority for businesses.

In our industry, the technology has the potential to transform everything from improving crop yields for traditional products to better understanding consumer behaviours and creating more sustainable products.

In agriculture, AI can be used to monitor crop health, ensure consistent crop quality and efficiently manage water and fertilizer application, helping to reduce the environmental impact of farming. In robotics, AI has already been employed to help a robot clean up cigarette butts from beaches and to develop a robot that can test cigarettes, instead of using laboratory animals. While the development of AI may disrupt many traditional ways of working, it will also create new roles in data analysis and system maintenance.

#### Climate Change and Circular Economy



##### Sustainable Transition

The need to transition to a more environmentally sustainable way of living continues to impact all aspects of our lives.

While there are mounting regulations on businesses to reduce their carbon and resource footprint, change is also being driven by consumers and other stakeholders, who are increasingly demanding that consumer products and their packaging are more sustainable across their whole lifecycle.

Companies — aligned with regulators, consumers and other stakeholders — are proactively looking for ways to enable a transition to a more sustainable and circular economy. This might be through finding technological solutions to reduce emissions, ensuring better environmental standards in supply chains, or changing what happens to products after they have been used.

More broadly, investors and financial institutions are increasingly applying methodologies that seek to ensure business models develop and implement credible plans for the transition to a low-carbon, climate-resilient future. These efforts have developed in tandem with regulations which mandate climate-related disclosures and due diligence requirements.

Please refer to the Notes on the Accounts: note 12(b) for a discussion on climate within our impairment assessment; and note 6(l) for disclosures regarding our sustainability costs.

#### Geopolitical Instability



##### Geopolitical Disruption

There are some early signs that elements of the cost-of-living crisis experienced in many countries, which has suppressed consumer demand, may be abating.

Some of the stresses and bottlenecks which have negatively impacted global trade during the past three years appear to be finally drawing to an end, with surveys indicating global commerce is approaching pre-pandemic levels.

However, this recovery remains vulnerable. The geopolitical disruption that began in 2022 with the conflict in Ukraine continues to be unresolved and retains the potential to escalate further.

Conflict in the Middle East also has the potential to cause further international instability, while trade relations between the U.S. and China remain unpredictable.

This instability may force some companies to shift investment and production to more stable markets and to look again at localising some production.

However, the intrinsically globalised nature of our modern economy means that it is impossible to isolate supply chains from global events.

## Overview

The modern tobacco and nicotine market is continuing to evolve at a rapid rate. New and less risky nicotine products<sup>†</sup> are being developed and launched each year which, alongside traditional tobacco products, meet the needs of more than a billion consumers worldwide.

## Global Market for Combustibles and Non-Combustibles

The most recent sales data for the legal global tobacco and nicotine market indicated that it was worth approximately US\$935 billion.

Combustible cigarettes remained the largest product category within the market, with a global value of US\$779 billion (excl. China), representing 84% of the total value of tobacco and nicotine product sales worldwide. Roughly 2.8 trillion cigarettes were sold in 2022.

The value of the global Non-Combustible products market continues to grow, standing at US\$68 billion.

Furthermore, despite combustibles being one of the most highly regulated products in the world, roughly 17% of the world's adult population (including China) continue to choose to smoke. This very sizable group is likely to continue to smoke unless they are offered suitable Non-Combustible alternatives.

## The illicit market

The illicit tobacco market has continued to increase in the years after the pandemic, reaching just under 12% of total global volume in 2022 (excl. China), up from 11.4% in 2021. Exacerbated by the recent increased cost of living in many countries, overall illicit volumes are expected to approach an unprecedented 14% of all sales by 2027.

Illicit trade exists in all regions of the world, but its growth is forecast to worsen in the Middle East and Africa, Australasia and Asia Pacific.

## Global combustible regulation

Combustible tobacco products are among the most highly regulated consumer products in the world.

In recent decades, legislators have focused on demand-side measures, such as plain packaging, product-specific regulations, tougher restrictions on smoking in public places, bans on shops displaying tobacco products at the point of sale and restrictions on flavourings in tobacco.

More recently, countries have begun committing to smoke-free targets and policies, setting a date by which they expect to reduce or contain the prevalence of tobacco use to less than 5%.

The European Union has set a target of a 'Tobacco-free Generation' by 2040, for example. A small number of countries have also examined stronger prohibitionist approaches to stop smoking among younger generations.

For example, the UK has begun examining proposals to ban sales of cigarettes to anyone born after 2008. New Zealand passed legislation last year (the first of its kind) to implement such a proposal, however this proposal is now likely to be discontinued after the election of a new Government.

The Malaysian Government had also considered similar plans before concluding they could be unconstitutional. Significantly, in most cases, end-game measures have focused on combustible tobacco, excluding reduced-risk nicotine products.

Lastly, environmental concerns have led to an increased number of policy initiatives aimed at combustibles.

The EU's Single-Use Plastics legislation requires Member States to introduce extended producer responsibility schemes for, amongst other things, cigarette filters.

The United Nations is also examining a potential world-first global Plastics Treaty, which certain stakeholders are arguing should contain targets for Member States to eliminate waste from cigarettes (as well as from single-use vapour product consumption).

## Global New Categories Market

Technology and innovation continue to revolutionise the nicotine market. Smokeless alternatives offer consumers less risky<sup>†</sup> but satisfying alternatives to cigarettes by delivering nicotine without the process of combusting tobacco.

These products are increasingly popular among smokers who do not want to give up nicotine consumption but desire alternatives to smoking. This year, we have added herbal heated products to our offering, providing adult nicotine users and smokers with another reduced-risk<sup>†</sup> option which is also tobacco-free.

Cigarettes are projected to see a total volume decline of 8% over the 2022-2027 period. Alongside societal changes in attitudes to smoking, this decrease is driven by consumer preferences shifting to reduced-risk products<sup>†</sup> (RRPs), which are forecast to make up an increasing percentage of revenue for the nicotine market.

The most recent external estimates value the Vapour product market at US\$19 billion, with THPs valued at US\$32 billion. Closed-system vapour products have become rapidly popular among consumers, owing to their ease of use. Nicotine pouches, which are one of the newer innovations in RRP<sup>†</sup>s, currently have a global value of US\$8.4 billion in 2022 (led by the U.S.), which is projected to grow to just under US\$16 billion by 2027.

## New Categories regulations

Globally, though these products are becoming established in many markets, there remains considerable divergence between countries on how to regulate RRP<sup>†</sup>s.

The positive role they can play in reducing the harms of smoking has been embraced by regulators in the UK, New Zealand and Canada, which have sought to communicate to consumers that RRP<sup>†</sup>s are better alternatives<sup>†</sup> 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 are yet to be convinced of the potential public health benefits of RRP<sup>†</sup>s and have sought instead to limit access to them, for example Australia and India, where sales of RRP<sup>†</sup>s are effectively banned. Some markets have also inadvertently confused nicotine consumers by regulating RRP<sup>†</sup>s in a similar way to combustibles. An example of this was the European Union's recent extension of a ban on characterising flavours originally intended for cigarettes to encompass Tobacco Heated Products.

Concerns have been raised about youth use of certain RRP<sup>†</sup>s in some countries; these can be addressed without denying them to potential quitters by using on-device technology and better enforcement of existing measures to ensure the products are accessible only to adults. It is increasingly important that this debate is better understood, particularly in influential international forums, so that large numbers of smokers are not discouraged from switching to these products.

## Beyond Nicotine

The Wellbeing & Stimulation category, covering products for consumers that are seeking products that help them manage their daily wellbeing, is expected to grow to £495 billion by 2030, from around £296 billion today.

The adult-use cannabis market has also grown to an estimated US\$21 billion. Though this growth is predominantly concentrated in the U.S., the market is expected to grow further internationally as more countries, such as Germany and the Czech Republic, re-examine the merits of maintaining their current prohibitionist stances on cannabis.

### Notes:

All data sources on this page are from Euromonitor International research published in 2023 and based on 2022 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.

+ See [pages 121 to 128](#) to read more about our Group Principal Risks

+ For further discussion regarding the regulation of our business, please see [pages 375 to 379](#)

## Quality Growth

## Strategic Pillar Overview

## Quality Growth

Delivering Quality Growth emphasises the transition to a more balanced focus on top-line and bottom-line delivery, centred around our brands and innovation, and continuing to seek long-term opportunities Beyond Nicotine.

**The key building blocks of the Quality Growth pillar are:**

Inspiring New Category  
Innovations & Brands

Managed Combustibles Transition

Beyond Nicotine Foundations

**Our commitments under Quality Growth:**

Progressing toward quality, margin-accretive growth in smokeless

FMC volume decline but expecting continued value delivery

Sensibly investing for the future  
Beyond Nicotine

**Inspiring New Category  
Innovations & Brands**

We have established an important New Categories 'bridgehead' which underpins our transformation. We have built a fast-growing New Categories business of smokeless products in a short period of time with New Categories annual revenue now exceeding £3.3 billion.

Greater scale and related focus on cost of goods sold (COGS) has enabled significant reduction in New Categories losses in 2022 and 2023 @ (c. £1.0 billion loss reduction)@ and our New Categories are profitable (at a category contribution level) two years ahead of our original target. Our focus on driving revenue growth and margin expansion will continue.

Building on our deep cross-category consumer insights, we will deliver an enhanced innovation pipeline, by further investing in our people, our science, our IP and our capabilities, driving an innovation-focused culture.

We will further leverage our centres of excellence in Southampton, Trieste and Shenzhen to access wider internal and external strategic partnerships focused on developing consumer-relevant premium propositions.

Three New Category product types underpin our efforts to Build A Smokeless World:

**Vapour**

Our global Vapour brand, Vuse, plays a major role in providing smokers with the opportunity to Switch to Better.

In 2023, consumer acquisition was up 1.5 million, reaching 11.5 million.

Vuse is the #1 brand in the Vapour category and, in 2023, delivered £1.8 billion of revenue. The successful launch of our single-use Vapour product, Vuse Go, enabled Vuse to maintain leadership of the Vapour category and achieve 26.2% revenue growth in 2023.

**+** For more information on our Vapour Products see [page 30](#)

**Heated Products**

Our Heated Product brand, glo, saw consumer acquisition increase by 0.8 million. In 2023, reaching 8.0 million. It has also been a contributor to New Categories revenue growth.

However, its growth momentum has been impacted by competitor innovation and intensified activity in the below-weighted average price segment.

While glo's performance has not met our expectations, we are strengthening the glo innovation pipeline.

Hyper Pro will enable a comprehensive system upgrade and veo, our non-tobacco heated platform consumables, is ready for a post-flavour ban environment in Europe.

**+** For more information on our Heated Products see [page 32](#)

**Modern Oral**

Modern Oral products are different from inhalable products like Vapour or Heated Products. Modern Oral products come in the form of tobacco-free nicotine pouches that are placed under the lip so that nicotine can be effectively absorbed.

There are exciting opportunities for these products in markets with established oral nicotine consumption and beyond, including in emerging markets.

In 2023, Velo maintained its leadership outside of the U.S. despite intensified competition in the Nordics and delivered total Group revenue growth of 35%.

**+** For more information on our Modern Oral products see [page 34](#)

**Driving progress**

To drive quality growth and transform faster, we will focus our resources on combining powerful innovations and world-leading brands. To deliver an 'innovation step change', we will continue to utilise powerful consumer foresights and their application to leap-frog innovation thinking to drive innovations that appeal to adult consumers. We will further strengthen and differentiate our New Categories brands to profitably accelerate our New Categories business and achieve significant scale in order to help Build a Smokeless World.

**Global Patent Settlement with PMI**

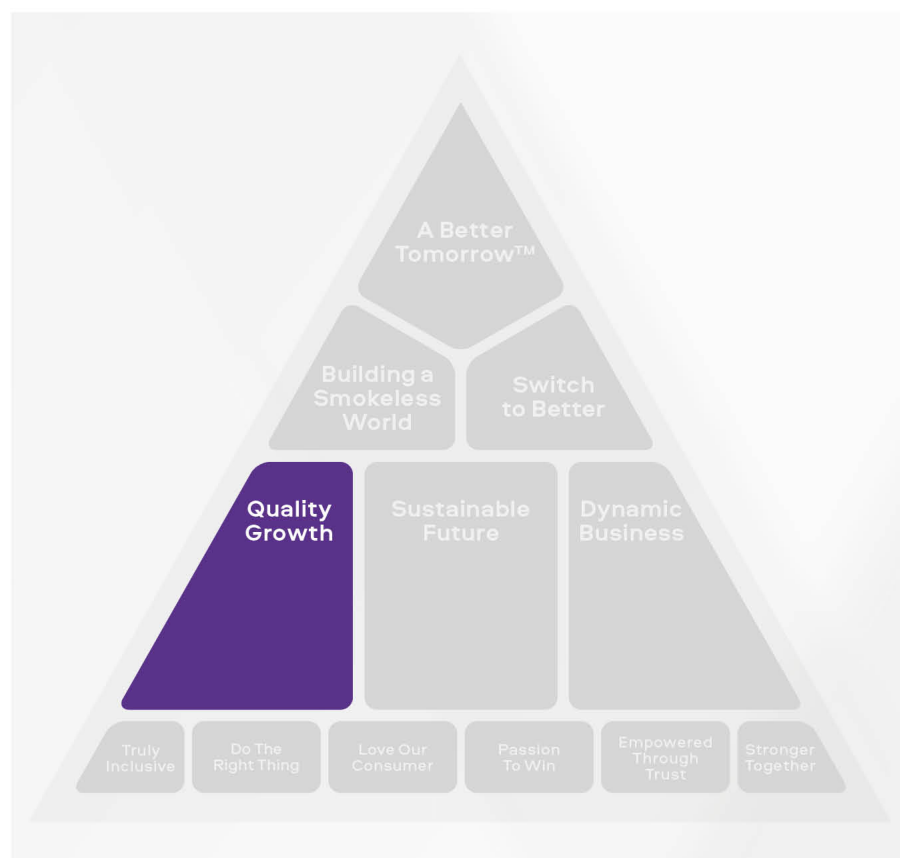
As previously announced, BAT has reached a global settlement with Philip Morris International Inc. (PMI) that resolves all ongoing patent infringement litigation between the parties related to our HP and Vapour products. For more information, please see page 380.

**Managed Combustibles Transition**

We are committed to becoming a predominantly smokeless business, with a target to reach 50% of our revenue from Non-Combustibles by 2035.

The best choice any adult smoker can make will always be quitting combustible tobacco products completely. Yet many do not. With only 10% of the world's one billion smokers currently using New Category products, the long-term opportunity for growth as we deliver on our transformation is vast.

The continued performance of our combustibles business is key to delivering Quality Growth and generating the funds necessary to invest in New Categories and Build a Smokeless World. Our aim is for the combustibles business to deliver sustainable revenue, gross margin and category contribution growth. Sustainable pricing, digital integration and Revenue Growth Management play a key role in delivering revenue growth. A product transformation programme is underway to enable a simpler and rationalised product portfolio to enable gross margin growth.



As part of this, we will be reducing the number of tobacco leaf grades, blends, cigarette formats and stock keeping units (SKUs) in our portfolio.

To deliver category contribution growth, we will focus on marketing spend optimisation and on simplifying our combustibles portfolio to enable the delivery of a managed combustibles transition.

**+** For more information on our combustible products, see [page 37](#)

### Beyond Nicotine Foundations Wellbeing and Stimulation

Consumers are increasingly seeking healthier lifestyles and “better-for-you” products that help them manage their daily wellbeing. We call this category Wellbeing & Stimulation (W&S) and expect the category to grow to £495 billion by 2030, from around £296 billion today.<sup>1</sup>

Many of these products historically are in common formats like pressed tablet supplements and sugar-based sports and energy drinks. Recently, however, there has been a consumer shift towards products that are less artificial, more enjoyable, have greater functional efficacy, are easier to use and understand, and that provide for a wider range of functional benefits.

After over a century in nicotine, BAT has significant expertise in providing direct-to-mind stimulation through enjoyable solutions and strong route-to-market capabilities.

As a result, we are well-positioned to explore the development of a W&S business by leveraging existing capabilities and external partners.

As part of this exploration of W&S, we are building a pipeline of products to ensure sustained competitiveness to win in this exciting category. This includes internal development of new products and also working with Btomorrow Ventures (BTV) to guide and support our investments or potentially larger scale M&A.

### Cannabis

In 2019, the global legal recreational market was estimated to be worth £5.2 billion in revenue. That figure is now put at £11.1 billion (2022)<sup>2</sup>, growing at 28%<sup>3</sup> per annum, with non-combustible formats driving this, growing at 35%<sup>4</sup> per annum.

We believe this is signalling a shift away from traditional smokable formats into other, potentially less harmful, more progressive consumption methods.

We see cannabis as an exciting potential category for the future. However, given the complex regulatory environment and the implications to BAT as a UK listed company, we will continue to monitor the changes in the regulatory environment as it evolves across geographies.

As part of its strategic investment in 2021, BAT established a joint-Product Development Collaboration (PDC) Agreement and Centre of Excellence with Organigram in Moncton, Canada to lead Research & Development activities with cannabis.

We are pleased with the progress that has been made in 2023. The PDC is in late-stage development of a suite of emulsions, novel vapour formulations, flavour innovations, and packaging solutions which are soon to be commercialised by Organigram in the Canadian market.

**+** For more information on Beyond Nicotine, see [page 39](#)

#### Notes:

1. IRI/Circana Consulting, Euromonitor.

2. Euromonitor 2022 Market Sizing Data | Global.

3. Euromonitor 2022 Market Sizing Data | Global.

4. Euromonitor 2022 Market Sizing Data | Global.



## Quality Growth

## Our Vapour Products

**Vapour products<sup>\*†</sup> are battery-powered devices that heat e-liquids to produce an inhalable aerosol (vapour).**

Our leading, global Vapour brand, Vuse, plays a major role in providing smokers with a reduced-risk<sup>\*†</sup> alternative to cigarettes.

63

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

**Vapour Top 5 markets<sup>\*\*\*</sup>**  
the U.S., the UK, France, Germany and Canada.

### Highlights

Vuse value share up 30 bps vs 2022 to reach 36.1% share (in tracked channels) in our Top 5 markets.

Vuse extended its value share leadership position in the U.S., increasing 470 bps vs 2022 to 45.6%.

Consumer acquisition up 1.5 million, reaching 11.5 million.

Vapour volume up 7.0% in strong price environment (+19.9%), delivering revenue 27% higher at constant rates of exchange.

Vuse Go (the Group's single-use vapour offer) launched in 59 markets, including the UK, France, Spain, Canada, Greece, Germany and Ireland.

### Overview

Vapour is the largest smokeless product category in terms of number of consumers, has the largest global footprint and is an attractive proposition to convert smokers to reduced risk<sup>†</sup> smokeless products.

Low barriers to entry and an absence of consistent regulatory frameworks leads to a highly fragmented and competitive landscape.

Regulatory risks, illicit trade, the pace of innovation and profitability are key challenges for the Vapour category. However, we believe that the category can reach more than 20 million consumers across 100+ markets globally, profitably.

### The Scientific Evidence

Evidence continues to emerge from the public health community and academia about the role of vapour products as a reduced-risk<sup>†</sup> alternative to smoking.

In the UK, for example, Public Health England<sup>\*\*</sup> published a series of expert reviews of the existing evidence, drawing on peer-reviewed literature, surveys and other reports, concluding: "the current best estimate is that e-cigarettes are around 95% less harmful than smoking."<sup>1</sup>

Moreover, the UK National Health Service states that "Evidence shows that nicotine vapes are actually more effective than nicotine replacement therapies, like patches or gum."<sup>2</sup>

In 2021, we published a comprehensive review of the scientific evidence for vaping products, their potential health effects, and their role in tobacco harm reduction. This is a summary of more than 300 peer-reviewed scientific papers and other evidence published by around 50 institutions over the past decade.<sup>3</sup>

According to adult population modelling studies cited in the review, a significant reduction in premature deaths could be achieved if current smokers switched exclusively to vaping rather than continuing to smoke cigarettes.

In 2023, results from our innovative cross-sectional clinical study<sup>4</sup> showed that exclusive Vuse users had significantly lower exposure to tobacco toxicants, and favourable results for indicators linked to smoking related diseases, compared with smokers.

Also in 2023, we published a laboratory study<sup>4</sup> which showed flavoured e-liquid toxicity was >95% reduced when compared to cigarette smoke and concluded that flavoured e-liquids do not increase the risk profile of well stewarded e-cigarettes.

### 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 the 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 c.75% (2022: 88%) of total industry Vapour revenue (rechargeables and single-use products).

1. GOV.UK. (n.d.). E-cigarettes around 95% less harmful than tobacco estimates landmark review. Available at: <https://www.gov.uk/government/news/e-cigarettes-around-95-less-harmful-than-tobacco-estimates-landmark-review>

2. NHS (2023). Vaping myths and the facts - Better Health. [online] nhs.uk. Available at: <https://www.nhs.uk/better-health/quit-smoking/vaping-to-quit-smoking/vaping-myths-and-the-facts/>.

3. Camacho, O.M., Ebajemito, J.K., Coburn, S., Prasad, K., Costigan, S. and Murphy, J.J. (2021). Evidence From the Scientific Assessment of Electronic Cigarettes and Their Role in Tobacco Harm Reduction. Contributions to Tobacco & Nicotine Research, 30(2), pp.63–108. doi:<https://doi.org/10.2478/cttr-2021-0007>.

4. Haswell, L.E., Gale, N., Brown, E. et al. Biomarkers of exposure and potential harm in exclusive users of electronic cigarettes and current, former, and never smokers. Intern Emerg Med 18, 1359–1371 (2023). <https://doi.org/10.1007/s11739-023-03294-9>.

5. Bishop, E., East, N., F. Miazzi, Fiebelkorn, S., Breheny, D., Gaca, M. and Thorne, D. (2023). A contextualised e-cigarette testing strategy shows flavourings do not impact lung toxicity in vitro. 380, pp.1–11. doi:<https://doi.org/10.1016/j.toxlet.2023.03.006>.



## Regulation and PMTA

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

In addition, perceptions of nicotine continue to evolve; however, many consumers—and health care professionals—do not adequately understand the risks associated with nicotine generally.

We strongly support a well-functioning regulatory system within which regulatory oversight leads to accelerated reductions in underage tobacco use and in tobacco-related harm. We are invested in that system and are fully committed to those goals.

The tobacco category is undergoing transformational change. Smokeless technologies like Vapour, Modern Oral and Heated Products offer enormous potential for moving more adult smokers to potentially less harmful alternatives. And this change is underscored by the U.S. Food and Drug Administration's Premarket Tobacco Product Application (PMTA) process.

PMTAs include, among other things, robust science packages composed of analytical, toxicological, pre-clinical, clinical, and behavioural data to demonstrate that the marketing of a tobacco product is "appropriate for the protection of the public health" and underpinned by science.

Vuse Solo (Original flavour) and Vibe/Ciro (tobacco flavours) have previously received marketing authorisations from the FDA confirming that the marketing of these products is appropriate for the protection of public health.

These applications were 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.



**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

We are disappointed by the FDA's Marketing Denial Orders (MDOs) for Vuse Alto's Menthol\* and Mixed Berry products. We are challenging these denials in court and have obtained a permanent stay of enforcement for Vuse Alto Menthol, allowing it to remain on the market.

We believe that public health officials, legislators, and regulators—especially the FDA—should be concerned about the continued influx of illegal single-use vapour products into the U.S. market.

It is unacceptable that these products, marketed in youth-appealing flavours such as Bubble Gum and Cotton Candy, continue to be sold. We call on the FDA, in conjunction with state and local authorities, to strongly enforce against these products.

We continue to look for opportunities to innovate across our Vuse portfolio to meet the preferences of our adult consumers, and we continue to approach the growing single-use product category in a responsible way.

## Performance Summary

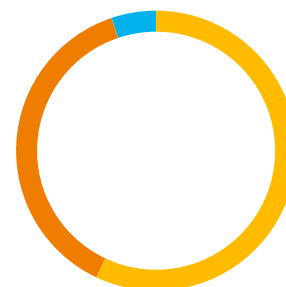
Vapour continued its strong momentum, driven by Vuse. Total volume of consumables in 2023 was up 7.0% to 654 million units, having grown 14.3% to 612 million units in 2022.

Combined with consumable pricing (+19.9% in 2023, having been +29.5% in 2022), this drove revenue up 26% to £1,812 million, or 27% at constant rates of exchange, with 2022 up 55% to £1,436 million (or an increase of 43.8% at 2021 rates of exchange).<sup>®</sup> In 2023, four of the five key Vapour markets delivered a positive new category contribution.<sup>®</sup>

Vuse maintained global Vapour value share leadership with a full year value share of 36.1% (up 30 bps vs 2022) led by Vuse Alto. Single-use products continue to accelerate category growth with their convenient format, driving consumer trial and conversion. Vuse Go is now in 59 countries, with positive regulatory developments enabling our entrance into a number of emerging markets (Colombia, Paraguay, Peru).

We consolidated our position in all Top 5 markets, driven by industry-leading consumer acquisition up 1.5 million to 11.5 million consumers.

## Proportion of Vapour revenue by region in 2023 (£m)



	2023 £m	2022 £m
U.S.	1,033	913
AME	686	465
APMEA	93	58
<b>Total</b>	<b>1,812</b>	<b>1,436</b>

We continue to have strong value share positions in the rechargeable sub-category. Specifically, on a full-year basis in 2023:

- In the U.S., the world's largest Vapour market, Vuse extended leadership in value share (of total Vapour in tracked channels) by 470 bps to 45.6%, maintaining the momentum of 2022 which was, itself, up from 32.5% in 2021. In 2023, revenue was up 13.1%, or 13.8% on a constant currency basis, driven by price increases in both consumables and devices during the year, and by leveraging our Revenue Growth Management tool as a key enabler of value creation. Pricing contributed to growth by 20.4% in 2023 and 36.4% in 2022, more than offsetting lower consumables volume (down 6.6% in 2023), driven by the growth of illicit synthetic nicotine single-use products. This followed a period of growth, as 2022 was up 10.0% to 320 million units.
- In Canada,\*\* volume declined 23% yet Vuse maintained its leadership position with total value share at 92.5% (up 210 bps) in 2023, having grown 890 bps in 2022.
- In the UK, total Vapour value share of the category was 10.3% (2022: 14.7%);
- In France, Vapour value share was 38.8% in 2023, remaining flat (vs 2022);
- In Germany\*\*, our value share of total Vapour was 25.9%, up 500 bps (2022: 20.9%).

### Notes:

\* Menthol variants accounted for approximately 65% of total Vuse consumables in 2023.

\*\* Following rebasing of third party databases, the 2022 value share for the Group was revised in Germany (from 21.4% to 21.1%) and in Canada (from 89.5% to 90.4%).

## Quality Growth

## Our Heated Products (HPs)

**Heated Products (HPs)\* use heat to generate a nicotine-containing aerosol, which the user inhales. This category includes Tobacco Heated Products (THP) and Herbal Products for Heating (HPH).**

Within HP, because the tobacco or herbal substrate is heated instead of burned, the resulting aerosol comprises mainly water, glycerol, nicotine and flavours – different to cigarette smoke.

31

Number of markets where the Group's Heated Products are sold

**HP Top 12 markets\*\***

Japan, South Korea, Italy, Greece, Hungary, Kazakhstan, Ukraine, Poland, Switzerland, Romania, Malaysia and the Czech Republic.

**Highlights**

glo HP category volume share down 110 bps in Top 12 markets vs 2022 to reach 18.2%.

glo consumer acquisition up 0.8 million reaching 8.0 million.

glo consumable volume down 1.3%, with the industry volume up 13%, with our performance impacted by the sale of our businesses in Russia and Belarus.

glo revenue declined by 6%.

**Overview**

Heated Products offer the most familiar route for smokers to adopt a reduced-risk\*, smokeless product.

To effectively compete in the Heated Product category, more work is required to build glo as a strong and consistent global brand and we must transform our product portfolio through our robust innovation pipeline.



**In terms of risk reduction, [HPs] 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

**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, HPs heat tobacco or other herbal ingredients, like rooibos, to much lower temperatures (below 400°C).

Due to the heating, as opposed to burning, HPs are considered reduced-risk\* compared to continued smoking for those who switch completely.

In 2018, Public Health England\*\*\*, while highlighting the need for more research, found that “compared with cigarettes, heated tobacco products are likely to expose users and bystanders to lower levels of particulate matter, and potentially harmful compounds.”<sup>1</sup>

More long-term studies are needed on HPs, which is why we conducted our year-long clinical study to evaluate the reduced-risk potential of glo. The 12-month data was published in a peer-reviewed journal in August 2022<sup>2</sup>.

This study showed that smokers who switched from cigarettes to the exclusive use of glo significantly reduced their exposure to certain toxicants and indicators of potential harm related to several smoking-related diseases, in some measures to a level found in participants who had stopped smoking entirely.

**Notes:**

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

\*\* Key HP markets are defined as the Top 12 markets (excl Russia) by industry volume. They were adjusted in 2023, with more established HP markets Kazakhstan, Romania, Switzerland and Malaysia introduced and Russia removed. Accordingly, glo's category volume share for 2022 was rebased on the new definition from 19.4% to 19.2%. Top 12 markets by volume are Japan, South Korea, Italy, Greece, Hungary, Kazakhstan, Ukraine, Poland, Switzerland, Romania, Malaysia and the Czech Republic. These markets account for c. 85% of global industry HP volume in 2023.

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

1. McNeill A, Brose LS, Calder R, Bauld L, Robson D. Evidence review of e-cigarettes and heated tobacco products 2018. A report commissioned by Public Health England. London: Public Health England, 2018.

2. Gale, N., McEwan, M., Hardie, G., Proctor, C.J. and Murphy, J. (2022). Changes in biomarkers of exposure and biomarkers of potential harm after 360 days in smokers who either continue to smoke, switch to a tobacco heating product or quit smoking. Internal and Emergency Medicine. doi:https://doi.org/10.1007/s11739-022-03062-1.

## Designed with Purpose

Hyper pro is our newest and most premium version of Hyper, introduced to expand glo™ to address the needs of the HP consumers.

Hyper pro meets their needs for enhanced sensory satisfaction and familiar ritual, with a premium and exclusive device that projects their identity and status.

Featuring our new HeatBoost™ technology delivers superior taste satisfaction, a step up on immediacy, more intense boost taste mode and longer session, compared to earlier Hyper devices. Paired with our new, upgraded blended tobacco stick range and our veo tobacco-free herbal stick novel flavour range with capsule, it delivers an enhanced experience compared to other Hyper products.

Hyper pro is a smart and intelligent device equipped with a progressive EasyView™ display for interactive and intuitive control of the experience through a simple screen interface displays the selected taste mode, session progress and battery power. The device has better palm fit and convenience in use with a TasteSelect dial enabling one move to open the shutter and select the taste mode. This is also combined with the convenience of a faster charge than other Hyper products.

The Hyper pro launched in December 2023 in Italy and Poland, at premium pricing in a range of five stylish colours.

We continue to expand our geographic footprint with glo now available in 31 markets. veo is our latest innovation in offering a reduced-risk alternative to adult smokers in 11 markets, and we were the first major tobacco company to launch in the tobacco-free segment.

## Performance Summary

Impacted by the sale of the Group's businesses in Russia and Belarus in 2023 (which negatively impacted performance by 2.5 billion sticks, partly due to the timing of the sale partway through the year and a lower underlying performance as we reduced investment and focus on Russia), total consumable volume declined 1.3% to 23.7 billion sticks in 2023 having grown 26% (to 24.0 billion sticks) in 2022.

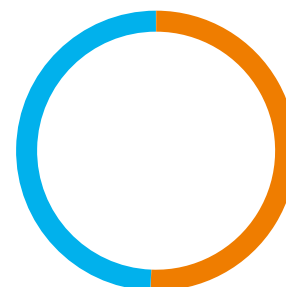
In 2023, glo HP category volume share in the Top 12 markets, declined 110 bps to 18.2%. Growth in Poland and the Czech Republic was more than offset by the highly competitive markets of Japan, South Korea and Italy.

Revenue declined 6.0% to £996 million (2022: up 24.3% to £1,060 million), largely due to the sale of the Group's businesses in Russia and Belarus partway through the year and a lower underlying performance as we reduced investment and focus on Russia, which acted as a drag on performance by £75 million. Excluding the impact of the relative movements in sterling, at constant rates of exchange revenue declined 2.5% in 2023, compared to an increase of 26.7% in 2022.

In AME, which has seen strong industry volume growth of 17% in 2023 (2022: 31%), our consumable volume declined 7.5% to 11.1 billion sticks, having grown 43% in 2022. The decrease in 2023 was largely due to the sale of the Group's businesses in Russia and Belarus which, along with lower underlying performance in Russia, negatively affected volume by 2.5 billion sticks, more than offsetting higher volume in Poland, Italy, Romania and the Czech Republic.

Accordingly, in 2023, revenue increased by only 2.3%, or 3.0% at constant rates of exchange, having grown 69% (or 65% at constant rates of exchange) in 2022. AME now represents 47% of our global HP volume. The timing of the sale of Russia and Belarus was a £75 million negative drag on the revenue performance in 2023, offsetting a good performance in the remainder of the region supported by the portfolio laddering strategy and volume share gains in key markets.

## Proportion of HP revenue by region in 2023 (£m)



	2023 £m	2022 £m
U.S.	0	0
AME	505	494
APMEA	491	566
<b>Total</b>	<b>996</b>	<b>1,060</b>

In APMEA, where the most mature HP markets are, our consumable volume grew 4.9%, having grown 12.3% in 2022. Revenue was down 13.2% (2022: up 1.1%) being a decline of 7.3% (2022: 7.0% higher) at constant exchange. 2023 was impacted by the price repositioning in the highly competitive Japanese market, with both 2023 and 2022 negatively affected by the final steps in the five-year excise harmonisation programme. Pricing was therefore a negative drag on the regional HP performance by 12.2% in 2023, having also negatively impacted 2022 by 5.3%. glo's volume share in Japan started to stabilise in the second half of 2023, driven by the activation of our commercial plans and positive uptake post successful launch of glo Hyper Air in the second half of the year. 2022 growth was driven by higher volume and consumable pricing.

In Japan, glo's volume share of total HP and combustibles was 7.4%, flat on 2022 (2022: 7.4%), as consumers continue to switch to reduced-risk alternatives to cigarettes, with our HP category volume share at 18.3%, down 170 bps from 20.1% in 2022.

glo Hyper Air (our lightest device to date), is now in 23 markets, delivering positive results. We continue to expand our geographic footprint with glo now available in 31 markets.

### Note:

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



## Quality Growth

## Our Modern Oral Products

In recent years, a new category of Modern Oral products<sup>†</sup> has emerged.

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

# 34

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

**Modern Oral Top 5 markets<sup>\*\*</sup>**  
the U.S., Sweden, Norway, Denmark and Switzerland.

## Highlights

Continued strong global volume growth (up 33.6%), with consumer numbers up 0.7 million to 3.3 million.

Category volume share in key Top 5 markets was 28.0%, down 240 bps, driven by a decline in the highly competitive U.S. market.

Continued strong growth in Pakistan and Kenya, supporting future Emerging Market ambitions.

Volume share leadership in Modern Oral in AME at 67.0%, with continued market leadership (through Velo) in 14 European markets.

AME revenue up 41.5%, with volume up 36.5%.

## Overview

The Modern Oral category has a clear runway for growth in markets with established oral nicotine consumption. Markets like the U.S. and the Nordics are examples of this as consumers already have the experience of Traditional Oral products.

However, the key challenge in unlocking the category's potential in new markets relates to how the oral nicotine product is used, which is different to how nicotine has previously been consumed, namely through inhalation.

Building a portfolio of strong brands and products/ranges to accelerate consumer adoption is fundamental to establishing a leading, global Modern Oral business.

## The Scientific Evidence<sup>\*</sup>

Modern Oral nicotine pouches build upon the extensive scientific evidence available for snus, including long-term studies<sup>1,2</sup> which demonstrate that snus use is associated with less risk of many diseases compared with cigarette smoking.

Modern Oral products, however, are designed to offer adult consumers an improved, reduced-risk<sup>†</sup> alternative, with many Modern Oral products manufactured as tobacco-free.

Laboratory chemical studies for our Modern Oral products show they produce substantially lower levels of toxicants than cigarette smoke<sup>3</sup> and lower levels than snus<sup>4</sup> – a traditional oral tobacco product which is already regarded as a reduced-risk<sup>†</sup> alternative to smoking.

Toxicology tests assessing the biological effects of our Modern Oral products on laboratory cells also show they have reduced effects relative to cigarettes and snus<sup>5</sup>.

Published in 2022, results from our innovative cross-sectional clinical study showed that exclusive Velo users had substantially lower exposure to tobacco toxicants, and significantly better results for indicators linked to smoking-related diseases, compared with smokers. In 2023, in a study where daily smokers were provided with Velo, the majority of participants significantly reduced their daily cigarette use.

On the basis of our evidence and informed by the wealth of independent evidence regarding snus, switching completely to Modern Oral products can be expected to reduce the risk of smoking related disease when compared to continued smoking.<sup>†</sup>



**Oral nicotine pouches, used as recommended, as a replacement for smoking, would be associated with a reduction in overall risk of adverse health effects.**

## UK Government

Committee on Toxicity 2023

## Notes:

1. Ramström L, Borland R, Wikmans T. Patterns of Smoking and Snus Use in Sweden: Implications for Public Health. *Int J Environ Res Public Health*. 2016 Nov 9;13(11):1110. doi: 10.3390/ijerph13111110. PMID: 27834883; PMCID: PMC5129320.
2. Sohlberg, T., Wennberg, P. Snus cessation patterns - a long-term follow-up of snus users in Sweden. *Harm Reduct J* 17, 62 (2020). <https://doi.org/10.1186/s12954-020-00405-z>
3. Gaca, Marianna, et al. "Bridging: accelerating regulatory acceptance of reduced-risk tobacco and nicotine products." *Nicotine and Tobacco Research* 24.9 (2022): 1371-1378.
4. Azzopardi, David, Chuan Liu, and James Murphy. "Chemical characterization of tobacco-free 'modern' oral nicotine pouches and their position on the toxicant and risk continuums." *Drug and chemical toxicology* 45.5 (2022): 2246-2254.
5. East, N., et al. "A screening approach for the evaluation of tobacco-free 'modern oral' nicotine products using Real Time Cell Analysis." *Toxicology Reports* 8 (2021): 481-488, and Bishop, E., et al. "An approach for the extract generation and toxicological assessment of tobacco-free 'modern' oral nicotine pouches." *Food and chemical toxicology* 145 (2020): 111713.

<sup>\*\*</sup> 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 c.85% (2022: c.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 plant-based 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.

Our Velo product range spans across both mint and fruit flavours and are sold in various nicotine strengths, from 4mg to 17mg of nicotine per pouch.

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.

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 management systems.

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 HP).

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

## Performance Summary

2023 maintained the momentum from 2022 with growth in volume and value. Volume was up 33.6% to 5.4 billion pouches, having grown 21.7% to 4.0 billion pouches in 2022.

Revenue increased 35% to £539 million (2022: up 45% to £398 million). Excluding the impact of foreign exchange, this was an increase of 39% in 2023 and 46% in 2022, as price/mix was up 5.4%, after the increase of 23.9% in 2022.

Volume share of the Modern Oral category in our Top 5 markets was 28.0%, down 240 bps compared to 2022, driven by the U.S. where we continue to await the outcome of our PMTA submission for our successful European product, Velo 2.0.

In the U.S., our volume share of Modern Oral declined by 200 bps with volume down 1.3% to 297 million pouches (2022: down 50% to 301 million pouches). We expanded our geographic coverage in the U.S. and continued to innovate, including the launch of our fusion and sensations ranges, tailored to meet the needs of local consumer tastes and preferences.

Revenue declined in 2023 to £25 million, as the Group reinvested in trade activation plans leading to a decline in net pricing (including trade incentives) of 30.5%. The Group had reduced such activity in 2022 with a resultant increase in revenue to £36 million in that year.

The U.S. market remains highly competitive, with current low moisture product formulations continuing to result in low levels of adult consumer numbers and high polyusage.

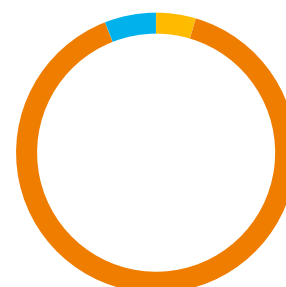
We are encouraged by the strong results from our recent Velo pilot in New York, including a more premium brand expression and design, with a national roll-out to commence in 2024.

In our key markets outside the U.S., we maintained clear Modern Oral category volume share leadership, despite a decline of 170 bps to 67.0%

In AME, we maintained volume share leadership in 14 markets. Revenue increased by 41.5% (2022: up 29.9%) or 44.6% (2022: up 31.6%) at constant rates of exchange. Price/mix was positive in both years, at +8.1% in 2023 and +1.1% in 2022. The higher revenue was driven by volume growth (up 36.5% in 2023 and 30.5% in 2022) due to continued consumer acquisition.

As the Modern Oral category continues to grow and becomes more established in Europe, we continue to see strong growth in adult consumer numbers. In Sweden, Velo is the largest (by volume share) of any snus or Modern Oral nicotine pouch brand\*\*.

## Proportion of Modern Oral revenue by region in 2023 (£m)



	2023 £m	2022 £m
U.S.	25	36
AME	482	341
APMEA	32	21
<b>Total</b>	<b>539</b>	<b>398</b>

We have been engaging with governments and other regulatory agencies and we are encouraged by the recently announced government regulatory proposals in Hungary, Finland, Lithuania, Iceland and Serbia. These markets join an evolving group of countries (including Sweden, Denmark, Estonia, Slovakia and the Czech Republic) that have issued bespoke regulation for the Modern Oral Category, that is aligned to our Tobacco Harm Reduction strategy.

For example, in APMEA our volume grew 36.2% and our revenue grew 50.3% (being 70.8% at constant rates), mainly driven by strong volume performances in Pakistan and Kenya. In Pakistan, through stronger consumer acquisition, we have achieved our highest active consumer base (as a % of population) in Modern Oral globally. In Kenya, our accelerated national roll-out in January 2023 has driven a near fourfold increase in adult consumer numbers.

Together, our learnings from these two markets give us confidence in our ability to unlock the Emerging Markets opportunity for Modern Oral going forward.

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<sup>†</sup>.

### 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.

\*\* Source: Kantar New Category Tracker.

## Quality Growth

# 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<sup>†</sup> products that help adult smokers migrate from combustible cigarettes while meeting the evolving needs of other adult nicotine consumers.

## Performance Summary

Total revenue decreased 3.8% to £1,163 million (2022: up 8.2% to £1,209 million).

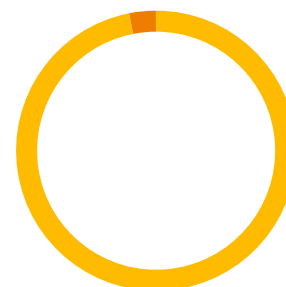
Translational foreign exchange impacted both years, being a headwind in 2023 of 0.7% (compared to a tailwind of 10.5% in 2022) due to the relative movement of sterling. On a constant rates basis, revenue fell 3.1% in 2023 having declined 2.3% in 2022. In 2023, volume was lower (down 10.3%) than the prior year (at 6.6 billion stick equivalents), following a decline of 8.3% in 2022. While pricing remained strong in both years (2023: +7.2%; 2022: +6.0%), this was more than offset by the volume decline.

In the U.S., which accounts for 96.9% of the Group's revenue from Traditional Oral, volume declined 10.9% in 2023 (2022: down 8.1%). The higher decline rate in 2023 was in part due to the normalisation of inventory levels (being a drag of 1.7%). Both 2023 and 2022 were negatively impacted by strong macro-economic headwinds leading to downtrading, accelerated cross-category switching and reduced consumption.

Value share of Traditional Oral was up 40 bps (2022: down 50 bps), while volume share was down 20 bps (2022: down 70 bps).

Outside the U.S., being 3.1% of the Group's revenue from the category, volume was 5.2% lower in 2023, driven by Sweden where the Group's volume share (as a proportion of total oral) declined 50 bps (2022: declined 10 bps). This decline was due to the launch of the Lundgrens Modern Oral product and higher pricing of Granit to drive value.

**Proportion of Traditional Oral revenue by region in 2023 (£m)**



	2023 £m	2022 £m
U.S.	1,127	1,174
AME	36	35
APMEA	—	—
<b>Total</b>	<b>1,163</b>	<b>1,209</b>

## 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 Combustible Products

**We are focused on driving value from 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 down 40 bps, driven by the U.S., down 60 bps, and APMEA, down 60 bps, partially offset by AME, which was flat versus 2022.

Volume share flat versus 2022.

Strong price/mix +7.5%.

## Value and Volume Share

Group cigarette value share was 40 bps lower in 2023 (2022: flat), mainly driven by the U.S. (down 60 bps). This combined with lower cigarette value share in Japan, Brazil, South Korea, New Zealand, Australia and Canada, was partially offset by higher value share in Mexico, Italy, Bangladesh, Germany, Spain and France.

Group cigarette volume share was flat in 2023 (2022: down 20 bps). In 2023, the Group grew volume share in Bangladesh, Ukraine, Mexico, Italy, Spain, Pakistan, France, Colombia and Germany. However, this was offset by Japan, Brazil, South Korea, the U.S., Switzerland, Australia, the Czech Republic, Canada and Romania. In 2022, this was a decrease of 20 bps driven by lower volume share in Brazil, Bangladesh, the U.S., South Korea, Russia, Poland, Romania, Canada and Germany, more than offsetting growth in Japan, Pakistan, Colombia, Spain and Saudi Arabia.

# 38

Number of cigarette factories in 36 countries

## Volume Performance

In 2023, Group cigarette volume was down 8.2%, at 555 billion sticks (2022: down 5.1% to 605 billion), with the total cigarette market returning to a more normalised decline of 11%, having been largely stable in 2022.

Volume declined in the U.S. in both 2023 and 2022 (discussed below). Both years were also impacted by disposals partway through the year (or in the comparison year) as the Group disposed of its businesses in Russia and Belarus in 2023 and Iran partway through 2021.

In 2023, volume was also down in Pakistan, driven by significant excise increases. This was partly offset by volume growth in Bangladesh, Brazil and Türkiye.

In 2022, volume was down in Türkiye, Germany, Nigeria and Chile, largely due to an increase in illicit trade and a return to more normalised market performance post COVID-19. In addition, volume grew in both years in Brazil (due to lower illicit trade) and Bangladesh (due to the strength of the local portfolio). Also in 2022, as travel restrictions started to relax, our Global Travel Retail business began to recover, having negatively impacted Group cigarette and HP volume by an estimated 1.0% compared to pre-pandemic levels.

In the U.S., industry volume declined 7.5%, having declined 10% in 2022, largely driven by macro-economic pressures impacting consumer behaviour. As a result of our premium-skewed portfolio, combustibles volume was down 11.4% (2022: down 15.4% to 59 billion), with downtrading driving a greater proportional effect on the Group. In addition, cigarette volume was negatively impacted by the flavour ban in California and the increase of solus-usage of alternative nicotine products, driven by the growth of illicit single-use Vapour products. 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 benefited 2021 by an estimated £200 million and was partially unwound in 2022.

## Change in cigarette value share in key markets (bps)

# -40bps

2023	-40	-40
2022		flat

**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 333).

## Change in cigarette volume share in key markets (bps)

# flat

2023		flat
2022	-20	-20

**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 333).





## Quality Growth

# Our Combustible Products Continued

### Regulation

On 29 April 2021, the FDA announced it was in the process of advancing a tobacco product standard banning menthol as a characterising flavour in cigarettes.

On 1 August 2022, our U.S. business submitted a detailed comment opposing the proposed rule.

On 15 June 2023, the Biden Administration released its Spring Unified Agenda, which indicated a final rule would be published in August 2023.

On 13 October 2023, the FDA transferred the final proposed rule to the Office of Management and Budget (OMB) for review.

On 13 November 2023, our U.S. business met with the OMB to address the rule's significant flaws and to recommend that the OMB return the rule to the FDA for reconsideration given, among other things, the expected growth of the illicit market that would result from the proposed menthol ban.

On 6 December 2023, the Biden Administration released the Fall 2023 Unified Agenda, which now indicates that the Administration expects to issue the final rule in March 2024; however, the Administration is not bound by this timeline. The U.S. business will evaluate any final rule, if, and when, it is issued.

We have been clear that a ban on menthol cigarettes would harm, not benefit, public health.

Published science<sup>1</sup> indicates that:

- menthol cigarettes do not present any greater risk of smoking-related disease compared to non-menthol cigarettes; and
- the weight of scientific evidence does not indicate that menthol cigarettes adversely affect initiation, dependence, or cessation.

Additionally, evidence from other markets where similar bans have been imposed demonstrates no impact on overall cigarette consumption because smokers switch to non-menthol cigarettes, turn to the illicit market, and resort to product tampering.

A ban on menthol is contrary to the FDA's stated goal of reducing the health effects of tobacco use. Our U.S. business will continue to participate in consultation and will likely challenge this unsupported and counterproductive rule in court if, and when, it is released.

In December 2022, the sale of all tobacco products with characterising flavours (including menthol) other than tobacco was banned in the State of California. This negatively impacted the Group's volume in the U.S. in 2023 and the Group will continue to monitor the impact in the coming periods.

### Strategic Brand Performance

In 2023, strategic cigarette brands' value share was down 30 bps (2022: up 10 bps):

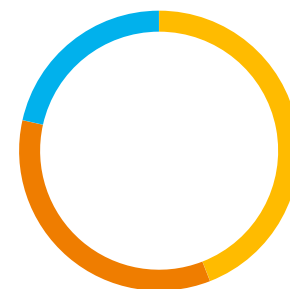
- Dunhill's overall value share was flat (2022: flat) as growth in Brazil, Saudi Arabia and South Africa was offset by declines in South Korea, Malaysia, Pakistan and Australia. Volume was 0.9% higher (2022: up 7.3%), largely driven by Brazil and Indonesia;
- Kent's value share was down 10 bps (2022: 10 bps down) as growth in Poland and Chile was offset by lower value share in Brazil, Japan, Romania, South Korea, Netherlands, Malaysia and South Africa. Volume was down 9.4% (2022: down 6.1%) as growth in Türkiye and Poland was more than offset by lower volume in Brazil and Japan. 2023 was also impacted by the sale of the Russian and Belarusian businesses (partway through the year) while 2022 was impacted by the sale of the Iranian business partway through 2021;
- Lucky Strike's value share grew 40 bps (2022: up 60 bps), as growth in the U.S., Chile, Bangladesh, Italy, Spain, France and Colombia more than offset lower value share in Japan, Germany, Mexico and Poland. Volume grew 16.7% (2022: up 14.5%) driven by Russia, the U.S., and Brazil, partially offset by Japan;
- Rothmans' value share was flat (2022: flat) as growth in Romania, Italy, the Czech Republic, Brazil, New Zealand, Malaysia and Colombia was offset by lower value share in Poland, Pakistan, Australia, the UK and Saudi Arabia. Volume was 14.6% lower (2022: 5.1% down) as growth in Brazil, and Romania was more than offset by lower volume in Russia, Yemen and Pakistan; and
- Pall Mall's value share was 30 bps lower (2022: 40 bps down) as growth in Pakistan, Canada, Mexico and the Netherlands was more than offset by lower value share in the U.S., Chile, Romania, Australia and Poland. Volume was down 15.9% (2022: down 9.5%) largely driven by Pakistan and the U.S..

The Group's U.S. domestic strategic combustible portfolio was 60 bps down:

- Newport value share decreased 50 bps (2022: up 10 bps), while volume declined 14.7% (2022: down 17.0%);
- Natural American Spirit performed well with value share up 30 bps (2022: up 10 bps). Volume was 3.5% down (2022: down 9.2%); and
- Camel's value share declined 50 bps in the U.S. (2022: down 30 bps) with volume 14.0% down (2022: 15.7% down), driven by competitive pricing pressures.

Volume of other tobacco products (OTP) declined 11.0% to 14.8 billion sticks equivalent (2022: 10.3% decline), being 3% of the Group's combustible portfolio (2022: 3%).

### Proportion of combustibles revenue by region in 2023 (£m)



	2023 £m	2022 £m
U.S.	9,744	10,470
AME	7,614	7,588
APMEA	4,750	4,972
<b>Total</b>	<b>22,108</b>	<b>23,030</b>

### Revenue

In 2023, revenue from combustibles was down 4.0% at £22,108 million (2022: £23,030 million, up 4.5%). Pricing in both years was strong with price/mix in 2023 at 7.5% and 4.6% in 2022. However, this was offset by the decrease in volume in both years as described earlier.

Revenue is affected by the relative movement of sterling against the Group's reporting currencies. In 2023, this was a translational foreign exchange headwind of 3.2%, compared to a tailwind of 5.1% in 2022.

Also in 2023, revenue was impacted by a combination of lower comparative performance from Russia and the sale of the Group's businesses in Russia and Belarus partway through the year, which in aggregate acted as a negative drag on performance by £380 million.

After adjusting for the currency headwinds, revenue from combustibles at constant rates of exchange was down 0.8% to £22,846 million, having declined by 0.6% in 2022.

### Amortisation of the U.S. Combustibles Brands

Following a review of the Group's performance expectations in the U.S. reflecting continuing macro-economic headwinds, with effect from 1 January 2024, the Group's indefinite-lived combustible brands will be amortised on a straight-line basis over periods not exceeding 30 years.

In 2024, and the immediate years following this change in accounting estimate, the expected impact is an increase in annual amortisation expense of £1.4 billion.

#### Note:

1. Scientific evidence available at [www.regulations.gov/comment/FDA-2021-N-1349-17511](http://www.regulations.gov/comment/FDA-2021-N-1349-17511)

# Beyond Nicotine



## Beyond Nicotine

As well as offering less risky<sup>\*†</sup> 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 Shus, 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.

### Highlights

As consumers increasingly seek products offering wellbeing and stimulation characteristics, our venturing unit, Btomorrow Ventures (BTV), is working with 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 25 investments (with three successful exits) since its launch in 2020, and continues to invest in innovative, consumer-led new sciences and technologies, and sustainability to support the Group's transformational strategy for A Better Tomorrow™.

Throughout 2023, BTV has continued to support its portfolio of companies with a number of follow-on investment rounds and commercial partnerships with BAT, including investments in a UK-based bioplastics company, FlexSea, a U.S.-based organ-on-a-chip technology company, Hesperos Inc., and in a Brazilian supplements company, Mais Mu.

The Group also entered into a joint venture with Charlotte's Web, a leading U.S. producer of hemp extract wellness products, contributing US\$10 million to this joint venture as an initial investor in exchange for 20% of the equity in the new entity (De Floria LLC).

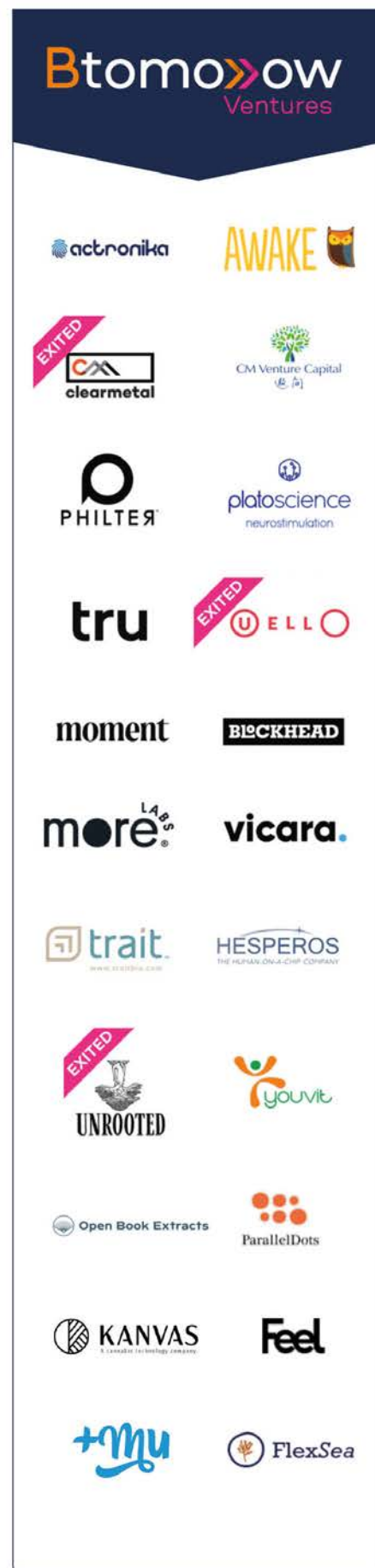
As discussed in note 27 in the Notes on the Accounts on page 279, in November 2023, the Group announced the signing of an agreement for a further proposed investment in Organigram of CAD\$125 million (approximately £75 million), across three tranches, with approvals received from the shareholders of Organigram on 18 January 2024.

Based on Organigram's current outstanding share capital, this investment will increase the Group's equity position from c.19% to c.45% (restricted to 30% voting rights) once all three tranches have been completed. On 24 January 2024, BAT made the first tranche investment of CAD\$41.5 million (£24.1 million).

The Group has continued to explore Beyond Nicotine through our subsidiary The Water Street Collective Ltd, with a series of pilot launches of our own functional shot brand, Ryde, offering a scientifically formulated range of Energy, Focus and Relax products in two markets – Australia and Canada.



Find out more at  
[www.btomorrowv.com](http://www.btomorrowv.com)



## Dynamic Business

## Strategic Pillar Overview

## Dynamic Business

The Dynamic Business pillar envisages a future-fit, data-driven organisation; ensuring we are efficient and effective in all of our operations.

This will ensure that we deliver financial flexibility to invest in our business, people and products to win in a fast changing environment and deliver superior returns to our investors.

**The key building blocks of the Dynamic Business pillar are:**

Exciting, Winning Company  
Operational Excellence  
Capital Effectiveness

**Our commitments under Dynamic Business:**

Creating a diverse, inclusive and people-oriented place to work  
Being data-driven and delivering operational excellence/cost management  
Focused on investors returns

**An Exciting and Winning Company  
A Better Tomorrow™**

Delivering our refined corporate strategy requires a renewed people strategy, one that is human-centric, enables high performance and accelerates the building of skills and capabilities for multi-category growth.

Recognising that it is our people who will deliver our refined strategy, we took the opportunity during 2023 to revise our corporate values.

Six 'values' now replace our ethos and will be embedded across the Group to ensure all our people understand what is expected of them to help us Build a Smokeless World. The six 'values' are:

- Truly inclusive
- Empowered through trust
- Stronger together
- Love our consumer
- Passion to win
- Do the right thing

**Employer brand**

Our focused efforts in the past years have helped us build a compelling talent brand, attracting 1.5 million LinkedIn followers and being recognised for the sixth consecutive year as a Global Top Employer by the Top Employers Institute.

As a result, since 2019, we have onboarded around 3,000 hires with new capabilities critical to delivering our business strategy. We will continue:

- Building an exceptional talent brand that attracts broad talent pools;
- Delivering desirable experience for hiring managers, recruiters, and candidates, by accelerating our adoption of smarter technology solutions;
- Improving hiring capabilities to fit an ever-changing external talent landscape; and
- Ensuring data-driven decision making and expanding our external partnership reach to meet our hiring needs.

**High performance and reward**

Our reward agenda has been developed to be globally aligned yet locally relevant across our business.

This ensures there is a singular focus and line of sight between our executive team and colleagues in all our End Markets.

Looking ahead, we will also focus on:

- Redefining our definition of employee "Performance", pivoting to recognise and reward both high impact results and leadership behaviours;
- The design of our variable pay programmes, ensuring they continue to be contemporary and attractive and enable the delivery of our refined strategy; and
- Further strengthening our employee health and wellbeing propositions, in support of our D&I and sustainability goals.

**Capabilities and learning**

Since 2020, we have seen significant growth in learning across BAT.

The average number of hours spent learning by each BAT manager has doubled and the amount invested in learning for all our employees has increased by a third.

In parallel to this, we have continued to refresh and grow our leadership and functional L&D programmes, increasing the size of our portfolio by 25% since 2020. The focus of the next few years will be on:

- Defining the skills profile of the organisation and analysing skills gaps, to facilitate skills-oriented workforce planning, including role based learning solutions;
- Capability development in advanced multi-category skills & Transformational leadership capabilities; and
- Using technology such as AI and enhancements in Learning Experience Platforms and Learning Management Systems to innovate our employee learning experience, delivery channels and learning content.

**Inclusion and diversity**

At BAT, we are proud to be a diverse global organisation that encourages our people to value their differences.

In 2020, BAT set new global 2025 Diversity & Inclusion ambitions focused on gender representation at both Senior Leadership and Management levels, diversity of experiences and nationality representation within the Senior Leadership teams.

While we have made progress, we need to embrace a wider focus on championing inclusion and achieving equity within our workplace and beyond.

A comprehensive and structured framework to further enhance inclusion, diversity and equity will be put in place, focusing on four key areas:

- Revised global ambition and KPIs moving towards a broader framework of equity and inclusion with the aim of increasing gender and ethnically diverse representation in our Management teams as well as our Senior Leadership populations;
- Policies, practices, and enablers which are best in class and holistic, addressing diverse life-stage and employee needs;
- Enhanced approach to building Inclusive Leadership focused on sponsorship, role modelling and walking the talk; and
- Our holistic D&I agenda which goes beyond the workplace and into the communities we serve, and partners we work with.



For more information on our Employees, Diversity and Culture, see [page 88](#)





## Operational Excellence

### Focus areas

Delivering on our refined corporate strategy and Building a Smokeless World will require greater focus on our global execution. This includes getting the U.S. back to growth, where and how we allocate resources at a regional and market level, and driving greater productivity while reducing complexity.

### Getting the U.S. back to growth

In 2023, we completed a deep and thorough review of our U.S. business.

Recognising its importance to our future growth, we will continue to invest there and focus on sharpening our portfolio management, strengthening our route-to-market, and further leveraging our broad, digitally enabled, revenue growth management capabilities.

We are confident this will drive quality growth over the longer-term and ensure greater resilience through economic cycles.

## Driving productivity and growth

As part of our digital transformation, we are driving the increasing use of data to become a data-driven organisation. Our focus is on the effective and efficient delivery of our market-leading products and innovations to satisfy consumers, drive growth and create value and Build a Smokeless World.

To meet the challenges of the modern world, we continue to invest in technology to become a more efficient and effective business, with AI-enabled, data-driven systems and ways of working to match.

Three focus areas will be key to driving progress under the Operational Excellence pillar of our refined corporate strategy: optimising our manufacturing operations; reducing complexity in our ways of working and processes, including using of AI and data enabled technology; and our Global Business Services (GBS) Centres of Excellence.

### At-scale operations

We have a global manufacturing footprint designed to ensure an efficient supply chain across both combustible and smokeless products.

Manufacturing tobacco and nicotine products is a large-scale operation and we have state-of-the-art manufacturing facilities all over the world.

In 2023, the Group manufactured cigarettes in 38 factories in 36 countries. Our factory outputs and facilities vary significantly in size and production capacity. We also have manufacturing sites for our range of smokeless products.

In line with our corporate commitment to fight climate change, our factories have in place decarbonisation, water usage and waste optimisation programmes.

We work to ensure that our costs are globally competitive and that we use our resources as effectively as possible. Our production facilities are designed to meet the needs of an agile and flexible supply chain.

We also use third-party manufacturers to manufacture the components required, including the devices, related to our smokeless New Category products. Such third-party manufacturers supplement our own production facilities in the U.S., Poland and Indonesia to produce the liquids used in Vapour products.

By continuing to improve our productivity in all areas of our supply chain, we can increase our profitability and continue to deliver sustainable returns to our shareholders.

However, it is not just about today, it also underpins our future. The more efficient and effective we become, the more we are able to generate funds to invest in the things that will fuel future growth: our products, our innovations and our people.

### Working with farmers

While we do not own tobacco farms or directly employ farmers, we source tobacco leaf directly from more than 91,000 contracted farmers and through third-party suppliers mainly in emerging markets.

With our contracted farmers, we continually strive to improve sustainability and viability. We focus on improved quality, cascading more resistant hybrid seeds, tailored mechanisation to reduce costs of production, and increased yield.

We review our contracts on an annual basis considering Group requirements over the medium-term to promote the stability of demand and supply on production volumes.

We have similar expectations of our third-party suppliers in relation to their farmer contracts.

As with any other global agricultural commodity, international tobacco prices vary from year to year. This is driven by changes in the cost of production, like labour costs and agricultural inputs, local inflationary pressures and economic, political and market conditions, as well as climatic conditions that impact supply, demand and quality of the tobacco grown.



## Dynamic Business

Strategic Pillar Overview  
Continued

## Capital Effectiveness

Capital Effectiveness is a key focus of delivering a Dynamic Business to Build a Smokeless World.

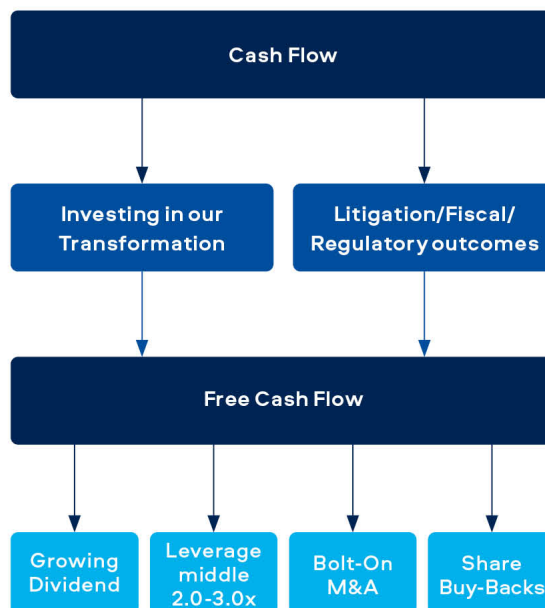
The key objective is to unlock shareholder value by optimising access, utilisation and return of capital resources. The key initiatives include:

- maximise our cash generation;
- invest in the right opportunities;
- optimise the return on our investments;
- reduce our debts; and
- generate sustainable returns.

Our active capital allocation framework considers the continued investment in our transformation, the macro environment, potential future litigation and regulatory outcomes.

The Board continuously reviews our capital allocation priorities including both internal and external opportunities and stakeholders while considering the uncertain macro environment, foreign exchange fluctuations and higher interest rates.

## Capital Allocation Framework



@~£40bn  
5 Year Cumulative  
Free Cash@

## Cash generation

Maximising cash generation is an essential component in our capital allocation decisions.

@Driven by rigorous working capital management, the Group generated an operating cash conversion of at least 100% for the fourth consecutive year.@

While the Group remains highly cash generative, cash is a critical resource to ensure that we can invest in the right opportunities in Building a Smokeless World.

Recent macro-economic trends including geopolitical instability, conflicts, inflation and high interest rates have meant that cash is an increasingly costly resource. As such, internally generated cash and working capital are much more valuable and they must be mobilised effectively and optimised efficiently.

This will be done by continuing to focus on a high cash conversion rate as well as rigorous focus on working capital.

## @Our commitment:

To generate c.£40 billion of free cash flow before dividends over the next five years.

## @Our record:

The Group has generated around £8 billion of free cash flow in each year since 2020.

This is despite the significant investment in New Categories and while incurring external payments made in respect of litigation and settlements, including the resolution of the investigations by the DOJ and OFAC into historical breaches of sanctions.

This demonstrates the resilience of the Group to continue to generate exceptional cash flow, while delivering the Group's transformation ambitions.

## Maximising our investments

As we continue to build A Better Tomorrow, the Group seeks to optimise the return on our investments and seeks to invest in the right opportunities.

The Group invests around £550 million of gross capital expenditure (annually) to enhance our growth opportunities and deliver operational efficiencies. 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).

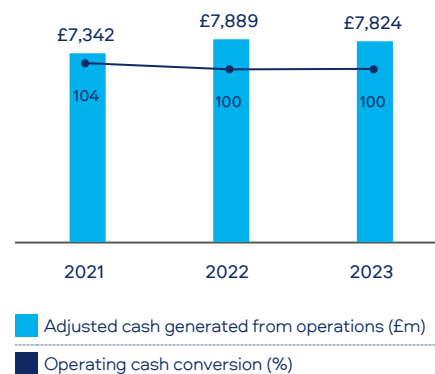
We will continue to proactively assess the performance of our assets to ensure value is maximised through operational returns or through disposal.

In addition, as part of our transformation we invest in the Wellbeing and Stimulation space and through our venturing unit, Btomorrow Ventures, and in the cannabis space, including a further investment in Organigram.

## Our commitment:

To continue to actively assess investments, be it for acquisition or disposal, both internally and externally, to maximise our delivery and provide the right infrastructure for the BAT of tomorrow.

## @Strong operating cash conversion driven by continued focus on cash delivery



## @Adjusted Return on Capital Employed



**@Our record:**

The acquisition of Reynolds American Inc. impacted our capital base.

We have improved our adjusted return on capital employed consistently from 8.3% in 2018 to 9.9% in 2022, with a further improvement to 10.9% in 2023, partly due to the impairment recognised and discussed on page 239.

**Reducing debt**

Total borrowings (which includes lease liabilities) decreased to £39,730 million in 2023 (2022: £43,139 million).

Total borrowings include £700 million (31 December 2022: £798 million) in respect of purchase price adjustments related to the acquisition of Reynolds American Inc.

As discussed on page 56, the Group remains confident about its ability to access the debt capital markets successfully and reviews its options on a continuing basis.

We have a debt rating of Baa2 (positive outlook), BBB+ (negative outlook), BBB (positive outlook) by Moody's, S&P and Fitch.

@Our leverage target is 2-3x adjusted net debt to adjusted EBITDA@.

Given current geopolitical and economic challenges, the Group aims to:

- de-lever our gross debt levels (from £39.7 billion in 2023); and
- moderate the annual Net Financing Cost levels (which were £1.9 billion in 2023) to support the overall strategy of the Group.

This will deliver a resilient balance sheet, able to withstand future uncertainties, while providing increased flexibility for the Group to be able to invest in future growth opportunities and, when our leverage target is reached, sustainably return excess cash to shareholders.

This will also de-risk the future solvency and liquidity risk as referred to on page 126, whereby the Group's ability to refinance debt as it matures will be enhanced.

**Our commitment:**

To retire debt in a sustainable manner, reducing our risk of refinancing and net finance cost exposures@, while driving to our medium-term debt rating target of Baa1/BBB+/BBB+ by Moody's/S&P/Fitch@.

**Our record:**

Since the acquisition of Reynolds American Inc. in 2017, we have consistently reduced our borrowings from £49.1 billion to £39.7 billion at 31 December 2023.

@Our leverage (as measured by the ratio of adjusted net debt to adjusted EBITDA) has also improved year on year as we drive towards our target range. From a high of 5.3x in 2017, in 2023, this was 2.6x, representing a decrease from 2.9x at the end of 2022.@

**Generate sustainable returns**

Generating shareholder value, via sustainable returns, is an integral part of our strategic ambition.

Over the past 25 years we have consistently grown the dividend per ordinary share on absolute terms.

On 8 February 2024, the Company announced that the Board had declared an interim dividend of 235.52p per ordinary share of 25p, payable in four equal quarterly instalments of 58.88p per ordinary share in May 2024, August 2024, November 2024 and February 2025.

This represents an increase of 2.0% on 2022 (2022: 230.90p per share, up 1.0%).

In 2023, the Board prioritised strengthening the balance sheet to provide greater business reliance during an uncertain macro-economic environment, whilst aiming to reduce leverage more quickly @ towards the middle of the 2-3x adjusted net debt to adjusted EBITDA corridor@.

As such, there were no share buy-backs in 2023.

However, we strongly believe that share buy-backs have an important role to play within our capital allocation framework.

**Our commitment:**

Progressive increase in dividend – in £ terms, by reference to the Group's dividend policy which is to pay dividends of 65% of long-term sustainable earnings. Please refer to the dividend policy on page 388.

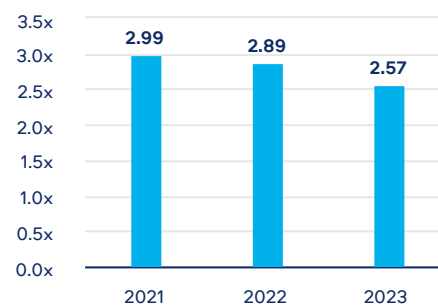
Buy-back shares in a sustainable programme, once the leverage ratio reaches our target leverage range @of the middle of the 2-3x adjusted net debt to adjusted EBITDA corridor.@

**Our record:**

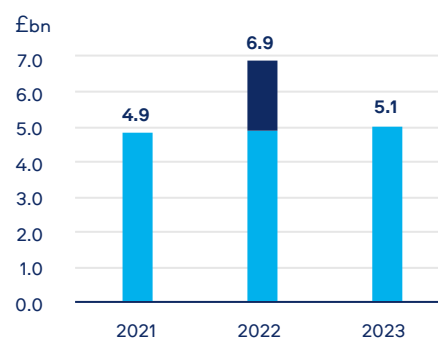
In the last three years, we have returned:

- £5.1 billion (2022: £4.9 billion; 2021: £4.9 billion) via dividends; and
- £2.0 billion via share buy-backs in 2022.

Since 2019, we have returned a total of £26.2 billion to shareholders.

**@Adjusted Net Debt to Adjusted EBITDA**

Adjusted Net Debt to Adjusted EBITDA (times)

**@Allocating free cash flow to shareholders**

Dividend (£bn)

Share buy-back (£bn)

## Dynamic Business

# U.S.

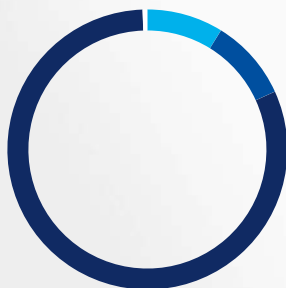
## United States

2023 has been a challenging year in the U.S., due to the continued macro-economic environment impacting the premium sector and the growth of illicit single-use vapour products. We call on the FDA and other authorities to enforce against these products.

### David Waterfield

President and CEO  
(Reynolds American Inc.)

### 2023 revenue by category



Revenue by category as % of total Region

	2023	2022
New Categories	8.8	7.5
Traditional oral	9.4	9.3
Combustibles	81.2	82.8
Other	0.6	0.4

### Key markets

Our products are available in all regions of the U.S.

### Volume

	2023 units	vs 2022 %	2022 units	vs 2021 %	2021 units
New Categories:					
Vapour (10ml units / pods mn)	298	-6.6%	320	+10.0%	291
HP (sticks bn)	—	—	—	—	—
Modern Oral (pouches mn)	297	-1.3%	301	-50.1%	602
Traditional Oral (stick eq bn)	6	-10.9%	7	-8.1%	7
Cigarettes (bn sticks)	52	-11.4%	59	-15.4%	70
Other (bn sticks eq)*	—	-5.6%	—	—	—
Total Combustibles	52	-11.3%	59	-15.5%	70

Note:

\* Other includes MYO/RYO.

### Revenue

	2023 £m	vs 2022 %	vs 2022 (adj at cc) %	2022 £m	vs 2021 %	vs 2021 (adj at cc) %
New Categories:						
Vapour	1,033	+13.1%	+13.8%	913	+62.9%	+46.4%
HP	—	—	—	—	-69.1%	-72.3%
Modern Oral	25	-32.2%	-31.8%	36	n/m	n/m
Total New Categories	1,058	+11.3%	+12.0%	949	+68.7%	+51.6%
Traditional Oral	1,127	-4.0%	-3.4%	1,174	+8.9%	-2.1%
Combustibles	9,744	-6.9%	-6.4%	10,470	+4.5%	-6.1%
Other	65	+44.1%	+45.2%	46	+27.9%	+14.9%
Revenue	11,994	-5.1%	-4.5%	12,639	+8.1%	-2.8%

### Profit from operations/operating margin

	2023 £m	vs 2022 %	vs 2022 (adj at cc) %	2022 £m	vs 2021 %	vs 2021 (adj at cc) %
(Loss)/Profit from operations	-20,781	-435%	+0.4%	6,205	+11.5%	+3.5%
Operating margin (%)	-173.3%	-222 ppts	+280 bps	+49.1%	+150 bps	+330 bps

# -60 bps

Cigarette value share change

# +11%

Revenue growth  
in New Categories

## Revenue and Profit from Operations

In 2023, reported revenue declined 5.1% to £11,994 million, with 2022 up 8.1% to £12,639 million. Excluding the impact of translational foreign exchange, this was a decline of 4.5% in 2023 (2022: down 2.8%). Continued growth in New Categories and pricing in combustibles in both years was more than offset by lower combustibles volume (down 11.3% in 2023 and 15.5% in 2022). 2023 was negatively impacted by the continued pressure of macro-economic headwinds, squeezing consumer affordability (which particularly impacted the Group's premium skewed portfolio) and the impact of the flavour ban in California (which particularly impacted Newport and Camel) and growth in illicit single-use vapour products. 2022 was negatively impacted by the unwind of trade inventory movements in 2021.

Reported profit from operations declined 435% to a loss of £20,781 million in 2023 (2022: up 11.5% to a profit of £6,205 million). The movement in 2023 was largely due to the £4.3 billion impairment of goodwill and £23.0 billion impairment largely in respect of the carrying value of some of the Group's acquired U.S. combustibles brands. 2022 was negatively impacted by adjusting charges that were largely in respect of our restructuring programme (Quantum), including the factory rationalisation, which did not repeat in 2023. Translational foreign exchange was a headwind of 0.6% in 2023 (2022: 12.9% tailwind). Also in 2023, an extreme weather event caused the destruction of a warehouse and stock of tobacco leaf, the impact of which was a charge of £9 million.

Excluding the adjusting items and the impact of translational foreign exchange, adjusted profit from operations increased by 0.4% (2022: 3.5% increase) on a constant currency basis.

Following a review of the Group's expectations from the U.S. combustibles market reflecting continuing macro-economic headwinds, from 1 January 2024, the Group will commence amortising the remaining U.S. combustible brands (Newport, Camel, Natural American Spirit and Pall Mall) over a period not exceeding 30 years. The non-cash charge is estimated to be £1.4 billion per year and will be treated as an adjusting item. Please refer to note 12 in the notes on the accounts.

## New Categories

The U.S. is the world's largest Vapour market. In 2023, Vuse continued to perform well, building on the momentum from 2022 with a continued improvement in financial performance.

Having become the market leader by Vapour value share in 2022, Vuse extended leadership in value share (of total Vapour in tracked channels) by 470 bps to 45.6%, (having increased 840 bps to 40.9 in 2022).

Revenue was up 13.1% to £1,033 million (2022: up 62.9% to £913 million) being an

increase of 13.8% (2022: increase of 46.4%) at constant rates of exchange. This growth was driven by pricing in both years (2023: +20.4%; 2022: +36.4%), more than offsetting a decrease in Vapour consumable volume of 6.6% in 2023 (2022: up 10%) which was driven by the growth of illicit single-use nicotine products which we estimate to be more than 60% of the total Vapour market.

The single-use nicotine Vapour category grew driven by the availability of flavours.

These products, including synthetic single-use nicotine Vapour products, are subject to the FDA's jurisdiction and are required to receive PMTA authorisation to remain on the market. We welcome the recent actions from the FDA with regards to the illicit single-use Vapour products in the U.S. and we continue to engage with stakeholders to facilitate the removal of unauthorised products.

We believe that public health officials, legislators, and regulators — especially the FDA — should be concerned about the continued influx of illegal single-use vapour products, particularly into the U.S. market. It is unacceptable that these products, marketed in youth-appealing flavours such as Bubble Gum and Cotton Candy, continue to be sold. We call on the FDA, in conjunction with state and local authorities, to strongly enforce against these products.

We are disappointed by the FDA's Marketing Denial Orders (MDOs) for Vuse Alto's Menthol\*\* and Mixed Berry products. We are challenging these denials and have obtained a permanent stay of enforcement allowing Vuse Alto Menthol to remain on the market.

We remain confident in our PMTA submission for Vuse Alto and we continue to innovate across our Vuse portfolio to meet the needs of our adult consumers.

In Modern Oral, volume decreased by 1.3% (2022: down 50%) with volume share down 200 bps in 2023, having declined 580 bps in 2022. Modern Oral revenue declined to £25 million (2022: £36 million), as we reinvested in trade activation plans through trade investment (leading to a reduction in net pricing of 30.5% in 2023) while we continue to await the outcome of our PMTA submission for our successful European product, Velo 2.0.

We are encouraged by the strong results from our recent Velo pilot in New York, including a more premium brand expression and design, with a national roll-out to commence in 2024.

## Combustibles

Combustibles revenue was 6.9% lower in 2023 at £9,744 million (2022: up 4.5% to £10,470 million). Excluding a marginal translational foreign exchange headwind of 0.5% in 2023 (2022: 10.6% tailwind), this was a decrease of 6.4% (2022: down 6.1%). In response to the macro-economic pressures impacting consumer affordability, the positive impact from pricing was more

moderate in 2023 at +4.9% (2022: +9.4%) and was more than offset by a decline in volume of 11.3% to 52 billion sticks in 2023, having declined 15.5% (to 59 billion) in 2022.

Both years were negatively impacted by the continued pressure of macro-economic headwinds and, in 2023, the impact of the flavour ban in California (which particularly impacted Newport and Camel) and growth of illicit single-use vapour products as consumers increased polyusage. Accordingly, industry volume was down 7% (2022: down 10%), with the Group underperforming the market due to the premium skewed portfolio and the higher exposure to the menthol category.

The performance in 2022 was impacted by the 2021 movements in trade inventory (mainly linked to the timing of price increases and uncertainty about a potential excise increase), which benefited 2021 by an estimated £200 million and was partially unwound in 2022.

Total volume share declined 10 bps (2022: 30 bps decrease). Value share of cigarettes declined 60 bps (2022: up 10 bps), largely due to the premium portfolio.

In December 2022, the sale of all tobacco products with characterising flavours (including menthol) other than tobacco were banned in the State of California. We continue to monitor the proposed tobacco product standards regarding menthol in cigarettes.

Please see page 38 for a discussion on the developments during 2023.

Also, as stated on page 38, based upon the published science, we believe that a ban on menthol cigarettes would negatively affect, not benefit, public health. We believe a ban on menthol is contrary to the FDA's stated goal of reducing the health effects of tobacco use.

## Traditional Oral

Traditional Oral revenue declined 4.0% (2022: up 8.9%), being a decline of 3.4% (2022: 2.1% lowering) at constant rates of exchange, as pricing in both years was more than offset by the lower volume, down 10.9% in 2023 and 8.1% in 2022, with higher decline in volume in 2023 due to the normalisation of inventory levels (being a drag of 1.7%). Both 2023 and 2022 were negatively impacted by strong macro-economic headwinds leading to downtrading, accelerated cross-category switching and reduced consumption.

Value share of Traditional Oral was up 40 bps (2022: down 50 bps\*), while volume share was down 20 bps (2022: down 70 bps). The decline in 2023 was driven by strong macro-economic headwinds leading to consumer changing behaviour, impacting our premium skewed portfolio.

### Notes:

\* U.S. industry Traditional Oral growth was rebased in 2023, leading to a revision to the growth previously reported for 2022, from +60 bps to +50 bps.

\*\* Menthol variants accounted for approximately 65% of total Vuse consumables in 2023.



## Dynamic Business

## AME

## Americas and Europe

Across AME, we are demonstrating how a truly multi-category portfolio can deliver exceptional results – with revenue growth in all categories. Our Non-Combustibles grew strongly and now account for 17.5% of total revenue.

## Fred Monteiro

Regional Director

## 2023 revenue by category



Revenue by category as % of total Region

	2023	2022
New Categories	17.1	14.0
Traditional oral	0.4	0.4
Combustibles	77.8	81.7
Other	4.7	3.9

## Key markets

Belgium, Brazil, Canada, Chile, Colombia, the Czech Republic, Denmark, France, Germany, Greece, Hungary, Italy, Mexico, Netherlands, Poland, Romania, Spain, Switzerland, Ukraine, the UK.

Effective from 2023, the Group revised its regional structure from four regions to three. The markets in the Americas (excluding the U.S.) previously reported within the region Americas and Sub-Saharan Africa (AmSSA) are now reported within AME. Regional data for 2022 and 2021 has been revised accordingly.

## Volume

	2023 units	vs 2022 %	2022 units	vs 2021 %	2021 units
New Categories:					
Vapour (10ml units / pods mn)	312	+19.4%	261	+15.3%	226
HP (sticks bn)	11.1	-7.5%	12.0	+42.7%	8.4
Modern Oral (pouches mn)	4,210	+36.5%	3,083	+30.5%	2,363
Traditional Oral (stick eq bn)	1	-5.2%	1	-9.8%	1
Cigarettes (bn sticks)	265	-5.3%	280	-2.5%	286
Other (bn sticks eq)*	13	-12.0%	14	-10.5%	16
Total Combustibles	278	-5.7%	294	-2.9%	302

## Note:

\* Other combustibles includes MYO/RYO.

## Revenue

	2023 £m	vs 2022 %	vs 2022 (adj at cc) %	2022 £m	vs 2021 %	vs 2021 (adj at cc) %
New Categories:						
Vapour	686	+47.6%	+46.9%	465	+41.4%	+38.4%
HP	505	+2.3%	+3.0%	494	+68.8%	+64.7%
Modern Oral	482	+41.5%	+44.6%	341	+29.9%	+31.6%
Total New Categories	1,673	+28.8%	+29.6%	1,300	+47.0%	+45.1%
Traditional Oral	36	+1.7%	+7.9%	35	-12.3%	-7.7%
Combustibles	7,614	+0.3%	+2.9%	7,588	+5.7%	+4.0%
Other	468	+28.2%	+25.2%	364	+7.0%	-1.3%
Revenue	9,791	+5.4%	+7.6%	9,287	+10.0%	+8.0%

## Profit from operations/operating margin

	2023 £m	vs 2022 %	vs 2022 (adj at cc) %	2022 £m	vs 2021 %	vs 2021 (adj at cc) %
Profit from Operations	3,194	+9.2%	+5.9%	2,926	+0.8%	+6.8%
Operating Margin (%)	+32.6%	+110 bps	-50 bps	+31.5%	-290 bps	-40 bps

flat

Cigarette value share change

+29%

Revenue growth  
in New Categories

## Revenue and Profit from Operations

Reported revenue in 2023 was 5.4% higher than 2022 (2022: up 10.0%) driven by price/mix in combustibles (of 8.6% in 2023 and 6.9% in 2022) and the continued growth in New Categories revenue (2023: up 29%, 2022: up 47%). This was, in both years, partly offset by lower combustible volume (down 5.7% in 2023 and 2.9% lower in 2022).

2023 was impacted by a £456 million negative drag on the regional performance which comprises the combined impact of a lower performance from Russia compared to 2022 and the timing of the sale of the Group's businesses in Russia and Belarus partway through the year. Translational foreign exchange was a headwind in 2023 of 2.2%, compared to a tailwind of 2.0% in 2022.

Excluding the impact of currency, revenue grew 7.6% on a constant rates basis (2022: up 8.0%), driven by higher revenue in Germany, Türkiye, Poland and Brazil.

Reported profit from operations increased by 9.2% to £3,194 million in 2023, having grown 0.8% to £2,926 million in 2022. Both years were affected by a number of adjusting items. These were, in aggregate, charges of £266 million in 2023 compared to charges of £422 million in 2022. In summary these were:

- charges of £353 million in 2023, including the reclassification of foreign exchange reserves, related to the sale of the Group's businesses in Russia and Belarus. These businesses were classified as held-for-sale at 31 December 2022 with a charge of £612 million in 2022 - please refer to note 6 in the Notes on the Accounts; and
- income of £167 million in 2023 (2022: £460 million income) in respect of the recognition of credits regarding the calculation of VAT and excise tax claims in prior periods (as the Group's litigation was successfully concluded in 2022).

In 2022, the Group also incurred charges of £202 million in respect of Quantum and the factory rationalisation programme.

Excluding the impact of currency and adjusting items (described above), the regional performance was driven by:

- Germany and Türkiye (where the combustibles portfolio performed well with higher pricing and volume);
- Poland, Sweden and the Czech Republic, which all improved their New Category financial performance; and
- Ukraine, where the Group had temporarily suspended operations in the first six months of 2022;

partly offset by:

- the timing of the sale, partway through the year, of the Group's businesses in Russia and Belarus, which, combined with a lower comparative operational performance, was a negative drag of £126 million.

At constant rates of exchange, adjusted profit from operations was up 5.9% in 2023 (2022: up 6.8%).

## New Categories

Revenue from Vapour was up 47.6% in 2023, maintaining the momentum after having grown 41.4% in 2022. This was driven by higher volume (up 19.4% in 2023 and 15.3% in 2022) and strong pricing (higher by 27.5% in 2023 and 23.1% in 2022).

Positive regulatory developments enabled our entrance into a number of emerging markets (Colombia, Paraguay, Peru), and the roll-out of Vuse Go in a number of markets (including Italy, Germany, Poland, the Czech Republic, Switzerland and Romania). We continue to approach the growing modern single-use product category in a responsible way (through Underage Access Prevention programmes and enhanced product Take-Back schemes).

However, the growth of the single-use segment in 2022 and 2023 has impacted our value share of total Vapour across a number of markets. For example:

- In France, we maintained value share leadership, with value share flat at 38.8%;
- In Germany, we lost value share leadership despite an increase of 500 bps to 25.9% ;
- In the UK, our value share declined 440 bps to 10.3%.

In Canada, volume declined 23%, yet Vuse maintained its leadership position with total value share at 92.5% (up 210 bps) in 2023, having grown 890 bps in 2022.

In 2023, HP volume declined by 7.5% (2022: up 43%), with revenue 2.3% higher at £505 million (2022: up 68.8% to £494 million). The region now represents 46.7% of our global HP volume. In 2023, our HP performance was negatively impacted by the timing of the sale of the Group's businesses in Russia and Belarus, which offset the performance in Italy, the Czech Republic, Poland and Romania. Our aggregate category volume share in key HP markets (excluding Russia as that market has ceased to be a key market for the Group), reached 18.2%, down 30 bps.

In 2023, the HP portfolio was extended with the launch of veo across key European markets (such as Poland, Romania, Germany, the Czech Republic and Greece).

In 2023, Modern Oral revenue grew 41.5% (2022: up 29.9%), led by 36.5% volume growth (2022: 30.5% increase).

During 2023, we increased our geographic footprint with expansion of Modern Oral into Finland, Italy and France. We remain the clear market leaders (by volume share) in 14 Modern Oral markets. From a high base, volume share was marginally lower at 67.0%, down 170 bps. As the Modern Oral category continues to grow and becomes more established in Europe, we continue to see strong growth in adult consumer numbers. In Sweden, Velo is the largest (by volume share) of any snus or Modern Oral nicotine pouch brand\*\*.

## Combustibles

In 2023, revenue was 0.3% higher, compared to an increase of 5.7% in 2022. Favourable price/mix in both years (of 8.6% in 2023 and 6.9% in 2022) was offset by the impact of lower combustible volume, down 5.7% in 2023 and 2.9% in 2022. Excluding the impact of translational foreign exchange, at constant rates of exchange, revenue increased 2.9% (2022: 4.0%).

The decrease in combustible volume in 2023 was driven by the sale of the Group's businesses in Russia and Belarus partway through the year and lower volume in Canada, Chile and Romania. These more than offset a recovery in Türkiye and Germany (having been a contributing factor in the regional volume decline in 2022), the continued improvement in volume in Brazil, which benefited from lower illicit trade in both years, and higher volume in Mexico and Italy.

Cigarette value share was flat in 2023. Higher value share in Mexico, Italy, Germany, Spain, France and Colombia was offset by lower value share in Brazil, the UK, Canada, the Czech Republic and Denmark, while 2022 was down 30 bps.

Cigarette volume share grew 10 bps (2022: down 30 bps) with volume share up in Ukraine, Mexico, Italy, Spain, France, Colombia and Germany, partially offset by reductions in Brazil, Switzerland, Belgium, Romania, the Czech Republic, Canada, the UK, Greece and Poland.

## Notes:

\* Following rebasing of third party databases, the 2022 value share for the Group was revised in Germany (from 21.4% to 21.1%) and in Canada (from 89.5% to 90.4%). This impacted the Group's total HP value share in 2022, lowering the 2022 value share from 18.7% to 18.5%.

\*\* Source: Kantar New Category Tracker.

## Dynamic Business

## APMEA

## Asia-Pacific, Middle East and Africa

A good performance across the region, driven by combustibles pricing and our growing New Categories portfolio, was masked by translational foreign exchange headwinds.

**Michael (Mihovil) Dijanosic**  
Regional Director

## 2023 revenue by category



Revenue by category as % of total Region

	2023	2022
New Categories	11.2	11.3
Traditional oral	0.0	0.0
Combustibles	86.4	86.8
Other	2.4	1.9

## Key markets

Australia, Bangladesh, Japan, Kazakhstan, Malaysia, New Zealand, Pakistan, Saudi Arabia, South Africa, South Korea, Taiwan, Vietnam.

Effective from 2023, the Group revised its regional structure from four regions to three. The markets in the Sub-Sharan Africa previously reported within the region Americas and Sub-Saharan Africa (AmSSA) are now reported within APMEA. Regional data for 2022 and 2021 has been revised accordingly.

## Volume

	2023 units	vs 2022 %	2022 units	vs 2021 %	2021 units
New Categories:					
Vapour (10ml units / pods mn)	44	+43.1%	31	+73.2%	18
HP (sticks bn)	12.6	+4.9%	12.0	+12.3%	10.7
Modern Oral (pouches mn)	853	+36.2%	626	+89.0%	331
Traditional Oral (stick eq bn)	—	—	—	—	—
Cigarettes (bn sticks)	238	-10.6%	266	-5.2%	281
Other (bn sticks eq)*	2	-3.1%	2	-6.8%	2
Total Combustibles	240	-10.6%	268	-5.2%	283

Note:

\* Other combustibles includes MYO/RYO.

## Revenue

	2023 £m	vs 2022 %	vs 2022 (adj at cc) %	2022 £m	vs 2021 %	vs 2021 (adj at cc) %
New Categories:						
Vapour	93	+60.5%	+74.6%	58	+55.1%	+53.0%
HP	491	-13.2%	-7.3%	566	+1.1%	+7.0%
Modern Oral	32	+50.3%	+70.8%	21	+114%	+112%
Total New Categories	616	-4.5%	+2.6%	645	+6.3%	+11.5%
Traditional Oral	—	—	—	—	—	—
Combustibles	4,750	-4.5%	+5.2%	4,972	+2.8%	+3.8%
Other	132	+18.9%	+32.0%	112	+2.8%	-4.3%
Revenue	5,498	-4.0%	+5.5%	5,729	+3.2%	+4.4%

## Profit from operations/operating margin

	2023 £m	vs 2022 %	vs 2022 (adj at cc) %	2022 £m	vs 2021 %	vs 2021 (adj at cc) %
Profit from Operations	1,836	+31.9%	+6.9%	1,392	-21.2%	+2.7%
Operating Margin (%)	+33.4%	+910 bps	+60 bps	+24.3%	-750 bps	-70 bps

-60 bps

Cigarette value share change

-4.5%

Revenue growth  
in New Categories

## Revenue and Profit from Operations

Reported revenue declined 4.0% to £5,498 million (2022: increased 3.2% to £5,729 million).

Our reported performance is affected by translational foreign exchange, which was a headwind in both years. Excluding the impact of this translational foreign exchange, revenue was up 5.5% against 2022, itself an increase of 4.4% compared to 2021, at constant rates.

The performance in both 2023 and 2022 was driven by the continued growth in New Categories and favourable pricing in combustibles (2023: 15.8%; 2022: 9.0%).

These more than offset lower combustibles volume (down 10.6% in 2023 and 5.2% in 2022).

In 2022, volume benefited (compared to 2021) from the emerging market recovery from COVID-19, although this was partly offset by the sale of the Group's Iranian business midway through 2021.

Reported profit from operations increased 31.9% to £1,836 million, while 2022 was down 21.2% to £1,392 million.

In 2022, the Group recognised a number of charges that impacted the reported performance in that year and, because they did not repeat to the scale of the prior year, led to a commensurate increase in performance in 2023. These included:

- charges related to the allegation of historical breaches of sanctions (of which £450 million was recognised in 2022, with a further £75 million recognised in 2023, as described on page 52 and in note 6(h) in the Notes on the Accounts on page 227);
- the exit from Egypt (£118 million); 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).

Excluding adjusting items and the translational foreign exchange headwind, the performance was driven by:

- Pakistan where pricing more than offset a reduction in combustibles volume;
- Sri Lanka, largely due to pricing in combustibles as macro-economic stability returned;
- Uzbekistan, driven by combustibles pricing; and
- Asset sales in West Africa related to various market exits.

These more than offset a decline in Japan, largely due to the highly competitive pricing environment in combustibles and HP (including the final step in the five-year excise harmonisation programme).

Adjusted profit from operations at constant rates of exchange increased 6.9% in 2023, having increased 2.7% in 2022. The growth in 2022 was negatively impacted by the sale of the Iranian business, due to its timing midway through 2021.

## New Categories

Total revenue from New Categories declined 4.5% to £616 million (2022: increased 6.3% to £645 million), as the translational foreign exchange headwinds more than offset (in 2023) the operating performance in the markets. On a constant currency basis, revenue from New Categories increased 2.6% in 2023 and 11.5% in 2022.

Excluding translational foreign exchange, which we believe reflects the operational performance, this was driven by:

- Vapour, with revenue up 74.6% in 2023 (2022: up 53.0%) driven by a combination of higher volume (up 43.1% in 2023 and 73.2% in 2022) and price/mix in 2023 of +31.5% led by South Africa, New Zealand, Malaysia and Indonesia. In 2022, price mix was a negative drag of 20.2% due to discounting in New Zealand in response to a competitive pricing environment; and
- Modern Oral, as revenue grew 70.8% in 2023, led by higher volume (up 36.2%) and price/mix of 34.6%. In 2022, revenue increased by 112%, driven by volume (up 89.0%) and price/mix (up 22.9%). This was mainly driven by strong volume performances in Pakistan and Kenya. In Pakistan, through stronger consumer acquisition, we have achieved our highest active consumer base (as a % of population) in Modern Oral globally. In Kenya, our accelerated national roll-out in January 2023 has driven a near fourfold increase in adult consumer numbers.

However, HP revenue declined 7.3% in 2023, after a period of growth (2022: up 7.0%). The decline in 2023 was despite a further increase in consumable volume (up 4.9% to 12.6 billion sticks), as this was more than offset by the competitive pricing environment in Japan which included the final step in the five-year excise harmonisation programme, leading to a decline in regional price/mix of 12.2%.

In Japan, the largest HP market in the world, glo performed well. glo's volume share in Japan started to stabilise in Q3 2023, driven by the activation of our commercial plans.

## Combustibles

Revenue from combustibles declined by 4.5% to £4,750 million (2022: up 2.8% to £4,972 million), with both years impacted by the translational foreign exchange headwind. At constant rates of exchange, revenue increased 5.2% in 2023 and by 3.8% in 2022.

In 2023, this was driven by combustibles pricing of 15.8%, notably in Pakistan, which more than offset a decrease in total combustible volume of 10.6%, as lower volume in Pakistan more than outweighed higher volume in Bangladesh.

This compares to 2022, when the revenue growth was driven by improved pricing (up 9.0%) and a partial recovery of GTR following the COVID-19 restrictions of 2020 and 2021, which more than offset the negative impact of the sale of the Group's Iranian business midway through 2021.

In 2023, value share decreased 60 bps (2022: up 10 bps), with volume share down 20 bps (2022: flat), as volume share gains in Bangladesh and Pakistan were offset by losses in Japan, South Korea, Australia, New Zealand, South Africa and Malaysia.



## Dynamic Business

## Financial Performance Summary

## Highlights

Revenue

**-1.3%**

New Categories revenue growth and pricing in combustibles offset by the sale of our Russian and Belarusian businesses, lower combustible volume and currency headwinds. Excluding currency, revenue grew 1.6%

Profit from Operations

**-250%**

Profit from operations was down 250%. On an adjusted, constant currency basis, profit from operations grew 3.1%, with an improvement in the financial performance of New Categories, which are now profitable (on a category contribution basis) - two years ahead of plan

Diluted EPS

**-322%**

Adjusted diluted EPS up 4.0% at constant rates of exchange

@Leverage ratio

**2.57x**

Leverage ratio improved 0.32x to 2.57x, driven by strong cash generation<sup>@</sup>

Dividend per share

**235.52p**

Dividend per share up 2.0% at 235.52p

## 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 adjusted profit from operations, adjusted net finance costs, adjusted taxation, adjusted diluted earnings per share, <sup>@</sup>adjusted EBITDA, operating cash flow conversion ratio, adjusted cash generated from operations and free cash flow (before and after dividends paid to shareholders)<sup>@</sup> which are before the impact of adjusting items and are reconciled from profit from operations, net finance costs, taxation, diluted earnings per share<sup>@</sup>, profit for the year, cash conversion ratio and net cash generated from operating activities<sup>@</sup>. The Group also uses adjusted share of post-tax results of associates and joint ventures, and underlying tax rate.

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 <sup>@</sup>and cash flow<sup>@</sup> which individually or, if of a similar type, in aggregate, are relevant to an understanding of the Group's underlying financial performance.

The Group also supplements its presentation of revenue in accordance with IFRS by presenting the non-GAAP component breakdowns of revenues by product category (including revenue generated from Vapour, Heated Products, Modern Oral, New Categories as a whole, Combustibles and Traditional Oral), including by geographic segment (including revenue generated in the United States, Americas and Europe and Asia-Pacific, Middle East and Africa).<sup>@</sup>

The Group further supplements the presentation of profit from operations in accordance with IFRS by presenting the non-GAAP measure referred to as New Categories contribution, which reflects the marginal contribution of the New Categories products to the Group's financial performance. This measure includes all directly attributable revenue and costs.<sup>@</sup>

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, <sup>@</sup>Category contribution,<sup>@</sup> 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 335 to 349 and note 2 in the Notes on the Accounts.

## Use of Organic Measures for Remuneration Purposes

The sale of our businesses in Russia and Belarus was completed in September 2023. The sale has not been treated as a discontinued operation as, in our judgement, this was neither a sale of a business line (as the Group continues to manufacture and sell cigarettes and new category products elsewhere in the world) or a disposal of a major geographic area of operations (as the impact of the sale is 1.8% of Group revenue and 1.5% of profit from operations, excluding the impact of adjusting items), as discussed on page 280. However, due to the scale of the businesses and the timing of the transactions, this is a drag on our comparative performance. Where appropriate, the impact has been explained in the following review of the Group's financial results.

As shown on pages 171 to 177, the Group's KPIs for the purposes of remuneration have been revised to be on an organic basis, excluding the results of Russia and Belarus in the current and comparator period. Full reconciliations from the relevant IFRS measure have been provided on pages 335 to 345.

The discussion of 2021 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 U.S. securities laws. Discussion of such 2021 metrics is contained in the Group's Annual Report on Form 20-F 2022, which is available at [bat.com/annualreport](http://bat.com/annualreport) and has been filed with the SEC, as revised by the revised financial statements and other affected financial information to reflect changes made in the fiscal year 2023 to the Group's reportable operating segment data contained in the Form 6-K filed with the SEC on July 26, 2023 at 12:04pm EST.

Information contained in pages 32 to 40, pages 98 to the first column on page 106 and from the heading 'Retirement benefit schemes' on page 106 to page 107 of the Annual Report on Form 20-F 2022 (as revised, as discussed above) are accordingly incorporated by reference into this Annual Report on Form 20-F 2023 only to the extent such information pertains to the Group's financial condition and results of operations for the fiscal year ended 31 December 2021.

## Revenue

In 2023, revenue was £27,283 million (down 1.3%), with 2022 7.7% higher than 2021 at £27,655 million.

Translational foreign exchange impacted both years (2023: 2.9% headwind; 2022: 5.4% tailwind). Revenue at constant rates of exchange increased 1.6% (2022: up 2.3%).

In 2023, our performance was negatively impacted by the sale of our Russian and Belarusian businesses, which completed in September 2023. A combination of the timing of the sale and a lower performance from Russia was a drag on revenue by £456 million.

In both 2023 and 2022, our New Categories portfolio continued to perform well with revenue up 17.8% in 2023 and 37.0% in 2022 (at constant rates).

In combustibles, revenue declined 4.0% to £22,108 million (2022: up 4.5% to £23,030 million). Continued robust combustibles price/mix (of 7.5% in 2023, compared to 4.6% in 2022) was more than offset by lower cigarette volume (down 8.2% in 2023 at 555 billion sticks, having declined 5.1% in 2022 to 605 billion sticks) and the impact of translational foreign exchange movement (2023: 3.2% headwind; 2022: 5.1% tailwind). Consequently, revenue from combustibles declined 0.8% (at constant rates of exchange) in 2023, having declined 0.6% in 2022.

In the U.S., Group combustibles volume was down 11.3% in 2023 and 15.5% in 2022, as both years were negatively impacted by the continued pressure of macro-economic headwinds and, in 2023, the impact of the flavour ban in California (which particularly impacted Newport and Camel) and growth of illicit single-use vapour products as consumers increased polyusage.

Accordingly, industry volume was down 7% (2022: down 10%) in the U.S.

In 2022, Group cigarette volume was also negatively impacted by the full year impact of the sale of the Group's Iranian business (which completed midway through 2021), while revenue was also lapping an estimated £200 million benefit from trade inventory movements in the U.S. in 2021, mainly linked to the timing of price increases and uncertainty about a potential excise increase.

## Profit From Operations

Profit from operations was down 250% being a loss of £15,751 million compared to a profit in 2022 of £10,523 million (up 2.8% on 2021).

Our performance in 2023 has been negatively impacted by the impairment charge against goodwill in the U.S. of £4.3 billion as a non-cash adjusting charge. This reflects the ongoing difficult macro-economic environment and continued drag on our legal Vapour business by the illicit single-use products in that market.

Also in 2023, we have recognised a non-cash adjusting impairment charge of £23.0 billion largely against our U.S. combustible brands which have been previously recognised as indefinite-lived. These combustible brands will commence amortisation from 1 January 2024. Please refer to note 12 for more details.

Our reported performance in 2023 was also impacted by lower comparative sales in Russia and the sale of Group's businesses in Russia and Belarus partway through the year. This was a combined headwind of £126 million.

Our financial performance was further affected by a number of charges recognised in 2022 that did not repeat or were significantly reduced in 2023. These include charges related to the sale of the Group's Russian and Belarusian businesses, the agreement with the U.S. Department of Justice (DOJ) and Department of the Treasury's Office of Foreign Assets Control (OFAC) to resolve investigations into historical breaches of sanctions and the Group's restructuring programme Quantum, discussed below.

2023 was impacted by a translational foreign exchange headwind (2022: tailwind).

**Raw materials and other consumables costs** declined 4.9% to £4,545 million in 2023, following an increase of 5.3% to £4,781 million in 2022.

The results in both years are impacted by translational foreign exchange (a tailwind in 2023, and a headwind in 2022).

Both years were negatively impacted by the macro-economic headwinds, with inflation of £527 million (or 9.1%) in 2023 (2022: £352 million) due to higher energy, fertiliser and other commodity input raw material costs. This was partly offset by efficiency initiatives which delivered £471 million in 2023 (2022: £422 million) in savings.

Transactional foreign exchange was also a negative drag to our performance, at £293 million in 2023 and £167 million in 2022, due to movement in our operating currencies largely against the US dollar.

## Revenue (£m)

**£27,283m**  
-1.3%



**Definition:** Revenue recognised, net of duty, excise and other taxes.

IFRS GAAP KPI NON-GAAP

## Change in revenue at constant rates (%)

**+1.6%**



**Definition:** Change in revenue before the impact of fluctuations in foreign exchange rates.

IFRS GAAP KPI NON-GAAP

## Profit from operations (£m)

**-£15,751m**  
-250%



**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 (%)

**+3.1%**



**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

	2023		2022		2021
	£m	Change % (vs 2022)	£m	Change % (vs 2021)	£m
Revenue	27,283	-1.3%	27,655	+7.7%	25,684
Impact of exchange	813		(1,382)		
Revenue at constant rates	28,096	+1.6%	26,273	+2.3%	25,684

## Dynamic Business

Financial Performance Summary  
Continued

**Employee benefit costs** reduced 10.4% to £2,664 million (2022: up 9.4% to £2,972 million). The reduction in 2023 was partly due to a translational foreign exchange tailwind (2022: headwind). The reduction in 2023 also reflects the lower average headcount (2023: 49,839; 2022: 52,077) due to the impact of the Group's restructuring programme, Quantum, the redundancy costs of which were incurred in 2022.

**Depreciation, amortisation and impairment costs** increased by £27,309 million to £28,614 million in 2023 compared to an increase of £229 million to £1,305 million in 2022. This includes the amortisation and impairment charges in respect of trademarks and similar intangibles of £23,232 million (2022: £317 million). The increase was driven by the impairment of certain of the U.S. acquired trademarks. The charge also includes the impairment of goodwill of £4,614 million in 2023, largely due to ongoing difficult U.S. macro-economic environment, uncertainty regarding the impact of the potential menthol ban and continued drag on our legal Vapour business by the illicit single-use products in that market. These are described in notes 4, 6 and 7 in the Notes on the Accounts.

2022 also included charges in respect of Quantum (recognised as a non-cash adjusting item) of £220 million as part of the factory closures announced in the U.S., Singapore and Switzerland.

**Expenditure on research and development** was £408 million in 2023 (2022: £323 million), with a focus on products that could potentially reduce the risk associated with smoking conventional cigarettes.

**Other operating income** decreased by £290 million to £432 million (2022: £722 million), largely due to the recognition in respect of the Brazilian VAT and excise on social contributions claims of £167 million in 2023, which was lower than the £472 million in 2022 and the majority of which was included within adjusting items.

**Other operating expenses** decreased by £1,480 million to £7,538 million (2022: increase of £1,550 million to £9,018 million), largely due to the movement in adjusting items in respect of the sale of Russia and Belarus, the DOJ and OFAC investigations, the Nigeria investigation and other litigation, as referred to below, combined with a reduction in MSA charges of £364 million in the U.S. driven by lower volume.

The Group continued to invest in New Categories, maintaining the gross investment in line with 2022.

As discussed in note 6(l) in the Notes on the Accounts (page 227), the Group incurred £27 million of costs related to recycling (Take-Back and waste collection schemes). Also in 2023, an extreme weather event caused the destruction of warehouse and stock of tobacco leaf, the impact of which was a charge of £9 million.

**Adjusting items** included within profit from operations totalled £28,216 million in 2023 (2022: £1,885 million). These related to:

- goodwill impairment of £4.6 billion largely recognised in respect of the U.S. business as discussed on page 45 and within note 12 in the Notes on the Accounts;
- trademark amortisation and impairment (2023: £23,202 million; 2022: £285 million) with the higher charge in 2023 due to the impairment of certain of the U.S. acquired brands as discussed on page 45 and within note 12 in the Notes on the Accounts;
- other litigation costs of £96 million (2022: £170 million) which, in both periods, was mainly in respect of U.S. litigation costs including *Engle* progeny;
- restructuring and integration credit (due to a provision reversal) of £2 million (2022: costs of £771 million), as the Group concluded the Quantum restructuring programme which will simplify the business and create a more efficient and agile organisation to support the growth of New Categories;
- charges of £353 million (2022: £612 million) in respect of the sale of the Group's businesses in Russia and Belarus;
- a charge of £75 million, in 2023, having recognised £450 million in 2022, in respect of resolving the investigations by the DOJ and OFAC into historical breaches of sanctions;
- a credit of £19 million, in 2023, having recognised £460 million in 2022 related to the calculation of VAT on social contributions in Brazil; and
- a further credit in Brazil of £148 million, in respect of calculation of excise on social contributions in Brazil.

In 2022, the Group also recognised:

- 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); and
- a credit of £16 million following the partial buy-out of the pension fund in the U.S.

**Adjusted profit from operations** is the Group's profit from operations before adjusting items referred to above.

Adjusted profit from operations increased 0.5% to £12,465 million, as the reduction in losses from New Categories was partly offset by the foreign exchange headwind. On a constant currency basis, this was an increase of 3.1%.

In 2022, adjusted profit from operations was up 11.3% to £12,408 million, being an increase of 4.3% on a constant currency basis.

### Operating Margin

Operating margin in 2023 was down 95.8 ppts to -57.7% having declined 170 bps to 38.1% in 2022. These movements in 2023 were due to the impairment charges related to the U.S. goodwill and trademarks.

### Operating margin (%)

-57.7%



**Definition:** Profit from operations as a percentage of revenue.

IFRS GAAP KPI NON-GAAP

### Adjusted operating margin (bps)

45.7%



**Definition:** Adjusted profit from operations as a percentage of revenue.

IFRS GAAP KPI NON-GAAP

Excluding the adjusting items, in 2023, adjusted operating margin increased 80 bps to 45.7%, compared to an increase of 150 bps in 2022. The improvement in both years was driven by the reduction in losses from New Categories which, in 2023, are now profitable (on a category contribution basis), two years ahead of the Group's original plan.

### Net Finance Costs

In 2023, net finance costs were £1,895 million, an increase of £254 million on 2022 which, at £1,641 million, were £155 million higher than 2021.

While the movements in 2023 and 2022 were negatively impacted by a translational foreign exchange headwind due to the movements of sterling compared to the US dollar in both 2023 and 2022, interest expense increased, as debt issuances in the year were at higher interest rates than those maturing. These were partly offset by higher interest income (2023: £186 million; 2022: £92 million), of which £97 million (2022: £42 million) related to income on cash and cash equivalents on restricted cash balances (including in Canada due to the cash build up in that market) with the remainder driven by higher interest rates on local deposits.

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 2023, in line with IAS 33 *Earnings Per Share*, £45 million (2022: £49 million) has been recognised as a deduction from earnings similar to non-controlling interests.

In August 2023, the Group completed a tender offer to repurchase sterling-equivalent £3,133 million of bonds, including £43 million of accrued interest. Other costs directly associated with the early repurchase of bonds, including the premium paid, were treated as adjusting items.

Before adjusting items in respect of the early repurchase of bonds described above and the Franked Investment Income Group Litigation Order (FII GLO), as discussed on page 232 (£60 million; 2022: £33 million), and the impact of translational foreign exchange in both years, adjusted net finance costs were 11.6% higher in 2023 and 2.5% higher in 2022.

The Group's average cost of debt in 2023 was 5.2%, compared to 4% in 2022.

The Group has debt maturities of around £3.2 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 £442 million to £585 million in 2023. This follows an increase in 2022 of 6.5% (from £415 million in 2021). The movements are largely due to the economic recovery in India in 2023 and 2022 from COVID-19.

Included in the results for 2023 and 2022 are adjusting items, which included a deemed gain of £40 million in 2023 (2022: £3 million deemed loss), 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 2023 and 2022, due to the volatility in global cannabis stock prices, the Group recognised an impairment charge (net of tax) of £34 million in 2023 and £59 million in 2022 related to the Group's investment in Organigram Holdings Inc.

Furthermore, in 2022, the Group impaired its investments in Yemen, recognising a charge of £18 million.

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 14.5% in 2023 to £611 million. In 2022, this was an increase of 19.6% on 2021.

### Analysis of Profit from Operations, Net Finance Costs and Results from Associates and Joint Ventures - 2023

	Reported £m	Adjusting items £m	Adjusted £m	Impact of exchange £m	Adjusted at CC <sup>1</sup> £m
<b>(Loss)/Profit from operations</b>					
U.S.	(20,781)	27,602	6,821	42	6,863
AME	3,194	266	3,460	87	3,547
APMEA	1,836	348	2,184	195	2,379
Total regions	(15,751)	28,216	12,465	324	12,789
Net finance (costs)/income	(1,895)	96	(1,799)	5	(1,794)
Associates and joint ventures	585	(8)	577	34	611
Profit before tax	(17,061)	28,304	11,243	363	11,606

### Analysis of Profit from Operations, Net Finance Costs and results from Associates and Joint Ventures - 2022<sup>3</sup>

	Reported £m	Adjusting items £m	Adjusted £m	Impact of exchange £m	Adjusted at CC <sup>2</sup> £m
<b>Profit from operations</b>					
U.S.	6,205	630	6,835	(740)	6,095
AME	2,926	422	3,348	(80)	3,268
APMEA	1,392	833	2,225	38	2,263
Total regions	10,523	1,885	12,408	(782)	11,626
Net finance (costs)/income	(1,641)	34	(1,607)	140	(1,467)
Associates and joint ventures	442	92	534	(24)	510
Profit before tax	9,324	2,011	11,335	(666)	10,669

### Analysis of Profit from Operations, Net Finance Costs and results from Associates and Joint Ventures - 2021<sup>3</sup>

	Reported £m	Adjusting items £m	Adjusted £m	
<b>Profit from operations</b>				
U.S.	5,566	321	5,887	
AME	2,902	157	3,059	
APMEA	1,766	438	2,204	
Total regions	10,234	916	11,150	
Net finance (costs)/income	(1,486)	55	(1,431)	
Associates and joint ventures	415	12	427	
Profit before tax	9,163	983	10,146	

#### Notes:

1. As translated in 2022 rates of exchange.

2. As translated in 2021 rates of exchange.

3. Effective 2023, the Group changed the regional management structure from four regions to three regions, with the prior years' data revised to reflect the new structure.



## Dynamic Business

Financial Performance Summary  
Continued

## Tax

In 2023, the tax credit in the income statement was £2,872 million, compared to a charge of £2,478 million in 2022 and £2,189 million in 2021.

The effective tax rates in the income statement are therefore 16.8% in 2023, 26.6% in 2022 and 23.9% in 2021. 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.

During 2023 the Group has recognised a further £70 million in respect of the ongoing tax disputes in the Netherlands, with a total provision at 31 December 2023 of £145 million. Please refer to page 307, in note 31 of the Notes to the Accounts for further information.

Excluding these items, the underlying tax rate for subsidiaries was 24.5% in 2023, 24.8% in 2022 and 24.7% in 2021. The marginal decrease in the underlying tax rate in 2023 largely reflects the absence of one-off rate rises and mix of profits, while the increase in 2022 largely reflects the corporate tax rate rises in Sri Lanka and Pakistan.

See the section Non-GAAP measures on page 343 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 Interim Finance 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.

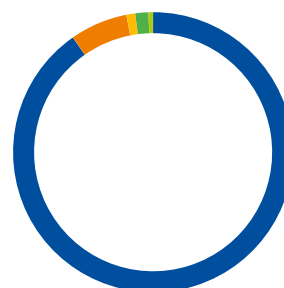
In December 2021, the Organisation for Economic Co-operation and Development (OECD) released model rules for a new global minimum corporate tax framework applicable to multinational enterprise groups with global revenues over €750 million (Pillar Two rules). The UK substantively enacted legislation implementing these rules on 20 June 2023 and the rules apply to the Group as of 1 January 2024. The Group is reviewing this legislation together with developing guidance. The Group is also monitoring the status of implementation of the model rules outside of the UK to assess the potential impact. Based on the information currently available, the impact of these rules on the Group tax position is not expected to be material. The Group has applied the mandatory exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes in accordance with IAS12 *Income Taxes*.

The taxation on ordinary activities was a credit of £2.9 billion in 2023, a charge of £2.5 billion in 2022 and a charge of £2.2 billion in 2021. Corporation Tax paid (due to the timing of Corporation Tax instalment payments which straddle different financial years) was £2.6 billion in 2023, £2.5 billion in 2022 and £2.3 billion in 2021.

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).

Major taxes paid 2023  
(£bn)

£39.1bn



	2023 £bn	2022 £bn
Tobacco excise, net VAT and other sales taxes (collected)	35.3	36.8
Corporation Tax (borne)	2.6	2.5
Customs and import duties (borne)	0.4	0.3
Employment Taxes (collected)	0.6	0.6
Employment taxes (borne)	0.2	0.2
<b>Total</b>	<b>39.1</b>	<b>40.4</b>

The total tax paid in 2023 of £39.1 billion (2022: £40.4 billion, 2021: £40.5 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 movement in deferred tax shown below for the year 2023 relates primarily to the impairment of certain of the U.S. acquired trademarks, as described above. Further details of deferred tax movements are disclosed in note 16 to the Accounts.

## Deferred tax asset/(liability)

	2023 £m	2022 £m	2021 £m
<b>Opening balance</b>	<b>(17,746)</b>	<b>(15,851)</b>	<b>(15,780)</b>
Difference on exchange	762	(2,007)	(148)
Credits to the income statement	5,577	174	29
Changes in tax rates	106	66	158
Other credits/(charges) to other comprehensive income	12	(106)	(110)
Net reclassification as held-for-sale	8	(22)	—
<b>Closing balance</b>	<b>(11,281)</b>	<b>(17,746)</b>	<b>(15,851)</b>

## Earnings Per Share

Profit for the year was a loss of £14,189 million, a 307% decrease compared to a profit of £6,846 million in 2022 (itself a decrease of 1.8% on 2021). In 2023, this decrease was driven by the impairment of U.S. goodwill and some of the acquired combustibles brands totalling £27.3 billion. This more than offset the reduction in losses from New Categories which underpinned a good operational performance in both years.

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 320% lower at -646.6p (2022: 293.3p; 2021: 296.9p).

In 2023, the Group reported a loss of £14,189 million for the year. Following the requirements of IAS 33, the impact of share options would be antidilutive. Therefore, they are excluded from the calculation of diluted earnings per share in accordance with IFRS in 2023, but are included in the calculation in prior years. As the impact of share options on adjusted earnings per share would be dilutive in 2023, share options are included in adjusted diluted earnings per share for 2023, as well as 2022 and 2021.

Diluted earnings per share<sup>1</sup> were a loss of 646.6p in 2023, a decline of 322% compared to 291.9p in 2022 (2021: 295.6p).

Earnings per share (EPS) 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 1.1% at 375.6p, with 2022 ahead of 2021 by 12.9% at 371.4p. Adjusted diluted EPS at constant rates would have been 4.0% ahead of 2022 at 386.4p, with 2022 up 5.8% against 2021.

As mentioned earlier, the sale of our businesses in Russia and Belarus was completed in September 2023. Due to the timing of the transactions, combined with a lower underlying performance as we reduced investment and focus on Russia, this was a drag on our comparative performance by 1.2%, at constant rates of exchange.

## 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 235.52p per ordinary share of 25p, payable in four equal quarterly instalments of 58.88p per ordinary share in May 2024, August 2024, November 2024 and February 2025. This represents an increase of 2.0% on 2022 (2022: 230.90p per share, up 6.0%) and a payout ratio, on 2023 adjusted diluted earnings per share, of 62.7% (2022: 62.2%).

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 2023 and 2022 (with 2021 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 388 and 389.

## Diluted earnings per share<sup>1</sup> (p)

**-646.6p**  
**-322%**

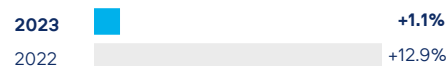


**Definition:** Profit attributable to owners of BAT p.l.c. over weighted average number of shares outstanding, including the effects of all dilutive potential ordinary shares.

☒ IFRS GAAP ☐ KPI ☐ NON-GAAP

## Change in adjusted diluted EPS (%)

**+1.1%**



**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 (%)

**+4.0%**



**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

### Note:

1. Following the requirements of IAS 33, the impact of share options would be antidilutive. Therefore, they are excluded from the calculation of diluted earnings per share in accordance with IFRS in 2023, but are included in the calculation in prior years.

## Dynamic Business

## 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 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 2023, the average centrally managed debt maturity was 10.5 years (2022: 9.9 years) with the highest proportion maturing in a single rolling 12-month period being 15.7% (2022: 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 2023, the relevant ratios of floating to fixed rate borrowings after the impact of derivatives were 10:90 (2022: 12:88). On a net basis, after offsetting liquid assets and excluding cash and other liquid assets in Canada, which are subject to certain restrictions under Companies' Creditors Arrangement Act (CCAA) protection, the relevant ratio of floating to fixed rate borrowings was 2:98 (2022: 7:93).

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 Moody's, S&P and Fitch of Baa2 (positive outlook), BBB+ (negative outlook), BBB (positive outlook), respectively®, with a medium-term rating target of Baa1, BBB+ and BBB+®. See Notes on the Accounts, note 26.

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 2023, no commercial paper was outstanding (2022: £27 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 £5.4 billion committed revolving credit facility. This facility was undrawn at 31 December 2023 (31 December 2022: undrawn).

In March 2023, the Group refinanced the £2.7 billion 364-day tranche of the revolving credit facility at the reduced amount of £2.5 billion, maturing in March 2024 with two one-year extension options, and a one-year term out option. Additionally, £2.85 billion of the five-year tranche remains available until March 2025, with £2.7 billion extended to March 2026 and £2.5 billion extended to March 2027.

Also in 2023, the Group extended short-term bilateral facilities totalling £2.65 billion from March to December 2024, some with extension options to extend for further periods. As at 31 December 2023, £100 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.

As of 31 December 2023, the Group did not have any financial instruments using the historical benchmarks that are no longer available.

## 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 (2023: £5.1 billion; 2022: £4.9 billion);
- capital expenditure (2023: £0.5 billion; 2022: £0.6 billion);
- Master Settlement Agreement in the U.S. (2023: £2.3 billion; 2022: £2.5 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 January 2023, the Group repaid a €750 million bond at maturity;
- In February 2023, the Group accessed the Euro market under its EMTN Programme, raising a total of €800 million;
- In May 2023, the Group repaid a total of US\$48 million of bonds at maturity;
- Given the refinancing levels in the medium term and to reduce near term refinancing risks, in August 2023, the Group accessed the US dollar market under its SEC Shelf Programme, raising a total of US\$5 billion across five tranches whilst also announcing a concurrent capped debt tender offer, targeting a series of GBP-, EUR- and USD-denominated bonds maturing between 2024 and 2027. Pursuant to this tender offer, BAT repurchased bonds prior to their maturity in a principal amount of £3.1 billion and
- In September, October and November 2023, the Group repaid US\$550 million, €800 million and €750 million of bonds at maturity, respectively.

In 2022, the Group raised US\$3.1 billion and repaid €600 million, £180 million and US\$1.8 billion bonds at maturity.

## 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.

## Cash Flow

### Net cash generated from operating activities

Net cash generated from operating activities increased by £320 million to £10,714 million in 2023, compared to an increase of £677 million to £10,394 million in 2022. In 2023, translational foreign exchange was a marginal headwind (2022: tailwind) due to the relative movements of sterling against the Group reporting currencies, notably the US dollar, in those periods.

In 2023, the increase was driven by:

- the realisation of tax credits in Brazil (related to the previously disclosed VAT and excise on social contributions); and
- higher dividends received from the Group's associates of £506 million (2022: £394 million), mainly related to ITC.

These were partially offset by:

- payments in respect of the settlement agreements with the DOJ and OFAC (2023: £262 million; 2022: £nil million);
- increases in tax paid of £2,622 million, compared to £2,537 million in 2022; and
- a payment of £59 million to settle the investigation by the Nigerian Federal Competition and Consumer Protection Commission (FCCPC).

In 2023, other litigation payments (mainly related to *Engle*) were lower at £73 million (2022: £181 million).

The Group made interim repayments to HMRC of £50 million in both 2023 and 2022, and intends to make further interim repayments in future periods in respect of the Franked Investment Income Group Litigation Order (FI I GLO), as described on page 232.

### Net cash used in investing activities

In 2023, net cash used in investing activities decreased to £296 million (2022: £705 million), partly due to a lower net outflow of £43 million from short-term investment products, including treasury bills (2022: £129 million net outflow).

As described earlier, the Group completed the sale of its businesses in Russia and Belarus in September 2023. Proceeds of £425 million were received in 2023, net of cash disposed of £266 million, being a net cash inflow from the disposal of £159 million, as shown in the cash flow statement on page 214.

Purchases of property, plant and equipment were lower than 2022, at £460 million (2022: £523 million).

In 2023, the Group invested £541 million in gross capital expenditure, a decrease of 14.2% on the prior year (2022: £630 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 2024 of approximately £550 million.

### Net cash used in financing activities

Net cash used in financing activities was an outflow of £9,314 million in 2023 (2022: £8,878 million outflow), with the outflow in each year largely driven by:

- dividend payments (2023: £5,055 million, up 2.8%; 2022: £4,915 million, up 0.2%). The movement in both years was affected by the higher dividend per share. The increase in 2023 was partially offset by the reduction in the number of shares due to the share buy-back programme undertaken in 2022;
- the net repayment of borrowings (2023: £1,635 million; 2022: £223 million net issuance) as described on page 56; and
- in 2022, the purchases of shares under the share buy-back programme of £2,012 million.

In 2023, interest paid increased by 6.6% to £1,682 million (2022: £1,578 million), driven by higher interest charges as new debt issued replaced cheaper debt on maturity.

In 2023, the Group repaid borrowings of £6.8 billion and issued £5.1 billion of new borrowings. The Group repaid borrowings of £3.0 billion in 2022, and issued £3.3 billion of new borrowings.

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 347, was £8,360 million, up 3.9% on the prior year (2022: up 8.1% to £8,049 million; 2021: £7,447 million). The increase in 2023 was driven by the increase in net cash generated from operating activities and lower capital expenditure of £487 million (2022: £599 million) partly offset by the higher interest paid on borrowings, up £175 million to £1,763 million and higher tax payments (up £85 million to £2,622 million).

After payment of dividends to shareholders, free cash flow was £3,305 million (2022: £3,134 million; 2021: £2,543 million).<sup>®</sup>

### 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.

Based upon net cash generated from operating activities, the Group's conversion rate was -68% compared to 99% in 2022, impacted, in 2023 by the non-cash charges in respect of goodwill and trademark impairments described earlier.

<sup>®</sup>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 2023 compared to 100% in 2022 and 104% in 2021. See page 345 for further information on this measure.<sup>®</sup>

## Summary Cash Flow

	2023 £m	2022 £m	2021 £m
<b>Cash generated from operating activities</b>	<b>12,830</b>	12,537	11,678
Dividends received from associates	506	394	353
Tax paid	(2,622)	(2,537)	(2,314)
<b>Net cash generated from operating activities</b>	<b>10,714</b>	10,394	9,717
<b>Net cash used in investing activities</b>	<b>(296)</b>	(705)	(1,140)
<b>Net cash used in financing activities</b>	<b>(9,314)</b>	(8,878)	(8,749)
Transferred from/(to) to held-for-sale	368	(368)	—
Differences on exchange	(292)	431	(253)
<b>Increase/(decrease) in net cash and cash equivalents in the year</b>	<b>1,180</b>	874	(425)

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



## Dynamic Business

## Other

**Restricted cash**

Cash and cash equivalents include restricted amounts of £1,904 million (2022: £1,411 million) due to subsidiaries in CCAA protection (note 32 in the Notes on the Accounts) as well as £392 million (2022: £324 million) principally due to exchange control restrictions.

**Borrowings and Net Debt**

Total borrowings (which includes lease liabilities) decreased to £39,730 million in 2023 (2022: £43,139 million) impacted by the relative movement of sterling against other currencies, particularly the US dollar and the euro. In 2023, this was a tailwind of £1,981 million (2022: £3,911 million headwind).

The movement in borrowings is impacted by the net issuance and repayment of bonds, as discussed on page 56 including the tender offer and subsequent repayment of £3.1 billion (equivalent) of bonds.

Total borrowings include £700 million (31 December 2022: £798 million) in respect of the purchase price adjustments related to the acquisition of Reynolds American Inc.

As discussed on page 56, 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 2023, was £34,640 million (2022: £39,281 million; 2021: £36,302 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 tailwind of £1,338 million in 2023 (2022: £3,030 million headwind) and the net repayment in borrowings described on page 56.

®The movement in net debt also includes the free cash flow (before dividends) generated in the year (2023: £8,360 million; 2022: £8,049 million) as described on page 57. This is partly offset by dividends paid to owners of the parent of £5,055 million (2022: £4,915 million).®

**®Leverage ratio - Adjusted Net Debt to Adjusted EBITDA**

The Group uses adjusted net debt to adjusted EBITDA, as defined on page 348, to assess its level of leverage by reference to 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 2023, the ratio of adjusted net debt to adjusted EBITDA was 2.6x, representing a decrease from 2.9x at the end of 2022, itself an improvement from 3.0x at the end of 2021.

The Group's adjusted net debt to adjusted EBITDA ratio is subject to the fluctuations in the foreign exchange markets. In 2023, due to the relative movement in sterling, the sterling value of adjusted net debt decreased by £1,358 million.

Refer to page 348 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 -13.2% (2022: 8.2%), with the movement in 2023 due to the impairment of goodwill and trademarks referred to earlier, impacting the Group's EBITDA.

On an adjusted basis, as defined on page 349, 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 grew from 9.4% in 2021 to 9.9% in 2022, and grew to 10.9% in 2023. The movement in 2023 was mainly driven by the impairment of goodwill and trademarks referred to earlier, the impact of which has been adjusted out of EBITDA but reduced the value of average capital employed.®

**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 2023 was £6,417 million (2022: £6,515 million), while unfunded scheme liabilities amounted to £785 million (2022: £797 million). The schemes' assets decreased to £7,317 million from £7,424 million in 2022, itself a decrease from £10,816 million in 2021. The overall position for all pension and healthcare schemes in Group subsidiaries amounted to a net asset of £75 million at the end of 2023, compared to a net asset of £51 million at the end of 2022.

In addition, during 2022, the risk profiles and values of amounts relating to retirement benefit arrangements were impacted by a partial buy-out in the U.S.

**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 123 and pages 361 to 369.

**Reconciliation of Total Borrowings to Adjusted Net Debt®**

	2023 £m	2022 £m	2021 £m
Total borrowings (including lease liabilities)	(39,730)	(43,139)	(39,658)
Derivatives in respect of net debt	(170)	(167)	91
Cash and cash equivalents	4,659	3,446	2,809
Current investments held at fair value	601	579	456
<b>Net debt</b>	<b>(34,640)</b>	<b>(39,281)</b>	<b>(36,302)</b>
Purchase price adjustment (PPA) to Reynolds American Inc. debt	700	798	754
Net debt items in assets held-for-sale	—	352	—
<b>Adjusted net debt</b>	<b>(33,940)</b>	<b>(38,131)</b>	<b>(35,548)</b>

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

### 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 352 for a summary of the contractual obligations as at 31 December 2023.

### 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 determination as to whether the disposal of a business or businesses is significant enough to require disclosure as discontinued operations;
- 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.

### Assessment as a Going Concern

In conjunction with the assessment of viability, the Directors have also assessed the short-term cash flow forecasts and debt refinancing requirements.

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 2024 and other known liabilities or future payments (including interim dividends).

The Group has £60 million of future contractual commitments (2022: £80 million) related to property, plant and equipment, as discussed in note 13 in the Notes on the Accounts.

After reviewing the Group's annual budget, plans and financing arrangements, including the availability of a £5.4 billion revolving credit facility, 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		
	2023	2022	2021	2023	2022	2021
Australian dollar	<b>1.873</b>	1.779	1.832	<b>1.868</b>	1.774	1.863
Bangladeshi taka	<b>134.747</b>	115.040	117.023	<b>139.909</b>	123.502	116.212
Brazilian real	<b>6.208</b>	6.384	7.421	<b>6.192</b>	6.351	7.544
Canadian dollar	<b>1.678</b>	1.607	1.724	<b>1.681</b>	1.630	1.711
Chilean peso	<b>1,044.498</b>	1,076.291	1,045.816	<b>1,113.264</b>	1,024.811	1,153.991
Euro	<b>1.150</b>	1.173	1.164	<b>1.154</b>	1.127	1.191
Indian rupee	<b>102.707</b>	97.030	101.702	<b>106.081</b>	99.516	100.684
Japanese yen	<b>174.883</b>	161.842	151.124	<b>179.721</b>	158.717	155.972
Romanian leu	<b>5.688</b>	5.783	5.727	<b>5.741</b>	5.577	5.894
Russian ruble <sup>1</sup>	<b>102.662</b>	87.184	101.388	<b>120.111</b>	87.812	101.592
South African rand	<b>22.962</b>	20.176	20.335	<b>23.313</b>	20.467	21.617
Swiss franc	<b>1.117</b>	1.179	1.258	<b>1.073</b>	1.113	1.234
US dollar	<b>1.244</b>	1.236	1.376	<b>1.275</b>	1.203	1.354

#### Note:

1. As a result of the disposal of the Russian businesses, the 2023 rates reflect the average for the period ended and as at 13 September 2023, respectively.

## Sustainable Future

## Strategic Pillar Overview

## Sustainable Future

Building a Sustainable Future is about seeking to actively migrate consumers away from cigarettes and to smokeless alternatives sustainably, responsibly and with integrity.

Science will be a primary driver of our efforts, supported by more active external engagement and regulatory focus, while embedding sustainability across our organisation.

**The key building blocks of the Sustainable Future pillar are:**

Tobacco Harm Reduction Acceptance

Shaping the Landscape

Leading in Sustainability & Integrity

**Our commitments under Sustainable Future:**

Building a Smokeless World

Investing in the products, science and engagement to make A Better Tomorrow™ a reality

Conducting our business sustainably and with integrity

**Tobacco Harm Reduction Acceptance A Better Tomorrow™ through THR**

The best choice any adult smoker can make will always be quitting combustible tobacco products completely. Yet many do not.

Our ambition for A Better Tomorrow™ is to reduce the health impact of our business via Tobacco Harm Reduction (THR) to help Build a Smokeless World.

We know that stakeholders increasingly expect us to demonstrate that we are a purpose-driven enterprise, and that we are committed to a future where, ultimately, we move away from combustible cigarettes.

This is why, for several years now, we have been transforming. We have created a multi-category portfolio of scientifically-substantiated, reduced-risk<sup>1</sup> alternatives, tested to meet or exceed industry-leading standards.

THR underpins our purpose and, as such, is a vital part of our transformation. Ultimately, our THR ambition will be quantified by improved health outcomes (decrease of morbidity and mortality) at both individual and population levels relative to the scenario of a world with only combustible cigarettes.

**Why THR matters**

We know combustible cigarettes pose serious health risks. The only way to avoid those risks is not to start smoking or to quit.

However, more than one billion people today continue to smoke, and, according to the World Health Organization, it is estimated that smoking-related diseases cause more than eight million deaths globally each year.

THR is a well recognised public health strategy that aims to minimise the harm caused by smoking. This is done by encouraging adult smokers, who would otherwise continue to smoke, to switch completely to reduced-risk<sup>1</sup>, smokeless alternatives.

There has been significant progress in the global THR journey over the past decade. Today, there are three significant global smokeless categories: Vapour, Heated Products and Modern Oral.

The global adoption of these smokeless product categories over the last decade has been significant. The latest estimate of the global number of vapers alone is 82 million.<sup>1</sup>

For those adult consumers who would otherwise continue to smoke, we encourage making the switch to smokeless products.

We provide adult consumers with a range of scientifically-substantiated, smokeless alternatives to smoking.

Our aim is to provide products 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<sup>2</sup>, by providing a satisfactory alternative to cigarettes despite not being smoking cessation products or marketed as such.

**World-class science**

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

We use a wide range of analytical and pre-clinical 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, and clinical research organisations, who bring independent and specialist expertise that enhance our internal capabilities.

**THR substantiation: Our nine-step risk assessment framework**

Most smokeless alternatives are still 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.

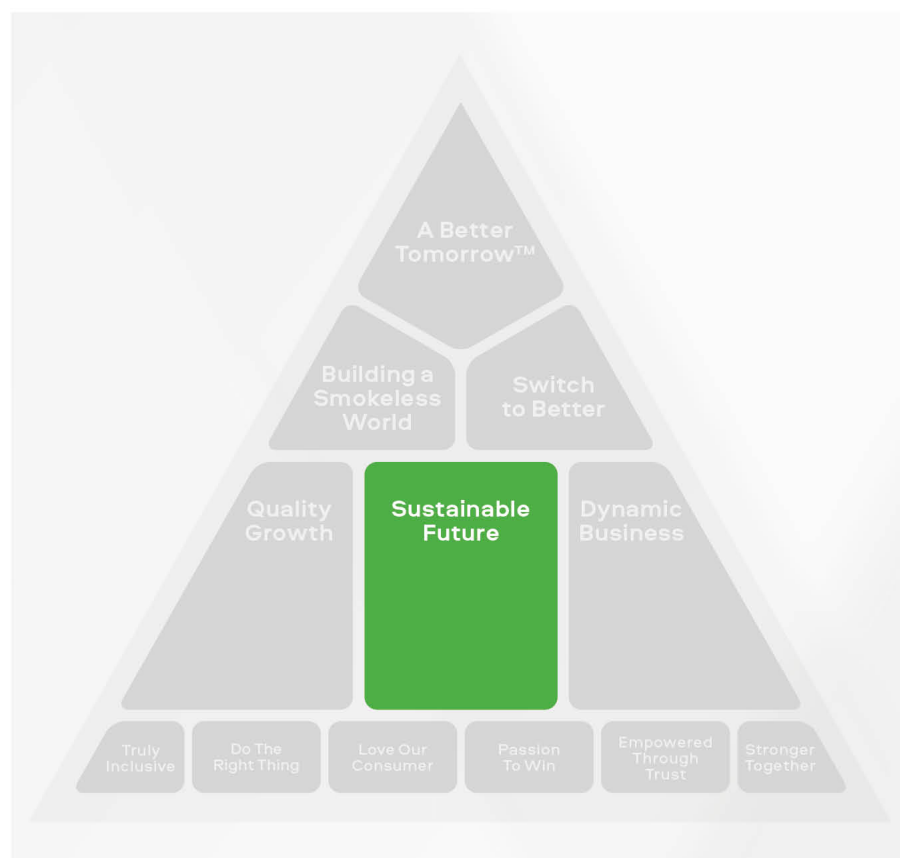
Drawing on work by the U.S. Institute of Medicine, we utilise our nine-step risk assessment framework. This evaluates the emissions, exposure and risk profile of our New Category products and compares them to smoking cigarettes or other comparators, such as nicotine replacement therapy.

In terms of THR scientific substantiation, our Heated Products, Vapour, and Modern Oral products have been reported in peer-reviewed pre-clinical, clinical, and population level research publications and journals, summarising significant reductions in emissions, exposure and risk reduction versus smoking.

Looking ahead, we are working on delivering the next horizon of science to demonstrate that our Non-Combustible products not only reduce risk, but quantitatively reduce disease-relevant harm.

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. Our scientists have published more than 198 scientific papers to date about our New Category products.

**+** For more information on Tobacco Harm reduction, see [page 78](#)



## Shaping the Landscape

### THR and nicotine

Societal sentiment towards nicotine will play an important role in THR.

Nicotine is recognised by several regulators (including the U.S. FDA) and public health stakeholders (including the UK Royal College of Physicians) as not being the cause of smoking-related diseases (which are caused by smoke toxicants).

Moreover, the UK National Health Service states that "Evidence shows that nicotine vapes are actually more effective than nicotine replacement therapies, like patches or gum."<sup>3</sup>

However, currently more than 60% of adults and 80% of doctors believe that nicotine causes cancer.<sup>4</sup>

With this level of misperception, and nicotine being a highly politicised topic, society's negative sentiment towards nicotine is one of several substantial challenges that still needs to be overcome to enable further THR progress.

We have a global science engagement programme where we seek to validate our science with other external scientists via peer review publications and conferences.

As well as publishing our own research, our scientists also monitor and review external publications to gain a holistic view of the evidence base.

We work hard to make our science accessible and understandable to a wider audience. We have a dedicated website [www.bat-science.com](http://www.bat-science.com), and publish a Science and Innovation Report on a regular basis, which showcases our latest scientific research.

### Product innovation and choice

Consumer choice is an important component of THR success. We recognise that smokers are most likely to switch to smokeless alternatives when they find a product that delivers comparable satisfaction in the sensorial experience they deliver, and fits with their usage occasions and lifestyle.

That is why we offer a multi-category portfolio of smokeless alternatives tailored to meet the varied preferences of different adult smoker consumer segments. Importantly, these products are supported by world-class science and industry-leading product safety and quality standards.

We ensure our New Categories product innovation pipeline is based on data-backed foresights, to anticipate category and consumer trends. Through deep consumer insights we deliver new product propositions that are consumer-centric in their design and performance, to meet the most important consumer preferences and opportunities.

### Our approach to regulation

We recognise and support the objective of governments to reduce smoking rates and its associated health impact.

We have always been clear that we support regulation which is based on robust evidence, is tailored to local circumstances, and delivers on the intended policy aims, while preventing unintended consequences such as the growth in illegal markets.

Although not risk free, recent technological and scientific advancements in smokeless products offer consumers the opportunity to enjoy nicotine products, without the need to burn tobacco.

Experience shows that where risk-proportionate regulation encourages smokers to choose these smokeless alternatives instead of cigarettes, smoking rates can be more effectively reduced compared to relying on coercive policies which are either outdated or bluntly seek to prohibit products or behaviours<sup>5</sup>.

THR success will depend as much on progressive regulation as it will on changes in consumer behaviour. We believe both are essential if countries around the world are to achieve the accepted "smoke-free" threshold of less than 5% smoking incidence in the population.

This is what has been demonstrated to be possible in markets like Sweden. There, the 2023 smoking incidence of 5.6% illustrates they are on the verge of achieving their 'no smoking target' 16 years ahead of the 2040 EU target, due to the widespread awareness, availability and usage of snus and other smokeless alternatives.



## Sustainable Future

Strategic Pillar Overview  
Continued**Our views on regulation of smokeless tobacco and nicotine products**

We believe regulation should recognise that smokeless tobacco and nicotine products are less risky than cigarettes and support their use as an alternative for those adult smokers that are unwilling or unable to quit nicotine.

We believe that four guiding principles should be applied to the development of any regulation of smokeless products:

– **Based on science and evidence:**

Regulation should be based on the best available science and evidence for each product category, and be proportionate to the risk of the product versus combustible tobacco.

– **Ensure product quality and consumer relevance:**

Regulation should mandate robust product quality and safety standards to protect consumers and allow access to products with satisfying nicotine levels and adult-targeted flavours.

– **Allow adult-only awareness and access:**

Regulation should enable adults to access and gain information about the availability of reduced risk products, while preventing use by the underage.

– **Enable effective enforcement:**

Regulation should include an effective regime for penalties, sanctions and enforcement to drive compliance.

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 accelerating a reduction in smoking rates.

We believe a stakeholder-inclusive, whole-of-society, open and honest dialogue is essential. One that includes regulators, policy-makers, public health, consumers, and the industry.

It is key to align all stakeholders on the positive public health potential and develop effective policies and consumer behaviour that can accelerate tobacco harm reduction as quickly as possible. Regulation around New Category products should be founded on evidence and science, not opinion.

A general regulatory framework, to maximise smokeless products' harm reduction potential, is outlined on page 63.

**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.
- 1. Jerzyński, T. and Stimson, G.V. (2023). Estimation of the global number of vapers: 82 million worldwide in 2021. *Drugs, Habits and Social Policy*, 24(2). doi:<https://doi.org/10.1108/dhs-07-2022-0028>.
- 2. Lindson N, Butler AR, McRobbie H, Bullen C, Hajek P, Begh R, Theodoulou A, Nottley C, Rigotti NA, Turner T, Livingstone-Banks J, Morris T, Hartmann-Boyce J. Electronic cigarettes for smoking cessation. *Cochrane Database of Systematic Reviews* 2024, Issue 1. Art. No.: CD010216. DOI: 10.1002/14651858.CD010216.pub8.
- 3. NHS (2023). Vaping myths and the facts - Better Health. [online] [nhs.uk](https://www.nhs.uk/better-health/quit-smoking/vaping-to-quit-smoking/vaping-myths-and-the-facts/). Available at: <https://www.nhs.uk/better-health/quit-smoking/vaping-to-quit-smoking/vaping-myths-and-the-facts/>.
- 4. World, F. for a S.-F. (n.d.). Nearly 80% of Doctors Worldwide Mistakenly Believe Nicotine Causes Lung Cancer, Thwarting Efforts to Help One Billion Smokers Quit. [online] [www.prnewswire.com](https://www.prnewswire.com/news-releases/nearly-80-of-doctors-worldwide-mistakenly-believe-nicotine-causes-lung-cancer-thwarting-efforts-to-help-one-billion-smokers-quit-301881655.html). Available at: <https://www.prnewswire.com/news-releases/nearly-80-of-doctors-worldwide-mistakenly-believe-nicotine-causes-lung-cancer-thwarting-efforts-to-help-one-billion-smokers-quit-301881655.html>.
- 5. Fagerström, K. (2022). Can alternative nicotine products put the final nail in the smoking coffin? *Harm Reduction Journal*, 19(1). doi:<https://doi.org/10.1186/s12954-022-00722-5>.

Photo of our national ad campaign for better Vapour product regulation, London, UK

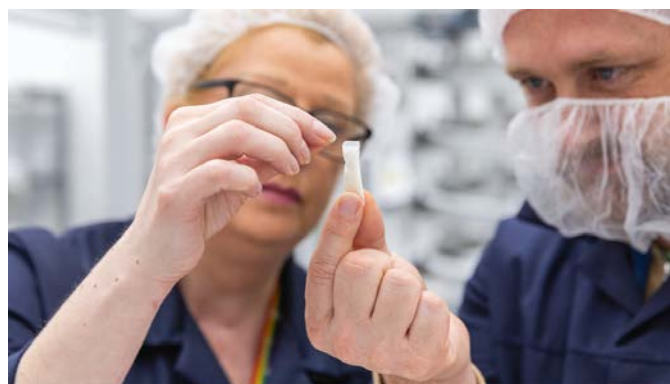
## Maximising smokeless products' harm reduction potential: A regulatory framework

In all countries, whether such a framework is in place or not, we are guided by our Product Stewardship approach - with regard to quality and safety standards – and our International Marketing Principles to ensure that we market our products responsibly.



### Access to Consumer Relevant Products

- Regulations in all countries where cigarettes are sold should also allow a wide range of smokeless alternatives to smoking to ensure that consumers can access these alternatives and make informed choices.
- Nicotine levels should be established to ensure smokeless products are a satisfying alternative for adult smokers.
- Adult-targeted flavours should be available, as evidence shows that certain flavours help smokers transition to reduced-risk alternatives<sup>††</sup> and prevent them from going back to smoking. Flavours, packaging designs and descriptors that are particularly appealing to the underage should be prohibited.
- Regulation should keep pace and be adaptable to new product innovation. This would help ensure that scientific and technological advancements can deliver consumer relevant new product propositions and solutions, so that smokers are given even better options to switch away from combustible cigarettes.



### Product Quality and Safety

- Robust and properly enforced product quality and safety standards should be at the heart of any regulation, to protect consumers.
- Products should be used as intended by consumers and manufacturers should be required to ensure that all products are tamper-evident to secure product integrity.



### Adult-only Consumer

- The use and sale of smokeless tobacco and nicotine products by and to the underage should be prohibited by law.
- Age-verification mechanisms should be mandated at point of purchase and, where feasible, regulation should aim to encourage the integration of underage access prevention technologies.
- Communication with adults should be permitted in adult-targeted touchpoints and display responsible content. Communication is necessary to provide adult consumers with accurate information about reduced-risk products.<sup>††</sup>
- Any communication with consumers should have a clear and visible health warning and inform that nicotine-containing products are for adults only.



### Robust Enforcement

- Regulation should provide enforcement authorities with the necessary powers to apply penalties and sanctions to those who fail to comply with regulations, particularly those who supply non-compliant products and provide products to those underage.

#### 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.

## Sustainable Future

# Advancing Sustainability for A Better Tomorrow™

**As we transition from cigarettes to smokeless products, we are not only addressing the public health impact<sup>††</sup> of our products but also other material sustainability topics.**

## Kingsley Wheaton

Chief Strategy & Growth Officer

### Dear Stakeholders,

We are pleased to present our 2023 Combined Annual and Sustainability Report, underlining the progress made towards our sustainability commitments.

### 2023 highlights

We have continued to tackle the environmental and social impact of our value chain, including climate change, biodiversity and underage access of our products. Key achievements include:

- Progressed towards our 2050 Net Zero greenhouse gas (GHG) emissions target and our interim target of a 50% emissions reduction by 2030;
- Achieved a 33.1% reduction in Scope 1 and 2 GHG emissions in 2023, and a 12.48% reduction in Scope 3 GHG emissions in 2022, vs our 2020 baseline. Our Scope 3 performance is reported one year later, due to the complexity of obtaining this data across our global value chain;
- Embedded further our Underage Access Prevention and International Marketing Principles programmes into our Group-wide Standards of Business Conduct (SoBC) employee training and sign-off process; and
- Continued to promote sustainable value in agriculture, with 93.3% of farmers in our Thrive Supply Chain also growing other crops in 2023, and 418,584 farmers and community members engaged in human rights training and awareness programmes.

### Delivered ahead of 2025 target:

- Circular economy: Achieved 28.2% reduction in waste generated in our own operations - vs our 2017 baseline - surpassing our 25% reduction target; and
- Water: Achieved a 39.2% reduction in water withdrawn - vs our 2017 baseline - surpassing our 35% reduction target.

### Leading in Sustainability – a core component of our corporate strategy

Our strategic purpose is to create A Better Tomorrow™ by Building a Smokeless World.

Over the last 10 years, we have developed and deployed a portfolio of reduced-risk products<sup>††</sup>, tailored to meet the evolving preferences of adult consumers.

Our Sustainability strategy focuses on four cross-cutting Sustainability Priorities:

- **Responsible Leadership in New Categories;**
- **Create Positive Value in Agriculture;**
- **Deliver Net Zero GHG Emissions Across our Value Chain; and**
- **A Trusted Organisation, Operating with Integrity.**

Through these priorities, we believe we can make a real difference for consumers and other stakeholders across our business and value chain, and for wider society.

Harm Reduction remains key to our Group strategy. Circularity and responsible marketing of New Category products are a focus areas for 2024, as we make progress towards Building a Smokeless World.

As the world around us evolves, so too will our approach to sustainability. We will continue to challenge ourselves to take a forward-looking approach to our products, our governance, our stakeholder engagement, our goals and targets, and our reporting.



Learn more about our four Sustainability Priorities on [pages 66 and 67](#)

### Our approach to sustainability reporting

We have established a cross-functional team of experts tasked to ensure we are well prepared to deliver against the disclosure requirements of the EU Corporate Sustainability Reporting Directive (CSRD) in 2026.

Building on the previous year's approach, this year, we updated our Double Materiality Assessment (DMA)<sup>†</sup> with reference to the latest available European Sustainability Reporting Standards (ESRS) at the time of the assessment.



Learn more about our Double Materiality Assessment on [pages 74 to 77](#)





Harm Reduction, followed by Climate Change and Circular Economy, rank as our most material sustainability topics.

Supplier Engagement was identified as a material topic for the first time, reflecting the importance of our proactive engagement with our suppliers (and other value chain partners) to drive progress on sustainability matters.

We are progressing to identify the relevant disclosure requirements and data points for BAT under CSRD and will continue to work towards CSRD compliance in order to align our approach to the latest available standards and guidance.

®Recognising the importance of confidence in our disclosures and transparency, KPMG have conducted limited external assurance of certain key sustainability metrics in this report in accordance with international standards ISAE (UK) 3000 and ISAE 3410. Their independent limited assurance report for these ESG metrics is available on page 120. This is in addition to their audit of the financial statements.®

CSRD requires third-party assurance of sustainability information, including limited assurance from the date of initial reporting with the ambition of moving to reasonable assurance by financial year 2028.

We continue to assess and maintain our control environment to support efficient and effective external assurance of non-financial information, and to enable consistency and connectivity of financial and sustainability information.

As we transition to CSRD compliance, we have continued to report with reference to other applicable frameworks, such as:

- Global Reporting Initiative (GRI);
- Sustainability Accounting Standard Board (SASB);
- Sustainable Finance Disclosure Regulation (SFDR) Principal Adverse Impacts (PAI); and
- Taskforce on Climate-related Financial Disclosures (TCFD) - whose monitoring of climate-related financial disclosures is being taken on by the International Sustainability Standards Board (ISSB) in 2024.

In addition, for the first time, we have outlined our progress in relation to the Taskforce on Nature-related Financial Disclosures (TNFD) reporting.

 Learn more about our ESG reporting frameworks in our ESG Performance Data Book on [bat.com](https://www.bat.com)

### Selecting our four Sustainability Priorities

Our four cross-cutting focus areas broadly encompass our material sustainability topics – as defined by our 2023-updated DMA.

They are grounded in our everyday business, and are key elements of how we interact with our consumers, suppliers and value chain partners, employees, investors and other stakeholders.

We will continue to work in partnership with all our stakeholders to deliver against our Sustainability Priorities.

#### Chief Sustainability Officer

In 2023, we were pleased to appoint Donato Del Vecchio to the role of Chief Sustainability Officer, effective 1 January 2024, reporting to Kingsley Wheaton, Chief Strategy & Growth Officer.

Donato succeeds Mike Nightingale, who retires from BAT after 32 years of service.

Donato joined BAT in 2001 and has held various senior Corporate and Regulatory Affairs roles around the world.

#### 2024 and beyond

We are proud of the progress we have made towards our sustainability commitments.

However, we recognise that there remains much to be done and that appropriate regulation, strong cooperation and effective partnerships are essential to create a truly sustainable business and society.

Nevertheless, we are encouraged by our progress and welcome comments, feedback or new ideas to [sustainability@bat.com](mailto:sustainability@bat.com).

### Our refined corporate strategy focuses on four cross-cutting Sustainability Priorities:

Responsible Leadership in New Categories;

Create Positive Value in Agriculture;

Deliver Net Zero GHG Emissions Across our Value Chain; and

Trusted Organisation, Operating with Integrity.

**By delivering on these priorities, we believe we can make a real difference for other stakeholders, across our business and value chain, and for wider society.**

#### Donato Del Vecchio

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.
- 1. Although financial materiality has been considered in the development of our Double Materiality Assessment (DMA), our DMA and any conclusions in this document as to the materiality or significance 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.



## Sustainable Future

# Leading in Sustainability and Integrity

As we transition from cigarettes to smokeless products, we are addressing not only our products' public health impact but also our other material sustainability<sup>1</sup> topics.

## A Better Tomorrow™ Building a Smokeless World

### Sustainable Future



#### Related Material Topics:

<b>+</b> Read more on each material topic:	
<i>Harm Reduction</i>	<i>page 78</i>
<i>Circular Economy</i>	<i>page 82</i>
<i>Marketing and Communications</i>	<i>page 96</i>
<i>Supplier Engagement</i>	<i>page 100</i>

#### Related Material Topics:

<b>+</b> Read more on each material topic:	
<i>Biodiversity and Ecosystems</i>	<i>page 84</i>
<i>Water</i>	<i>page 86</i>
<i>Human Rights</i>	<i>page 92</i>
<i>Farmer Livelihoods and Communities</i>	<i>page 94</i>

#### Related Material Topics:

<b>+</b> Read more on each material topic:	
<i>Climate Change</i>	<i>page 80</i>
<i>Circular Economy</i>	<i>page 82</i>
<i>Biodiversity and Ecosystems</i>	<i>page 84</i>
<i>Supplier Engagement</i>	<i>page 100</i>

#### Related Material Topics:

<b>+</b> Read more on each material topic:	
<i>Employees, Diversity and Culture</i>	<i>page 88</i>
<i>Marketing and Communications</i>	<i>page 96</i>
<i>Ethics and Integrity</i>	<i>page 98</i>
<i>Supplier Engagement</i>	<i>page 100</i>

#### Note:

1. Although financial materiality has been considered in the development of our Double Materiality Assessment(DMA), our DMA and any conclusions in this document as to the materiality or significance 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.

We have identified four cross-cutting Sustainability Priorities in our refined corporate strategy. They broadly encompass our material sustainability topics.

### Responsible Leadership in New Categories



We aim to address Harm Reduction and contribute to Building a Smokeless World by setting industry standards for the development, manufacture, circularity and marketing of New Category products.

#### Key areas and initiatives

- Continuing investments and innovations to reduce the health impacts of our products
- Improving circularity to reduce the environmental impact of our product portfolio
- Responsible sourcing and marketing standards

### Create Positive Value in Agriculture



By leveraging our agricultural sourcing model - directly contracting with more than 91,000 farmers, who delivered c. 73% of the tobacco volume we purchased in 2023 - we seek to deliver a positive impact in our agricultural supply chain, particularly with respect to social and environmental issues.

#### Key areas and initiatives

- Positively addressing Human Rights matters and Farmer Livelihoods
- Demonstrating leadership in and a positive impact on Biodiversity
- Responsibility addressing other relevant topics, such as water

### Deliver Net Zero GHG Emissions Across Our Value Chain



We aim to reduce Scope 1 and 2 GHG emissions by 50% and Scope 3 GHG emissions by 50% by 2030 (vs a 2020 baseline<sup>1</sup>) and to reach Net Zero GHG emissions across our value chain by 2050 at the latest. We recognise that our business and wider society relies on natural resources which will be impacted by the effects of climate change, and that we must work to adapt to those effects.

#### Key areas and initiatives

- Decarbonising our own operations (Scope 1 and 2 GHG emissions)
- Decarbonising our value chain (Scope 3 GHG emissions)
- 'Carbon Smart' farming in our agricultural supply chain (Scope 3 GHG emissions)

### Trusted Organisation, Operating with Integrity



We are committed to always operating to the highest standards and in full adherence to our Standards of Business Conduct (SoBC). We are working to create and maintain a culture where our people are proud of the role they play in driving our transformation.

#### Key areas and initiatives

- An ethical, trusted and respected company and culture
- Attracting, developing and retaining a talented, diverse workforce
- Zero tolerance towards health and safety and business conduct incidents

#### Note:

1. Compared to a 2020 baseline. Our near-term 2030 science-based targets comprise a 50% reduction in Scope 1 and 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.

## Sustainable Future

## Sustainability Highlights

In 2023, we have driven action across our four Sustainability Priorities and the topics they encompass.

## Responsible Leadership in New Categories

Our cross-sectional studies demonstrated a **reduction<sup>†</sup> in biomarkers** associated with negative health impacts for those who switch from cigarettes to Velo or Vuse as compared to continued smoking

28.2%

reduction in waste generated, vs 2017 baseline, achieving our 25% reduction target two years early

94%

of packaging was reusable, recyclable or compostable

**Designed new Responsible Marketing Principles (RMP)** and supporting guidelines, which will be implemented in 2024

## Create Positive Value in Agriculture

We implement sustainable agricultural practices and **support farmer livelihoods** through monitoring and sharing best practices

39.2%

reduction in water withdrawn in our direct operations, vs 2017 baseline; achieving our 35% reduction target two years early. Our goal is to support water resource availability in the catchments where our operations are located

93.3%

of farmers in our Thrive Supply Chain reported to be also growing other crops

10

Human Rights Impact Assessments (HRIA) conducted by year-end 2023

## Deliver Net Zero GHG Emissions Across Our Value Chain

33.1%

reduction in total Scope 1 and 2 (market based) CO<sub>2</sub>e emissions vs our 2020 baseline

## 10 Golden Rules

Programme developed to standardise how we run operational sites in the most energy efficient way

Invested **£24m** in capital expenditure to support emissions reductions and energy efficiency initiatives

600+

suppliers invited to provide data through the CDP Supply Chain Programme in 2023

## Trusted Organisation, Operating with Integrity

**iCommit** training to drive IMP and UAP compliance incorporated into the onboarding process for all new employees

**Lowest** Total Recorded Incident Rate for accidents in BAT's global historical data

Updated our **SoBC Assurance Procedure** so that all cases are triaged and assigned accordingly

Set a new ambition for **40%** of our **Management Board** members globally to be **ethnically diverse** by 2027

100%

of key leadership teams have at least a 50% spread of distinct nationalities across our management employees

## 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.

# Ratings and recognitions in 2023<sup>^</sup>

## MSCI<sup>1</sup>

In 2023, BAT was upgraded to a rating of A (on a scale of AAA to CCC) in the MSCI ESG Ratings assessment. [msci.com](https://www.msci.com)

## Sustainalytics<sup>2</sup>

As of January 2024, BAT received an ESG Risk Rating of 32.8 from Sustainalytics and was assessed to be at high risk of experiencing material financial impacts from ESG factors<sup>3,4</sup>. [sustainalytics.com](https://www.sustainalytics.com)

## Best-in-class ISS Score

As of November 2023, BAT received an ISS Environment and Social Quality Score of 1. Scores are ranked on a scale of 1 to 10, where 1 is the maximum score and 10 the minimum score. [issgovernance.com](https://www.issgovernance.com)

## A- in CDP Climate Change, Water Security and Forests

For 2023, BAT achieved A-, A- and A- in the CDP Climate Change, Water Security and Forests assessments. [cdp.net](https://www.cdp.net).

## Dow Jones Sustainability Indices (DJSI)

As at 8 December 2023, BAT was selected for inclusion in the DJSI Europe Index, based on S&P Global Corporate Sustainability Assessment results, and has been included in the DJSI indices for 22 consecutive years. [spglobal.com](https://www.spglobal.com)

## Financial Times Climate Leader

In 2023, BAT was named as a Climate Leader by the Financial Times for the third successive year, for reduction in greenhouse gas emissions (GHG) intensity, and placed in the top 3% of more than 4,000 European companies evaluated.

## Global Top Employer

In 2023, BAT was named as a Global Top Employer for the sixth consecutive year, 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.

## Bloomberg GEI

BAT was included in the 2023 Bloomberg Gender-Equality Index, which measures gender equality performance globally, in the first year of participation.

## Workforce Disclosure Initiative (WDI)

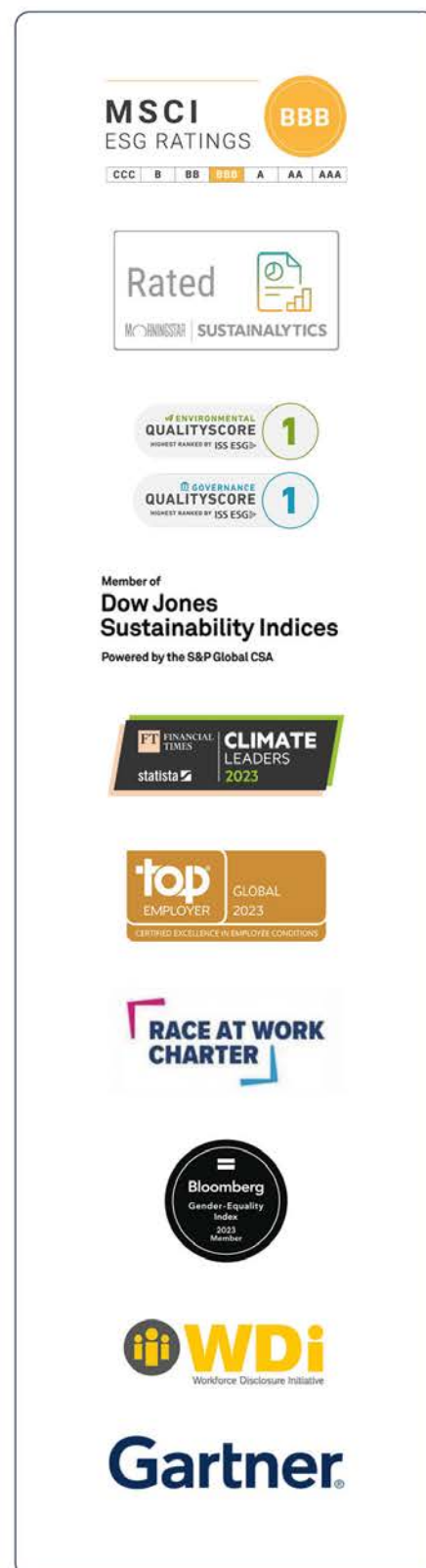
Our 2023 WDI submission was scored in the top 20% of participating companies.

## Gartner Supply Chain Top 15

In 2023, our global supply chain was recognised in the Gartner Supply Chain Top 15 Europe rankings.

### Notes:

- 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.
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  - Sustainalytics state, with regard to their use of this risk rating, "Note that because ESG risks materialize at an unknown time in the future and depend on a variety of unpredictable conditions, no predictions on financial or share price impacts, or on the time horizon of such impacts, are intended or implied by these risk categories."
  - Note 12(b)(i) on page 239 addresses the consideration of climate change matters in preparation of the financial statements in this report.
- <sup>^</sup> 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 the 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.





## Sustainable Future

## Sustainability Governance

## Overview of Group governance arrangements that include oversight of sustainability and ESG matters



## Note:

1. As at 31 December 2023. Read more on pages 136 to 137.

## Our Approach

Regulations and expectations continue to evolve. Having appropriate governance is key to delivering on our sustainability commitments. In particular, 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.

### Frameworks


<b>GRI</b>	2-9 to 2-21
<b>TCFD</b>	Governance
<b>TNFD</b>	Governance Recommendations A and B

## Board Oversight

The Board is collectively responsible for the 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 allocated appropriately to meet the objectives and to manage risks, including internal controls.

Our Board has strategic oversight of our sustainability matters and takes climate-related considerations into account where applicable when making strategic decisions, including in relation to budgeting, risk management and overseeing capital expenditure.

During 2023, the Board reviewed and approved a revised version of the Group Environment Policy, and new Responsible Marketing Principles which will be implemented in 2024.

 Read more about our Climate and Circular Economy risk in the Group Principal Risks on [page 121](#) and in the Group Risk Factors on [page 354](#)

The Audit Committee receives reports from the Group's Regional Audit Committees and Corporate Audit Committee, which monitor the effectiveness of business risk management and internal controls across regions and central functions. The Audit Committee also has oversight of the external assurance of ESG-related information.

## Management's Role

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, including those relating to sustainability and ESG, and for creating the framework for the day-to-day operation of the Group's subsidiaries.

Members of the Management Board are responsible for delivery against targets under their individual remit with respect to sustainability and ESG targets, including those relating to harm reduction. They are supported by their respective teams who, in turn, work with other functions and markets to make progress towards the Group's targets.

Management of sustainability and ESG priorities is embedded across relevant business areas at the Group, regional and local market levels. This approach provides channels for appropriate flow of information, monitoring and oversight of sustainability issues across the Group.

## Embedding Sustainability Expertise at the Executive Level

Our Board members have international experience that includes a wide range of leadership expertise in industries such as fast-moving consumer goods, infrastructure, food, beverage and tobacco, among others. To varying degrees, their experience includes the oversight of companies impacted by a range of environmental and social issues.

Non-Executive Directors, as well as the Audit Committee, and the Remuneration Committee, receive regular briefings on legal and regulatory developments, including those in the ESG landscape. For example, in 2023, the Audit Committee received an update on key regulatory developments in relation to ESG reporting regimes, including the Sustainable Finance Disclosure Regulation (SFDR), the Corporate Sustainability Reporting Directive (CSRD), the Task Force on Climate-Related Financial Disclosures (TCFD) and the UK and EU Taxonomy Regulations.


## Integrating Sustainability Considerations Into 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 their 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 Tadeu Marroco, Chief Executive, and Javed Iqbal, Interim Finance Director, are focused on Tobacco Harm Reduction. We intend to keep further integration of ESG metrics in Management Board remuneration under active review.

 Read more about our approach to Remuneration for directors and employees on [pages 170 to 181](#)

## Board Composition and Diversity Overview

Our Board Diversity & Inclusion Policy sets the Board's commitment to considering all aspects of diversity when reviewing the composition of, and succession planning for, the Board, its Committees and the Management Board.

The Nominations Committee is responsible for reviewing the composition of the Board, its Committees and Management Board to ensure they have an appropriate balance of skills, expertise and knowledge, and that all appointments are made on merit against objective criteria and with due regard for the benefits of diversity.

The Nominations Committee also has an oversight of the development of a pipeline of diverse, high-performing potential Executive Directors, Management Board members and other senior managers.

## Sustainability Due Diligence

We have a range of due diligence processes in place which aim to address the actual and potential impacts and risks associated with our own operations and in our upstream and downstream supply chain. Our approach to human rights is aligned with UNGP and OECD Guidelines, includes engagement with rights holders, and results in actions plans and remediation, as appropriate.

 Read more about our sustainability due diligence on [pages 92 and 100](#)

## Governing our Material Impacts

To manage our material sustainability impacts we have set up topic-specific Centres of Excellence at the middle management level. These include Climate Change, Circular Economy, Nature and Social Centres of Excellence. In addition, individual business functions, such as Legal, Corporate & Regulatory Affairs and HR, manage material issues relevant to their areas. The management of material sustainability topics is also discussed in various Committees and Forums, such as:

- Group Sustainability Leadership Team,
- Environmental Sustainability Committee,
- Operations Sustainability Committee,
- Leaf Sustainability Forum,
- Supply Chain Due Diligence Committee,
- IMP Steering Committee,
- Regulation and Science Committee,
- Business Integrity Panel, and
- Talent Reward and D&I Leadership Teams.

Issues considered in these Forums are raised, where appropriate, at Management Board level or with the Audit Committee.

## Sustainable Future

# Sustainability Policies, Procedures and Standards

**We have a clearly defined governance framework to support management control and Board-level oversight of sustainability matters.** This provides the policies, procedures and standards which determine and guide how we operate our business – from local markets and business units up to Board level.

Our Group policies (indicated by \* in the table below) are approved 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
<b>Standards of Business Conduct (SoBC)*</b> Available at <a href="http://www.bat.com/principles">www.bat.com/principles</a>	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
<b>Supplier Code of Conduct*</b> Available at <a href="http://www.bat.com/principles">www.bat.com/principles</a>	Covers compliance; human rights; environmental sustainability; trade and marketing; and business integrity.	Customers Suppliers Governments and wider society
<b>Group Environment Policy*</b> Available at <a href="http://www.bat.com/principles">www.bat.com/principles</a>	Commits to following standards of environmental protection, adhering to the principles of sustainable development and protecting biodiversity throughout our direct operations and supply chain including agricultural, manufacturing and distribution operations. Our Environment Policy was revised in 2023 to include an assessment of our value chain impacts, Circular Economy principles, new biodiversity commitments and information on metrics and targets.	Our People Consumers Suppliers Customers Governments and wider society
<b>Group Health and Safety Policy Statement*</b> Available at <a href="http://www.bat.com/principles">www.bat.com/principles</a>	Covers health, safety and welfare of our employees, contractors, visitors and other relevant stakeholders.	Our People Governments and wider society
<b>Employment Principles*</b> Available at <a href="http://www.bat.com/principles">www.bat.com/principles</a>	Sets out our employment practices, including commitments to workforce 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
<b>International Marketing Principles (IMP)*</b> Available at <a href="http://www.bat.com/principles">www.bat.com/principles</a>	Govern marketing of all our products and include the requirement for all our marketing to be targeted at adult consumers only.	Consumers Customers Suppliers Governments and wider society
<b>Group Quality Policy Statement</b> Available at <a href="http://www.bat.com/principles">www.bat.com/principles</a>	Formalises how we strive to deliver high-quality products, processes and capabilities that create sustainable value for our brands while exceeding the expectations of adult consumers. It is the responsibility of our leadership team at all levels to ensure the understanding and implementation of this policy by providing the necessary processes, practices, procedures, resources, and training.	Consumers
<b>Product Stewardship Framework*</b> Available at <a href="http://www.bat.com/principles">www.bat.com/principles</a>	Sets out the steps we take to ensure our products are developed and manufactured responsibly. It reflects our commitment to have products that meet consistently high quality and safety standards and guides the development and testing of all our products, helping to promote a rigorous and systematic approach.	Consumers Suppliers Customers Governments and wider society
<b>Circular Economy Position Statement</b> Available at <a href="http://www.bat.com/principles">www.bat.com/principles</a>	Contains our commitment to applying Circular Economy principles across our operations and product categories.	Our People Consumers Suppliers Customers Governments and wider society
<b>Biodiversity Statement</b> Available at <a href="http://www.bat.com/biodiversity">www.bat.com/biodiversity</a>	Sets out the principles we follow to manage our impact on biodiversity and the wider environment.	Our People Suppliers Governments and wider society
<b>Biodiversity Operational Standard on Tobacco Farming</b>	Sets out requirements that all Group's own Leaf Operations must adhere to for the following tobacco crop activities: use of wood as fuel for tobacco curing and for the construction of curing barns; new farmland development for growing tobacco; and tobacco farming and associated agricultural practices. Third-party leaf suppliers are also required to follow this standard within their own practices and operations.	Our People Suppliers Governments and wider society

Policies and Procedures	Summary of Areas Covered	Key Stakeholder Groups
<b>Underage Access Prevention (UAP) Guidelines</b>	Supports our strict UAP requirement to market our products to adult consumers only by setting out requirements for retailer-facing UAP activities to be carried out in all our markets.	Consumers Customers Governments and wider society
<b>BAT Leaf Operations Standard on Child Labour Prevention</b>	Detailed guidance and procedures for tackling the risk of child labour in the Group's own Leaf Operations, comprising our directly contracted leaf supply chain.	Our People Suppliers Governments and wider society
<b>Climate Change and Energy Standard</b>	Provides guidance for all our employees and suppliers who have responsibility for the application of implementing a climate change-related initiative across all our facilities and working environments.	Our People Suppliers Governments and wider society
<b>Green Mobility Standard</b>	Outlines our strategy for reducing the environmental impact of our car fleet, namely carbon dioxide equivalent emissions (CO <sub>2</sub> e), air pollution, and noise reduction through the deployment of Electric Vehicles.	Our People Suppliers Governments and wider society
<b>Environment and Health and Safety (EHS) Policy Manual</b>	Sets out comprehensive guidance and procedures for Group companies on the implementation of EHS policy commitments.	Our People Governments and wider society Suppliers
<b>Operational standard on personal protective equipment (PPE)</b>	Requires all Group's own Leaf Operations contracted farmers and their workers to have access to PPE for agrochemical use, for tobacco harvesting in order to prevent Green Tobacco Sickness (GTS).	Our People Suppliers Governments and wider society
<b>Water Security Standard</b>	Aligned to CDP standards for managing water risk effectively and provides guidance for Group companies on water conservation and actions for our sites in water stressed areas.	Our People Suppliers Governments and wider society
<b>Soil and Groundwater Protection Standard</b>	Defines the controls and standards required for Group companies to prevent and protect against spillages and leakages that could impact soil or groundwater.	Our People Suppliers Governments and wider society
<b>Leaf Supplier Manual (LSM)</b>	Sets out the detailed standards we expect our suppliers to adhere to. These include a range of criteria relating to standards in agricultural practices, quality specifications and processing, such as relating to agrochemicals compliance and the prevention of child labour.	Suppliers Governments and wider society
<b>Anti-illicit Trade (AIT) Supply Chain Compliance Procedures</b>	Guidance for all Group companies for complying with our AIT Policy in the SoBC. It sets out procedures for maintaining robust supply chain controls and taking appropriate action where there are risks that our tobacco and/or products may be smuggled.	Our People Suppliers Customers Governments and wider society
<b>Group SoBC Assurance Procedure</b>	Defines how all reports of alleged SoBC breaches should be investigated and remediated fairly and objectively. This includes a four-step process, involving an initial assessment, in line with data privacy and employment laws, followed by an investigation plan, implementation, reporting of findings, and closure.	Our People
<b>Sanctions Compliance Procedure</b>	Outlines our comprehensive sanctions compliance framework covering Group companies, suppliers, third parties and financial transactions.	Our People Customers Suppliers Governments and wider society
<b>Third-Party Anti-Financial Crime Procedure</b>	Sets out Group-wide minimum mandatory steps required for our dealings with third parties. Designed to assess and mitigate third party risks regarding: bribery and corruption; money laundering; terrorist financing; illicit trade (supply chain compliance); sanctions; and the facilitation of tax evasion.	Our People Customers Suppliers Governments and wider society
<b>Mergers and Acquisitions (M&amp;A) Transactions Compliance Procedure</b>	Sets out mandatory steps, along with best-practice guidelines for M&A transactions involving any Group company and one or more third parties covering compliance risks, such as bribery, corruption and human rights.	Our People Customers Suppliers Governments and wider society



## Sustainable Future

# Double Materiality Assessment<sup>^</sup>

**BAT has undertaken materiality assessments since 2007. In 2023, we updated our Double Materiality Assessment (DMA).** The DMA process allows us to understand the impact of sustainability topics on stakeholders and our business. Topics with the greatest impact form the basis of our sustainability agenda and reporting.

## Overview

In 2023, we updated our DMA with the help of an external consultancy, building on the previous year's approach. We were also guided by the latest available European Sustainability Reporting Standards (ESRS) requirements at the time of the assessment. Our 2023 assessment has provided greater insight, focus and granularity in terms of the 'nested materiality' concept, which articulates three dimensions of impact:

- 1) Outward impact:** BAT's impact on health, environment, society and governance-related topics;
- 2) Inward impact:** The impact of these topics on BAT; and
- 3) Financial materiality:** The significance of risks, opportunities and dependencies posed by these topics on BAT's financial position.

Through this approach, we have sought to align our DMA to key elements of reporting frameworks. The CSRD, which requires consideration of impact materiality and financial materiality; the ISSB, which requires consideration of financial materiality; and the GRI, which requires consideration of outward impact.

## How the Process is Informed by CSRD

Our DMA is informed by the specifications and requirements within the CSRD's ESRS 1. This includes:

- **Stakeholders and their relevance to the materiality assessment process:** we engaged affected stakeholders, or their representatives, and users of sustainability statements, to assess the impacts of different sustainability topics.
- **Material matters and materiality of information:** we considered all ESRS topics, sub-topics, and sub-sub topics when collating our topic short-list.
- **Double materiality:** we assessed outward and inward impact materiality and financial materiality by considering negative, positive, actual and potential impacts, as well as risks and opportunities in the short-, medium- and the long-terms.
- **Impact materiality:** we assessed negative and positive impacts, and the actual and potential impacts BAT has on the environment, economy, society and governance.
- **Financial materiality:** we assessed the significance of risks and opportunities posed to BAT's financial position using financial magnitude criteria.
- **Material impacts arising from action to address sustainability matters:** we discussed the interplay between topics in stakeholder interviews.
- **Level of disaggregation:** we discussed disaggregation between geographical and product category impacts in stakeholder interviews.

## Horizon Scan and Topic Short List

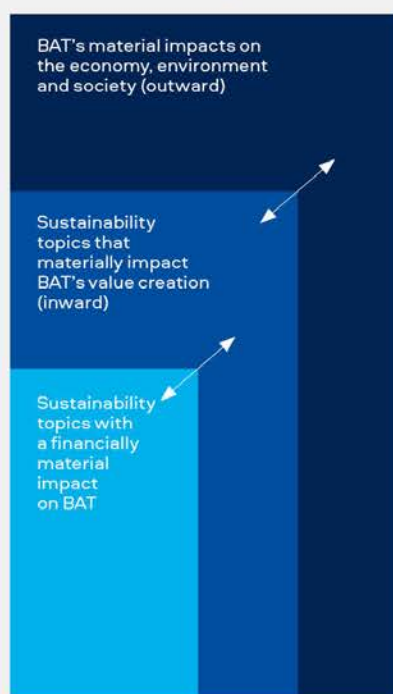
In 2022, we identified 11 material topics through a risk assessment and horizon scan. In 2023, we undertook a broader horizon scan to identify any gaps, using sources such as regulation, frameworks, global and industry trends. The review included high-level desk-based research, a media scan, a peer review, and considerations of location of impacts in our value chain.

## Assessing Impact

We developed assessment criteria aligned with ESRS requirements and tailored to our organisation for the following dimensions:

- **Outward impact:** including the severity of the impact by the Group and the likelihood of the impact occurring;
- **Inward impact:** the impact of the topic on our strategic objectives; our ability to use natural resources and to rely on business relationships; our risk profile; our license to operate; our stakeholders' opinions; and decisions, and our legal compliance; and
- **Financial materiality:** the financial impact (risks and opportunities) of a sustainability topic in relation to our business. The following financial magnitude criteria were used to guide stakeholder scores: High Impact (in excess of £250 million); Medium Impact (£120-250 million); Low Impact (up to £120 million); None (£0), each on an annual basis. Each of these three impact dimensions were assessed across two time horizons:
  - Short- and medium-term: from 0 to 5 years; and
  - Long-term: more than 5 years.

## Nested Materiality



## Materiality Dimensions



## Engaging Stakeholders

Engaging with stakeholders is key to ensuring an inclusive and balanced perspective on the impacts of sustainability topics. We spoke with stakeholders who can be considered 'affected stakeholders' and 'users of sustainability information' in accordance with the CSRD definitions. In 2023, we took a more targeted approach to engaging stakeholders, reducing the number of survey participants but performing more interviews among targeted stakeholder groups with expertise matching the topic short-list. In total, we engaged with more than 90 survey participants and hosted more than 15 interviews. Overall, we have engaged with more than 2,900 stakeholders since the start of our DMA journey in 2022.

### Validation

Our external DMA partner guided a group of subject matter experts, Sustainability Managers, Heads of Sustainability and executives, including the Chief Sustainability Officer, in reviewing the impact of our material sustainability topics. This took into consideration the scope, impact and magnitude of each topic as well as affected stakeholders.

Following discussion, review and analysis, our DMA matrix was refined to better reflect our current understanding of impacts and validated by the Sustainability Leadership Team and other subject matter experts.

### Double Materiality Matrix Insights

The outcome of our assessment is reflected in the DMA matrix below, which shows the relative position of each topic according to its outward and inward impact. The topics with the highest impact form the basis of BAT's sustainability agenda and reporting. The matrix also indicates the financial materiality of each topic, using colour codes to represent the financial magnitude criteria. Some of the key insights from the matrix are:

**Unchanged:** Harm Reduction remains a topic of high impact. Climate Change and Circular Economy remain areas of impact.

**Removed:** Sustainability Governance is no longer in the list of material topics on the basis that it now refers to the management of all our material topics.

**New:** Supplier Engagement is a new topic and reflects the importance of BAT's engagement with suppliers on sustainability matters.

**Increased impact:** Human Rights has increased both for inward and outward impact. Water has moved closer to Biodiversity and Ecosystems, increasing both in inward and outward impact.

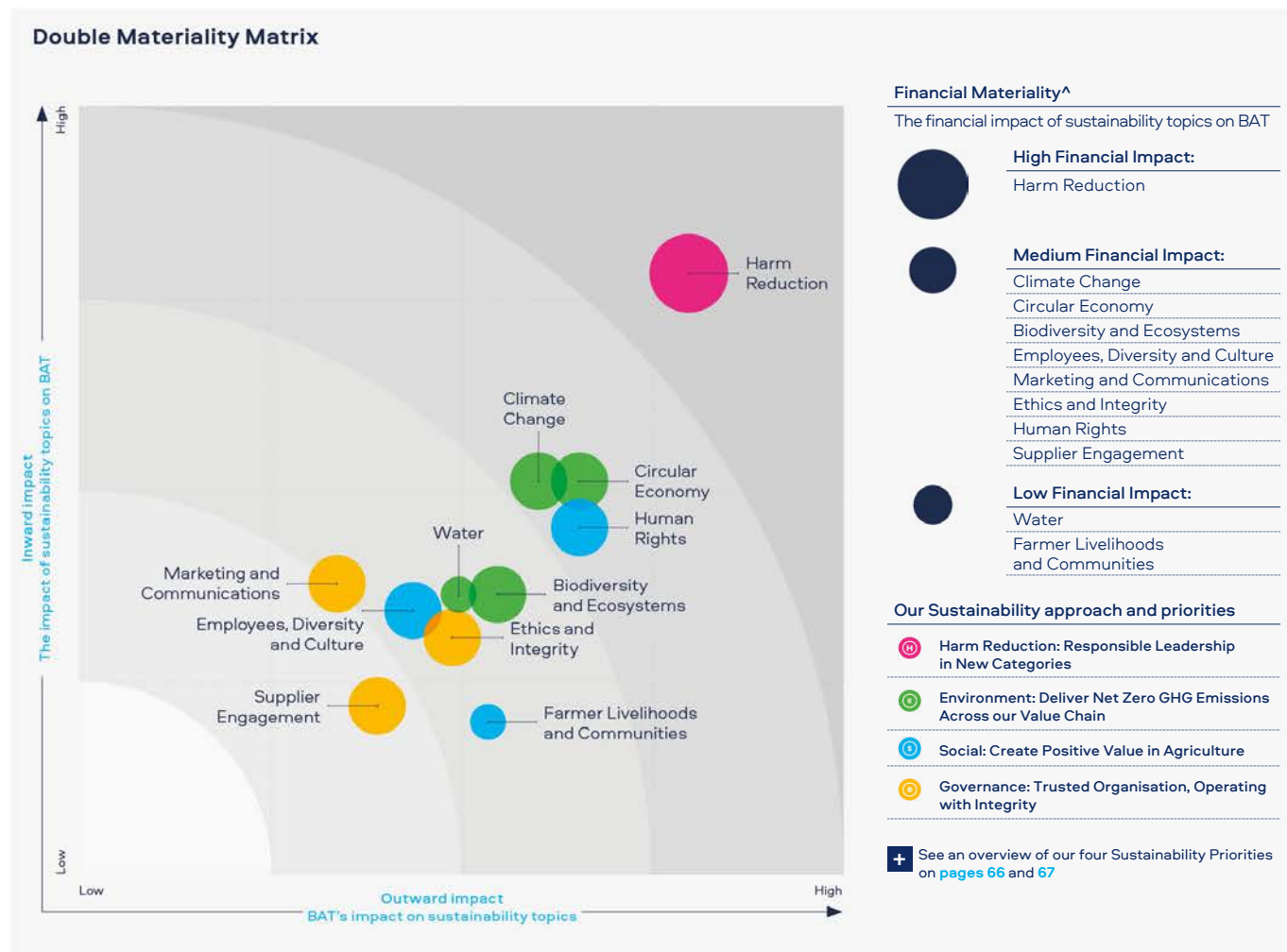
### Next Steps – Defining our Action Plan

The outcomes of our 2023 Business Stakeholder Engagement, which included the 2023 DMA update, have been reviewed by the Main Board and Management Board. This plays an important role in setting our current and future sustainability strategy and ESG reporting framework. As we progress in our journey towards CSRD compliance, a key step is to identify, with support from external consultants, relevant disclosure requirements and data points for BAT under CSRD.

We will continue to evolve our approach to CSRD reporting in line with latest available standards.

#### Note:

<sup>^</sup> Although financial materiality has been considered in the development of our Double Materiality Assessment (DMA), our DMA and any conclusions in this document as to the materiality or significance 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.



## Sustainable Future

# 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 impact of sustainability-related topics on BAT. These topics and sub-topics are listed here, along with where to find more information on them.

Material Topic	Topic Boundary
<b>Harm Reduction</b> See <a href="#">page 78</a> for details	The effects and risks on consumer and public health of our products, including their quality and safety. <b>Sub-topics include:</b> <i>Tobacco harm, Product risk, Nicotine, Product quality and safety standards, Personal safety of consumers*, Health and Safety*, Continuous negative health impact on consumers, Underage Access, Tobacco Harm Reduction through replacement of cigarettes with New Category Products for those who would otherwise continue to smoke</i>
<b>Climate Change</b> See <a href="#">page 80</a> for details	The effects of climate change (including business resilience) across our value chain and those derived from our emissions. <b>Sub-topics include:</b> <i>Energy consumption and efficiency, Air pollution, GHG emissions, Renewable energy transition, Decarbonisation, Energy consumption and efficiency*, Climate change mitigation and adaption*, Energy sources and supply, Extreme weather and Air pollution*</i>
<b>Circular Economy</b> See <a href="#">page 82</a> for details	The design and sourcing of products, materials and packaging including end of life management. <b>Sub-topics include:</b> <i>Circularity (recyclability, reusability, resource use), Substances of concern, Microplastics</i>
<b>Biodiversity and Ecosystems</b> See <a href="#">page 84</a> for details	The biodiversity and ecosystems affected as a result of the processes used to source raw materials. The effects of changing natural systems on our operations including sourcing of raw materials. <b>Sub-topics include:</b> <i>Land degradation, Forest conservation, Land use change*, Sustainable/regenerative, Agricultural practices, Tobacco curing, Pulp and paper sourcing, Supply chain resilience, Climate change impacts, Soil pollution*/degradation, Land degradation*</i>
<b>Water</b> See <a href="#">page 86</a> for details	The consumption and stewardship of water resources, and discharges, across the value chain. The availability of sufficient volumes and quality of water across our value chain. <b>Sub-topics include:</b> <i>Water stewardship, Water consumption*, Waste water discharges*, Water withdrawals*, Water discharges*, Water pollution*, Water scarcity</i>
<b>Employees, Diversity and Culture</b> See <a href="#">page 88</a> for details	The culture and care for our employees, including diversity and inclusion, talent attraction and retention, equal pay for work of equal value and employee wellbeing and safety. <b>Sub-topics include:</b> <i>Employee wellbeing, Diversity and inclusion*, Talent attraction and retention, Remuneration, Health and safety*, Training and skills development*, Gender equality and equal pay for work of equal value*, Employee wellbeing* including work-life balance</i>
<b>Human Rights</b> See <a href="#">page 92</a> for details	The fundamental rights and labour conditions of farmers and workers in our supply chain. <b>Sub-topics include:</b> <i>Health and safety*, Child labour*, Modern slavery, Forced labour*, Standards in the supply chain and value chain, Freedom of association*, Collective bargaining*, Working conditions, Equality of treatment and opportunity</i>
<b>Farmer Livelihoods and Community</b> See <a href="#">page 94</a> for details	The socio-economic development of and support for farmers and tobacco-growing communities in areas where we operate. <b>Sub-topics include:</b> <i>Living income, Community impact, Crop and income diversification, Water and Sanitation* Hygiene (WASH), Women's empowerment, Rights of indigenous peoples*, Climate change resilience</i>
<b>Marketing and Communications</b> See <a href="#">page 96</a> for details	The marketing and communication of our products to retailers and consumers, including the influence we hold over how they are subsequently marketed by our partners. Regulatory compliance of our marketing, communication and sales activities. <b>Sub-topics include:</b> <i>Personal safety of consumers*, Underage access to and use of products, Product regulation and compliance, Education and information, Protection of children*, Responsible consumption, Transparency, Information-related, Impacts for consumers and/or end-users*, Access to (quality) information*, Access to product safety information, Responsible marketing practices*</i>
<b>Ethics and Integrity</b> See <a href="#">page 98</a> for details	The application of ethics and integrity in our direct operations and with our value chain partners, including how we engage with regulators, policy makers, and government officials. <b>Sub-topics include:</b> <i>Standards of Business Conduct, Anti-illicit trade, Tax transparency, Corruption and bribery*, Privacy, Cybersecurity, Supplier management*, Collaboration with law enforcement agencies, Lobbying, Transparent engagement and advocacy, Ethical Scientific Research</i>
<b>Supplier Engagement</b> See <a href="#">page 100</a> for details	The influence we hold with our suppliers of materials and services to reduce emissions and environmental impact of suppliers, and to ensure fair treatment of workers in the supply chain. The ethical governance of suppliers, including fair transactions and management of intellectual property. <b>Sub-topics include:</b> <i>Human Rights, Conflict minerals, Labour standards and working conditions, Adequate wages, Secure employment, Working time, Grievance mechanisms, Equity, diversity, and inclusion, Training and skills development, Health and Safety, Supply chain resilience and business continuity plans, Fair transactions, Intellectual property, Environmental impact and emissions, Resource circularity, Material traceability and transparency</i>

**Note:**

\* CSRD sub-topics.

## Dynamic Materiality

Dynamic materiality is a continuous and evolving process that can be used to identify emerging and pertinent topics. In our 2023 assessment, dynamic principles have been incorporated throughout by using the horizon scan to identify growing trends and assess impacts in the long-term.

### Dynamic shifts over time

- We expect the overall health impact of our portfolio to decrease over time and the impact of Harm Reduction on our business may also reduce in parallel.
- Our ambition is to reduce the risk of human rights infractions through our mitigation practices.
- Our ambition is for the circularity of our products to improve over time, hence our negative impact on circular economy could reduce over time. However, this is dependent on significant further product development and the implementation of changes in our processes and value chain.

- Restricting the underage use and appeal of Vapour products is increasingly becoming top of mind for many stakeholders, hence the inward impact of Marketing and Communication may increase over time as New Category products become a greater part of our portfolio.
- The current inward impact of Ethics and Integrity is significant but may reduce over time. We have an opportunity to strengthen due diligence and proactively move towards a positive outward impact.
- With rising global temperatures, the impacts of Climate Change will likely increase over time and our business will feel its effects on topics such as Biodiversity and Ecosystems, and Water.
- With new generations entering the workforce, we have an opportunity to grow our positive impact on Employees, Diversity and Culture.
- As we transition to New Category products, the inward impact of Farmer and Community Livelihoods is likely to reduce. Conversely, the importance of Supplier Engagement with non-leaf suppliers is expected to increase.

## Next steps

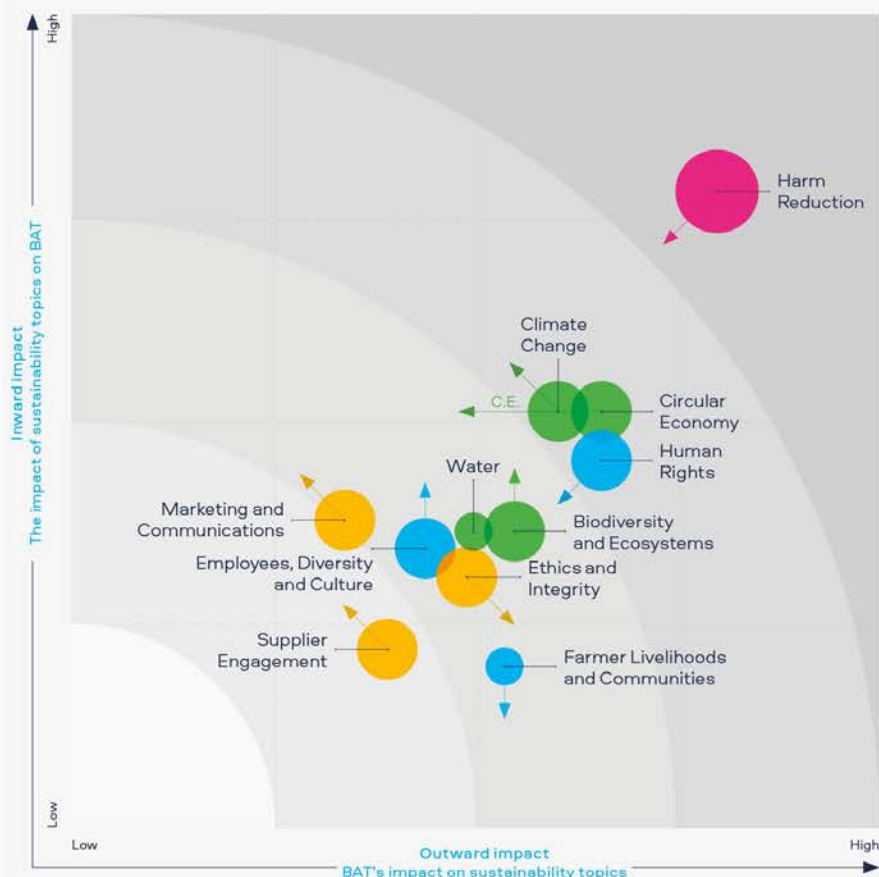
We will keep reviewing sustainability developments and regulations to ensure our materiality topics remain up to date for each reporting period.

**+** Read more about the dynamic materiality outcomes of our DMA in the 'Stakeholder perceptions and key insights from our DMA' for each material topic from [pages 78 to 101](#)

### Note:

<sup>^</sup> Although financial materiality has been considered in the development of our Double Materiality Assessment (DMA), our DMA and any conclusions in this document as to the materiality or significance 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.

## Dynamic Double Materiality Matrix



### Financial Materiality<sup>^</sup>

The financial impact of sustainability topics on BAT

	<b>High Financial Impact:</b>
	Harm Reduction
	<b>Medium Financial Impact:</b>
	Climate Change
	Circular Economy
	Biodiversity and Ecosystems
	Employees, Diversity and Culture
	Marketing and Comms
	Ethics and Integrity
	Human Rights
	Supplier Engagement
	<b>Low Financial Impact:</b>
	Water
	Farmer Livelihoods and Communities

### Dynamic Materiality

How impacts may shift over time

Arrows indicate the expected direction of shift in the long-term

### Our Sustainability Priorities

- Harm Reduction: Responsible Leadership in New Categories**
- Environment: Deliver Net Zero GHG Emissions Across our Value Chain**
- Social: Create Positive Value in Agriculture**
- Governance: Trusted Organisation, Operating with Integrity**

**+** See an overview of our Sustainability Priorities on [pages 66 and 67](#)



## Sustainable Future

## Harm Reduction



Ambitions	Metrics	2023	Status
<b>£5bn</b> in revenue from New Category products by 2025	Revenue from New Categories (up 15.6% in 2023) in £ billion	3.3	On track
<b>50m</b> consumers of our Non-Combustible products by 2030	Number of consumers of our Non-Combustible products in 2023, excluding Russia and Belarus (millions)	23.9	On track

<sup>†</sup> Find out more:  
Refer to the BAT 'Reporting Criteria' for a full description of key terms and definitions at [bat/reporting.com](https://bat.reporting.com)

## Frameworks

<b>GRI</b>	This topic is not mapped by a specific GRI standard
<b>SASB</b>	FB-TB 260a.1, FB-TB-260a.2
<b>PAI</b>	This topic is not mapped by a specific PAI indicator

## Our Impact

**Inward impact:** The global nicotine industry continues to grow. By investing in Research and Development (R&D) and engaging with our stakeholders to raise awareness around our New Category products, including their potential to help accelerate the reduction in smoking rates, we can build stakeholder trust and grow our market share in the nicotine space.

**Outward impact:** We encourage those who would otherwise continue to smoke to make the switch, by providing a range of satisfying smoking alternatives that are scientifically substantiated. We believe progressive, evidence-based regulation of alternatives, supported by meaningful enforcement, is key to reducing smoking rates faster. These regulations ensure that adult smokers have access to these alternatives, as well as the confidence to use them, knowing that they adhere to high product safety and quality standards.

## Managing Impact

Tobacco Harm Reduction is at the core of our strategy to deliver A Better Tomorrow™ - Building a Smokeless World. We have set targets to migrate our consumers of combustible tobacco products to reduced-risk alternatives<sup>†</sup>, which we are on track to achieve. In doing so, we intend to manage our combustibles business in a responsible manner, while also investing in R&D required to continue to develop smoking alternatives and engaging with our stakeholders to share our science and to promote Tobacco Harm Reduction (THR) as a public health strategy.

Read more about sustainability policies, procedures and standards on [page 72](#) and [73](#)

## Our Actions in 2023

## Accessibility to smokeless products

We know that adult smokers are more likely to switch to less risky alternatives<sup>††</sup> when they find a product that meets their preferences and expectations. Therefore, we utilise our consumer insights and global R&D centres to deliver innovations that anticipate and satisfy consumer needs. We also collaborate with external partners and our corporate venture capital arm, Btomorrow Ventures (BTV), to gain early access to emerging technologies and trends.

In 2023, we recorded 23.9 million consumers of our Non-Combustible products, which include Vapour, Heated Products, and Modern Oral products.

We also recognise that having the right regulatory and market conditions in place, along with responsible industry practices, is key to ensuring the availability of and accessibility to reduced-risk alternatives<sup>††</sup>. Therefore, we conduct scientific research to seek to obtain regulatory approval and consumer confidence for our products and science. We utilise our scientific research to engage with our stakeholders, including regulators, and to support regulatory processes, as well as to gain consumer confidence in our products. Over the course of 2023, we conducted stakeholder engagement across in approximately 100 markets with our research.

## World-class science and due diligence

We invest more than £300 million a year in R&D to develop New Category products and establish substantiation for their reduced-risk potential. We also collaborate with global external researchers who bring independent and specialist expertise that enhance our internal capabilities.

Our multidisciplinary teams of scientists ensure our products meet high quality standards in line with our Product Stewardship Framework and Group Quality Policy Statement. Our Global Toxicology team provides expert advice on, and conducts toxicological and safety risk assessments of, ingredients and materials used in our products to ensure that they meet the standards required to bring our products to market.

We have published more than 198 scientific papers to date about our New Category products. We adhere to peer-review processes to ensure that we publish our research in reputable journals globally. As well as publishing our own research, our scientists continue to monitor and review external publications to gain a holistic view of the evidence base.

We are committed to sharing the outcomes in peer-reviewed journals to ensure that our studies, data, and conclusions are objectively reviewed by independent, third-party subject matter experts before they are published. We are also dedicated to making our research accessible and understandable to a wider audience.

Some recent examples of our scientific achievements include:

- A cross-sectional study<sup>1</sup> on our Vapour product, Vuse, which showed significantly better results for several biomarkers relevant to smoking-related diseases, such as cancer, chronic obstructive pulmonary disease, and cardiovascular disease, for those who switch exclusively from cigarettes to Vuse compared to those who continue to smoke.
- A cross-sectional study<sup>2</sup> on our Modern Oral product, Velo, which showed significantly favourable differences in several biomarkers of exposure and biomarkers of potential harm relevant to smoking-related diseases, compared to adult smokers, for those who exclusively used Velo for over six months.
- A submission of our Premarket Tobacco Product Application (PMTA) to the U.S. Food and Drug Administration (FDA) for our HP glo is undergoing the FDA's review process. An associated Modified Risk Tobacco Application (MRTPA), in support of proposed reduced exposure claims, was submitted in December 2023. According to the FDA, an MRTPA must demonstrate that the product will or is expected to benefit the health of the population as a whole.

## Robust Product Stewardship Across All Categories

### Toxicology

#### Meeting our product standards

Consumer Protection

Business Safeguarding

Product Standards

Regulatory Engagement

### Product Regulations

#### Ensuring regulatory compliance

Regulatory Intelligence & Impact

Assessment

Device & Chemical Compliance

Regulatory Reporting

## Standards and regulation

We support the development and implementation of coherent and proportionate regulation and standards for New Category products, based on scientific evidence. We engage with regulators, policymakers, and standard-setting bodies to share our research, as well as insights on THR and New Category products. We operate and submit data and information to the relevant authorities as required.

The appointment of our new Director, Research and Science, James Murphy, marks the next chapter for BAT's scientific research. Over the course of 2023, we continued to advocate for THR as a public health strategy and the importance of science-based regulation in reducing smoking rates.

Examples of our engagement and compliance activities in 2023 include:

- Throughout the year, our Chief Executive and our Chief Strategy & Growth Officer shared our approach to THR in the UK media, calling for better regulation of vapour products.
- In response to the UK government's Tobacco and Vapes Bill announced in November 2023, our UK business ran a major, proactive media campaign to demonstrate its support for the UK government's 'smoke-free' ambition. The campaign called for images and flavours targeting the underage to be banned and for vaping product sellers to be licensed.
- The creation of the Corporate and Regulatory Affairs function to help facilitate external engagement with our stakeholders, including regulators and policy makers. Through this new function, we will take a more proactive role in sharing our scientific research and insights to support the development of regulations concerning our New Category products.
- In Greece, successfully obtaining the approval to make the claim that our Heated Product, glo, supports THR, based on the evidence that it produces a lower concentration of toxicants in emissions than cigarettes.

## Lessons Learnt

We believe that a science-based dialogue that includes all stakeholders – from regulators and policymakers to consumers and the industry – is key to developing the effective policies needed to accelerate the reduction in smoking rates.

A progressive regulatory environment that leverages smokeless alternatives as THR tools encourages adult smokers who would otherwise continue to smoke to switch completely to scientifically substantiated, reduced-risk alternatives.\*† As the science and evidence to substantiate these products continue to develop, we hope to see more countries introducing progressive regulation, reducing smoking rates faster and accelerating New Category products' growth.

## What's Next?

- Continuing to focus our efforts on reducing the health impacts of our business through our reduced-risk products\*†;
- Publishing our A Better Tomorrow™ Science compendium report;
- Tackling nicotine misconception as a renewed focus; and
- Advancing the scientific understanding of our reduced-risk\*† alternatives to help demonstrate their role in reducing smoking rates more quickly.

## Stakeholder perceptions and key insights from our DMA



## What do our Stakeholders Think About Harm Reduction?

Our stakeholders see this topic as crucial for the success of our business. Uncertainty about the future of New Categories and the associated regulatory risks were some of the concerns raised by stakeholders, which is why we must continue to work on R&D and engage with regulators.

## How Will the Material Impact of Harm Reduction Shift Over Time?

With the shift towards New Category products, we believe the health impact of our portfolio is likely to reduce over time and the impact that this topic has on our business may also reduce accordingly.

## 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.

- Haswell, L.E., Gale, N., Brown, E. et al. Biomarkers of exposure and potential harm in exclusive users of electronic cigarettes and current, former, and never smokers. *Intern Emerg Med* 18, 1359–1371 (2023). <https://doi.org/10.1007/s11739-023-03294-9>. The study focused on self-reported exclusive users of commercially available Vuse ePod or Vuse ePen3. Thus, references to "Vuse" in the context of the study means either Vuse ePod or Vuse ePen3.
- David Azzopardi, Linsey E. Haswell, Justin Frosina, Michael McEwan, Nathan Gale, Jesse Thissen, Filimon Meichanetzidis & George Hardie (2023) 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, *Biomarkers*, 28:1, 118-129, DOI: 10.1080/1354750X.2022.2148747

## Sustainable Future

## Climate Change



Targets	Metrics	2023	Status
<b>50%</b> reduction in Scope 1 and 2 GHG emissions by 2030 <sup>†</sup> (vs 2020 baseline)	% reduction in Scope 1 and 2 CO <sub>2</sub> e emissions vs 2020 baseline	33.1	On track
<b>50%</b> reduction in Scope 3 GHG emissions by 2030 <sup>†</sup> (vs 2020 baseline)	% reduction in Scope 3 CO <sub>2</sub> e emissions in 2022 vs 2020 baseline	12.5	On track
<b>50%</b> renewable energy use by 2030	% of renewable energy consumption within the organisation	38.1	On track

**+ Find out more:**  
Refer to the BAT 'Reporting Criteria' for a full description of key terms and definitions at [bat.reporting.com](https://bat.reporting.com)

## Frameworks

<b>GRI</b>	GRI 302-1, 302-3, 302-4, 305-1, 305-2, 305-3, 305-4, 305-5
<b>SASB</b>	FB-AG-110a.1, FB-AG-110a.2, FB-AG-110a.3, FB-AG-130a.1, FB-AG-430a.3
<b>PAI</b>	1, 2, 3, 5, 6, E4, E5
<b>TCFD</b>	Strategy, Risk Management, Metrics and Targets

## Our Impact

**Inward impact:** The effects of climate change such as rising temperatures, changes in precipitation and extreme weather events can threaten our ability to secure the natural resources we need to run our business.

**Outward impact:** We have an impact on climate change through our operations sites and reliance on natural resources. Reducing GHG emissions and mitigating climate change risks will require fundamental shifts in the way we operate our businesses.

## Managing Impact

Our approach to managing Climate Change impacts is shaped by our climate strategy, which is aligned to our Group Environment Policy, as well as our Climate Change and Energy Standard. We continue to drive progress towards our near-term 2030 science-based targets across Scope 1, 2 and 3 emissions, through which we aim to achieve Net Zero GHG emissions across our value chain by 2050 at the latest.

**+ Read more about sustainability policies, procedures and standards on [page 72](#) and [73](#)**

## Our Actions in 2023

## Scope 1 and 2: decarbonising our operations

We have invested £24 million in emission and energy reduction projects across 67% of our operations sites. These projects included replacing carbon intensive assets with low-carbon alternatives such as wood pellet biomass boilers in South Korea and waste wood biomass boilers in Germany. From these initiatives we expect an estimated reduction in absolute emissions of over 6,500 tonnes of CO<sub>2</sub>e. We have also developed a '10 Golden Rules Programme' to standardise how we run energy efficiency practices across our sites. We continued to roll out this programme to 20% of our manufacturing sites. Our factory in Casablanca, Chile was our first operational site to fully adopt the programme, reducing energy consumption by 7% versus our 2020 baseline. Our target is to be carbon neutral in our direct operations by 2030. In 2023, 36% of our operational sites were carbon neutral. Each site must have demonstrated a track record of actual emission reductions to be classified as carbon neutral. As noted in our Climate Change and Energy Standard, we supplement actual emission reduction with the purchase of verified credits<sup>2</sup> to offset remaining residual emissions.

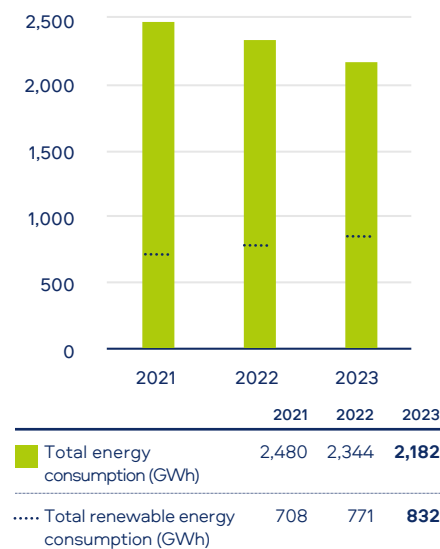
## Renewable energy

Our target is to use 50% renewable energy<sup>3</sup> by 2030 in our direct operations. In 2023, 38.1% of our direct energy usage came from renewable sources, an increase of 5.2 ppts from 2022. 37 of our operations sites are purchasing 100% renewable electricity and 29 were generating renewable energy on-site from solar technology. This generation replaces standard grid electricity that otherwise would have been required, and avoids approximately 5,000 tCO<sub>2</sub>e.

Our key initiatives in 2023 included the expansion of:

- On-site solar panels to a number of sites, including Nigeria, Italy, Chile, Fiji and Samoa, producing approximately 963 MWh of renewable electricity. In Türkiye, we installed a 6.5MWp off-site solar facility, capable of generating 10,000 MWh per year. Once it becomes fully operational, it will produce the equivalent of the average electricity consumption of around 3,700 UK homes<sup>4</sup>.
- Renewable energy purchases in Bangladesh, Nigeria, Pakistan and the U.S.

## Increasing the use of renewable energy in our direct operations (GWh)



**+ For more information and a breakdown of our energy usage see our [ESG Performance Data Book](#)**

## Reducing fleet emissions

In 2023, our vehicle fleet accounted for approximately 21% of our Scope 1 and 2 GHG emissions.

As set out in our Green Mobility Standard, we are seeking to reduce associated emissions through several initiatives, such as optimising travel routes to enhance road safety and fuel efficiency, as well as switching to lower emissions vehicles, where possible. In doing so, we have reduced fleet emissions by around 19%.



### Scope 3: engaging with our Value Chain

Scope 3 emissions represent more than 90% of the Group's GHG emissions. To reach our near-term Scope 3 reduction target, we are focusing our efforts on our most carbon-intensive areas: our largest direct and indirect suppliers of goods and services, and purchased tobacco.

#### Collaborating with direct and indirect suppliers

Group-wide, we have more than 34,000 direct and indirect suppliers whose emissions accounted for circa 50% of our Scope 3 inventory, contributing to a total of 3,000,000 tCO<sub>2</sub>e.

We are working with them to reduce their emissions by enhancing our standards, collecting and sharing data, and supporting them to set their own Science-Based Targets (SBTs).

We aim to have 20% of suppliers of purchased goods and services by spend to set SBTs by 2025. By the end of 2023, we were more than halfway to achieving this goal, with 15% of suppliers having SBTs in place.

**+** Read more on supplier engagement on Climate Change on [page 100](#)

#### Collaborating with tobacco leaf farmers

Purchased tobacco accounted for about 23% of our Scope 3 GHG emissions, contributing 1,402,000 tCO<sub>2</sub>e in 2022. The majority of these emissions came from fuels used in the processes to cure tobacco leaves.

We are helping farmers to reduce emissions from farming activities by introducing new curing technologies, alternate fuel sources, new fertilisers with lower emissions and 'carbon-smart' practices.

Our carbon-smart farming programme aims to reduce emissions from farming activities and remove carbon from the atmosphere through reforestation and reduction in soil disturbance. We are implementing this programme in our Leaf Operations in Brazil, Bangladesh, Mexico, Pakistan and the U.S., which represent the highest directly contracted tobacco volumes.

In 2023, we reduced the use of coal for tobacco curing in our supplier-purchased tobacco to 3.3% after eliminating coal and replacing it with biomass in our Leaf Operations in China and Vietnam in 2022. Overall, in 2023, there has been further replacement of the remaining coal in our tobacco supply chain with renewable fuels.

**+** See our TCFD report on [page 102](#) for the complete breakdown of our GHG emissions and for our Climate Change Strategy

### Lessons Learnt

We have made steady progress towards our emissions reduction targets, but we also face challenges. For instance, accessing new technologies and renewable energy sources can be challenging and costly in some countries. Therefore, we need to work with external partners and third parties to find the most efficient solutions.

While we continue to foster engagement with our suppliers on the importance of quality data, we continue to face challenges related to data availability and accuracy. We also recognise that carbon smart farming techniques can be costly and complex to implement, especially for small farmers. Therefore, we will continue to work with external partners to develop carbon smart farming techniques that are suitable for different contexts.

#### What's Next?

- Continuing to explore and implement carbon reduction and energy efficiency initiatives such as the expansion of our global intermodal logistics network, the use of biofuels and Power Purchasing Agreements (PPAs);
- Reviewing our approach to carbon neutrality; and
- Building on our near-term targets, we will submit our long-term Net Zero GHG emissions targets, and Forest, Land and Agricultural (FLAG) near-term and long-term Net Zero GHG emissions targets to the SBTi. These targets will be in-line with a 1.5-degree warming pathway.

**+** For more information about our targets see TCFD reporting on [page 102](#)

### Stakeholder perceptions and key insights from our DMA



#### What do our Stakeholders Think About Climate Change?

Our stakeholders are watching this topic keenly, and have emphasised the importance of meeting the targets we have set. The impact of climate change on our operations is expected to remain stable, but stakeholders expect to see increased engagement with our suppliers on this topic.

#### How Will the Material Impact of Climate Change Shift Over Time?

Supported by the resilience of our supply chain, we currently experience limited disruptions resulting from climate change. However, the impacts of climate change will likely increase over time regardless of mitigations (if globally a 1.5 degree warming pathway is not achieved) and our operations will likely experience an impact on topics such as biodiversity and ecosystems and water. Therefore, we will continue to put considerable focus on this material topic.

#### Notes:

1. Compared to a 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 products, which collectively comprised >90% of Scope 3 emissions in 2020. 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. In 2022, we have further enhanced our Scope 3 calculation methodology and data precision leading to the reporting periods 2020 and 2021 being restated accordingly. Refer to the BAT 'Reporting Criteria' for our full methodology: [bat.com/reporting](#).
2. BAT's carbon neutral sites are externally verified as adhering to internationally recognised standards / carbon neutrality methodologies, such as PAS 2060. Purchased carbon credits are verified by third parties, such as VCS, Gold Standard and American Carbon Registry. They offset residual emissions for which immediate plans do not offer financially viable and/or real emission reductions.
3. Renewable energy includes: Energy generated from renewable fuels at our sites (e.g. wood fuel, biomass fuels) and in fleet vehicles, owned or leased (e.g. biodiesel); Purchased renewable electricity, hot water and steam; and Renewable energy generated on site using non-fuel technology (e.g. with photovoltaic installations or solar water heaters).
4. Calculated using Ofgem estimate of a medium household electricity band 2,700 kWh.



## Sustainable Future

## Circular Economy



Targets	Metrics	2023	Status
<b>25%</b> reduction in waste generated in own operations by 2025 vs 2017 baseline	% of reduction in waste generated	28.2	<input checked="" type="checkbox"/> Achieved
<b>100%</b> packaging to be reusable, recyclable or compostable by 2025	% of packaging that is reusable, recyclable or compostable	94	<input type="checkbox"/> On track
<b>30%</b> average recycled content across all plastic packaging by 2025*	% share of recycled content in plastic packaging	1.15	<input type="checkbox"/> Not on track

**+ Find out more:**  
Refer to the BAT 'Reporting Criteria' for a full description of key terms and definitions at [bat.reporting.com](https://bat.reporting.com)

## Frameworks

<b>GRI</b>	GRI 306-1, GRI 306-2, GRI306-3, GRI-306-5a
<b>SASB</b>	This topic is not mapped by a specific SASB standard
<b>PAI</b>	9, E13, E9

## Our Impact

**Inward impact:** Consumer demand for more circular products continues to rise. Regulators are also increasingly introducing measures that hold manufacturers accountable for managing the impact of their products' full life cycle. Extended producer responsibility schemes are prime examples of such initiatives.

**Outward impact:** Our business relies on the ability to access raw materials. This includes products and their packaging across all our categories. In addition to cigarette butts, we acknowledge that the waste generated from New Category products has a negative environmental impact.

## Managing Impact

Our approach to circular economy is set out in our Circular Economy Position Statement. It focuses on mitigating the environmental impacts of our current and future product portfolio, guided by our strategic priorities:

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

We monitor progress through our circularity targets and carry out life cycle analysis (LCA) across our products to identify areas for further improvement.

**+ Read more about sustainability policies, procedures and standards on [page 72](#) and [73](#)**

## Our Actions in 2023

## Fostering circularity in R&amp;D process

In 2023, we began formally embedding our three strategic priorities within our Product Lifecycle Management (PLM). This approach requires an assessment of the environmental impact (CO<sub>2</sub>e-based) across all development phases of our products from the early stages of R&D, informing materials and components selection.

We also developed and piloted a Green Design Tool, in collaboration with a sustainability consultancy, to equip our product development teams with a screening tool to compare the CO<sub>2</sub>e impact of different materials and components and inform early design decisions. The pilot was successfully completed and we plan to deploy it across New Categories R&D in 2024.

## Reducing product-related waste

Our progress in 2023 is detailed below.

**Vapour:** We reduced the pack profile of our Vapour refills; removed plastic film from all of our products, plastic trays from our device kits, and silicone caps from our pods. These initiatives saved approximately 380.75 tonnes of plastic globally since 2022.

**Heated Products (HPs):** We made a number of changes across the Group. For example, our glo device packaging can now be recycled, wherever local facilities exist and assuming consumers properly recycle them. In glo devices and starter kits, we removed the polypropylene device overwrap and replaced plastic trays with a pulp-based alternative.

We also reduced the size of the boxes for devices, saving approximately 250 metric tonnes of paper and other wood fibre materials, and achieving a 58% reduction in CO<sub>2</sub>e footprint for starter kit packaging, in comparison to 2022.

**Modern Oral:** All our Velo cans are now 100% recyclable, where local facilities exist and assuming consumers properly recycle them. In the UK and Ireland, they are composed of 91% recycled plastic (mass balance approach<sup>1</sup>). In Sweden, we are piloting recyclable mono-material sachets with refillable cans. In addition, in Sweden and Denmark, our 'Lyft premium' brand now uses 83% bio-based plastic (mass balance approach).

**Cigarettes and Consumables for Heated Products:** Our two most significant 2023 packaging design projects were:

- In AME, in cigarettes and HP consumables packaging, we replaced all aluminium foil and metallised paper inner bundles with paper inner bundles that can be recycled where facilities exist. This has reduced CO<sub>2</sub>e emissions by approximately 84,000 tonnes and improved our material recyclability by around 2% since the start of the project in 2022; and
- Across all regions for cigarettes packaging boards and for HP packs in AME and APMEA, we reduced the weight, which resulted in emissions reductions of approximately 10,600 tonnes in 2023.

Both projects achieved their associated CO<sub>2</sub>e emissions reduction targets for 2023 and are on track to achieve 2024 targets.

**Other Tobacco Products (OTP):** We are working on converting all non-recyclable plastic laminate pouches and standing bags to recyclable plastic. Our ambition is to have this portfolio migrated to recyclable plastic by 2025.

## End-of-life Treatment

Butt littering and disposal of New Category products are two key challenges. We seek to address these issues in a number of ways, including consumer education, Take-Back schemes and partnerships.

## Tackling cigarette butt littering

We support education campaigns and work with consumers to encourage responsible disposal. For example, in collaboration with local Ministries of Environment, our 'Small Actions, Big Crimes' programme has been rolled out in a number of Markets in Southeast Europe. In Italy, we expanded the programme to four more cities in 2023, which included distributing more than 30,000 recyclable plastic pocket ashtrays and reusable ashtrays. An average reduction of 59% in littering from cigarette butts was seen during the campaign period.

In Greece, we extended the programme to Naxos, after its launch in Rafina in 2021. Through a combination of awareness raising initiatives and specifically designed bins and signage for cigarette butt disposal, over 255,000 cigarette butts have been collected across the two locations since November 2021.

The use of technology was the key to this campaign: the combination of monitoring satellite data interpreted with artificial intelligence systems made it possible to measure the potential impact in cities before and after implementation, as well as the provision of useful data to local authorities for managing butt litter.

#### Take-Back schemes

We continue to support the responsible disposal of our New Category products in a number of ways, depending on the local infrastructure and regulatory environment. We utilise our own stores and third-party retail outlets through our own Take-Back schemes, as well as existing local electrical return and recycling schemes.

#### Partnerships and pilots

We are collaborating with various partners to bring new technologies to reduce the environmental impact and increase the circularity of our product portfolio.

Over the course of 2023, we have been working with Ocean Plastics Technologies, a community-based waste plastic recycling solution in South Africa on a vapour pod recycling pilot. Once it is launched, the project is expected to recycle approximately 250,000 pods per month and create an estimated 16 jobs per recycling container.

We also partnered with FlexSea, a sustainable packaging company, exploring technologies that could improve future packaging and product development to help make progress towards our sustainability targets while delivering competitive benefits.

#### Reducing Operational Waste

Our Global Waste Centre of Excellence (CoE) applies our Integrated Work System tool to identify and address our 'waste top losses'.

In 2023, we achieved a 28.2% reduction in waste generated. This means that we exceeded our target of a 25% reduction in waste generated (vs our 2017 baseline), two years ahead of schedule. This was driven by various waste-reduction activities, such as improvements in machinery efficiency and material management. We are committed to maintaining our target and exploring further waste reduction initiatives within our direct operations.

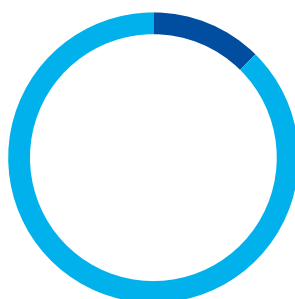
Our target is to achieve a 90% recycling rate of waste generated within our direct operations by 2025. This year, our waste recycling rate increased to 87.6%, driven by waste segregation and recycling programmes across our operations sites.

In addition, 68.8% of our operations sites achieved zero waste to landfill, placing us on track to achieve our target of <1% waste going to landfill by 2025.

### Tackling waste in our direct operations

# 115

Total waste generated (thousand tonnes)



Total waste disposed (thousand tonnes)	14.3
Total waste recycled (thousand tonnes)	100.7

On the scientific innovation side, our R&D team developed a process for removing nicotine from waste to levels that are below the hazardous waste limits set in the UK, with the view to testing its commercial viability in managing waste with nicotine content.

For more performance metrics and operational data refer to the BAT 'ESG Performance Data Book' on [bat.com/sustainabilityreporting](https://bat.com/sustainabilityreporting)

#### Lessons Learnt

Our ability to monitor progress across our product portfolio is facilitated by our Life Cycle Assessment and Green Design Tool. While we continue to demonstrate progress in most of our circular economy targets, our efforts are hindered by global shortages in key materials, such as food-grade post-consumer resin. This scarcity has impacted progress against our 30% average recycled content target\*.

Addressing this challenge requires collaborative efforts across industries, supported by changes in government policies to enhance the accessibility of this material. We will continue to engage with our stakeholders, explore alternative solutions, pilot new ideas, with a view to incorporating materials that can be widely recycled across our markets.

#### What's Next?

- Developing a Sustainability Design Manifesto, which will inform our product design in line with our circular economy strategic priorities;
- Working with our network of partners to leverage technologies that will improve the circularity of our products and packaging;
- Working with suppliers to foster collaboration and access to recycled content; and
- Working with start-ups and established waste management companies to focus on finding solutions for device and battery recycling.

### Stakeholder perceptions and key insights from our DMA



#### What do our Stakeholders Think About Circular Economy?

Our stakeholders see this topic as challenging due to the growth of New Category products, and stakeholders stressed that we must make further progress on this front. They also think that its impact on our business is high due to rising consumer expectations and stricter regulations in this area.

#### How Will the Material Impact of Circular Economy Shift Over Time?

Our goal is to improve the circularity of our products and packaging over time and, as such, we expect our impact on this topic to reduce accordingly. However, this will depend on significant investments in R&D and adoption of emerging innovations, as well as the availability of local infrastructure.

Moreover, the results of our DMA revealed that upcoming environmental and reporting regulations present a material risk from a regulatory perspective - one that will require significant investment over time to manage effectively.




#### Note:

1. 'Mass balance' is an accounting principle that matches inputs (such as plastic waste) with outputs from a recycling or production process, to determine the recycled content (source: [zerowasteurope.eu](https://zerowasteurope.eu)).

## Sustainable Future

## Biodiversity and Ecosystems



Targets <sup>1</sup>	Metrics	2023	Status
<b>Deforestation and Conversion Free</b> tobacco supply chain by 2025 (vs 2021 baseline)	% of wood used in Thrive Supply Chain <sup>1</sup> with Deforestation and Conversion Free (DCF) status	96.5	 On track
<b>Deforestation Free</b> pulp and paper supply chain by 2025	% of pulp and paper materials sourced with low risk of deforestation	69.3	 On track
<b>Forest Positive</b> in our tobacco supply chain by 2025 (vs 2021 baseline)	Hectares of forests planted for conservation and for Forest Positive	68.8	 On track

<sup>+</sup> Find out more:  
Refer to the BAT 'Reporting Criteria' for a full description of key terms and definitions at [bat.reporting.com](https://bat.reporting.com)

## Frameworks

<b>GRI</b>	GRI 304-1, 304-2
<b>SASB</b>	FB-AG-430a.3, FB-AG-430b.1, FB-AG-440a.1
<b>PAI</b>	7, E15
<b>TNFD</b>	Strategy, Risk Management, Metrics and Targets

## Our Impact

**Inward impact:** Deforestation, soil pollution and biodiversity loss can cause environmental disruptions and increase production costs.

**Outward impact:** Our business operations, including conventional agricultural practices, rely on the use of natural resources, such as forest products, soil and water. Failure to preserve and protect the biodiversity where we operate could negatively impact ecosystems, as well as farmers and communities.

## Managing Impact

Our approach to protecting biodiversity and ecosystems is embedded in our Group Environment Policy and Biodiversity Statement. These set out our principles for minimising and mitigating our environmental impacts. Further, we manage the impacts from our activities and sites through our Soil and Groundwater Protection Standard, which sets out requirements for preventing and handling contamination issues. Our target is to have Deforestation Free tobacco, pulp and paper supply chains by 2025.

In our tobacco supply chain, we aim to make a net positive impact on forests by 2025 by planting more hectares of forests than we use. In our direct operations, following the geospatial Biodiversity Risk Assessment (BRA) we conducted in 2023, we aim to have Biodiversity Management Plans (BMPs) in high-risk manufacturing sites identified by 2025, with the view to reducing and mitigating the impacts of our continued operations on the land and the surrounding areas.

<sup>+</sup> Read more about sustainability policies, procedures and standards on [page 72](#) and [73](#)

## Our Actions in 2023

## Managing biodiversity in our direct operations

In 2023, with the aid of a specialist consultancy, we expanded the scope of our BRA to assess our direct operations against the nine biodiversity risk indicators and identified 22 high priority sites. In 2024, we will be rolling out training to all sites and implementing BMPs to high priority sites to mitigate risks they pose.

<sup>+</sup> For more information, including our high priority sites, see TNFD report on [page 117](#) and our 2023 Biodiversity Risk Assessment at [bat.com/biodiversity](https://bat.com/biodiversity)

## Working towards positive impact

Working towards a net positive impact on forests is a key component of our approach to biodiversity. In 2023, the Group's own Leaf Operations and strategic third-party suppliers delivered training through farm visits, online training and communication materials.

In line with the Science Based Targets Network (SBTN)-recommended AR3T mitigation hierarchy framework, we seek to reduce current and avoid future impacts as a first step to preserving natural capital. In order to do so, we aim to have 100% of the wood used in our tobacco supply chain to be Deforestation and Conversion free.

## Managing compliance through our Biodiversity Operational Standard:

We launched a Biodiversity Operational Standard for Tobacco Farming (BOS) in 2023 which sets operational requirements for the Group's own Leaf Operations and provides guidance to our third-party leaf suppliers. It covers forest and biodiversity

management, natural ecosystems conversion, agrochemical use, and soil and water management. More than 1590 people, including 100% of our field technicians, were trained on our biodiversity standard in 2023. Here are some key actions and procedures that we undertake to help ensure all farmers in our tobacco supply chain are complying with the BOS.

**Managing primary native forests:** We support our directly contracted farmers through training and provide them with tree saplings to use as part of their sustainable fuel sources for tobacco curing. Such sources include other alternative fuels and methods like biomass, sun and air curing. We ask our third-party suppliers to do the same. In 2023, 47% of our contracted farmers used alternative biomass fuels for tobacco curing.

**Protecting forests in partnership with farmers and suppliers:** We conduct regular and unannounced farm visits in our directly contracted farmers and undertake due diligence before contracting with a new farmer. Remediation is put in place in case of any deforestation or conversion case and we ask our third-party suppliers to take equivalent steps.

We monitored 100% of our directly contracted farmers in 2023 for deforestation and natural ecosystems conversion. We also trained our farmers and Field Technicians on best practices for resource preservation, such as the use of sustainable wood for tobacco curing, forest conservation, biodiversity, integrated pest management and soil and water management. In 2023, 458,017 attendees were reported to have received this training.

Additionally, we deployed BMPs to mitigate risks in farms identified as high risk from our BRA. Out of the eight Leaf Operations assessed, more than 500 farmers in six Leaf Operations were required to have BMPs implemented. We also partnered with universities to conduct third-party assessments on the sustainability and traceability of the wood used in Brazil and the presence of biodiversity risk in Mexico.

## Supporting biodiversity and natural capital:

Our Global Leaf Agronomy Development Centre continues to work on integrated pest management strategies, which are then adopted for local implementation by our Field Technicians who deploy them to local farmers. Ongoing developments include selecting disease-resistant tobacco varieties and using biological control strategies that can lead to a reduction in the use of agrochemicals.

**Reducing agrochemical usage:** We only use locally approved agrochemicals with the lowest possible toxicity according to the World Health Organization (WHO) classification, avoiding any highly hazardous pesticides. We monitor adherence to our agrochemical standard from crop planning to the final packed leaf.



In 2023, it was reported via our Thrive assessments that 81% of tobacco hectares in our Thrive Supply Chain<sup>1</sup> had best practice soil and water management plans in place.

#### Promoting best practice in soil management:

In 2023, 93.3% of farmers in our Thrive Supply Chain<sup>1</sup> were growing other crops - such as rice, corn, vegetables, wheat and soy - in addition to tobacco. We also focus on improving crop yield and reducing land impact by using sustainable agriculture practices and tobacco varieties with higher yield. In Kenya, we improved our yield by 18% from 2021 to 2023, which reduced the need for 449 hectares of land. In Brazil, we improved our yield by more than 30% since 2010 and reduced the need for more than 12,000 hectares of land.

**+** For more information about our Biodiversity Operational Standard, see TNFD report on [page 117](#)

#### Sourcing responsibly

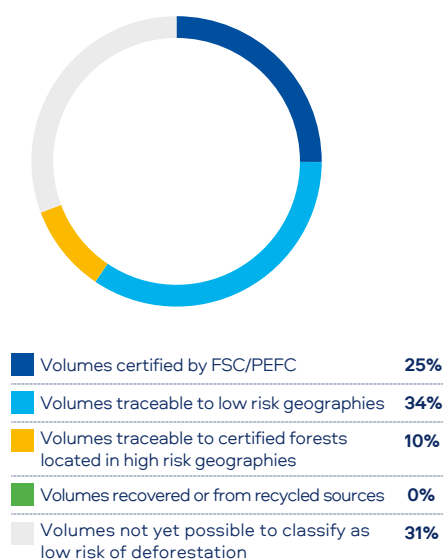
In our paper and pulp supply chain, we work with suppliers who can demonstrate that material is sourced with low risk of deforestation.

We have aligned our due diligence approach to the Accountability Framework initiative (AFI) in preparation for SBTN and TNFD requirements. Our approach includes:

- Enabling material traceability to origin;
- Identifying, assessing and managing risks throughout our paper and pulp supply chain; and
- Establishing guidelines for supplier selection and performance management.

This due diligence approach will support our management of material deforestation risks, as well as our understanding of our suppliers' capabilities and implementation of deforestation-free standards and commitments.

#### Breakdown of pulp and paper volumes under assessment (%)



In 2023, we assessed 77% of our pulp and paper materials. Of the 77% assessed, 90% were established as sourced with low risk of deforestation. This means that, in 2023, 69.3% of our pulp and paper materials were identified as sourced with low risk of deforestation according to the following assessment criteria:

- 25% of the volume was certified by the Forest Stewardship Council (FSC) or by the Programme for the Endorsement of Forest Certification (PEFC);
- 34% of volume was traceable to low risk geographies;
- 10% of volume was traceable to certified forests located in high risk geographies; and
- No volume (0%) was recovered or from recycled sources.

31% of volume was not assessed in 2023; hence not yet classifiable as low risk of deforestation. We will continue working with our suppliers to increase the coverage of our assessment of pulp and paper volumes in scope of our programme, targeting 100% of volume by the end of 2024.

#### Lessons Learnt

Manufacturing processes for New Category products and cigarettes are different. It is clear that we need to better understand the impact of our non-leaf supply chain on biodiversity, particularly as volumes grow.

Additionally, there is no single, up-to-date data set that covers all the information required to understand biodiversity impacts across our business. To address this, we are conducting pilot programmes in collaboration with start-ups, exploring innovative ways to more accurately quantify impacts and monitor the state of nature.

Outside the tobacco supply chain, availability and quality of data is a common issue. To tackle this issue, we are collaborating with CDP to build supplier capability and improve access to supplier data on climate, forest and water to help us better understand our upstream dependencies and impacts.

#### What's Next?

- Preparing to set nature targets aligned to the Science-Based Targets Network (SBTN) and to align with the Taskforce on Nature-related Financial Disclosures (TNFD) as well as FLAG guidance in 2024; and
- Creating a 10-year strategic roadmap to promote nature-positive leadership.

#### Stakeholder perceptions and key insights from our DMA



#### What do our Stakeholders Think About Biodiversity?

Our stakeholders think that protecting biodiversity and ecosystems is crucial to protecting our crop yields, and stakeholders acknowledge our work to mitigate our biodiversity impacts. While many stakeholders see biodiversity and water as intrinsically linked topics, some stress the importance of considering these topics separately to optimise our activities.

#### How Will the Material Impact of Biodiversity Shift Over Time?

Our turnover relies on tobacco as an agricultural commodity and, as such, changes to biodiversity and ecosystems and climate change will likely create further challenges over time. This may include impacts to the cost and availability of raw materials. Moreover, incoming legislation and more stringent standards such as the TNFD are likely to put more pressure on the business. We are already taking steps in that regard, such as setting out our approach to TNFD in this year's reporting.

#### Notes:

1. Our ambitions cover all tobacco we purchase for our products ('tobacco supply chain'); which is used in our combustibles, Traditional Oral and Tobacco Heated Products. Our metrics, however, derive data from our annual Thrive assessment, which includes our directly contracted farmers and those of our third-party suppliers, which represented over 94% of the tobacco we purchased by volume in 2023 ('Thrive Supply Chain').

#### † Definitions:

**Conversion:** Change of a natural ecosystem to another land use or profound change in a natural ecosystem's species composition, structure, or function.

**Deforestation:** Loss of natural forest as a result of i) conversion to agriculture or other non-forest land use; ii) conversion to a tree plantation; or iii) severe and sustained degradation.

**Forest Positive:** To be considered 'Forest Positive' a forest should be planted for conservation purposes. Further, the area must be monitored at least one year after the planting date, to verify the survival rate quantification of the area planted and the number of trees that have become viable

**+** Refer to the BAT 'Reporting Criteria' for a full description of key terms and definitions at [bat/reporting.com](https://www.bat.com/reporting)



## Sustainable Future

## Water



Targets	Metrics	2023	Status
<b>35%</b> reduction in water withdrawn by 2025 vs 2017 baseline	% reduction in water withdrawn vs 2017 baseline	39.2	<input checked="" type="checkbox"/> Achieved
<b>100%</b> operation sites Alliance for Water Stewardship certified by 2025	% operations sites Alliance for Water Stewardship (AWS) certified	68.8	<input type="checkbox"/> On track
<b>30%</b> of water recycled by 2025	% of water recycled	24.4	<input type="checkbox"/> On track

<sup>†</sup> Find out more:  
 Refer to the BAT 'Reporting Criteria' for a full description of key terms and definitions at [bat/reporting.com](https://bat.com/reporting.com)

## Frameworks

<b>GRI</b>	GRI 3, 303-1, 303-2, 303-3, 303-4, 303-5
<b>SASB</b>	FB-AG-140a.1, 140a.2, 140a.3, FB-AG-430a.3, FB-AG-440a.2
<b>PAI</b>	8, E6, E7, E8

## Our Impact

**Inward impact:** The impact of climate change on freshwater, as well as industrial water usage, is endangering the healthy functioning of water ecosystems.

**Outward impact:** Water is vital both for our direct manufacturing processes and for our tobacco crops. While taking into account the investments we have made in our direct operations and tobacco crops, we recognise that our business activities generate emissions to water, which can threaten biodiversity and ecosystems. By using water more efficiently, we can reduce negative ecological impacts while protecting community access to water.

For more performance metrics and operational data refer to the BAT 'ESG Performance Data Book': at [bat.com/sustainability-reporting](https://bat.com/sustainability-reporting)

## Managing Impact

Our approach to managing water impacts in our direct operations is outlined in our Group Environment Policy, which is complemented by our Water Security Standard, and our Soil and Groundwater Protection Standard, as well as our water recycling and reduction targets for our direct operations. For our tobacco supply chain, our Supplier Code of Conduct (SCoC) is complemented by our Leaf Supplier Manual (LSM), which includes requirements for water protection planning and water extraction for irrigation.

Read more about sustainability policies, procedures and standards on [page 72](#) and [73](#)

## Our Actions in 2023

## Assessing our water risks

**Our direct operations:** In 2023, we used a total of 86% of water in our operations sites and 14% in our offices, retail, R&D and other sites. We operate in some water-stressed locations such as Mexico and Uzbekistan, where optimising water use is critical. This year, following the World Resources Institute (WRI) AQUEDUCT Water Atlas, we have reassessed our operational exposure to water stress risks. The tool identified 24 operations sites in water stressed areas (2022: 16), making up 45.6% of our water withdrawn in 2023.

For these sites, we have more stringent standards for on-site water management and recycling rates. Local markets are responsible for ensuring that they have appropriate water policies in place to fulfill such requirements.

We also conducted a Water Risk Assessment to identify sites near important marine habitats, such as coral reefs, mangroves and seagrass beds. We have incorporated our findings into our Biodiversity Risk Assessment and implemented Biodiversity Management plans for sites in high-risk areas.

**Tobacco supply chain:** A number of the locations where we source tobacco are located in 'water stress' areas. We use the WRI Aqueduct Tool to monitor the proportion of tobacco crops in these areas and map supplier locations.

In 2023, some of our tobacco sourcing areas in 18 countries - including India, Chile and Türkiye - which are located in water-stressed areas, estimated 18.5% of the tobacco we purchased in 2023 came from these areas, where we seek to work with farmers to optimise and reduce crop water usage.

### Water stewardship across our direct operations

We aim to ensure all our sites comply with our water withdrawal and discharge guidelines and follow our Water Roadmap, which links to the Alliance for Water Stewardship (AWS) process. We continue to invest in water efficiency and recycling projects to eliminate water losses, reduce water withdrawal and replace fresh water with recycled water, where possible. For example, by replacing water-cooling systems with more efficient dry coolers in our factory in Samsun, Türkiye, we reduced our withdrawn water by approximately 20,000m<sup>3</sup> annually. We also invest in water treatment technologies to improve the quality of our water discharged and increase water recycling. Through these initiatives, we achieved a 39.2% reduction in water withdrawn (vs 2017 baseline), surpassing our 2025 target of 35% two years ahead of schedule.

# 70%

of our operations sites reduced water withdrawn by recycling water on site to date.

In addition, 34% of our operations sites implemented both water efficiency and recycling activities, investing £2.8 million in capital expenditure. We expect an estimated 140,000 m<sup>3</sup> of savings in water withdrawn over the course of 2024 (vs 2017 baseline). We also achieved 24.4% of total water recycled in 2023, with our top performing sites being in Chile, South Korea, Croatia, and Pakistan.

As members of the AWS, we committed to 100% of our operations sites being certified against the AWS Standard by 2025. In 2023, 22 more operations sites became AWS certified, bringing the total number of AWS certified sites to 44 or 68.75% of our operations sites.

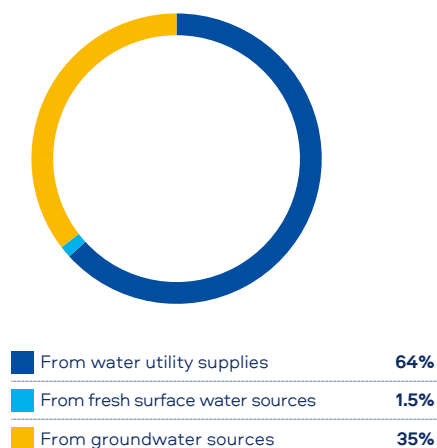
Our AWS certified sites have performed a wide range of stakeholder engagement throughout the year, such as:

- Involvement in advisory committees at water basin level to promote collaboration;
- Awareness sessions for stakeholders and communities on water risks and stewardship; and
- The construction of infrastructure to enable access to potable water and WASH facilities for local communities.

## Where we source our water from

# 3.16

Total water withdrawn (million m<sup>3</sup>)



For more performance metrics and operational data, refer to the BAT 'ESG Performance Data Book' at [bat.com/sustainabilityreporting](https://bat.com/sustainabilityreporting)

## Water stewardship across our tobacco growing

In the majority of the regions where we operate, there is enough rainfall to meet the water needs of tobacco growing. Where rainfall is insufficient, farmers may use irrigation. In 2023, 32% of the hectares of our Thrive Supply Chain<sup>1</sup> used some form of irrigation systems.

Where irrigation is used, we monitor and report water use via our Thrive programme, which also helps us monitor and promote best practice water and soil management. In 2023, we implemented best practices for 81% of tobacco hectares in our Thrive Supply Chain<sup>1</sup>, which included farmer trainings on water and soil conservation management.

We also use our Global Leaf Agronomy Development Centre (GLAD) to research, and Group subsidiaries then implement ways to reduce water usage in tobacco growing. We focus on Leaf Operations, which have a higher dependency on irrigation and/or higher water stress risk.

We have introduced drip irrigation technology in eight Leaf Operations, including Brazil and Mexico, which reduces soil erosion, boosts yields and saves up to 50% more water compared to traditional non-drip systems. Currently a deployment plan for the next five years is being built for the expansion of drip irrigation in Chile, Mexico and Vietnam.

We have also tested and adopted the Alternate Furrow Irrigation system. This practice saves an estimated 10% more water when compared to traditional furrow irrigation without negatively affecting the yield. In 2023, we continued with trials in Pakistan and in Bangladesh, and the commercial adoptions reached 19,700 hectares across both countries.

In Pakistan, our Alternate Furrow Irrigation technique now covers 27% of the total tobacco area - this resulted in 9% savings in water compared to traditional furrow irrigation practice.

GLAD continues to run programmes to anticipate future challenges with water scarcity, water reduction and engagement with local communities. The programmes include innovative seedling floating systems, smart irrigation using real-time sensors, and new drought resistant tobacco varieties.

## Lessons Learnt

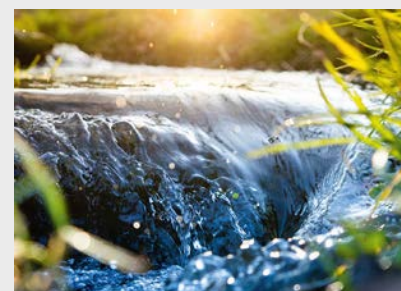
We know that with a global supply chain, there is no one-size-fits-all solution. Our key learning in this area is that clustering our sites into archetypes, based on factors such as water composition, quality, process requirements, and volumes, helps us to align the technical solutions and investment requirements with the unique needs of each site.

We still face some challenges in our tobacco supply chain, in areas where access to water reduction technologies is limited by high costs and a scarcity of local supply. We continue to work with our farmers to find alternative solutions and to share best practices.

## What's Next?

- Continuing to invest in water efficiency and recycling projects and making progress towards the number of AWS certified sites to meet our 2025 targets;
- Completing the construction of the WaterHub<sup>SM</sup> in the U.S. - a major water recycling facility with a capacity of 200,000 m<sup>3</sup> in the U.S;
- Adapting our '10 Golden Rules' approach to water management, so that we can standardise how we run water efficiency practices across our operations sites. This aims to provide technical solutions and optimisation practices for water management in those sites; and
- Conducting a detailed impact, dependency and footprint assessment across the upstream value chain, which will help us to identify suppliers with high-risk of adverse water impacts, to help define an engagement strategy.

## Stakeholder perceptions and key insights from our DMA



## What do our Stakeholders Think About Water?

Some stakeholders raised the point that we have sites located in regions of water stress. While they acknowledge our progress on water management in our direct operations, they are keen to see us engage more with our suppliers on this topic.

## How Will the Material Impact of Water Shift Over Time?

Climate change will likely cause changing weather patterns and increasing rates of low rainfall in certain regions - both of which impact the availability of water. The emergence of nature-related frameworks such as the TNFD was mentioned as a sign of rising stakeholder expectations. There are also social implications of water use in water stressed areas, which means that water scarcity may become a more significant issue over time.

## Note:

1. Our goals cover all tobacco we purchase for our products ('tobacco supply chain'), which are used in our combustibles, Traditional Oral and Tobacco Heated Products. Our metrics, however, derive data from our annual Thrive assessment, which includes our directly contracted farmers and those of our third-party suppliers, which represented over 94% of the tobacco we purchased by volume in 2023 ('Thrive Supply Chain').

## Sustainable Future

## Employees, Diversity and Culture



Targets	Metrics	2023	Status
<b>45%</b> increase the proportion of women in Management roles to 45% by 2025	% female representation in Management roles	42	Ongoing focus area
<b>40%</b> increase the proportion of women on Senior Leadership teams to 40% by 2025	% female representation on Senior Leadership teams	33	Ongoing focus area
<b>50%</b> achieve at least 50% spread of distinct nationalities in all Key Leadership teams by 2025	% of Key Leadership teams with at least a 50% spread of distinct nationalities	100	Achieved

**+ Find out more:**  
Refer to the BAT 'Reporting Criteria' for a full description of key terms and definitions at [bat/reporting.com](https://www.bat.com/reporting)

Since 2019, the total number of hires bringing new capabilities – such as data analytics, digital, sustainability, innovation, IP and science – is more than 3,800, and of these 45% are female.

**+ Find out more about our ongoing investment in talent at [careers.bat.com](https://careers.bat.com)**

**Learning and development:** We develop leadership and functional capabilities within the organisation through a range of learning programmes. Some highlights in 2023 include:

- an average of 36 hours of learning over the year for each of our c.14,000 managers; and
- an average of £301 investment in learning per employee.

Across all of our 72 instructor-led programmes, we have achieved very high overall satisfaction and Net Promoter Scores of 4.6/5 and 96% respectively.

**+ Find out more about our skills development programmes at [careers.bat.com](https://careers.bat.com)**

## Frameworks

<b>GRI</b>	GRI 2-7, 2-8, 2-30, 401-1, 401-3, 404-1, 404-2, 405-1, 405-2
<b>SASB</b>	This topic is not mapped to a specified SASB indicator
<b>PAI</b>	12, 13, S5

## Our Impact

**Inward impact:** Society's expectations of employers continue to evolve. By bringing in different perspectives to the workplace, we can better respond to customer needs, thereby enhancing our performance and innovation. Moreover, investing in our people and taking care of their physical and mental well-being enhances our reputation as an employer of choice, which in turn enables us to attract and retain talent.

**Outward impact:** We support our employees in realising their individual purpose by fostering a dynamic and inclusive culture and providing development opportunities and fair treatment. Moreover, by supporting their physical and mental health, we can positively impact our peoples' lives within and outside the workplace. Given our global footprint, we believe that our impact can also extend beyond the organisation by setting an example of good practice in the business community.

## Managing Impact

We have a clear strategy and policy framework to guide our approach to employees, diversity, culture, and health and safety. Some of the key elements are:

- Our Diversity and Inclusion (D&I) strategy, which is built on strategic pillars for ownership; accountability; diverse talent pipelines, and enablers, all fostering an inclusive culture. This strategy is reinforced by our gender and ethnicity pay metrics, which seek to drive equity and fairness.

- Our Employment Principles, which encompass commitments to a diverse workforce, reasonable working hours, a family-friendly environment, employee well-being, talent, performance, equal opportunities, and competitive remuneration.
- Our Standards of Business Conduct (SoBC), which include the Respect in the Workplace Policy, outlining commitments to equality, diversity, anti-harassment, and safeguarding employee well-being.
- Our Group Health and Safety Policy Statement, which outlines our commitment to apply the highest international standards of health and safety for our employees, as well as third-party personnel on company premises. We are committed to providing a safe working environment for all our employees and contractors to achieve our goal of zero accidents.

**+ Read more about sustainability policies, procedures and standards on [page 72](#) and [73](#)**

## Our Actions in 2023

## Building multi-category skills and capabilities

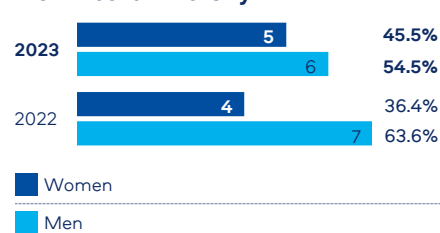
We aim for our recruitment process to be fair and inclusive. We have rolled out training on inclusive hiring practices and we require all recruitment agencies we work with to provide gender-balanced longlists of candidates.

In 2023, 42% of our external Management recruits brought new capabilities into the organisation to accelerate our business transformation.

## Fostering a diverse and dynamic workplace

We seek to monitor, track and support the progression of diverse groups. Diversity starts at the top, as shown by our Board, which as at 31 December 2023, had 11 Board Directors of whom 6 were male and 5 were female.

## Main Board Diversity



In 2023, 33.1% of roles on Leadership teams and 42% of Management roles were held by women. As at 31 December 2023, 15,437 of our employees were women and 31,280 were men.

## Senior Managers: Companies Act 2006

For the purposes of disclosure under Section 414C(8) of the Companies Act 2006, the Group had 173 male and 67 female senior managers as of 31 December 2023. 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 54% of Group company employees and contributed approximately 91% of Group revenue in 2023.

Our Women in STEM strategy focuses on attracting, developing, and retaining more women in our R&D, Operations, Finance and Digital Business Solutions functions. In the UK, we are members of the multi-stakeholder group Women in Science and Engineering (WISE), to provide evidence-based action, knowledge, and tools for achieving gender balance in the STEM workforce, and against which we achieved Rank 1 in 2023. Our Women in Leadership (WIL) programme works to accelerate the development of women at middle to senior levels. As of 2023, 1,078 women have completed the programme.

As well as striving for gender balance, our D&I strategy focuses on diversity of nationalities and ethnicities. In 2023, we achieved 100% of Key Leadership teams with at least a 50% spread of distinct nationalities across our management employees, two years ahead of schedule. We also collect voluntary ethnicity data in seven markets and have 66% ethnically diverse employees among those markets. Globally, 27% of our Board and 37% of our Management Board and their direct reports are ethnically diverse. In addition, we have set a new ambition for 40% representation of Ethnically Diverse Groups for the Management Board and direct reports, taking into account the Parker Review's 2023 report.

#### Disability Confident



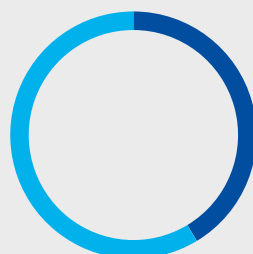
Our disability agenda is critical to our D&I strategy and we are committed to promoting positive outcomes for individuals with a disability, mental health condition and/or neurodiverse condition. In December 2023, we were recognised by a major UK government-backed accreditation scheme for the way we attract, develop and support people with disabilities and long-term health conditions and awarded Disability Confident Leader status (Disability Confident Level 3 of 3) having achieved Level 2 in 2022.

#### Workforce engagement

Our workforce engagement strategy centres around ongoing and open dialogues between employees and leadership teams, which enables us to create a more collaborative, diverse and inclusive culture. We have established a range of engagement channels to understand employees' perspectives, including market and site visits by our Directors and Management Board members, town halls, global, functional and regional webcasts, Q&A sessions, and meetings with works councils and trade unions. We also conduct a global Your Voice Survey and surveys on specific topics, enable in-depth focus groups where employees share their feedback, and operate global multilingual speak-up channels.

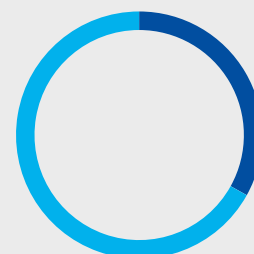
#### Strengthening gender diversity across BAT

Employee breakdown by level in 2023 (Management grade)



Women	5,707
Men	7,915

Employee breakdown by level in 2023 (Senior Leadership teams)



Women	235
Men	475

For more performance metrics and operational data refer to the BAT 'ESG Performance Data Book' on [bat.com/sustainabilityreporting](https://bat.com/sustainabilityreporting) and for definitions refer to [page 91](#)

We engage with employees in a number of ways in order to reflect on their feedback and seek to implement meaningful changes. For example, following the year-end and half-year results the Chief Executive and members of the Management Board send complementary communications which are accessible to all employees.

#### Workforce voice in the boardroom:

Our workforce voice in the boardroom programme enables ongoing dialogue between all levels of the workforce across the Group with both our Board and our Management Board.

The Board is regularly updated on feedback from our people, alongside identified focus areas and progress updates. Feedback from the Board and associated actions are communicated back to our people as appropriate and the Board is kept up-to-date on progress against agreed actions during the year.

Find out more about how our Board engages with our global workforce on [pages 140, 148 and 181](#)

**Your Voice:** Our global Your Voice survey is conducted every two years and covers approximately 40,000 employees. It includes topics such as strategy, talent, and sustainability. Results are shared with the Main Board and all employees.

# 94%

of global employee participation was recorded for our 2023 Your Voice survey (12% higher than the average of our global FMCG comparator group).

We are ahead of our global FMCG comparator group in the Sustainable Engagement, D&I and People Management categories. Key themes identified as our focus areas for improvement are Talent Development; Reward and Recognition; Innovation; and Leadership and Empowerment.

#### Rewarding our people

We strive to provide fair and competitive remuneration and benefits globally. In 2023, we were independently certified by the Fair Wage Network for paying all our direct employees at least the applicable living wage<sup>1</sup>. This review covered approximately 42,000 employees in 100+ countries (and over 600 locations).

We were also certified by Fair Pay Workplace for providing equal pay for work of equal value<sup>2</sup>. Our pay equity review covers approximately 42,000 employees in 100+ locations from a gender perspective, and approximately 13,000 employees in seven locations from an ethnicity perspective.

Our benefits offering is a core component of our reward strategy. We continue to enhance our benefits portfolio to offer physical, emotional, financial and social wellbeing benefits. We support improved work-life integration to create a more productive and empowered workforce. Across our business, a hybrid remote working model is considered normal practice.

We offer our UK employees the opportunity to share in our success via our Sharesave Scheme, Partnership Share Scheme and Share Reward Scheme, and offer several similar schemes for employees in other Group companies.

Find details of our Directors' Remuneration Policy on [pages 170 to 174](#)

We recognise that macro-economic factors are affecting many of our employees, with rising prices being a source of financial stress. We continue to make significant reward-related investments to support our employees, including additional salary budgets for wider workforce salary increases in the UK and globally, and an updated incentives design and delivery.




Find more details on rewards, benefits, living wage and pay equity in our Diversity and Inclusion Report 2023 and on [bat.com](https://bat.com)




## Sustainable Future

## Employees, diversity and culture

### Continued

Ambition	Metrics	2023	Status
<b>Zero</b> accidents Group-wide each year	% of reduction in total Group-wide accidents vs 2022	15	 Ongoing focus area
	% of our sites that achieved zero accidents in 2023	83	 Ongoing focus area
	Lost time incident rate (LTIR)	0.17	 Ongoing focus area

 <sup>†</sup> Find out more:  
Refer to the BAT 'Reporting Criteria' for a full description of key terms and definitions at [bat/reporting.com](https://bat.com/reporting.com)

#### Frameworks

<b>GRI</b>	GRI 403.1-10 (Inclusive)
<b>SASB</b>	FB-AG-320a.1
<b>PAI</b>	S1, S2, S3, S4

#### Our Actions in 2023

##### Health and safety in our operations

Our EHS Management System, which includes our EHS Policy Manual and related documents, provides guidance and procedures on implementing our Health and Safety (H&S) commitments effectively. We track health and safety performance across all our sites. A dedicated team then analyses the information to identify trends or high-risk areas that require coordinated cross-functional action.

More than 70% of work accidents in our business operations occur outside of BAT premises. In Trade Marketing and Distribution (TM&D), where there are high risks of road traffic accidents, attacks, and assaults, driver safety and security programmes are implemented to manage risks. This includes telematic systems in our work-related vehicles fleet to monitor driving behaviour and identify areas for improvements. In 2023, we improved and standardised our telematics guidelines to ensure they are clear and consistent. We will continue to enhance vehicle safety through a variety of safety precautions and technologies.

In locations that are high-risk for attacks and assaults, we regularly 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 regular Health and Safety (H&S) forums, our Centre of Excellence (CoE) provides solutions, guidelines and technical knowledge to the Group.

Our 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 annual H&S compliance review is an integral part of the Corporate Governance and Assurance process.

As part of the compliance review, H&S representatives visit selected sites to assess their compliance against our global guidelines. The site selection criteria is risk based, always considering its accident profile; the size of operations or activities performed; and/or new sites/processes to be assessed. This thorough process allows us to identify any gaps and support the markets in implementing plans for continuous improvement. The outcome of the H&S Compliance Review is reported to the Corporate Audit Committee and the result can be:

- Compliant: H&S controls are adequately designed and are operating effectively
- Non-Compliant: Immediate actions required by management as the H&S, key risks and/or legal compliance controls are inadequate

#### Preventing accidents

In 2023, we had the lowest record number of Total Recorded Incidents Rate in BAT's global historical data. Overall, there was a 15% reduction in reported incidents in 2023, to 99 (vs 116 in 2022). This data is supported by a 36% reduction in serious injuries and a 23% reduction in Lost Time Injuries vs the same period last year, mainly driven by a reduction in slips and trips (-35%) and attacks and assaults (-27%). In 2023, 83% of our sites achieved zero accidents. All accidents are investigated by multiple task forces and action plans are implemented when required to avoid recurrences.

#### Reducing incidents across our business

2023 Lost time incident rate (LTIR)

# 0.17

	Lost time incidents (LTIs)	LTIR
2023	78	0.17
2022	83	0.19
2021	95	0.20

 For more performance metrics and operational data refer to the BAT 'ESG Performance Data Book' on [bat.com/sustainabilityreporting](https://bat.com/sustainabilityreporting)

This reduction was driven by our improvements in health and safety engagement and governance, such as increased cooperation within our business functions; increased sharing of best practices across our markets; conducting more top losses assessments for each of our top four losses (attacks and assaults, vehicle-related, slips and trips, and manual handling).

In addition, vehicle-related accidents and attacks and assaults have seen a decline over recent years. In 2023, we recorded a 10% decrease, compared to 2022.

Sadly, there were four fatalities of employees and contractors in 2023 – two BAT employees in Mexico, a BAT-supervised contractor in South Africa, and an independent contractor in Bangladesh. There were also three members of the public who lost their lives in traffic-related accidents involving a BAT vehicle. We deeply regret this loss of life and the suffering it has caused to their families, friends, and colleagues.

For fatalities or serious incidents that occur, we work with the relevant authorities on their investigations. These incidents are investigated by local teams, and we conduct rigorous internal investigations to determine the cause, identify lessons and develop an action plan.

 To learn about Health and Safety in our tobacco supply chain, see [page 93](#)

These are then reviewed by the regional and global H&S teams to prevent recurrences. Learnings and action plans are disseminated across all regions. Events beyond our control can regretfully happen, and we still have challenges and risks to overcome and improve upon.

### Occupational health & safety and wellbeing

We aim to be among the leaders in occupational health management. As well as focusing on identifying hazards, assessing risks to people's health at work, and introducing appropriate controls, we also have global programmes that protect and promote the health and wellbeing of employees, their families, and local communities. These include:

- Medical services, health screening and insurance;
- Mental health support and counselling services;
- Healthy lifestyle and fitness schemes; and
- Family-friendly policies and initiatives, such as flexible working and support for childcare.

### Lessons Learnt

While we have progressed our D&I agenda across the Group, bringing about widespread change will take time.

We need to embrace a broader focus on championing inclusion and achieving equity, embedding our new value of "Truly Inclusive" across all parts of the people agenda.

**+** Find out more about our new corporate values on [page 40](#)

Active listening, facilitated through robust employee engagement, is paramount to retaining, developing, and upskilling our talent.

As the EU Pay Transparency Directive continues to evolve, some uncertainties remain regarding the way localised differences will impact reporting requirements and existing structures. While we are preparing to respond to the Directive by disclosing additional data on a voluntary basis, we will also continue to review our offering to ensure we meet both workforce needs and regulatory requirements.

With regard to Health & Safety, the extensive reach of our supply chain exposes us to regions with geopolitical disturbances and security risks. To this end, we continue to examine ways to improve our prevention measures and processes to protect the wellbeing of our employees and contractors throughout the Group.

### What's Next?

- Enhancing our learning experiences through a newly branded Learning & Development portfolio and investment in new hybrid leadership and transformation learning programmes;
- Planning to revise our existing D&I framework, including our metrics and ambitions, to further move towards achieving gender and ethnicity parity in our Management as well as in our Senior Leadership population;
- Accelerating the deployment of our new standards, 'Telematics 2.0', and continuing our work in local and regional technology, HR and legal assessments, and tracking tool development; and
- Planning on expanding our Safe Workplace programme with an Integrated Work System H&S Pillar revamp, high risk and top losses assessments and a best practices benchmark.

### Stakeholder perceptions and key insights from our DMA



### How Will the Material Impact of Employees, Diversity and Culture Shift Over Time?

Our stakeholders think that as new generations enter the workforce, the business will face new expectations and different demands. This presents an opportunity to develop our culture and grow our impact across diversity and inclusion.

### What do our Stakeholders Think About Employees, Diversity and Culture?

This topic is integral to the success of our business's transition, especially given the value of diverse thought. There is an interconnection between corporate culture and our ability to operate with ethics and integrity. Female representation and inclusion were raised as areas for improvement. As discussed in this section, female representation remains a focus area for our D&I agenda. We will continue to work to make progress on this front through our programme and targets.

#### Notes:

1. Our interpretation of a "living wage" is aligned with the UN Global Compact definition: "living wage is the local remuneration received for a standard work week that enables workers and their families to meet their basic needs".
2. Employees performing the same work or work of equal value are paid equitably and any difference in pay are for objective reasons and not influenced by factors such as gender and/or ethnicity.

#### <sup>†</sup> Definitions:

**Ethnically diverse groups includes global ethnic groups:** six global 'Ethnically Diverse Groups' were determined considering BAT's global market footprint: Asian, Black, Hispanic/Latin American, Indigenous, Mixed and Other Ethnic Groups. Individuals self-identified as White, those that have selected 'Preferred not to Disclose' and individuals that have opted 'Not Disclosed' i.e. their ethnicity field remains blank, are not captured in the data set 'Ethnically Diverse Groups'.

**Key Leadership teams:** categorised as the group of direct reports that report to a Management Board member.

**Management:** Management level employees include all employees at job grade 34 or above, as well as any global graduates. The gender of each employee is typically recorded at the point of hire.

**Senior Leadership teams:** any employee who is either a direct report of a Management Board member or a direct report of a Management Board's direct report (i.e., MB-1 or MB-2).

**Senior Management:** It includes all employees at job grade 37 or above. The gender of each employee is typically recorded at the point of hire.

**+** <sup>†</sup> Refer to the BAT 'Reporting Criteria' for a full description of key terms and definitions at [bat/reporting.com](https://bat.com/reporting.com)

## Sustainable Future

## Human Rights



Ambition	Metrics <sup>1</sup>	2023	Status
<b>Zero child labour</b> aiming for zero incidents in our tobacco supply chain by 2025	% of farms in our Thrive Supply Chain <sup>1</sup> monitored for child labour	100	✓ Achieved
	% of farms with incidents of child labour identified vs 0.38% in 2022	0.15	■ Ongoing focus area
	% incidents of child labour identified and reported as resolved by the end of the growing season	100	✓ Achieved

**+ Find out more:**  
Refer to the BAT 'Reporting Criteria' for a full description of key terms and definitions at [bat/reporting.com](https://bat.com/reporting.com)

## Frameworks

<b>GRI</b>	GRI 408-1, 413-1, 413-2, 414-1, 414-2
<b>SASB</b>	FB-AG-430a.3
<b>PAI</b>	S9, S10, S12, S13, S14

## Our Impact

**Inward impact:** The International Labour Organization (ILO) estimates that 60%<sup>2</sup> of child labour incidents globally occur in agriculture. Inherent challenges exist in agricultural supply chains, and the tobacco supply chain is no exception. Human rights-related risks include workers' rights, rural poverty, and issues associated with the use of child labour on small family farms.

**Outward impact:** Our business and supply chain cover several industries with significant human rights considerations, including agriculture, electronics and manufacturing. We recognise our duty to respect the human rights of our employees and rights-holders across our value chain, as well as the communities affected by our operations.

## Managing Impact

Our approach to managing human rights is aligned to the UN Guiding Principles for Business and Human Rights. Additionally, we manage our impact through a number of policies, including those outlined in our Standards of Business Conduct (SoBC) and Supplier Code of Conduct (SCoC), as well as due diligence and remediation programmes. Child labour is a complex and challenging issue. We have a range of approaches to support our aim of zero child and forced labour in our tobacco supply chain by 2025.

**+ Read more about sustainability policies, procedures and standards on [page 72](#) and [73](#)**

## Our Actions in 2023

## Training

Our own Leaf Operations and strategic third-party suppliers provide human rights training for farmers and community members, with a focus on child labour and workers' rights. In 2023, 418,584 attendees were reported to have received this training. Child labour training, developed in line with the UNGPs, is also available to everyone with access to our internal training platform.

## Access to grievance mechanisms

As part of our Thrive programme, we track access to grievance mechanisms across our Thrive Supply Chain<sup>1</sup>. In 2023, it was reported that 99.9% of farmers and farm labourers reported having access to at least one type of grievance mechanism. 292 grievances were raised in 2023, of which 100% were reported as resolved.

## Tobacco supply chain due diligence

## Farmer Sustainability Management

**(FSM):** Our digital platform for FSM allows our Field Technicians to collect data during farm visits with 95%<sup>3</sup> of our directly contracted farmers. Over 30% of the criteria in FSM relate to human rights.

**Thrive:** Our Thrive programme collects data and indicators across a number of issues, including human rights. This data represents over 94% of our tobacco volumes sourced in 2023.

Third-party suppliers are expected to use their own systems to monitor their contracted farmers in a similar way.

## Sustainable Tobacco Programme (STP):

All of our Leaf suppliers are expected to participate in the industry's STP, which requires an annual self-assessment against priority themes, including Human Rights.

**+ Read more about our Thrive programme and STP in the Farmers Livelihoods and Community section on [page 94](#)**

**On-the-ground assessments:** A key element of STP is to prioritise Leaf suppliers with a higher risk profile for in-depth assessments (IDAs), which are on-the-ground reviews conducted by an independent third party. By the end of 2023, a total 7 leaf suppliers in 5 countries underwent IDAs, covering sustainability topics. Among these, 4 suppliers were assessed on human rights topics and action plans were developed as a result. In 2024, 5 IDAs on Human and Labour Rights are planned in BAT sourcing countries.

We undertake Human Rights Impact Assessments (HRIAs) to provide greater understanding of human rights topics. These are carried out in line with the UNGPs and conducted by independent human rights experts. Since its inception in 2019, we have completed 10 HRIAs in eight of our tobacco sourcing countries, engaging more than 5,239 rights-holders in tobacco-growing communities. In 2023, we focused on follow-up assessments in countries where a HRIA had been completed to track remediation and progress. Common themes identified included children on farms, rights of workers, health and safety and farmer livelihoods. As our portfolio is expanding to include other agricultural commodities, we are expanding our understanding of human rights issues in those areas. In 2023, we completed an HRIA in the main rooibos growing region, engaging with 240 rights-holders. An action plan is in progress to advance our efforts aligned with our commitments.

Reporting and resolving incidents of child labour in our Thrive Supply Chain<sup>1</sup>

We recognise child labour is a complex issue and incidents can be hidden or under-reported. This is why, in addition to due diligence, we work on addressing root causes. We set out detailed guidance procedures in our BAT Leaf Operations Standard on Child Labour Prevention and closely monitor outcomes associated with this policy, as described in more detail below.

**+ Read about how we are assessing root causes in our Farmers Livelihoods and Community section on [page 94](#)**

Our aim is to have zero child labour in our tobacco supply chain by 2025. In 2023, 359 incidents (2022: 942) of child labour were reported on 0.15% (2022: 0.38%) of farms in our Thrive Supply Chain<sup>1</sup>, with the majority of incidents relating to harvesting. 100% of incidents were reported as resolved during the growing season. In cases of recurring non-compliance, the farmer's contract is not renewed for the next growing season. 18 contracts were not renewed in 2023 due to child labour incidents identified.

We also continued to build on traceability, leading to a better mapping of the number of farmers supplying tobacco specifically to BAT (rather than our suppliers' total farmer base).

We analyse root causes to identify an appropriate approach to remediation and we monitor 100% of our directly contracted farmers on child labour risk and prevention. For example, in Brazil, the school enrolment of farmers' children is a prerequisite for entering into a crop contract with the BAT entity in Brazil. In Pakistan, we have collaborated with an NGO since 2018 to establish 30 summer camps as summer holidays can be a high risk period for child labour. In 2023, 1,800 children were involved.

#### Forced labour in our leaf supply chain

Forced labour is also a complex issue that is often hidden and, therefore, often difficult to detect. Our aim is to have zero forced labour incidents in our tobacco supply chain by 2025. There were no forced labour-related non-compliances reported in our Thrive Supply Chain in 2023.

#### Health and safety in the tobacco supply chain

Our Operational Standard for personal protective equipment (PPE) in tobacco farming applies to all 91,196 farmers directly contracted by the Group's own Leaf Operations. It outlines the mandatory requirements for PPE for all farmers and their workers. We expect third-parties to adopt similar standards. The PPE must be suitable for agrochemical use and harvesting, Green Tobacco Sickness (GTS) prevention and for different climates and conditions. The document also specifies the training and monitoring requirements for PPE for agrochemical use and GTS prevention. In 2023, 99.99% of our directly contracted farmers and those supplying our strategic third-party suppliers were reported to have sufficient PPE for agrochemical use and 99.7% for use when harvesting. Training sessions on the correct and safe use, storage and disposal of agrochemicals and GTS prevention reached 384,157 attendants.

#### Product material supply chain

Before we approve any new suppliers for our non-leaf product materials supply chain, they must undergo an independent due diligence audit aligned to ILO standards.

**+** Details of our independent due diligence audits are outlined on [pages 100 and 101](#) within our Supplier Engagement section.

By 2025, we aim for all our product materials and higher-risk indirect suppliers (e.g. machinery and point of sale materials) to have undergone at least one independent labour audit within a three-year cycle. By the end of 2023, this had been achieved for 58.8% of in-scope suppliers.

#### Managing human rights in our direct operations

We use Verisk Maplecroft's human rights indices, including its Modern Slavery Index, to assess the risk level of BAT's direct operations. The outcomes are noted by the Group Corporate Committee and Audit Committee, and by the relevant Regional Audit & Corporate Social Responsibility Committees (RACCs), including actions for any areas for improvement identified. In 2023, 24 countries within BAT's direct operations were identified as higher risk and underwent additional assessments.

#### Human rights in our workplace

In 2023, we received 216 reports of alleged SoBC breaches relating to our Respect in the Workplace and Human Rights Policy. Upon investigation, breaches were found to have occurred in 69 cases and actions were taken, including disciplinary actions that resulted in 33 people leaving BAT.

In 73 cases, no evidence of wrongdoing was found, and the remaining cases were still under investigation at the end of 2023.

#### Lessons Learnt

Given the human rights risks in agricultural supply chains, instances of child and forced labour may arise despite the multi-faceted approach and due diligence processes we have in place. A recent examination of the root causes of child and forced labour has helped us identify best practices and controls. These insights allow us to better address root causes, and contribute to the ongoing efforts to reduce child and forced labour in our supply chain.

#### What's Next?

- Undertaking an external review of our due diligence processes and policies across our value chain by independent human rights experts; and
- Seeking new opportunities in 2024 to advocate for positive, lasting change with a continued focus on addressing root causes.

#### Stakeholder perceptions and key insights from our DMA



#### What do our Stakeholders Think about Human Rights?

While our stakeholders acknowledge our mitigation practices, this topic is seen as an inherent risk and one with potentially significant implications. Key human rights concerns cited include child labour, worker health and safety, and equality. Hence we must strive for continuous improvement and communicate clearly on these topics.

#### How Will the Material Impact of Human Rights Shift Over Time?

Incoming human rights regulation is seeking to raise the standards for corporations' actions in this area. Over time, we must continue to strengthen our due diligence processes, remediation procedures and engagement activities to manage our risks effectively and to also ensure compliance with relevant regulations.

#### Notes:

1. Our ambitions cover all tobacco we purchase for our products ('tobacco supply chain'), which is used in our combustibles, traditional oral and Tobacco Heated Products. Our metrics, however, derive data from our annual Thrive assessment, which includes our directly contracted farmers and those of our third-party suppliers, which represented over 94% of the tobacco purchased by volume in 2023 ('Thrive Supply Chain').
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.
3. 95% of our contracted farmers are covered by FSM. The remaining 5% are monitored through local monitoring systems.

#### † Definitions:

**Child Labour:** The definition of child labour used to identify child labour incidents is aligned to the International Labour Organization's definition of child labour.


**+** Refer to the BAT 'Reporting Criteria' for a full description of key terms and definitions at [bat.reporting.com](https://bat.reporting.com)




## Sustainable Future

## Farmer Livelihoods and Communities



Ambition <sup>1</sup>	Metrics <sup>2</sup>	2023	Status
We are committed to working to enable prosperous livelihoods for all farmers in our tobacco supply chain	Crop diversification: % of farmers in our Thrive Supply Chain <sup>2</sup> growing other crops	93.3	 On track
	Potential % increase in yields from BAT hybrid tobacco varieties	20	Data in support of ambition
	People engaged in women empowerment training (thousands)	67	Data in support of ambition

 <sup>†</sup> Find out more:  
Refer to the BAT 'Reporting Criteria' for a full description of key terms and definitions at [bat/reporting.com](https://bat.reporting.com)

## Frameworks

GRI	GRI 203-1, GRI 203-2, GRI 413-1, GRI 413-2
SASB	This topic is not mapped by a specific SASB standard
PAI	This topic is not mapped by a specific PAI standard

## Our Impact

**Inward impact:** Agricultural supply chains face vulnerabilities from climate change; demand for natural resources; rural poverty; social inequality; human rights concerns, and ageing populations. By working towards prosperous livelihoods for all farmers in our supply chain, we can help make farming more attractive to the next generation, reduce the risks of child and forced labour, and improve standards.

**Outward impact:** The majority (73%) of our tobacco volume is sourced by the Group's own Leaf Operations through direct contracts with more than 91,000 farmers. The remainder is from approximately 154,579 farmers who are contracted to our third-party Leaf suppliers. By improving the socioeconomic development and long-term resilience of our farmers and tobacco-growing communities, we also make our business more resilient.


## Managing Impact

We are committed to working towards prosperous livelihoods for all farmers in our tobacco supply chain<sup>1</sup>.

Our Thrive programme uses a framework covering five 'capitals': financial, natural, human, physical and social. This helps us to address long-term challenges in farming communities.

We also participate in the Sustainable Tobacco Programme (STP), a global industry initiative to promote good practice in tobacco growing. We also conduct in-country Human Rights Impact Assessments.

These programmes help us to collect data, identify issues, and develop action plans to help remediate any negative impacts and improve performance. Our sourcing strategy aims to support our directly contracted farmers, and those contracted to our strategic suppliers to increase their farming income and help manage their environmental and social impacts.

 Read more about sustainability policies, procedures and standards on [page 72](#) and [73](#)

## Our Actions in 2023

## Thrive

In 2023, we continued to improve our Thrive digital platform, focusing on increasing data coverage, especially from third-party suppliers. Our data now represents more than 94% of our total tobacco leaf purchases, increasing from 84% in 2022.

We also continued to build on traceability, leading to a better mapping of the number of farmers supplying tobacco specifically to BAT (rather than our suppliers' total farmer base).

## Farmer living income analysis 2022

In 2022, we conducted an independent review of our living income calculation to analyse farm total income and compare with macro-economic indicators, including the cost of living. The methodology was applied to 13 Group's own Leaf Operations (excluding the U.S.) and is based on the Anker Methodology<sup>3</sup>. In 2023, we developed the BAT Sustainable Living Income Guidance to help bring a more positive financial return to farmers with a focus on action plans; yield; cost of production; training, and income diversification.

## Yield and cost of production

We aim to increase the productivity and profitability of our farmers through a number of initiatives, such as developing and deploying new tobacco varieties to increase yield and curing technologies to optimise cost of production.

## Developing new tobacco varieties:

Our Global Leaf Agronomy Development (GLAD) centre in Brazil creates new tobacco varieties that improve crop quality and increase yield by up to 20%. In 2023, our Group's own Leaf Operations in 12 countries used new varieties from GLAD or conducted field trials.

## Introducing mechanised solutions and curing technologies:

We are also working on machines and curing systems that help farmers to produce more, save labour and reduce fuel. These include fertilising machines, automated harvesters and curing systems. Automated curing barns cut fuel use by up to 30% and make the curing process 45% less labour-intensive. We are testing or using this technology in several countries where we source tobacco, such as Brazil, India, Sri Lanka and Vietnam.

## Enhancing farmer training and capacity building:

Farm productivity can also grow through farmer training and capacity building. Our expert Field Technicians support our directly contracted farmers throughout the growing cycle, helping them to develop skills, boost yields and build resilience. Our suppliers offer similar support for their contracted farmers. Our Thrive assessments reported that 78,238 people participated in farm business management training in 2023.

## Income diversification

We encourage our farmers to diversify their crops and income sources, which can improve food security, increase resilience and reduce dependence on tobacco. Our assessment of 13 Group's own Leaf Operations indicates that around 40% of total farm income comes from non-tobacco sources and other non-agricultural activities.

In 2023, 93.3% of our farmers in the Thrive Supply Chain<sup>2</sup> were reported to be growing other crops. The Group's own Leaf Operations and strategic third-party suppliers support tobacco farmers on improving crop diversification techniques, with more than 91,817 people trained in 2023. We support diversification programmes in several tobacco growing countries, where we tailor our approach to local contexts. Some key examples are:

- In Brazil, we support farmers to grow grains and pastures after the tobacco harvest, improving soil health and reducing crop losses. The programme, which was established in 1985, covered over 123,000 hectares of land and generated additional revenue of around £106.45 million for the farmers in 2023. 85% of our 16,200 directly contracted farmers in Brazil participate in crop diversification activities.

- In Kenya, we aim to promote farmer food security and reduce dependency on tobacco. In 2023, 100% of the farmers directly contracted by BAT Kenya participated in diversification activities, such as growing avocados in regions with sufficient rainfall, which can provide a significant additional future income.
- In Sri Lanka, we provide free seeds of cereals and vegetables to contracted farmers and community members, enabling them to grow their own food and earn extra money. The programme benefited 5,020 people in 2023 and generated an additional income of US\$ 490,361.

### Building community resilience

Our community programmes cover issues ranging from 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 healthcare services to more than 100,000 people in remote tobacco-growing communities to date. In Bangladesh, we installed 119 water filtration plants since 2009, providing more than 595,000 litres of safe drinking water per day to more than 290,000 people. This included 7,000 new beneficiaries in 2023.

### Our Women Empowerment Programme

Lack of women's empowerment in rural communities is one of the root causes of child and forced labour.

As reported in Thrive, women's empowerment training reached more than 67,186 people in 2023. Below are some examples of achievements in 2023.

- The Women Empowerment Programme in Pakistan trained 11,387 rural women to boost their family income. 100% of the contracted farmers had at least one female family member trained (wives, daughters, sisters or mothers), an increase from 77% in 2022.
- Women's empowerment training programmes by 17 Thrive suppliers.

In 2023, we reviewed our existing approach and developed a Women's Empowerment Framework, which we will continue to build and implement. This includes:

- Women's and girls' welfare and health; capacity building;
- Creating opportunities to improve livelihoods; and
- Addressing cultural barriers and more.

 Read about our women empowerment programmes at [bat.com/womenempowerment](https://bat.com/womenempowerment)

### Lessons Learnt

BAT has worked with farming communities for many years and through our Thrive assessments, and other programmes, we have learnt that a long-term, collaborative approach that accounts for local conditions and impacts, can be the most challenging but is also the most successful in improving farmer livelihoods. We are learning more about the interconnectivity of environmental issues and human rights, working in areas such as climate change and biodiversity, in order to increase environmental and economic resilience for farmers and rural communities.

### What's Next?

- Continuing to focus on living income action plans, diversification and ongoing training for directly contracted farmers;
- Addressing the systemic issues that impact the communities by taking a holistic approach to advance gender equality through our new Women's Empowerment Framework;
- Continuing to explore new partnerships to positively impact farmer livelihoods and build community resilience.

### Stakeholder perceptions and key insights from our DMA



### What do our Stakeholders Think About Farmer Livelihoods?

While this topic remains highly important to BAT, the inward and outward impact of this issue is seen to be lower than other topics in relative terms. As we still very much rely on tobacco growing, stakeholders expect our efforts to have a positive impact on the socio-economic wellbeing of farmers and affected communities.

### How Will the Material Impact of Farmer Livelihoods Shift Over Time?

The transition to New Category products and the associated decrease in tobacco demand will undeniably impact farmers over time. As the number of contracted farmers decreases, we must continue to strengthen our mitigation measures to minimise negative impacts on the livelihoods of farmers and affected communities, and allow for a sustainable transition.



### Notes:


1. This is our ambition, which covers all tobacco we purchase for our products ('tobacco supply chain'); which is used in our combustibles, Traditional Oral and Tobacco Heated Products.
2. Our metrics derive data from our annual Thrive assessment, which includes our directly contracted farmers and those of our third-party suppliers, which represented over 94% of the tobacco we purchased by volume in 2023 ('Thrive Supply Chain').
3. <https://www.living-income.com/measurement-living-income>.

## Sustainable Future

## Marketing and Communications



Ambition	Metrics	2023	Status
Full compliance with marketing regulations	Incidents of non-compliance with regulations resulting in regulatory warning <sup>1</sup>	0	 Ongoing focus area
	Incidents of non-compliance with regulations resulting in a fine or penalty <sup>1,2</sup>	3	 Ongoing focus area

 <sup>†</sup> Find out more:  
Refer to the BAT 'Reporting Criteria' for a full description of key terms and definitions at [bat.reporting.com](https://bat.reporting.com)

## Frameworks

GRI	GRI 417-2, GRI 417-3
SASB	FB-TB-270.a.1, FB-TB-270.a.2
PAI	This topic is not mapped by a specific PAI indicator

## Our Impact


**Inward impact:** Marketing freedoms with respect to our New Category products are critical for our ability to deliver on Tobacco Harm Reduction (THR). Through communicating and raising awareness around reduced-risk products<sup>†</sup>, we can support the acceleration in reduction in smoking rates and, in turn, smoking-related diseases.

**Outward impact:** We can only achieve sustainable, long-term growth as a business through responsible marketing of our products. We communicate that tobacco and nicotine products are for adults only. We recognise concerns regarding underage consumption, particularly with respect to Vapour products. We emphasise the need for clear and meaningful product information, while also focusing on preventing underage access.

## Managing Impact

Our approach to responsible marketing is governed by our International Marketing Principles (IMP), which apply to all BAT entities and marketing suppliers. These principles emphasise responsible, accurate, and adult-targeted marketing. They apply even when they are stricter than local legal standards. During 2023, the Board reviewed and approved new Responsible Marketing Principles which will be implemented in 2024. A crucial aspect of responsible marketing is underage access prevention (UAP), supported by guidelines and toolkits in all our markets, including third-party distribution channels.

All our marketing suppliers are held to the same standards. Their compliance with the IMP is explicitly required in our contracts, as well as through the Supplier Code of Conduct (SCoC).

 Read more about sustainability policies, procedures and standards on [page 72 and 73](#)

## Our Actions in 2023

## Reporting and resolving incidents of non-compliance

In 2023, we identified 3 incidents of non-compliance with marketing regulations resulting in a fine or penalty and 0 incidents of non-compliance with regulations resulting in a regulatory warning. Any allegations of non-compliance are managed and escalated by the relevant market. Regional Heads of Legal who report any relevant findings to the Regional Audit Committee and remediation actions are implemented, as appropriate.

## Evolving our approach to responsible marketing

We regularly review our marketing practices to ensure they remain fit for purpose and reflect developments in marketing, our product portfolio, technology, evolving regulatory developments and stakeholder expectations. In 2023, we initiated a project to review and refresh our IMP and supporting frameworks.

In 2024, we plan to launch refreshed principles and publish the supporting frameworks, providing transparency on our standards and commitments to responsible marketing and UAP.

## Our ongoing iCommit training programme

iCommit is our training programme for responsible marketing, covering key measures for ensuring IMP and UAP compliance across all channels.

In 2023, we incorporated iCommit into the onboarding process for all new employees and the key components into the Standards of Business Conduct (SoBC) mandatory annual sign-off, to provide a refresher for all employees.

All new employees to our partner marketing agencies are also asked to complete the training as part of onboarding. In 2023, we achieved 100% iCommit completion rate.

 For more information about our SoBC sign-off, please see [page 98](#)

## Setting standards for retailers

Our UAP Guidelines mandate that each market has a UAP programme in place. We conduct engagement activities with physical and e-commerce third-party retail customers and distributors to uphold BAT's responsible marketing standards. Examples of engagement include providing training and signage with UAP messaging to retailers.

## Marketing in a digital age

Our e-commerce and social media channels play an important role in digitising our business. We seek to approach these channels in a responsible way and in accordance with our responsible marketing standards and processes, including those relating to UAP. We do not use open social media for our combustibles brands.

We only use social media sites where the majority of users are adults. Our social media accounts, and our paid content on these platforms, are only visible to users who have confirmed they are adults.

Where we use social media partnerships to promote New Category products, we select third party partners where their audience is predominately adult.

Our Digital Marketing Hub continues to provide guidance on how to achieve long-term consumer satisfaction and product awareness in a responsible way.

In our own e-commerce channels, we implemented digital age-verification solutions. For instance, in the UK, France and Ireland, we use a privacy-focused facial age estimation technology to age-verify customers in our own e-commerce channels. We also have pilots in place in some of our physical stores in the UK and Norway using the same technology. In the U.S., we sponsor TrueAge™, a digital ID check solution that enhances the accuracy of age-verification when purchasing age-restricted products in stores.

### Monitoring social media marketing

The Digital Confidence Unit (DCU) is dedicated to monitoring social media content 24/7 for compliance and reputational management purposes. To provide central oversight of our social media posts, the team reviews our social media posts to check for compliance with our IMP and UAP guidelines. The DCU engages with markets, as appropriate, to ensure swift remediation of any incidents identified.

### Committed to communicating transparently

We continue to 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 disclosures in relation to sustainability. Any claims and statements in our communications undergo an established review and sign-off process that involves representatives from all relevant functions, including the Legal function. For example, in order to improve the accuracy of and to help substantiate the sustainability claims for our products, we work closely with our suppliers to obtain information regarding the materials and processes used, and carry out checks to verify the accuracy of the contents.

### Lessons Learnt

In recent years, concerns have been raised by our stakeholders, including regulators, regarding certain marketing practices of others within the tobacco and nicotine industry, such as marketing that appears to target the underage and the sale of non-compliant products through unregulated channels.

We are committed to marketing our products responsibly. We strive to elevate industry standards through our responsible marketing and underage access prevention practices.

We have sought to proactively engage with relevant authorities to address irresponsible marketing practices. While we impose high standards on our retailers through our SCoC, our ability to directly control their impacts is constrained. For retailers, non-compliance cases are handled locally and involve measures such as training, warnings and penalties. We will continue to work with our customers and retailers to raise awareness on the importance of underage access prevention.

### What's Next?

- Planning to launch our refreshed Responsible Marketing Principles and Responsible Marketing Code. The rollout will include training for all employees and third parties involved in the development, marketing and sales of our products (see Our Responsible Marketing Strategy at page 96);
- Planning to strengthen underage access prevention measures, as well as engaging further with regulators and retailers across our markets to support education, engagement and enforcement to prevent underage access to tobacco and nicotine products; and
- Continuing to invest in innovative third-party technologies to mitigate risks relating to underage access, such as computer vision and artificial intelligence (AI) to strengthen the age verification process across our e-commerce channels and retail stores.

### Stakeholder perceptions and key insights from our DMA



### What do our Stakeholders Think About Marketing and Communications?

Our stakeholders believe that not managing marketing and communications responsibly will have a high impact on our social license to operate. They also acknowledge that regulatory restrictions can limit our ability to inform adult smokers about our products.

### How Will the Material Impact of Marketing and Communications Shift Over Time?

Limitations imposed by regulatory restrictions on tobacco and nicotine products could present a competitive disadvantage for our business over time. Moreover, underage access of New Category products was raised as an issue of increasing severity, and it is a topic that stakeholders, regulators and the media are watching keenly. We discuss our actions to tackle this issue in the Our Actions in 2023 and What's Next sections above.

#### 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.
  2. In line with a reclassification of 'ongoing incidents' (which, from 2023 reporting will be included as an 'incident' when the final decision is issued). The 2022 number has been restated (three previously reported for 2022).
- \* 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.



## Sustainable Future

## Ethics and Integrity



Ambition	Metrics	2023	Status
<b>100%</b> Aiming for full adherence to our Standards of Business Conduct (SoBC)	% of Group employees completed SoBC training and compliance sign-off procedure	100	<input checked="" type="checkbox"/> Achieved
	Number of established SoBC breaches <sup>2</sup>	123	<input type="checkbox"/> Ongoing focus area
	Number of disciplinary actions resulting in people leaving BAT	79	<input type="checkbox"/> Ongoing focus area

**+ Find out more:**  
Refer to the BAT 'Reporting Criteria' for a full description of key terms and definitions at [bat.reporting.com](https://bat.reporting.com)

## Frameworks

<b>GRI</b>	GRI 2-26, 205-2, 205-3, 415-1
<b>SASB</b>	This topic is not mapped by a specific SASB standard
<b>PAI</b>	10, 11, 14, S5, S7

## Our Impact

**Inward impact:** Unethical behaviour can damage business, reputation and consumer trust. It can also distort markets, causing economic, social and political impacts, often with more pronounced impacts on developing countries.

**Outward impact:** As a global business, promoting ethical behaviour and monitoring for compliance is essential. This is why we continue to review and improve our compliance programmes across the Group.

## Managing Impact

Our approach to ethics and integrity is outlined in our Standards of Business Conduct (SoBC). Moreover, our Delivery with Integrity programme aims to increase awareness on business ethics and drive a consistent approach to the application of our SoBC across the Group. Our Supplier Code of Conduct (SCoC) defines the minimum standards expected of our suppliers in a number of areas, including compliance, human rights and business integrity. The Anti-Illicit Trade (AIT) chapter is an integral part of our SoBC and sets out the controls all Group companies must have in place to prevent and deter illicit trade. Our Supply Chain Compliance (SCC) Procedures provide guidance for our customers to comply with our AIT chapter as well. These requirements are incorporated into all our contracts with both suppliers and customers.

**+ Read more about sustainability policies, procedures and standards on [page 72](#) and [73](#)**

## Our Actions in 2023

## 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 do not tolerate harassment, victimisation or reprisals of any kind against anyone raising a concern, such conduct is itself a breach of our SoBC. Anyone working for or with the Group, including employees; contractors; contingent workers; business partners; customers; suppliers, and their workers can Speak Up. They can raise concerns anonymously, if they wish, through our confidential, independently-managed 'Speak Up' online and telephone channels, available 24 hours a day in local languages. They can also speak to Human Resources, their line manager or a Designated Officer. In 2023, we updated our SoBC Assurance Procedure so that all cases are triaged and assigned in a more standardised and systematic manner.

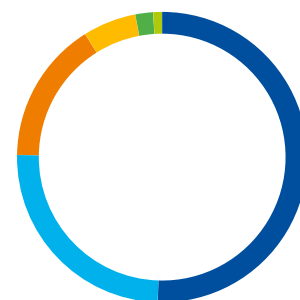
Not all contacts involve breaches. Some relate to questions regarding the SoBC. For established breaches, we take appropriate disciplinary actions, ranging from formal written warnings to termination of employment. Where appropriate, we will report matters to the relevant authorities.

## Addressing non-compliance with our SoBC

In 2023, 427 of all the 707 SoBC contacts were assessed as alleged SoBC breaches and reported to the Audit Committee. In 49% 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 seeks to ensure that the procedure is applied consistently. In 2023, figures for detailed investigations conducted into all reported cases were:

- No wrongdoing was found in 135 cases (2022: 111);
- Investigation ongoing at year-end for 169 cases (2022: 97); and
- 123<sup>@</sup> cases were established as breaches and appropriate action taken (2022: 84).

In 2023, the established SoBC breaches resulted in 79<sup>@</sup> people leaving BAT (2022: 58) and 53 written warnings (2022: 36). If any weakness in internal controls is identified, appropriate measures are taken to strengthen them.

Breakdown of reports of alleged SoBC breaches in 2023<sup>2</sup>

Policy areas	Breakdown (%)
Social and Environment	51
Corporate Assets and Financial Integrity	25
Personal and Business Integrity	16
Others not relating to a specific policy area	6
National and International Trade	2
External stakeholders	1

## Notes:

- <sup>@</sup>Figures with independent limited assurance by KPMG.<sup>®</sup>
- Consistent with previous years' reporting, cases are not included in the above if they were not resolved at year-end. This data excludes Russia and Belarus. Refer to our ESG Performance Data Book 'Reporting Criteria' for further information.

## Preventing non-compliance

Our Sanctions Compliance Procedure and Third-Party Anti-Financial Crime Procedure create a comprehensive framework to promote compliance with a range of legal and regulatory requirements applicable to the Group. In 2023, our Global Sanctions e-learning programme was completed by approximately 22,000 employees. It is designed to support employees to build confidence in identifying key sanctions compliance risks. In addition, we have updated our employee onboarding protocol by including a requirement to complete an e-Induction on our SoBC within four weeks of commencing employment.

We have also updated our retailers' onboarding protocol and framework to enable the detection of retailers' potential exposure to sanctions and risks. With this new protocol, customers (e.g. retailers and distributors) are screened before onboarding to allow for better risk management.

As set out in our M&A Transactions Compliance Procedure, our due diligence procedures for mergers, acquisitions and corporate ventures include human rights and modern slavery checks. If risks are identified, mitigation steps are taken as appropriate.

Further, we invested in technology-driven solutions to refine our compliance platforms. For example, we enhanced our Delivery with Integrity programme by implementing continuous real-time screening for all business partners.

## Preventing and tackling illicit trade in tobacco products

Focusing and maintaining controls to prevent diversion of our products is a key component in our fight against illicit trade.

We have a dedicated Forensic and Compliance Team (FaCT) that analyse seized products, determine counterfeits and identify illicit machinery used in their production. In addition, they maintain supply chain controls through a seizure management process tailored to satisfy our contractual and regulatory obligations.

The team is also instrumental in conducting Empty Pack Survey (EPS), a global anti-illicit trade research programme that provides insight into illicit trade incidences. Last year, more than 40 markets participated in approximately 80 surveys.

We continue to strengthen our AIT approach by reviewing our existing obligations followed by regular updates of our Policies and Procedures. This year, we launched the SCC Procedures App, which seeks to ensure that a consistent approach is taken across all BAT operating companies. We also streamlined the AIT self-risk assessment process to allow for evaluation of our supply chain risks globally as well as in individual markets.

Amongst other supply chain controls, we roll out a dedicated eLearning programme to all relevant employees every year. The completion rate for the 2023 SCC Procedures eLearning was above 99% across the Group.

## Regulation and engagement

'Lobbying and Engagement' and 'Political Contributions' are chapters of our SoBC, which is 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.

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.

## Lessons Learnt

In recent years, the evolving stakeholder expectations and regulations have made it imperative for businesses to embrace heightened transparency across all facets of their operations. As a company navigating diverse jurisdictions, the call for transparency and integrity becomes even more important. To remain a trusted organisation, we recognise the need to champion transparency.

## What's Next?

- Continuing to refine our Speak Up system to increase employees' trust in the system; and
- Innovating on our compliance monitoring through technology that enables us to analyse data from our systems and generate insights and foresights.



Find details of our other governance priorities, including data privacy and cyber security on [pages 355 and 369](#)

## Stakeholder perceptions and key insights from our DMA



## What do our Stakeholders Think About Ethics and Integrity?

Stakeholders considered that this presented important risks for our business, as well as opportunities. They acknowledged and applauded the mitigation measures that we have put in place, but also noted the need to remain vigilant and refresh our mitigation measures as appropriate.



## How Will the Material Impact of Ethics and Integrity Shift Over Time?


The current inward impact of this topic on our business is significant. While Ethics and Integrity remains crucial to our license to operate and corporate culture, its inward impact may reduce over time as we continue to improve upon and leverage due diligence processes we have put in place.

## Sustainable Future

## Supplier Engagement



Targets	Metrics	2023	Status
<b>100%</b> of product materials and high-risk indirect suppliers to have undergone at least one independent labour audit within a three-year cycle by 2025	% of product materials and high-risk indirect suppliers to have undergone at least one independent labour audit within a three-year cycle	58.8	 On track
<b>20%</b> of suppliers of purchased goods and services by spend, to set Science-Based Targets (SBTs) by 2025	% of suppliers of purchased goods and services by spend to set Science-Based Targets (SBTs) by 2025	15	 On track

 <sup>†</sup> Find out more:  
Refer to the BAT 'Reporting Criteria' for a full description of key terms and definitions at [bat/reporting.com](https://bat.reporting.com)

## Frameworks

GRI	GRI 308-1, 414-1, 414-2
SASB	FB-AG-430a.2
PAI	S4


## Our Impact

**Inward impact:** We have a relationship with 1,300 direct and 32,500 indirect product material suppliers. Our suppliers' environmental and social performance is critical to meeting our own social and environmental targets. Proactively engaging with our suppliers and working with them to build capability contributes to the Group's overall success.

**Outward impact:** We strive to be a positive influence on how our suppliers approach sustainability, including how they manage environmental, human rights and health and safety risks. As valued business partners, it is crucial to listen to and engage with our suppliers to build trust and drive progress.

## Managing our Impact

Our approach to Supplier Engagement is set out in our Supplier Code of Conduct (SCoC). It defines the minimum standards we expect from our suppliers in supplying goods or services to BAT or its Group companies and complements our Standards of Business Conduct (SoBC). To meet our sustainability goals, we particularly focus our supplier engagements on human rights and climate change, and we have set our Supplier Engagement targets in these areas.

 Read more about sustainability policies, procedures and standards on [pages 72 and 73](#)

## Our Actions in 2023

## Engaging with direct and indirect suppliers on climate change

We continue to make progress on our SBTi supplier engagement goal, which is for 20% of suppliers of purchased goods and services by spend, to set Science-Based Targets (SBTs) by 2025. This year, we are more than halfway to achieving this goal, with 15% of such suppliers having SBTs in place.

We continued to invest in our supplier enablement programme, which helps our suppliers to improve their environmental performance and data quality. Examples of our achievements include:

- Working with our top 60 CO<sub>2</sub>e emitting suppliers to share best practices and insights on reducing their carbon footprint, based on our own carbon reduction programme.
- Providing one-to-one training on renewable energy in our New Category supply chain, which has led to an increase in our suppliers' procuring renewable energy, backed by iREC certificates.
- Holding sustainability-focused supplier events in Bangladesh and Pakistan to help our suppliers build the capabilities to manage local challenges in these key geographies.

Our efforts have resulted in suppliers implementing their own low carbon initiatives such as lower carbon generation, setting emission baselines, and reporting and tracking emissions – many of them did it for the first time in 2023.

Additionally, we invited more than 600 suppliers representing 92% of our purchased goods and services emissions, to respond to the CDP Supply Chain programme. The data we collect from our suppliers through the programme enables us to better understand our wider environmental impact and set targets. We recorded a 92%<sup>†</sup> response rate, which is above the average industry response rate of 59%. This level of engagement is almost a threefold increase in comparison to 2022 (over 200 suppliers) and builds upon our recognition as a Supply Chain Engagement Leader by CDP in 2022. Throughout the disclosure cycle, we invited our suppliers to multiple capability building webinars.

 Details of our carbon reduction programme can be found in our [Low Carbon Transition Plan](#)

## Human rights programme and capability

In 2023, we developed a tracking and monitoring tool, which allows BAT's procurement teams to have greater visibility of our Social Due Diligence programme. We also provided training to our procurement teams on the tool, raising social awareness and building capability in our value chain.

## Sharing our learnings beyond our supply chain

As a member of The Sustainable Procurement Pledge, we joined other professionals, academics and practitioners to share and learn best practice in responsible sourcing practices; and in partnership with Gartner (one of the leading sustainability consultancies), we took part in their Supply Chain podcast series, sharing our insights on how to drive organisational success.

## Social due diligence in our product material supply chain

Adherence to the SCoC is mandatory in all sourcing processes and sets the guidelines and standards for all our suppliers to conduct their operations in a responsible and ethical manner.

Any new product materials supply chain suppliers must undergo an independent due diligence audit aligned to ILO standards and achieve a score of 70% to qualify.

Existing suppliers are assessed using a risk-based approach, depending on their category and risk level. All New Category and high-risk direct material suppliers undergo on-site audits by Intertek. The assessment criteria include labour, wages and hours, health and safety, environment and management systems. All other suppliers undertake self-assessments by EcoVadis to evaluate their performance in areas such as environment, labour and human rights, and ethics. All New Category Tier 1 suppliers are audited on an annual basis.

In 2023, 623 social assessments of suppliers in 55 countries were conducted through our external audit partners, Intertek and EcoVadis:

- Tier 1 product materials suppliers: 478;
- Lower-tier product materials suppliers: 50; and
- Indirect suppliers: 95.

Out of the 623 assessments, 167 were re-audits from previous years and 186 were new audits. We require further cycles of audits based on our suppliers' previous audit score.

The number of second cycle of audits was 144 and 34% of those re-audited improved their audit performance from the first audit.

Of the issues identified, 83% were classified as 'moderate' and 17% as 'major'. 'Major' non-compliances included:

- Labour Standards/Human Rights 75%
- Environmental issues 25%

51% of corrective actions identified were completed and verified by year-end 2023, with the remainder on track to close by the end of Q2 2024.

We have joined the Responsible Business Alliance (RBA) as a Supporter Member and the Supplier Ethical Data Exchange (Sedex) to expand the coverage of audits globally and to improve our own social due diligence and those of our suppliers, particularly in the electronics supply chain.

### Responsible mineral sourcing

Our electronics supply chain for our New Category products can have many layers of suppliers between the raw materials and the final product. This complexity can increase risks for both the security of the supply chain and human rights. Therefore, we focus on mapping our supply chain and continue to drive our key suppliers to manage sustainability issues in their supply chains by holding them accountable for their progress in this area.

Our commitment to responsible mineral sourcing is outlined in our SCoC. This includes, but is not limited to, working with our suppliers to:

- Exercise appropriate due diligence; and
- Identify the origin of 'conflict minerals' in our New Category products, with reference to the OECD's internationally recognised guidelines for responsible mineral supply chains. We report on our findings annually in our Conflict Minerals Report.

In 2022, we obtained membership to the Responsible Minerals Initiative ('RMI' – formerly the Conflict-Free Sourcing Initiative). As members of the RMI, we participate in cross-industry efforts to support responsible minerals sourcing, and by utilising the resources that are available to RMI members, we seek to further enhance our minerals supply chain due diligence process.

### Lessons Learnt

Navigating the complexities of our supply chain and adapting to local contexts are key to successful collaborations with our global supplier base. Over the years, we have refined our engagement with suppliers, fostering a more collaborative and continuous approach, complemented by targeted training initiatives.

We understand the need to adapt our engagement approach to suppliers' needs and to leverage our interactions to support their progress in reducing their carbon footprint.

### What's Next?

- Expanding our Supplier Enablement Programme to cover both global and local strategic suppliers and drive capability within our non-leaf supply chain; and
- Continuing to engage with our non-leaf suppliers to improve the visibility and traceability of our supply chain and prepare for upcoming legislation on supply chain transparency.

### Stakeholder perceptions and key insights from our DMA



### What do our Stakeholders Think About Supplier Engagement?

While farmer relationships are well understood, stakeholders noted that the awareness of our impact on other suppliers is less mature. As we further transition to New Categories, more attention is needed on this topic. Engaging with this supplier group will be critical to our work on human rights and climate change, in particular.

### How Will the Material Impact of Supplier Engagement Shift Over Time?

The impacts of this topic may become more significant over time as our business transforms. Further, the level of maturity of our New Categories supply chain means that new risks may emerge, for example, in its resiliency. It is crucial that we continue our work on supplier engagement to better manage and mitigate those risks.

#### Note:

1. Excluding Russia and Belarus. More details about changes to the Group related to Russia and Belarus are available on page 280 of this document.

#### † Definitions:

**Tier 1 suppliers:** Direct suppliers of final products or materials.

**Lower-tier suppliers:** Suppliers, with whom we have a commercial relationship, who supply materials or products to our Tier 1 Suppliers.



† Refer to the BAT 'Reporting Criteria' for a full description of key terms and definitions at [bat/reporting.com](https://bat.com/reporting.com)



## Sustainable Future

## TCFD Reporting

**A summary of our response to the Task Force on Climate-related Financial Disclosures (TCFD) recommendations is set out below.** Under the 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 climate-related disclosures in the future. For more information see page 116.

### 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 and ESG risk register, both of which include climate-related risks, annually. In 2023, the Board approved a revised version of the Environment Policy. The Audit Committee reviews the Group risk register and ESG risk register twice a year and oversees the Group's approach to TCFD reporting.	<a href="#">+ Read more on pages 70 and 103</a>
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.	<a href="#">+ Read more on pages 70 and 103</a>

#### 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 six climate-related risks and two opportunities. For each, the level of likelihood and impact has been analysed up to 2050 with a particular focus on 2030 and 2050 to match the time frames of our key ESG commitments.	<a href="#">+ Read more on pages 106 to 112</a>
b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	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.	<a href="#">+ Read more on pages 106 to 112</a>
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 three climate-related scenarios: Sustainable Transition (based on a global 1.5°C temperature rise), Delayed Transition (based on a global 2°C temperature rise) and Climate Change Inaction (based on a global 3°C temperature rise).	<a href="#">+ Read more on pages 106 to 112</a>

#### 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 for impact (high/medium/low) and likelihood (probable/possible/unlikely), defined by our Risk Management Framework. Group KPIs are set to identify climate-related physical and transition risks (where relevant).	<a href="#">+ Read more on pages 111 and 112</a>
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 risks are based on a variety of considerations, including risk score, our ability to influence or control the risk and cost and effectiveness of mitigation.	<a href="#">+ Read more on pages 111 and 112</a>
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 and ESG risk register by our Group Risk Management Committee, chaired by the Finance Director. The Group risk register and ESG risk register are also reviewed annually by the Board and biannually by the Audit Committee.	<a href="#">+ Read more on pages 111 and 112</a>

#### 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 sustainability priority areas, including climate change, against which we report on our performance and progress each year.	<a href="#">+ Read more on pages 113 and 114</a>
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.	<a href="#">+ Read more on pages 113 and 114</a>
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 of 50% reduction of Scope 1 and 2 GHG emissions, and 50% reduction of Scope 3 GHG emissions by 2030 (vs a 2020 baseline) <sup>1</sup> and to reach Net Zero GHG 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.	<a href="#">+ Read more on pages 113 and 114</a>

#### Note:

1. Compared to a 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 products, which collectively comprised >90% of Scope 3 emissions in 2020.

## Governance

### Board oversight

The Board is collectively responsible for the sustainable, long-term success of the Company's 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 for the Group to meet its business objectives within a framework of 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 GHG emissions) and receives an update on performance twice a year from the Director, Operations.

The Board reviews the Group risk register and ESG risk register, both of which incorporate climate-related risks, on an annual basis. In addition, the Board reviews the Group budget which takes into account capital allocation to deliver the Group's sustainability agenda and associated targets.

**+** Read more about our Climate Change and Circular Economy risk in the Group Principal Risks on [page 121](#) and in the Group Risk Factors on [page 354](#)

In 2023, the Board approved a revised version of the Group's Environment Policy, effective from July 2023, and the introduction of updated versions of our SoBC and SCoC (from 1 January 2024), both of which include environmental management requirements. In 2023, the Board also received an in-depth briefing on developments in sustainability regulations, including TCFD requirements.

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.

The Audit Committee reviews the Group risk register and the ESG risk register twice a year and regularly reviews the Group's progress against sustainability targets, including emission targets that address climate-related issues (see targets on page 113). The Audit Committee also receives reports from the Group's Regional Audit Committees and Corporate Audit Committee, which monitor the effectiveness of business risk management and internal controls across regions and central functions. In 2023, the Audit Committee continued to oversee developments in our approach to reporting in alignment with the TCFD framework, including the introduction of additional climate scenario analysis in our risk assessments.

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.

### 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 70.

Our 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 Group strategy and policies, and monitoring Group operating performance, including in relation to sustainability and climate. The Chief Executive and other Management Board members then report on performance to the Board.

Management Board members are regularly updated on material risks and development of strategic plans, including those relating to climate change, along with associated risk mitigation plans, by risk owners, risk managers and their respective teams. This includes regular monitoring by the Group Risk Management Committee, chaired by the Finance Director. The Chief Strategy & Growth Officer has overall responsibility for the delivery of the Group Sustainability Agenda, supported by the Sustainability team, including our Chief Sustainability Officer, Head of Corporate Sustainability and sustainability subject-matter experts across the Group.

The Director, Operations has overall responsibility for delivery of the Group's climate strategy and environmental targets, supported by the Group Head of Operations Development and Sustainability, the Operations Sustainability team, the Group Sustainability team and regional sustainability managers.

Each reporting unit reports on a monthly basis. 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.

### Summary of Climate-related Matters Reviewed by the Board in 2023:

- Group risk register and ESG risk register (annually)
- Environmental performance (twice a year)
- Approval of the ARA and 20-F in February/March 2023
- In-depth review of sustainability reporting regulations in April 2023
- Approval of the revised Group Environment Policy effective from July 2023
- Review of business stakeholder engagement in October 2023, which included an update on the refreshed Double Materiality Assessment
- 2024 Budget Review (including Operations sustainability budget) in December 2023
- Approval of an updated version of the SoBC and SCoC, effective from 1 January 2024

## Sustainable Future

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## Strategy

Our purpose to build A Better Tomorrow™ and our Group strategy are set out on page 2. Our Sustainability Priorities, with climate change as a key priority under the 'Delivering Net Zero GHG Emissions Across Our Value Chain' pillar, are set out on page 66.

We rely heavily on natural resources to run our business and our ability to secure these resources is directly linked to the effects of climate change. Not only does the climate crisis impact society and the environment, it also threatens our business growth. It is therefore imperative that we develop strong mitigation and adaptation strategies and work together with the private and public sector to take action.

In this context, BAT has a target to reduce our value chain GHG emissions by 50% by 2030 and, by 2050, to achieve Net Zero GHG emissions across our value chain. In 2022, we published our Low Carbon Transition Plan (LCTP), which outlines 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 an economy that works for people and the planet by addressing climate-related risks and opportunities.

**+** Read more about our approach to Financial Planning in Decarbonisation in 2022 Low-Carbon Transition Plan at [bat.com/LCTP](https://bat.com/LCTP)

## Our climate strategy

To deliver on our 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:

- Reducing the environmental impact of our direct operations (see page 80);
- Building a climate-resilient supply chain in partnership with our key direct and indirect suppliers (see page 100) and performing climate scenario analysis to understand the resilience of our business against a set of identified climate-related risks and opportunities;
- Collaborating with our directly contracted tobacco farmers to introduce sustainable agricultural practices (see page 81);
- Promoting a circular economy model to reduce downstream emissions (see page 82); and
- Protecting our ecosystems, to enhance the resilience of our internal supply chain and wider value chain (see page 84).

**+** Read more about our approach to managing our environmental impacts within our sustainability material topics on [page 80](#)

## Financial Planning in Decarbonisation

The risks and opportunities posed by climate change continue to be deeply embedded within our financial planning and form a critical part of our Net Zero GHG emissions strategy. We have incorporated Internal Carbon Pricing (ICP) in our financial planning and rolled out 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 are yet to exist and, therefore, the effectiveness of conventional financial appraisal tools such as NPV and payback analysis is reduced.

## Financial Planning Elements That Have Been Influenced by Risks and Opportunities

The Group's climate change-related risks and opportunities are considered in our strategic and financial planning, our capital allocation decisions and our operational management. The impacts of risks and opportunities arising from climate change help inform our strategies and financial planning to enhance the overall resilience of our business.

The climate scenario analysis undertaken has been performed against three time horizons: (i) short-term (2024-2030): this time period is linked to our 2030 ESG commitments, (ii) medium-term (2031-2040) and (iii) long-term (2041-2050), which aligns to our LCTP across our value chain.

Our material climate related risks and opportunities are detailed on pages 108 to 110.

## Revenue

Physical risks of climate change have the potential to adversely impact revenue through supply chain constraints. Our business planning helps us to mitigate these risks through detailed continuity plans such as sufficient inventory durations (with a trade-off on working capital and funding costs) to mitigate short-term supply risks and understanding the longer terms risks on our supply chain.

In addition, sustainability is an increasing factor in consumer purchasing decisions. That is why we continuously seek insights that feed into future product innovations and initiatives.

Our Take-Back schemes for responsible disposal are an example of an initiative we are implementing to improve our product circularity and reduce associated end-of-life carbon emissions.

**+** Read more about our approach to end-of-life processes and product circularity on [page 82](#)

## Our Climate Strategy





### Direct operating costs

Ways in which climate change considerations can impact cost of sales and, as such, are considered as part of our financial planning include:

- 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 wider value chain as we transition to a low-carbon model.

### Capital allocation

As part of our financial planning, we require that significant capital investments must include carbon emissions impact calculations which are priced into cash flow projections using Internal Carbon Pricing (ICP), as well as marginal abatement cost, and most recently, balanced scorecard appraisal tools.

The level of ICP is reviewed annually, following benchmarking of external metrics and was set at £67 tCO<sub>2</sub>e in 2023 and is forecasted to rise incrementally year-on-year to £120 tCO<sub>2</sub>e by 2030.

### Capital investment

We fund a dedicated capital expenditure budget that is used to progress the delivery of our ESG commitments. In 2023, this amounted to £34 million with investments in energy efficiency and renewable energy generation, water recycling and efficiency projects, waste reduction, and product innovation-led specification improvements to drive recyclability.

### Assets and liabilities

The impact of climate change is considered in the estimates of future cash flows used in impairment assessments, as detailed in note 12 of the financial statements.

 Read more about the impact of climate change as part of our impairment disclosure on [page 239](#)

### Access to capital

Climate risks and opportunities may impact BAT's financing in multiple ways, for example (1) climate change may impact the business financially through potentially higher costs and/or our consumers' ability to buy our products which, if they materialised, could impact our profitability and credit ratings; and (2) perception of our investors towards our ESG progress which could reduce their willingness to invest in BAT or restrict our access to capital, should BAT fail to achieve, or be perceived as having failed to achieve, sufficient progress.

By having clear visibility of climate-related risks and opportunities and mitigating these where possible, the Group expects to have continued access to capital and to be able to undertake acquisitions or divestments, as needed.

The process of managing these risks is embedded in our financing principles which are reported on to the Board. Operationally, funding is also discussed at the Corporate Finance Committee (chaired by our Finance Director).

We also have a Treasury Risk Committee that meets monthly and monitors climate-related risks in the context of the Group's financing needs. In terms of metrics, we have an established medium-term target credit rating which seeks to achieve a balance between balance sheet requirements and access to capital as well as various other metrics. In addition, the Corporate Treasury team is embedded in key discussions on sustainability, as well as dialogues through debt investor engagement to understand the dynamics of ESG impact on funding and capital markets. The Corporate Treasury team takes appropriate actions to mitigate any potential impact on our access to capital due to ESG factors.





## Sustainable Future

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## Climate Scenario Analysis

## Identification

The selection of the risks and opportunities in our TCFD report was thoroughly reviewed in 2023 as a result of our Double Materiality Assessment process and ESG risk register, which captures risk information gathered from the identification and assessment of the Group ESG-related risks.

**+** See more details on our DMA on [page 74](#) and our ESG Risk Management process on [page 112](#)

The TCFD working group, with input from BAT's subject matter specialists and using the methodology defined in the Group Risk Management Framework, reviewed the identified TCFD risks and opportunities. This review was presented to the Sustainability Leadership Team, who validated the selected six risks and two opportunities with the most material financial impact to investigate in more detail using scenario analysis.

Energy sourcing and energy efficiency were presented as separate opportunities in 2022 but have been consolidated into a single opportunity this year given that they are clearly interrelated. Similarly, cost of capital and cost of insurance have been consolidated into a single transition risk compared to 2022.

In light of current progress against the pledges laid out within the Paris Agreement, and to bolster our assessment of business resilience, this year we determined that it was appropriate to add a third climate scenario to our analysis.

The Delayed Transition scenario is described below and its impact on our climate-related risks is set out on pages 107-110. A Delayed Transition scenario analysis was not modelled for our climate-related opportunities as it was considered to be materially similar to the Sustainable Transition scenario in this regard.

The identification of risks and opportunities is reviewed annually to help ensure that 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.

## Time Horizons

	2030	2050
We have identified and prioritised six climate-related risks and two opportunities. For each, the level of likelihood and impact has been analysed across three time frames being short-term up to 2030, medium-term up to 2040 and long-term up to 2050. The 2030 and 2050 time frames have been selected as they align to our external targets (further details of which are shown in this table). 2040 was selected for our medium-term time horizon, given that it represents a suitable mid-point between the other two periods.	This time frame reflects our targets in relation to 50% reduction in Scope 1 and 2 and 50% reduction in Scope 3 emissions by 2030. The analysis links our most recent business plans, including glide-paths across our operations to mitigate risks and maximise opportunities that may arise to ensure delivery of our business objectives and external commitments.	This time frame aligns to our Low Carbon Transition Plan across our value chain and our commitment to Net Zero GHG emissions, which incorporates an awareness of the highly uncertain potential risks and opportunities.

## Three Climate Scenarios

	Sustainable Transition	Delayed Transition	Climate Inaction
<b>Description</b>	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 more significant than the severity of physical risks that may arise.	Significant action by economic actors is delayed to 2030, after which a rapid 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 more significant although physical risks are considered higher than under the Sustainable Transition scenario.	Countries are unable to meet pledges laid out within the Paris Agreement and global warming reaches 3-4°C. Transition risks are considered to be much lower, whilst physical risks would be much higher driven by significant impact to biodiversity as a result of acute and chronic weather events.
<b>Estimated 2100 warming</b>	1.5°C	2°C	3-4°C

## Material Climate-related Risks and Opportunities Identified

The six climate-related risks referenced above can be divided into four transition risks and two physical risks.

Transition risks are most notable in relation to carbon taxes, new regulation on products, higher energy costs and increased cost of capital and insurance.

The two 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 affecting our tobacco supply chain.

The climate-related opportunities are modest and relate to the potential launch of products with positive ESG-related features that consumers value and optimisation of our energy strategy.

### Climate Change-related Risks and Opportunities Summary Table

Risk/Opportunity	Estimated financial impact on profit in a year	Likelihood			Strategy resilience
		1.5°C	2°C	3-4°C	
<b>Transition risks</b>		■■■	■■■	■	Strong
Carbon Taxes	up to £220 million				
Product Taxes	up to £270 million	■■■	■■■	■	Strong
Energy Costs	up to £340 million	■■■	■■■	■	Strong
Cost Capital/Insurance	up to £390 million	■	■■	■■■	Strong
<b>Physical risks</b>		■	■■	■■■	Strong
Acute Weather	up to £150 million				
Chronic Weather	up to £240 million	■	■■	■■■	Medium
<b>Transition opportunities</b>		■■	■■	■	Medium
Products and Services	up to £230 million				
Energy Sourcing and Efficiency	up to £80 million	■■	■■	■	Strong

#### Likelihood Key

■ ■■ ■■■  
Low High

#### Strategy Resilience Key

**Strong:** The targets and mitigation actions in place are providing BAT confidence in our business resilience  
**Medium:** Targets and mitigation actions are in place, but external events may challenge our business resilience  
**Needs work:** Developing targets and/or mitigation actions to improve our business resilience

## Methodology and Assumptions

In accordance with UK Government expectations, we have conducted our climate scenario analysis on at least one scenario under 2°C or lower. We have aligned our methodology to the most recent Intergovernmental Panel on Climate Change (IPCC) assessment, which indicates that limiting global warming to 1.5°C is necessary to prevent the most severe consequences of climate change.

As such, we have aligned our climate scenario analysis to the IPCC methodology, and GHG concentration trajectories known as Representative Concentration Pathways (RCP) 2.6 and 8.5, specifically considering three climate scenarios:

- 1.5°C 'Sustainable Transition'
- 2°C 'Delayed Transition'
- 3-4°C 'Climate Inaction'

The six risks and two opportunities have been modelled, under the three climate scenarios, drawing upon the expertise of BAT's subject matter specialists and external consultants.

Quantitative assessments were performed to understand how the potential impact and likelihood of risks and opportunities may change under each time horizon and climate scenario. The analysis considers the impact to the business for both 2030

and 2050 using the methodology defined in the Group Risk Management Framework.

The modelling drew on external and internal data sources. External sources were used for carbon and energy pricing projections using REMIND-MAGPIE 3.0-4.4 datasets whilst internal sources were used for 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.

### Risk impact scoring

The scenarios and their impact were assessed in accordance with our Group Enterprise Risk Management process as follows:

Risk Score	Financial Impact (p.a.)
Low	£60-120 million
Medium	£120-250 million
High	In excess of £250 million

The application of the financial risk scoring parameters may change over time to reflect the financial position of the business. Consequently, the rating of risks may move up or down, as appropriate, as quantification becomes more precise in future years, and particularly where the financial impact may lessen or increase compared to the Group's results in future years.

## Defining Material Risks and Opportunities

**Material risks:** Material risks are those that could have a significant effect on our operations, strategy, and financial performance or position if they are not managed appropriately.

**Material opportunities:** Material opportunities are those that may improve our financial performance or position over time in the event they can be realised.

The selection of the risks and opportunities was the result of a thorough identification and materiality assessment process, which was undertaken with the assistance of an external party. Out of all the risks and opportunities we assessed there are eight, which we believe are significant and could at some time in the future be material to our business.

#### Note:

<sup>^</sup> Although financial materiality has been considered in the development of our Double Materiality Assessment (DMA), our DMA and any conclusions in this document as to the materiality or significance 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.

## Sustainable Future

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## Climate Change-related Risks and Opportunities

## Transition risks associated with transitioning to a low carbon economy

Risk overview and assumptions	Impact	Mitigations
<b>Carbon taxes</b> <p>New carbon pricing mechanisms on the emissions within our value chain increase costs.</p> <p><b>Related targets:</b> 50% reduction in Scope 1 and 2 GHG emissions by 2030, 50% reduction in Scope 3 GHG emissions by 2030, Net Zero GHG emissions across our value chain by 2050.</p>	<b>Financial impact</b> <p>Carbon pricing mechanisms expose the Group to additional costs in both the Sustainable and Delayed Transition scenarios. The former has a greater impact in the medium-term as the rate of increased carbon taxes is forecast to outweigh the rate of reduction of CO<sub>2</sub>e in our LCTP glidepath.</p>  <p>2023 2030 2040 2050</p> <p>1.5°C scenario 2°C scenario 3-4°C scenario</p> <b>Geographical impact</b> <p>Carbon pricing mechanisms will impact all regions.</p>	<ul style="list-style-type: none"> <li>– Implementation of our Low-Carbon Transition Plan energy efficiency initiatives</li> <li>– R&amp;D developing new products with lower CO<sub>2</sub>e footprint - supported by the Green Design Tool, which enables product development teams to assess materials and components based on their CO<sub>2</sub> impact in relation to our targets</li> <li>– Engagement with suppliers to support reduction in their value chain emissions</li> </ul>
<b>Product taxes</b> <p>Governmental mandates on, and regulation of, products and services increase product taxes around Extended Producer Responsibility schemes, plastics and waste disposal.</p> <p><b>Related targets:</b> 30% average recycled content across all plastic packaging by 2025, &lt;1% waste to landfill by 2025.</p>	<b>Financial impact</b> <p>Product regulations expose the Group to additional costs if product taxes such as Extended Producer Responsibility schemes and taxes on plastics are widely introduced around the world to drive reductions in emissions and waste. The impact in a Delayed Transition scenario is considered to have greater impact in the long-term as new countries set higher rates to compensate for the limited regulations in place until 2030.</p>  <p>2023 2030 2040 2050</p> <p>1.5°C scenario 2°C scenario 3-4°C scenario</p> <b>Geographical impact</b> <p>Product regulations will initially largely emanate from European countries, but they are likely to spread.</p>	<ul style="list-style-type: none"> <li>– R&amp;D developing new products with lower CO<sub>2</sub>e footprint - supported by the Green Design Tool, which enables product development teams to assess materials and components based on their CO<sub>2</sub>e impact in relation to our targets</li> <li>– Working with third parties to pilot device and battery recycling solutions</li> <li>– Expanding our Take-Back schemes and other initiatives to accelerate product circularity</li> </ul>
<b>Direct and indirect energy costs</b> <p>Increasing energy prices impacting direct operating costs, as well as the cost of buying raw materials or manufactured goods from our suppliers.</p> <p><b>Related targets:</b> 50% reduction in Scope 1 and 2 GHG emissions by 2030, 50% reduction in Scope 3 GHG emissions by 2030, Net Zero GHG emissions across our value chain by 2050, 50% renewable energy use by 2030, 20% of suppliers set Science Based Targets by 2025.</p>	<b>Financial impact</b> <p>Energy pricing exposes the Group to additional costs across all scenarios and time frames, with a higher impact noted for both the Sustainable and Disorderly Transition scenarios. The main drivers are short- to medium-term electricity price increases and medium- to long-term natural gas price increases.</p>  <p>2023 2030 2040 2050</p> <p>1.5°C scenario 2°C scenario 3-4°C scenario</p> <b>Geographical impact</b> <p>Energy pricing impact will be felt throughout most parts of the world.</p>	<ul style="list-style-type: none"> <li>– Decarbonising our operations through energy efficiency measures</li> <li>– Transitioning to lower emission and renewable sources</li> <li>– Engagement with suppliers to support them in running energy efficiency projects</li> </ul>

## Transition risks associated with transitioning to a low carbon economy (continued)

Risk overview and assumptions	Impact	Mitigations
<b>Cost of capital/insurance</b> Contraction of financial services markets arising from climate change could result in increased cost of capital and insurance or a reduction in its availability.	<b>Financial impact</b> Potential 25 basis points impact for 1.5°C and 2°C scenarios and 50 basis points for 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. Assumed increase of 20-40% for insurance costs across the three scenarios. <div> <div>2023</div> <div>2030</div> <div>2040</div> <div>2050</div> </div>	<ul style="list-style-type: none"> <li>– Ongoing risk engineering programme to ensure compliance with internal guidance and regulation</li> <li>– Site and supply chain resilience through business continuity plans</li> <li>– Engaging with key insurance and capital stakeholders on ESG metrics and risks</li> <li>– Continuing to access diversified funding sources</li> </ul>
<b>Related targets:</b> N/A	<b>Geographical impact</b> Increases in cost of capital/insurance will impact all regions.	

## Physical risks associated with physical impacts of climate change – either acute risks (relating to extreme weather events) or chronic risks (such as relating to longer-term shifts in climate patterns and higher temperatures)




Risk overview and assumptions	Impact	Mitigations
<b>Acute weather</b> Increased severity and frequency of extreme weather events such as cyclones, floods and heatwaves leading to agricultural supply chain disruption and / or reduced production capacity resulting in increased costs.	<b>Financial impact</b> Potential financial impact greatest under Climate Inaction scenario due to increased frequency of occurrence and heightened severity. <div> <div>2023</div> <div>2030</div> <div>2040</div> <div>2050</div> </div>	<ul style="list-style-type: none"> <li>– Leaf farmers adopt sustainable agriculture practices to increase our resilience to extreme weather under Biodiversity Management Plans</li> <li>– Business continuity plans across the supply chain including leaf, manufacturing, distribution and key suppliers</li> <li>– Loss prevention programme for property risks</li> </ul>
<b>Related targets:</b> 50% reduction in Scope 1 and 2 GHG emissions by 2030, 50% reduction in Scope 3 GHG emissions by 2030, Net Zero GHG emissions across our value chain by 2050.	<b>Geographical impact</b> Sourcing of tobacco, particularly from South America, Sub-Saharan Africa, South Asia and the U.S.	
<b>Chronic weather</b> Continued change in climate leading to ongoing changes in precipitation patterns and temperatures leading to increasing levels of water stress in our agricultural supply chain resulting in lower yields.	<b>Financial impact</b> Potential financial impact greatest under the Climate Inaction scenario due to a higher tobacco yield loss. <div> <div>2023</div> <div>2030</div> <div>2040</div> <div>2050</div> </div>	<ul style="list-style-type: none"> <li>– Water efficiency and stewardship programmes</li> <li>– Customised Agronomy Plans for each sourcing country</li> <li>– Carbon Smart Farming programme – review of our inventory duration policies to enhance the resilience of our supply chain</li> <li>– Expansion of Climate Diagnostic Model to key suppliers</li> </ul>
<b>Related targets:</b> 50% reduction in Scope 1 and 2 GHG emissions by 2030, 50% reduction in Scope 3 GHG emissions by 2030, Net Zero GHG emissions across our value chain by 2050.	<b>Geographical impact</b> Sourcing of tobacco, particularly from South America, Sub-Saharan Africa, South Asia and the U.S.	



## Sustainable Future

TCFD Reporting  
Continued

## Opportunity Impact Scoring

Opportunity Score	Financial Impact (p.a.)
 Low	£60-120 million
 Medium	£120-250 million
 High	In excess of £250 million

The application of the financial opportunity scoring parameters may change over time to reflect the financial position of the business. Consequently, the rating of opportunities may move up or down,

as appropriate, as quantification becomes more precise in future years, and particularly where the financial impact may lessen or increase compared to the Group's results in future years.

## Opportunities\* associated with transitioning to low carbon economy

Opportunities overview and assumptions	Impact	Actions
<b>Products and services</b> Developing more sustainable products to meet consumers' increasing demands.  <b>Related targets:</b> 100% of our packaging to be reusable, recyclable or compostable by 2025, 30% average recycled content across all plastic packaging by 2025.	<b>Financial impact</b> Consumer sensitivity to ESG-related features assumed to be higher under 1.5°C scenario, with the greater opportunity for additional growth in New Categories compared to combustibles.   <b>Geographical impact</b> Opportunity envisaged across all regions as New Categories products continue to be rolled out globally.	<ul style="list-style-type: none"> <li>– Incorporation of end-of-life treatment and increased recyclability into product design</li> <li>– Expanding our Take-Back schemes and other initiatives to accelerate product circularity</li> <li>– Innovation to deliver more circular products</li> </ul>
<b>Energy sourcing and efficiency</b> Investment in lower-emission sources of energy or more efficient production and distribution processes within our direct operations.  <b>Related targets:</b> Increase the proportion of renewable energy we source to 50% of total energy consumption by 2025.	<b>Financial impact</b> Energy sourcing and efficiency is an opportunity for the Group under both the Sustainable Transition and Climate Inaction scenarios through accelerated decarbonisation of our value chain. Overall additional savings are considered low due to absolute level of the Group's energy costs and the progress made over the last few years.   <b>Geographical impact</b> All sites are focusing on reducing energy costs.	<ul style="list-style-type: none"> <li>– Decarbonising our operations through energy efficient measures</li> <li>– Transitioning to lower emission and renewable sources</li> </ul>

## Note:

\* A 2°C scenario was not modelled for opportunities as the impact is considered to be materially similar to the 1.5°C scenario.

## Strategy Resilience

While there are climate-related challenges and uncertainties ahead, we believe that the Group is well placed to manage the risks associated with all three of the scenarios modelled. 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 majority of our risks and opportunities are not expected to show significant regional variations. The most notable regional variations concern our two acute and chronic weather physical risks given they relate to the sourcing of tobacco, particularly from South America, Sub-Saharan Africa, South Asia and the U.S.

The insights gained from the climate modelling further strengthen the importance and relevance of our climate strategy and Net Zero GHG 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 climate strategy and our business to climate change.

## Risk Management

### Introduction

In 2023, BAT made continued progress to further embed both ESG and climate-related risks into our Enterprise Risk Management (ERM) framework. These advancements have been built upon the work completed in previous years, which included climate scenario modelling (physical and transitional risks), our Double Materiality Assessment (DMA), and the integration of ESG and climate-related risk factors into our risk registers. These actions all emphasise the Group's commitment to understand, manage and mitigate risks that could impact our organisation, our stakeholders, and the wider environment.

As we continue our journey to deliver our sustainability agenda, we have focused on further enhancing our risk management methodology. Two recent initiatives, namely the creation of our ESG risk register and the development of a Climate Diagnostic Tool, were completed in 2023, details of which are set out below.

### ESG Risk Register and its Relationship to our Group Risk Register

Following the DMA in 2022, which included an assessment of the Group's ESG-related risks and scored each risk on a gross risk basis, the Group has now developed and established our ESG risk register.

During 2023, the Group's ERM procedures were broadened to include identification and assessment of ESG-related Group risks. These risks are assessed on a residual risk basis and are now reviewed biannually and evaluated in terms of their relevance and materiality to the business, in accordance with the Group's risk management methodology.

The ESG risk register includes the six material climate-related risks modelled and referenced above at page 107.

Each ESG risk is linked to the Group risk register by inclusion within the individual drivers or impacts of the relevant Group risk in focus.

This ensures that each risk is given full consideration, assessed and described, and allows for the associated mitigation activities to be clearly defined, understood and reported.

The Climate Change and Circular Economy risk on the Group risk register is an aggregation of multiple Physical (acute and chronic) and Transitional risks identified within the ESG risk register.

### Alignment with our Sustainability Material Topics and ESG Performance Data Book

Each ESG risk has been linked to one of our material topics. This systematic categorisation ensures that the risks associated with each material topic are captured and thoroughly examined. Aligning these individual risks with their respective topics also helps ensure the completeness of the ESG risk register and that all ESG-related dimensions within the Group's risk landscape are both recognised and addressed during the assessment process.

During the latter half of 2023, we further improved our ESG risk management approach by incorporating metrics from our ESG Performance Data Book into our risk assessment and monitoring methodology. This provides enhanced visibility of the risk profile to the Group Risk Management Committee.

### Climate Diagnostics Tool

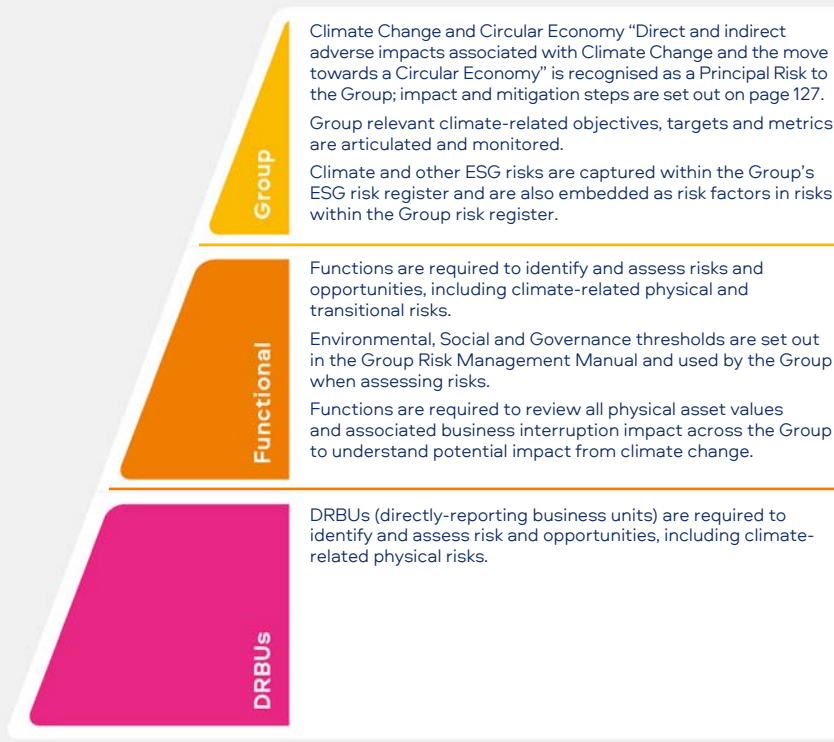
During 2023, we finalised the development of a Climate Diagnostic Tool which will enable us to understand the impact on our physical property locations and subsequent business interruption of climate change across 1.5°C, 2-3°C and 4°C global warming scenarios by 2030 and 2050.

The tool will be used to further support and enhance risk management through the identification of potential climate-related physical hazard 'hotspots' (both acute and chronic), evolving patterns and trends across various time frames and will provide valuable insights into shifting climate risk factors that may impact our manufacturing and other locations.

### Our Risk Management Process – Climate-related Risks

In combination with the risk management processes detailed above, risk registers, based on a standardised methodology, are used at Group, functional, and DRBU levels to (1) identify, (2) assess and evaluate, (3) manage and (4) monitor the risks (both financial and non-financial), including climate-related risks. This four-step process is defined and articulated within the Group's Risk Management Manual and is deployed to ensure a uniform approach to risk management and to ensure that risks are understood, managed, recorded, monitored and communicated effectively throughout the Group. It also ensures that climate-related risks receive appropriate specialist attention whilst also being integrated into the Group's overall risk management framework.

### Integration of climate-related risks into the Group Risk Management Framework



## Sustainable Future

# TCFD Reporting Continued

The Group Risk Management Committee retains oversight of the processes highlighted above and works to maintain ongoing compliance with our ERM methodology.

**+** Material risks are disclosed within our Principal Risk and 20-F section of this report and further information on our approach to risk management is on [pages 119 to 128](#)

### Risk Assessment Methodology

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 per annum. Risks below £60 million are not included in the Group risk register but are managed and reported at regional and DRBU level. Qualitative impact criteria are legal (including existing and emerging regulatory requirements), reputational, environmental, social and governance. The qualitative impact is assessed based upon the scale of the detrimental effect of the risk.

Risk assessments are completed on a residual risk basis (i.e. with consideration to the effectiveness of the existing control environment), providing an accurate depiction of the current risk exposure. The impact is assessed based on the current net impact on the business for a single year. This methodology, including financial thresholds and the likelihood overlay, was also applied in the allocation of the high/medium/low materiality levels for the six climate-related risks and three opportunities. Following the application of these standardised risk assessment procedures, risks (including climate-related risks) are prioritised based on their relative significance to the Group as a whole.

### Risk Monitoring Methodology

Risk data, including assessment information and risk scores, is collected and recorded within the Group's Risk Management System. The system applies aggregation of risk impact/likelihood scores and provides a standardised risk reporting suite which supports the risk tracking and monitoring process.

The Group risk register and ESG risk register are reviewed biannually by the Group Risk Management Committee, chaired by the Finance Director and subsequently reviewed biannually by the Audit Committee and annually by the Board.

In addition, functional, regional and DRBU risk registers (which also capture climate-related risk factors) are reviewed on a biannual basis by applicable Leadership Teams and reviewed biannually by the Corporate Audit Committee and Regional Audit Committees, respectively.

## Our Risk Management Process

### 1 Identify

- Events, situations or circumstances that would adversely affect the achievement of business objectives, including the failure to capitalise on opportunities, are considered.
- Climate-related risks and opportunities are identified through a combination of internal stakeholder consultation, desktop research, external consultation, and insights from our climate scenario modelling and climate impact assessments.
- When a potential risk is identified, the causes are examined thoroughly and any potential consequences, time frame and mitigation activities are identified.

### 2 Assess

- The potential size, scope and duration of climate-related risks are assessed in the same manner as the Group's other risks and as part of BAT's standardised risk management practices.
- Risks are 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.
- Risks are scored based on a combination of their impact and likelihood ratings and captured within associated risk matrices.

### 4 Monitor

- On-going tracking, monitoring and reporting of climate-related risks is promoted through our ERM Framework.
- Risk mitigation activities are monitored by risk managers to help ensure they remain relevant, effective and that information captured remains accurate and up to date.
- The effectiveness of mitigation activities and the status of outstanding actions is tracked and reviewed by Leadership Teams and at various Risk Committees.

### 3 Manage

- Mitigation measures are devised and assigned ownership along with implementation timelines.
- The effectiveness of current activities and the allocation of further activities is agreed by relevant Risk Managers and Leadership Teams.
- Decisions on how to manage the risks (including how to mitigate, transfer, accept or control 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. Effective mitigation activities can also be considered as cost avoidance opportunities.

## Metrics and Targets

We measure and track a wide range of sustainability metrics and targets which help us assess and manage climate-related risks and opportunities.

**+** Read more about our ESG Metrics and Targets on [page 11](#)

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 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 GHG emissions by 2050' below, as inaction would result in product shortfalls.

**+** Read more about our climate-related risks and opportunities on [pages 105 and 107](#)

## Remuneration

Our Director, Operations, a member of the Management Board, is responsible for the delivery of our climate-related targets as part of the overall sustainability agenda. The most important targets are externally communicated and linked to evaluation of the Director, Operations' performance and remuneration.

**+** Read more about our remuneration agreements for Executive Directors and the Management Board on [page 71](#)

The Director, Operations' performance objectives contain environmental targets, which are directly linked to their assessment of performance alongside other non-environmental performance objectives. The Director, Operations' eligibility for an annual bonus under the Group's International Executive Incentive Scheme (IEIS) plan is based on their performance assessment, which considers performance against environmental metrics, non-environmental metrics and other factors.

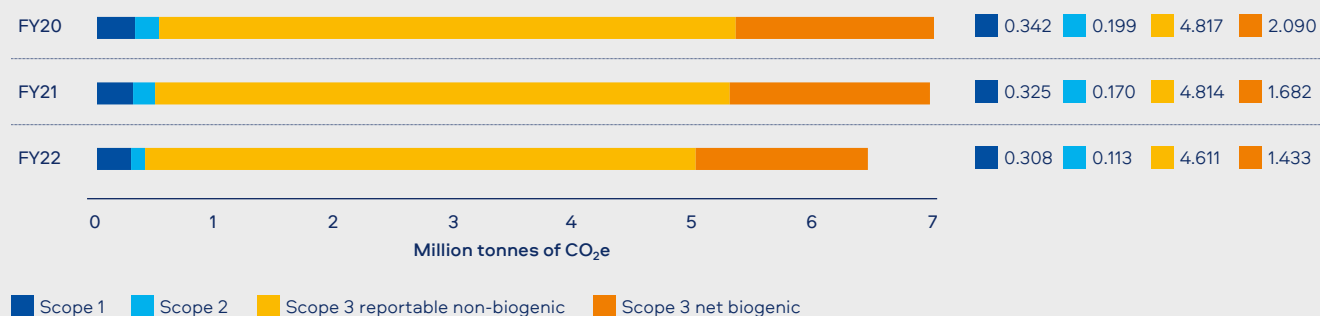
The Group's GHG emissions and energy reduction targets are examples of environmental metrics contained within the Director, Operations' performance objectives. The threshold for success is achieving or exceeding the targeted amount of emission/energy reduction for the year, as described by target glidepaths. For example, by the end of 2023 a reduction of 24.1% in BAT's Scope 1 and 2 GHG Emissions (vs 2020 baseline) was required and a reduction of 33.1% (vs 2020 baseline) was achieved, exceeding the target threshold for this year; meaning the Director, Operations met this performance objective which contributed to their eligibility for an annual bonus payment.

**+** The value of the company bonus plan is tied to non-environmental metrics set out in the Remuneration Policy described on [page 174](#)

## Breakdown of BAT's GHG Emissions<sup>1</sup>

# 6.47<sup>1</sup>

Total million tonnes of CO<sub>2</sub>e in 2022



### Note:

1. 2022 numbers.

## Understanding Scope 1, 2 and 3 emissions

Scope 1, 2 and 3 emissions are categories of greenhouse gas (GHG) emissions an organisation's activities create.

**Scope 1 emissions:** Direct emissions occur from sources owned or controlled by an organisation.

**Scope 2 emissions:** Indirect emissions generated from purchased electricity, heat, steam or cooling. These can be 'location-based' - which use a quantification method based on average energy generation emission factors for defined locations, including local, subnational, or national boundaries; or 'market-based' - which use a quantification method based on GHG emissions emitted by the generators from which the reporter contractually purchases electricity bundled with instruments, or unbundled instruments on their own.

**Scope 3 Reportable (non-biogenic) emissions:** Scope 3 emissions are all indirect emissions (not included in Scope 2) that occur in the value chain of the reporting organisation, including both upstream and downstream emissions and excluding biogenic emissions.

**Biogenic emissions:** CO<sub>2</sub> emissions from the combustion or biodegradation of biomass.

**Biomass:** Any material or fuel produced by biological processes of living organisms, including organic non-fossil material of biological origin (e.g., plant material), biofuels (e.g., liquid fuels produced from biomass feedstocks), biogenic gas (e.g. landfill gas), and biogenic waste (e.g. municipal solid waste from biogenic sources).



## Sustainable Future

TCFD Reporting  
ContinuedOur Climate Change-related  
Metrics and Targets

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.

As such, we have set near-term 1.5°C-aligned, absolute reduction targets that accommodate Net Zero GHG criteria and definitions. Our near-term targets were validated by the Science Based Targets Initiative (SBTi) in July 2022 and are outlined in the graph below alongside our path to Net Zero GHG emissions.

## Our Path to Net Zero GHG Emissions by 2050

## Our Climate Targets

50% reduction in Scope 1 and 2 GHG emissions by 2030<sup>1</sup>

50% reduction in Scope 3 GHG emissions by 2030<sup>1</sup>

Net Zero GHG emissions in our value chain by 2050

50% total renewable energy use by 2030

Carbon Neutral<sup>2</sup> in Scope 1 and 2 GHG emissions from operations by 2030

20% of suppliers by spend to set Science-Based Targets by 2025

How We Intend to Reduce  
Scope 1 and 2 GHG Emissions

Creating site-specific decarbonisation roadmaps and investing in energy efficiency 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 GHG Emissions

Building a climate-resilient supply chain with direct and indirect suppliers.

Eliminating the remaining use of coal for tobacco curing; using sustainable curing fuels (e.g. sustainable wood fuel, agricultural waste).

Fostering circularity in our value chain.

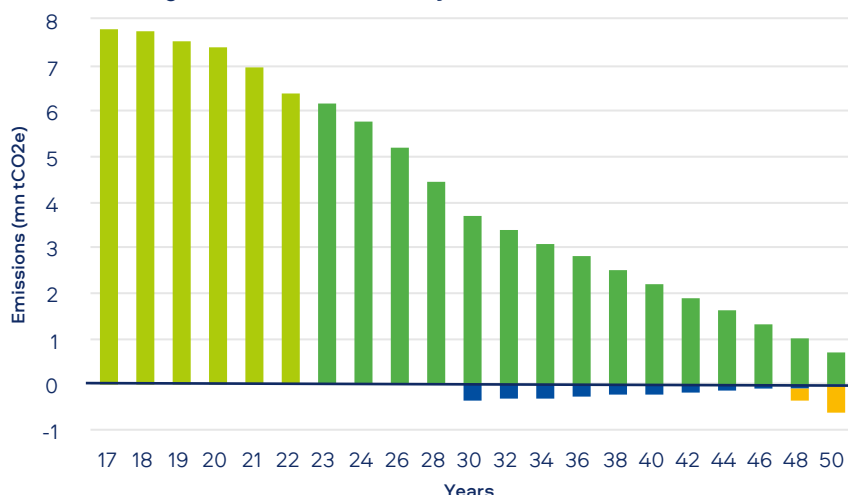
Designing for the reuse and recycling of end-of-life products.

Increasing the use of low carbon materials.

## Notes:

1. Compared to 2020 baseline. Comprises a 50% reduction in Scope 1 and 2 and 50% reduction in Scope 3 GHG emissions. Scope 3 GHG 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. In 2022, we have further enhanced our Scope 3 calculation methodology and data precision leading to the Scope 3 data for reporting periods 2020 and 2021 being restated accordingly.
2. BAT's carbon neutral sites are externally verified as adhering to internationally recognised standards / carbon neutrality methodologies, such as PAS 2060. Purchased carbon credits are verified by third parties, such as VCS, Gold Standard and American Carbon Registry. They offset residual emissions for which immediate plans do not offer financially viable and/or real emission reductions.

## BAT's 1.5°C-aligned Emissions Pathway



## Actual

Scope 1, 2 and 3 GHG emissions

## Projected

Scope 1, 2 and 3 GHG emissions

## Neutralisation

Measures that companies take to remove carbon from the atmosphere and permanently store it, to counterbalance the impact of emissions that remain unabated

## Compensation

GHG reductions or removals used to compensate for GHG emissions made elsewhere

## Note:

Figures include biogenic emissions and removals.

## Understanding the difference between Net Zero GHG emissions and Carbon Neutral

**Net Zero GHG emissions:** It means reducing greenhouse gas emissions to as close to zero as possible, with any remaining emissions re-absorbed from the atmosphere, by oceans and forests for instance. Setting corporate Net Zero targets aligned with meeting societal climate goals means: (a) reducing Scope 1, 2 and 3 emissions to zero or a residual level consistent with reaching net-zero emissions at the global or sector level in eligible 1.5°C scenarios or sector pathways and (b) neutralising any residual emissions at the Net Zero target date – and any GHG emissions released into the atmosphere thereafter.

**Near-term science based target:** GHG reduction targets in line with what the latest climate science deems necessary to limit warming to 1.5°C above pre-industrial levels and are achieved within a 5-10 year time frame from the date of submission to the SBTi.

**Long-term science-based target:** GHG reduction targets in line with what the latest climate science deems is necessary to reach Net Zero at the global or sector level in 1.5°C pathways before 2050.

**Carbon Neutral:** Carbon neutrality is the balance between emitting carbon and absorbing carbon emissions from carbon sinks. The term “neutral” accounts for that balance; the GHGs released into the atmosphere are offset by an equivalent amount being removed.

## Reporting Methodology for CO<sub>2</sub>e Emissions

We use the World Business Council for Sustainable Development GHG Protocol Corporate Standard to guide our reporting of carbon dioxide equivalent (CO<sub>2</sub>e) emissions. We also use supporting standards including:

- GHG Protocol Scope 2 Guidance, 2015
- GHG Protocol Corporate Value Chain (Scope 3) Standard, 2011

We report emissions where we have operational control and include CO<sub>2</sub>, CH<sub>4</sub> and N<sub>2</sub>O within our CO<sub>2</sub>e emission reporting. We consolidate the data on other GHG emissions (HFCs, PFCs, SF<sub>6</sub> and NF<sub>3</sub>), but do not include them in our reporting as they do not meet our materiality thresholds. While we account for the contribution CO<sub>2</sub>, CH<sub>4</sub> and N<sub>2</sub>O make to our CO<sub>2</sub>e emissions, we do not disclose the breakdown of CO<sub>2</sub>e data on an individual GHG basis.

36% of BAT's operational sites have been certified as carbon neutral. Such sites are externally verified as adhering to internationally recognised standards/ carbon neutrality methodologies, such as PAS 2060.

In addition to emissions reduction achieved through decarbonisation initiatives, 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. While the proportion of emissions reduction compared to offsets through carbon credits varies for each site, on average, around 40% of their emissions were offset by way of purchased carbon credits.

### Baseline

Currently, we use a 2020 baseline year for emissions reporting, which has a total of 7,447,657 tCO<sub>2</sub>e split as follows:

- Scope 1: 342,034 tCO<sub>2</sub>e
- Scope 2: 198,830 tCO<sub>2</sub>e market-based (Scope 2: 417,572 tCO<sub>2</sub>e location-based)
- Scope 3: 6,906,793 tCO<sub>2</sub>e

## Data collection & validation

GHG emissions data for Scope 1 & 2 is collected within our internal EHS reporting system; it includes 180 reporting units located across 90 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 emissions where the Group has operational control and include CO<sub>2</sub>, CH<sub>4</sub> and N<sub>2</sub>O within our CO<sub>2</sub>e 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 119 for the complete list of assured metrics.@

## BAT Group Greenhouse Gas Emissions

Emission Source	Total emissions (thousand tonnes CO <sub>2</sub> e)			
	2020	2021	2022	2023
Total Scope 1 <sup>1</sup> CO <sub>2</sub> e <sup>@*</sup>	342	325	308	267
Total Scope 1 CO <sub>2</sub> e emissions, including fugitive emissions	N/A	N/A	329	299
Total Scope 2 CO <sub>2</sub> e Market-based <sup>1@*</sup>	199	170	113	95
Total Scope 2 CO <sub>2</sub> e Location-based <sup>@*</sup>	418	393	356	342
Total Scope 3 CO <sub>2</sub> e <sup>2@*</sup>	6,907	6,496	6,045	N/A
Total Scope 3 CO <sub>2</sub> e Reportable Emissions	4,817	4,814	4,611	N/A
Total Scope 3 CO <sub>2</sub> e Net Biogenic Emissions (including biogenic removals)	2,090	1,682	1,433	N/A
Category 1: Purchased Goods and Services (Total)	5,120	4,660	4,301	N/A
Category 1: Purchased Goods	1,898	1,905	1,890	N/A
Category 1: Purchased Services	972	839	818	N/A
Category 1: Purchased Tobacco Leaf	2,061	1,733	1,402	N/A
Category 1: Other Purchased Goods and Services	189	183	191	N/A
Category 2: Capital Goods	172	142	140	N/A
Category 3: Fuel and Energy Related Emissions	164	197	179	N/A
Category 4: Upstream Transportation and Distribution	348	365	370	N/A
Category 5: Waste Generated in Operations	9	8	5	N/A
Category 6: Business Travel	18	18	33	N/A
Category 7: Employee Commuting	67	75	71	N/A
Category 9: Downstream Transportation and Distribution	17	17	15	N/A
Category 11: Use of Sold Products	756	788	769	N/A
Category 12: End-of-Life Treatment of Sold Products	231	225	161	N/A
Category 14: Franchises	5	1	1	N/A

### Notes:

- In 2023, UK-based activities included 2,245 tonnes of Scope 1 CO<sub>2</sub>e emissions (2022: 2,376) and 0 tonnes of our Scope 2 CO<sub>2</sub>e emissions (2022: 10). Scope 1 and 2 CO<sub>2</sub>e emissions intensity (tonnes per £m revenue) 13.3 (2022: 15.2), (2021: 19.3).
- 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. 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. In 2022, we have further enhanced our Scope 3 calculation methodology and data precision leading to the reporting periods 2020 and 2021 being restated accordingly. Refer to the BAT 'Reporting Criteria' for our full methodology: bat.com/reporting.

## Sustainable Future

TCFD Reporting  
Continued

## 2023 GHG emissions performance

Our combined Scope 1 and 2 (market-based) GHG emissions<sup>1</sup> are decreasing year on year. In 2023, we reduced our Scope 1 and 2 GHG emissions by 13.9% vs 2022 (-33.1% vs 2020 baseline).

Scope 1 GHG emissions decreased by 13.4% vs 2022 (-22.0% 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 GHG emissions decreased by 34% vs 2022 (-52.1% vs 2020 baseline). This was driven by an increase in renewable energy sourcing for our sites, including an expansion to new geographies - for example in Bangladesh, Nigeria and Zambia - where renewable energy sourcing opportunities emerged and increased 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 4.0% vs 2022 (-32.0% vs 2020 baseline).

Our total Scope 3<sup>2</sup> GHG emissions decreased by 6.9% vs 2021 (-12.5% vs 2020 baseline). This reduction resulted from the strengthening of 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. In 2023, we have further enhanced our Scope 3 calculation methodology and data precision leading to the reporting periods 2020 and 2021 being restated accordingly.

## Reporting Methodology for 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 are the same as used for Scope 1 and 2 CO<sub>2</sub>e emissions.

## 2023 energy consumption performance

While details of the principal measures taken for the purpose of increasing energy efficiency across the Group are available on pages 80-81, our energy consumption performance is outlined as follows:

- Energy consumption<sup>3</sup> from activities for which the Group is responsible (in million kWh): 2023: 1,292; 2022: 1,435; 2021: 1,508. Of the total figure reported for the Group for 2023, 10 million kWh is from UK-based activities (2022: 11 million kWh, 2020: 10 million kWh).
- Energy consumption resulting from the purchase of energy by the Group for its own use (in million kWh): 2023: 890; 2022: 909; 2021: 972.
- Of the total figure reported for the Group for 2023, 13 million kWh is from UK-based activities (2022: 15 million, 2021: 16 million).



Read more about our sustainability metrics and targets on our ESG Performance Data Book at [bat.com/reporting](https://bat.com/reporting)

## Next Steps

Through the adoption of the TCFD recommendations and making the recommended disclosures, we have continued to analyse the resilience of our strategy against three potential climate scenarios and three time horizons up to 2050. This helped us in mitigating risks, adapting to a changing landscape, seeking new opportunities and preparing for new regulations.

In light of this evolving landscape, we will keep strengthening our understanding and management of climate-related risks and opportunities by:

- Keeping the assessment of our impacts, risks and opportunities under review;
- Expanding the use of the Climate Diagnostic Tool to include our wider supply chain, which will support our existing modelling of these exposures;
- Keeping further integration of additional ESG- and climate-related metrics in Management Board remuneration under active review; and
- Continuing to assess how we can work with our colleagues, external partners and suppliers to reduce the environmental impact of our operations and value chain.

We will also continue to monitor the evolving regulatory landscape, including any changes to the UK Listing Rules to require companies to report against international standards other than TCFD (e.g. ISSB and SEC rules), and will update our approach to our climate-related disclosures accordingly.

## Notes:

◆@2023 (2022 for Scope 3) metrics with independent limited assurance by KPMG, see page 119 for a full list of assured metrics@

1. In 2023, UK-based activities included 2,245 tonnes of Scope 1 CO<sub>2</sub>e emissions (2022: 2,376) and 0 tonnes of our Scope 2 CO<sub>2</sub>e emissions (2022: 10). Scope 1 and 2 CO<sub>2</sub>e emissions intensity (tonnes per £m revenue) 13.3 (2022: 15.2), (2021: 19.3).
2. 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. 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. In 2022, we have further enhanced our Scope 3 calculation methodology and data precision leading to the reporting periods 2020 and 2021 being restated accordingly. Refer to the BAT 'Reporting Criteria' for our full methodology: [bat.com/reporting](https://bat.com/reporting)
3. Energy intensity (GWh per £ million of revenue): 2023: 0.080; 2022: 0.085.

# Our approach to Taskforce on Nature-related Financial Disclosures (TNFD)

Our Group-wide Double Materiality Assessment highlights the importance of biodiversity and ecosystems. As a result, BAT has signed up to be an inaugural Early Adopter of the Taskforce on Nature-related Financial Disclosures (TNFD) recommendations. Below is a summary of our current progress towards certain of the recommended TNFD disclosures that we consider the most relevant at this stage. We will continue to build on the below and develop how we disclose nature-related information as an Early Adopter.

## TNFD: a Summary of our Approach and Progress

**Governance:** Disclose the organisation's governance of nature-related dependencies, impacts, risks and opportunities.

a) Describe the board's oversight of nature-related dependencies, impacts, risks and opportunities.

The governance of biodiversity is overseen at the most senior level by the Main Board, supported by the Management Board. The Main Board takes nature-related considerations into account, where applicable, when making strategic decisions, including risk management, overseeing capital expenditure, and oversight of nature strategy and biodiversity-related risks and opportunities.

The Main Board annually reviews the Group risk register and ESG risk register, which include biodiversity, deforestation and soil health-related risks.

The Audit Committee also reviews the Group risk register and ESG risk register twice a year and regularly reviews the Group's progress against Deforestation and Conversion Free targets.

b) Describe management's role in assessing and managing Nature-related dependencies, impacts, risks and opportunities.

The Main Board and the Management Board are supported by the Leaf Sustainability Forum and the Operations Sustainability Forum, where broader environmental matters are discussed. These two forums are informed by the Biodiversity Centre of Excellence, where biodiversity- and water-related issues, progress against targets, metrics, SBTN and TNFD alignment, and other important updates, are discussed.

**Strategy:** Disclose the effects of nature-related dependencies, impacts, risks and opportunities on the organisation's business model, strategy and financial planning where such information is material.

a) Describe the nature-related dependencies, impacts, risks and opportunities the organisation has identified over the short-medium-and long-term.

We worked with an external consultancy to identify our nature-related priorities, dependencies, impacts, risks and opportunities detailed below.

### Dependencies

Priority natural asset dependencies identified were: Atmosphere, Water, Habitats, Soils and Sediments. For the full list of assets assessed and definitions, please see <https://encorenature.org/en/data-and-methodology/assets>.

### Impacts

The land occupancy impact of our upstream tobacco supply chain, including sourcing of tobacco and fuel wood, was estimated (based on our 2021 footprint\*) to be 382,462 ha with a biodiversity footprint of 330,959 Mean Species Abundance (MSA)ha.

The total land use impact of BAT's direct operations based on our 2022 footprint is estimated to be 1,190 ha.

A Life Cycle Assessment (LCA) for our non-tobacco purchased goods and services concluded that land use is the estimated primary impact driver for biodiversity loss, accounting for 73% of estimated impacts. Pulp and paper make up the largest footprint for non-tobacco purchased goods with 70% of the estimated non-tobacco land use.

### Risks and Opportunities

We depend on nature for many things, from the raw materials we use to manufacture our goods to the role ecosystems play in the prevention of natural hazards, such as flooding or landslides. As we learn more about the extent to which our business depends on nature, we also keep track of the risks we face by maintaining a ESG risk register.

We also recognise there are many opportunities with regard to resource efficiency; new products; markets; capital flow and financing; reputational capital; ecosystem protection; restoration and regeneration; and sustainable use of natural resources.

We are already disclosing some risks and opportunities under our CDP Climate Change, Water Stewardship and Forests submissions - which can be found on [bat.com](https://bat.com) - and plan to work on more comprehensive TNFD-led disclosures over the course of 2024.

d) Disclose the locations of assets and/or activities in the organisation's direct operations and, where possible, upstream and downstream value chain(s) that meet the criteria for priority locations.

We worked with an external consultancy to help identify assets, activities and priority locations and have applied additional analysis for these disclosures.

### Priority Activities

The sectoral screening and footprint assessment conducted confirmed tobacco sourcing as our highest priority, followed by pulp and paper and owned manufacturing locations. As a result, these sectors form the basis of the summary of our current understanding as set out below.

### Tobacco Sourcing

In addition to the initial screening based on the newly released guidance from TNFD, which assesses the farms against two biodiversity criteria, a more comprehensive Geospatial Biodiversity Risk Assessment (BRA) conducted in 2022 mapped 69,000+ directly contracted farmers against five global biodiversity indicators, scoring each farm from Low to High biodiversity risk. Of the farms assessed, only 1.5% of the farms (3.3% of the area covered by mapped farms) were identified as potentially having a high risk to biodiversity. BAT has considered these as high priority locations for deeper analysis and potential action. The greatest extent of priority located areas are in Brazil, Venezuela, Mexico, and Sri Lanka. We will be conducting the evaluation again in 2024 with the latest footprint, updated datasets and methodology.

For third-party leaf suppliers, the assessment was conducted at the level of administrative area, and overall, the assessment estimated that 14% of the area used by third-party suppliers is likely to have High biodiversity risk. We are currently re-evaluating the list of priority farms based on our latest footprint with results to be published later in 2024.

### Direct Operations

Our Geospatial BRA conducted based on BAT's December 2022 footprint identified high priority sites if they scored "high" in any of the following risk categories: Species Threat Abatement and Restoration (STAR) Risk Score, Proximity to Internationally Recognised Area's (IRA), or Species Risk Score.

The 22 operational sites identified (accounting for 30% of our global operations mapped area) are located across Chile, Croatia, Fiji, Honduras, Poland, Samoa, Singapore, Solomon Islands, Sri Lanka, Sudan, Trinidad and Tobago, Türkiye, Venezuela and Zambia.

Based on further TNFD screening - conducted in 2023 and based on data collected in 2022 - other sites can be considered as priority locations. Sites located in Brazil, Chile, Indonesia, South Africa, Türkiye and the U.S. account for 67.8% of the total biodiversity footprint for BAT's operations (as measured by the MSA)ha indicator) and will be included in the list of priority sites in the future.

### Non-tobacco Purchased Goods and Services

The largest share of the negative impacts identified as part of the assessment for non-tobacco purchased goods and services are indicated to come from 'directly procured goods', in particular pulp and paper which accounts for an estimated 70% of the total land footprint. 87% of the negative impacts of pulp and paper are due to land use. Land use refers to the conversion of natural habitats to agricultural or industrial land, which can result in biodiversity loss, soil degradation, and carbon emissions. The total land use impact of BAT's direct operations based on our 2022 footprint is estimated to be 1,190 ha.

We have gathered the paper mill and manufacturing plant coordinate locations that account for 85% of pulp and paper volume purchased and will be conducting assessments to identify priority locations, with the view to publish results in 2024.

### Note:

\* Assessment based on a snapshot in time, footprint assessment will be refreshed in 2024 based on December 2023 sites for operations and directly contracted farmers.



## Sustainable Future

## Our approach to Taskforce on Nature-related Financial Disclosures (TNFD)

### Continued

**Risk and impact management:** Describe the process used by the organisation to identify, assess, prioritise and monitor nature-related dependencies, impacts, risk and opportunities.

- a) i) Describe the organisation's processes for identifying, assessing and prioritising nature-related dependencies, impacts, risks and opportunities in its direct operations.
- a) ii) Describe the organisation's processes for identifying, assessing and prioritising nature-related dependencies, impacts, risks and opportunities in its upstream and downstream value chain.

#### Identifying Dependencies

The ENCORE database was used to conduct sectoral-level screening of the natural capital assets on which our business activities across our direct operations with upstream and downstream value chains (categorised as ISIC codes) depend.

#### Identifying Impacts

Geospatial Biodiversity Risk Assessments (BRA) for our direct operations and directly contracted farmers were conducted, as precise coordinate location and occupied area data was available.

For direct operations this helped locate high priority sites where actions to protect and restore biodiversity are most important. For directly contracted tobacco farmers, high priority farms were identified where actions to protect and restore biodiversity, as well as prevent deforestation, are most important.

The Biodiversity Extent, Condition and Significance 'BECS' approach assesses the land used for production by considering two metrics: *Biodiversity extent*, the biodiversity loss relative to a pristine *condition*, and the *significance* that loss has globally, based on the 'type' and 'relative value' of biodiversity present in that area. The significance is primarily measured using the TNFD recommended International Union for Conservation of Nature (IUCN) Species Threat Abatement and Restoration (STAR) metric, split into STARt (abating threats) and STARr (restoring habitat). The Biodiversity Land occupancy footprint is expressed in MSA.ha. This metric shows the abundance of original species relative to their abundance in undisturbed ecosystems. As an example, a MSA of 0% means a destroyed ecosystem, with no original species remaining.

For third-party tobacco suppliers, the top five suppliers were assessed, representing 67% of the tobacco volume we buy outside of the Group's own Leaf Operations. As we do not purchase all the tobacco produced by the third-party suppliers, the assessment covered all regions where they operate. BAT then apportioned the footprint result by the percentage of tobacco purchased.

To measure the environmental impact of non-tobacco goods and services, a LCA approach following the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) Pressures Framework was used to assess the 'magnitude' of impact on biodiversity.

BAT's estimated annual spend per goods sector and country was fed into the TNFD recommended EXIOBASE database to estimate the environmental impacts associated with our procured goods. The data generated are used to estimate the pressures and impacts on biodiversity using LCA conversion factors and identify the most material sectors.

#### TNFD

We were able to conduct initial screening based on newly released guidance from TNFD for direct operations. This analysis identified a priority operation site if it met one of the following criteria: top 20% of estimated MSA.ha, or top 20% of STARt Score within 5km of priority area dependent on size of site. We plan to continue our TNFD analysis and prioritisation over the course of 2024.

#### Identifying Risks and Opportunities

Nature-related risks and opportunities are identified through a combination of internal stakeholder consultation, desktop research and external consultation. Currently, we assess our risks qualitatively, using data from our impact and prioritisation analysis, our industry and supply chain expertise, and advice from consultants.

Nature-related risks, such as Biodiversity Loss and Deforestation are also captured within the Group's ESG risk register.

Risks are reviewed biannually, assessed on a residual risk basis, and evaluated in terms of their relevance and materiality for the business. Risk assessments are completed in line with our overall Enterprise Risk Management (ERM) methodology.

b) Describe the organisation's processes for monitoring nature-related dependencies, impacts, risks and opportunities.

We set our 2025 Deforestation targets in 2021. The targets below form the basis of our commitment and inform our approach to biodiversity and ecosystems. These are: Deforestation and Conversion Free tobacco supply chain by 2025; Deforestation Free pulp and paper supply chain by 2025; Forest Positive in our tobacco supply chain by 2025 (vs 2021 baseline).

In our tobacco supply chain, we have already achieved: 96.5% of the wood used in our Thrive Supply Chain is assessed as Deforestation and Conversion Free status.

In 2023, we launched a new Biodiversity Operating Standard (BOS) to support our Group commitments on reducing our impact on forests and natural ecosystems. This provides guidance on due diligence and traceability to help protect biodiversity in our tobacco supply chain, including the use of traceable wood that is Deforestation and Conversion Free, and Biodiversity Management Plans.

In direct operations we will be rolling our biodiversity management plans to high risk sites in 2024 and we have been strengthening our due diligence processes on pulp and paper. Read more about managing compliance with our BOS and how we are managing biodiversity in our own operations and pulp and paper on pages 84 to 85.

We plan to release our 10 Year Nature Roadmap later in 2024, which will outline and support our ambition to set new nature targets in 2024 and 2025 aligned to the SBTN.

Finally, risk data, including assessment information and risk scores, is collected, recorded and monitored within the Group's Risk Management System. The system provides a standardised risk reporting suite which supports the overall risk tracking and monitoring process.

The Group's ESG risk register, which includes nature-related risks, is reviewed biannually by the Group Risk Management Committee, chaired by the Interim Finance Director and subsequently reviewed biannually by the Audit Committee and annually by the Board.

**Metrics and targets:** Disclose the metrics and targets used to assess and manage material nature-related dependencies, impacts, risks and opportunities

a) Disclose the metrics used by the organisation to assess and manage dependencies and impacts on nature

A range of metrics has been used to assess and manage nature-related dependencies, impacts, risks and opportunities.

#### Land Occupancy

For total area controlled or managed by BAT's direct operations and total disturbed areas from BAT's tobacco supply chain and procured goods and services the area is expressed in units: 1 hectares = 0.01 km<sup>2</sup>.

For land use impacts of procured goods and services units: m<sup>2</sup> crop-land equivalent has been used.

#### State of Nature

For ecosystem condition, the biodiversity footprint for direct operations and tobacco supply chain has been estimated using units: MSA.ha.

For each location in direct operations (site) and tobacco supply chain locations (farms), species extinction risk has been assessed via threat abatement potential measured using units: Species Threat Abatement and Restoration - Abating threats (STAR<sub>t</sub>) Score.

For procured goods and services water use was measured in quantity using units: m<sup>3</sup>.

Pollution impacts were measured in units: SO<sub>2</sub> equivalents, P equivalents, N equivalents.

GHG emissions were measured in units: CO<sub>2</sub> equivalents.

#### Note:

<sup>†</sup> Refer to the BAT 'Reporting Criteria' for a full description of key terms and definitions at [bat/reporting.com](https://www.bat.com/reports/bat-reporting-criteria)

# @ESG 2023 Assured Metrics

KPMG have conducted independent, limited assurance in accordance with ISAE 3000 over the 2023 ESG 'Selected Information' listed below, as contained in this Annual Report. KPMG's Independent Limited Assurance Report is provided on page 120.

^ Refer to KPMG Independent Limited Assurance Report on page 120 for details on selected information.

Underlying Selected Information	Selected Information
Consumers of non-combustible products (number of, in millions)	23.9
Scope 1 CO <sub>2</sub> e emissions (thousand tonnes)	267
Scope 1 CO <sub>2</sub> e emissions including fugitive emissions (thousand tonnes)	299
Scope 2 CO <sub>2</sub> e emissions (market based) (thousand tonnes)	95
Scope 2 CO <sub>2</sub> e emissions (location based) (thousand tonnes)	342
Scope 1 and Scope 2 CO <sub>2</sub> e emissions intensity ratio (tonnes per £m revenue)	13.3
Scope 1 and Scope 2 CO <sub>2</sub> e emissions intensity ratio (tonnes per EUR m revenue)	11.5
Total Scope 3 CO <sub>2</sub> e emissions (thousand tonnes) ^ - for 2022, Scope 3 GHG emissions are reported one year later	6,045
Total energy consumption (GWh)	2,182
Energy consumption intensity (GWh per million £ revenue)	0.08
Energy consumption intensity (GWh per million EUR revenue)	0.07
Renewable energy consumption (GWh)	832
Non-Renewable energy consumption (GWh)	1,350
Total waste generated (thousand tonnes)	114.94
Hazardous waste and radioactive waste generated (thousand tonnes)	1.59
Total waste recycled (thousand tonnes)	100.7
Total water withdrawn (million m <sup>3</sup> )	3.16
Total water recycled (million m <sup>3</sup> )	1.02
Total water discharged (million m <sup>3</sup> )	1.53
Emissions to water:	
– 60% of the facilities reported not using priority substances, and 74% reported not having them in storage	
– out of 48 priority substances, 44% are reported as not used, 44% are reported as not stored	
Number of operations sites in areas of high-water stress with and without water management policies	24/0
% of sources of wood used by our contracted farmers for curing fuels that are from sustainable sources ^	99.99
% of tobacco hectares reported to have appropriate best practice soil and water management plans implemented ^	81
% of tobacco farmers reported to grow other crops for food or as additional sources of income ^	93.3
% of farms monitored for child labour ^	100
% of farms with incidents of child labour identified ^	0.15
Number of child labour incidents identified ^	359
% of child labour incidents reported as resolved by end of the growing season ^	100
% of farms monitored for grievance mechanisms ^	100.0
% of farms reported to have sufficient PPE for agrochemical use ^	99.99
% of farms reported to have sufficient PPE for tobacco harvesting ^	99.7
H&S - Lost Time Incident Rate (LTIR)	0.17
H&S - Number of serious injuries (employees)	12
H&S - Number of serious injuries (contractors)	9
H&S - Number of fatalities (employees)	2
H&S - Number of fatalities (contractors)	2
H&S - Number of fatalities to members of public involving BAT vehicles	3
% female representation in Management roles	42
% female representation on Senior Leadership teams	33
% of key leadership teams with at least a 50% spread of distinct nationalities	100
Global unadjusted gender pay gap (average %)	14
Incidents of non-compliance with regulations resulting in fine or penalty	3
Incidents of non-compliance with regulations resulting in a regulatory warning	0
Number of established SoBC breaches	123
Number of disciplinary actions taken as a result of established SoBC breaches that resulted in people leaving BAT	79
Number of established SoBC breaches - relating to workplace and human rights	69
% of product materials and high-risk indirect service suppliers that have undergone at least one independent labour audit within a three-year cycle@	58.8

## Sustainable Future

# @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 2023.

### 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 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 within BAT's Combined Annual and Sustainability Report ('the Report') for the year ended 31 December 2023 on pages 11 and 115 marked with a ♦ and listed as "Assured" on page 119 ('the Selected Information'). The Selected Information is for the year ended 31 December 2023 except for Total Scope 3 CO<sub>2</sub>e emissions which is 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.

### Reporting Criteria

The Reporting Criteria we used to form our judgements are British American Tobacco's Reporting Guidelines 2023 as set out at [www.bat.com/esgreport](http://www.bat.com/esgreport) ('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 sustainability 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:

- The designing, implementing 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 selection and/or development of 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 Management

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. The firm applies International Standard on Quality Management 1 (UK) Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements, which requires the firm to design, implement and operate a system of quality management including policies 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;
- Performing risk assessment 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
- 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; 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 Selected Information marked with a ^ symbol on page 119, our procedures did not include physical visits to the farms which provided the source data for the Leaf Data and Human Rights Selected Information and testing the accuracy of the sales volumes in BAT's Procurement IT system which were used in calculating Scope 3 CO<sub>2</sub>e emissions (thousand tonnes) including the Scope 3 supply chain CO<sub>2</sub>e 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 Selected Information.

### This Report's Intended Use

Our report has been prepared for BAT solely in accordance with the terms of our engagement. We have consented to the publication of our report on BAT's website for the purpose of BAT showing that it has obtained an independent assurance report in connection with the Selected Information.

Our report was designed to meet the agreed requirements of BAT determined by BAT's needs at the time. Our report should therefore not be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than BAT for any purpose or in any context. Any party other than BAT who obtains access to our report or a copy and chooses to rely on our report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, KPMG LLP will accept no responsibility or liability in respect of our report to any other party.

### George Richards

for and on behalf of KPMG LLP  
Chartered Accountants  
15 Canada Square  
London E14 5GL  
07 February 2024

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.@

# 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 18. On the following pages is a summary of each Principal Risk, its potential impact<sup>®</sup> and management by the Group<sup>®</sup>. The Group defines the Principal Risks as those assessed with a high impact and probable likelihood. Additionally, "Supply Chain Disruption", "Cyber Security", "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.

<sup>®</sup>The Group has identified risks and is actively monitoring and mitigating these risks, including those related to climate change and other ESG matters.<sup>®</sup> 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.

We identified two new Principal Risks to the Group during the year: "Cyber Security", taking into account the evolving complexity of the cyber-threat environment and "Supply Chain Disruption" in view of the macro-economic and geopolitical environment and the complexity of the Group's New Categories supply chain.

The risks listed in this section<sup>®</sup> and the activities being undertaken to manage them<sup>®</sup> should be considered in the context of the Group's internal control framework. This process is described in the section on risk management and internal control in the corporate governance statement from page 159. This section should also be read in the context of the cautionary statement on page 386.

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 353.

## Assessment of Group Principal Risks<sup>®</sup>

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.

Leading in Sustainability is a core component/key building block of our corporate strategy and ESG risk factors are embedded across the Group's risks in accordance with how risks are managed within the Group.




Continued progress was made to further embed both climate-related and other ESG risks into the Group Risk Management Framework.

 Read more about our approach on [pages 111 and 112](#)

Key risk initiatives include the introduction of the Group's inaugural ESG risk register and the development of a Climate Diagnostic Tool. ESG risks are assessed on a residual risk basis and are reviewed biannually and evaluated in terms of their relevance and materiality to the business, in accordance with the Group's risk management methodology. The Climate Diagnostic Tool will enable better understanding of the climate change impact to the Group's physical property locations and subsequent business interruption. These emphasise the Group's commitment to understand, mitigate, and manage risks that could impact the organisation as a whole, BAT's stakeholders and the wider environment.

The viability statement on page 129 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" which is not considered to be sufficiently material to impact the Group's overall viability assessment, 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

	Quality Growth
	Sustainable Future
	Dynamic Business

### Key Stakeholders

	Consumers
	Society
	Our people
	Shareholders & Investors

### Considered in viability statement

	Yes
	No

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



## Group Principal Risks

## Group Principal Risks





## Continued

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 <sup>®</sup>
<div><div></div><div></div><div></div></div> Short-/medium-/long-term	<div><div></div><div></div><div></div></div> Quality Growth/Sustainable Future	<div><div></div><div></div><div></div></div> Consumers, Society, Shareholders & Investors	<div><div></div></div> Yes
Impact		Mitigation activities across all categories <sup>®</sup>	
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, it undermines policies of state governments with respect to underage tobacco users and creates basis for inappropriate regulation.		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 as appropriate.	

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 <sup>®</sup>
<div><div></div><div></div><div></div></div> Short-/medium-term	<div><div></div><div></div><div></div></div> Quality Growth/Sustainable Future	<div><div></div><div></div><div></div></div> Society, Our people, Shareholders & Investors	<div><div></div></div> Yes
Impact		Mitigation activities across all categories <sup>®</sup>	
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.	

## 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 <sup>®</sup>
 Short-/medium-/long-term	 Quality Growth/Sustainable Future	 Consumers, Society, Shareholders & Investors	 Yes
Impact		Mitigation activities across all categories <sup>®</sup>	
<p>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. Lack of appropriate regulation and its enforcement may impact our opportunity for quality growth and affect our ability to develop an outstanding pipeline of new products. 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 &amp; 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.</p>		<p>Establishment of Regulation and Science Committee, the objectives of which are to review the execution of the Group's regulatory, corporate, and science strategies, monitor the regulatory and science landscape, prioritize key regulatory and science initiatives and resource allocation.</p> <p>Engagement and alignment 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.</p> <p>Regulatory risk assessment of marketing plans to ensure decisions are informed by an understanding of the potential regulatory environments.</p> <p>Advocating the application of integrated regulatory proposals to governments and public health regulators and practitioners based on the harm reduction potential of New Categories.</p> <p>Development of an integrated regulatory strategy that spans conventional combustibles and New Categories.</p> <p>Training and capability programmes for End Markets to upskill Corporate and Regulatory Affairs managers on combustible and New Categories regulatory engagement, including product knowledge.</p> <p>Direct access to online portal providing latest position and advocacy material for End Market engagement on combustibles and New Categories.</p> <p>Working to define a sustainable EPR model and markets negotiating to implement effective EPR schemes.</p>	

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 375

## Supply chain disruption



Disruption to the global supply chain that may impact our ability to manufacture products or supply our consumers.

Time frame	Strategic impact	Key Stakeholders	Considered in viability statement <sup>®</sup>
 Short-term	 Quality Growth/Sustainable Future/Dynamic Business	 Consumers, Our people, Shareholders & Investors	 Yes
Impact		Mitigation activities across all categories <sup>®</sup>	
<p>Disruption to the global supply chain may impact all aspects of our business and impede our ability to manufacture products and supply our consumers.</p> <p>Disruption to supply chain can lead to volume shortfalls and inability to supply markets, increased replacement or/and rebuild costs consequently leading to reduced profit and reputational damage. This may affect our ability to reinvest into New Categories and deliver our Tobacco Harm Reduction commitment.</p> <p>Loss of one or more key facilities or suppliers may cause loss of life and injuries. It may also lead to societal dislocation resulting in population migration and loss of key skills.</p> <p>Our supply chain could be negatively impacted by events arising from, but not limited to natural disasters, man-made accidents, cyber incidents.</p>		<p>Group-wide business continuity plans (BCP) and contingency sourcing plans (CSP) in compliance with the new Business Continuity Management standard, are in place.</p> <p>All factory CSPs are regularly updated, reviewed and desktop simulations conducted to ensure compliance with the Group's policy.</p> <p>BCPs and disaster recovery plans for logistics providers are in place.</p> <p>Unrest and Evacuation plans are in place.</p> <p>Existence of insurance cover for Property Damage and Business Interruption.</p> <p>Appropriate technical and organisational cyber security measures are in place.</p>	



## Group Principal Risks

## Group Principal Risks

## Continued

Risks continued			
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 <sup>®</sup>
   Short-/medium-/long-term	   Quality Growth/Sustainable future	 Shareholders & Investors	 Yes
Impact		Mitigation activities across all categories <sup>®</sup>	
<p>Damages and fines, negative impact on reputation (including ESG credentials), disruption and loss of focus on the business.</p> <p>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.</p> <p>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.</p> <p>Potential share price impact.</p> <p>Sustainability-related litigation could also result in a reduction in the investor base due to sustainability and sustainability-related concerns.</p>		<p>Consistent litigation and patent management strategy across the Group.</p> <p>Expertise and legal talent maintained both within the Group and external partners, including for New Categories and sustainability-related matters.</p> <p>Ongoing monitoring of key legislative and case law developments related to our business.</p> <p>Delivery with Integrity compliance programme.</p> <p>Driving the litigation strategy in relation to key regulatory issues.</p> <p>Central management of strategic litigation impacting key regulatory processes.</p> <p>Developing expert analysis on efficacy of various regulatory proposals.</p>	

Please refer to note 31 on page 286 in the Notes on the Accounts for details of contingent liabilities applicable to the Group.

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 <sup>®</sup>
   Short-/medium-/long-term	   Quality Growth/Sustainable Future	 Consumers, Society, Shareholders & Investors	 Yes
Impact		Mitigation activities across all categories <sup>®</sup>	
<p>Consumers reject the Group's legitimate tax-paid products for products from illicit sources or cheaper alternatives.</p> <p>Reduced legal industry volumes.</p> <p>Reduced sales volume and/or portfolio erosion leading to inability to invest in, develop, commercialise and deliver New Category products.</p> <p>Partial absorption of excise increases leading to lower profitability.</p>		<p>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.</p> <p>Pricing, excise and trade margin committees in markets, with global support.</p> <p>Engagement with relevant local and international authorities where appropriate, in particular in relation to the increased risk to excise revenues from higher illicit trade.</p> <p>Portfolio reviews to ensure appropriate balance and coverage across price segments.</p> <p>Monitoring of economic indicators, government revenues and the political situation.</p>	

## 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 <sup>®</sup>
 Short-/medium-/long-term	 Quality Growth/Sustainable Future/Dynamic Business	 Consumers, Society, Shareholders & Investors	 Yes
Impact		Mitigation activities across all categories <sup>®</sup>	
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 or inability to engage on our science, leading to a negative shift in sentiment and confidence in Group products. 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. Internal and external communications about BAT's science through publications and engagement. Quality assurance reviews undertaken with key science suppliers to ensure appropriate standards in place.	





## 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 <sup>®</sup>
 Short-/medium-term	 Quality Growth/Sustainable Future	 Shareholders & Investors	 Yes
Impact		Mitigation activities across all categories <sup>®</sup>	
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.	

## 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 <sup>®</sup>
 Short-term	 Quality Growth/Sustainable Future/Dynamic Business	 Our people	 No
Impact		Mitigation activities across all categories <sup>®</sup>	
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.	



## Group Principal Risks





## Group Principal Risks

## Continued

## Risks continued




## 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 <sup>®</sup>
 Short-/medium-term	 Quality Growth/Sustainable Future/Dynamic Business	 Shareholders & Investors	 Yes
Impact		Mitigation activities across all categories <sup>®</sup>	
<p>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.</p> <p>Decline in our creditworthiness and increased funding costs for the Group.</p> <p>Requirement to issue equity or seek new sources of capital.</p> <p>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.</p> <p>Inability to mitigate accounting and economic exposures.</p> <p>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.</p> <p>Failure to appropriately engage with investors' and lenders' sustainability criteria and concerns may impact BAT's counterparty availability, credit ratings, access to funding, or may result in an increase in the cost of funding.</p> <p>Exposure to the cannabis sector may lead to regulatory and legal risk, reputation and compliance issues restricting bank and/or investor access.</p>		<p>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.</p> <p>Controls in place to ensure full compliance with Sanctions regimes.</p> <p>Plans implemented to manage the risk in key geographies.</p> <p>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.</p> <p>At 31 December 2023, the Group had access to a £5.38 billion revolving credit facility. In March 2023, the Group refinanced the £2.7 billion 364-day tranche of the revolving credit facility at the reduced amount of £2.5 billion, maturing in March 2024 with two one-year extension options, and a one-year term out option. Additionally, £3.0 billion of the five-year tranche remains available until March 2025, with £2.85 billion extended to March 2026 and £2.5 billion extended to March 2027.</p> <p>Liquidity pooling structures are in place to ensure that there is maximum mobilisation of cash liquidity within the Group.</p> <p>Going concern and viability support papers are presented to the Board on a regular basis.</p> <p>Continued review of UK money laundering legislation and cannabis policy with financial partners.</p>	





## 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 <sup>®</sup>
 Short-/medium-term	 Quality Growth/Dynamic Business	 Shareholders & Investors	 Yes
Impact		Mitigation activities across all categories <sup>®</sup>	
<p>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.</p> <p>The dividend may be impacted if the payout ratio is not adjusted.</p> <p>Differences in translation between earnings and net debt may affect key ratios used by credit rating agencies.</p> <p>Volatility and/or increased costs in our business, due to transactional FX, may adversely impact financial performance.</p>		<p>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.</p> <p>Debt and interest are matched to assets and cash flows to mitigate volatility where possible and economic to do so.</p> <p>Hedging strategy for transactional FX is defined in the treasury policy, a global policy approved by the Board.</p> <p>Illiquid currencies of many markets where hedging is either not possible or uneconomic are reviewed on a regular basis.</p>	

## Climate Change and Circular Economy

### 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 <sup>®</sup>
 Short-/medium-/long-term	 Quality Growth/Sustainable Future	 Consumers, Society, Shareholders & Investors	 Yes
Impact		Mitigation activities across all categories <sup>®</sup>	
<p>Direct physical risks to BAT agricultural, manufacturing, operational and logistic processes may lead to reduced production capability, delays, volume shortfalls, disruption of energy supply (and other utilities) and business interruption.</p> <p>Extreme temperatures and pollution could be harmful for employees, creating health and safety risks.</p> <p>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.</p> <p>GHG emissions can indirectly increase costs of supply and delivery.</p> <p>Punitive actions against the Group or ability to sell 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.</p> <p>Technology risk increase due to write-offs and early retirement of existing assets. Additional cost required to deploy new practices and processes.</p> <p>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.</p> <p>Loss or damage to reputation may reduce market share and revenue, due to 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.</p> <p>Negative impact upon the attraction, retention and motivation of skilled employees and contractors.</p> <p>Inadequate waste management can increase negative public opinion on BAT and cause potential damage to brand value from loss of consumer trust, increased costs in jurisdictions where waste management is costly and/or insufficient.</p> <p>Failure to adequately manage Group sustainability priorities like climate change, protection of natural resources and forests, human rights in leaf supply chain may restrict suppliers willing to do business with BAT.</p>		<p>The Group has a well-established Sustainability Leadership Team and Operations Sustainability Forum. Sustainability matters overall, and climate change and circular economy specifically, are under the governance remit of the Audit Committee.</p> <p>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.</p> <p>Monitoring of climate change- and circular economy-related governmental policy and regulations, and taking proactive actions to meet and/or surpass it.</p> <p>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. Compliance assessment tool covering all significant touch points related to employee health and safety and environmental impact.</p> <p>Circular economy strategy, Business Continuity and Contingency Sourcing plans.</p> <p>Supplier Code of Conduct which defines the minimum standards expected for suppliers, including the requirement of adoption of BAT environmental procedures.</p> <p>2023 review of future ESG reporting requirements and frameworks, globally, and increasing alignment with them, ahead of required timescales.</p> <p>Ongoing increase in the reporting of sustainability information in the Group's Combined Annual and Sustainability Report and accompanying ESG Performance Data Book, including public provision to financial actors of information required by investors for their own sustainability reporting.</p> <p>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.</p> <p>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.</p> <p>Driving innovation and collaboration through Btomorrow Ventures.</p> <p>Cross-functional and cross-industry engagement on sustainability topics.</p>	

## Group Principal Risks

## Group Principal Risks

## Continued

Risks continued			
Cyber Security			
Inability of the organisation to defend against an intentional or unintentional action that results in loss of confidentiality, availability or integrity of systems and data.			
Time frame	Strategic impact	Key Stakeholders	Considered in viability statement <sup>®</sup>
   Short-/medium-/long-term	 Quality Growth/Sustainable Future/Dynamic Business	 Consumers, Society, Our People, Shareholders & Investors	 Yes
Impact		Mitigation activities across all categories <sup>®</sup>	
<p>Loss or theft of confidential business information, when used alone or in conjunction with any other available information reduces the impact of BAT business strategy, investments and commercial operations.</p> <p>Personal data breach incidents that result in the disclosure of personally identifiable data resulting in legal, reputational, and regulatory compliance impacts.</p> <p>Disruption to BAT's business operations that impacts R&amp;D facilities, manufacturing, distribution or technology services resulting in business interruption and/or impacts to health &amp; safety.</p> <p>Inappropriate use of technology systems to enable fraud, or theft of product, technology, or monetary resources.</p> <p>Loss of digital trust resulting in brand damage and a loss of consumer trust.</p> <p>A cyber incident experienced by a third party partner or supplier resulting in business interruption, supply chain disruption, loss of company data or provides access or transmission of malicious activity from the supplier to BAT.</p>		<p>The group implements physical, technical and administrative safeguards to mitigate risks of a cyber security incident, including security measures, such as defensive technologies, encryption, authentication, backup and recovery systems, to protect the confidentiality, integrity and availability of IDT systems and networks.</p> <p>The Group's cyber security processes are regularly reviewed and updated to ensure these remain effective and aligned with our business objectives, regulatory obligations and industry standards.</p> <p>Regular training and awareness programmes provided to Group employees and contractors on cyber security best practices and procedures and adherence to our SoBC.</p> <p>Vendor management processes in place, including due diligence and contractual obligations, to ensure that third-party service providers adhere to BAT's cyber security requirements and standards.</p> <p>Development of business continuity plans to ensure that the Group can promptly respond to any potential or actual cyber security incident and minimise their impact on the business.</p> <p>Engagement with external assessors, consultants, auditors and other third parties to provide independent assurance and recommendations on cyber security matters.</p> <p>Engagement with relevant stakeholders on cyber security matters and being prepared to disclose any material cyber security risks or incidents in a timely and transparent manner.</p>	

# @Viability Statement

The preparation of the long-term viability statement and includes an assessment of the Group's ability to meet future commitments and liabilities as they fall due.

## Assessment of Long-Term Viability Strong liquidity and access to facilities

The Directors noted that the Group has a strong track record of cash flow delivery and expects to generate over £40 billion of free cash flow before dividends over the next 5 years – as discussed on page 42.

Furthermore, the Group has available net cash and cash equivalents at 31 December 2023 of £4.5 billion (of which £1.9 billion is restricted), and access to a number of facilities (as described in note 26), including:

- a £5.4 billion revolving credit facility, that was renewed in March 2023 and is currently undrawn;
- a US\$4 billion U.S. commercial paper programme and a £3 billion euro commercial paper programme; and
- short term bilateral facilities (£2.65 billion).

The Group continues to maintain investment-grade credit ratings\*, with ratings from Moody's, S&P and Fitch of Baa2 (positive outlook), BBB+ (negative outlook), BBB (positive outlook), respectively, with a medium-term rating target of Baa1, BBB+ and BBB+. The strength of the ratings has underpinned debt issuance and the Group is confident in its ability to access the debt capital markets.

## Assessment and scenario planning

In making the assessment, the Directors undertook a robust review of the Group's operational and financial processes (which cover both short-term financial forecasts and capacity plans) and how the Principal Risks (as indicated on pages 122 to 128) may impact the Group's viability under various scenarios. Notes 23 and 26 in the Notes on the Accounts provide further detail on the Group's borrowings and management of financial risks.

The Director's recognised that multiyear cash flow forecasts are prepared to:

- assess impairment (as described in note 12) for a number of the Group's reporting entities (or cash generating units); and
- input into the active capital allocation model, including debt maturity planning.

The Group does not have any covenants related to its current debt issued or available facilities. In order to assess viability, a base scenario was developed, which assessed the Group's notional headroom against a theoretical interest cover of 5.0x, used on a conservative basis that such a covenant may be applied in the future. Each scenario then assessed how the earnings of the Group may be affected by the realisation of the risks and then, if necessary, determined how many times more severe that risk must be before the theoretical interest cover was breached.

These scenarios were:

## @Viability Scenario Planning

### Operational

The Group does not deliver on its financial growth ambitions

The implementation of regulations (including the menthol ban proposed in the U.S.), reduced pricing, increased combustibles volume decline or a slower than expected transformation to New Categories may impact the Group's ability to deliver growth in profit from operations. To breach the theoretical interest cover, the impact of this scenario would have to be at least 5.0x worse than a prudent annual forecast (i.e. nil profit growth).

### Financing

The Group is unable to refinance its debts as they fall due or is exposed to higher interest rates

The Group has an annual debt maturity profile of a maximum £4 billion per annum which is less than the annual free cash flow generated – and via the capital allocation model, the Group could prioritise debt payments in the event of capital markets becoming restricted. Further, the Group's floating to fixed interest rate ratio is 10:90 and is largely insulated from short-term volatility.

### One-off event

The Group experiences supply chain disruption, including climate-risk related disruptions

The Group may be exposed to the loss of suppliers or factories, impacting operational performance. The Group has detailed contingency plans in place with insurance mitigating the impact in the short-term.

### Aggregation of risks

The Group experiences supply chain disruption, including climate-risk related disruptions

It was considered that, under a set of remote circumstances, that the principal risks may arise in combination or aggregation. There was no scenario identified, based upon the assumptions applied, that would impact viability within the defined period.

## Reverse stress testing

A reverse stress test of the impact of the individual principal risks was also undertaken as part of the assessment. This 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.

Further, in order for the theoretical interest cover to be breached, profit from operations, excluding the adjusting items, would have to decline by over 13% per year, for the interest cover to fall below 5x after three years.

## Other considerations - litigation

Due to the nature of the Group's operations, it is subject to inherent uncertainties with regards to litigation, the outcome of which is uncertain in terms of timing or scale and 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'. 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.

However, 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.

## Mitigating actions

Under the Group's active capital allocation mechanism (see page 42), the Group intends to pay dividends of £5.3 billion per year with other discretionary capital expenditure estimated at £550 million. Both may be revised to redirect funds to the settlement of other liabilities including debt repayment.

## Conclusion

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 able to continue in operation and meet its liabilities as they fall due, over a longer period, owing to the inherent uncertainty arising due to ongoing litigation, 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 line with the Group's cash flow forecasting to support debt refinancing plans.®

### 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.