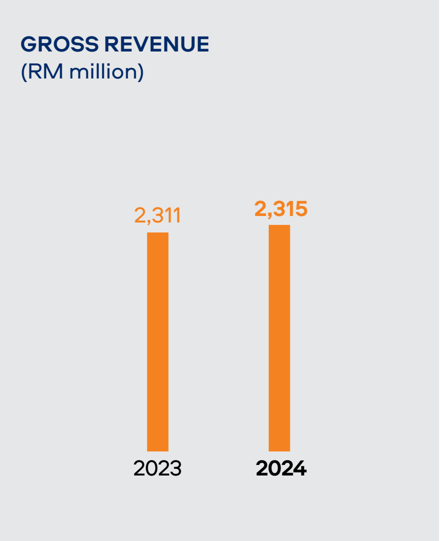
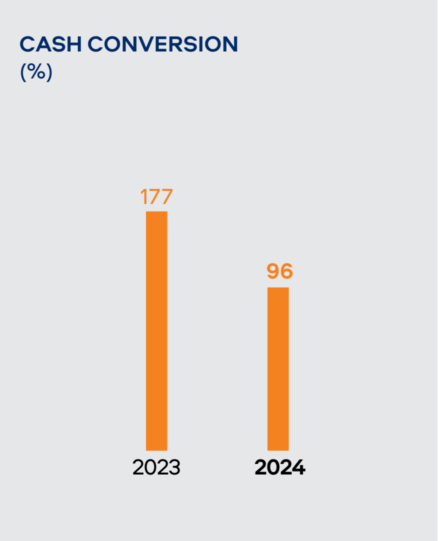
Finance Director's Review





REVENUE

BAT Malaysia Group once again faced a challenging operating environment in 2024. The tobacco black market incidence remained persistently high, despite a modest 0.6% reduction. Additionally, inflationary pressures drove consumers to downtrade or switch to alternative nicotine products. Competition within the legal cigarette industry also intensified, particularly within the VFM segment.

Total revenue increased by 0.2% compared to 2023 mainly driven by volume increase. This is largely driven by the product portfolio strategy in place. The gross profit margin declined by 1.2% from 24.6% (RM568 million) in 2023 to 23.4% (RM541 million in 2024) largely due to lower margins from vapour products.

COST OF SALES

BAT Malaysia Group's cost of sales increased by 1.8% (RM31 million), in line with inflation and the higher sales of combustibles. Leveraging on its robust supply chain model, the Group continued to drive cost optimisation initiatives across the value chain to deliver a competitive product cost.

OPERATING EXPENSES

Amidst heightened inflationary pressures in 2024, BAT Malaysia Group succeeded in decreasing operating expenses by 7.6% (RM22 million) to RM266 million, mainly driven by the Group's continued efforts to actively manage and optimise expenses across our operations.

PROFIT FROM OPERATIONS

Profit from operations experienced a decline of 0.8% to RM279 million compared to the prior year, mainly impacted by lower margins associated with vapour products and the downtrading trend within the combustible industry.

TAXATION

The average effective tax rate of BAT Malaysia Group for the financial year ended 31 December 2024 was 27.2%. The increase in the average effective tax rate compared to 2023 was mainly attributed to non-deductible expenses.

DIVIDENDS

In spite of the industry wide challenges, BAT Malaysia Group remained committed to maintaining a dividend payout above 90% of its earnings. In 2024, BAT Malaysia Group declared four quarterly interim dividends totalling 59 sen per share, representing a 92% payout of total and a dividend yield of 7.9% based on the average share price in 2024.

DEBT, DEBT STRUCTURE, WORKING CAPITAL AND LIQUIDITY

As at 31 December 2024, BAT Malaysia Group maintained a total debt facility of RM850 million across several licensed financial institutions in Malaysia. The Group continued to utilise revolving credits and bank overdrafts to support short-term working capital requirements. This flexible debt structure enabled BAT Malaysia Group to borrow at optimum levels, thereby minimising financing costs while enhancing interest deductibility. Additionally, BAT Malaysia Group maintained a debt factoring facility to further strengthen its working capital, providing greater flexibility to accommodate increased working capital requirements.

At the end of 2024, BAT Malaysia Group held RM558 million in revolving credit and short-term loans, with tenures ranging from one month to three months, compared to RM543 million in 2023. In 2024, cash from operations declined by 46.3% (RM230 million) compared to 2023, primarily due to higher year-end sales demand.

	2024 RM million	2023 RM million
Profit from Operations	**279**	281
Cash from Operations	**266**	496
Cash Conversion	**96%**	177%
Increase in cash and cash equivalents	**8**	11

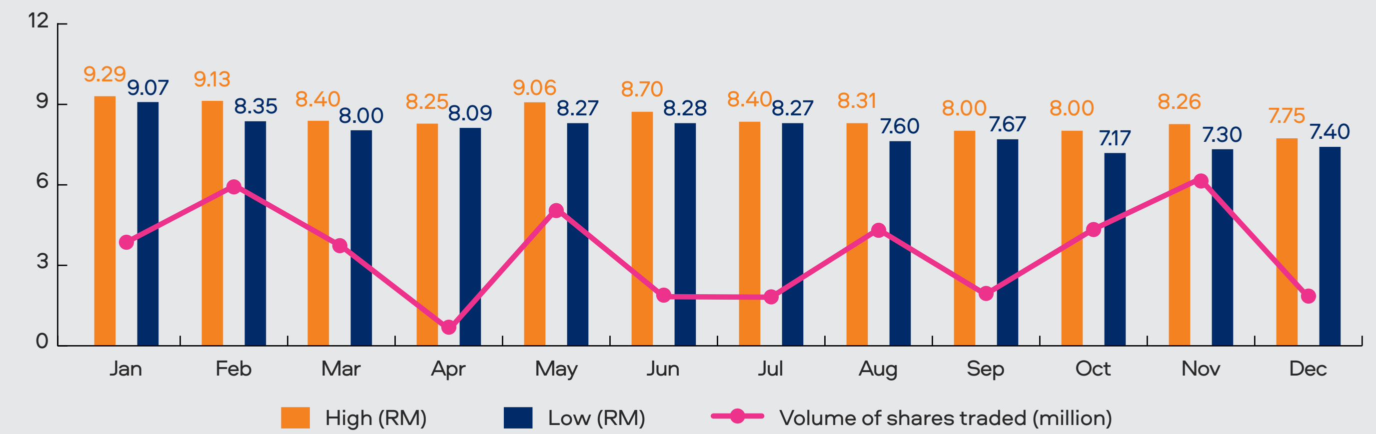
TREASURY

BAT Malaysia Group's foreign currency exposure primarily stems from the purchase of finished goods. In accordance with the Group's treasury policy, this exposure is minimised by hedging net positions for up to 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 hedging strategy aims to safeguard shareholder value by minimising the impact of foreign exchange fluctuations. This is achieved through a structured approach, where hedges are layered monthly within the limits established by Bank Negara Malaysia.

SHAREHOLDERS' RETURN

BAT Malaysia's share price was primarily influenced by external factors, including the tobacco black market and the enforcement of Act 852. While the share price remained relatively stable in the first half of 2024, it declined in the third and fourth quarters following the gazettement of Act 852 in October 2024. The Group's market capitalisation stood at RM2.1 billion in 2024, with an estimated annual dividend yield of 7.9%. BAT Malaysia Group continues to ensure the maximisation of shareholders' returns through its A Better Tomorrow™ strategy.

BAT MALAYSIA'S SHARE PERFORMANCE 2024



Share Performance	2018	2019	2020	2021	2022	2023	2024
Net Dividends	1.55	1.18	0.83	0.98	0.88	0.63	**0.59**
Capital Gain/Loss	(3.92)	(21.00)	(1.00)	(0.10)	(2.76)	(1.93)	**(1.83)**
Annual Shareholders' Return	(2.37)	(19.82)	(0.17)	0.88	(1.88)	(1.30)	**(1.24)**

OUTLOOK

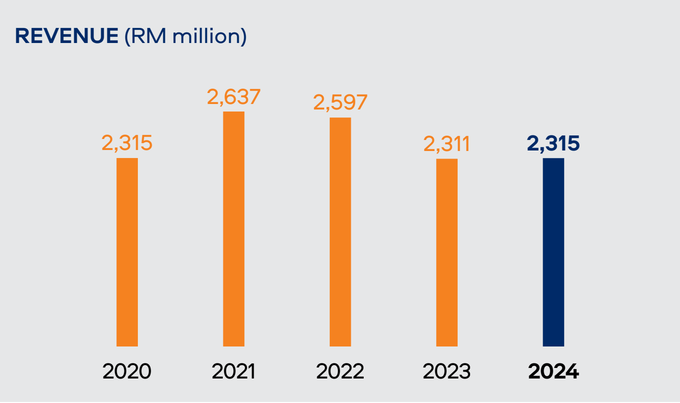
BAT Malaysia Group remains committed to driving its A Better Tomorrow™ ambition in 2025. As we navigate a moderating economic landscape, we recognise the potential impact on consumer spending power. Likewise, with higher inflationary pressures, the Group continues to be diligent in optimising operational costs.

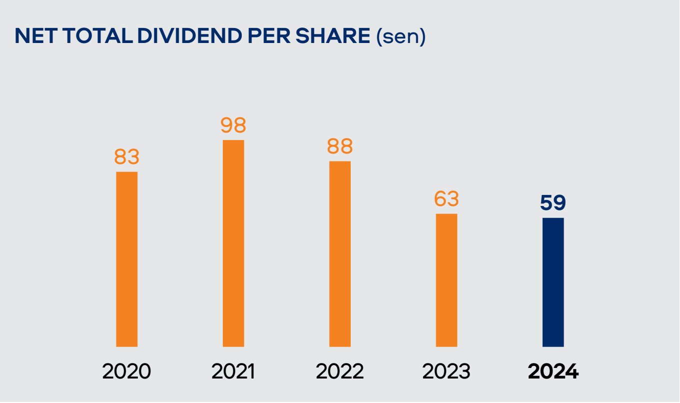
Against this backdrop, BAT Malaysia Group is optimistic of achieving a steady financial performance for the coming year, backed by its resilient combustible business and its multicategory portfolio.

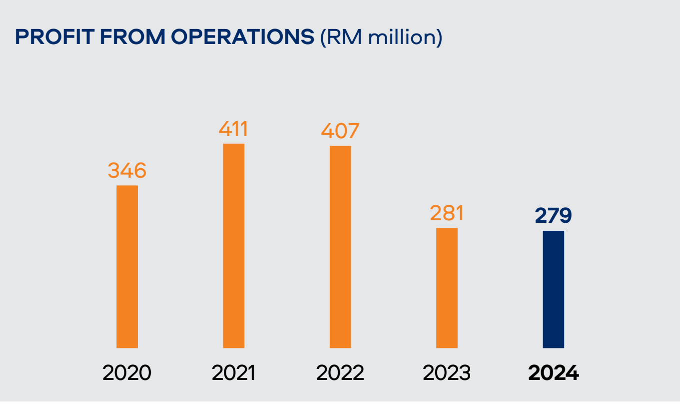
The Group sees 2025 as a pivotal year, as Act 852 and its associated regulations come into effect in phases. Amidst this development, BAT Malaysia Group is fully prepared to navigate these regulatory changes effectively.

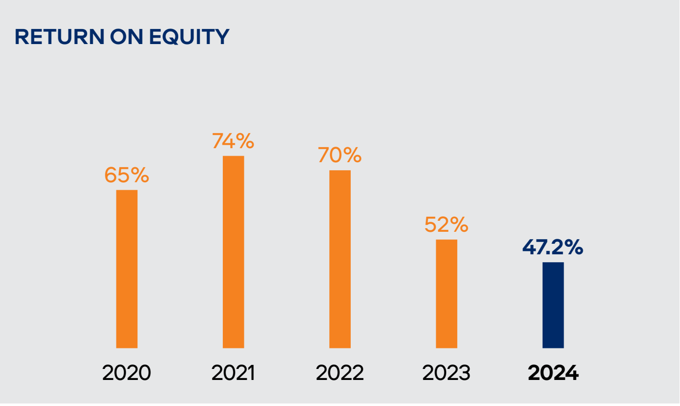
Meanwhile, the tobacco black market incidence has shown a declining trend, from 55.6% in 2023 to 55% in 2024. BAT Malaysia Group recognises the government's ongoing efforts in addressing this issue and urges the government to intensify its efforts and resources in continuing to tackle the tobacco black market in 2025.

FIVE-YEAR PERFORMANCE HISTORY









FIVE-YEAR PERFORMANCE HIGHLIGHTS

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.

2024

The legal combustible industry experienced a 2.0% decline in volume for the year as compared to the previous year despite the lower incidence of tobacco black market by 0.6%, from 55.6% to 55.0% in the current year. Combustible products continued to face challenges as consumer preference shifted to reduced-risk*† alternative products. In addition, inflationary pressures had driven consumers to downtrade or consume alternative nicotine products such as vapour. Within this environment, in carving a pathway for VFM leadership, a Rothmans pack upgrade campaign was launched, aimed at reinforcing its premium perception and increase its competitiveness within the VFM segment. In solidifying its leadership in the premium segment, BAT Malaysia Group kicked off the Dunhill 60th Year Celebration with vibrant nationwide in-store branding that emphasized on the brand's premium and prestigious cues and reinforce its smooth and great taste credentials that have helped it to maintain its leadership position over the years. Regulations from Act 852 was gazetted in October 2024 and will take effect in phases over the course of the year in 2025. BAT Malaysia Group is fully prepared to navigate these changes effectively.

* *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.*