



FINANCIALS STILL UNDER PRESSURE IN SPITE OF SHARE GROWTH AND STABILISED VOLUMES, ILLEGAL CIGARETTES INHIBIT SIGNIFICANT GROWTH

Bukit Damansara, 13 February 2018 - British American Tobacco (Malaysia) Berhad (BAT Malaysia) today announced its financial results for the fourth quarter of the year ended 31 December 2017.

On a quarter to quarter basis for 2017, BAT Malaysia managed to strengthen its position in the market, registering an increase of 0.3% to 53.9% market share in the legal market. DUNHILL, the flagship brand of BAT Malaysia, grew +0.7% market share to exit 2017 at 37.8% when compared to exit 2016.

Whilst legal market volume declined 3.0% versus the third quarter of 2017, BAT Malaysia's domestic volume declined at a lower rate of 1.1%.

BAT Malaysia's volume recovery trend in the first half of 2017 stagnated in the second half of 2017, mainly due to market dynamics driven by the illegal cigarettes trade and to some extent the growth of lower price segment within the legal market in the fourth quarter of 2017.

On a year-on-year comparison, the Company's revenue and profit from operations were down following the legal market size decline compared to 2016 and the significantly reduced export volumes as a result of the factory closure. Results were marginally off-set by reductions in the cost base.

The legal market has contracted due to the growth in illegal cigarette incidence. Illegal cigarettes incidence has increased from 52.5% to reach 58.3% in 2017, primarily driven by the continued

affordability pressure on consumers coupled with enforcement challenges on curbing illegal cigarettes trade.

Full year 2017 financial highlights:

- **Revenue** declined 20.1% for 2017 when compared to the same period of last year
- **Gross Profit** decreased by 18.8% versus same period of last year.
- **Operating expenses** were at 4.7 percent (RM19 million) lower than the same period last year, attributed to overhead savings from cost base transformation initiatives the company has undertaken, lower recharges from related entities and the one-off rental income from the sub-lease of the unutilized space tenanted by the company in the first three quarters of 2017.
- **Profit from Operations** registered a decline of 29.2 percent and **Profit after Tax** a decline of 31.7 percent when compared to the previous year.

Arising from the Group's financial performance, the Board of Directors has declared a fourth interim dividend of 43 sen per share.

The Managing Director of BAT Malaysia, Erik Stoel, commented, "a significant transformation has taken place in BAT Malaysia in the last two years which has ensured that the Company is a much stronger company than before, through a leaner and more efficient operating model, strong brand portfolio to extend our market leadership and with significantly improved capabilities. It is today a much more sustainable model to maximize shareholder returns".

"In spite of a challenging year, we managed to strengthen our position in the legal market via solid share growth at the end of 2017 compared to end of 2016 (+1.4% share growth to 54.6%) and stable volume with our flagship brand DUNHILL, reinforcing our leadership in the premium segment. We also managed to take leadership in the Aspirational Segment via a solid performance of PETER STUYVESANT that grew to 7.5% in 2017."

"With affordability remaining a key concern for our consumers, the Group decided to enter the value for money segment (lowest price segment in the legal market) with ROTHMANS in October 2017. The brand has rapidly established a strong position (2.8% in December 2017) against other competitive offers in this segment. We believe that the ROTHMANS launch in the value for money segment will strengthen our portfolio for the long term. However, despite all the positive

developments which we have worked hard for, we see illegal trade impacting our results” he added.

2018 Outlook

“For the longer term, BAT Malaysia remains concerned that the legal domestic market continues to suffer due to the escalating illegal cigarette trade in the country. Illegal cigarettes problem is now too big to ignore and has become a societal problem that undermines not only the health agenda of the country with respect to smoking, but also on shareholders returns, jobs in legal industry as well as tax revenues that could be invested in the development of the country.”

“It seems abundantly clear that this illegal and undesirable societal problem can only be brought under control via a strong and integrated national agenda of enforcement amongst all law enforcement agencies and the willingness to have an open mind to consider alternative solutions. We believe this is required against the backdrop of a challenging economic environment and poor consumer sentiment, that is not only impacting the tobacco industry, but many other Fast-Moving Consumer Goods (FMCG) companies as well as the retail sector.”

“While we will work to improve our results on the back of our stronger business model, improved capabilities and a strengthened and competitive brand portfolio, any significant legal industry growth and as such our growth, will require big interventions and actionable solutions in reducing the illegal market. The truth is, illegal cigarettes is not just a challenge for the legal industry, it is a societal problem that fuels many other undesirable elements that should not be tolerated in the country”, said Stoel.

For more information on British American Tobacco Malaysia’s financial results, please visit www.batmalaysia.com

About British American Tobacco (Malaysia) Berhad

British American Tobacco (Malaysia) Berhad (British American Tobacco Malaysia) emerged on 3rd 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 markets high quality tobacco products designed to meet diverse consumer preferences. Its brand portfolio includes well-established international names like DUNHILL, KENT, PALL MALL, PETER STUYVESANT and ROTHMANS.

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.

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