



**BRITISH AMERICAN
TOBACCO**
MALAYSIA

Analyst Briefing QUARTER 1, 2016

April 2016

AGENDA

- **Industry Review**
- **Company Review**
- **Q1 2016 Performance**
- **Other Highlights**



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Q1 2016 Headlines



Legal Industry volumes declined by -29.7% vs SPLY (YTD Mar'16 vs SPLY)

- Nov 2015 shock excise increase has triggered a significant industry volume decline

Financial Performance negatively impacted by volume decline:

- Revenue: - 19.9%
- Profit from Operations: -28.2%

Illegal cigarettes impacting legal demand. Latest reading for Dec 2015: all time high of 45.6% of total market due to consumer downtrading to illegal cigarettes.

As a result of consumer downtrading, BAT registers a **market share** decline of -2.3 on a YTD Mar'16 vs SPLY is currently at 58.7%.

- Dunhill: recorded decline month on month but maintains its market leadership (YTD Mar'16: 43.5% SOM)
- Peter Stuyvesant: trending higher in recent month versus pre-pricing (YTD Mar'16: 6.5% SOM)
- Pall Mall: recorded a marginal decline of -0.1ppt vs FY2015 with a SOM of 4.4% (YTD Mar'16)

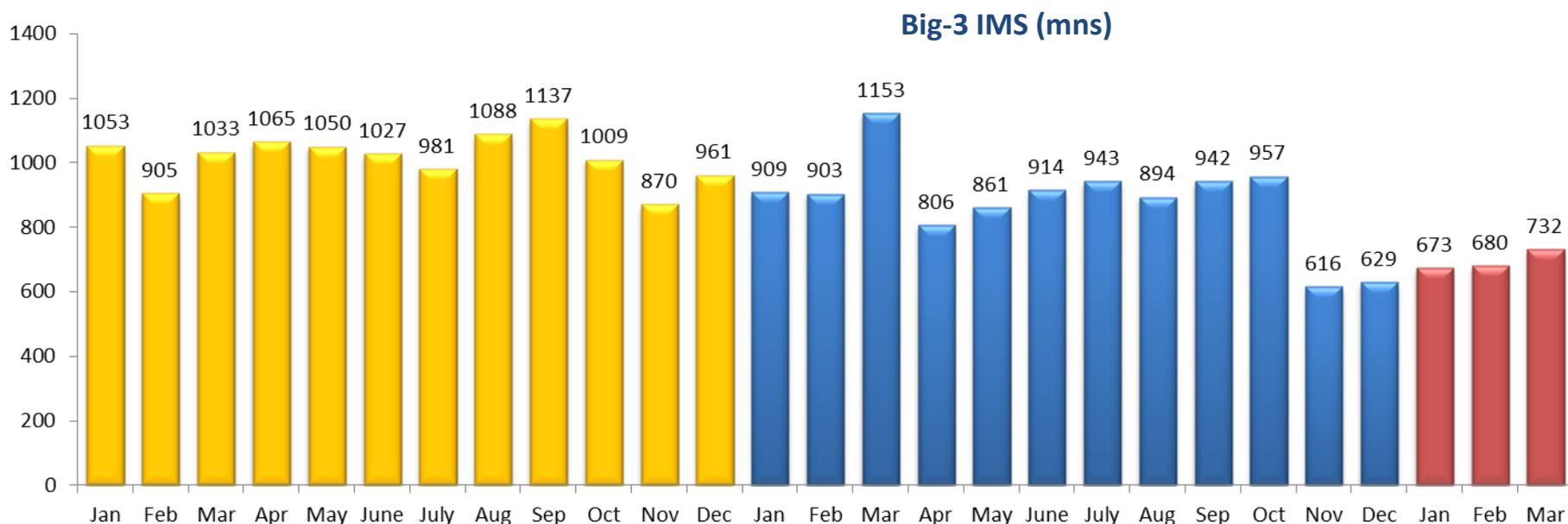


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Industry Review

Market review update

YTD Mar 2016, legal market declined -29.7% vs. SPLY
Slow recovery post the November 2015 shock excise increase
=> Affordability continues to be an issue



YTD Mar'16 vs. SPLY:

Monthly Avg.	YTD Mar'15	YTD Mar'16	Change
Industry	989	695	-29.7%
BAT	619	408	-34.1%



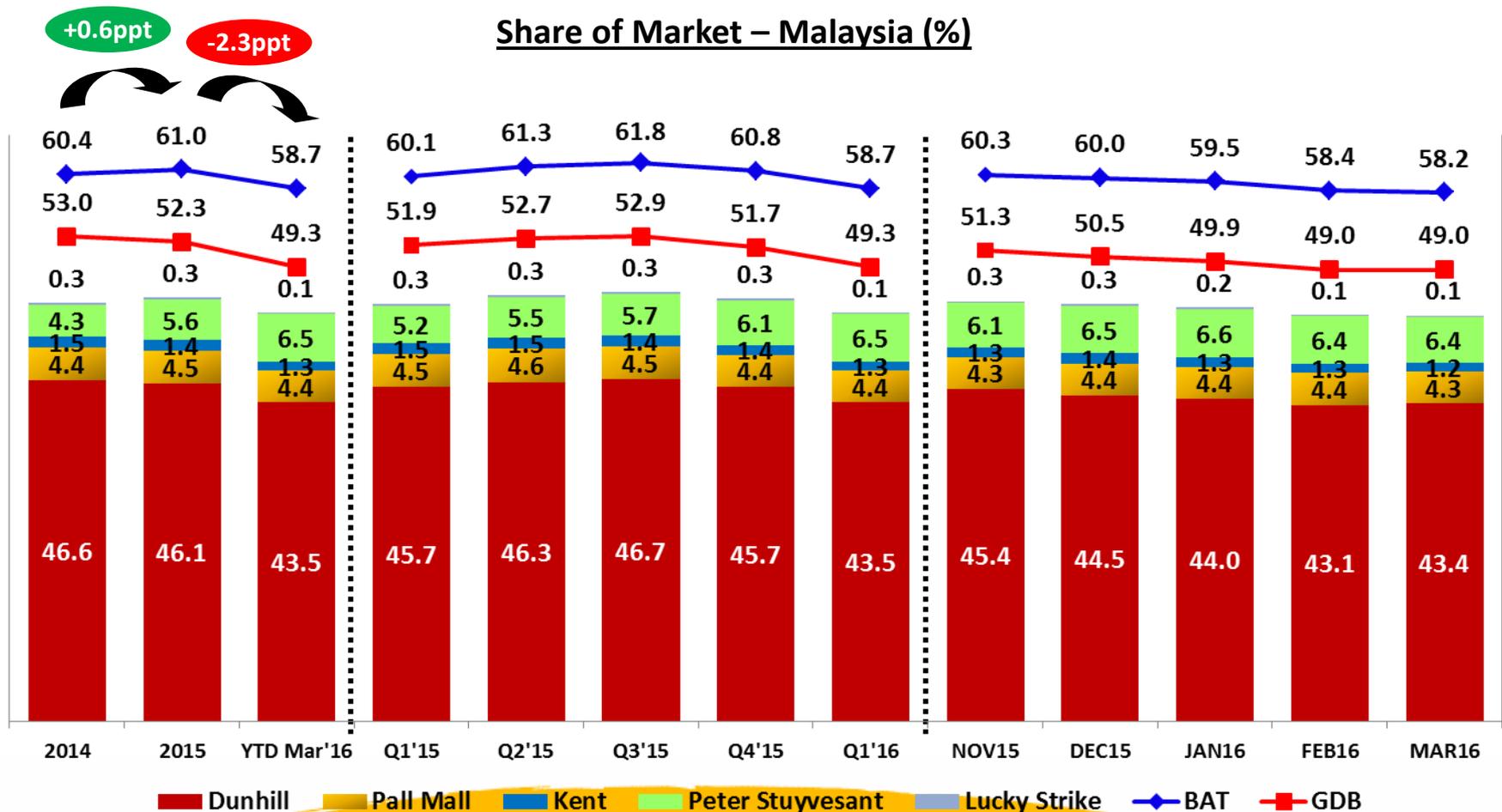
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Company Review



BAT's Share of Market continues to decline post November 2015 shock excise increase driven by Dunhill. However Dunhill still maintains its leadership position within the legal market

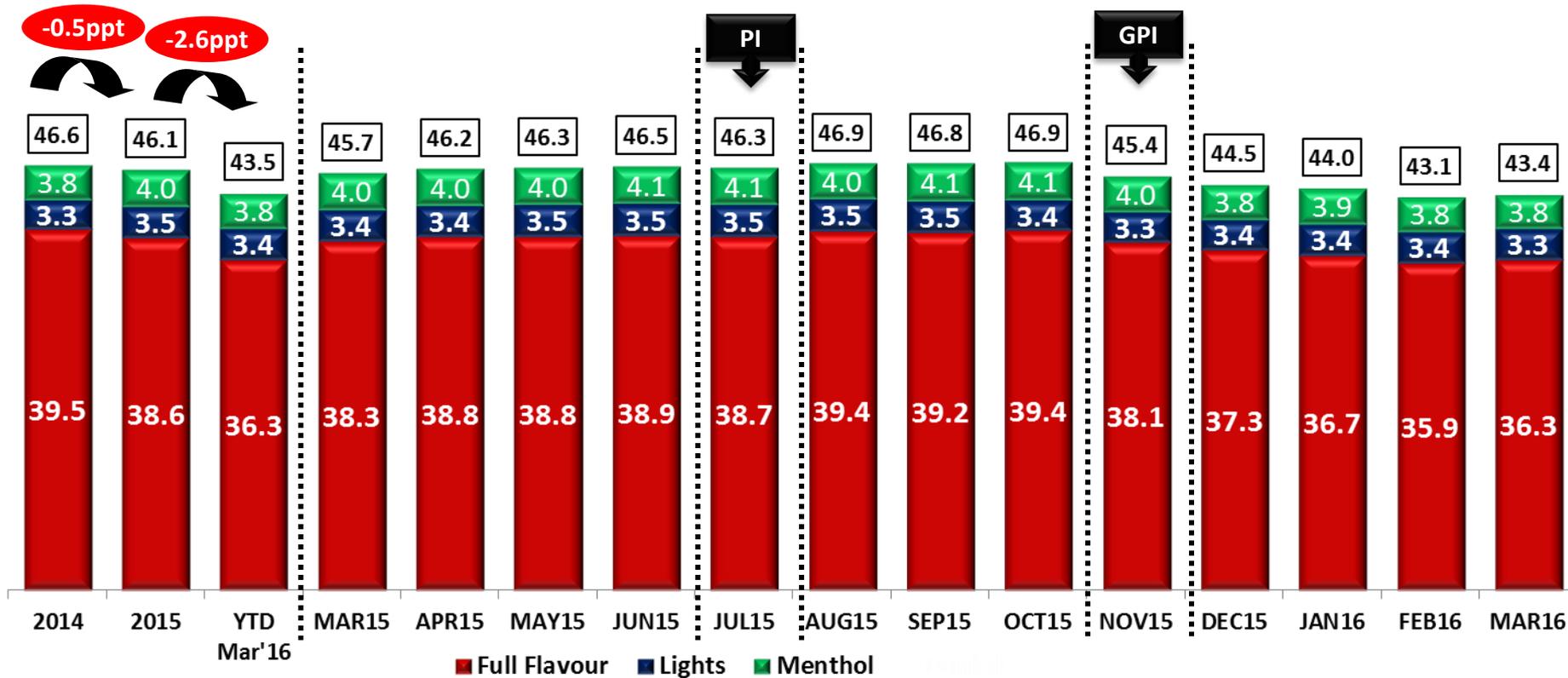
Source: YTD MAR16 Malaysia Retail Audit (Base: Total Legal Market – White + Kretek)



Dunhill Full Flavour declining month on month post November 2015 shock excise increase, while Lights and Menthol range remains resilient



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Aug 2015
Launch of DH Mix
(Double Capsule) -
Nationwide launch

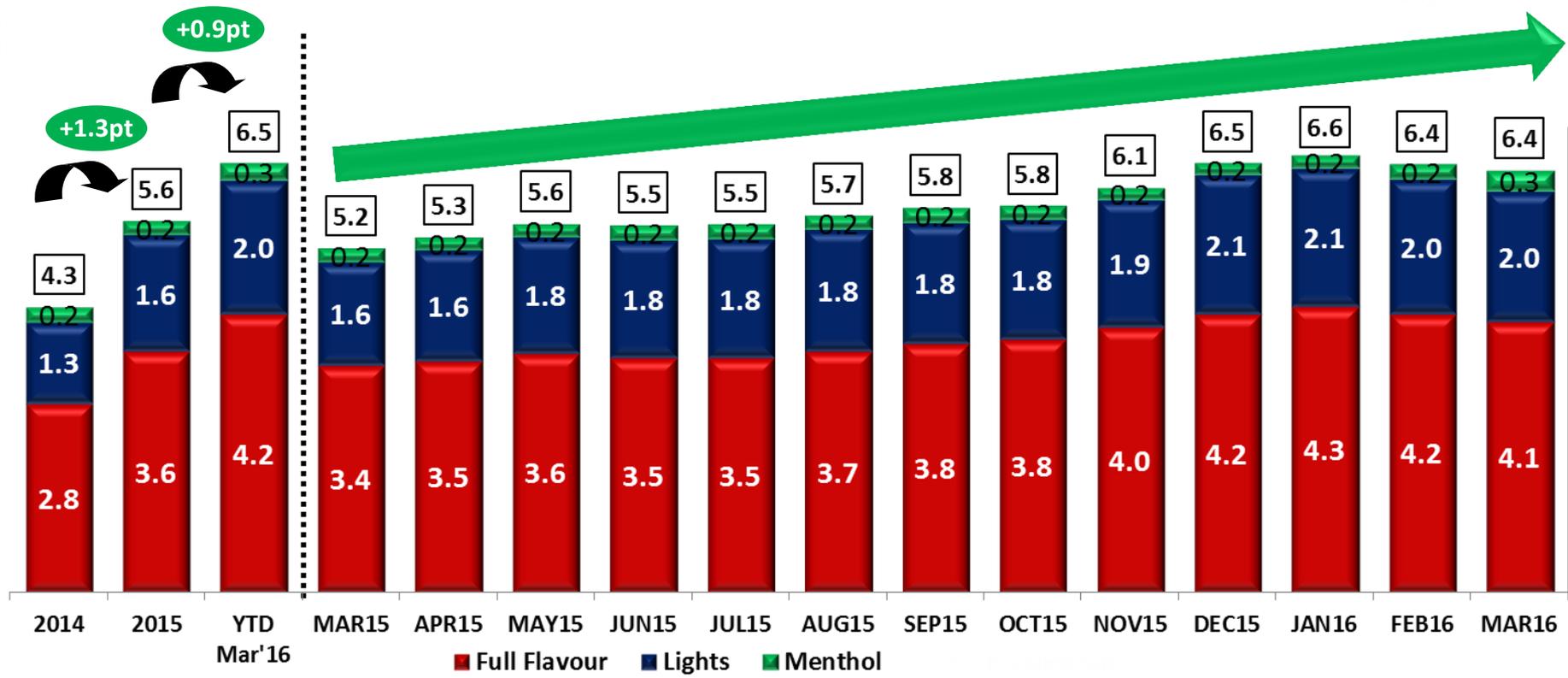
Oct 2015
Dunhill LEP (FF & Lts)

Jan 2016
Dunhill Reserve

Peter Stuyvesant gained +0.9ppt in YTD Mar'16 vs FY2015 Steady growth in recent months



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Nov'15:
New Line
Extension

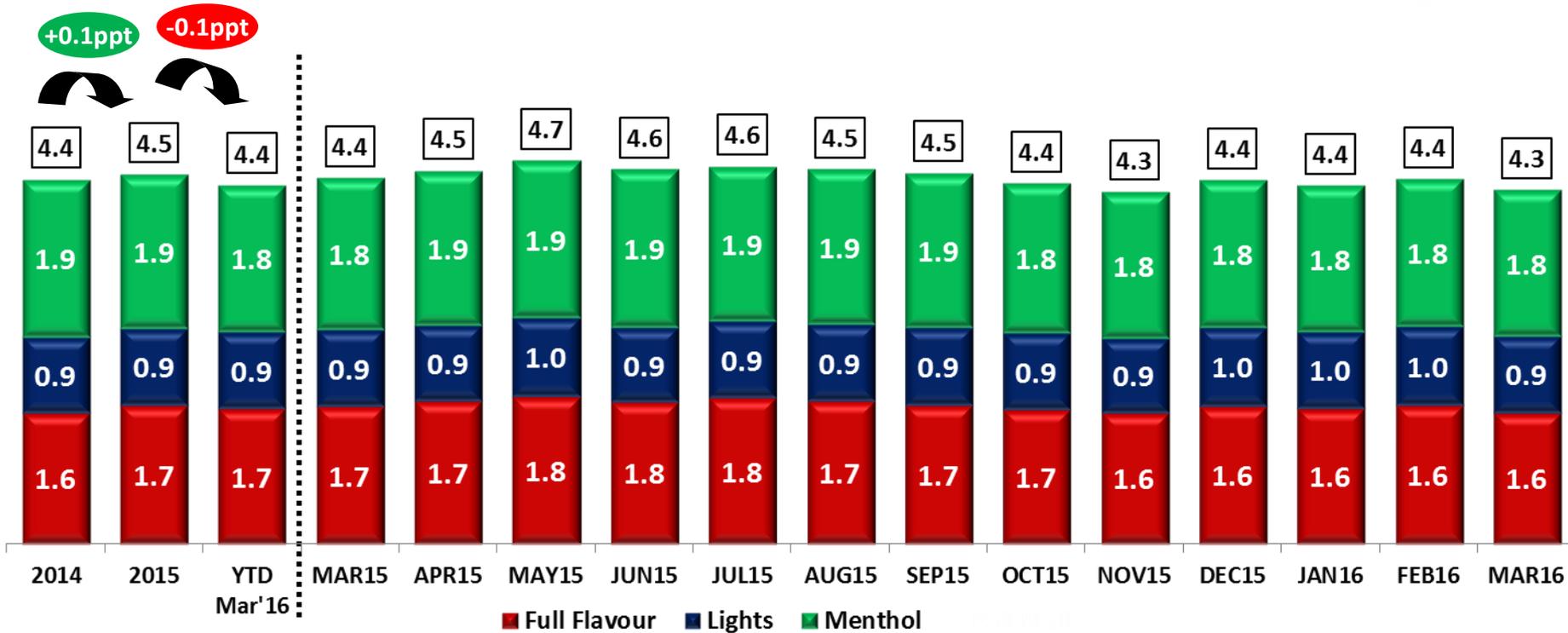
Feb 2016:
Peter Stuyvesant
Remix (Line
Extension)

Source: YTD MARCH'16 Malaysia Retail Audit (Base: Total Legal Market – White + Kretek)

Pall Mall recorded a slight decline in YTD Mar'16 vs FY2015. In recent months performance has been stable



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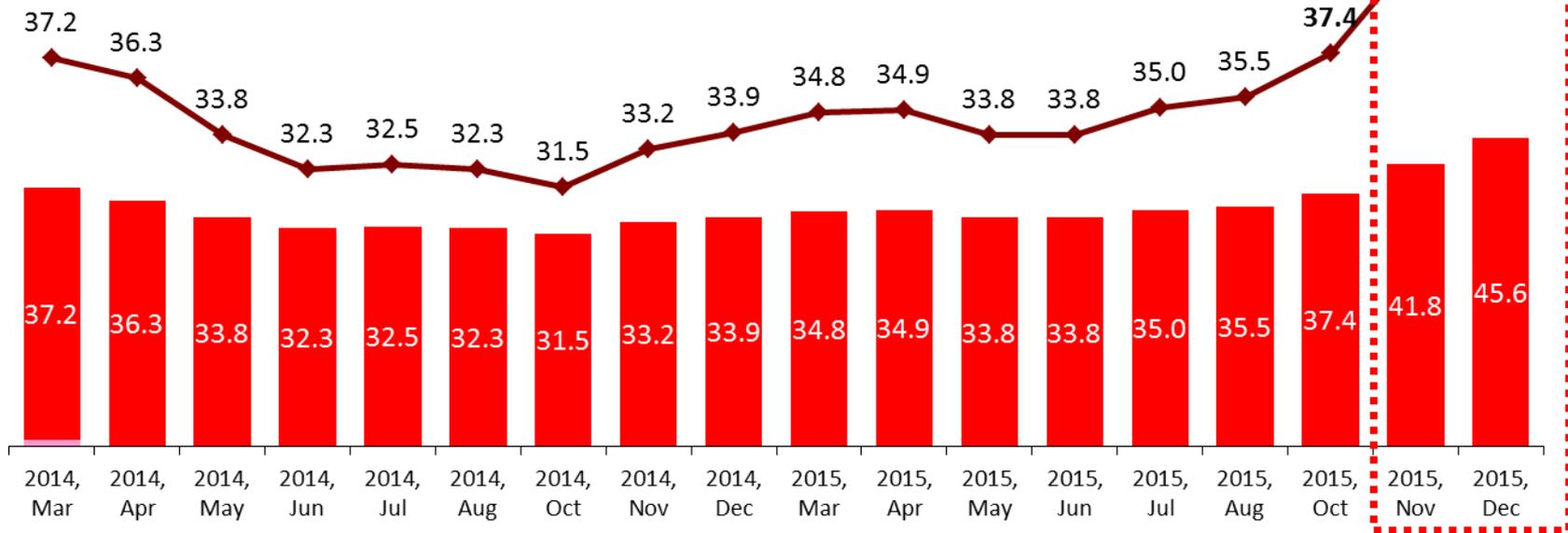
Source: YTD MARCH'16 Malaysia Retail Audit (Base: Total Legal Market – White + Kretek)

Illegal cigarettes incidence spiked to almost 50% of total market post November 2015 shock excise increase

**HIGH EXCISE ENVIRONMENT OVERSHADOWED
SIGNIFICANT ENFORCEMENT RESULTS**

AMONG THE HIGHEST IN THE WORLD

Retailers Charged In Court	1,994
Retailers Jailed	593
Retailer's Fined In Court	RM 12.24 mn
Illegal Cigs Seized	615 mn sticks



■ Smuggled Cigs (White & Kretek)

Note on Annualised Illegal Cigs Incidence:

- 2013: 35.7%
- 2014: 33.7%
- 2015: 36.9%



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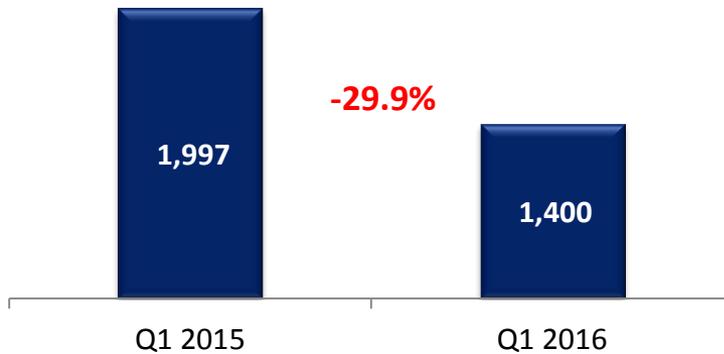
Q1 2016 Results Financial Highlights

Q1'16: Volume and Revenue

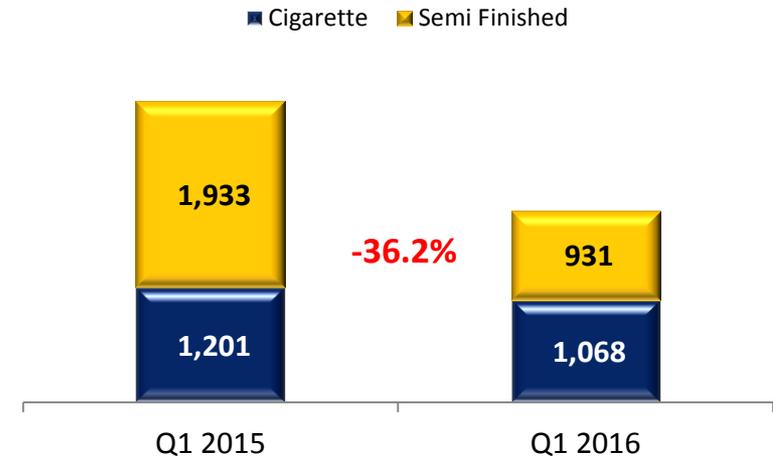


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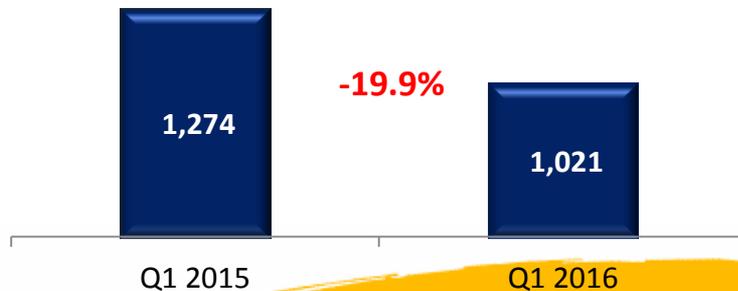
Domestic & DF Volumes (mn stick)



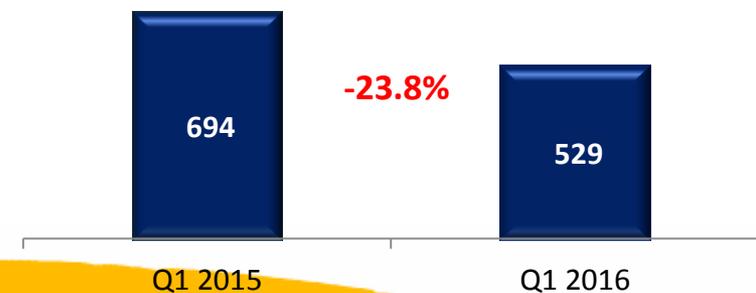
Contract Manufacturing Volumes (mn stick)



Revenue (RM'mn)



Net Turnover (RM'mn)

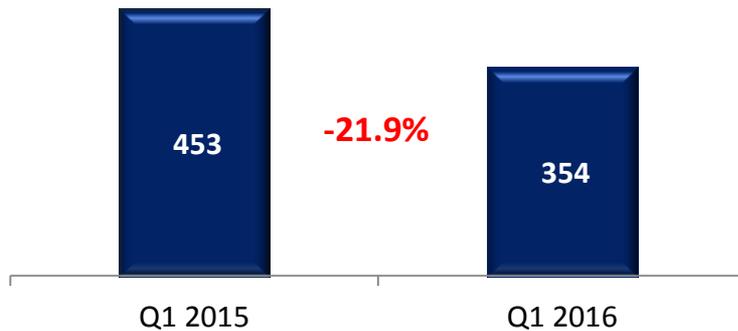


Q1'16: Key Metrics

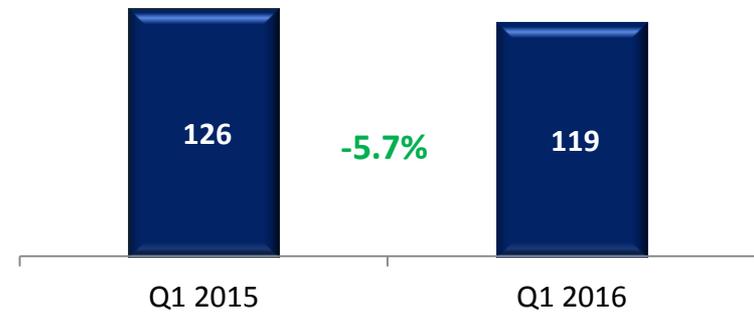


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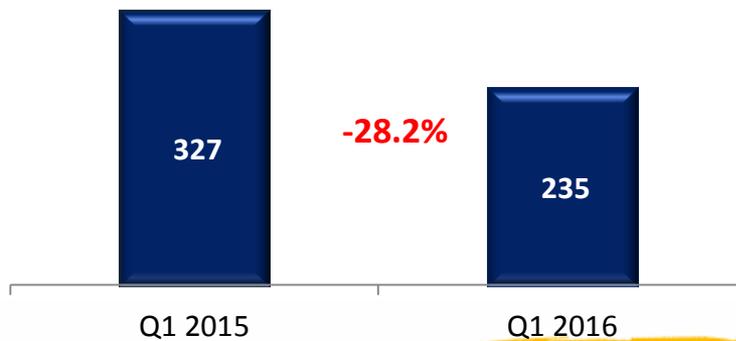
Gross Profit (RM'mn)



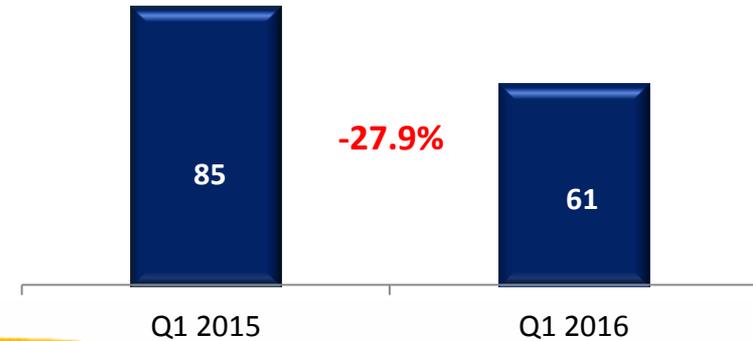
Operating Expenses (RM'mn)



Profit from Operation (RM'mn)



Earning per Share (Sen/share)





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Dividend Proposal

Dividend Payout



2014

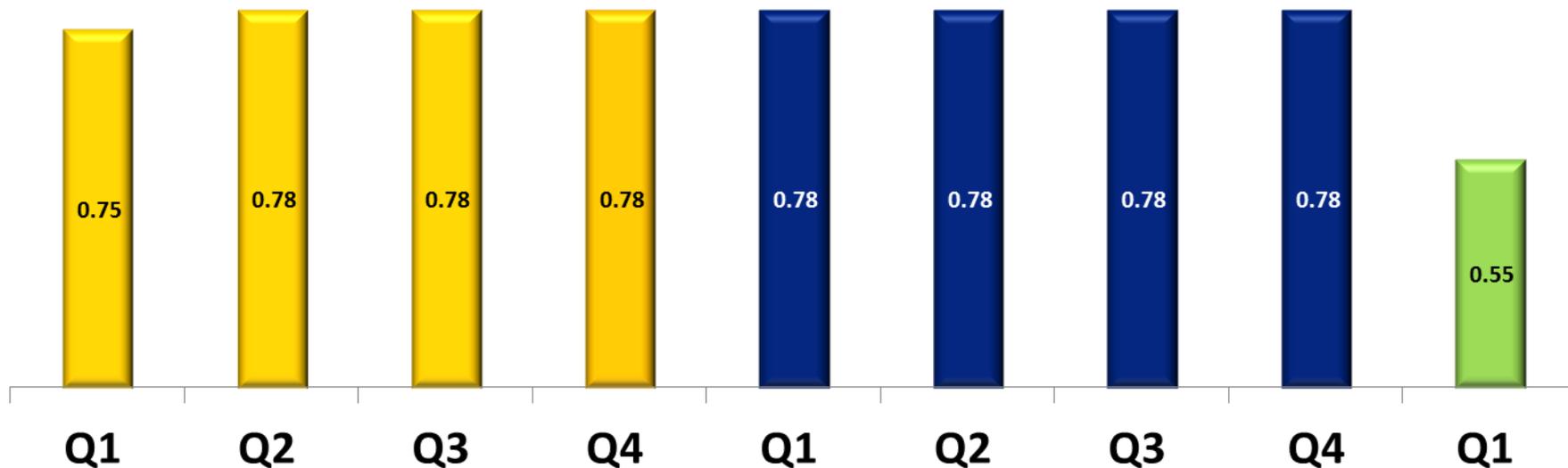
RM 3.09
97.8% Payout

2015

RM 3.12
98.0% Payout

2016

YTD





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Other Highlights

Company Restructure and Wind Down of Factory Operations



- 17 March 2016, British American Tobacco (Malaysia) Berhad (“Company”) made an announcement that it would restructure its business operations by sourcing tobacco products for its domestic market from other BAT Group factories regionally and would cease its manufacturing operations located at Virginia Park, Jalan University, 46200 Petaling Jaya, Selangor.
- The winding down of factory operations will be carried out in stages and targeted to complete by the 2nd half of 2017.
- The high excise environment has ultimately led to the sharp rise in illegal cigarettes and significantly lower legal sales volumes resulting in rising cigarette production costs, which is the main rationale for the proposed cessation.
- The winding down of the factory operations will affect approximately 230 employees and they will be provided with a benefit package as well as the option to undergo a career-transition programme.
- The restructuring exercise is expected to have a positive financial impact on the Group.

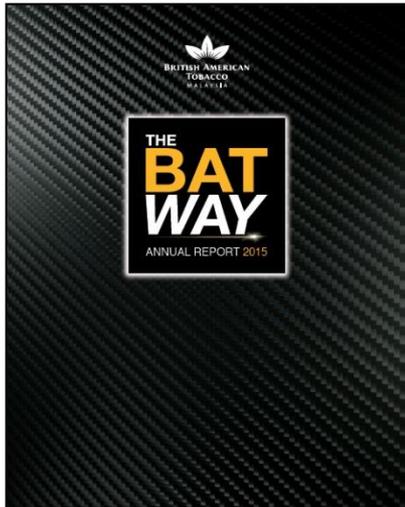
Company Restructure and Wind Down of Factory Operations

- The land upon which the factory operations is located will be disposed of by the Company by way of a public tender exercise. The equipment and machinery currently used for factory operations is intended to be sold to related parties within British American Tobacco group of entities.
- An independent real estate agent has been appointed by the Company to act for and on behalf of the Company to deal with all matters relating to the proposed disposal of the land. The public tender exercise has commenced and is scheduled to complete on or about May 2016.
- Shareholders' approval on the disposal will be sought in accordance with the Main Market Listing Requirement of Bursa Malaysia Securities Berhad. The Company will be making further announcements and issue a circular to shareholders in relation to the proposed disposal of land in due course.
- As of 31st March 2016, the Group has not reflected any provision for restructuring, asset impairment or gain/loss from asset disposal. The winding down of the factory operations will be carried out in stages till 2nd half of 2017 and the Group is in the midst of reviewing the impact on its financial results.

Highlights of Company Activities



The 2015 Annual Report is now available!



Click on the link below to download a copy from our corporate website:

http://www.batmalaysia.com/group/sites/BAT_7RYJ8N.nsf/vwPagesWebLive/DO7SUKSJ?opendocument

55th Annual General Meeting (AGM) – 25th April



In April, we held our 55th Annual General Meeting at Sime Darby Convention Centre

Corporate Responsibility Highlights



Launch of BAT plc Sustainability Summary Report 2015

- Report on the Group's latest Sustainability Summary Report, 'Value shared: An open door on our people, performance and promises', was published on 22 March 2016. It provides an overview of our key focus areas and performance for the year.
- Available for download here: http://www.bat.com/group/sites/UK_9D9KCY.nsf/vwPagesWebLive/DO9DCL3P?opendocument

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CREATING OPPORTUNITIES AND TRANSPARENCY

BUILDING TRUST / COLLABORATING AND ENGAGING

VALUE SHARED

CASTING - EARTH SCIENCE

HIGH PERSONAL STANDARDS

LEADING IN NEXT GENERATION PRODUCTS

SMOKING IS AGRICULTURE TODAY

CITIZEN TRAINING / BUSINESS STANDARDS

SUPPORTING FARMERS' LIVELIHOODS

An open door on our people, performance and promises

Sustainability Summary 2015

BRITISH AMERICAN TOBACCO Sustainability Summary 2015

OUR STRATEGY FOR A SUSTAINABLE FUTURE

Sustainability is a key pillar of our Group strategy and is central to our delivery and the growth of our business.

Our sustainability agenda

We're focused on the three areas which have most significance for our business and our stakeholders:

VALUES

CULTURE

INTEGRITY

TRANSPARENCY

RESPECT

SUSTAINABILITY

www.bat.com/strategy

Harm reduction
We are committed to researching, developing and commercialising less risky alternatives to regular cigarettes.

Sustainable agriculture and farmer livelihoods
We are committed to working to enable prosperous livelihoods for all farmers who supply our tobacco leaf.

Corporate behaviour
We are committed to operating to the highest standards of corporate conduct and transparency.

Our other business priorities

We continue to focus on other key business priorities, including retailer relationships, diversity, employee engagement, governance, risk transparency and stakeholder engagement. These are covered in our Annual Report and can be found at www.bat.com.

Independent assurance

Ernst & Young LLP has been engaged by British American Tobacco to provide external assurance of this report, as well as selected performance information published at www.bat.com/sustainability.

Read the full statement, including the scope of work and conclusions, and BAT's response at www.bat.com/assurance.

www.bat.com/sustainability | 1

with Nicandro Durante, Chief Executive

Doesn't a strategy based on commercial growth contradict your commitment to sustainability?

I think it's actually just the opposite. Our three focus areas of harm reduction, sustainable agriculture and farmer livelihoods, and corporate behaviour are not just sustainability issues, they are fundamental business imperatives.

Take harm reduction as an example: we're working to develop a next generation of low-risk products to, of course, the right thing to do, but it's also an area of future business growth.

Ultimately, any business needs to deliver value for its shareholders, but that doesn't mean that it's a 'top to bottom' strategy. I truly believe in the concept of shared value and that's why it has been the heart of our approach for many years.

Do you see Next Generation Products eventually replacing the traditional tobacco business entirely?

There is huge potential in Next Generation Products; however, they are still very rare and will take time to build. There are also commercial and regulatory and product standards, which will take significant governmental and industry collaboration to resolve, so it will be a long-term process. We are committed to supporting the traditional tobacco business for a long time to come.

Essentially, we need to give consumers a choice of a range of different products - from traditional cigarettes to low-risk alternatives. So, ultimately, it is the consumers who will decide.

Businesses are under increasing pressure to address sustainability issues not just within their own operations, but also across the whole value chain. What challenges does this pose for BAT?

I think the main challenge is that there are areas where we don't have direct control - for example, in our leaf supply chain, we don't own our farms or employ farmers. But through our long history of government and industry collaboration, we have been able to successfully implement good practices that maintain good working conditions, biodiversity conservation and high labour standards.

Some of the most common topics that we're asked about are child labour and aging farmer populations - we're not limited to just one company or even one crop. That's why collaboration is important.

We have some great examples of how we work as part of industry initiatives and in local partnerships, which you can read more about in this report. Getting everyone around the table and in agreement can take considerable time and commitment, so that's another challenge in itself - but it's certainly not one we shy away from.

So what about challenges in the area of corporate behaviour?

Operating in so many countries around the world means we face many different challenges unique to the local circumstances from countries with high levels of illegal tobacco or poor human rights records, to countries without even a minimum age for tobacco sales.

Regulation, we're committed to establishing the highest standards to how we operate, as expressed in our Group policies and procedures. Ensuring these are applied consistently will be one of the opportunities that is challenging and exciting. I fully anticipate more complex and rigorous laws, of course, and we will continue to address them.

We continue to strive for exemplary corporate conduct and transparency globally. To us, this is fundamental to ensuring the long-term success of our business.

Nicandro Durante
March 2016

External Recognition

Asia Recruitment Awards 2016

- We are pleased to announce that BAT Malaysia has received four awards at the Asia Recruitment Awards 2016 ceremony held on 19th April 2016.
- Awards won:
 - Best Graduate Recruitment Programme (GOLD)
 - Best Use of Recruitment Technology (SILVER)
 - Best Staff Referral Programme (SILVER)
 - Best Candidate Experience by a Corporate HR Team (BRONZE)





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THANK YOU