

## **BAT MALAYSIA VERY SATISFIED WITH THE SMOOTH TRANSFORMATION OF ITS ANNOUNCED NEW BUSINESS MODEL, THOUGH ILLEGAL CIGARETTE TRADE REMAINS A CONCERN**

**Petaling Jaya, 16 February 2017** - British American Tobacco (Malaysia) Berhad (BAT Malaysia) today announced its financial results for the fourth quarter of the year ended 31 December 2016.

“The total legal domestic market experienced a volume contraction of 25.7 percent in 2016 compared to the same period last year. Consequently, BAT Malaysia witnessed a decline in its domestic and duty free volumes by 27.8 percent in 2016 versus 2015. This fall in volume was principally driven by the steep excise increase in November 2015, which in turn resulted in a significant increase in illegal cigarettes. The excise led price increase in November 2015 and its consequent impact on legal volumes in 2016 affected the financial performance of the business and resulted in a total revenue decline of 18 percent and gross profit of 24.2 percent, when compared to the same period of last year”, said Erik Stoel, Managing Director of BAT Malaysia

### **Full year 2016 financial highlights:**

- **Gross revenue** and **Gross Profit** decreased by 18 percent (RM825 million) and 24.2 percent (RM405 million) respectively, compared to the previous year, due to overall volume decline as a result of unprecedented high levels of illegal cigarette consumption in 2016.
- **Operating expenses** were 9.1 percent lower versus the same period last year mainly driven by a reduction of global Group charges and cost optimisation in non-strategic areas.
- **Profit from Operations** was down by 25.9 percent (RM321 million) when compared to the previous year. This was mainly attributed to the impact of one-off restructuring expenses (RM113 million) recorded in relation to the winding down of its existing factory operations announced on 17 March 2016.

Arising from the Group’s financial performance, the Board of Directors has declared a fourth interim dividend of 77 sen per share and a special dividend of 46 sen per share.

“DUNHILL, the flagship brand of BAT Malaysia, maintained its market leadership as a premium brand with a market share of 42.2 percent, despite a decrease of 3.9 percentage points against full year 2015, largely the result of some price sensitive DUNHILL consumers downtrading directly to illegal cigarettes, which was driven by pressure on disposable income and amplified by the November 2015 shock excise”, said Stoel.

PETER STUYVESANT, the fastest growing brand within the Aspirational Premium segment, continued to grow 0.9 percentage point to reach a market share of 6.5 percent as of December 2016 year to date”, added Stoel.

### **2017 Outlook**

BAT Malaysia continues to remain concerned as the legal tobacco market continues to suffer at the expense of the escalating illegal cigarette trade in the country against the backdrop of a challenging economic environment and poor consumer sentiment. The recent Illicit Cigarette Study (ICS) conducted by Nielsen revealed that the illegal cigarette trade has reached a record high of 51.2 percent as of June 2016 and there are clear indications that it continues to grow. More than half of cigarettes packs sold in the market is illegal.

“However in light of the pressing situation of illegal cigarettes, we are encouraged with the concerted efforts undertaken by the Government and various law enforcement agencies to eradicate the smuggling of contraband cigarettes. We would like to commend the Government in taking proactive actions to address this huge tax leakage, as highlighted by Second Finance Minister Datuk Johari Bin Abdul Ghani in his speech at Dewan Negara in early December 2016<sup>1</sup>. We remain hopeful that the Government’s commitment of bringing down illegal cigarettes by 50 percent this year will materialise with the implementation of new strategies announced by the Royal Malaysian Customs in December 2016<sup>2</sup>” said Stoel, who urged the Government to continue to address the illegal cigarettes situation as a matter of national priority.

---

<sup>1</sup> As quoted in *New Straits Times*-pg 10 (Johari: RM5.2b in excise duties missing), 6 December 2016

<sup>2</sup> As quoted by Deputy Director-General (Enforcement & Compliance), Datuk T Subromaniam- *The Star Online* (Customs Department has new strategies to curb illegal ciggies next year), 19 December 2016

On the back of this challenging business environment, we have taken a bold step in making a transformative change to our business model that will sharpen our commercial capabilities whilst optimising our supply chain and transactional activities.

Stoel asserted, "At the heart of this transformation is our continued promise to satisfy the needs of our consumers by delivering leading relevant brands to the Malaysian consumer at international quality standards. Given this uncompromising stance, we have chosen to source our supply from state of the art BAT factories that have the best reputation in the BAT group in delivering consistently high quality products at more competitive cost".

Stoel added, "Our leading brands and products have been developed for Malaysians based upon solid Malaysian consumer insights, which will continue to be our key driver for sustaining our leadership in the legal tobacco market in Malaysia irrespective of where our brands are sourced from."

"As a corporate citizen with more than a hundred years of proud legacy in Malaysia, we remain committed to our investments in the country and effective from August 2017, we will extend our legacy from our new corporate office in Wisma Guocoland in the area of Bukit Damansara", Stoel concluded.

For more information on British American Tobacco Malaysia's financial results, please visit [www.batmalaysia.com](http://www.batmalaysia.com)

#### **About British American Tobacco (Malaysia) Berhad**

British American Tobacco (Malaysia) Berhad (British American Tobacco Malaysia) emerged on 3<sup>rd</sup> November 1999 from the merger of Rothmans of Pall Mall (Malaysia) Berhad and Malaysian Tobacco Company Berhad. These two long established tobacco companies brought with the merger, experience and an unrivalled portfolio of highly successful international brands to create the largest tobacco company in the country.

British American Tobacco Malaysia manufactures and markets high quality tobacco products designed to meet diverse consumer preferences. Its brand portfolio includes well-established international names like DUNHILL, KENT, PALL MALL and PETER STUYVESANT. British American Tobacco Malaysia has about 1,000 employees who are involved in the full spectrum of the tobacco industry, from processing to manufacturing, and marketing to distribution.

British American Tobacco Malaysia is part of the British American Tobacco group, which is the world's most international tobacco group and the second largest stock market listed tobacco group by global market share.

---

For more information, please contact British American Tobacco Malaysia:

Fairuz Helmi, Head of External Affairs at 03-7491 7100 or [Fairuz\\_Helmi@bat.com](mailto:Fairuz_Helmi@bat.com)

Prianka Krishnamurthy, External Affairs Manager at 03-7491 3773 or [Prianka\\_Krishnamurthy@bat.com](mailto:Prianka_Krishnamurthy@bat.com)

---