

## OPERATING LANDSCAPE

### THE TOBACCO BLACK MARKET

**The dynamics of the total nicotine landscape has evolved since 2015 after the huge 40% excise increase, which saw an increasing tobacco black market and exponential growth of vapour despite it being illegal until it was legalised in April 2023.**

As a result, BAT Malaysia Group was faced with an extremely challenging operating environment in 2023 where the tobacco black market remains high, accounting for more than half (55.6%) of the total combustible market on the back of strong economic headwinds, which reduced the disposable income of consumers due to inflationary pressures throughout the year. This in turn, drove consumers to down trade or switch to alternative nicotine products such as vapour.

The tobacco black market also has a severe impact on public health and the economy, causing an annual leakage of approximately RM5 billion in tax revenue for the government. It is therefore essential for all stakeholders, including BAT Malaysia, to collaborate closely and develop a comprehensive strategy to address the issue.



## KEY RELATIONSHIPS

BAT Malaysia's stakeholders are strategically important to our business and understanding their needs and priorities is vital to our ability to build a resilient business that creates long-term sustainable value. Our stakeholders comprise regulators, consumers, employees, investors, business partners, the media, community members and Non-Governmental Organisations (NGOs) and we engage with these stakeholders on a regular basis through various well-established platforms. In addition to our regular engagement channels, in 2023 BAT Malaysia also conducted a Double Materiality Assessment (DMA) with the objective of determining matters that would impact our ability to deliver sustainable value to all stakeholders. Through the DMA we have established the material matters, presented on page 31 of this report, that inform our Sustainability strategy.

### STAKEHOLDER ENGAGEMENT

Stakeholders	Engagement Platforms	Issues	How We Addressed the Issues
<b>Regulators</b>	<ul style="list-style-type: none"> <li>Public consultations and regular meetings</li> </ul>	<ul style="list-style-type: none"> <li>Tobacco black market</li> <li>Tobacco Harm Reduction and New Category products</li> <li>Tobacco control regulations</li> <li>Embedding ESG into operations and ESG performance</li> </ul>	<ul style="list-style-type: none"> <li>Two-way dialogue and shared information about the tobacco black market and its impacts, Tobacco Harm Reduction and New Category products</li> <li>Two-way industry led dialogue on tobacco control regulations</li> <li>DMA conducted and sustainability strategy aligned with stakeholders priorities</li> <li>Sustainability performance disclosed as part of Annual Report</li> </ul>
<b>Consumers</b>	<ul style="list-style-type: none"> <li>Customer service hotline</li> <li>Corporate emails</li> <li>Corporate website</li> <li>Company press releases</li> </ul>	<ul style="list-style-type: none"> <li>Product information</li> <li>Tobacco black market</li> <li>New Category products</li> </ul>	<ul style="list-style-type: none"> <li>Dedicated call centre to identify and address consumer concerns and provide essential information to keep consumers informed</li> <li>Awareness through press releases of quarterly financial performance</li> </ul>
<b>Employees</b>	<ul style="list-style-type: none"> <li>Bi-annual 'Your Voice' employee engagement survey</li> <li>Quarterly town hall sessions</li> <li>Annual corporate line-of-sight session</li> <li>'Speak Up' channel</li> <li>Annual employee engagement events</li> </ul>	<ul style="list-style-type: none"> <li>Career progression and development</li> <li>Fair compensation</li> <li>Rewards mechanisms</li> <li>Diversity and inclusivity</li> <li>Physical and mental wellness</li> <li>Grievances, discrimination and fair treatment</li> <li>Managing ESG across operations and ESG performance</li> </ul>	<ul style="list-style-type: none"> <li>Feedback from 'Your Voice' survey incorporated into the talent strategy</li> <li>Progress review and development discussions with line managers</li> <li>Coaching and mentoring sessions</li> <li>Safety training and awareness through Safety Days and regular information sharing</li> <li>Employee wellness sessions</li> <li>All grievances reported via the 'Speak Up' channel and other means are investigated to ensure a closure and outcomes communicated to relevant parties</li> <li>Various employee engagement platforms to engage with all employees</li> <li>DMA conducted and sustainability strategy aligned with stakeholders priorities</li> <li>Sustainability performance disclosed as part of Annual Report</li> </ul>
<b>Investors and Analysts</b>	<ul style="list-style-type: none"> <li>Annual General Meeting</li> <li>Annual Report</li> <li>Regular Analyst briefings</li> <li>Corporate website</li> <li>Company press releases</li> </ul>	<ul style="list-style-type: none"> <li>Corporate strategy and financial performance</li> <li>Corporate governance and compliance</li> <li>Tobacco black market</li> <li>New Category products</li> <li>Managing ESG risks and identifying opportunities</li> <li>ESG performance</li> </ul>	<ul style="list-style-type: none"> <li>Briefings and engagement throughout the year for analysts and investors to discuss business performance, strategies and related issues</li> <li>DMA conducted and sustainability strategy aligned with stakeholders priorities</li> <li>Sustainability performance disclosed as part of Annual Report</li> </ul>

## KEY RELATIONSHIPS

Stakeholders	Engagement Platforms	Issues	How We Addressed the Issues
<b>Media</b>	<ul style="list-style-type: none"> <li>• Press conferences</li> <li>• Media interviews and events</li> <li>• Formal and informal briefings</li> </ul>	<ul style="list-style-type: none"> <li>• Corporate strategy</li> <li>• Financial performance</li> <li>• Products and services</li> <li>• Tobacco black market</li> <li>• New Category products</li> </ul>	<ul style="list-style-type: none"> <li>• Media engagements to provide updates on business performance, strategies, products and how we are creating value in communities</li> </ul>
<b>Business Partners</b>	<ul style="list-style-type: none"> <li>• Meetings with business partners</li> </ul>	<ul style="list-style-type: none"> <li>• Ensuring that our business partners stay updated on and comply with the latest regulations and standards</li> <li>• Embedding ESG into operations and ESG performance</li> </ul>	<ul style="list-style-type: none"> <li>• Briefings, information-sharing sessions and training with our business partners to ensure their compliance with regulations and standards</li> <li>• DMA conducted and sustainability strategy aligned with stakeholders priorities</li> <li>• Sustainability performance disclosed as part of Annual Report</li> </ul>
<b>Communities and NGOs</b>	<ul style="list-style-type: none"> <li>• Meetings with Resident Associations of the communities supported through Beyond Benih</li> <li>• Company press releases</li> <li>• Corporate Website</li> </ul>	<ul style="list-style-type: none"> <li>• Empowering low-income communities</li> <li>• Upholding Environmental, Health and Safety (EHS) best practices</li> <li>• ESG performance</li> </ul>	<ul style="list-style-type: none"> <li>• Launched Beyond Benih programme to support food security in low-income B40 communities. Expanded the programme across Malaysia by launching 10 new farm gardens</li> <li>• Monitoring and tracking environmental performance and ensuring compliance with applicable environmental and health and safety regulations</li> <li>• DMA conducted and sustainability strategy aligned with stakeholders priorities</li> <li>• Sustainability performance disclosed as part of Annual Report</li> </ul>

## MATERIAL MATTERS

### HOW WE ASSESS MATERIALITY

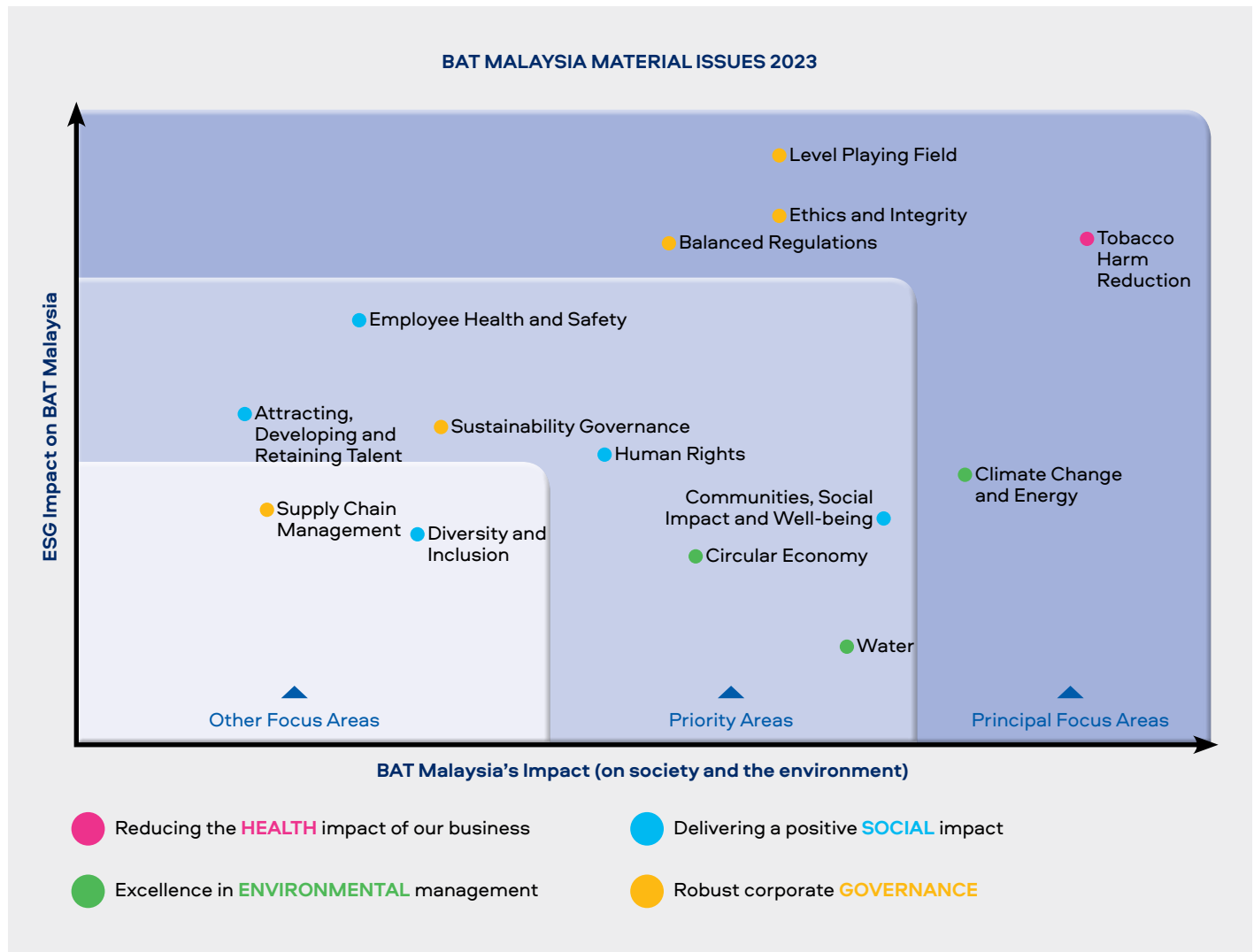
Determining our material matters is a crucial part of our approach to sustainability, as it enables us to identify and understand our sustainability priorities. The material matters published in this annual report were identified following the Double Materiality Assessment (DMA) conducted in 2023.

To ensure that BAT Malaysia's materiality matters are current in the local context, we worked with an external consultant to conduct an in-depth DMA focused on capturing the views of our key stakeholders. The assessment process was guided by AA1000 Accountability Principles and conducted by an independent third-party consultant. The outcome of our assessment is the materiality matrix presented below, which provides a visualisation of the relative importance of these matters.

Based on the findings of the assessment, BAT Malaysia has identified 14 material topics (10 material topics in 2022 report) that are relevant to its business operations and activities.

These material matters will be incorporated into BAT Malaysia's sustainability strategy and focus areas for 2024 and beyond.

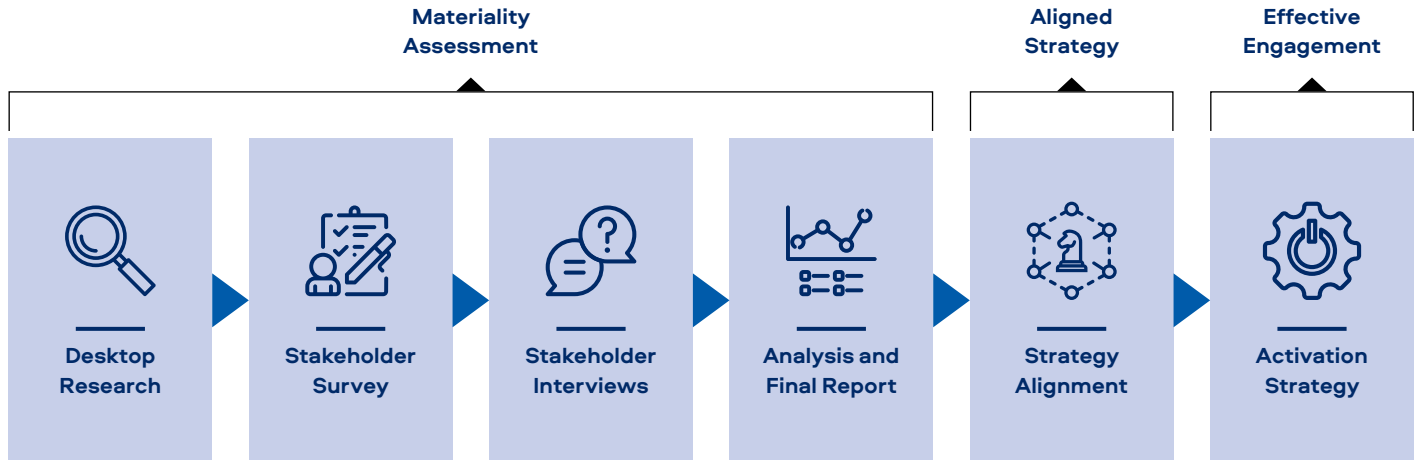
### BAT MALAYSIA'S MATERIALITY MATRIX



## MATERIAL MATTERS

## METHODOLOGY

Our methodology includes:



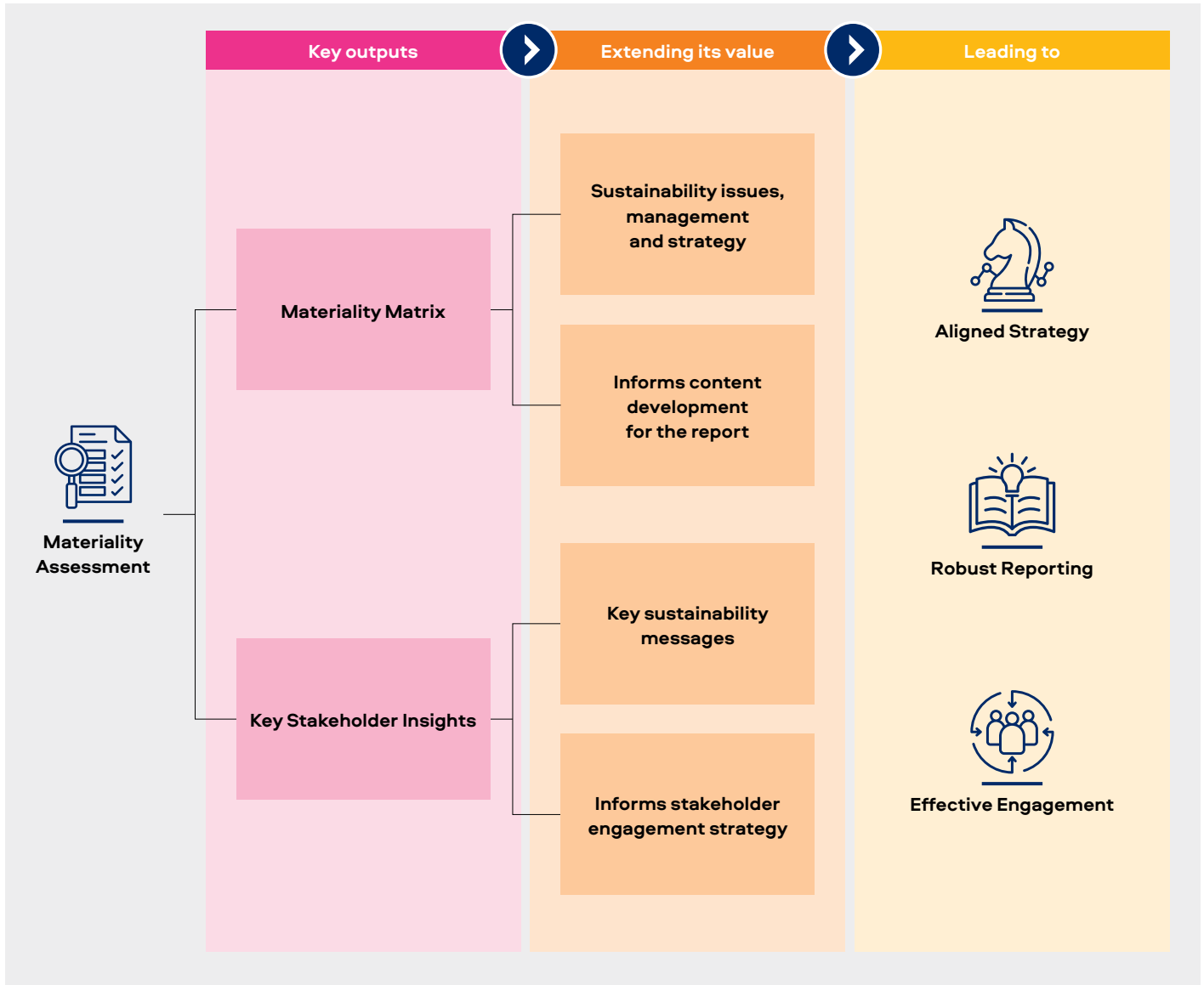
We initiated the material assessment with desktop research into BAT Malaysia's sustainability and stakeholder landscape by drawing insights from materials already available including a high-level review of up to 7 peers and a review of key indices, benchmarks and regulations.

643 potential issues were identified based on the desktop research stage which were then categorised into broader headings resulting in 130 sustainability issues. These were further distilled into 14 material topics, which align with the issues adopted by the BAT Group.

We then conducted a digital survey to understand the relevance of material topics to different internal and external stakeholder groups. The survey was conducted based on the 14 topics identified from the desktop research, which also aligned with the four pillars of the BAT Malaysia's Sustainability Agenda. Following this, we conducted interviews with key stakeholders again covering both external and internal, to understand their primary focus areas and the sustainability topics they considered as material. These material topics informed our new materiality matrix which is presented on page 31. Further, we conducted a review of our sustainability strategy to evaluate its level of alignment with our stakeholders' priorities and concerns. The initial materiality matrix and realigned strategy were reviewed at a senior leadership workshop to capture further recommendations and internal alignment.

The findings and key recommendations from the DMA have informed our sustainability strategy, combined reporting, stakeholder engagements and communications strategy.

MATERIAL MATTERS



## MATERIAL MATTERS

## KEY FINDINGS

The key message that emerged from the double materiality assessment was that BAT Malaysia's stakeholders have a largely positive impression of the Company's sustainability agenda and performance thus far.

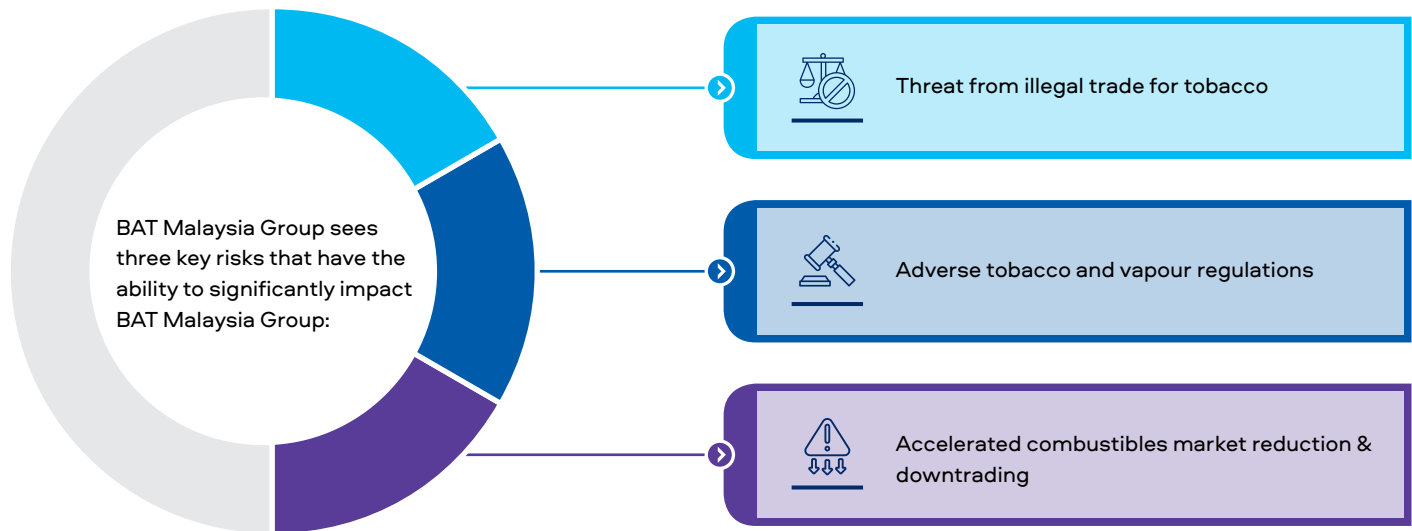
Despite the controversial nature of the tobacco industry, most stakeholders regard BAT Malaysia to have contributed significant value to stakeholders through its operations. Participating stakeholders stated that the Company's strong corporate governance practices, attractiveness as an employer, consistent position towards responsible marketing, commitment to Tobacco Harm Reduction and the importance of having legally manufactured cigarettes as an alternative to black market cigarettes are the key reasons why they consider BAT Malaysia as an entity that continuously creates value for its stakeholders. Many stakeholders also noted the Company's flagship community investment programme - Beyond Benih as a positive step, with internal stakeholders taking pride in the outcomes achieved.

Other key issues that stakeholders believed BAT Malaysia should prioritise include advocacy efforts on regulations and policies that impact the industry, as well as a level playing field by supporting government efforts to curb black market trade in cigarettes. These issues also have a significant impact on the long-term sustainability of the Company as well as the society and environment and as such must continue to be prioritised by the business.



## THE RISKS WE CONSIDER

### KEY RISKS TO BAT MALAYSIA GROUP



In addition to the above, BAT Malaysia Group is subject to the ever-present risk of competitor actions. Steps to anticipate, mitigate and respond to such risks are core to our business.

### 2023 RISK MANAGEMENT ACTIVITIES

Review of BAT Malaysia Group's Risks	Promotion of Risk Awareness
<p>The Risk Management Team reviewed and assessed BAT Malaysia Group's risks formally twice during the year, in January and June 2023.</p> <p>On a monthly basis, the Chief Risk Officer provided updates on the status of the BCPs testing and highlighted any key threats to the internal controls of BAT Malaysia Group to the Leadership Team.</p> <p>On a quarterly basis, the Risk Management Committee was briefed by the Chief Risk Officer on BAT Malaysia Group's Enterprise Risk Management Programme. The briefing included updates on the key risks of BAT Malaysia Group, risk mitigation plans and the status of the BCPs testing.</p>	<p>Risk communication is equally important and forms an integral part of the risk management activity as it focuses on the dissemination of risk information to appropriate levels of employees and stakeholders. Appropriate channels are available for employees to provide feedback on risk management issues and suggestions for improvement.</p> <p>During the year, company-wide risk and control awareness communications were cascaded and department huddles conducted regularly for all employees throughout the nation. The objectives of the communications and huddles were to raise risk and control awareness within BAT Malaysia Group and to drive compliance of controls and adherence to risk mitigation plans.</p>



## A STRATEGY FOR DRIVING GROWTH

### BAT Malaysia strategy for driving growth

#### OUR MISSION

### Stimulating the Senses of New Adult Generations

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

Our mission is to anticipate and satisfy this ever-evolving consumer: provide pleasure, reducing risk, increasing choice and stimulating the senses of adult consumers in Malaysia.



#### HOW WE WIN

### 1

#### Inspirational Foresights

Built on our successful history, we possess a unique understanding of adult consumers across our product categories. Our perspective is increasingly influenced by compelling data and analytics. These insights ensure the development and responsible marketing of our products meet the evolving needs of adult consumers.

### 2

#### Remarkable Innovation

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

### 3

#### Powerful Brands

For over a century, we have established trusted and powerful brands that meet the needs and preferences of our adult consumers. These brands symbolise our promise of quality and enjoyment. We aim to build the brands of the future by focusing on fewer, stronger and global brands across all our product categories. This will be achieved through our deep understanding and segmentation of our adult consumers.

### 4

#### Connected Organisation

Few companies can match the global reach that we possess. Cultivating an ecosystem that directly connects us with adult consumers and stakeholders, especially through the power of digital technology, enables us to build the brands of the future, broaden access to markets and foster innovations that provide sensorial enjoyment and cater to adult consumer needs.

### 5

#### People and Partnerships

Our highly motivated employees are empowered through the new values that are responsive to constant change, imbued with a learning culture and devoted to continuous improvement. However, we cannot succeed alone—our partnerships with suppliers and customers play a vital role in ensuring sustainable future growth in Malaysia.

## A STRATEGY FOR DRIVING GROWTH

## OUR PURPOSE &amp; KEY STAKEHOLDER OUTCOMES



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



### Consumers

Enjoyable choices for every mood and moment, today and tomorrow



### Communities

Reduced overall impact on health and the environment



### Employees

A dynamic, inspiring and purposeful workplace



### Stakeholders

Sustainable and superior returns

## OUR STRATEGIC PRIORITIES



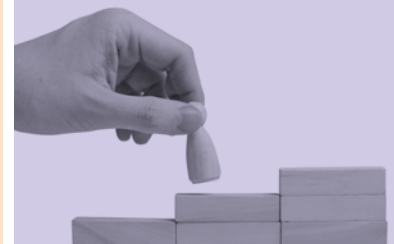
Drive Value from Combustibles



Ensure a Step Change in New Category Performance



Simpler and Smarter Organisation



## DRIVE VALUE FROM COMBUSTIBLES

**We will deliver long-term sustainable growth by developing our winning global brands to meet the evolving needs of adult nicotine consumers.**

In 2023, our combustible business continues to defend its market leadership, despite industry challenges such as increasing downtrading and consumer interaction with the Vapour category.

Dunhill continues to maintain its unrivalled No.1 position in Malaysia, with more than double the share of the second biggest brand in the market.

Despite facing segment challenges, our premium and aspirational premium portfolio continues to perform well. The Group's Value-for-Money (VFM) brands, Luckies and Rothmans, are showing a strong performance by capitalising on market trends, with its proposition that aligns with consumers' evolving needs.

Our focus is to drive sustainable value growth within the combustibles category. One of the key initiatives in 2023 was implementing a price increase for key brands. This measure aims to ensure a sustainable business model that not only achieves our business objectives but also mitigates the challenges posed by the rising costs of doing business. In the long run, this strategy will support the development of new offerings, providing consumers with a wider choice of enjoyable and reduced-risk\*† products that cater to their ever-evolving needs.

\* 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.

### EXTENDING PREMIUM SEGMENT LEADERSHIP

Dunhill maintains its status as the No. 1 brand in Malaysia and the leader in the premium segment. As the market-leading brand, we continue to reinforce Dunhill's value and position as the benchmark for taste, quality, modernity and innovation.

In Q1 2023, Dunhill introduced a limited-edition packaging to celebrate the best of Malaysia, followed by a refresher on the Flavours & Sensations range in Q3 2023. Despite a price increase across the Dunhill range in Q4 2023, its market share only saw a slight decline, exhibiting a resilient performance nonetheless.

### RESILIENCE IN THE ASPIRATIONAL PREMIUM SEGMENT

Despite facing down-trading challenges, we remain committed to expanding our leadership in the Share of Segment across all segments.

The Peter Stuyvesant brand maintains stable share performance, even amidst a declining segment trend, leading to a growth in share of segment by 2 percentage points (ppt), despite the implementation of a price increase of RM0.30 in Q3 2023.

### CONTINUOUS GROWTH IN VALUE-FOR-MONEY (VFM) SEGMENT

Our VFM portfolio remained a key growth driver in 2023, registering Share of Market (SOM) increase by 1.7% compared to the previous year.

This was achieved through the focus on two key brands in our VFM portfolio.

Rothmans continues to spearhead BAT Malaysia's growth in the VFM segment, consistently reinforcing the brand's progressive identity. In 2023, the brand further gained momentum through its brand-building activities, achieving a double-digit market share for the first time in August at 10.1%. Additionally, with a 1.6% growth in its segment share, Rothmans has established itself as the third-largest legal brand in Malaysia.

In Q3 2023, BAT Malaysia launched a new brand, Luckies, to bolster growth in the VFM segment. The brand debuted in August with two Stock Keeping Units (SKUs), Luckies Red and Luckies Blue.

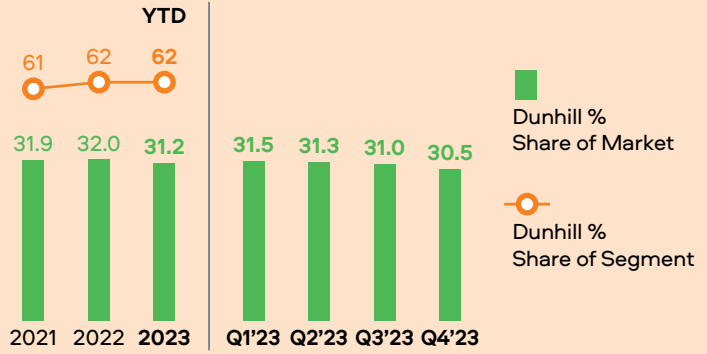
Luckies has had an impressive start, capturing 1.4% of the market share as at 31 December 2023. The brand has received positive consumer feedback regarding its taste, competitive pricing and overall brand imagery.

DRIVE VALUE FROM COMBUSTIBLES



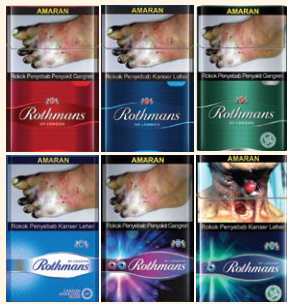
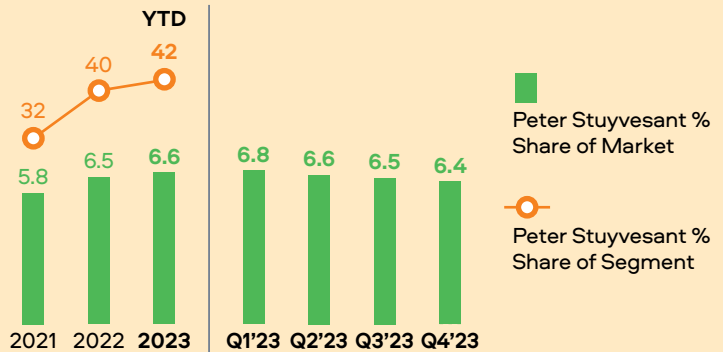
**DUNHILL**

**DUNHILL SHARE PERFORMANCE**



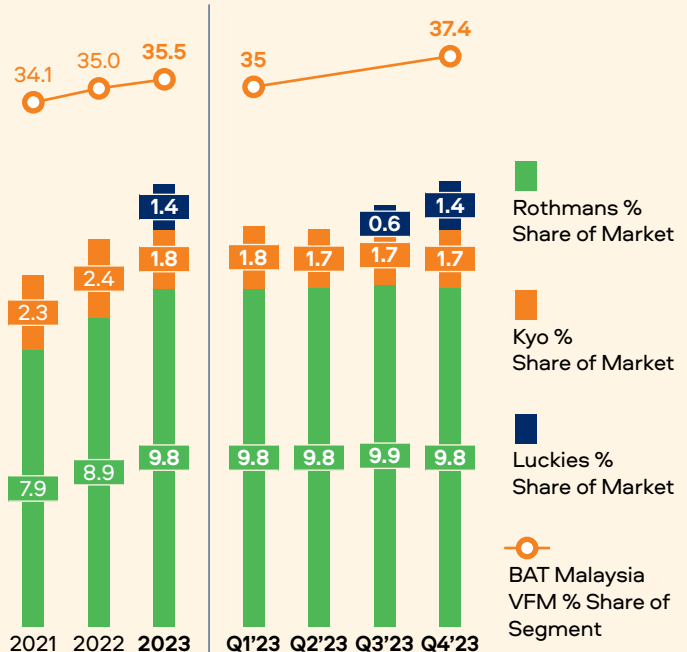
*Peter Stuyvesant*

**PETER STUYVESANT SHARE PERFORMANCE**



*Rothmans*

**ROTHMANS AND LUCKIES SHARE PERFORMANCE**



*Luckies*

## ENSURE A STEP CHANGE IN NEW CATEGORY PERFORMANCE

As part of our commitment to growing our non-combustible portfolio and leading the way in new categories, BAT Malaysia unveiled our flagship vape brand, Vuse, in July 2023, featuring a range of modern, disposable vape devices.

Vuse is the #1 Global Vaping brand<sup>1</sup> trusted by millions worldwide. Vuse is committed to bringing high-quality innovations in technology, flavour and science to the world of vaping. Our latest generation of vaping devices is designed to provide adult smokers and nicotine users with reliable alternative nicotine products across a range of puff counts and flavours. Our dedication to quality encompasses extensive care and research going into our e-liquid formulations and product innovations to ensure purity of ingredients, consistent vapour quality and satisfaction from start to finish. We also

encourage a more sustainable way to dispose of our products via our Vuse Take Back scheme, with Vuse Take Back Stations set up in 36 locations throughout Malaysia.

The Vuse GO range of modern disposable vapes comes pre-filled with e-liquid and a fully-charged lithium-ion polymer battery with 3% nicotine strength. Vuse initially launched in Klang Valley and Penang, Malaysia, in July 2023 with the Vuse GO Max, which boasts up to 1500 puffs<sup>2</sup> and offers a selection of seven flavours. This was followed by the nationwide launch of our flagship range, the Vuse GO 3000, in October 2023, offering an increased puff count of up to 3000 puffs<sup>2</sup> in eight flavours. To continue meeting consumer needs, we expanded our portfolio with the introduction of the Vuse GO 5000 in November 2023, which provides up to 5000 puffs<sup>2</sup> in five flavours.

Vuse products are now available from any of our verified retailers at over 6,600 convenience stores and vape specialist outlets throughout Malaysia and from our authorised online store on Lazada.

In addition, our flagship Tobacco Heated Product (THP) brand, glo™, continues to support our multicategory portfolio expansion by offering adult consumers a reliable product with reduced-risk<sup>†</sup>. To further enhance our THP consumer experience, glo™ introduced a limited-edition gold-white coloured Hyper X2 model in April 2023 while maintaining the availability of our existing range of three Hyper X2 device colours and viio™ tobacco sticks.

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

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

<sup>1</sup> Based on Vuse's estimated value share from the Recommended Retail Price (RRP) in total measured retail for vapour in key vapour markets: the USA, Canada, France, the UK, and Germany as of May 2023.

<sup>2</sup> Based on laboratory testing of newly manufactured products (including recharging), and may vary depending on individual usage behaviour. For further information, see <https://www.vuse.com/my/en/faq>.

### Vuse product range



### Activities supporting Vuse launch



## SIMPLER AND SMARTER ORGANISATION

### EMBRACING DIGITAL TRANSFORMATION

Building on our 2022 Digital Transformation journey, BAT Malaysia has continued in 2023 by driving further initiatives that have allowed us to unlock our plan for a simpler, smarter organisation.

In our unwavering pursuit of organisational efficiency, our digital transformation journey has been centred on simplifying our operations for a faster, more agile business. Through strategic routing and outlet prioritisation, the business has achieved savings exceeding GBP 0.7 million.

Concurrently, with the launch of a cutting-edge Customer Relationship Management (CRM) system, we managed to digitise our Contact Centre, enabling us to efficiently handle our sizeable customer base of over 13 thousand outlets. The CRM system has played a pivotal role in elevating service levels for these customers and reducing more than 35 thousand man-hours.

In addition, we have also introduced an outlet dashboard and delivery incident tracker, thereby further reducing wasted man-hours and enhancing the quality of outlet visitation by our sales representatives. We equip our

representatives with pertinent information to facilitate meaningful and value-driven conversations with our retailers, ultimately delivering value to their consumers. The outlet-specific information empowers our sales team to use insights, giving BAT Malaysia the winning edge in helping our customers reap maximum value from our products and services.

Our digital transformation is core to the sustainability of BAT Malaysia as an organisation and is at the forefront of our Company's Strategy.

#### ▶ Outlet Dashboard and Delivery Incident Tracker:



We process **1.2 million** calls, **10%** of which have issues. This equates to **120,000** calls that require intervention. On average, it takes about 3 minutes per outlet to write an e-mail and complete the follow-up. This requires a total of **360,000** minutes or **6,000** man-hours.



## SIMPLER AND SMARTER ORGANISATION

## OPTIMISING OUR SUPPLY CHAIN



BAT Malaysia's recent transition to a new warehouse marks a significant milestone in the Company's logistical advancement, demonstrating our commitment to sustainable operations and enhanced service capabilities. The new warehouse boasts an impressive expansion in space, increasing from 40,000 square feet to an extensive 64,000 square feet, signifying a strategic shift towards accommodating the evolving demands of our business.

Notably, the warehouse's distinct feature is its incorporation of both bonded and non-bonded areas, emphasising its adaptability to handle a diverse range of products and services. This multifaceted approach aligns seamlessly with BAT Malaysia's vision of establishing a comprehensive logistical infrastructure to support a multicategory business, effectively streamlining our operational efficiency and facilitating smoother business processes.

Moreover, the warehouse is equipped with the latest technology, enabling the Management of value-added services such as repacking and stickering. This

enhances the Company's ability to cater to specific client requirements and ensures swift customisation of products as per market needs. The implementation of Roam Bee technology for temperature and humidity control reinforces the Company's commitment to maintaining optimal storage conditions, preserving the quality of our products and guaranteeing customer satisfaction.

As a testament to our eco-conscious approach, the warehouse operates on solar power and integrates rainwater harvesting systems, reflecting BAT Malaysia's dedication to sustainable practices and reducing our environmental footprint. Furthermore, the strategic selection of a location near the port demonstrates a forward-thinking approach towards minimising transportation-related emissions, contributing to a substantial reduction in carbon footprint and overall environmental impact.

BAT Malaysia's move to the new warehouse is a testament to our unwavering dedication to innovation, sustainability and customer

satisfaction. With its expanded capacity, advanced technological integrations and eco-friendly initiatives, the new facility is poised to propel the Company to greater heights, reinforcing our position as a trailblazer in the industry while setting a commendable example for sustainable business practices in the region.

BAT Malaysia's other notable achievements and key highlights in the supply chain space include:

#### Implemented B2C Model for New Categories

In 2023, we embarked on an exciting journey by introducing a Business-to-Consumer (B2C) model for our Vuse and THP product lines. This strategic move enabled us to directly engage with end consumers, garner valuable insights into their preferences and enhance brand loyalty. The successful implementation of the B2C model has generated new revenue streams and positioned us for growth in the rapidly evolving market.

## SIMPLER AND SMARTER ORGANISATION

**Optimised Transportation via “Milk Run”**

Our commitment to supply chain efficiency continued to yield substantial benefits in 2023. By optimising our transportation strategy, we introduced a “Milk Run” approach, streamlining our delivery process and reducing transportation costs. This method not only decreased our carbon footprint but also improved our on-time delivery performance, bolstering our reputation as a reliable partner for our customers.

**Continued to Import Finished Goods at Full Container Load**

We sustained our commitment to efficient global sourcing by continuing to import our finished goods at full container load. This strategy significantly trims down shipping costs and minimises environmental impact by maximising container capacity utilisation. In line with our commitment to sustainability, we've also leveraged larger containers, reducing emissions per unit of transported goods.

**Adopted Euro 5 Diesel for Transportation**

As part of our ongoing sustainability efforts, we have transitioned to using Euro 5 Diesel for our transportation fleet. This cleaner-burning fuel decreases harmful emissions and aligns with our environmental responsibility initiatives. Our investments in eco-friendly technologies underscore our commitment to reducing our carbon footprint and contributing to a cleaner environment.

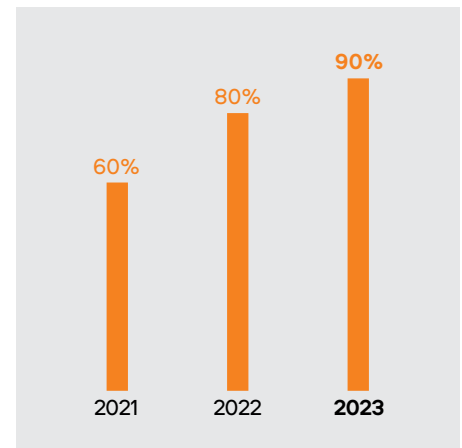
Building on our primary supply chain accomplishments, our secondary supply chain initiatives in 2023 have continued to catalyse innovation and excellence in our operations. These achievements, focused on digitalisation, sustainability and delivery performance, represent significant milestones in our ongoing commitment to delivering remarkable value to our stakeholders.

**Championed Digitalisation via Vantage System – Real-Time Data Performance Insight**

In 2023, we achieved a pivotal milestone in our Route-to-Market operations by implementing the Vantage system. This digitalisation initiative revolutionised our data management and analytics capabilities. By providing real-time data insights, the Vantage system has empowered us to make well-informed decisions swiftly, enhance operational efficiency and respond to market dynamics more effectively. With access to up-to-the-minute information, we can optimise inventory levels, improve demand forecasting and streamline order fulfilment processes.

**Implemented Packaging Optimisation Initiatives – RM1.5 million Annualised Savings**

Our commitment to continuously drive cost efficiency and operational excellence led to the launch of packaging optimisation initiatives in 2023. This effort was not only an environmentally responsible move but also a financially astute one. Through these initiatives, we achieved cost savings of RM1.5 million by altering the packaging configuration, resulting in a 16% cost reduction in overall last-mile packaging spending. We take pride in our contribution to operational efficiency and its positive impact on our bottom line.

**Improved Delivery Performance by 50% in Two Years**

One of our primary objectives was to enhance our delivery performance and we are delighted to report a significant achievement. Over the past two years, we have invested in process improvements, route optimisation and collaboration with our business partners. As a result, we have significantly improved our delivery performance, ensuring that products reach our customers faster and more reliably. This 50% improvement underscores our unwavering commitment to customer satisfaction.



## 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.

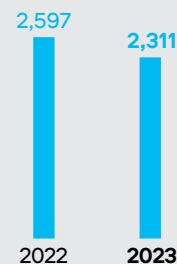
### TAXATION

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)



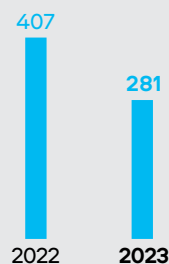
**-11%**

### OPERATING EXPENSES (RM million)



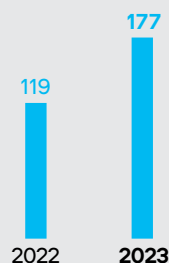
**+5%**

### PROFIT FROM OPERATIONS (RM million)



**-31%**

### CASH CONVERSION (%)



**58%**

## FINANCE DIRECTOR'S REVIEW

**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.

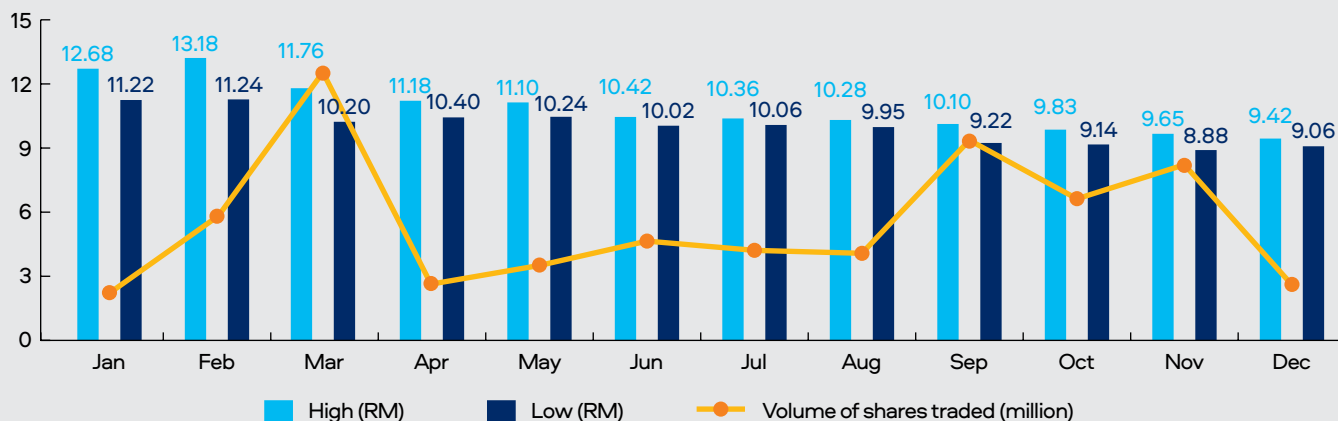
	2023 RM million	2022 RM million
Profit from Operations	281	407
Cash from Operations	496	483
Cash Conversion	177%	119%
Increase/(decrease) in cash and cash equivalents	11	(5)

**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**

## FINANCE DIRECTOR'S REVIEW

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

## 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<sup>†</sup> alternatives to adult smokers.

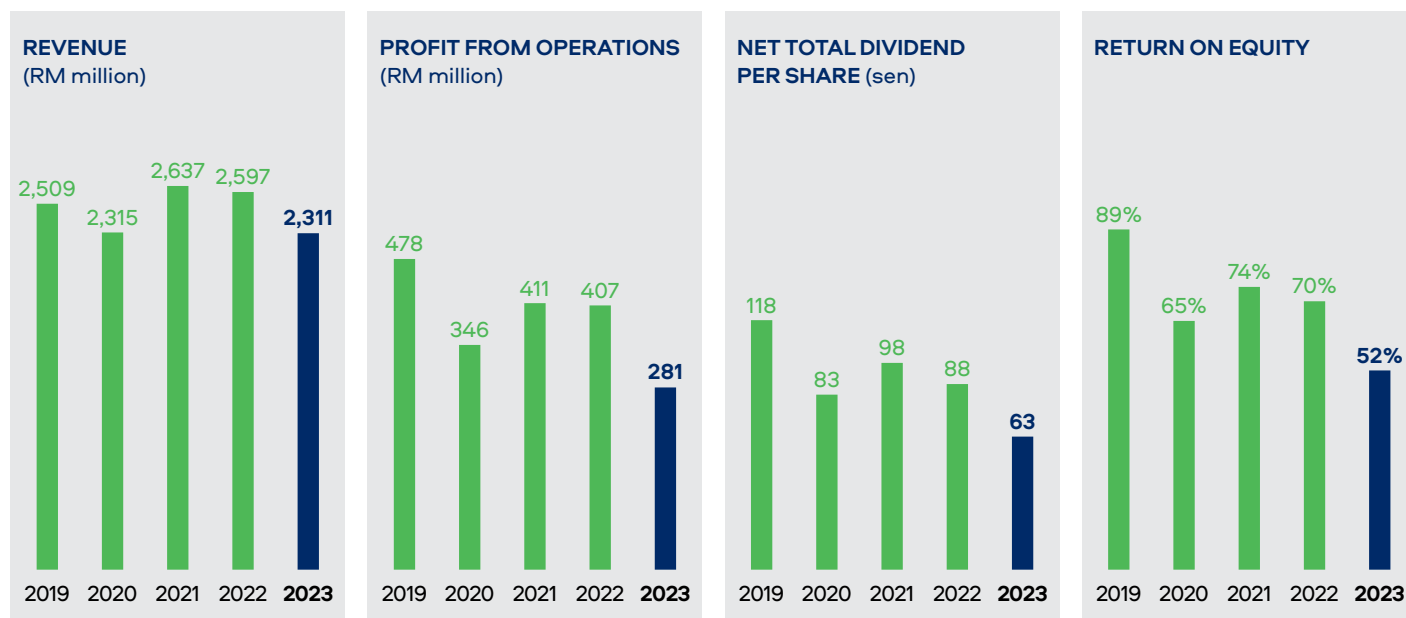
BAT Malaysia Group is supportive of the Control of Smoking Products for Public Health Bill 2023, which was passed during the Parliament session in December 2023. As the Government develops the regulatory framework for tobacco and vapour products under this new law, BAT Malaysia Group reiterates that 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



## FINANCE DIRECTOR'S REVIEW

## 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<sup>†</sup> 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.