



LEGAL VOLUMES TAKE A BEATING AS ILLEGAL CIGARETTES SHOOT UP

Petaling Jaya, 19 February 2014 - British American Tobacco (Malaysia) Berhad (BAT Malaysia) today announced its financial results for the fourth quarter of the year ended 31 December 2013. The Group achieved +3% growth in net profit, however this was driven almost exclusively by growth in contract manufacturing volume for export and lower operating expenses.

Notably, following the significant excise increase in September 2013, Q4 2013 Domestic and Duty Free volumes declined 17% versus Q3, and full year Domestic and Duty Free volume was 6% lower than in 2012. Despite the large excise increase, BAT Malaysia's excise payments to the Government have declined almost 4% versus 2012. Furthermore and as expected, the third wave 2013 Illicit Cigarette Study (ICS) witnessed a massive 4.5 percentage point increase in illicit trade, to record one of the highest ever single reading at 38.9% (Wave 3, 2013)^[1].

Full year 2013 financial highlights:

- **Gross revenue** grew by +3.5% versus same period past year, its growth fully attributed to the increase in contact manufacturing volume and its margins. Increased pricing in the domestic market was insufficient to offset the impact of volume decline.
- **Gross profit** was +1.5% ahead of same period last year, again driven by the contract manufacturing volume growth, partially offset by impact of domestic volume decline and product cost increases.
- **Operating expenses** was lower by -7.7% (RM33 million) versus same period last year, notably benefiting from the absence of the 2012 afforestation impairment, foreign exchange loss and other non-recurring costs, collectively RM31mn.
- **Profit from operations** was up +4.3% compared with the previous year, a product of higher contract manufacturing volume and lower operating expenses.
- **Net Profit** was up +3.2% versus same period last year.

Arising from the Group's financial performance, the Board of Directors has declared a fourth interim dividend of 78 sen per share. Year to date dividends paid and declared represent 97.8% payout of full year 2013 earnings.

BAT Malaysia closed 2013 with a third consecutive year of share growth, growing +1 percentage point to hit 61.9^[2]. The Group's share growth was driven mainly by DUNHILL's stellar performance.

"DUNHILL, our leading brand capped the year with an outstanding growth of +1.3 percentage point in share of market, contributed from growth across almost all its variants. DUNHILL Ice's performance was the most notable, accounting for +0.4 percentage points of DUNHILL's growth. DUNHILL Kretek, which was introduced in Q3 2013 as the first premium Kretek in the market, accounted for +0.2 percentage points," said Stefano Clini, Managing Director, BAT Malaysia.

"Our overall 2013 performance has been admirable in the face of our current economic climate and illegal cigarette trade challenge, and we are fortunate that growth in our contract manufacturing export volume has offset our domestic volume decline. However, as foreseen, the cigarette excise increase has accelerated consumer down trading to cheap illegal alternatives with severe impact on already declining domestic volumes," added Clini.

The recent Wave 3 Illegal Cigarette Study^[1] which covered the period from October to December 2013 showed that illegal cigarette incidence in Malaysia has risen by 4.5 percentage point from previous wave of 34.4% to 38.9%. This increase is chiefly driven by the growth in the illegal "John" brand variants which are being sold at approximately half the minimum price set by the Government.

Further commenting on the issue, Clini said, "We commend the Government for adopting game changing approaches to combat this major problem. The various law enforcement agencies are not just tackling the supply of illegal cigarettes by going after smugglers; they are also working cohesively to address the issue of illegal cigarette demand by stepping up enforcement at the retail and consumer level. We also see in the news that the Royal Malaysian Customs has taken stronger deterrent action by remanding offenders caught pending investigation^[3]."

Effective 1st January 2014, a new law gazetted by the Ministry of Health Malaysia stipulates that buyers, just like sellers of illegal cigarettes, can face a maximum fine of RM10,000 and jail of up to two years or both for buying illegal cigarettes. These concerted efforts show that the Government is serious about addressing this problem.

“We had a solid performance for 2013. However, in light of the challenging economic environment and the specter of illegal cigarette hanging over our business, we are preparing ourselves for a tough 2014,” concluded Clini.

[1] Wave 3 Illegal Cigarettes Study (ICS) commissioned by the Confederation of Malaysian Tobacco Manufacturers.

[2] 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.

[3] “Rokok Seludup RM1.3j dirampas”, page 49, 4 February 2014, Sinar Harian.

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 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.

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