

# MANAGEMENT DISCUSSION AND ANALYSIS



## Dear Shareholders,

I am pleased to present the Management Discussion and Analysis (MD&A) of British American Tobacco (Malaysia) Berhad (“BAT Malaysia”, “the Company” or “the Group”) for the financial year ended 31 December 2020. This MD&A provides insights into BAT Malaysia’s business operations, financial performance and expectations going into 2021.

Jonathan Reed  
(Managing Director)



### TURNAROUND YEAR FOR BAT MALAYSIA

In 2020, BAT Malaysia delivered a turnaround performance for our shareholders. BAT Malaysia grew quarter on quarter in the three closing quarters of the year.

Although headwinds were presented in the form of disruptions from the COVID-19 pandemic, the growing

tobacco black market and the growth of illegal nicotine vapour sales, 2020 provides a great platform for the Company to go back to growth and build *A Better Tomorrow*™.

A more detailed assessment of BAT Malaysia’s financial results is disclosed in the Review of Financial Results section following this MD&A.

### MEETING CONSUMER NEEDS

The strength of our brands played a critical role in BAT Malaysia’s 2020 turnaround.

In response to consumer downtrading brought on by excise- and COVID-19-related affordability pressures, BAT Malaysia successfully introduced a new brand, KYO, to fortify our portfolio in the Value-for-Money (VFM) segment. The fast and bold execution of KYO has seen a positive share of market since its launch in mid-2020, achieving a 2.8 percent share of market in the second month of launch. With Rothmans and KYO, BAT Malaysia’s share of the VFM segment achieved a 33 percent market share at the end of 2020.

At the same time, BAT Malaysia maintained Dunhill’s leadership position within the premium segment. This was achieved by refreshing the design of its cigarette pack with the unveiling of a bold, new premium and progressive look and feel for the brand. In one month, Dunhill’s share of the premium segment grew by 1 percent in the mass market and 4 percent in convenience stores.

### 3 Consecutive Quarters with Growth

	Q1 '20 vs Q4 '19	Q2 '20 vs Q1 '20	Q3 '20 vs Q2 '20	Q4 '20 vs Q3 '20
 <b>VOLUMES</b>	-29%	+12%	+18%	+3%
 <b>REVENUE</b>	-27%	+14%	+15%	+5%
 <b>PROFIT FROM OPERATIONS</b>	-48%	+16%	+6%	+19%

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### OUR CORPORATE PURPOSE OF A BETTER TOMORROW™

In 2020, we launched our purpose of *A Better Tomorrow*™. With this purpose, BAT Malaysia will create a sustainable future for our shareholders and other stakeholders.

While combustible tobacco will be at the core of our business for some time to come, we aim to generate an increasingly greater proportion of our revenues from products other than cigarettes, thereby reducing the health impact of our business.

In 2020, we also started conversations on the need to establish an appropriate regulatory framework for New Category products such as nicotine liquids for vaping. With over one million Malaysians consuming unregulated nicotine vapour products of unknown provenance, BAT Malaysia believes that policy change is long overdue.

BAT Malaysia was encouraged when Budget 2021 announced the government's intention to excise vaping devices and zero nicotine liquids. However, zero nicotine liquids make up only 3 percent of the Malaysian market. We are hopeful that this is a move towards legalisation of nicotine containing liquids.



Read more about what our global Chief Executive Jack Bowles has to say about our evolved **corporate strategy and purpose**

### SUSTAINABILITY TO THE FRONT

Underpinning BAT Malaysia's *A Better Tomorrow*™ ambition is our Environment, Social and Governance, (ESG) programme. With this, we set out clear commitments to deliver a positive impact on the environment, on society and on our employees. Chief amongst those, beyond reducing the harm impact of our business, are:

- Placing greater emphasis on the importance of addressing climate change and ensuring excellence in environmental, health and safety management.
- Remaining committed to delivering a positive social impact to economically vulnerable communities.
- Ensured continued and robust corporate governance in BAT Malaysia.



### Committed to Building A Better Tomorrow™

#### Our Purpose

**To reduce the health impact\* of our business**

#### Our Commitment

**To provide adult consumers with a wide range of enjoyable and less risky products\***

**To encourage smokers to switch completely to scientifically-substantiated reduced-risk alternatives\***

\* Assuming a complete switch from cigarette smoking. These products have the potential to be less risky and if they contain nicotine are addictive.

### Building A Better Tomorrow™

1

We are committed to transforming BAT Malaysia to reduce our health impact

2

We are uniquely positioned with our consumer-centric multi-category portfolio

3

We have the strengths, new capabilities, brands and resources to succeed

4

We are on a journey; transformation is happening. The opportunity is huge

5

We are confident in delivering our targets and building A Better Tomorrow™

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Details of BAT Malaysia's sustainability agenda in relation to ESG as well as key achievements and targets are found in the Awards and Highlights section and the Sustainability Statement section of this annual report.



Watch more on our journey towards a green office for **our people and the planet** on here

### THE TOBACCO BLACK MARKET CRISIS

The tobacco black market remained a threat to the legitimate industry in 2020. According to the Illicit Cigarettes Study conducted by Nielsen, illegal cigarettes grew to 63 percent of the industry total volume in 2020. This cements Malaysia's dubious position as having the largest illegal tobacco problem in the world.

Responding to this crisis, in the 2nd quarter of 2020 we launched a bold campaign to STOP THE BLACK MARKET. Viewed over 400 million times, the campaign started a discussion with Malaysians on the size of the illegal tobacco problem and how it might be solved.

BAT Malaysia was encouraged to see the government announce a range of measures to fight the tobacco black market as part of Budget 2021.



Scan this code for the **latest ICS survey** results

### OUR ETHOS

Launched in 2020, our ethos is the key driver to deliver *A Better Tomorrow™*. Our ethos is about being bold, fast, empowered, responsible and diverse to create a future-fit culture at BAT.

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

BAT Malaysia's focus in this area has been recognized. BAT Malaysia was awarded the Top Employers Malaysia, Top Employers Asia Pacific and Top Employers Global 2021 certifications by the Top Employers Institute, the global authority on recognising excellence in people practices. Locally, we were awarded as the Best International Organisation and Outstanding Practice – Initiative for Women Workforce at the prestigious LIFE AT WORK 2019 Awards. Organised annually by the Ministry of Human Resources (MOHR) through its agency, Talent Corporation Malaysia Berhad (TalentCorp) and in collaboration with the

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Ministry of Women, Family and Community Development (KPWKM), the awards celebrate organisations whose leading workplace strategies demonstrate a drive and commitment to not just recruiting but nurturing and cultivating local talents in the workforce.

### HEALTH AND SAFETY OF OUR TEAM

Our number one priority amidst the COVID-19 pandemic has been securing the health and safety of our employees. BAT Malaysia established stringent standard operating procedures including the issuing of personal protective equipment, the establishment of work-from-home protocols and, recognising how this pandemic can affect mental health, we also launched BAT Cares, a mental health and wellness support tool for our team.

### DIGITAL AND DATA DRIVEN TRANSFORMATION

Technology was a key enabler in 2020, allowing us to turnaround our business and deliver strong results.

As part of our transformation journey, we invested in analytical tools that greatly enhanced our understanding of shifting consumer purchasing patterns and allowed us to optimise our route to market approach. This year, we accelerated commercial insights by empowering the business with a key data analytics tools that allowed us to reduce the time spent in garnering insights.

Technology also played a role in the Company's response to the challenges of COVID-19. We were able to execute work-from-home protocols via the Microsoft Teams platform and enhanced network bandwidth capability. Similarly, BAT Malaysia successfully conducted our first virtual AGM and quarterly analyst briefings.

### MOVING FORWARD FOR A BETTER TOMORROW™

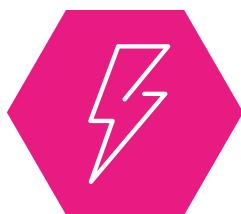
The Company's turnaround in 2020 provides a great platform for us to go back to growth and build *A Better Tomorrow*™.

In 2021, BAT Malaysia will continue to strengthen our portfolio by solidifying Dunhill's leadership in the Premium market while driving further growth in the Value-for-Money category through Rothmans and KYO.

We also look forward to seeing the impact of the government's efforts, as announced in Budget 2021, to address the tobacco black market. We believe that for these measures to be truly effective the government must look at reducing the price gap between the legal and black markets. This will be especially the case given affordability pressures brought on by COVID-19.

In 2021, we will continue to transform our business to build *A Better Tomorrow*™ for our shareholders and other stakeholders. The greatest contribution we can make to society is to reduce the health impact of our business. For BAT Malaysia, that means leading the discussion around the establishment of an appropriate regulatory framework for nicotine vaping. This would ensure that the over one million Malaysians who currently vape would have access to products of known quality and safety standards.

The Board of Directors, Leadership Team and employees of BAT Malaysia are committed to delivering a strong performance for the financial year 2021.



**BOLD**



**FAST**



**EMPOWERED**



**DIVERSE**



**RESPONSIBLE**