

High incidence of illegal cigarettes impacts BAT Malaysia's performance in first half of 2013

Petaling Jaya, 25 July 2013 - British American Tobacco (Malaysia) Berhad (BAT Malaysia) today announced flat financial results for the first half of the year ended 30 June 2013. Top line revenue growth from increased volume in contract manufacturing was counteracted by a weakening mix due to domestic volume decline in the face of illegal cigarettes trade.

“On the positive side we managed to strengthen our market leadership with a 1.0 percentage point market share growth to register 61.5%* as of June 2013, compared to the same period last year. Dunhill was the key driver of this growth (+1.8ppt) but this was offset by declines across the rest of the portfolio” said Stefano Clini, Managing Director, BAT Malaysia.

“Less positive was the fact that this share growth did not translate to volume and profit growth due to shrinking legal market volumes. In the first half of 2013, we experienced a 3.6% volume decline in domestic and duty free volume versus the same period last year.” added Clini.

The reason for the declining legal market volumes is directly related to illegal cigarettes, most notably illegal white cigarettes which hit an all-time high of 23.6% of consumption in 2012. Though overall illegal cigarette incidence has been on a downward trend over the past two years – a 1.6 percentage point decrease in 2012 – the Illicit Cigarettes Survey indicates that this decline is attributable solely to illegal kreteks (clove cigarettes) whilst illegal white cigarettes have actually been on a continual rise.

“At BAT Malaysia, we are most appreciative of the Government’s increased enforcement efforts against illegal cigarettes and the prudent excise decisions which have been taken but it looks like more needs to

be done to stem this phenomenon. It is disappointing to note that illegal cigarettes are getting into shops across the country on a mass scale and easily sold at prices for as little as RM3 to RM3.50 per pack. This illegal business is very lucrative and breeds criminality so we hope that the enforcement agencies will continue to combat it. This is not just about the legal industry's loss of business but the Government too stands to lose its valued tax revenue. Imagine too the impact these illegal cigarettes have on the health agenda, given that they are very accessible, cheap and completely unregulated. We definitely hope to see more enforcement efforts and severe penalties to address this epidemic." Clini emphasised.

"In conclusion, given the year to date performance and overall market dynamics, the Group has a cautious outlook on the second half of the year," said Clini.

First half 2013 financial highlights

- **Revenue** grew by 6.7% versus same period last year driven by both higher contract manufacturing volume and the impact of the change in costing model from toll to contract, offset decline in domestic and duty free volumes.
- **Gross profit** declined by 0.6% against same period last year due to a weakened volume mix.
- **Operating Expenses** were lower by -4.6%, largely attributed to timing of brand spend and lower IT costs.
- **Profit from operations** was subsequently 1.1% below the same period last year
- **Profit before tax** and **Earnings Per Share** were flat versus the same period last year.

Arising from the Group's financial performance, The Board of Directors has declared a second interim dividend of 68.00 sen per share.

**Note: With effect from 1st January 2013, all market shares are quoted for the overall legal cigarette market inclusive of Kretek cigarettes. In 2012 and prior years the Company's share had been expressed as a percentage of only the legal white cigarette market.*

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 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 leaf buying and processing to manufacturing, marketing and 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:

Mr Chin Tuck Weng, Senior Corporate Affairs Manager at 03-7491 7318 or Chin_Tuck_Weng@bat.com

Ms Maxine Lim, Corporate Affairs Manager at 03-7491 7539 or Maxine_Lim_Jen_Ai@bat.com
