

A Better Tomorrow™

Sustainability Report 2022





Our purpose is to reduce the **health impact** of our business by offering a **greater choice** of innovative and **less risky*** products for our consumers.

We are clear that combustible cigarettes pose serious health risks. The only way to avoid these risks is to not start smoking, or to quit. However, we encourage those who would otherwise continue to smoke, to switch completely to scientifically-substantiated, reduced-risk* alternatives.

To deliver this, BAT is transforming into a truly multi-category consumer products business.

ESG Front and Center

Our corporate purpose puts ESG front and center, with a principal focus on reducing the health impact of our business to build A Better Tomorrow™. Our Sustainability Report integrates our business and sustainability strategy like never before and is designed to provide stakeholders with a more holistic view of our approach.

This Sustainability Report is prepared with reference to the GRI Standards.

Notes:

BAT's New Category (non-combustible) 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.

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About this report

This is the inaugural Sustainability Report of British American Tobacco Kenya plc (BAT Kenya), covering the financial year ended December 2022. It complements the Company's Annual Report and Financial Statements for the same period, which is available at www.batkenya.com.

Being an inaugural report, non-financial aspects relating to previous years may be covered. The aim is to establish a reporting baseline for subsequent sustainability disclosures, capture material information and demonstrate progress made in pertinent areas of disclosure.

The scope of this Sustainability Report is the Company's operations in Kenya: offices, the cigarette manufacturing and commercial hub at Likoni Road in Nairobi's Industrial Area, Green Leaf Threshing Plant (GLTP) in Thika, trade, distribution and tobacco growing operations. It also addresses material aspects relating to key stakeholder groups: employees, regulators, business partners, consumers and society.

References in this publication to 'BAT Kenya', 'the Company', 'the Business' 'we', 'us' and 'our', refer to British American Tobacco Kenya plc.

This report demonstrates our comprehensive approach and commitment to integrating Environmental, Social, and Governance (ESG) practices in our business.

Cautionary statement

The material in this Report is provided for the purpose of giving information about BAT Kenya to shareholders and other key stakeholders and is not provided for tobacco or nicotine product advertising, promotional or marketing purposes.

This material does not constitute and should not be construed as constituting an offer to sell or solicitation of an offer to buy any of our tobacco or nicotine products. Our products are sold in compliance with the laws of Kenya.

This Report may contain forward-looking statements that are subject to risk factors associated with, amongst other things, the changing economic and business dynamics affecting BAT Kenya's domestic and export markets. It is believed that the expectations reflected in these statements are reasonable, but they may be affected by a wide range of variables that could cause actual outcomes to differ materially from those currently anticipated. Any forward-looking statements reflect knowledge and information available at the date of preparation of this Report and BAT undertakes no obligation to update or revise these forward-looking statements, whether because of new information, future events or otherwise. Readers are cautioned not to place undue reliance on such forward-looking statements.

Statement of use

BAT Kenya has prepared this Report with reference to the GRI Standards.

As this is an inaugural independent report, there is no re-statement of performance data/information. This report may be read alongside the BAT Kenya 2022 Annual Report and Financial Statements for an in-depth view of information contained in this Report linked to that which has been previously reported in the Annual Report.

Corporate information

Registered office














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NAIROBI

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BAT Kenya at a glance

(as at 31 December 2022)

 115 Years of operation in Kenya	 2 Product categories (1 combustible & 1 reduced risk*)	 1 Tobacco-free oral nicotine brand	 4 Cigarette brands	 +15 Markets served (Kenya & the region)
 53 Years on the NSE	 399 Direct employees (excludes contracted staff)	 +80,000 Kenyans in our value chain	 2 Factories	 5,142 Local shareholders
KShs +100Bn** Taxes paid last five years	 +54Mn Trees planted since 1978	 ≈2000 Tobacco farmers contracted in Kenya	USD ≈115mn Annual forex generation	 44% Women in the organisation

BAT Kenya is part of the BAT Group, a leading multi-category consumer goods business. BAT Group's purpose is to build A Better Tomorrow™ by reducing the health impact of our business, through offering a greater choice of less risky products* for our consumers. This is underpinned by excellence across environment, social and governance (ESG) priorities.

BAT Group has a long history and rich heritage in Kenya, having started operations in the country in 1907. BAT Kenya has been listed on Nairobi Securities Exchange since 1969 and has 5,272 shareholders (as at close of register for 2022 on 10 February 2023), of whom 5,142 are local individuals and entities.

BAT Kenya operates a vertically integrated business which includes tobacco farming and processing, manufacturing, sale and export of cigarettes and other tobacco products as well as nicotine products without tobacco.

The Company serves as a manufacturing hub for BAT Kenya's domestic operations and export markets in East and Southern Africa and beyond. Our business contributes to Kenya's socio-economic development in various ways, including supporting the livelihoods of over 80,000 trade and business partners and providing direct and indirect employment opportunities for over 1,800 people.

Over the years, BAT Kenya has been focused on satisfying the needs of its traditional consumers - adult smokers. Today, consumer preferences are evolving. New technologies are emerging, and societal attitudes are changing.

While cigarettes will be at the core of our business for some time to come, our ambition is to increasingly transition our business from cigarettes to innovative and less risky* nicotine products as an alternative to smoking, to reduce the health impact of our business.

This is in line with BAT Group purpose of building A Better Tomorrow™ for our consumers who will have a range of innovative and less risky* choices; for society through reducing the overall health and environmental impacts of our business; for our employees by creating a dynamic and purposeful place to work; and for our shareholders by continuing to deliver sustained and superior returns.

* Based on the weight of evidence and assuming a complete switch from cigarette smoking. These products are not risk free and are addictive.
 ** Taxes in form of Excise, VAT, Corporate tax, PAYE
 *** As at 31 December, 2021 based on a third party report commissioned by BAT Kenya

Chairperson's statement

Welcome to BAT Kenya's 2022 Sustainability Report.

Over the past few years and notably in 2022, BAT Kenya has made progress on our purpose to build A Better Tomorrow™, in an increasingly complex external environment. As part of our transformation, we have worked to embed sustainability more firmly into our strategy.

While we have previously reported our sustainability performance as part of our Annual Report and Financial Statements, this year, I am delighted to present to you, BAT Kenya's first Sustainability Report written with reference to an independent global reporting framework (GRI) and in line with the Nairobi Securities Exchange (NSE) ESG Disclosure Guidance Manual.

This 2022 Sustainability Report provides detailed information about our management approach, governance framework and targets for our environment, social and governance (ESG) priorities.

Roadmap for A Better Tomorrow™

Sustainability and ESG have long been part of BAT's business agenda. As the Board of BAT Kenya, we have oversight over the Company's sustainability commitments and work with the Leadership Team, to ensure the requisite governance is in place and working optimally to deliver this mandate.

BAT Kenya is part of the BAT Group and as such, is fully aligned to the Group's strategy and purpose, whose focus areas are further adapted to deliver local priorities. The Group ESG targets that we have aligned to and whose performance we will report in this publication include:

- 50% CO₂ emissions reduction by 2030 across our value chain - comprising Scope 1, 2 & 3 GHG emissions
- Carbon neutral operations by 2030 comprising Scope 1 & 2 GHG emissions
- 35% less water withdrawn by 2025
- Enhancing prosperous livelihoods
- Increase the proportion of women in management roles to 45% by 2025¹
- Aiming for full adherence to our Standards of Business Conduct (SoBC)



Rita Kavashe
Board Chairperson

¹ The number of female management-grade employees, as a percentage of the total number of management-grade employees. Management grade employees include all employees at job grade 34 or above, as well as any global graduates.

Value-driven culture

I also reflect on the importance of BAT Kenya's Ethos to deliver our purpose. After all, our people are a key stakeholder group in BAT Kenya's transformation journey.

Ethical values form the basis of our culture and in many ways, BAT has a remarkable and unique culture: Immensely diverse and seasoned by a blend of new talent capabilities, alongside long-standing experience.

Of course, culture needs nurturing. My Board colleagues and I have dedicated significant time to fostering this unique culture and are committed to building on its provenance. All the while, ensuring that it is relevant and fit, both for the challenges of our world today and of tomorrow.

As we work to build the enterprise of the future, we have made good progress on various areas of our ESG agenda. From taking initial steps to reduce the health impact of our business, our reduced carbon footprint, and global recognition for our water stewardship programme; to our encouraging performance on diversity and inclusion, sustainable agriculture and farmer livelihoods as well as health and safety, our commitment to build a sustainable business is unwavering.

While, as part of continuous improvement, there are areas that need more focus than others and these have been highlighted in this Report, I am proud of what the team has achieved in 2022 and prior years.

Opportunities and resilience

As BAT Kenya and the world around us evolve, we need to ensure that we are fit for the future. As such, we continue to simplify our business to ensure that we position ourselves for growth. We cannot do this alone; to accelerate this transformation requires the support of all stakeholders.

We reiterate the need for an enabling operating environment which includes balanced excise tax, as well as evidence-based and pragmatic regulatory frameworks. This is especially with regard to our ambition to reduce the health impact of our business.

Our business partners and communities in which we operate are also key, and we will continue to collaborate with them in our quest to deliver shared value.

Finally, I take this opportunity to sincerely thank all those who continue to walk with us and contributed to the delivery of our ESG agenda. Let's continue to take bold steps together to build A Better Tomorrow™.

“ Our commitment to build a sustainable business is unwavering. ”

“ As the Board of BAT Kenya, we have oversight over the Company's sustainability commitments. ”

“ Ethical values form the basis of our culture and in many ways, BAT has a remarkable and unique culture. ”

“ Our business partners and communities in which we operate are also key, and we will continue to collaborate with them in our quest to deliver shared value. ”

Managing Director's statement

I am delighted to present to you, the Company's Sustainability Report for 2022.

Publication of this report is a key milestone for me as I steer this great company's transformation alongside the Leadership team, to build the enterprise of the future. It is a key part of my efforts to drive transparency in the way we conduct our business, and our commitment to responsible business practices.

At BAT Kenya, we are accelerating the transformation of our business. The BAT Kenya of tomorrow will be a high-growth consumer goods business: consumer-centric and multicategory with sustainability embedded into its strategy. Our focus is to *reduce the health impact of our business*, underpinned by our ESG priorities: *to drive environmental excellence, deliver a social positive impact and ensure robust corporate governance across the business*.

While this report aims to communicate our 2022 performance compared to 2021 across ESG pillars, we have included information on certain aspects pertaining to previous years. This is with a view to provide a more holistic picture of our sustainability journey and milestones.

Leading with purpose

Our transformation is backed by clear and measurable targets as demonstrated in this report. We have made significant progress, with a key highlight being attaining a multicategory product portfolio which includes our reduced-risk* product brand - VELO. While cigarettes will be at the core of our business for some time to come, our ambition is to increasingly transition our business from cigarettes to innovative and less risky* nicotine products as an alternative to smoking, to reduce the health impact of our business.

Since taking on the helm of the business in 2021, a key area of focus for me has been our People. It meant a lot to me therefore, when in 2022, we were recognised as Africa's champion in Gender Mainstreaming and category winners in Gender and People with Disabilities at the Accenture Gender Mainstreaming Awards.

Between 2018 and 2019, the Company also invested approximately KShs 600 million in refurbishing our Nairobi office into a modern



Crispin Achola
Managing Director

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

and dynamic place to work. Further, every year since 2018, we have been certified as a Top Employer in Kenya and Africa by the global Top Employers Institute, amongst many other accolades recognising our investment in our People. This makes me immensely proud.

I am also proud of the partnerships we continue to build with local tobacco farmers, to grow the best quality tobacco leaf for our tobacco products. In this report, we provide insight into BAT Group's farmer livelihoods programme, THRIVE. This programme is aimed at enhancing the livelihoods of our contracted farmers, anchored on an internationally recognised framework covering five focus areas, known as 'Capitals': Financial, Social, Human, Natural and Physical Capital.

Through the BAT Group's initiatives: *A Better Tomorrow™ Together* and *Be Supplier*, we are working with stakeholders and partners in our value chain to enhance responsible business practice. In 2021, we invited relevant suppliers to provide proposals on how we can, together, tackle key issues around sustainability. In 2022, select suppliers underwent an independent labour audit.

Better together for the environment and society

We continue to make efforts in managing environment-related risks, as well as social risks with a focus on elimination of child labour in tobacco farming, amongst other key commitments.

From an environmental perspective, we have maintained our track record of zero waste to landfill, while our afforestation programme, *Kijani*, made steady progress in promoting afforestation in our tobacco farming operation and local communities. Further, we are part of national efforts to rebuild the country's forest cover and have adopted various forests to drive conservation efforts. As part of efforts to combat climate change, we have allocated resources to renewable energy initiatives, and I am proud of the progress we are making in this space.

On the social front, BAT Kenya has a long-standing commitment to respect fundamental human rights as affirmed by the Universal Declaration of Human Rights and the constitution of Kenya. This includes the rights of our employees, the people we work with and the communities in which we operate.

BAT Kenya stands firm against child labour. Child labour, as defined by the International Labour Organisation (ILO), is a challenge in the agricultural sector and across

other industries. According to a UNICEF report published in June 2023, it is estimated that 26% of children aged 5 to 17 years are engaged in child labour in East & Southern Africa¹.

Further, the Food and Agriculture Organisation (FAO)² of the United Nations reports states that worldwide, the majority (about 70%) of child labour is found in the agriculture sectors such as crop production, livestock, forestry, fisheries or aquaculture.

At BAT Kenya, we have a multi-pronged child labour prevention programme which includes initiatives to enhance farmer livelihoods, capacity building and training programmes on the prevention of child labour in our tobacco growing operation.

Additionally, we take action where a child labour case related to our directly contracted farmers has been reported, investigated and substantiated. These actions include training and remediation programmes, and where we identify recurring non-compliance, the farmer's contract is not renewed for the next growing season.

A Better Tomorrow™

Between 2020 and early 2022, the world navigated a major challenge, the COVID-19 pandemic. During this time, the main focus for our business was the safety and wellbeing of our People. At the same time, the pandemic showed a need for businesses to serve a wider purpose beyond that of generating shareholder value, which is something that BAT Kenya has always done and continues to do.

As we move forward in an increasingly complex world, BAT Kenya's North Star remains its purpose – to Build A Better Tomorrow™.

To succeed in delivering this, we must continue to nurture the trust of all our stakeholders. Developments over the last few years and currently as we write this report, have shown that it will not always be straightforward. However, with our proven strategy, which has sustainability at its core, and the support of our stakeholders, I am confident that BAT Kenya will continue to transform at pace while delivering multi-stakeholder value, now and in the future.

¹ <https://data.unicef.org/topic/child-protection/child-labour/>

² <https://www.fao.org/childlabouragriculture/en/>

About our business

Regulatory landscape

Delivery with integrity

Our business is regulated by various local laws and regulations.

While we are subject to the general regulatory frameworks that apply to all businesses, certain regulation is specific to our business, key being the Tobacco Control Act, 2007 and Tobacco Control Regulations, 2014.

The sale of our products is governed by applicable local laws as well as the BAT Group's International Marketing Principles (IMP).

A fundamental requirement of the IMP is that our tobacco and nicotine products should be sold responsibly to adults only and are not designed to appeal to children. We fully support laws and regulations prohibiting the sale of our products to anyone under the legal minimum age of 18 in Kenya, and we have a well-established programme aimed at prevention of underage access (PUA). We support regulation that is based on thorough evidence and research and is arrived at through robust consultative processes to deliver on the intended policy aims, while recognising unintended consequences.

We are committed to complying with all applicable laws, as well as the BAT Group's Standards of Business Conduct (SoBC), which we have adopted locally. The SoBC sets high standards of responsible behaviour and comprises our core policies for all Group companies worldwide, including on human rights, anti-bribery and corruption, and anti-illicit trade.

Tobacco harm reduction

The BAT Group has a clear purpose to build A Better Tomorrow™ by reducing the health impact of its business. The Group seeks to do this by providing adult tobacco and nicotine consumers with a greater choice of innovative and less risky* products.

The BAT Group is clear that combustible cigarettes pose serious health risks. The only way to avoid the health risk related



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

with smoking is to not start smoking, or to quit. However, we encourage those who would otherwise continue to smoke, to switch completely to scientifically substantiated, reduced-risk* alternatives.

It is widely acknowledged that most of the harm associated with conventional cigarettes is caused by the toxicants in the smoke produced by the burning of

tobacco. Tobacco harm reduction (THR) is a strategy that recognises the harm caused by combustible cigarettes and aims to minimise the health impacts of cigarette smoking.

The image provides a snapshot of the risk profile of tobacco and nicotine products, demonstrating how this evolves across the spectrum.

Risk continuum



At its core, THR is the recognition that, while the preferred goal is abstinence, this is not always achievable and that helping smokers change to less harmful alternatives may be a more pragmatic approach. For THR to be effective, alternatives that deliver comparable satisfaction in nicotine delivery, use and sensorial aspects are needed to facilitate transition by smokers.

To facilitate this, the BAT Group has developed a range of non-combustible reduced risk* products categorised as follows: *Tobacco Heated products, Vapour products and Oral Nicotine pouches.*

Tobacco harm reduction has been recognised by various global organisations, as a legitimate approach to reduce the health risks associated with smoking. The United Kingdom (UK) Health Security Agency and Office for Health Improvement and Disparities, (Previously Public Health England), amongst others, has recognised the use of e-cigarettes as likely to be at least 95% less harmful than smoking¹.



¹ <https://www.ucl.ac.uk/news/2019/oct/e-cigarettes-may-help-over-50000-smokers-quit-england-each-year>

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

An increasing number of progressive international scientific and public health communities have recognised that alternative nicotine products are likely to be less risky than smoking* and their availability could have the potential to help reduce smoking related harm at a population level.

In the UK for example, vaping is credited with helping about 50,000 to 70,000 people stop smoking every year and is endorsed by the UK Department of Health and Social Care.

Regulation across the world is increasingly reflective of the value of THR, with regulators implementing progressive laws that acknowledge the benefit of reduced risk* products and the role they can play in THR.

Given Kenya's progressive approach and position as a leader in the region, our government has a real chance to lead in reducing tobacco-related harm, by enacting and implementing regulations that contribute to tobacco harm reduction in our country.

World class science

Science and innovation are at the heart of the Group's transformation journey. BAT Group applies world class science and research to provide adult smokers with alternative products that aim to reduce the health risks associated with conventional cigarette smoking. Critical to this is balanced, evidence-based regulatory frameworks, including ensuring safety and quality through global, regional and local product standards.

The BAT Group has had over 80 studies on New Category products published in peer-reviewed journals, seeking to make the Group's science accessible and understandable to a wider audience. In 2021, the BAT Group introduced new quarterly science updates to provide stakeholders with the latest information in a concise, engaging way.

Externally, various bodies have recognised THR. For example, the Royal College of physicians has credited the use of nicotine pouches with reduced smoking rates in Sweden². Research by the Institute of Tobacco Studies shows that Sweden has the lowest rates of tobacco-related diseases in Europe.

Enabling consumer choice

It is widely acknowledged that most of the harm associated with conventional cigarettes is caused by the toxicants in the smoke produced by the burning of tobacco. That is why the BAT Group is dedicated to the development and sale of a range of reduced-risk* products without burning tobacco for adult nicotine consumers.

To deliver this, BAT Group is transforming into a truly consumer-centric multi-category consumer products business.

In 2020, BAT Kenya rolled out a KShs 2.5 billion investment in a world class factory to manufacture tobacco free oral nicotine pouches.

In 2022, the Company launched VELO, tobacco free modern oral nicotine pouches from BAT Group's portfolio into the Kenyan market.

“BAT Group applies world class science and research to provide adult consumers with alternative and viable products that aim to reduce the health risks associated with conventional cigarette smoking.”

“BAT Group is transforming into a truly consumer-centric multi-category consumer products business.”



² Clarke, Elizabeth, et al. "Snus: a compelling harm reduction alternative to cigarettes." Harm reduction journal 16.1 (2019): 1-17.

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

Our consumer-centric multicategory product portfolio

BAT Kenya's product portfolio comprises a range of high-quality products, including cigarettes (combustible products) and tobacco-free oral nicotine pouches (reduced risk products*).

This reflects our commitment to meet the preferences of today's adult smokers, while transforming our business by adapting to consumer and market changes with innovative nicotine products.

As a responsible manufacturer, we are committed to the prevention of underage access to our products.

Tobacco farming

Leaf growing & processing

Our leaf growing operations are concentrated in the counties of Bungoma, Busia and Migori, where we partner with majority of local tobacco farmers through annual contracting.

In partnership with our contracted tobacco farmers, we have decades of experience in tobacco farming and processing. We have put in place infrastructure to



facilitate the supply of high-quality leaf and safeguard its integrity. BAT Kenya is a contributor to the global leaf market through BAT's global leaf pool, which buys cut rag (processed loose tobacco) from its leaf growing markets worldwide.

Tobacco farmers are valuable stakeholders in our value chain. In 2022, we contracted 2,083 farmers, 452 (22%) of them being women, providing a ready market for their tobacco leaf. This consequently supports the livelihoods of over 7000 people in the tobacco growing value chain. While the empowerment of women to drive gender equity in tobacco farming is a key focus for us, it remains challenging to contract women farmers. A key concern is the issue of land ownership, where most of the land in rural areas is owned by men.

As at the time of writing this report and part of efforts to drive economic empowerment of our women farmers, we have rolled out a Rural Women Development Programme to support their economic advancement in other areas not related to land ownership or tobacco farming specifically.

Tobacco is diverse, and different types of tobacco are grown in different parts of the world. It is classified into four taste territories namely: Dark, Earthy, Bright and Aromatic. Kenya predominantly grows Earthy tobacco.

The tobacco leaf growing season at BAT Kenya begins with farmer selection and contracting. The second phase includes provision of crop and farm inputs by the Company to farmers, including tobacco seeds, agrochemicals, fertilizer, lime and personal protective equipment.

To facilitate the implementation of Good Agricultural Practices, we provide field extension services to contracted farmers throughout the crop season. This is done through outsourced field technical officers in liaison with BAT's Area Leaf Managers. The key objective of this process is to build farmer capability, monitor progress and gather information to facilitate key decisions during the ongoing crop growing cycle and future needs of our Leaf operations.

The third phase in leaf growing includes harvesting and curing of the tobacco leaf by farmers. Once harvested, tobacco goes through a process called curing (it is during curing that tobacco taste is developed) where the tobacco leaves are dried in a controlled environment to prepare them for processing at our GLTP. Subsequently, BAT Kenya purchases the cured tobacco from the farmers, upon which it is warehoused and transported to the GLTP, where it is prepared to produce cigarettes or other tobacco products.

During the growing stage, tobacco is in the ground for six months, after which it is harvested and cured for about three months. We encourage our farmers to grow alternative crops after harvesting tobacco, to enhance food security and soil nutrition. To facilitate this, we provide certified maize seeds at no cost.

Leaf processing activities include leaf receipt, warehousing and threshing to meet stringent quality standards. Other processes include leaf grading and blending. The final steps include transportation of the processed leaf to the cigarette manufacturing factory in Nairobi.

Sustainable tobacco programme

Underpinning the leaf growing process is sustainability, which includes protecting the integrity of the tobacco leaf, risk mitigation of externalities such as environmental impacts, ensuring the safety of farmers and their workers and enhancing farmer incomes.

Through the BAT Group, BAT Kenya participates in the industry-wide Sustainable Tobacco Programme (STP) which is an initiative developed in collaboration with other manufacturers to bring together best practice from across the industry and help drive continuous improvement. It is also aligned to important external standards, such as those of the ILO. STP themes include sustainable farming techniques, the use of agrochemicals, soil and water management and actions that can be taken to help prevent child and forced labour. The STP applies to all our first-tier suppliers in our tobacco leaf supply chain.

One of our focus areas in tobacco farming is enhancing farmer livelihoods. This is done in various ways, including increasing tobacco crop yields and crop diversification. In 2022, our farmers' crop yields increased by 8%. Another important benefit of improved crop yields is the reduction of the land needed to grow tobacco. In 2022, the yield improvement saved 230 Ha of land that can then be used to grow alternative crops.

Impact of the operating environment on tobacco farming

As part of efforts to build a future-fit business, BAT Kenya regularly reviews demand for Kenyan tobacco leaf in light of various operational factors. Over the last few years, affordability challenges facing tobacco consumers have heightened due to sustained excise tax hikes. This has consequently contributed to the growth of illicit trade in tax evaded cigarettes, impacting demand for legitimate tobacco products. Illicit trade has grown from less than 1% in 2015 to 25% by the end of 2022 (according to third party research commissioned by BAT Kenya). Further information on illicit trade in tobacco products is available on page 69 of this Report. Following such business reviews, BAT Kenya has undertaken farmer rationalisation activities over the last five years, resulting in a reduction of contracted farmers. This reduction is

also influenced by other factors including termination or non-renewal of contracts with farmers who were proven to have contractual non-compliance or malpractice.

While the number of contracted farmers has declined, there has been an increase in crop yield by contracted farmers.

To facilitate a smooth transition for exiting farmers in 2021, we provide them with a transition pack which included certified maize and fertilizer and provided market linkages for farmers who opted in.

Manufacturing excellence

Our cigarette manufacturing factory in Nairobi's Industrial Area continues to prove its potential after emerging as the best-performing factory in the BAT Group's Americas and Sub-Saharan Africa region for two consecutive years - 2021 and 2022. Our Green Leaf Threshing plant in Thika has also received various accolades, in the areas of operational efficiency, energy management and health and safety. This demonstrates our commitment to world class manufacturing standards.

A key component of our factory efficiency is the Integrated Work Systems (IWS). The IWS embodies the key drivers of Zero Loss Mentality and 100% Employee Involvement. With this framework, all employees actively participate in identifying loss areas and generating new innovative solutions to eliminate losses and drive productivity.

During the reporting period, we continued to drive improvement across all key performance indicators: Productivity, Quality and Suitability. Through the IWS-Loss Analysis, we delivered approximately KShs 590 million in efficiency savings in 2022. In the same year, we surpassed the previous year's monthly performance by achieving an Overall Equipment Effectiveness (OEE) score of 71.1% against a target of 80% by 2025.

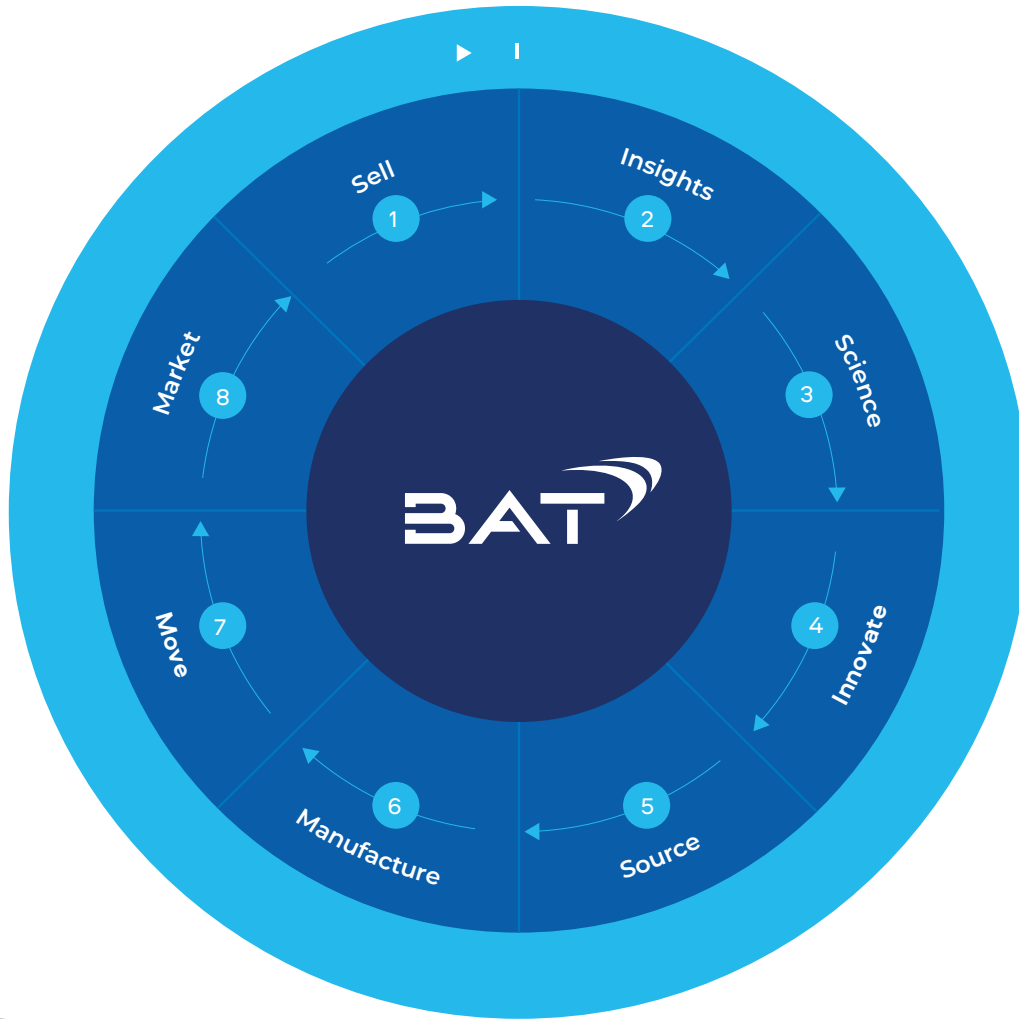
From a capacity building perspective, we rolled out an operational and technical training program amongst others, as part of our commitment to developing employee capabilities in eliminating losses in our processes and machinery.



BAT Group business model

The Group business model begins and ends with the consumer. Eight key enablers support us in turning powerful insights into products that meet consumer needs. BAT Kenya is aligned to BAT Group's business model and its focus areas are further adapted to deliver local priorities.

Refer to page 28 and 29 of the BAT Kenya 2022 Annual Report for further detail.



A Better Tomorrow™ for:



Consumers



Shareholders and investors



Society



Employees

BAT Group's strategy for accelerated growth

As a leading consumer goods business, the BAT Group aims to build A Better Tomorrow™ through a multi-category portfolio of non-combustible products, tailored to meet the preferences of adult consumers.

The Group's ambition is to increasingly transition our business from cigarettes to less risky* nicotine products as an alternative to smoking, to reduce the health impact of our business. BAT is building Better Tomorrow™ for consumers by responsibly offering stimulating choices for every mood and every moment; for society through reducing the overall health and environmental impacts of our business; for our employees by creating a dynamic and purposeful place to work; and for our shareholders by delivering sustained superior returns.

Refer to page 26 and 27 of the BAT Kenya 2022 Annual Report for further detail.



“Through consumer insights, we will focus on product categories and consumer segments across our markets that have the best potential for long-term sustainable growth.”

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

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

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

BAT Kenya is aligned to BAT Group's strategy, and its focus areas are further adapted to deliver local priorities



“As consumer preferences and technology evolve rapidly, we rely on BAT Group's global network of digital hubs, innovation super centres, world-class research and development laboratories, external partnerships and corporate venturing initiative to stay ahead of the curve.”

“Our biggest asset is our highly motivated people whom we are empowering through an Ethos that is responsive to constant change, embodies a learning culture and is dedicated to continuous improvement. But we cannot succeed on our own, and our partnerships with farmers, suppliers and traders are key to ensuring sustainable growth.”

“Cultivating an ecosystem that connects us with consumers and stakeholders, especially through the power of digital technology, ensures that we can build the brands of the future, deliver access to markets and foster innovation that meets consumer needs.”

BAT Group sustainability agenda

BAT Kenya is aligned to the BAT Group's Sustainability Agenda which is integral to the Group's strategy and purpose; to build A Better Tomorrow™. It reflects our commitment to reducing the health impact of our business as our principal focus area. This is underpinned by excellence across our environment, social and governance (ESG) priorities.



Reducing the health impact of our business



Excellence in environmental management

Climate change
Circular economy
Biodiversity & ecosystems
Water



Delivering a positive social impact

Human rights
Farmer livelihoods
People, diversity & culture



Robust corporate governance

Responsible sales practices & transparent communication
Ethics & Integrity
Sustainability governance

Created shared value for



Consumers



Society














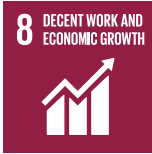














Employees



Shareholders

Sustainable Development Goals

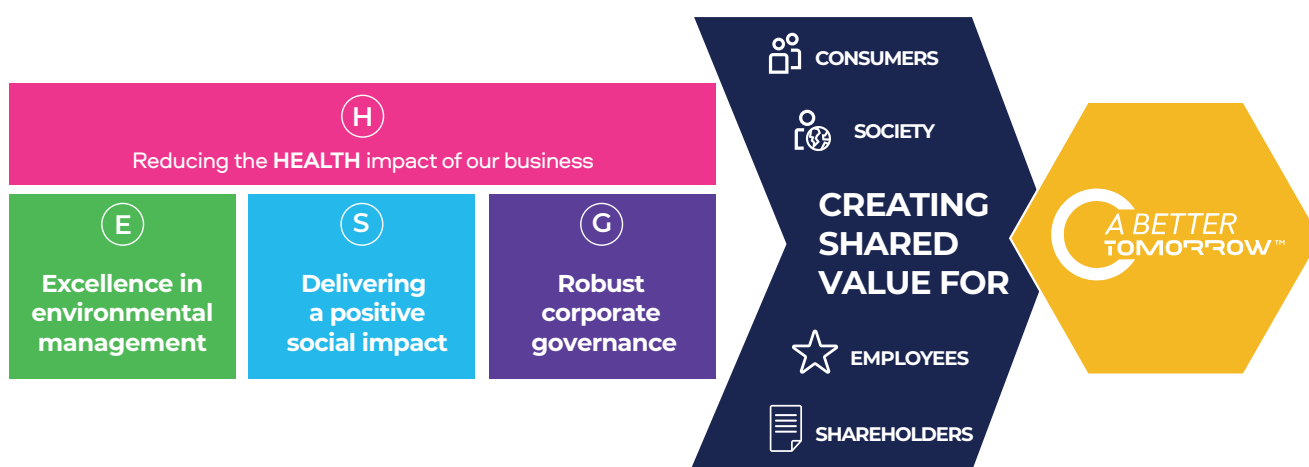
BAT Kenya's activities are aligned with the UN Sustainable Development Goals (SDG goals). The Company focuses on eight goals, which have been identified as being most relevant to us. Here, we provide highlights of how our activities are aligned to the SDGs :

Actions / Initiatives	Sustainable Development Goals	BAT Kenya priorities
<p>Strategic</p> <p>These goals align with our principal focus area, to reduce the health impact of our business. They also align with the BAT Group's global efforts to combat climate change, which extend across all aspects of our business.</p>	 <p>3 GOOD HEALTH AND WELL-BEING</p>	 Tobacco Harm Reduction  People, Diversity and Culture
	 <p>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</p>	 Circular Economy  Responsible Marketing and Transparent Communications
	 <p>13 CLIMATE ACTION</p>	 Climate Change  Biodiversity and Ecosystems  Circular Economy  Water
<p>Priority</p> <p>These are the global goals that align with the BAT Group's SDG priority areas, and where we can make a significant contribution through the Group's global activities.</p>	 <p>8 DECENT WORK AND ECONOMIC GROWTH</p>	 Farmer Livelihoods  Human Rights
	 <p>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</p>	 Tobacco Harm Reduction  Circular Economy  Farmer Livelihoods
	 <p>16 PEACE, JUSTICE AND STRONG INSTITUTIONS</p>	 Ethics and Integrity
<p>Localised</p> <p>These goals align with issues for which a localised response is needed, tailored to the specific circumstances.</p>	 <p>10 REDUCED INEQUALITIES</p>	 People, Diversity and Culture  Farmer Livelihoods
	 <p>15 LIFE ON LAND</p>	 Biodiversity and Ecosystems  Water



Creating shared value

BAT Group's sustainability agenda aims to create shared value for its stakeholders by driving sustainable business and building resilient supply chains. BAT Kenya is implementing this agenda through USTAWI, a platform that seeks to drive a coherent approach to localising the BAT Group's Sustainability Agenda.



Direct economic value generated and distributed in 2022

Refer to our 2022 Annual Report & Financial Statements for detailed financial information

BAT Kenya's direct economic value generated and distributed cuts across its value chain. Below is a snapshot of direct economic value delivered to key stakeholder groups in 2022.

Stakeholder	Direct economic value
Government	KShs 18.5 billion taxes paid being Excise Duty, VAT, Pay as You Earn (PAYE) and corporate tax.
Shareholders	KShs 5.5 billion in dividends - 40% to minority shareholders
Farmers	KShs 946 million in payment for tobacco leaf purchases from approximately 2,000 farmers in 2022 vs 2021. (Refer to page 60 for details of our farmer livelihoods programme) Our current consumption of local tobacco leaf is at approximately 40%, hence potential for growth.
Employees	KShs 1.7 billion paid in salaries / wages and benefits.
Product distributors and traders	KShs 2.2 billion in payments for tobacco and nicotine product sales.
Suppliers	KShs 8.6 billion in payments for various goods and services.

Corporate governance

BAT Kenya has corporate governance structures and processes that guide effective, accountable, and prudent leadership. We have put in place systems to ensure that high standards of corporate governance are maintained.

During the reporting period, the company complied with various regulations, including but not limited to, the Capital Markets Authority (CMA) Code of Corporate Governance Practices for Issuers of Securities to the Public 2015 (the 'Code'), Tobacco Control Act, 2007, the Companies Act, 2015, and the Nairobi Securities Exchange (NSE) ESG Disclosure Guidance Manual, etc.

The Board considers that this Sustainability Report will serve as a baseline for subsequent non-financial reporting. Notably, this section provides the information that shareholders need to evaluate how the Company has applied the principles of good corporate governance to preserve, create and share value.

In addition to complying with the principles of Good Corporate Governance, the Company has embedded internal rules of engagement and frameworks to support effective corporate governance.

This includes the BAT Group's Standard of Business Conduct (SoBC) to which every employee, contractor and director must adhere. At the same time, BAT Kenya suppliers must comply with the SoBC and the Supplier Code of Conduct (SCoC).

We are committed to maintaining high ethical and integrity standards in the delivery of business results.

The Board

The Board of BAT Kenya (the Board) is collectively responsible for the Company's vision, strategic direction, values, and governance.

The Board is accountable to the Company's shareholders for the performance of the Business, and for the long-term success and sustainability of the Company. It provides the leadership necessary for the business to meet its performance objectives within a framework of appropriate internal checks and controls.

The Board is governed by a Board Charter, which stipulates the roles and responsibilities of the Board and its members, the composition of the Board and its committees, and their respective Terms of Reference.

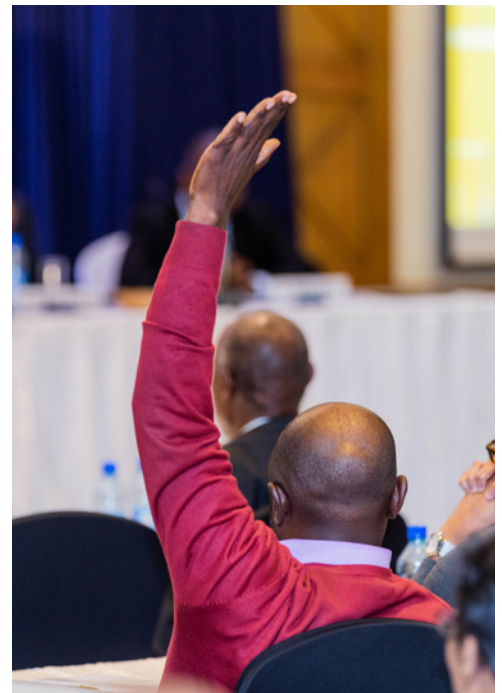
The Board Committee responsible for sustainability matters is the Board Nominations & Governance Committee. The Board Charter is reviewed annually to ensure that it remains current. The Board Charter and Terms of Reference can be accessed at www.batkenya.com

As of 31 December 2022, the Board comprised of ten (10) Directors, eight (8) being Non-Executive Directors including the Chairperson, and two (2) Executive Directors. Of the seven (7) Non-Executive Directors, six (6) are Independent.

Refer to page 62 to 65 of the 2022 Annual Report & Financial Statements for full profiles of the Board.

“ In addition to complying with the principles of Good Corporate Governance, the Company has embedded internal rules of engagement and frameworks to support effective corporate governance. ”

“ We are committed to maintaining high ethical and integrity standards to ensure delivery of business results. ”



The leadership team

The Leadership Team, led by the Managing Director, is responsible for the day-to-day management of the Company. In so doing, it oversees the implementation of the strategy and policies set by the Board. Refer to page 66 and 67 of the 2022 Annual Report and Financial Statements for full profiles of the Leadership team.

Risk management and internal control

The Board is responsible for determining the nature and extent of the significant risks that the Company is willing to take to achieve its strategic objectives and for maintaining sound risk management and internal control systems. With the support of the Audit and Risk Committee, the Board reviews the effectiveness of its risk management and internal control systems annually, covering all material controls, including financial, operational and compliance controls.

Role of the Board Audit and Risk Committee

In line with the Code of Corporate Governance for Issuers of Securities to the Public 2015, the Audit and Risk Committee is comprised of at least three (3) independent and non-executive directors. It is chaired by an independent Non-Executive Director with at least one (1) committee member holding a professional qualification in audit or accounting and in good standing with a relevant professional body.

- » The Audit and Risk Committee (The Committee) is primarily responsible for ensuring that the Company has proper and satisfactory internal operating control systems to identify and mitigate business risks and that the Company's business is conducted in an appropriate, economically sound, sustainable and ethical manner.
- » Monitors the integrity of the Financial Statements and any formal announcements relating to the Company's performance; reviews the consistency of the accounting policies and systems applied by the Company and, when appropriate, makes recommendations to the Board on business risks, internal controls and compliance.
- » Responsible for monitoring compliance with the Company's SoBC, applicable laws and regulations and monitoring and reviewing the performance, effectiveness, independence and objectivity of the Company's external auditors. The Audit and Risk Committee makes recommendations as to the external Auditor's reappointment/change, terms of engagement and the level of audit fees payable to them.
- » The Audit and Risk Committee has established and maintains an appropriate and transparent

relationship with the external auditor who attends each meeting and is heard on any matter raised.

- » Monitoring and reviewing the effectiveness of the internal audit function and recommending changes to the internal auditor where necessary. The Internal Audit Manager is a permanent invitee to the Committee and presents a report on the audit plan for the year as well as providing updates on ongoing and completed audits.
- » The Committee is responsible for recommending the Company's risk appetite and uses risk registers to identify, assess and monitor the key risks (both financial and non-financial) that the Business faces. Information on prevailing trends is provided about each risk. All identified risks are assessed at three levels (high/medium/low) regarding their impact on the business and likelihood of occurring. Mitigation plans are implemented to manage the risks identified, and the risk registers are reviewed regularly at each Audit and Risk Committee meeting.

In compliance with BAT Group's risk management practises, the Company also completes a checklist annually known as the Control Navigator.

The Control Navigator tool enables a self-assessment of the internal control environment, assists in identifying any controls that require strengthening, and sets out monitoring action plans to address any control weaknesses. The checklist is reviewed annually to ensure it remains relevant to the business and covers all appropriate vital controls.

In 2022, the Company reviewed its controls covering compliance with its Contract Management Policy, Group Anti-Financial Crime Procedure, Group Standards of Business Conduct and Group International Marketing Principles, which include prevention of underage access, among other policies and procedures.

The Board, through the Audit and Risk Committee, continues to review the identified areas for improvement. In addition to the above and as required by the Capital Markets Authority (CMA) Code, we carried out an External Legal and Compliance Audit (the 'Audit') for the year ended 31 December 2022.

An unqualified audit opinion was issued by Kaplan and Stratton (the "External Auditor"), which can be found on page 69 of the Company's 2022 Annual Report.

The Board, with advice from the Committee, completed its annual review of the effectiveness of the risk management framework and internal controls for the period since 1 January 2022.

No significant failings or weaknesses were identified, and the Board is satisfied that, where specific areas for improvement have been identified, processes are in place to ensure that the necessary remedial action is taken, and that progress is monitored.

Business continuity planning (BCP)

Our business and operating environment is constantly changing, and we have to take cognizance of both internal and external factors affecting our operations.

To build resilience and achieve growth, we continually seek to incorporate best global practices worldwide and pick lessons learned. Key focus areas include enhancing third-party business partner resilience, digitisation and greater recognition of developments in our industry such as new product categories.

Key aims of Business Continuity Management (BCM) at BAT Kenya are to protect our people, assets, information, and operations.

In line with this, our BCP approach focuses on identifying business processes, evaluating criticality and determining responses to ensure effective mechanisms are in place to restore operations should our business be disrupted.

Key objectives are to:

- » Reduce the likelihood and impact of business interruption.

- » Ensure that the organisation can react effectively to, and deliver timely recovery from any business interruption to an acceptable pre-defined level; and
- » Ensure continued operation and viability of our organisation, and sustained delivery of shareholder value following business interruption.

Business continuity plans

These are required to ensure that each business unit can continue operating to a pre-determined minimum acceptable level, consistent with the business objectives and operational requirements.

BCPs are wide ranging plans providing detail on the workarounds for critical activities to address the loss of key business enablers. BCPs include contingency plans, which contain detailed procedures to manage specific predictable interruptions.

To ensure that we can respond to disruptions effectively at any given time, annual and need-driven training, testing, quality assurance, control and audit reporting are conducted throughout the year as applicable.

Below is a summary of select contingency plans at BAT Kenya.

Mandated plans	Components
Denial of Site	Premises recovery
	Loss of key staff
	Information Digital Technology (IDT) remote working plan
Crisis Management	Crisis management structure
	Crisis communications
IT Service Continuity (ITSC)	IT service continuity
Supply Chain	Finished goods contingency sourcing plan
	Wrapping materials sourcing plan
	Primary supply chain
	Secondary supply chain
Manufacturing	Manufacturing recovery plan
Product recall	Product recall plan
Pandemic Plan	Pandemic plan
Security Plans	Civil disorder (Evacuation plan)
	Natural event management plan

Policies and procedures

We have a defined governance framework to support management control and Board-level oversight of our sustainability agenda and ESG priority areas. This provides a flexible channel for the structure flow of information, management and oversight of ESG matters from the various Functions up to the Board level.

Our policies and guidelines comprise of both BAT Group and local policies.

Our Group policies are key to the delivery of our Group Sustainability Agenda. The framework below comprises of Group policies that have been implemented by BAT Kenya and localised as appropriate as well as local policies, guidelines and procedures that govern our business and sustainability agenda. They can be accessed on our website: www.batkenya.com

BAT policies, guidelines, and procedures	Summary of areas covered	Key stakeholders
Group Standards of Business Conduct (SoBC)	<p>BAT Group's SoBC is a statement of the Company's values in its day-to-day activities.</p> <p>It is an integral part of our governance and, together with our Business Principles, underpins our commitment to high standards of corporate responsibility. The SoBC sets out policies for: <i>Speak Up</i>, respect in the workplace, human rights, health, safety and welfare, environment, lobbying and engagement, conflicts of interest, anti-bribery and corruption, political contributions, protection of corporate assets and financial integrity, community investments, anti-illicit trade, data privacy and information security.</p>	<p>Our people Government, wider society</p>
Group Supplier Conduct of Conduct (SCoC)	<p>Our Group SCoC complements our Group SoBC by defining the minimum standards we expect our suppliers to adhere to in order to supply goods or services to any BAT Group company.</p> <p>This builds upon our long-standing commitment to operate to the highest standards of corporate conduct for our own business operations and our wider supply chain. It covers: compliance, human rights, environmental sustainability, trade, distribution and overall business integrity.</p>	<p>Customers Suppliers</p>
Group Employment Principles	<p>Our Group Employment Principles build on our commitment to good employment practices and workplace related human rights.</p> <p>They set out a common approach to our companies' development of policies and procedures, while recognising that each company must take account of local labour law and practice, and the local political, economic and cultural context.</p>	<p>Consumers Suppliers Governments</p>
Group Leaf Operations Standard on Child Labour Prevention	<p>Detailed guidance and procedures for tackling the risk of child labour in BAT's tobacco farming operations.</p>	<p>Our people Suppliers Government Communities</p>
Group International Marketing Principles (IMP)	<p>Our Group IMPs set down detailed guidance on all aspects related to the sale of, and communication on our conventional combustible tobacco products and reduced-risk* products. Central to the IMP is our long-held commitment to ensure that no sales activity is directed at, or particularly appeals to those under the legal age.</p> <p>The IMPs are globally applicable.</p>	<p>Consumers Customers</p>

BAT policies, guidelines, and procedures	Summary of areas covered	Key stakeholders
Group Corporate Social Investment (CSI) and Responsibility framework	<p>The Company has a comprehensive and effective Corporate Social Investment (CSI) and Responsibility framework underpinned by five core beliefs:</p> <ol style="list-style-type: none"> Creating long-term stakeholder value, Engaging constructively with our stakeholders, Creating inspiring working environments for our people, Adding value to the communities in which we operate; and Suppliers, and other business partners should have the opportunity to benefit from their relationship with the Company. <p>The Company's CSI strategy is derived from our belief in adding value to the communities in which we operate.</p>	Our people Society
BAT Kenya Environment, Health and Safety Policies	<p>BAT Kenya has robust Environmental, Health and Safety policies aimed at providing a safe and healthy working environment for its employees and any other person within the Company's sphere of operations.</p> <p>The Company also maintains an Energy Management Policy and a Water Stewardship policy aimed at achieving the highest practicable levels of energy conservation, water conservation and reducing CO₂ emissions, for the conservation of the environment and the sustainability of natural resources.</p>	Our people Suppliers Customers Government
BAT Kenya Procurement Policy	<p>This policy and related procedures are necessary to ensure that business procurement can generate value by satisfying the needs of the business concerning service and cost associated with the acquisition of goods and services (except for tobacco which is subject to a tailored framework), and strategic machinery.</p> <p>The policy also ensures that the most appropriate and effective controls are applied to purchase of goods and services for the Group's needs. This policy is periodically reviewed as may be necessitated by market conditions, legal requirements or other factors.</p>	Our people Suppliers Government
BAT Kenya Information Technology Policy	<p>This policy aims to facilitate ease of use of IT systems and infrastructure (including IT equipment, mobile facilities, data/telecommunications networks and software) by staff, business partners and other stakeholders, while mandating the responsible use of IT systems. In delivering on its objectives, BAT Kenya leverages IT expertise within the BAT Group, as well as economies of scale in the purchase of IT equipment and services.</p>	Our people Suppliers Customers Government
BAT Kenya Data Protection Policy	<p>In recognising its role in the collection, processing, use and management of personal data, the company's Board has in place the Data Protection Policy which provides guidance to employees and the general public on the below matters:</p> <ul style="list-style-type: none"> ● Compliance with local legislation and international laws and regulations on data protection. ● Protection of the rights of data subjects (employees, business partners, customers); and ● Transparency in collection, processing and storing of people's data. 	Our people Suppliers Customers Consumers Government
BAT Kenya Dispute Resolution Policy	<p>This Policy provides guidance on the management of disputes. It is intended to contribute to effective dispute resolution for the Company, whilst preserving the Company's relationships with its stakeholders.</p>	Our people Suppliers Customers Consumers Government

Sustainability reporting

BAT Kenya’s sustainability disclosures in this report reference reporting practices guided by the Nairobi Securities Exchange ESG Manual and Global Reporting Initiative (GRI). In line with our Responsible Ethos, we have a well-structured disclosure ecosystem to ensure our reporting is evidence based, transparent, fair and balanced.

Stakeholder engagement

Extensive stakeholder insights drive our strategic approach. Our ability to establish and sustain trust and credibility relies on being consistent and coherent - ensuring that our actions match our words.

We recognise the need for engaging with stakeholders to ensure that our business operations are conducted in a responsible manner. Our stakeholders are a diverse group, including but not limited to employees, customers, suppliers, shareholders, regulators, local communities, business partners and tobacco farmers.

We are committed to transparency in disclosing information to our stakeholders. Publication of this Sustainability Report will enhance non-financial mainstream disclosure, improve transparency and showcase our sustainability performance, including our progress towards impacting the SDGs that are most material for our business.

Ongoing engagement with stakeholders helps to create a shared understanding of potential issues, enable us to proactively address concerns, stay up to date with global trends and market expectations, and develop solutions that benefit both our stakeholders and our business.

As part of the 2022 sustainability reporting, we conducted an elaborate internal and external stakeholder survey to understand our business’ most critical sustainability topics. We intend to undertake a detailed review of the most material ESG topics every three years to understand what matters most to our stakeholders, what is relevant to the business, the contemplated risks and opportunities as a result of sustainability and the state of the operating environment and market.

By doing so, we will ensure that we keep pace with emerging topics and stakeholder expectations. We will, however, review and consider all our material topics each year to ensure they align with the business requirements and the market circumstances.

Please refer to page 44 and 45 of the 2022 Annual Report for a detailed breakdown of the scope of our continuous stakeholder engagements.

Materiality assessment

When identifying BAT Kenya’s material topics, it was imperative that the materiality assessment be based on an exhaustive list of issues which covers all the areas that are relevant to the business.

We started by conducting a literature review and research on our peers and competitors who have showcased progressive growth in integrating sustainability into their business operations. We also carried out an industry-level evaluation, and researched economic, environmental, and major social trends and challenges. Additionally, we mapped out the material topics reported by BAT Group in the current and past years.

Another key element of our deep research was to assess sustainability frameworks and standards such as the GRI, Sustainability Accounting Standards Board (SASB), NSE ESG Disclosure Guidance Manual, ESG Ratings Frameworks such as Sustainalytics, ISO Standards, the UN Sustainable Development Goals (SDGs), and benchmarking with sustainability practices of other multinational peer companies and global sustainability trends.

To ensure that we are identifying and reporting on sustainability measures throughout the business, we liaised with an independent consultant to develop a list of sustainability topics that we believe are not only relevant to BAT Kenya but which also cut across our key stakeholder groups (employees, business partners, tobacco farmers, regulators).

The identified material topics focused on non-financial, positive and negative impacts of our business on the environment, social and governance, rather than on specific inputs or activities. We then conducted an internal stakeholder workshop where the internal stakeholders validated the mapped material topics.

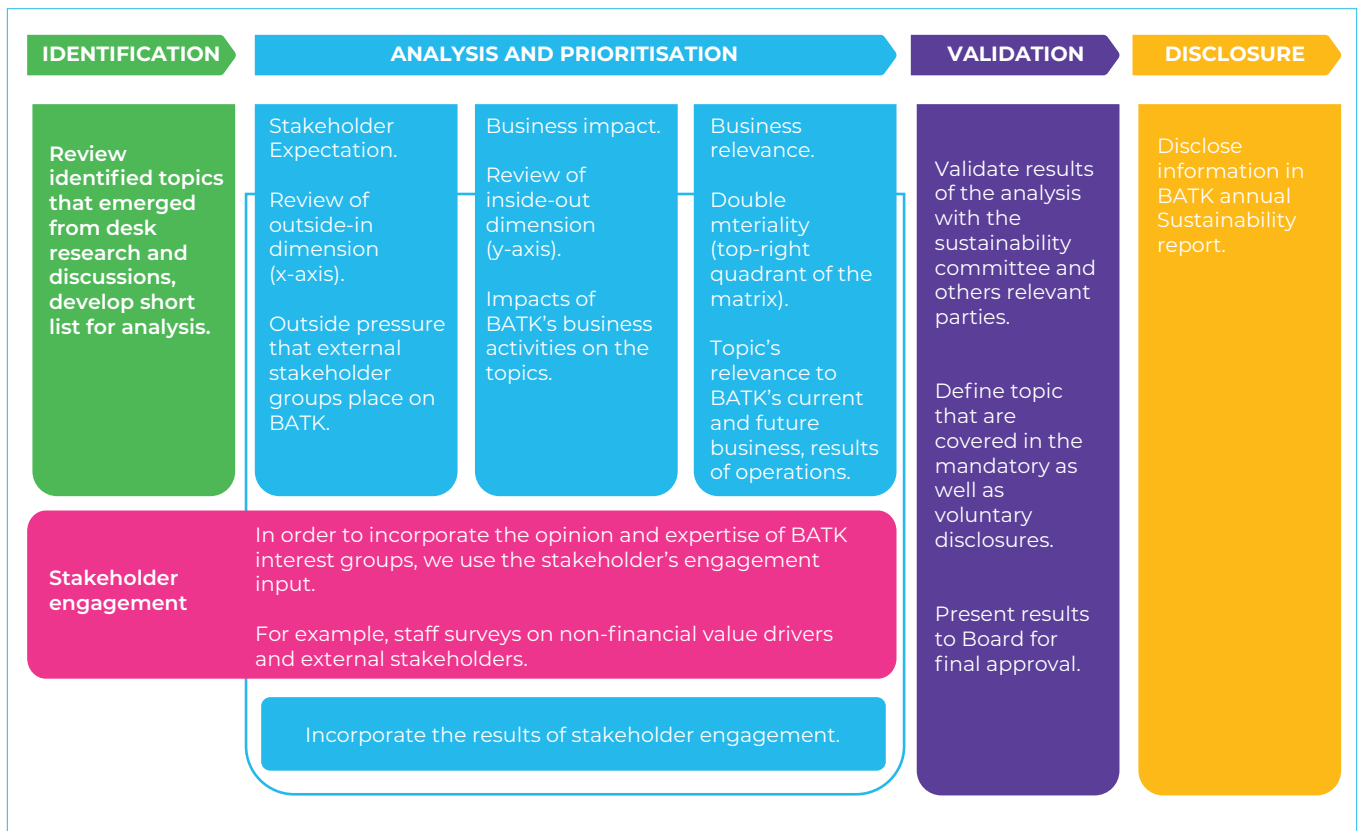
Sustainability matters were considered as material to BAT Kenya if they were assessed to be greatly impacting our stakeholders or our overall business.

By conducting a materiality assessment, we were able to identify potential opportunities, enhance engagement with stakeholders, mitigate business risks, and integrate sustainability into our business strategy.



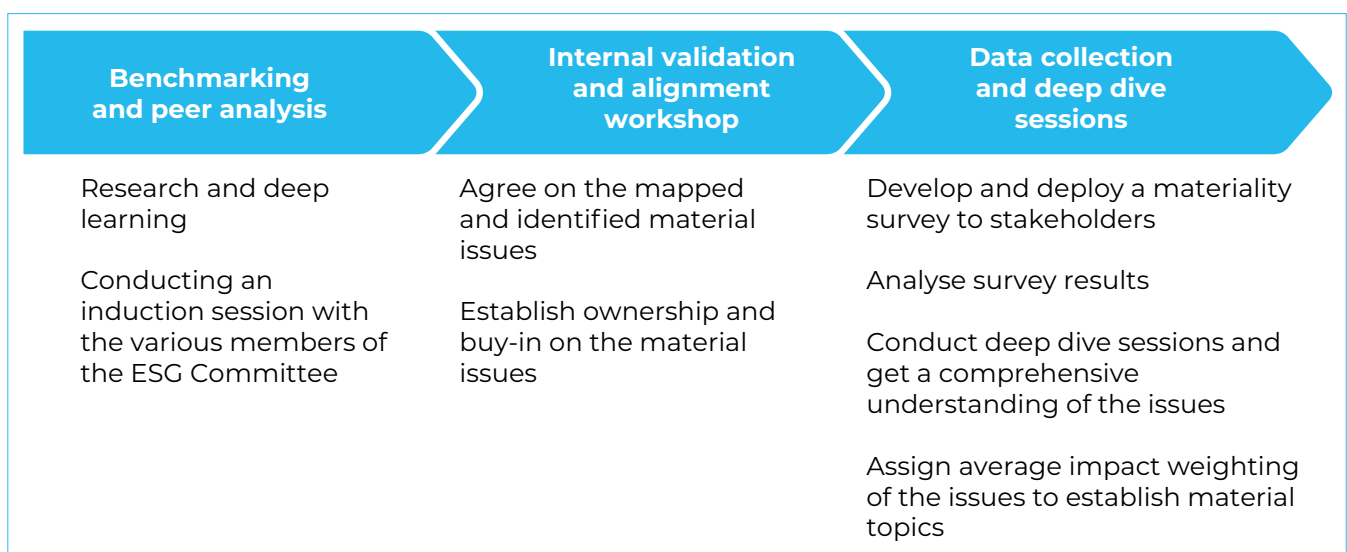
We are committed to transparency in disclosing information to our stakeholders. Publication of this Sustainability Report will enhance non-financial mainstream disclosure, improve transparency and showcase our sustainability performance, including our progress towards impacting the SDGs.

Snapshot of our materiality assessment process



Our materiality assessment demanded that internal and external stakeholders should be part and parcel of the process. Through the stakeholder engagement process, we engaged with key stakeholder groups including employees, shareholders, suppliers, regulators, affected communities and farmers to determine the sustainability topics most material for our business.

The materiality survey was co-developed with our independent consultant and deployed to the stakeholders for response. Consultation and deep dive sessions were also implemented as a follow up exercise to comprehensively understand their feedback. Using the results from the evaluations, our independent consultant analysed the responses to develop a sustainability materiality assessment matrix highlighting the priority topics based on their importance to BAT Kenya and its stakeholders.



Performance against the BAT Group's ESG roadmap

Below are the priority areas that form the core of the BAT Group's Sustainability agenda. These are backed by measurable targets tracked regularly by the Group and BAT Kenya as applicable. BAT Kenya reports in accordance with the BAT Group targets, as appropriate and relevant to the local context. *(The reporting calendar year for climate, circular economy, waste, safety runs from 1st December to 30th November - for 2021 and 2022)*

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

ESG Material Topic	BAT Group targets & goals	Metrics (relevant to BAT Kenya)	BAT Kenya performance*		Trend
			2022	2021	
Environment					
Climate Change	50% CO _{2e} emissions reduction by 2030 across our value chain - comprising Scope 1, 2 & 3 GHG emissions ¹ Carbon neutral operations by 2030 comprising Scope 1 & 2 GHG emissions	Scope 1 CO _{2e} emissions (tonnes CO _{2e})	4,461	4,972	●
		Scope 2 CO _{2e} emissions (Market/location - based) (tonnes)	962	1,831	●
		Scope 1 & Scope 2 CO _{2e} emissions (Market/location - based) (tonnes)	5,422	6,803	●
		Energy consumption (MWh)	23,820	28,068	●
		Renewable energy consumption (MWh)	1,706	51	●
		Renewable energy as a % of energy consumption	2.0%	0.2%	●
		% of operations that have undergone at least one independent environmental audit within a three-year cycle	100%	100%	●
Circular Economy	25% reduction in waste from BAT's operations by 2025	Waste generated (tonnes)	1,572	1,802	●
		<1% waste to landfill by 2025	0	0	●
	% of waste recycled	97.9%	98.2%	●	
Water	35% less water use by 2025	Total water withdrawn (cubic meters)	44,494	51,103	●
	100% operations sites Alliance for Water Stewardship certified by 2025	% of total water recycled	13.7%	1.3%	●
		% of operations sites AWS certified	100%	50%	●
	Soil and water management practices in our tobacco supply chain	% of tobacco hectares reported to have appropriate best practice on soil management implemented	67%	53%	●
Biodiversity and ecosystems	100% of wood used by our directly contracted farmers for curing fuels to be from sustainable sources	Total water withdrawn (M3)	34,266	59,167	●
		% of sustainable wood fuel sources used by our contracted farmers for curing tobacco	71%	-	●
Social					
Human rights	Aiming for zero child and forced labour by 2025 in our Tobacco Supply Chain	% incidents of child labour reported as resolved by end of the reporting period	100%	100%	●
		% of farmers that received training /capacity building on child labour issues	100%	100%	●
Farmer livelihoods	Working to enable prosperous livelihoods for all farmers in our Tobacco Supply Chain	% of tobacco farmers reported to grow other crops for food or income diversification	95%	91%	●
		% of farmers trained on crop diversification	83%	99%	●
		% of farmers trained on farm / business management	99%	-	●
		% of contracted tobacco farmers and farmworkers having access to personal protective equipment	100%	100%	●
		% of farmers trained on women's empowerment	98%	-	●

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

ESG Material Topic	BAT Group targets & goals	Metrics (relevant to BAT Kenya)	BAT Kenya performance*		Trend
			2022	2021	
Social					
Health and Safety	Aim for zero accidents Group-wide	No. of work-related accidents resulting in injury to employees and contractors	1	0	●
		Lost Time to Injury (LTI) / workday case incident rate (LWCIR)	0.2	0	●
		Occupational illness cases	0	0	●
		No. of serious injuries (employees)	0	0	●
		No. of serious injuries (contractors)	1	1	●
		No. of fatalities (employees & contractors)	0	0	●
		No. of fatalities to members of public involving BAT vehicles	0	0	●
	100% of farmers and workers with sufficient personal protective equipment (PPE) for agrochemical use and tobacco harvesting, and 100% training to ensure its effectiveness	% of farms reported to have sufficient PPE for agrochemical use	100%	100%	●
	% of farmers trained on agrochemical health and safety (% of farmers trained)	100%	100%	●	
People Diversity and Culture	45% women in management roles by 2025	% female representation in Board roles	36%	36%	●
		% female representation in senior leadership roles	47%	50%	●
Governance					
Ethics and integrity	Aiming for 100% adherence to our Standards of Business Conduct (SoBC)	No. of substantiated SoBC breaches	6	1	●
		% of employees attesting to adhere to the SoBC	100%	100%	●



* Refer to the information below for details on the performance metrics above



Strategic management of our material topics

Reducing the health impact of our business



Our goals

2025

Launch of reduced risk* products in the market

Performance highlights

2022

Launch of BAT's tobacco-free oral nicotine pouches - VELO™ - in the market in July 2022 to provide smokers with a scientifically substantiated reduced risk* alternative to smoking

KShs
2.5 billion

In 2020, rolled out investment in an oral nicotine products manufacturing facility at our Nairobi site

Harm reduction

The BAT Group has a clear purpose: to build A Better Tomorrow™ by reducing the health impact of its business. This includes driving high product quality and safety standards, an approach we are aligned to at BAT Kenya. The BAT Group is changing: developing new products, backed by science and tested to meet or exceed industry-leading standards, that provide adult smokers with reduced-risk* alternatives.

World class science and enabling consumer choice

Our introduction of VELO in Kenya manifests progress in broadening access to reduced risk* products in Kenya. VELO tobacco-free pouches contain high purity nicotine, water and other high-quality ingredients. Already, the weight of laboratory chemical studies for VELO, have shown that the pouches produce substantially lower levels of toxicants compared to cigarette smoke and even lower levels than snus (a type of traditional oral tobacco).

BAT Kenya's new world class factory for the manufacture of tobacco-free oral nicotine products is the first of its kind in Africa. With the building phase already complete, the factory will serve as a major export hub for the region and beyond. It is an investment that speaks to Kenya as a destination for foreign direct investment and our commitment to the Government's manufacturing agenda.

We are clear that our new tobacco-free oral nicotine products should not be used by persons under the age of 18 years in Kenya. As part of driving responsible use of these products, we have enhanced our prevention of underage access (PUA) programme.

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

This includes initiatives such as restricting product sale to points of sale where we can liaise with traders to drive compliance with applicable laws and guidelines.

Further, we believe that consumer awareness and understanding of reduced risk* products and their availability in general trade outlets is essential to provide Kenyan adult smokers with the information and opportunity necessary to make an informed choice to switch from cigarettes.

Since our launch of VELO, we have received feedback from our customers (traders) and consumers, covering a wide range of aspects. The table below provides a snapshot of this feedback.

Most common feedback	BAT Kenya analysis of feedback	Recommended solutions / action taken
<p>Request to distribute and sell VELO</p> <p>Consumer experience with the product- mostly around effect of varying product strength</p>	<p>Opportunity to increase coverage to address availability of products based on demand.</p> <p>Misunderstanding on how to use the new product- some adult consumers are using the product contrary to instructions provided on the packaging.</p> <p>Some adult consumers are using the product without proper understanding on proper use which is important to drive responsible use.</p>	<p>Velo distribution was expanded to enhance product availability per demand, in line with guidelines on prevention of underage access.</p> <p>Where applicable, feedback was provided to consumers/ traders via existing channels per applicable protocols.</p> <p>BAT Kenya targets its Velo product to smokers who are already nicotine consumers. Further, we place the required health warnings and product information on the packaging, as well as instructions of use.</p>
<p>Key observation by BAT Kenya: Adult nicotine consumers require education on new category products to enable transitioning from smoking.</p>		



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

Climate change

Excellence in environmental management



Environmental stewardship at BAT Kenya is shaped by an environmental framework that goes beyond the applicable legal and regulatory requirements governing environmental management in Kenya.

The framework details our initiatives on climate action, circular economy, biodiversity conservation and water stewardship. We are committed to making continuous improvements in the management of our environmental impacts and operating responsibly both in our own operations and throughout the wider value chain.

Securing resources in a climate resilient supply chain is key to our business strategy.

We have a responsibility to contribute to the BAT Group's Net Zero target. As such, continuously improving energy efficiency and transitioning to renewable energy is a business imperative within BAT Kenya.

Climate change

We rely on natural resources to run our business. Our ability to secure these resources is directly linked to the effects of climate change and, as such, we have a responsibility to our planet.

Climate risks are becoming increasingly complex, with potential impacts on crop yields and disruptions to universal networks. While the BAT Group aims to manage this risk from a global perspective, it is also essential that we understand and manage localised risks.

Minimising impacts across our value chain and reducing our carbon footprint is simply the right thing to do and makes sound business sense.

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



Our goals

2030

Carbon neutral direct operations (Scope 1 & 2 emissions) by 2030

50%

renewable energy use by 2030

Performance highlights

33%

reduction in our Scope 1 and 2 CO2e emissions in 2022 compared to our 2020 baseline

KShs 145 Million

Investment of approximately KShs 145 million in renewable solar energy: total capacity of 2000 KWhr commissioned at our Nairobi and Thika sites in various phases between 2021 and 2022.

Compliance certification

- Certified as energy compliant by the Energy and Petroleum Regulatory Authority for the period 2022-2025.

Climate action

We have mainstreamed ESG into our business strategy, which considers our whole value chain to help reduce emissions and become resilient to climate associated risks. We rely on natural resources such as water, soils, wood and other natural resources to run our daily operations both at the tobacco farming and manufacturing levels.

Our capacity to obtain required resources to run our operations is highly dependent on natural resources, which are highly impacted by climate change. We have adopted sustainable practices to help reduce negative impacts across our value chain by investing in technologies (energy efficient equipment, solar power plant etc), intended to reduce our carbon footprint across our operations. At the farm level, tobacco farmers were impacted by climate change, manifesting through drought, hailstorms and windstorms. As a result, approximately 230 tonnes of tobacco crop were lost. Mitigation actions were taken to compensate farmers for their loss (refer to page 60 on farmer livelihoods).

Given this, at BAT Kenya, we have identified opportunities to mitigate climate change in three main areas:

- i) Energy management
- ii) Afforestation and biodiversity
- iii) Sustainable agriculture

Energy management

Scope 1 and 2 CO_{2e} emissions

Our efforts to reduce Scope of 1 and 2 CO_{2e} emissions are supported by energy efficiency, optimisation, and renewable energy. In line with our renewable energy strategy, we have substantially invested in on-site solar power plants of 2 MW at our Nairobi Factory and Thika GLTP. This has in effect and allowed us to reduce our Scope 2 CO_{2e} emissions by around 5%. We are further expanding our on-site solar facilities and expect that in 2023, renewable energy will enable around 14-15% Scope 2 emissions reduction compared to purchasing the same amount of electricity from the grid.

The table below shows a breakdown of our emissions.

2022	Scope 1	Scope 2
Tonnes CO_{2e}		
Nairobi facility	3,308	837
Thika facility	735	108
Offices	0	17
Fleet (trade marketing, leaf and other)	418	0
2021	Scope 1	Scope 2
Nairobi facility	3,648	1,562
Thika facility	978	239
Offices	0	29
Fleet (trade marketing, leaf and other)	346	0

Emissions data for scope 3 is currently not available.

Our energy management strategy continues to deliver significant results which are a key driver of our transformation journey. We have continuously reviewed the energy efficiency of our operations, and this has also given us opportunities to adopt best practices that we have benchmarked with similar companies locally and internationally.

Key energy streams for our operations sites include electricity, fuel oil and LPG, while our fleet vehicle use mainly diesel and some petrol. The breakdown is as follows:

Sites & offices*	94%	Fuel oil Purchased Electricity LPG Solar Diesel
Fleet vehicles	6%	Diesel Petrol

* includes fuel use by industrial vehicles, e.g. forklift trucks, on site.

Within the last two years, we have seen consistent reduction on electricity consumption in offices and all factories, mainly driven by the energy efficiency initiatives set within our sustainability road map.

This includes optimisation of equipment settings to ensure only necessary equipment is in use at any point in time, elimination of air and vacuum leaks and focus on purchasing of energy efficient equipment. For example, we ensure that compressed air systems have automatic shut off capabilities. Another example is moving from belt and sprocket transmissions to direct coupling, thereby eliminating transmission losses, while also resizing our motor vehicle fleet and upgrading them to high efficiency units. Further, we continue investing in energy efficient lighting and appliances.

To drive energy efficiency, we have implemented a range of improvements at our boiler. We installed an economiser that collects heat from exhaust gases and reuses the heat in the system. We have also enhanced our condensate recovery, replaced the boiler burners with high efficiency ones, adopted digital online control systems and optimised measures on the quality of fuel supplied as well as energy content.

We have been using LPG in forklifts (FLT's) and have partially substituted FLT's with powered electric hand stackers. Our continuous maintenance of the FLT's ensures the engines are running at high efficiency and using energy smart appliances, which have enabled energy use optimisation. As a result of these and other initiatives, we have seen a reduction in the FLT's fuel usage, by 27% versus a baseline of 2020.

On the leaf processing front, a key focus was on improving efficiencies, with the GLTP achieving an overall equipment efficiency (OEE) score of 94% in 2022. The GLTP has cemented its place within the BAT Group by posting the highest quality results among Green Leaf Threshing plants and is now a global benchmark for other plants.

Through investments in energy-smart and conservation equipment and energy projects we have reduced our

energy consumption in 2022 by 24% against a baseline of 2020. We have also continuously reviewed the energy efficiency of our operations, and this has also given us opportunities to adopt best practices that we have benchmarked with similar companies locally and internationally.

The tables below show the breakdown of total energy consumed across key energy streams:

	2022	2021
MWh		
Nairobi		
Fuel oil	10,883	11,718
Purchased Electricity	7,776	9,615
LPG	650	871
Solar	352	51
Diesel	198	406
Kenya - Thika GLT		
Fuel oil	2,344	3,124
Purchased Electricity	1,004	1,470
LPG	266	330
Solar	122	0
Diesel	19	46
Kenya - TM&D		
Purchased Electricity	156	181
Fleet vehicles		
Diesel	1,298	1,103
Petrol	261	194

In 2022, in conjunction with the Kenya Association of Manufacturers (KAM), we initiated a carbon footprint assessment for BAT Kenya. The assessment outcomes will help us accelerate our decarbonisation agenda focusing on energy efficiency and savings as well as increase of renewable energy share.

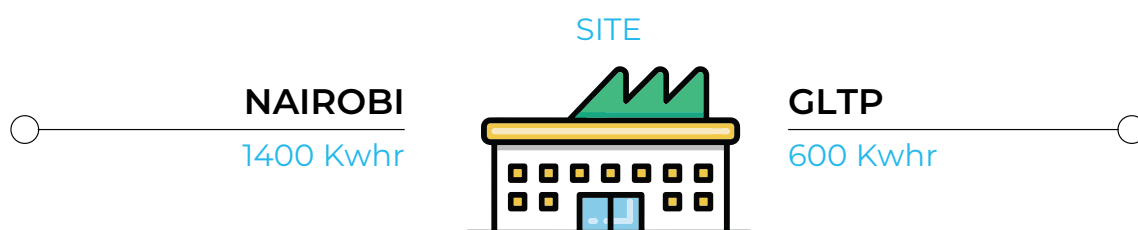
Renewable energy

In response to the challenges posed by climate change and with a view to reduce our carbon emissions and drive efficiencies through more economical, reliable and clean energy source, we rolled out investment in renewable energy (solar) at our Nairobi Likoni Road and Thika GLT sites. We kicked off with our Nairobi site, with a capacity of 400 KWhr being commissioned in 2021 and 1000KWhr in 2022.

The GLTP installation was commissioned in 2021 with a capacity of 600 KWhr.

The solar project was supported by key stakeholders such as the Energy and Petroleum Regulatory Authority (EPRA), the Nairobi City County and the National Environment Management Authority (NEMA). Their commitment to driving sustainability in energy management helped to ensure compliance with regulatory requirements.

To further promote the reduction of carbon emissions and increase the use of renewable energy, BAT Kenya also distributes home solar lantern kits to farmers as an incentive to address climate change.





Biodiversity

Excellence in environmental management



Our goals

100%

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

2 million

annual tree planting target to mitigate use of wood fuel for tobacco curing, and drive afforestation

Performance highlights

71%

of our contracted farmers using sustainable sources of wood fuel to cure tobacco

800,000Kgs

of wood fuel saved in 2022 versus 481,000 in 2021, as a result of using Sugar Bagasse Briquettes

54 million

trees planted in collaboration with our contracted farmers and various other stakeholders since 1978

We recognise the importance of biodiversity protection in our operations and have implemented various measures to safeguard natural ecosystems and enhance their resilience.

This includes tree planting initiatives, implementation of water recycling plants to minimise water usage, adoption of optimised agro-chemical practices, and continuous farmer training on sustainable and selected regenerative farming techniques. By incorporating these initiatives, BAT Kenya actively contributes to the preservation of biodiversity.

We are committed to protecting the ecosystems in the areas we operate by strengthening their resilience, preventing deforestation in our operations and preventing biodiversity loss.

Biodiversity protection

We collaborate with our contracted farmers to enhance conservation of biodiversity while protecting biodiversity loss.

We distribute tree seedlings to farmers (approximately 60% exotic and 40% indigenous), to ensure that farmers are also participating in biodiversity protection.

In addition, farmers are trained on soil management, riparian land conservation and afforestation. We strongly discourage use of indigenous trees for tobacco curing by our farmers and actively monitor compliance with this.

Our operations have both a dependence and potential impact on biodiversity, through the use of ecosystem services like forest products, soil and water. To avert this, we continuously advance sustainable agricultural practices that contribute to the preservation of natural capital, enhance rural livelihoods and enable farmers to increase resilience to climate change.

Habitats protected or restored

In 2022 based on the biodiversity risk and opportunity assessment, we were involved in the restoration of several sites as per the table below:

Region	Location	Start Year	Period in Years
Oyani	Maeta Hill	2021	2
	Mirema Hill	2020	3
	Sagegi Hill	2021	2
	Oyani River	2017	>5
	Orange Hill	2022	1
Malakisi	Kakapel	2017	>5
	Luakhakha River	2022	1
Other Areas	Thiwasco waste water treatment plant, Thika	2022	1
	OI Ndonyo Sabuk National Park	2022	1
	Ndakaini Dam	2022	1
Adopt a Forest	Mt. Elgon	2022	1

Region	Participation in community afforestation activities	Year
Nyanza	Kenya Forest Service Migori	2022
	National Environmental Management Authority Migori	2022
Malakisi	Kakoli	2022
	Kengatai Dispensary	2022
	Kenya Medical Training College Sichai	2022
Other Areas	Dedan Kimathi University (venue of the NEMA World Environment Day Celebrations, 2022)	2022

healthy stock of trees for curing tobacco in addition to replenishing what was used.

Annually, our farmers use approximately 200,000 trees for tobacco curing. This is against approximately 500,000 exotic trees issued to them for planting each year. In addition, we use alternative fuels for curing tobacco, made from waste sugarcane bagasse.

This further helps reduce the firewood used to cure tobacco. In 2022, we issued 336 tons of briquettes to farmers as part of efforts to enhance the use of sustainable fuel for tobacco curing. According to our internal research, it takes approximately 5.6 kgs of fuelwood to cure 1 kg of tobacco, while it takes approximately 3.2 kgs of sugarcane bagasse.

Afforestation

As part of our afforestation programme, *Kijani*, we have planted over 54 million trees with various stakeholders since 1978. This programme primarily aims to facilitate a sustainable source of firewood for tobacco curing and contribution to the conservation of indigenous trees. In 2022, we planted approximately 1.46 million trees with various stakeholders. Of these, 1.1 million trees were planted by our tobacco farmers, resulting in a



Water



Excellence in environmental management



Our goals

35%

reduction in water withdrawn by 2025 vs 2017 baseline

30%

of water recycled by 2025

100%

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

Performance highlights

53%

reduction in water withdrawn in 2022 vs 2017

14%

water recycling rate achieved in 2022

KShs
15 million

investment to increase our water recycling capacity in 2022

Certified

BAT Kenya's factory in Nairobi and GLTP in Thika are AWS certified.

Water is a valuable resource, vital for our operations and value chain, and it is both our responsibility and good business practise to use water efficiently.

We are proud to report that BAT Kenya has been recognised as a leader in water stewardship in Kenya, having received certification for our Good Water Governance (GWG) efforts, including optimisation of water related processes, loss elimination and water recycling.

For our business, effective water management is crucial for running efficient manufacturing operations and, within the value chain, for sustainable farming. In our direct operations, approximately 80% of water is used for leaf conditioning, while 20% is allocated to other amenities, including social uses.

In tobacco farming, which is a crucial part of our value chain, water is also key for irrigation. To further enhance our commitment to water stewardship in the tobacco farming, we are investing in the enhancement of our water management practices in our leaf growing areas. Capacity building is key to this ambition, and as such, our contracted farmers have received training on adoption of sustainable water management practices. This enables us to reduce freshwater withdrawal and safeguard access to clean water for local communities.

Water withdrawal and recycling

At BAT Kenya, we have optimised our water management to eliminate losses and reduce water withdrawal. In addition, we have intensified the water recycling.

A key initiative is the commissioning of a grey-water recycling facilities at our factory and GLTP. Potable water from the recycling plant at Nairobi factory is used mainly for steam generation via the boiler. At our GLTP in Thika, recycled water is used for gardening. Our water use is primarily in the Nairobi and Thika factories. The production processes

for the two factories employ a dry method; thus, water usage is minimal in the production facility. Water use is primarily for steam generation, which is used for heating of the immediate production area and conditioning tobacco leaf to enable processing without breaking or generating dust. To facilitate benchmarking and drive water conservation, we have installed sub-metering on the water reticulation system to monitor use per department. Water use in the offices and factories' social areas is mainly for cleaning and washroom facilities. To optimize water use for social needs, we have installed automatic urinals and taps with sensors, as these were identified as some of the high-water utilisation areas outside of the processing / manufacturing processes.

In our Nairobi factory, effluent water is collected and channelled to an onsite effluent treatment plant which treats the water to acceptable levels per the relevant regulations, and is then re-used as appropriate.

We have implemented a Reverse Osmosis (RO) system to recycle water while creating channels to collect more effluent water to enhance efficient water utilisation. This RO system ensures that the water treated meets all the potable water standards parameters and simultaneously recycles water via the condensate system at the boiler level.

Water stewardship in tobacco farming and processing

For our tobacco leaf growing, we have introduced floating nursery beds to enhance optimal water utilisation. By continuously monitoring water discharged in our operations, we enhance our ability to assess and reduce our impact on the environment, in line with best practise and environmental laws and regulations.

We are currently at a water recycling level of 14%, which has been on the rise on the back of the Company's efforts to enhance water recycling in the last two years. We are making further investments in water recycling to boost performance to 40%. While we believe that our water use at BAT Kenya is well optimised, it continues to be an area of focus to further drive our water stewardship agenda.

Water metrics with breakdown by facility

	2022	2021
M³		
Nairobi factory		
Water Withdrawn	34,100	38,971
Water Recycled	6,274	678
Water Recycled %	15.5%	1.7%
Thika GLT		
Water Withdrawn	10,107	13,832
Water Recycled	810	0
Water Recycled %	7.4%	0.0%
Offices		
Water Withdrawn	287	300
Water Recycled	0	0
Water Recycled %	0.0%	0.0%

For our commitment and action in water stewardship, our Nairobi factory obtained the AWS (Alliance for Water Stewardship) certificate in 2022 and our GLTP in Thika received this certification in 2021, the first in Kenya.



Circular economy

Excellence in environmental management



As part of our commitment to our transformation and driving responsible business, it is crucial that we use natural resources in a responsible manner.

At Group level, transitioning from combustible products to New Categories brings additional challenges – products with different environmental products and changes to resource use, which necessitates constant improvement of products' design and circularity.

The BAT Group seeks to mitigate the environmental impact of its current and future product portfolio by being smarter in how its products are being designed, made, packaged and transported as well as in the products' end-of-life options.



Our goals

25%

reduction in waste generated by 2025

90%

waste recycled out of waste generated by 2025

<1%

waste to landfill by 2025

Performance highlights

98%

Waste recycling rate at our Nairobi factory

99%

Waste recycling rate at our GLTP in 2022

- We have achieved our waste recycling target earlier than indicated.

Zero

Waste to landfill in 2022

72%

of BAT cigarette packs sold in the market have recyclable inner protective paper*

* Recycling will require separation of the external poly wrap and paper

Waste management

Approximately 1570 tonnes of waste is generated annually at BAT Kenya sites. Waste generated at our operations sites in Nairobi and Thika is segregated in line with the 3Rs (Reduce, Reuse, Recycle) principle, and weighed per machine per shift. Out of the 1570 tonnes of waste, 97.9% is recycled by our contracted companies, 1.9% is used for making fuel briquettes, hence is classified as waste to energy and less than 0.2% of waste is incinerated without energy recovery. Zero waste is sent to landfills.

While our tobacco-free oral nicotine pouches are packaged in plastic cans, addressing this is one of the BAT Group's focus areas.

BAT Kenya is committed to addressing post-consumer waste related to our products. To drive this agenda, we participate in a cross-industry group – the Kenya Producer Responsibility Organisation (KEPRO) to drive collection and recycling of plastic waste. The introduction of EPR schemes in the country in line with the Sustainable Waste Management Act, 2022, can promote the circular economy and reduce post-consumer waste littered in the environment and or in landfill. It will also help to facilitate compliance with the imminent Extended Producer Responsibility (EPR) regulations.

Total waste metrics for 2022

		Kenya	Kenya - Nairobi	Kenya - Thika GLT	Kenya - TM&D
Total waste generated	tonne	1,571.99	768.77	791.09	12.13
Waste recycled	tonne	1,538.99	744.52	785.71	8.76
Waste incinerated with energy	tonne	3.06	0.00	2.56	0.50
Waste incinerated w/o energy recovery (WTE)	tonne	29.94	24.25	2.82	2.87
Waste to landfill	tonne	0.00	0.00	0.00	0.00

Agricultural waste

We work with our contracted farmers to reduce waste in tobacco farms. We encourage the use of other types of agricultural by-products as alternative fuels for tobacco curing, as opposed to wood fuel. Examples include the use of sugarcane bagasse briquettes.

Agrochemicals are part of farm inputs in tobacco growing and are issued to contracted farmers at the start of the season.

We champion the proper disposal of crop protection agents (CPAs) used by our contracted tobacco farmers, and have in place a waste container take-back scheme to facilitate this.

In 2022, we collected a total of 1,238 Kgs for disposal and recycled over 80% of this waste through a partnership with a third party. The remaining 20% of the waste cannot be recycled currently and is therefore incinerated.



Product packaging

As stated in the BAT Group's 2022 Combined Annual and ESG Report, 93% of plastic packaging for cigarettes across the Group can be recycled and all poly film, as well as tear-off strips used on packs, can be recycled (subject to local recycling infrastructure).

In 2022, the Group replaced the protective material inside its cigarette packs (inner bundling) with recyclable paper. Recycling will require separation of the external poly wrap and paper. The implementation rate of this initiative at BAT Kenya as at the end of 2022 was 72%. This initiative will further enhance efforts to reduce our carbon footprint.



People and culture

Delivering a positive social impact



Our goals

45%

proportion of women in management roles by 2025

50%

proportion of women in the organisation by 2025

5%

representation of persons with disabilities in the organisation by 2025

Performance highlights

42%

women in management roles

44%

women in the organisation

5

times we have been certified as a Top Employer by the Global Top Employers Institute (2018 to 2022)

- In 2022, we recruited 19 interns, 11 Global Graduate Management trainees and 17 apprentices, up from 14, 9 and 5 respectively, in 2021
- Recognised at the Accenture Gender Mainstreaming Awards 2022 as follows: Gender Mainstreaming Champion Africa, Winner, Empowerment in the Workplace – East Africa and 2nd finalist in Gender and Disability – East Africa
- BAT Kenya was named as the Overall Best Employer at the Federation of Kenya Employers Awards in 2017 and 2018
- 100% of employees completed training / capacity building in relevant areas

Our employees remain at the heart of our success. The BAT Group continuously builds an inclusive culture where difference is valued, and employees from diverse backgrounds feel that they belong, are at their best and inspired to bring their difference and be the change.

A key driver to deliver our purpose to build A Better Tomorrow™ is our Group Ethos – We are **Bold, Fast, Empowered, Diverse and Responsible** – which steers the behaviours of our business and our people.

Developed with significant input from employees, our Ethos is the thread that must run through everything we do and how we do it, and we believe it empowers our people, fosters a vibrant and rewarding workplace and promotes sustainable long-term value.

Our Ethos is responsive to constant change, embodies a learning culture and is dedicated to continuous improvement.

Diversity and inclusion

We are committed to being a diverse and inclusive (D&I) organisation. Diverse teams that are representative of the world we live in are key to building high performing teams.

For us, diversity is not about setting quotas; it is about ensuring that we reflect today's talent and markets. Therefore, improving our Diversity numbers across all levels of the organisation requires understanding and focus from leadership, the Board and people managers across our business. We think of diversity and inclusion in its widest sense, as those attributes that make each one of us unique.

This includes gender, disability, age, experience, culture and social backgrounds amongst others. Attracting and retaining a diverse workforce and providing a welcoming, inclusive working environment are key drivers in BAT's transformation. We also respect freedom of association and the right to collective bargaining. Together, we continue to build an

inclusive culture where difference is valued, where employees from diverse backgrounds and experiences feel that they belong, are at their best and inspired by our purpose.

Over the years, we have evolved into one of the most attractive employers in Kenya by recruiting, developing and retaining outstanding talent, and building an inspiring and purposeful place to work for our employees.



Generations at BAT Kenya

The table below shows disaggregated data of BAT Kenya's employees age profile in the last two years.

Employee age bracket	2022	2021
18-35	41%	38%
36-55	59%	62%

As a leading employer, we have a high employee retention rate. In the last two years, our overall number of leavers has been below the industry average of 6.3%. This is demonstrated below :

Reason for employee departure	2021	2022
Retirement	2.7%	2.7%
Mutual separation	0	0.2%
End of contract	2.3%	1.8%
Resignation	2.9%	3.4%

Representation of people living with disabilities

We have a robust inclusion agenda at BAT Kenya which includes a target to increase the representation of people living with disabilities in the organisation to 5% by 2025. To champion this, we became members of the Kenya Business and Disability Network (KBDN) is part of the FKE, whose mandate is to champion workplace inclusivity for Persons with Disabilities. For existing employees, we conducted a voluntary self-declaration survey on disabilities in 2022 to help us understand their unique needs in order to offer reasonable accommodation to improve their quality of life at BAT. Subsequently, we facilitated the registration process with the National Council for Persons with Disabilities (NCPWD).

Gender mainstreaming

In 2022, we continued to champion targeted activities and programmes through gender driven affinity groups - Women in BAT and Men in BAT. These groups have provided a safe space for employees to share their life and career experiences to support learning and development and foster employee wellbeing. As at the end of 2022, we had 399 direct employees: 287 male and 112 female.

The table provides a breakdown of employees per department :

Function	Gender	
	Male	Female
Operations	223	39
Marketing	34	44
Finance	14	11
Legal & External Affairs	8	10
Human Resource (HR)	2	6
Information Digital Technology	4	2
Executive & Corporate Services	2	0
Total	287	112



Building a legacy of leaders

We believe in nurturing and accelerating careers locally and internationally, leveraging on BAT's global presence. As a result of the top-quality Talent at BAT Kenya, we are net exporter of Talent within the BAT Group. In 2022, we had 23 Kenyans working for other BAT entities and living around the world, including in the United Kingdom, Nigeria, South Africa, Zambia, amongst others.

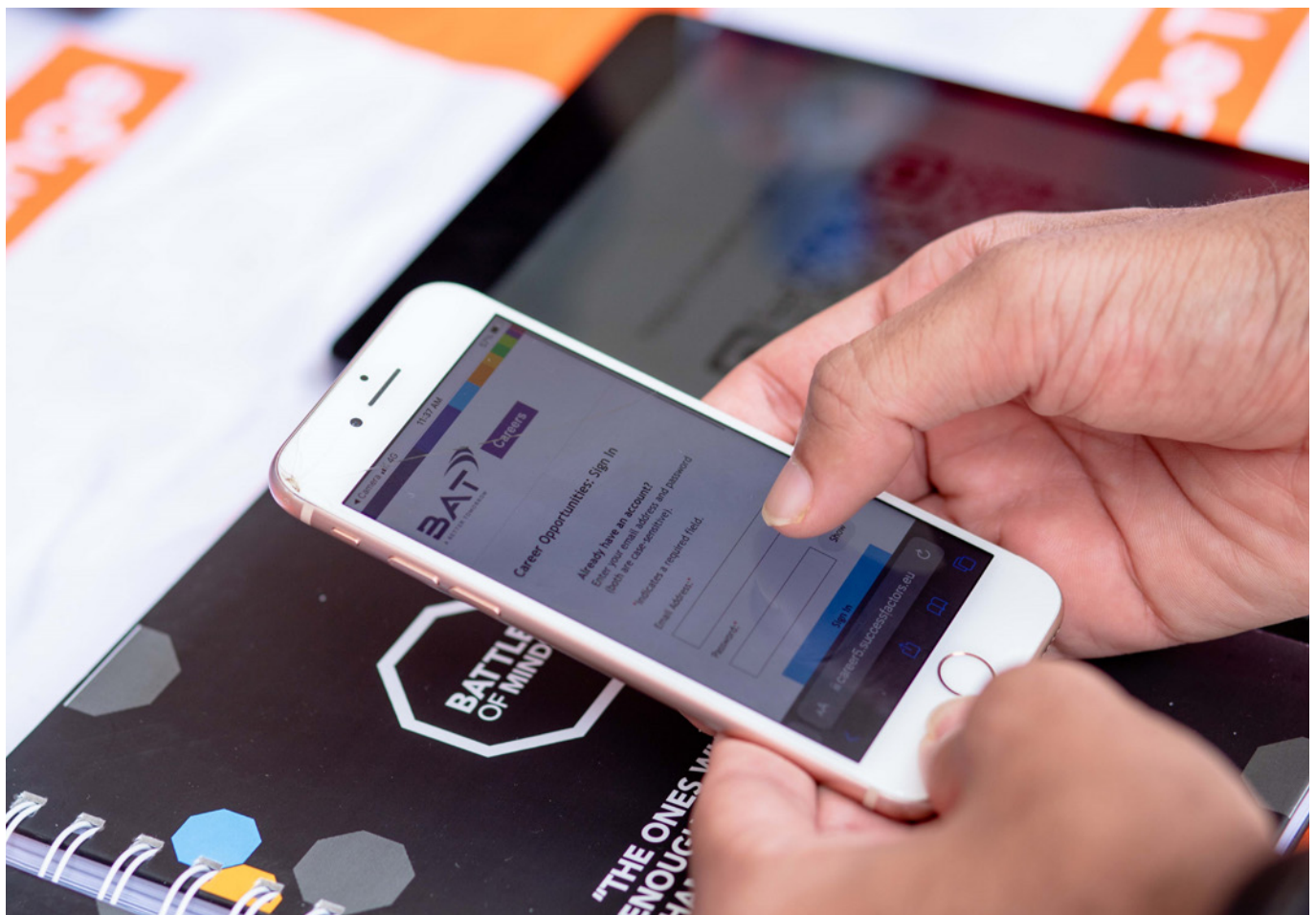
In 2022, we launched NEXTGEN - *mentoring leaders of tomorrow* a mentorship initiative to benefit students over the age of 18, in select higher institutions of learning. It seeks to help prepare continuing adult students with disabilities and those in science, technology, engineering, and mathematics courses (STEM), for the world of work. Selected institutions include the National Industrial Training Authority (NITA), Kenyatta University (KU) and the Jomo Kenya University of Agriculture & Technology (JKUAT).

The nine-month programme kicked off on 1st March 2022 with a cohort of 60 adult students and has registered good momentum thus far.

As part of the programme, BAT employees work closely with the learning institutions to deliver mentorship and a curriculum of soft skills training needed to thrive in the workplace. To ensure optimal participation in the NEXTGEN programme throughout the nine months, we supported the adult students with data bundles as well as sign language interpreters for the deaf.

As part of efforts to nurture Kenya's future leaders, we also run an apprenticeship programme for our production scope, as well as an annual internship programme and a global graduate management trainee programme for our commercial business. In role modelling leadership behaviours, our Leadership Team went through a Personal Leadership Agenda (PLA) programme in 2022. This was designed to help them increase their effectiveness through a series of interventions and exercises focused on building high performing teams.

As part of our commitment to address the opportunity areas identified, outcomes of the PLA were cascaded to all employees, with a rallying call to live by our Ethos in the way we act, lead and work.



Reward and remuneration

Reward, being a key pillar of our people agenda, is strongly supported with documentation on all related matters in our Reward Green Book. Our reward offering is benchmarked against a peer group of premium global and local organisations. We benchmark ourselves primarily between median and upper quartile of the peer group, which enables us to offer competitive compensation. The annual total compensation for non-unionised staff ranges from 70% up to 120% of the market anchor. The ratio of basic salary and remuneration of women to men is 0.89:1, mainly driven by tenure of service. In 2022, the average tenure was 10.77 years.

Collective bargaining agreements

For unionised staff, a Collective Bargaining Agreement (CBA) is negotiated every two years. The CBA stipulates the rules of engagement and the terms and conditions of employment which are market competitive and above the statutory requirements. The table below provides a comparison of statutory requirements and our CBA positioning. These amounts are subject to negotiation and may change over time.

Item/Benefit	Statutory	CBA
Basic Pay	KSHS 28,487.00	KSHs 57,812.00
Leave allowance	Minimum not provided	KSHs 27,500.00 per annum
Housing allowance	A max of 15% of Basic pay	KSHs 28,850.00
Shift allowance	Minimum not stated	Up to 17% of basic pay
Redundancy	15 days for every year worked	4 days for every month worked
Meal allowance	Minimum not provided	KSHs 610.00
Leave	21 days annual leave days Sick leave · 30 days on full pay · 15 days on half pay	30 days annual leave Sick leave: · Three months on full pay · Three months on half pay · Three months on a third pay - in any given year
Acting Allowance	Minimum not provided	17% of Basic pay
Responsibility Allowance	Minimum not provided	19% of Basic pay

Pay equity

The following pay gap summary information applies to non-unionised direct employees of BAT Kenya. **Full details of our 2022 pay gap report are available on page 52-57 of the BAT Kenya 2022 Annual Report available at www.batkenya.com**

In BAT, we use 'Total Pay' to recognise performance. We invest significantly in employee development to ensure that employees can perform at an optimal level and bring their uniqueness and contribution to the business. For each grade level, we have market-competitive pay ranges that our talent can grow into, depending on their performance and time in grade. This is the main determinant of any existing pay gaps, where there

are no special factors such as in operations where less women apply for technical jobs. Pay growth can be accelerated by a pay increase matrix that awards higher pay increases for top performers.

The charts below highlight the average time in grade and the pay distribution within the grades, which is impacted by Years of service (YOS) and the annual salary review (ASR). From our most recent analysis, our male population has a higher average time in grade.

This means that on average, they stay longer within the same pay grade than females. Our retention of more women should contribute to a more balanced average time in role.

Fig 1

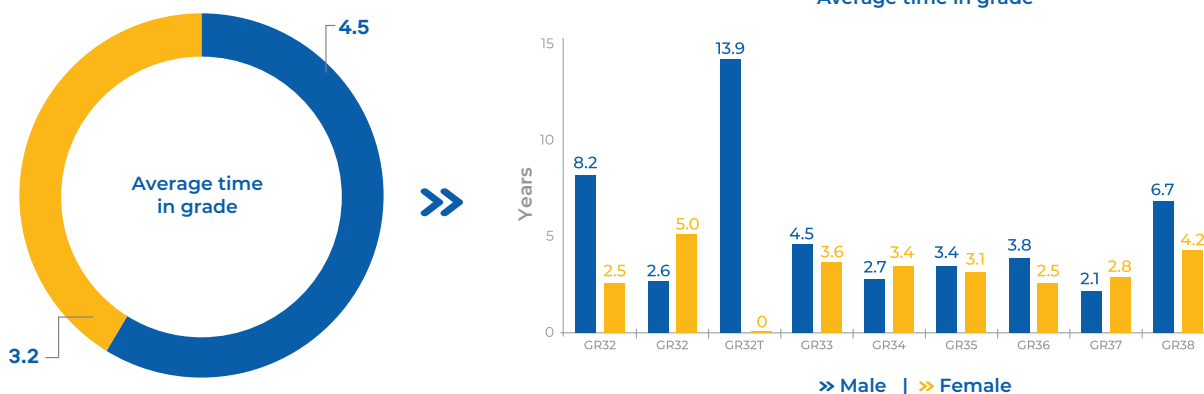
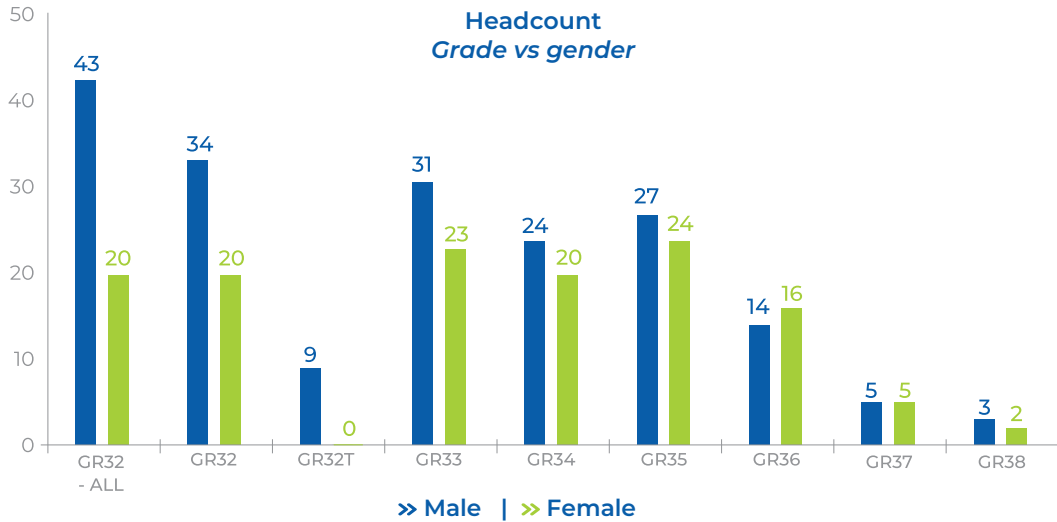


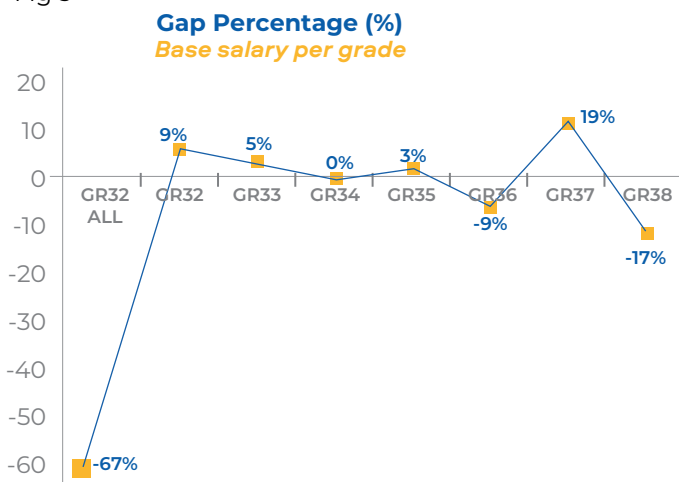
Fig 2



Highlights

- » Overall, (G32 to G38), we have a 43% [110/146] female representation, a steady improvement from 42% in 2021 and 41% in 2020, which is a significant achievement given the challenges of COVID 19 since 2020.
- » At senior management level, we are proud to report a 47% female representation, a significant improvement in the last two years, owing to robust internal & external Talent engagement initiatives.

Fig 3



Highlights

- » At the G37 senior management level, we have a strong female talent group comprising consistent high performers as well as external joiners with solid experience. As a result, their base salaries are 19% higher than males despite having less time in grade.

Employee development

BAT Kenya invests heavily in attracting talent with potential for capability development, using an increasingly data-led, digitally enabled approach. We facilitate continuous improvement of our employees' existing competencies and skills while developing new ones to support the organisation's goals. In 2022, employees spent an average of 14 hours on development.

We have various capacity building programs that support employees at their current level and upon promotion. The scope of this training includes Unconscious Bias, Women in Leadership, Junior Women in Leadership, Storytelling with Impact and Gravitas. It also covers presentation skills, leading self, teams and others.

To measure continuous development efforts, all employees go through an annual performance cycle that entails setting performance objectives (POs) quarterly performance reviews, quarterly training sessions, half year performance and development planning discussions.

Integration of Information Digital Technology (IDT) into our people management platforms has streamlined various operations. As the world continues to evolve in the technology space, an IDT strategy is in place to ensure delivery of results and accelerate growth. In 2022, our employees undertook training to upgrade their digital skills majorly focusing on data science, agile project management and design thinking.

Spotlight

Employee development case study: Global graduate programme

Our Global Graduate (GG) programme, which commenced in 2018 is a 12-month, challenging high potential development programme aimed at developing graduates through real work, structured development, and international exposure. After the selection and assessment process the ideal candidates are placed and onboarded for a 12-month period.

'Up or out' evaluations are carried out every six months by line managers alongside the HR business partners to ensure graduates are performing in line with their performance objectives and are demonstrating leadership potential. During the programme, the GGs go through quarterly feedback sessions with their Line Manager. This provides an opportunity to review progress against POs and prepare for the next stage of the programme and fine tune their development plan. In 2022, 11 GGs were retained upon completion of the programme.



Spotlight

“During the GG trainee programme, I gained experience in three areas namely: Primary Manufacturing, Secondary Manufacturing and Supply Chain Department.

“In primary Manufacturing, I was tasked with a loss analysis initiative aimed at reducing tobacco waste, while at the Secondary Manufacturing scope, I was responsible for rolling out the IWS aimed at loss elimination, continuous improvement and capacity building with a focus on the Autonomous Maintenance and Initiative Management pillars. Finally, I went to supply chain where I was tasked with project management and execution to deliver the launch of Modern Oral Nicotine products in Kenya.

“During this time, I had the opportunity to interact with various global leaders and subject matter experts. Additionally, I was able to deep dive into the overall business strategy, engage in leadership development sessions and form a strong network with other Global Graduates from across the world.

“Being in BAT for five years now has presented me with dynamic experiences and constantly evolving challenges. This requires fast and agile learning on the job, as well as innovative ways of working.

“Through this, I have also developed the ability to deliver through diverse teams using strong influencing and negotiating skills as well as transform culture, drive change and build capability in line with our business Ethos.

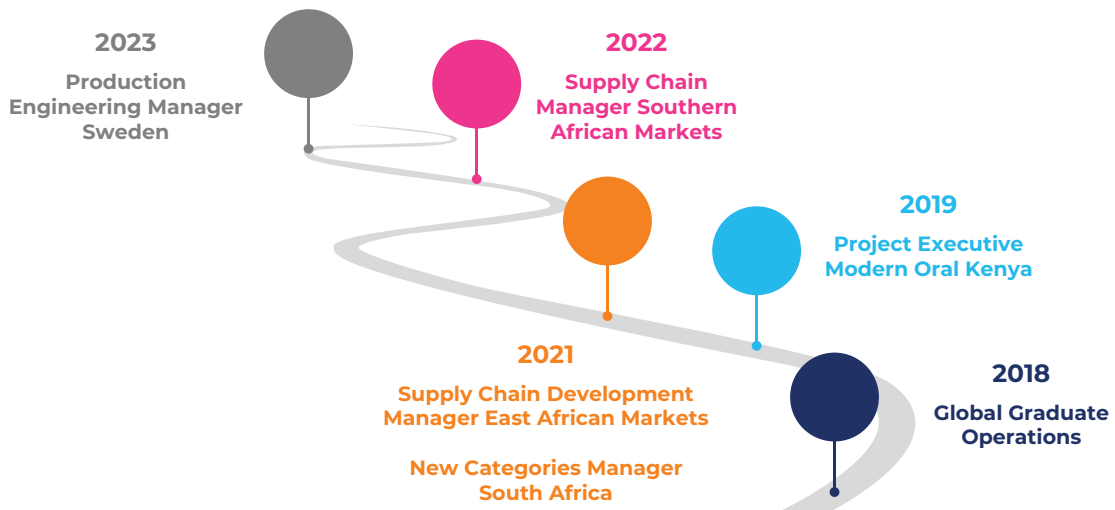
“The GG program presented a steep learning curve through accelerated learning and development requiring regular stakeholder management. This stretched my capabilities, pushing me to step out of my comfort zone.

“Regular and honest self-evaluation of my strengths and opportunities for improvement allowed me to seek the relevant coaching and mentorship which, enhanced my professional development and personal growth - a skill which is still very critical even after graduating into my landing role.”



ANNE MARIE KINUTHIA
Production Engineering Manager,
BAT Sweden

Anne Marie's journey





A BOAT
DOESN'T
GO
FORWARD
If each
ONE
is rowing
THEIR
OWN WAY

Swahili Proverb

YOU
ARE
TO
DIFF

WITH
MOS WIT'O

Health and safety

Reducing the health impact of our business



Our goals

Zero

Aiming for zero accidents to our employees, contractors, visitors and all those associated with our operations.

100%

of farmers and workers each year with sufficient PPE for agrochemical use and tobacco harvesting

Performance highlights

100%

collection of empty CPA containers from farmers for safe disposal in 2022

2022

launched a wholistic employee wellness programme nurturing our wellness (N.O.W)

100%

of our contracted tobacco farmers have access to PPE

Providing safe working conditions supports the well-being of our people, while enhancing our reputation as a great place to work. Safety risks vary across our business operations. For example, for our Trade Marketing & Distribution (TM&D) teams, the highest risks relate to road traffic accidents or attacks and assaults from armed robberies where our goods have a high street value. At the office, there are various risks including slips and falls, while at the factory, there are risks related to machine operation, amongst various other risks in our business environment.

Occupational health and safety

Health and safety in the workplace is extremely important to us, not only for our employees' and contractors' wellbeing but also for the sustained growth of our business.

BAT Kenya has a robust integrated safety management system that incorporates the planning, doing, checking, and acting cycle (PDCA) and ensures proactivity in managing safety in all our operations. We also have a digital platform built into our risk assessment process, to track our hazard spotting initiatives.

To manage incident reporting, investigation and corrective actions, we have a proactive approach to ensure that we prevent accidents by applying learnings from near misses and observations related to safety. This has ensured that the leading and lagging indicators are well tracked and communicated to all staff for appropriate action.

Nurturing a culture of zero harm

BAT Kenya aims to attain and sustain a zero-harm operation, hence, driving a proactive safety culture for all staff and contractors to ensure that their safety comes first. We ensure full compliance with Kenya's Occupational Safety and Health Act, including by registering all our sites on an annual basis with the relevant authorities.

Employees undergo mandatory safety training, which is captured in a training matrix, to ensure they are fully equipped to handle the respective risks in their workspace. All workers on site are covered by integrated safety management system in place, which includes EHS committees, policies and safe work systems.

On an annual basis, we carry out mandatory staff examinations and a voluntary wellness program which our staff members are encouraged to participate in, ensuring their health is well monitored and any concerns are addressed in a timely manner, both from an employee and employer perspective as may be relevant. For injuries at the workplace, a full investigation is carried out and corrective action taken. Near misses are also reported. Subsequently, lessons are shared across the Company to facilitate continuous improvement.

To prevent and mitigate occupational health and safety impacts directly linked to third party business relationships, BAT Kenya has a contractor and third-party safety manual of which all third-party partners and service providers must sign-off. This is an agreement to manage their activity on site per the BAT safety management system.

The safety manual outlines the implementation of safety elements on site and safety related expectations and standards applicable to service providers while on site. Further, we have a proactive safety approach involving all persons on site, which enables us to address unsafe actions and conditions in a timely manner, thereby preventing accidents. We also have a behavioural observation system in place which captures our safety practices.

Additionally, we deploy simple and easy to use risk assessment tools on site that are utilised daily and before each factory shift. This helps to facilitate assessment of work areas and enable hazard mitigation.

Our safety track record continues to receive various external accolades.

In 2021, our GLTP was named the national best first aid team in the country by the Directorate of Occupational Health and Services in Kenya. In 2022 we were runners up in the same category.

Safety in tobacco farming

In partnership with our contracted tobacco farmers, we continue to refine our craft in tobacco leaf growing, harvesting and blending to produce high quality tobacco products. Our rich heritage and deep expertise, combined with our farmer partnerships, helps us grow high quality leaf that is used to drive product superiority in both domestic and global markets. This unique combination not only helps us develop the best tobacco blends today, it also offers a glimpse into an exciting future of innovation.

Safety is of paramount importance in our tobacco growing operation. As such, we implement a robust safety programme which includes provision of personal protective equipment (PPE) appropriate for the respective phases of the tobacco handling process. We also carry out regular checks to ensure compliance with use of PPEs.

To enhance the health and safety of our farmers and conserve the environment, we issue farmers with crop protection agents (CPA) waste collection bags. In 2022, we collected 100% of empty CPA containers from farmers, for safe disposal in conjunction with approved agents of the National Environment Management Authority (NEMA) and the Agrochemical Association of Kenya (AAK). Further, we commenced 100% recycling of the plastic agrochemical containers that were collected, further contributing to the circular economy. To support these safety initiatives, we also implement annual health and safety training programmes for our tobacco farmers.



Employee wellbeing

The health and safety of our employees is our topmost priority and we make continuous effort to drive employee wellbeing. At BAT Kenya, we have an integrated health and wellbeing programme which includes medical insurance and benefits such as annual voluntary medical check-ups for all our employees and their spouses.

The voluntary check-ups are aimed at facilitating sustained well-being and are conducted in line with the applicable policies such as data privacy. The check-up results are loaded into a digital health system for employee accessibility, tracking and action. So far, these wellness checks have recorded year on year employee participation since inception in 2010.

In addition, pandemic Business Continuity Plans are in place to address unforeseen public health situations impacting our People. Additionally, we also have a clinic on site at our Likoni Road Nairobi premises which is accessible by employees and contractors.

In January 2022, we launched the Nurturing our Wellness (N.O.W) programme aimed at empowering employees to own their wellness journey. Focus areas for N.O.W are, mental, physical and financial wellness.

N.O.W-Employee value proposition

- » Being responsible in ensuring a healthy workplace
- » Co-creating wellness solutions designed to meet our employee needs

- » Offering specific targeted wellness tools and resources
- » Empowering our employees to live healthier by encouraging them to make a positive impact in their lives

Physical wellness

This is aimed at enhancing the physical health of our employees. In 2022, participating staff completed various activities, including 8 hikes and 5 cycling events.

Mental wellness

Our internal initiative, 'Let's Talk' (Tubonge), provides our employees with an opportunity to co-create initiatives that meet the ever-evolving mental wellbeing needs of our employees.

Financial wellness

The financial wellness programmes are aimed at supporting our employees achieve financial security and freedom in the short and long term.

Below are some of the activities and initiatives under each of the three wellness pillars.

Physical Wellness	Mental Wellness (#Tubonge)	Financial
<ul style="list-style-type: none"> • Hiking (Walk the Walk) • Cycling (The Cyclist) • Jogging • Yoga (Creative Poses) • Swimming (Spin your Fins) • Gym membership activities (Zumba dance, cardio classes) 	<ul style="list-style-type: none"> • Life Management Series - education, talks and panel discussions • Counselling and Therapy- (Face to face, telephone and virtual) • Initiatives and activities to support well being 	<ul style="list-style-type: none"> • Financial wellness education and awareness • Financial wellness club • SACCO initiatives • Pension scheme and retirement planning education 

Parents@BAT

As part of efforts to create a great place to work, we have programmes such as Parents@BAT which provides biological and adoptive parents the support they need.

The intention is that all new parents should be eligible to participate in the Parents@BAT programme, regardless of how long they have been employed by the Company (management and non-management, new joiners, part-time workers and factory workers). At Group level, the Parents@BAT Guidelines outline the recommended minimum standards, which are often higher than local laws. For example, BAT Kenya’s four-month maternity leave goes beyond the statutory provision of 3 months.

1. Maternity / adoption leave and return

BEFORE & DURING MATERNITY / ADOPTION LEAVE
Available to mother / adopter only

Minimum guaranteed maternity or adoption leave period - 4 months

+

Return to work guaranteed

2. Flexible working

POST-MATERNITY
Available to mother & father / adopter only

Flexible working
Right to request

- Flexible working can take many forms
- Incase of reduced working hours, the employee will be paid on pro-rata basis

3. Parental coaching support

Parents@BAT Online

Applicable to all eligible employees regardless of tenure, location and management level

Other local guidelines in line with Parents@BAT are as highlighted below:

Leave	<p>Parents@BAT</p> <ol style="list-style-type: none"> 1. Maternity leave - 4 months 2. Paternity leave - 14 calendar days 3. Still-birth or miscarriage leave - as per local laws 4. Adoption leave - 4 months 5. Commissioning (surrogacy) leave - 6 weeks
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Our Parents@BAT programme also includes an onsite mothers room at our Nairobi premises, where nursing mothers can express breast milk and attend to other related needs. Parents do not bring their children to work as access to our premises is restricted to persons over the age of 18 due to the nature of our business.

Flexible working

BAT Kenya believes that work-life integration is essential to enable individuals to adapt their working arrangements to suit their unique circumstances. This is in line with our core value of being consciously responsible. Flexible working at BAT Kenya is clearly defined and includes a provision where employees are to work in the office for a minimum of three days, with the other two being available for remote working if they so choose.

Human rights

Delivering a positive social impact



Our goals

Zero

aiming for zero child and forced labour in our Tobacco farms by 2025

100%

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

Performance highlights

- No identified incidents of forced labour in our tobacco farms for the reporting period
- Completion of the BAT Group's annual Human Rights survey
- Sustained action on prevention of child labour in our tobacco growing operation
- Undertook an independent labour audit of selected higher-risk suppliers in 2022
- All contracted tobacco farmers trained on child labour prevention.

The BAT Group has a longstanding commitment to respect fundamental human rights as affirmed by the Universal Declaration of Human Rights.

This commitment is set out in the Group SoBC and SCoC and includes respecting the rights of our employees, the people we work with and the communities in which we operate across our supply chains and business operations. BAT's human rights strategy is aligned to the UN Guiding Principles for Business and Human Rights (UNGPs) and focuses on strong policies, good due diligence and (where required) remediation programmes.

Our business and supply chain covers several sectors with inherent human right risks and considerations, including in agriculture and manufacturing.

BAT endeavours to focus on what matters most to people across its supply chain and business operations. To do this, the Company undertakes a defined process, aligned to UNGPs. We engage to understand the views of and impacts upon our key stakeholders and rights-holders, and BAT Kenya also has a holistic approach that identifies emerging risks, trends and best practices.

Safeguarding and promoting human rights

In addition to our alignment to the BAT Group's Human Rights strategy and approach, and Chapter IV of the Constitution of Kenya, we have embedded human rights into our business. Further, we continuously build awareness across business Functions through training, capacity building and data collection.

The strengthening of our due diligence framework has helped to improve access to transparent platforms for our employees to channel their queries, addressing human rights issues raised, and monitoring related indicators.

To support freedom of association and accelerate SDG 16, BAT Kenya has a recognised union in place – the Kenya Union of Commercial, Food and Allied

workers (KUCFAW) – where we allow reasonable time for representatives, union members and BAT employees to carry out related activities.

Moreover, we have an internal mechanism for BAT Kenya’s unionised staff to discuss work-related matters and present their concerns through a joint consultation council which comprises of Union and management representatives. Internally, we provide training to key personnel across the business through an accredited third party.

Additionally, the formation of a cross-functional Human Rights Compliance Working Team has strengthened our approach to managing human rights risks. The BAT Group also mandates an annual self-disclosure survey on human rights, which BAT Kenya completes.

Human rights in tobacco farming

As part of our commitment to driving respect for human rights, including aiming for zero incidents of child labour in our tobacco farms, we continuously work with our contracted farmers to enhance awareness and address issues in a timely manner.

BAT Kenya is against child labour. In 2022, as part of efforts to eradicate child labour in tobacco farming, we ran awareness and capability building initiatives. This complements our monitoring and due diligence programmes.

All our contracted farmers are monitored for child labour throughout the year. In 2020, we conducted an external human rights impact audit for an independent assessment of the issues within our supply chain. Subsequently, we commissioned a robust child labour prevention and elimination programme among our farmers.

In 2021, we engaged an independent third party to carry out a follow up human rights impact assessment audit. Their key aim was to verify the effectiveness of our child labour prevention initiatives and identify any gaps that were to be addressed. The external audit results demonstrated significant effectiveness of our child labour prevention programme.

Overall, when a child labour case is identified, the first step is to stop the child from working and investigate the reports. This will include engagement with the contracted farmer, and refresher training on child labour prevention. Based on the outcome of the investigation, remedial measures may include, capacity building and awareness on child labour prevention with our contracted farmers.

We have also made it clear to farmers that children should be enrolled in school and not be deployed to tobacco farms. Where we identify recurring non-compliance, the farmer’s contract is not renewed for the next growing season.

Value and supply chain integrity

BAT Kenya’s supply chain is categorised into two main sections: indirect (focuses on goods and services necessary to operate our business) and direct (mostly on the materials used in the manufacture of our finished products).

We strive to engage our suppliers onto our sustainability journey so that we can together, commit to deliver our ambitions. In addition, we aim to equip our suppliers with knowledge on topics such as carbon footprint reduction and partner in various initiatives such as tree planting.

BAT Kenya’s Supply and Value Chain Integrity approach aims at driving compliance with applicable laws and commitment as follows:

- a. *Good manufacturing practices.* To develop, use and promote industry best practices and sound technologies to optimise production in our processing facilities in meeting customer requirements, creating a safe working environment, improving energy efficiency and supporting environmental sustainability.
- b. *Environmental protection.* To comply with environmental laws, monitor our industrial activities, cooperate with our supply chain partners to formulate and implement strategies to reduce the environmental impact of the tobacco supply chain, promote energy efficiency, support biodiversity and conserve forestry and other natural resources.
- c. *Tobacco security, integrity and traceability.* To implement programs and strategies aimed at enhancing the security of tobacco supply and promoting tobacco quality throughout the supply chain for the purpose of optimal supply of compliant tobacco.
- d. *Social responsibility.* To operate in a fair and responsible manner, strive to be a beneficial and constructive supply chain partner to our stakeholders, and address key aspects and concerns of our industry and the farming and industrial communities in which we operate.
- e. *Good agricultural practices.* To develop, promote and use tobacco leaf production techniques and strategies that help to meet our customers’ needs, promote farmer profitability and support environmental sustainability, biodiversity and resource conservation.
- f. *Fair labour practices.* To create opportunities for a qualified and diverse workforce at all levels of our organisation, and respect workers’ freedom of association and other labour rights as defined by applicable laws, and help support our aim of zero child labour and forced labour in the farms of our contracted tobacco farmers.



Supplier partnerships

In 2021, the BAT Group launched *A Better Tomorrow™ Together*, a supplier programme aimed at driving sustainable practice. The programme calls for our supplier base to pledge support and commitment to collaborate with us in meeting our ESG objectives. A key element of this is that all product materials & higher-risk indirect service suppliers should undergo at least one independent labour audit in a three-year cycle.

In the same year, we also rolled out the *Be Supplier* programme, with the aim of opening our doors to disruptive solutions, projects and new partnership opportunities that constantly challenge our views and practices for the better. We invited various companies to participate. This includes start-ups that develop innovative solutions and can act as a catalyst for a decade of action to collaborate with us to enhance our recycling practices, reduce water consumption and waste, as well as eliminate post-consumer waste to landfill and single use plastics.

Sustainable agriculture

BAT Kenya has a range of initiatives to promote sustainable agricultural practices. For example, we introduced a float bed nursery in late 2021 and expanded this in 2022. Float beds help to reduce the overall amount of water used in the nursery stage of tobacco growing.

Soil is a key component in farming. As such, we have taken measures to drive good soil management in our tobacco farming operation. This forms part of BAT Kenya's yield and quality improvement programme. In 2022, we commenced the facilitation of soil analysis for contracted farmers.

During the exercise, 24% of the land used to grow tobacco was sampled and 100% of those that required correction underwent liming. Liming reduces the acidic effect of the soil and unlocks the nutrient uptake for tobacco and any other crop that is planted. In addition, we have invested in technology to monitor soil data through our farmer sustainability platform.

BAT Kenya data shows that 67% of our farmers practice at least one good soil management practice within their farms. These initiatives include use of windbreaks, weed control, planting against the slope, terracing, crop rotation and strip planting.



Farmer livelihoods and welfare

Delivering a positive social impact



Our goals

- Prosperous Livelihoods: we are committed to working to enable prosperous livelihoods for all our contracted tobacco farmers

Performance highlights

KShs
945 million

of tobacco purchased by BAT Kenya from contracted farmers in 2022, earning them an approximate total net pay of KShs 945 million

15 tons

of certified maize seeds issued to farmers in 2021 to plant during the long rain season, alongside 17,730 avocado seedlings

KShs
+ 145 million

paid to our farmer SACCOs for various services rendered in 2021 and 2022

+ 17,000

avocado tree seedlings issued to contracted farmers at competitive prices as alternative crops

- Rolled out the pilot phase of our rural women empowerment programme.

At BAT, our contracted tobacco farmers are valued business partners, and we strive to enable farmer self-sufficiency and prosperous livelihoods. This is driven through the BAT Group's farmer livelihoods programme, THRIVE.

Poverty is a root cause of issues such as child labour, and poor safety and environmental standards. It can lead to young people leaving rural areas to find employment in urban areas. Without a new generation of farmers, agriculture could be under threat. If farmers have sustainable living incomes, farming is more attractive to the next generation. It also reduces the risks of exploitation and helps encourage adherence to safety and environmental standards.

At BAT Kenya, our efforts to enhance farmer livelihoods help tackle rural poverty and strengthen our supply chain. We are committed to enabling prosperous livelihoods for our contracted farmers and invest in farmer and community initiatives. We also continue to promote occupational health and safety, as well as fair working practices - including access to grievance mechanisms for farmers.

Nurturing partnerships: capability building and compliance

We continuously invest in enhancing the capabilities of our farmers and enabling them to diversify their income. This includes training farmers on sustainable agriculture, contracting farmer SACCOs through competitive bidding for provision of services to the Company's leaf centres. These services include afforestation, material & supplies distribution, leaf collection to leaf centres, leaf centre compound cleaning, guest house services, among others.

Further, we facilitate health (NHIF) and crop insurance for our farmers. In 2022, farmers impacted by crop losses as result of drought, disease, barn fire and damage from hail and windstorms received insurance payments to improve their financial resilience and help cover crop losses.

In 2022, in addition to training our contracted farmers, we also trained their spouses on various topics including child labour prevention, women development, sanitation and hygiene. Over 75% of farmers' spouses attended training sessions.

Type of training	Farmers attended
Child labour prevention, GTS, farmer safety (including PPEs and agrochemical storage, handling and use)	2083*
Farm business management, crop diversification, workers' rights,	2070
Tobacco curing efficiency	2070
Natural resource preservation	2077
Use of sustainable wood for curing and construction	2078
Tobacco curing efficiency	2030
Integrated Pest Management	2083
Tobacco crop specific techniques	2083

* This constitutes 100% of farmers

In 2021, we held focus group discussions with farmers and their spouses to gain insight into what matters to them. Women's development was identified as a key area in catalysing the advancement of rural women in the society, improvements in household incomes and reductions in child labour within tobacco farms. Following this engagement, we rolled out various initiatives to drive women empowerment in our tobacco growing operation.

Complementary crops/diversification

Over the last two years, we have continued to implement a crop diversification program for our contracted farmers to help promote sustainable livelihoods, by providing them with alternative crops (e.g. Hass avocados and maize seeds) for planting. To help drive crop diversification and food security, farmers were issued with approximately 15 tons of certified maize seeds in 2021 to plant during the long rain season.

In addition to improving food security for the community, this provides farmers with extra income from the sale of the surplus maize harvested. In 2022, we enhanced our crop diversification programme by introducing avocados to the farmers. Each farmer received a total of 10 avocado seedlings at competitive rates, with a total of 17,730 trees being issued.

There is high demand for Hass avocados at the local and international markets, with farmers expected to make significant additional income from the sale of surplus avocados. We will provide farmers with linkage to market for the avocados, a move that will diversify incomes and improve profitability.

Agricultural productivity

To further enhance farmer livelihoods through superior crop yields, we also invested in research and development for our sustainable agriculture programme. We introduced hybrid tobacco seed varieties which offer better yield and disease resistance.

To date, 53% of the tobacco planted by our farmers is of the hybrid variety, which has enhanced farmer's profitability. In addition, low-cost technology (BATech) has been introduced to the farmers, including the use of mechanised ploughing, ridgers and semi-mechanised planters which also promotes improved crop yields and efficiency.

BAT Kenya purchases tobacco leaf from its contracted farmers at competitive prices which are often above the prevailing market prices.





BAT programme case study

BATech is a yield and quality improvement initiative geared towards enhancing farmer livelihoods and reducing cost of production. It focuses on supporting farmers by providing them with extra technical support, anchored on the following objectives:

- » Enhance and streamline agronomy knowledge and implementation of Good Agricultural Practices across farmers;
- » Assist farmers to improve the yield and quality of their crops, consequently improving their income and welfare; and
- » Help enhance sustainable farming and farmer livelihoods.

The program is implemented through extra personnel who conduct weekly visits and guide the farmers during the various phases of the crop cycle. The process includes:

- » Bi-weekly visits to farmers;
- » Demonstration training;
- » Close follow up of technology adoption;
- » Step by step incremental approach in farmer engagement; and
- » Monitoring of farmer yield and quality progress.

The initiative has been key in terms of initiating new technological practices to farmers, which has direct benefits on yield and quality and ultimately earnings. About 280 farmers have directly benefited from the programme since its inception in 2022.

These farmers have experienced increased levels of performance averaging an 8-15% increase in yield, from their baseline. Yield increase has other positive impacts, including child labour prevention and reduction in the farmer cost of production.

Highlights

Currently, 31% of the total tobacco hectareage is mechanically ploughed. These mechanical interventions will reduce the cost of production through reduction of manual labour and time taken to prepare land and transplant seedlings from the nurseries. This reduces the man hours used to plough one hectare for first and second ploughing from the traditional 15 and 10 hours respectively to 3.75 hours. For ridging one hectare of land, man hours have been reduced from 22.5 hours to 2.5 hours.

We also increased the total percentage of hybrid elite variety seeds used to 53% of the total portfolio. These seeds are more vigorous and more resistant to drought.

A float bed nursery system was introduced in late 2021 and expanded in 2022. Currently, 21% of the tobacco

seedlings are grown through this float bed method. This system requires less manual work e.g., watering and resetting and provides more uniform and vigorous seedlings due to precise fertilizer dosing. It also moves farmers away from establishing seedbeds near rivers in order to have a continuous supply of water and reduces the overall amount of water used at the nursery stage of tobacco growing. Transplanters were introduced to transplant seedlings from the floatbed nursery. The transplanters were issued to all farmers who adopted the floatbed seedlings. Transplanters reduce transplanting time from the traditional 55.5 hours to 18 hours, while reducing manual labour by 50% which reduces production costs for the farmer.

In addition, we mainstreamed a key innovation, the Central Seedling Unit (CSU) which was introduced in 2021 as part of the floatbed nursery. The CSU is a top of the range technology-driven seedbed where tobacco seedlings are sowed, germinated, and hardened. Seedlings produced using this technology have a higher quality, yield and survival rate compared to those from conventional seedbeds. In 2022, the CSU venture was expanded through the de-centralised Seedling Unit programme, including taking the technology to the farmer homesteads where the seedbeds are constructed. The float bed technology coverage increased by 9% in 2022 to 21%.

To effectively implement new technologies, enhance yield, improve quality and drive sustainability in tobacco farming, a concerted effort is continuously being made to build the capability and skill levels of farmers through the introduction of specialised field technicians who support technology rollout and research. This is in addition to the existing internal and external training carried out. Extension services also help to ensure that product quality starts at the source. Product quality begins at the seed planting level to ensure that the final product conforms to stringent quality specification in terms of physical and chemical dimensions.

The introduction of technology and mechanisation has seen encouraging results and is a huge contributor to tobacco crop yield growth as well as efficient crop water utilisation in tobacco production. Water withdrawn is only used at the seedling development stage as the crop in the field is rain fed. The total amount of water withdrawn in 2022 was 34,266m³ with overall water efficiency at 11.87m³/Ha. BATech has addressed some of the emerging issues in tobacco farming, with key benefits including:

- » Child labour prevention – BATech aims to increase tobacco yield and quality, which helps enhance farmer incomes. In general, farmers whose livelihoods are more stable may have less incentive to consider utilising child labour on their farms.

- » Living incomes – Innovation and technology has increased farming efficiencies. This in turn lowers the cost of production (CoP) and reduces manual labour. Farmers are subsequently able to enhance their earning power due to reduced CoP and increased tobacco yield and quality.
- » Environment – The BATech programme promotes environmental conservation by reducing the amount of water that is withdrawn and used for watering conventional nurseries. Any fertilisers and pesticides used are also contained within the floatbed. As such, no wash off can occur to water bodies, thus helping to mitigate water pollution. The floatbed ensures that all the water and fertiliser is absorbed by the plant, such that by the time the plant is being taken out for transplanting, the bed is completely dry.

The most fundamental lesson is that technology works, if properly and collaboratively implemented alongside

Good Agricultural Practices (GAPs). We are considering other additional programs to support farmer livelihoods and community development, including:

- » Women empowerment – contracted women farmers and female spouses of contracted male farmers shall have an opportunity to enhance financial knowledge by undergoing training in tobacco and general agricultural practices.
- » Income gap analysis – annual monitoring of farmer cost of production and profit levels to ensure that farmers are earning a living income. It also contributes to the tobacco pricing model.
- » Water and sanitation programmes – investment in rehabilitating water infrastructure in communities where we operate. This is to ensure that they, and the community have access to clean affordable water and enhances our overall water stewardship agenda.



Farmer spotlight



EVERLYNE AKISA

I am a mother of four, a wife and an entrepreneur.

I have partnered with BAT Kenya to grow tobacco for over 14 years now.

BATech programme is a new initiative offered by BAT Kenya which provides farmers with extra training and support, including through new technology.

I have benefited from the extra support, floatbed nursery, mechanisation, liming and high wide ridges.

A key benefit of the programme is the improvement of crop yields, which was higher in 2022 compared to previous seasons. I had higher income due to bumper harvests and better quality tobacco.

I also spend less time in the field as a result of the mechanised farming methods, meaning that I have more time for other activities that generate other income. Over the years, I have managed to buy a plot, build rental houses and support my husband on payment of school fees. The initial investment cost was a hinderance, but the benefit is sustained over a longer period.

I have been able to transfer BATech technology to other crops, especially maize and beans. The soil nutrition has improved due to the lime applied and the high ridges



have really improved my maize production. I intend to continue being part of the BATech programme in the coming seasons. I thank BAT Kenya for helping us be better farmers.



Community resilience and development

Our tobacco growing operations are faced by various challenges, one of the most significant being climate change. Harsh weather conditions such as drought or floods negatively impacts crop yields and in turn, farmer income.

Further, as in many rural African countries, the issue of land fragmentation poses a challenge to economies of scale, land consolidation and sustainable agriculture. To mitigate the effects of climate change, BAT Kenya has facilitated access to crop insurance for all contracted farmers.

With regard to innovation, cultural practices and beliefs play a role in the speed of adoption of new technologies, prevention of child labour and the skill level of farmers. These challenges have been mitigated through enhanced efforts in capability building that is aimed at changing the mindset and behaviour of the farmers.

BAT Kenya contributes to the development of the wider communities in which it operates in various ways, including through initiatives such as afforestation and Water, Sanitation, and Hygiene (WASH).

For the WASH project, over 150 households benefited from the rehabilitation of a water handpump in Seme Magawa community of Migori county in 2022.

In 2021, we rehabilitated Mukuro community water project borehole in Migori County and replaced the 2.9 km water distribution pipeline. This project positively impacted over 1,200 people. In Busia County, borehole hand pumps in Angurai Market and Apokor were repaired.

For World Clean-up Day 2022, BAT Kenya staff participated in a community clean up initiative where 2.1 tons of waste was collected outside our GLTP and sent for proper waste disposal through the relevant service providers.

Afforestation is also a key initiative in building community resilience and driving development. We work with local communities and participate in activities geared towards afforestation and the protection and conservation of water-shed areas by participating in various activities, including donation of tree seedlings as follows:

Location	No. of trees planted / earmarked
Thika	4,000
OI Donyo Sabuk National Park	2,000
Dedan Kimathi University of Science and Technology	5,000
Kenya Forest Service (Migori)	100,000



Ethics & integrity

Robust corporate governance



Our goals

- Full compliance with the BAT Group's Standards of Business Conduct (SoBC) and governance policies

Performance highlights

- Implemented the annual training and sign-off of the Group SoBC by BAT Kenya Directors, direct employees and contracted staff.
- Implemented a series of mandatory training for all staff in 2022 on Respect in the Workplace and Speak-Up programmes.
- Training to educate our employees on their rights and obligations concerning data protection.
- Implementation of our privacy by design programme for our products and services.

The BAT Group is committed to delivering with integrity; achieving our business objectives in an honest, transparent and accountable way, and sustaining a culture of integrity in everything we do.

BAT Group's *Delivery with Integrity* programme drives a consistent approach to managing key risks and is anchored on the Group Standards of Business Conduct (SoBC) alongside other Group and local policies.

The SOBC covers areas such as: political and charitable contributions, anti-money laundering and tax evasion, management of conflicts of interest, sanctions compliance, respect in the workplace and human rights, amongst others.

Our Supplier Code of Conduct (SCoC) outlines the minimum standards expected of our suppliers and includes provisions relating to Anti-Financial Crime (AFC), sanctions, anti-tax evasion and anti-illicit trade.

We strive to uphold business ethics by, amongst other things, working to counteract all forms of corruption.

We also aim to ensure data privacy and cyber security. We engage in constructive collaboration with law enforcement agencies and engage transparently with regulators, policymakers and governmental officials in line with applicable laws and regulations.

Business ethics and integrity

Ethical values form the basis of our culture, and we operate in an honest, transparent and accountable way, and maintain integrity in everything we do.

We are guided by a robust, global and local set of principles, procedures and policies which help ensure our decision making is sustainable and that we always act consistently with our values.

BAT Group Standards of Business Conduct

BAT Kenya has adopted the BAT Group SoBC and is committed to maintaining high levels of integrity. To drive adherence to these standards, BAT Kenya employees, contracted staff and Directors must annually attest to having observed the BAT SoBC policy throughout the year in review.

The declaration of conflicts of interest and their non-existence is also declared as part of the annual sign off process and employees are required to declare any conflicts of interest as they occur, throughout the year. Prior training on the SOBC is carried out to facilitate this process and in addition, focused training is implemented based on specific areas of interest.

The SoBC also sets out the BAT Group's *Speak Up* policy, which enables employees, directors and third parties to raise concerns without fear of reprisal about possible financial improprieties and other potential breaches of the SOBC.

Through the Group *Speak Up* portal (www.bat.com/speakup), stakeholders can raise concerns in confidence and anonymously if they choose to do so. In addition to the *Speak Up* portal, employees can raise their concerns directly to the Group or locally designated SoBC officers, HR or Line Managers.

For all concerns and potential breaches of the SoBC that are raised, an assessment is conducted prior to a full investigation yielding findings and recommendations.

The whistleblower is updated on the progress of the matter and the outcome. All whistleblowing incidents are tabled at the Board Audit and Risk Committee, and procedures are implemented to ensure independent investigation and follow-up. Appropriate remediation actions are then taken to close any identified gaps and or strengthen processes and controls.

In 2022, 16 reports on potential SoBC breaches were reported through various whistleblowing channels. These reports were addressed in line with the applicable governance processes.

BAT Kenya takes compliance with the Group SoBC, other Group and Company policies and local laws, very seriously. As such, we implement a robust compliance programme – Delivery with integrity – which includes training on the policies and expected standards of behaviour, coupled with firm remedial action including termination of employment and business contracts, per the applicable disciplinary and compliance review process.

The Company held a series of mandatory training for all staff in 2022 on *Respect in the Workplace* and *Speak Up* amongst other topics, where employees were reminded of the Company's expectations in respect of how all employees should treat their colleagues and the various avenues through which they can raise any concerns on possible breaches of the SoBC.

Supplier Code of Conduct

BAT Kenya recognises the importance of responsible sourcing and supply chain management, and as such, has in place the Group Supplier Code of Conduct. The SCoC sets the minimum standards expected of our suppliers and includes provisions relating to Anti-Bribery and Anti-Corruption certification, sanctions, anti-tax evasion and anti-illicit trade. The Code also covers issues such as labour standards, human rights, environmental management, and business ethics.

Suppliers are required to ensure that all their workers, agents, sub-contractors, and other relevant third parties comply with the requirements of the Code.

Additionally, suppliers are expected to promote adherence to the SCoC appropriate due diligence within their own supply chain, including farmers, where applicable, for their new and existing suppliers. We retain the right to confirm compliance with the SCoC requirements for new and existing suppliers via internal and/or external evaluation and audit mechanisms. Suppliers are expected to cooperate in identifying, investigating, addressing, and reporting suspected or actual breaches of the SCoC or SoBC.

Any concerns or reports of such breaches can be communicated to the Supplier's typical Group contact or through the *Speak Up* channels, which are independently managed and confidential, at www.bat.com/speakup. We take any allegations or reports of violations seriously and will conduct investigations in accordance with our internal policies and procedures.

BAT Kenya is committed to engaging with its suppliers to foster compliance and promote continuous improvement in supplier practices. This is achieved in various ways, including training, regular meetings and forums to discuss sustainability-related issues and share best practices. Through these engagements, we were able to build strong relationships with our suppliers and drive positive outcomes for our business and society.

Anti-bribery policies and implementation

BAT maintains a zero-tolerance approach and is fully devoted to combatting all types of financial crime and corruption.

Any involvement or implication of employees or business partners in bribery or any other corrupt or criminal activities, such as fraud, embezzlement, or extortion, is entirely unacceptable. Third parties performing services on our behalf should not offer, make, request, or receive any improper payments. One of the controls in place is the inclusion of anti-corruption / AFC clauses in contracts with third parties that are proportionate to the level of bribery and corruption / AFC risk involved in the service. Breach of these provisions may result in the termination of the contract. We also offer anti-corruption / AFC training where appropriate and support staff who manage supplier relationships.

In August 2020, the BAT Group rolled out a new anti-corruption policy and procedure. Known as the Third Party Anti-Financial Crime Procedure (“the Procedure”), the policy is designed to assess and mitigate third-party risks regarding bribery and corruption, money laundering, terrorist financing, illicit trade, sanctions and facilitation of tax evasion.

The Procedure was communicated to employees at the time of roll out and following that, there has been training on the Procedure to ensure compliance and educate employees on risk assessment and mitigation. Suppliers are also trained during onboarding and undergo periodic risk recertification.

Safeguarding data privacy and protection

BAT understands the importance of protecting personal data. To fulfil our responsibilities in collecting, processing, utilising, and managing personal data, we have instituted a Data Protection Policy at BAT Kenya. We have deployed several measures to ensure that data subjects’ personal information is secure and used responsibly. The policy emphasises our commitment to respect the dignity and privacy of our data subjects, restricted access rights to areas that may hold personal data, updated tools, and agreements to ensure compliance.

We have included appropriate data protection clauses and measures in all our new supplier contracts, during contract renewal, and in our Letter of Employment for employees. We have rolled out an Employee Privacy Notice and conducted training to educate our employees on their rights and obligations concerning data protection. We have implemented privacy by design for our products and services. Each privacy by design initiative is customised to comply with the legal framework governing that specific product or service, taking into account the unique operating environment of our company.

Our dedicated contact address (Data_Protection@bat.com) ensures that our stakeholders raise their concerns and exercise their rights in real-time. For any data collected from our customers, we apply the 4WH principle of the who, what, why, where, and how, for transparency and accountability. For ease of dissemination of information on our privacy procedures, we have updated and published on our website www.batkenya.com, the Conditions of Use and Privacy Notice and Cookie Notice (“the Notices”) which our website visitors are encouraged to read before they proceed to browse through our website.

No reports of data privacy breached were received or made in 2022.

Tax transparency

BAT Kenya plays a crucial role in generating tax revenue for the government and contributes to the growth of the local and national economies.

However, stakeholders are demanding increased transparency about where and how corporations pay taxes. Such transparency can help stakeholders assess companies’ financial, governance, and reputational risks, as well as their impact on society and the larger economy.

We have adopted a comprehensive approach to tax engagement that prioritises compliance with all relevant regulations and laws in Kenya. We emphasize the importance of being transparent with tax authorities. Efficient management of tax affairs aligned with the company’s commercial activity is vital in supporting its business strategy.

We transact at arm’s length in line with transfer pricing rules and the Organisation for Economic Co-operation and Development (OECD) principles while engaging in proactive and transparent discussions with tax authorities in cases of differing-tax positions. In cases where resolution is impossible, tax disputes may proceed to litigation as a last option. Additionally, we seek to establish robust technical tax positions to enhance our tax compliance and management processes.

BAT Kenya is fully committed to adhering to all applicable tax laws and regulations of the country.

Our business makes valuable contribution to the economy. Over the past six years, we have remitted over KShs 107 billion to the exchequer through various forms of taxes. The table below provides a snapshot of taxes paid in 2022

Tax paid in 2022	KShs ‘Mn’
Excise	10,943
Value added tax (VAT)	3,901
Corporate tax	2,974
Pay As You Earn (PAYE)	641
Total	18,459

Tax sustainability

Excise tax

We believe that a stable and predictable regulatory and fiscal environment is crucial for business, as well as government and consumers. It facilitates responsible and sustainable decision-making and investment by businesses, while supporting the Government’s drive for economic development – enabling the growth and development of over 80,000 adults involved in our value chain.

In 2022, we observed significant consumer affordability challenges owing to slow growth in the country’s economy. This was due to several factors, including drought, lower income and an increase in the cost of basic goods.

Within 2022, the Government increased excise duty twice, cumulatively by 21.3%, widening the excise differential between Kenya and our neighbouring countries even further.

Excise duty has increased cumulatively by over 50% since 2019. Such increases, which are ahead of the average annual rates of inflation present an unsustainable business environment.

This has forced consumers to seek cheaper products in the illegal market, as evidenced by sustained increase in illicit trade over the last five years, standing at 25.5% as at the end of 2022 (third party research commissioned by BAT Kenya).

This trend suggests that steep excise increments do not lead to additional revenues. Rather, they force customer migration to illicit tax evaded products, resulting in revenue losses to the government.

Encouragingly, the government issued a draft tax policy for stakeholder input in 2022, seeking to enhance predictability in tax administration. Further, we note that the 2023/24 Finance Act has taken a more pragmatic approach towards establishing a stable and predictable fiscal policy. We welcome this approach as it is critical for protecting government revenues and ensuring business sustainability.

Solatium

Kenya's tobacco control law requires that tobacco manufacturers pay a solatium levy that goes to the Tobacco Control Fund. This was established under Section 7 of the Tobacco Control Act, 2007, and operationalised by the Tobacco Control Regulations, 2014, with the aim of addressing negative impacts of tobacco consumption in Kenya.

Year	Amount paid: KShs
2021	250,000,000
2020	230,000,000

Fighting illicit trade in tobacco products

Illicit trade grew to an estimated 25.5% (third party research commissioned by BAT Kenya) by the end of 2022, which is estimated to cause an annual government revenue loss of over KShs 6.5 billion. We note that the Government's continuous increase of excise rates with a view of increasing revenues have resulted in unintended consequences.

We strongly believe that arresting runaway illicit trade in tobacco products could help recover government revenues, especially by sealing smuggling routes and tightening controls at Kenya's border with Uganda, through which the majority of tax-evaded cigarettes are smuggled into Kenya.

In our view, the multi-agency team set up by the government in 2018 to fight illicit and counterfeit goods, made significant gains. To see meaningful and lasting impact in addressing the current levels of illicit trade, it is critical that the current government doubles its efforts, including enhancing multistakeholder collaboration with government agencies from neighbouring countries, to ensure effective enforcement.

However, enforcement is only curative, and it is important to have fiscal policies that facilitate legitimate trade, whilst limiting the demand and supply side opportunities for illicit trade.

Aggressive tax policies need to be reviewed against the realities of the market to ensure that citizens are not exposed to products that do not meet product standards and that the government does not lose significant revenues. Further, to curtail local manufacture of illicit products, we have specifically advocated for increased controls on manufacturing processes and export volumes and enhanced supply chain due diligence requirements.

We believe that these measures, if implemented and strictly enforced, have the potential to significantly bring down the levels of illicit trade in tobacco products in Kenya.



Responsible sales practices

Robust corporate governance



Responsible sales practices and transparency in communications

Our goals

- Responsible sales practices for all our products

Performance highlights

- We comply with all applicable regulations related to the sale of our products. We strongly hold the belief that the sale of tobacco and nicotine products should be responsible and targeted exclusively towards adults.
- Conducted a mystery shopper exercise for VELO as part of efforts to enhance compliance with our prevention of underage access programme (PUA).
- Deployed two Business to Business (B2B) eCommerce solutions: Khonecta and Biz Track.
- Our products have clear health warnings per the applicable laws and regulations.

Responsible sales practices are crucial for ensuring that only adult consumers use our tobacco and nicotine products.

The BAT Group has strict product selling requirements, and supports our employees, partners and customers (traders) in effectively applying them. For example, we provide our trade partners in Kenya with prevention of underage access warning signs to affix at their points of sale to declare that our products are not for sale to under 18s. Our sales strategies adhere to stringent industry guidelines, local laws, and international best practices and we have established internal policies and processes that rigorously evaluate all product materials to ensure compliance with our ethical standards and corresponding regulatory frameworks.

The BAT Group firmly believes that tobacco and nicotine products should be sold responsibly and to adult consumers only.

We also believe that, with respect to our New Category products, communication by the manufacturer to drive consumer education is critical for our ability to deliver on tobacco harm reduction. This is because informing adult tobacco and nicotine users about the attributes of these products, including their reduced risk* profile in comparison to cigarettes, is key to enabling adult tobacco and nicotine users to switch to New Category products which in turn have the potential to reduce smoking rates and smoking related diseases.

BAT Kenya sells its products responsibly by adhering to BAT Group's International Marketing Principles (IMP) and local laws, as well as through our prevention of underage access initiatives. In addition, compliance with applicable product regulations and labelling of our products facilitate transparent and trustworthy product communications. To drive responsible sales practices, BAT has a range of approval processes at local, regional and global levels which support our aim that all of our communications are transparent and trustworthy.

We adhere to the Group International Marketing Principles (IMP) which comprises five key principles that mandate stringent requirements for the sale of our products and related communication to be responsible, accurate, transparent, targeted at adult consumers only, and compliant with all applicable laws.

Furthermore, we hold our trade suppliers to the same high standards, as compliance with the Group IMP is part of our Supplier Code of Conduct (ScCoC), which outlines the minimum standards expected of our suppliers. We explicitly include IMP compliance as a requirement in our contracts with trade partners.

We recognise that the Prevention of Underage Access (PUA) as a fundamental aspect of responsible sales practices. Accordingly, we have developed guidelines, standards, and toolkits on PUA that apply to all areas where our products are sold, even in instances where they are distributed through our third parties.

In 2022, a VELO mystery shopper exercise was conducted with selected traders in major towns across Kenya. The exercise found that 100% of the outlets visited had a Prevention of Underage Access (PUA) signage for Nicotine or Tobacco, highlighting a commitment to preventing underage sales.

Business to business (B2B) capabilities

We believe that transparency is key for our business. This is embodied through various activities in our product distribution and sale network, driven by digital innovation for data management. Further, we ensure that any issues picked up are tracked and resolved in a timely manner.

The success of this process is anchored on regular engagement with our business partners and providing them the support they need to enable effective business management.

To improve efficiency and performance, we deployed two Business to Business (B2B) eCommerce solutions: Khonecta and Biz Track. Khonecta is a web-based platform that has enabled paperless communication and sales management for over 10,000 wholesalers. Similarly, Biz Track has been deployed to over 300 active wholesalers, enabling them to digitally track their sales, and manage their stock and cash flow.

This has given BAT Kenya visibility of the wider retailer universe, allowing for better monitoring of compliance with set commercial parameters and product quality. Biz Track has helped upskill the digital capabilities of our traders and created employment. Cashless transactions have made it safer for all players in the supply chain. The cashless option has also reduced bulk delivery delays and pilferage cases. We aim to have a full transition to paperless solutions by the end of 2023.

These Business-to-Business eCommerce solutions leverage technology and innovation to enhance the efficiency of our product supply chain, thereby

contributing to SDG 9. Further it has helped mainstream sustainability in several ways, including reduction of paper use thus mitigating deforestation. It has also helped to optimise our product distribution efforts, resulting in fewer planned deliveries, reduced fuel emissions, and as a result, reduced air pollution.

While progress in implementing these business-to-business e-Commerce solutions has been remarkable, we have faced certain challenges. These include late technology adoption in rural areas due to several factors such as behaviour change constraints from traders who prefer face-to-face transactions, and high data costs.

To address this, we have rolled out various initiatives, including meeting data costs to enable traders to access and adopt eCommerce in their businesses.

Product packaging and labelling

BAT's commitment to responsible product packaging and labelling helps to ensure that consumers have complete and accurate information about our products. Our products have clear health warnings per the applicable laws and regulations. These warnings are designed to be visible and easily understood by consumers.

Quality assurance

Quality is a top priority at BAT. Each of our products is quality controlled to ensure that it meets every aspect of its specification.

We consistently work to ensure that product quality issues in the manufacturing process are maintained at the lowest levels possible. In 2022, product defects during the manufacturing process reduced significantly by 66% compared to 2021. These products defects were handled through a robust corrective action/preventive action (CAPA) process embedded in our quality assurance management system as guided by the BAT Group and ISO 9001:2015 standards.

The mitigation measures taken to eliminate the causes of the defect products were as follows:

- » Coding system programme re-validation at the supplier level and implementation of an additional pack code validation at the end of the month.
- » Work point analysis and standardisation of the applicable packaging equipment.
- » Enhanced automation of product labeling systems.

The reduction in defective products in the manufacturing process translated to less waste generated relating to packet labels, inner bundling, pack film, outer film, energy, and labour costs.

Sustainability governance

Robust corporate governance



Our goals

- Effective management of sustainability governance

Performance highlights

- Board oversight of Sustainability and ESG matters
- Installation of an ESG Management Committee as part of enhanced efforts to embed sustainability into the business.

The evolution of and attention to sustainability and ESG matters globally have increased in recent years.

Regulations and expectations have substantially broadened and deepened, not least because of the challenges associated with climate change and biodiversity loss which the world faces.

Having appropriate governance in place to deliver our sustainability commitments is more important than ever before. In particular, this is why we the BAT Group believes that effective oversight and management of ESG-related risks and opportunities are essential to BAT's ability to achieve long-term growth.

The BAT Group seeks to ensure Board-level oversight of its sustainability agenda across the Group. BAT Kenya has aligned to the Group's sustainability agenda and relevant governance processes and has localised this as applicable.

To further strengthen our focus on Sustainability and ESG matters, we constituted the ESG Management Committee at BAT Kenya in 2022.

The creation of this committee reflects a step change in our approach to ESG, placing it as a strategic priority for the organisation. Through this committee, we are embedding ESG firmly into our business strategy, as well as in everyday decision-making processes.

The Committee reports into BAT Kenya's Leadership Team and the Board through the Board's Nominations & Governance Committee. It works with the various Business Functions to effectively deliver its mandate.

The ESG management committee

The ESG Management Committee assists BAT Kenya's Board and Leadership Team in fulfilling its oversight responsibilities concerning developing and implementing the Company's sustainability strategy. We are aligned to the BAT Group's targets on ESG and have localised these targets as applicable.

Responsibilities and objectives

- » Drive alignment with the Group's ESG agenda, coherence in ESG strategic planning and risk management and apprise the Board and Leadership Team on the strategy for discharging the Company's ESG responsibilities.
- » Monitor implementation of the ESG strategy against agreed actions, targets and metrics and reporting of said progress and actions per the requirements of the BAT Group and external statutory Codes.
- » Review and approve the BAT Kenya's non-financial materiality assessment, and actions relating to the identified risks and opportunities presented by each material issue.
- » Promote robust standards of corporate governance and facilitate robust monitoring and reporting of progress against set targets and the overall ESG strategy.
- » Review and support the development of relevant ESG-related policies and codes of conduct.
- » Identify and monitor external developments that may significantly impact the Company's approach to ESG.
- » Review all stakeholder feedback on ESG matters and engage as appropriate.
- » Ensure adherence to all ESG-related disclosures and regulatory reporting requirements.
- » Make recommendations to the relevant Leadership Team and the Board's Nominations and Governance committee on any of the matters that the Committee considers appropriate.
- » The Committee shall endeavour to ensure that sufficient attention is given to driving the Company's ESG agenda and that the relevant policies and processes in place remain effective.
- » The Committee shall, in consultation with executive management, consider the appointment of third parties to advise on ESG policies and practices and / or audit the Company's ESG policies.

Committee members

1. Head of External Affairs - Committee Chair
2. Business Communication & Sustainability Manager - Secretary
3. Route to Consumer Manager - Member
4. Human Resource Business Partner - Member
5. Head of Leaf - Member
6. Sustainability Manager - Member
7. Regulatory Engagement Manager - Member
8. Scientific Engagement Manager - Member
9. Governance Counsel - Member
10. Senior Corporate Finance Manager - Member
11. Engineering Manager – Member

Advocacy and actions

Advocacy refers to the BAT Group's actions and initiatives that surround engagement with regulators and policy makers. Civic participation is a fundamental aspect of responsible business and policy making, and as industry leaders and experts, BAT has a legitimate contribution to make to policy-related matters. BAT Kenya's employees participate in the policy process in a transparent and open manner, in compliance with all laws and regulations.

We contribute to national dialogue on building a sustainable regulatory and fiscal environment that will ultimately contribute towards business sustainability and collective tobacco control efforts.



Membership and affiliations

As a committed responsible corporate citizen, BAT Kenya participates actively in the communities in which it operates. As part of this, the Company is a member of the following Business Members Organisations (BMOs).

Organisation
Kenya Extended Producer Organization (KEPRO)
Kenya Private Sector Alliance (KEPSA)
East African Business Council (EABC)
Kenya Association of Manufacturers
Kenya National Chamber of Commerce & Industry (KNCCI)
Retail Association of Kenya (RETRAK)
Pubs Entertainment & Restaurants Association of Kenya (PERAK)
Kenya Business and Disability Network
Federation of Kenya Employers

Awards, recognition and certification

From a Group level, BAT is leading the way as shown in the following selected accolades:

- » Dow Jones Sustainability Indices: Included in the DJSI indices for 20 consecutive years as at 2022.
- » CDP A – Scores: In 2022, achieved A, A- and A- respectively in the CDP Climate Change, Water Security and Forests assessments; placed in the top 2% of companies CDP scored.
- » Workforce Disclosure Initiative: Winner of the 'Contingent workforce data' award at the Workforce Disclosure Initiative's (WDI) 2022 Workforce Transparency Awards, Runners-up in the main WDI Work Award and special mentions for 'supply chain data' and 'workforce action'.
- » FT Europe's Climate Leaders: Named in 2022 as a Climate Leader for the 2nd successive year by the Financial Times in its annual European listing.
- » S&P Global's 2022 sustainability award: Recognised as a sustainability leader after being listed once more in S&P Global's 2022 Sustainability Yearbook: achieving the highest award of a "gold class" distinction.
- » Global Top Employers Institute: Accredited as a Global Top Employer for five consecutive years as at 2022.

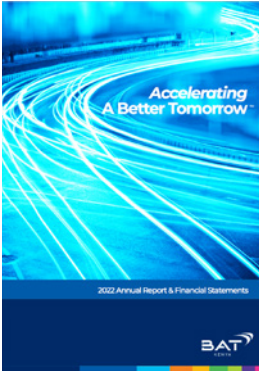
Locally, BAT Kenya's sustainability efforts and commitment to high standards have received notable independent recognition over the years. The table below shows highlights of recent milestones for BAT Kenya.

Issuing institution / framework	Award / recognition / certification
Global Top Employer Institute	<ul style="list-style-type: none"> Certified Top Employer in Kenya and Africa for five consecutive years as at 2022.
Directorate of Occupational Health and Services	<ul style="list-style-type: none"> National Best First Aid Team award - Green Leaf Threshing plant Thika, 2021 and Runner- up in 2022.
Kenya Association of Manufacturers – Energy Management Awards	<ul style="list-style-type: none"> Overall winner, 2021 Energy Management Award - Nairobi Manufacturing Factory Runners Up, 2021 Overall Energy Management Award - Green Leaf Threshing plant, Thika Thermal Energy Savings Award 2022 - Medium Category, Nairobi manufacturing factory 2022 Innovation and Best Practice Award 2022 - Green Leaf Threshing plant, Thika Best Energy Management Team Award 2022 - Green Leaf Threshing plant, Thika
Accenture Gender Mainstreaming Awards 2022	<ul style="list-style-type: none"> Gender Mainstreaming Champion Africa Winner, Empowerment in the Workplace – East Africa 2nd finalist in Gender and Disability – East Africa
Federation of Kenya Employers awards	<ul style="list-style-type: none"> Overall Best Employer 2017 and 2018 award
Kenya Exporter of the year Awards 2019	<ul style="list-style-type: none"> Solid Rock Commendation (Lifetime AchievementAward)
Financial Reporting Awards (FIRE Awards) 2022	<ul style="list-style-type: none"> Winner, Governance category Runners up, Environment & Social Reporting - Listed Companies, Industrial Commercial & Services
Water Stewardship Assurance Services	<ul style="list-style-type: none"> Alliance for Water Stewardship certification for water management
Energy & Petroleum Regulatory Authority	<ul style="list-style-type: none"> Energy compliance certificate 2022 to 2025
Occupational Safety and Health Act (OSHA) 2007	<ul style="list-style-type: none"> Workplace Registration certificate: Occupational Health and Safety Standards
International Standards Organisation	<ul style="list-style-type: none"> ISO 9001: 2015 on quality management ISO 17025: 2017 on laboratory processes



Other information

Further detail on certain information and disclosures in this sustainability report is contained in the 2022 and 2021 Annual Reports and Financial Statements. These can be accessed on our website: www.batkenya.com



BAT Kenya 2022 Annual Report and Financial Statements

↓ [BAT_Kenya-Annual_Report_2022.pdf \(batkenya.com\)](#)



BAT Kenya 2021 Annual Report and Financial Statements

↓ [2021 Annual Report & Financial Statements \(batkenya.com\)](#)



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