



ILLEGAL CIGARETTES CONTINUOUSLY HAMPER RECOVERY OF THE LEGAL TOBACCO INDUSTRY

Bukit Damansara, 21 May 2018 - British American Tobacco (Malaysia) Berhad (BAT Malaysia) today announced its financial results for the first quarter of the year ending 31st March 2018.

As a result of a contracting legal market size in the first quarter of 2018, BAT Malaysia's domestic volume declined by 8% compared to the preceding quarter, which translated into a first quarter revenue and gross profit decline of 6.9%, and 5.3% respectively when compared to the preceding quarter. These results were in spite of the Company's strong volume share performance in the legal market as well as tight control over operating expenses. Operating profit as a result increased by 3.2% (excluding one offs) versus preceding quarter.

The legal market remains under pressure with illegal volume share at an all-time high of 63% in the first quarter of 2018 (consisting of 59% smuggled illegal cigarettes and 4% of legally perceived local cigarettes with fake tax stamps) as a result of low consumer confidence and lack of enforcement effectiveness in the quarter, fueled by ongoing affordability pressures in the market.

Year-to-Date Q1 2018 financial highlights:

- Revenue declined by 14.8% versus the same period of last year;
- Gross Profit decreased by 18.4% versus the same period of last year;
- Operating expenses were at 17.1% lower than the same period last year attributed to lower recharges from related parties, overhead savings initiatives and timing of other operating expenditure overhead;
- Profit from Operations registered a decline of 17.8% when compared to the same period last year.

Within the legal market, in the first quarter of 2018, BAT Malaysia registered a market share of 54.7% with a growth of 0.8ppt versus the fourth quarter of 2017 and a growth of 1.1ppt versus same period last year.

Dunhill solidified its position as Malaysia's leading cigarette brand by attaining a share growth of 0.5ppt versus the preceding quarter and 0.7ppt versus same period last year with a market share of 38.2%. Dunhill now holds a 63% of the premium segment.

The entry with Rothmans into Value for Money segment (VFM/lowest price segment in legal) in October 2017 has strengthened BAT Malaysia's portfolio as anticipated. Rothmans share showed strong growth within the segment, with share now at 3% and share of segment at 30%. The total VFM segment growth remains within the Company's projections.

As a result of the gradual growth of the VFM segment, the Aspirational Premium Segment experienced some decline in Q1 2018. However, BAT Malaysia managed to extend its leadership in this segment from 42% in 2017 to 44% in the first quarter of 2018, in spite of marginal share decline of Peter Stuyvesant and Pall Mall in this quarter. This underlines the strength and resilience of the company's brands against competition.

Based on the Company's financial performance, the Board of Directors has declared a first interim dividend of 33 sen per share.

Erik Stoel, Managing Director of BAT Malaysia said, "We are happy with our growth in the legal market, our strong cost base performance and in general the progress we made since the re-organisation in 2017. However, we remain very concerned with the high level of illegal cigarette incidence, with no sign of reduction in the first quarter of this year, and therefore the ongoing pressure on the legal volumes."

"As reiterated many times before, the high illegal cigarette incidence is a consequence of consumers' affordability pressures as well as a lack of effective enforcement. As such, we are heartened to note that our newly elected Government shares our expectation on the need to address affordability and reduce leakage of valuable tax revenue to illegal trade and we are looking forward to working with the Government to address these key challenges," said Stoel.

On the result of the recent general election, Stoel commented, "First of all, it is clear that the new government articulated a strong manifesto, compelling enough to enable a monumental change and leading now to a sense of renewed hope across the country as the new Government starts to work on delivering their promise for reformation, specifically their commitment to addressing affordability, returning to the rule of law and weeding out corruption."

"We share this hope particularly on the basis of the Government's special provision in their manifesto on stopping cigarettes and alcohol smuggling activities, including instructing enforcement agencies to have tighter controls along the borders and heavier punishments to those convicted. This strong government commitment seems to have given a renewed confidence to the analysts and our shareholders that is clearly noticeable in the performance of our share price which went up by 43% since the general election. Our shareholders in our April AGM had expressed their deep concern about the impact of the illegal cigarette trade to their investment in the Company as reflected by the share price decline from RM56 per share in Nov 2015 to RM23 per share just before the general election"

"We also welcome the Government's move to zero rate the GST as it shows the commitment of the Government to deliver on its promises to address consumer affordability in general. However, for the cigarette industry, the price gap between legal and illegal cigarettes currently ranges between RM8 to RM13 with 'excise paid at RM8/pack' being the main differentiator. As such, whilst appreciating the removal of GST, we do not feel that this will structurally address the state of the legal/illegal cigarette market and as such, more measures will be required. We hope that the new Government will be committed as a matter of priority, to review pragmatic and new solutions to address illegal cigarettes beyond the abolishment of GST."

"The illegal cigarettes trade is still growing and therefore, we are pleased that the problem is recognised by the Government because it not only undermines the legal tobacco industry and government revenues, but as importantly it undermines the health agenda of the country with respect to smoking, and on shareholders returns, jobs in legal industry as well as tax revenues that could be invested in the development of the country."

"As a Company that believes in contributing towards a fair society, we have faith that the new Malaysian government will not stand for unfair competition against law abiding legal companies and to allow the criminals to rob the country of RM5 billion of tax losses directly due to illegal cigarettes," 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) British American Tobacco Malaysia is the leading tobacco company in Malaysia. British American Tobacco Malaysia markets high quality tobacco products designed to meet diverse consumer preferences. Our portfolio includes world-famous brands like DUNHILL, KENT, PETER STUYVESANT, PALL MALL and ROTHMANS.

British American Tobacco Malaysia employs 497 employees who are involved in a wide spectrum of disciplines, from generating insights, developing brands and making these available on a national level. In addition, we also set leading edge talent development practices as well as ensure a strong foundation of corporate governance and shareholder relations.

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 03-27208188 or Fairuz_Helmi@bat.com

Prianka Krishnamurthy, External Affairs Manager at 03-27208147 or Prianka_Krishnamurthy@bat.com
