FINANCE DIRECTOR'S REVIEW

REVENUE

BAT Malaysia Group's operating environment had been extremely challenging. Whilst a 1% reduction was observed, the tobacco black market incidence continued to be stubbornly high and inflationary pressures had driven consumers to downtrade or consume alternative nicotine products such as vapour. Within the legal cigarette industry, competition had intensified especially within the VFM segment.

BAT Malaysia Group's total market share was 0.5% lower in 2023, mainly attributed to the delisting of the Kent and Pall Mall brands during 2022 as well as the impact of continued downtrading. Total revenue for BAT Malaysia declined by 11% to RM2.31 billion compared to RM2.60 billion in 2022. The decrease was mainly due to a volume decrease of 12.9% when compared to 2022 as a result of the contraction of the legal industry as well as the Group's market share decline. Revenue contribution from New Categories was not material as the Group only entered into New Categories in the latter half of this year. Gross profit margin declined by 1.5% from 26.1% (RM678 million) in 2022 to 24.6% (RM568 million in 2023) owing mainly to lower margins from New Categories.

COST OF SALES

BAT Malaysia Group's cost of sales decreased by 9.2% (RM175 million) in line with the lower sales of Combustibles which was partially offset by increases due to our entry into New Categories. The Group continued to drive multiple cost optimisation initiatives across its value chain to deliver a competitive product cost, leveraging its robust supply chain model to mitigate the impact of increasing cost pressures arising from higher inflation and the weaker Ringgit.

OPERATING EXPENSES

In 2023, BAT Malaysia Group's operating expenses increased by 5.0% (RM14 million) to RM289 million, mainly driven by increased marketing expenses for the launch of New Category products partially offset by BAT Malaysia Group's sustained strategy to optimise spending despite operating under increased inflationary pressures.

RESTRUCTURING EXPENSES

In line with the next phase of our strategy to deliver a fit-for-growth organisation, BAT Malaysia Group incurred restructuring expenses of RM18 million in 2022. The restructuring exercise led to a simplified organisational structure that enabled greater collaboration and effective decision-making and a reduction in the employment cost base in 2023.

PROFIT FROM OPERATIONS

Profit from operations experienced a considerable decline compared to the prior year, driven by lower contribution from Combustibles as well as BAT Malaysia Group's heightened investments to launch and accelerate New Categories into the market.

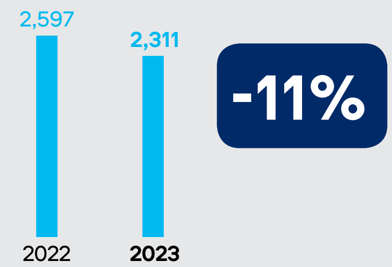
TAXATION

The average effective tax rate of BAT Malaysia Group for the financial year ended 31 December 2023 was 24%. The decline in the average effective tax rate compared to 2022 was mainly due to the Prosperity Tax that was imposed by the government in 2022.

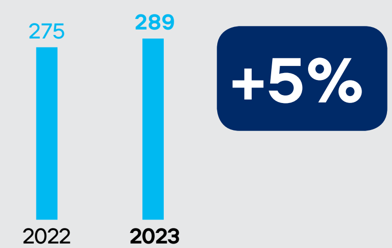
DIVIDENDS

Despite the challenging environment, BAT Malaysia Group remained committed to paying dividends at a level above 90% of its earnings. In 2023, BAT Malaysia Group declared four quarterly interim dividends amounting to 63 sen per share, equivalent to a 92% total earnings payout for the year and a dividend yield of 7% based on the average share price in 2023.

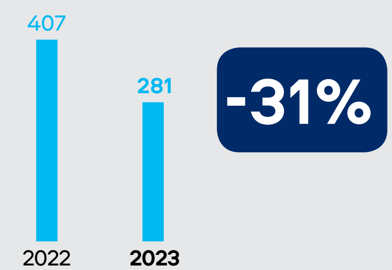
GROSS REVENUE
(RM million)



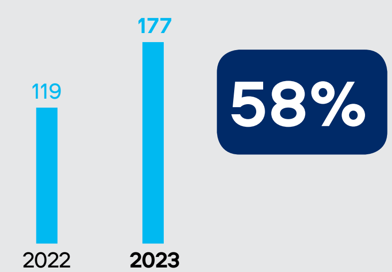
OPERATING EXPENSES
(RM million)



PROFIT FROM OPERATIONS
(RM million)



CASH CONVERSION
(%)



DEBT, DEBT STRUCTURE, WORKING CAPITAL AND LIQUIDITY

As at 31 December 2023, BAT Malaysia Group had a total debt facility of RM850 million, maintained with several licensed financial institutions in Malaysia. The Group continued to utilise revolving credits and bank overdrafts to support its short-term working capital requirements. This flexible debt structure allowed BAT Malaysia Group to borrow at optimum levels, thereby minimising financing costs and improving interest deductibility. Additionally, BAT Malaysia Group implemented a debt factoring facility to further improve its working capital, providing enhanced flexibility to cater for increased working capital requirements as we invest into New Categories.

At the end of 2023, BAT Malaysia Group had RM543 million of revolving credit and short term loans with tenures ranging from one week to one month, compared to RM695 million in 2022. In 2023, cash from operations recorded an increase of 2.7% (RM13 million) as compared to 2022. The increase in cash from operations was largely attributed to improvements in working capital.

	2023 RM million	**2022 RM million**
Profit from Operations	**281**	407
Cash from Operations	**496**	483
Cash Conversion	**177%**	119%
Increase/(decrease) in cash and cash equivalents	**11**	(5)

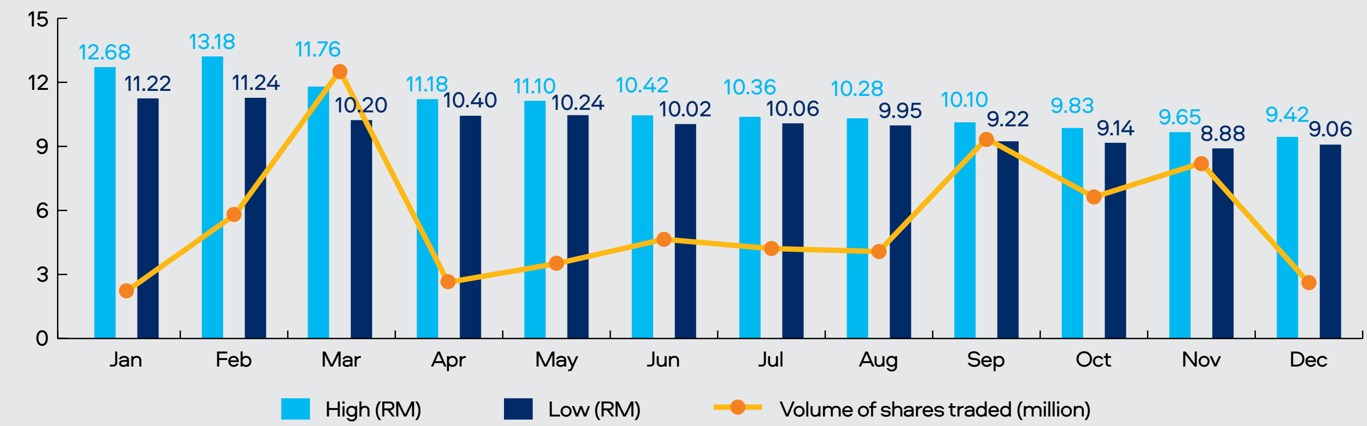
TREASURY

BAT Malaysia Group's foreign currency exposure mainly arises from the purchase of finished goods. As part of BAT Malaysia Group's treasury policy, foreign currency exposure is minimised by hedging the net exposure for the next 18 months, in line with the hedging period allowed under the Foreign Exchange Control guidelines enforced by Bank Negara Malaysia. The permitted range for the hedge ratio within the 18 months of the transaction date is 0% to 95%. The primary objective of the hedging strategy is to protect shareholder value by minimising the impact of foreign exchange rate fluctuations. This is achieved by layering the hedges monthly within the allowable boundaries set by Bank Negara Malaysia.

SHAREHOLDERS' RETURN

The share price of BAT Malaysia was mainly impacted by external factors such as the tobacco black market and the uncertainties surrounding the tobacco regulatory landscape. The share price saw a downward slide during the year following intensified dialogues and press releases regarding the potential tightening of tobacco regulations. Market capitalisation for the Group closed at RM2.6 billion in 2023. The annual dividend yield that the Group generated was estimated at 7%. BAT Malaysia Group continues to ensure that shareholders' return is maximised through our A Better Tomorrow™ strategy and growing into a multicategory business.

BAT MALAYSIA SHARE PERFORMANCE 2023



Share Performance	2017	2018	2019	2020	2021	2022	2023
Net Dividends	1.69	1.55	1.18	0.83	0.98	0.88	**0.63**
Capital Gain/Loss	(4.18)	(3.92)	(21.00)	(1.00)	(0.10)	(2.76)	**(1.93)**
Annual Shareholders' Return	(2.49)	(2.37)	(19.82)	(0.17)	0.88	(1.88)	**(1.30)**

OUTLOOK

BAT Malaysia Group will continue to focus on driving its ambition of A Better Tomorrow™ in 2024. As we move into an economic environment that will see growth moderate, we are cognisant that consumer spending power will be affected. Similarly, BAT Malaysia Group will be impacted by higher inflation and as such, we will continue to be diligent in optimising operational costs.

Against this backdrop, BAT Malaysia Group is optimistic of achieving a steady financial performance for the coming year. BAT Malaysia Group firmly believes that tobacco harm reduction strategies are crucial to reducing the health impact of its business. In 2024, BAT Malaysia Group will focus on growing the market share of Vuse, which represents BAT Malaysia Group's efforts to offer reduced-risk*† alternatives to adult smokers.

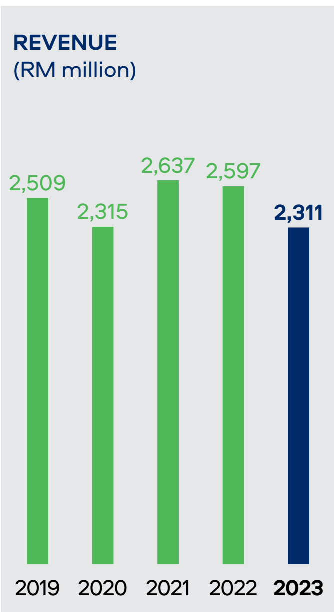
BAT Malaysia Group is supportive of the Control of Smoking Products for Public Health Bill 2023, which was passed during the Parliament session in December 2023. As the Government develops the regulatory framework for tobacco and vapour products under this new law, BAT Malaysia Group reiterates that any regulations introduced must be sensible and evidence-based for all stakeholders to ensure that it can be enforced effectively and deliver its intended objectives, without fuelling the growth of the tobacco black market.

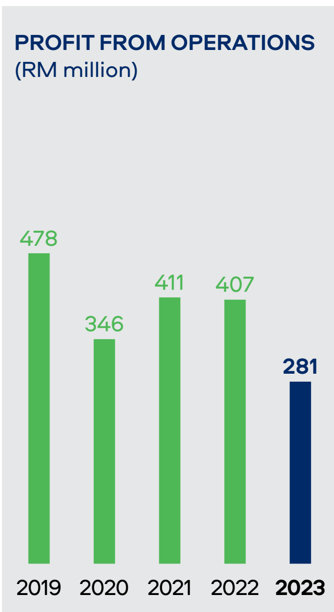
The tobacco black market incidence in Malaysia remained persistently high at 55.6% for 2023. With the measures announced by the Government during the tabling of the Budget 2024, BAT Malaysia Group believes that it will further strengthen efforts to combat the tobacco black market and help recover revenue leakages for the Government.

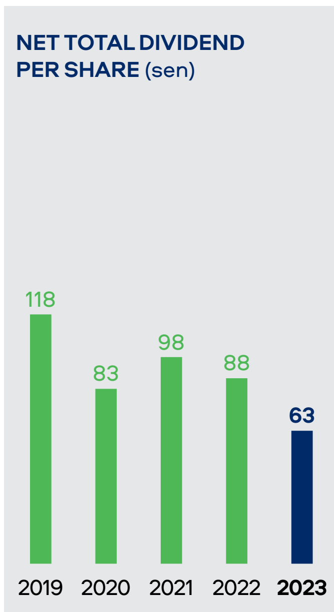
* *Based on the weight of evidence and assuming a complete switch from cigarette smoking. These products are not risk-free and are addictive.*

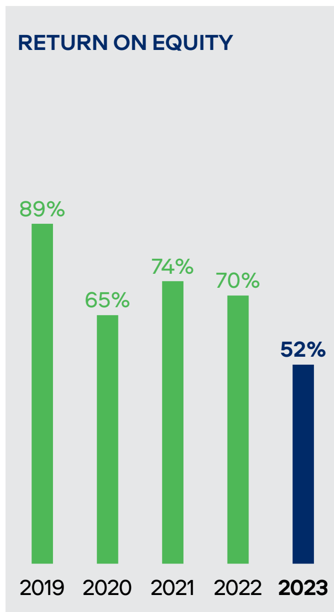
† *Our vapour product Vuse (including Alto, Solo, Ciro, and Vibe), and certain products, including Velo, Grizzly, Kodiak, and Camel Snus, which are sold in the U.S., are subject to FDA regulation and no reduced-risk claims will be made as to these products without agency clearance.*

FIVE-YEAR PERFORMANCE HISTORY









FIVE-YEAR PERFORMANCE HIGHLIGHTS

2019

The tobacco landscape evolved significantly with the emergence and challenge of illegal vaping and continuous high levels of the tobacco black market. A year after the change of government, BAT Malaysia Group did not see any significant action taken to address illegal tobacco as well as affordability issues. As a result, the legal tobacco industry was greatly impacted, with BAT Malaysia Group registering a 25% decline in its operating profit. BAT Malaysia Group undertook aggressive cost rationalisation and restructuring measures to achieve a sustainable cost base and profitability level for the future. However, urgent structural reform was needed in order to secure a sustainable tobacco framework for the industry and legal tobacco companies.

2020

This was an unprecedented year marked by the COVID-19 global pandemic. The tobacco black market and illegal vaping incidences continued to be high at 70% of the total nicotine market. Despite these external challenges, BAT Malaysia Group was resilient and showed strong signs of recovery quarter-on-quarter. Dunhill, our flagship brand, gained share of segment, increasing by 2.2% points. During the year, BAT Malaysia Group extended its portfolio with the launch of KYO in the VFM segment to capture a fair share of down traders. KYO's performance was encouraging with a 2.8% share of the market, achieved within two months of launch. With this new addition to BAT Malaysia Group's portfolio, the corporate share of the market increased by 1.1 percentage points versus 2019 to 51.7%. It was encouraging to see the government's efforts in setting regulations and enforcement in curbing illegal cigarettes via the Budget 2021 announcement.

2021

This was the second consecutive year of the COVID-19 global pandemic. Despite this, BAT Malaysia produced stellar results, registering volume growth for the first time since 2002 and profit growth for the first time since 2015. Dunhill, our flagship brand, gained market share of 2.1 percentage points, while our KYO brand in the VFM segment continued to see encouraging response. During the year, we expanded its range with the launch of KYO Switch and KYO Full Flavour. As a whole, the KYO brand established itself as the fastest-growing modern consideration offer. Altogether, BAT Malaysia Group's total market share grew to 52.4%, an increase of 0.8 percentage points from 2020. It was also encouraging to note that the incidences of illicit cigarettes decreased to 57.7% from 63.8% in 2020. Lastly, we welcomed the Budget 2022 announcement that the Malaysian government intended to legalise the sale of nicotine vapour products, which would help push forward our own aspirations to reduce the health impact of our business.

2022

2022 saw Malaysia easing out of the COVID-19 global pandemic as the economy showed signs of gradual recovery. Businesses continued to find their footing in the post-pandemic high-inflationary environment while adjusting to the shifts in consumption patterns. In tandem with the market's downtrading trend, BAT Malaysia Group's VFM brands – KYO and Rothmans – captured an additional 1% market share. Although the legal tobacco industry's premium segment declined by 1% during the year, Dunhill continued to cement its strong foothold in the premium segment as the brand secured growth of 1.1% share of segment. The BAT Malaysia Group's market share contracted by 0.8% when compared to last year following a strategic exercise to delist the Pall Mall and Kent brands in the second quarter of this year as part of the portfolio simplification. This allowed BAT Malaysia Group to intensify its focus on business portfolio expansion of reduced-risk*† products with the launch of glo™ in the first quarter of 2023. We are also encouraged by the decline of the illicit cigarettes trade from 57.7% in 2021 to 56.6% in the current year. BAT Malaysia Group is in full support of the Malaysian government's stance to reduce the levels of the tobacco black market and urges the government to consider science- and evidence-based regulations to legalise the vapour market.

2023

The legal cigarette industry was impacted by external pressures affecting consumption. The tobacco black market incidence remained high at 55.6% and the legal market experienced downtrading alongside lower consumption as the trend of consumers opting for lower risk products continued. Within this environment, Dunhill remained resilient. BAT Malaysia Group launched Luckies during the year to better compete in the VFM segment. Upon the legalisation of vapour products earlier this year, BAT Malaysia Group was swift to expand into this segment of nicotine consumers by launching Vuse. This inaugural moment for BAT Malaysia presented far-reaching opportunities to BAT Malaysia Group as we transformed into a multicategory business. During the second half of the year, multiple formats of Vuse were introduced in order to cater to the varying tastes and needs of vapour consumers. We are encouraged by the initial performance and will continue to invest to grow Vuse. BAT Malaysia Group continues to urge the Government to implement science-based regulations to regulate the vapour market.

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

† *Our vapour product Vuse (including Alto, Solo, Ciro, and Vibe), and certain products, including Velo, Grizzly, Kodiak, and Camel Snus, which are sold in the U.S., are subject to FDA regulation and no reduced-risk claims will be made as to these products without agency clearance.*