

TRANSFORMING

TODAY FOR TOMORROW

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**3rd QUARTER 2017
PERFORMANCE**

23rd October 2017

AGENDA

- **Business Review**
- **Q3 2017 Financial Results**

Business Review

Q3

Highlights



Illegal cigarette incidence stabilizing but still very high

-2.0ppt
vs Q2

Legal market volume stable excluding higher inventory levels in trade

+3.0%
vs Q2

Successful transition to full importation model
Gross margins improvement for 3rd consecutive quarter



Stable BAT volume, marginally impacted by Value for Money (VFM) segment and new illegal dynamics

Q3 financial results not improving vs Q2

Challenging Q3 – Illegal cigarettes remains high whilst VFM impact legal market dynamics

Key areas influencing business performance

High Illegal cigs Level



Consumer Affordability

Average consumer daily expenditure (National)

RM 35



64%

2x Meals



22%

Transportation



14%

Communication

VFM Competition

Premium

RM17



VFM

RM12

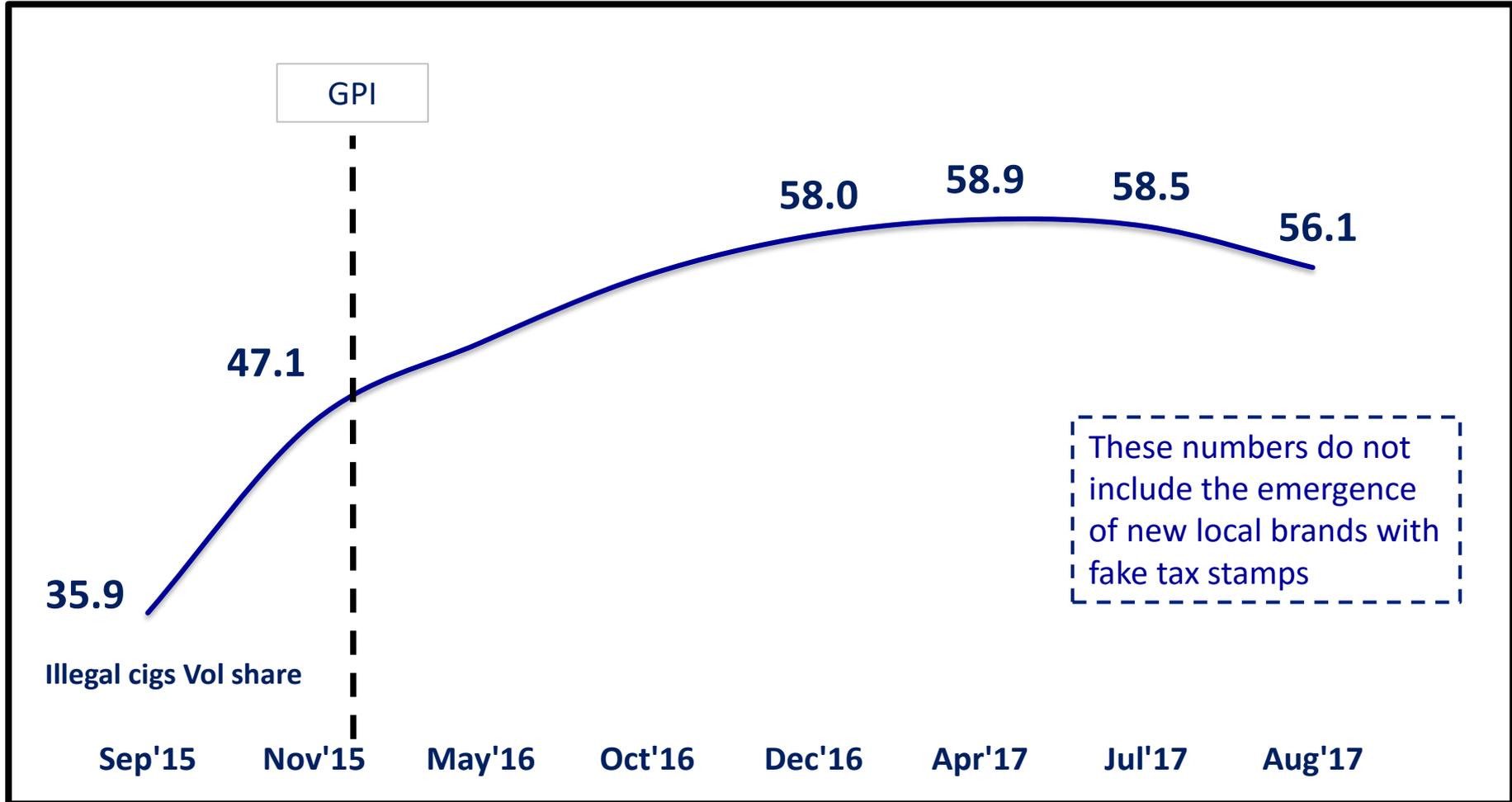
Effective Enforcement

Alternatives to curb demand for illegal cigs

Rothmans
- Long term right, short term pressure

AIT Enforcement

Illegal cigarette trade remains very high despite marginal decline in Q3



Small packs

Why we support this and why it is bigger than BAT

As a legal and respected member of the Malaysian business community we feel it is our responsibility & right to defend fair competition and drive sustainability for BAT and the legal industry.

So, yes, small packs is about business sustainability, but above all it is about helping to shape a society that protects its members from practices (illegal cigarettes) that violate the foundation & rules that one should expect of a developed nation as Malaysia.

Illegal competition – This is not a debate about what you think of smoking

Red card!



Football a game we all like.
A fair competition governed by rules.

But what if one side does not respect the rules?
That's called cheating..... It has consequences!

illegal cigarettes - You don't have to smoke to
understand that they cheat an entire society

We welcome fair competition.
But illegal cigarettes are not fair competition.
They break the law. Sell uncontrolled products.
Evade taxes and they help crime grow across Malaysia.

Illegal cigs syndicates – are #1 in Malaysia due to affordability!

These cheating syndicates will win the game, if no presence of fair rules!

Why legal small packs is a good idea:

- Smoking is a legal adult lifestyle choice.
- We are a legal cigarette company in Malaysia.
- Illegal cigarettes break the law and help criminals.
- Illegal cigarettes do not curb smoking.
- Illegal cigarettes do not contribute to society

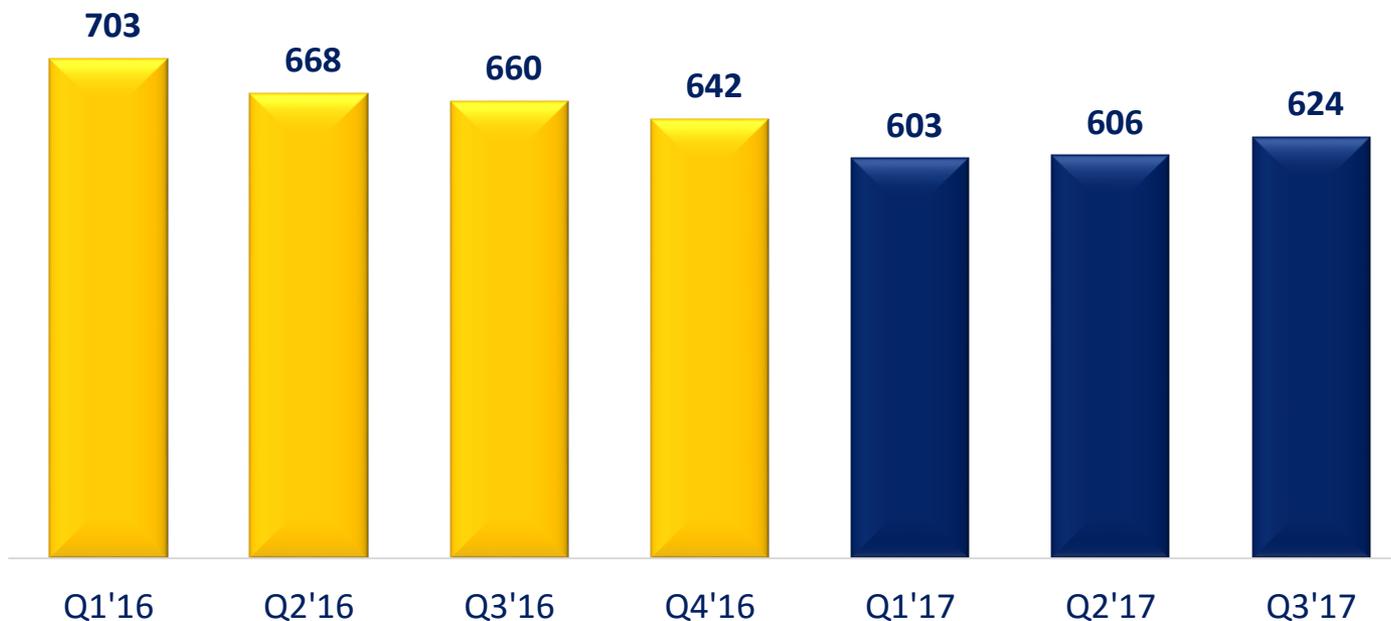
So we should look reality in the face.

And give **legal adult smokers** the possibility to buy **legal cigarette brands**.

Small packs is nothing else then a pragmatic idea to address **affordability**, **combat illegal** cigarettes, allow **sustainable legal business** to operate and help to establish a **fair society**.

Market review update

Slight recovery in legal market driven by VFM inventories

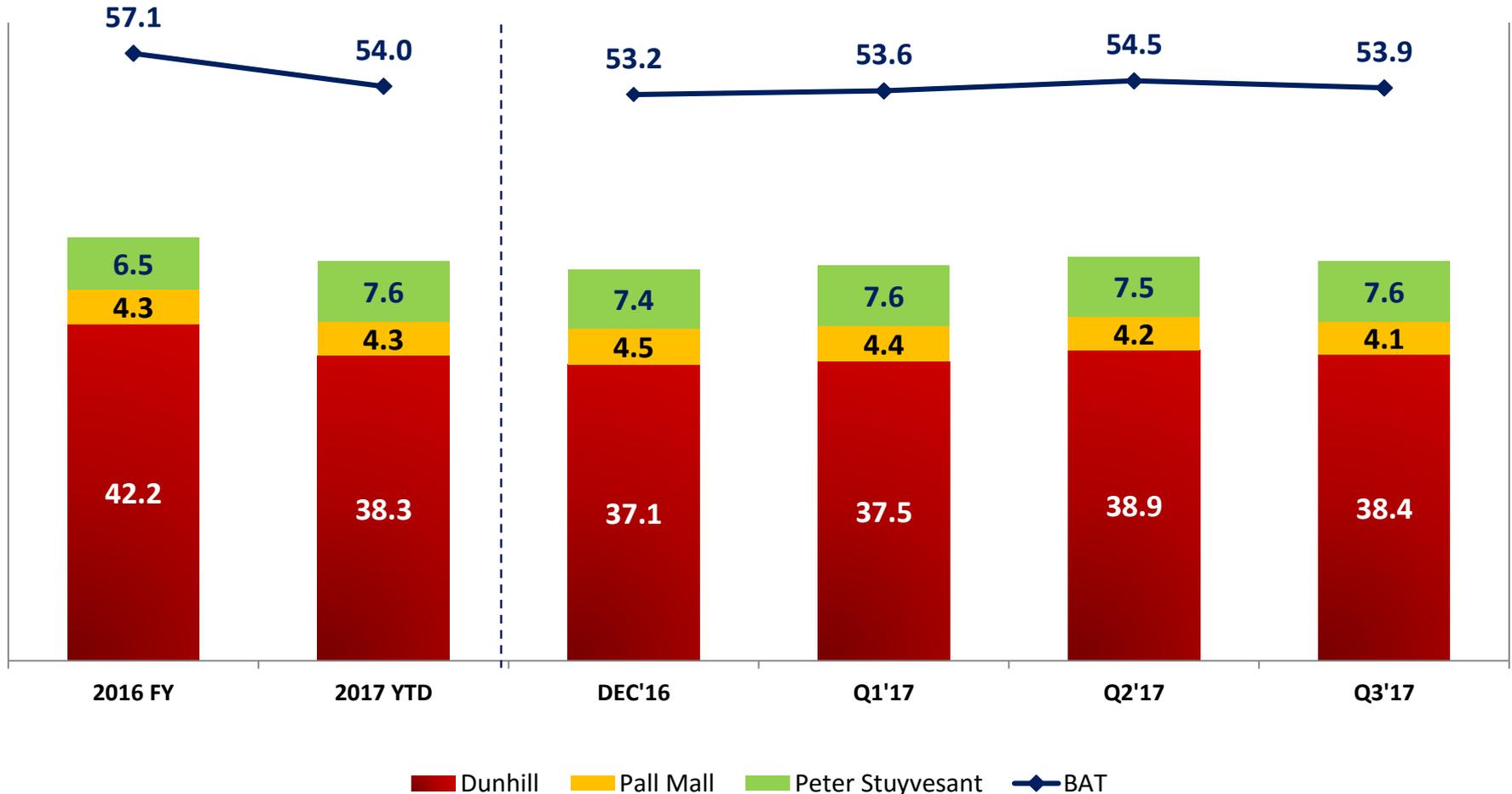


2017 vs. 2016:

To-Date Avg. (Jan-Sep)	2016	2017	Change
Industry	679	611	-10.0%
BAT	397	333	-16.1%

First half share growth momentum interrupted by VFM and new illegal cigs dynamics

Share of Market – Malaysia (%)



BAT entering VFM segment with an iconic brand

*Rothmans



Entry required to address pressure on consumer spending power in spite of lower margins

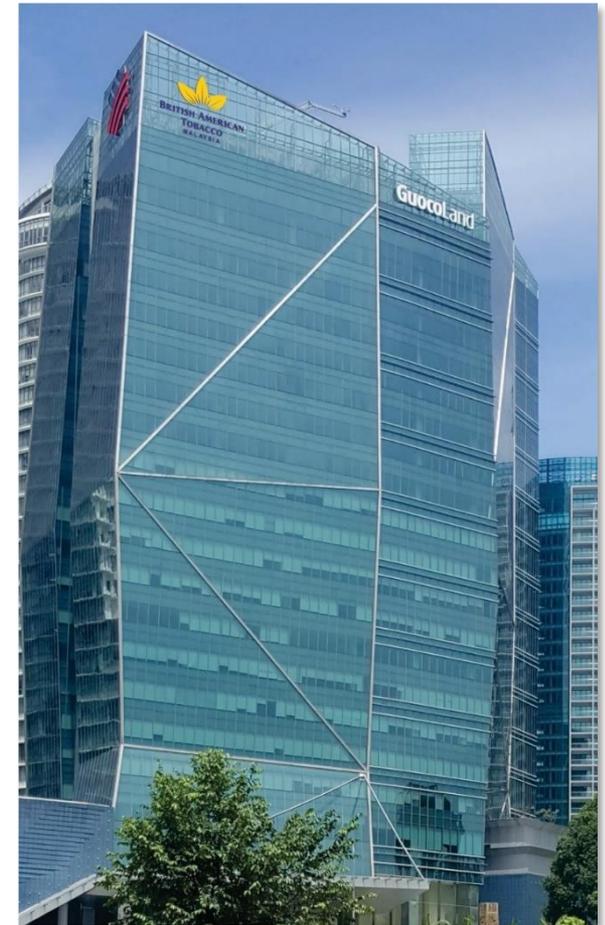
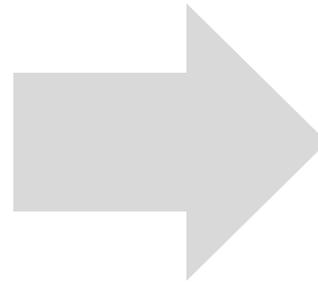
RM
12.00

New Chapter

New operating model, transforming the cost base enabling consumer focus



Successful factory closure and transition to import model



Recognition for our investment in talent



BAT Malaysia has won these awards this year:

1. Excellence In Employee Engagement (Gold)
2. Excellence In Employer Branding (Silver)
3. Excellence In Leadership Development (Silver)
4. Excellence in Innovative Use of HR Tech (Bronze)

Q3 2017 Financial Performance

Financial Metrics Evolution

	YTD Q3 vs SPLY	Q3 vs SPLY	Q3 vs Q2
Volume	-15.3%	-11.9%	-1.7%
Revenue	-21.0%	-18.8%	-2.2%
Profit before tax	-9.2%	-23.5%	-3.7%
Profit before tax w/o restructuring	-19.6%	-22.7%	-4.7%

Signs of stabilization across key metrics, however business environment remains challenging

Q3 Financial impacted by Competitors' entry in VFM

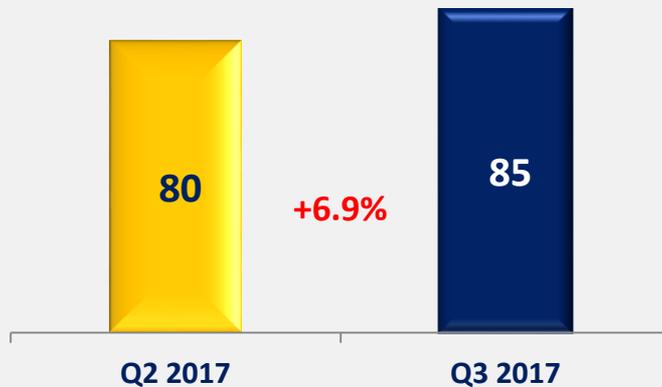
Domestic & duty free volume



Revenue



Operating Expenses (RM'mn)



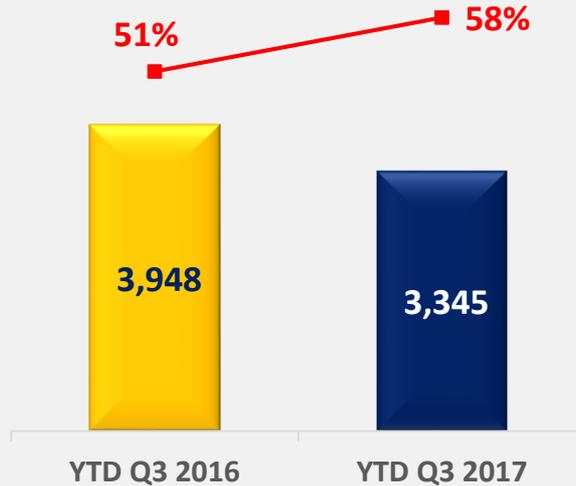
Profit from Operations (RM'mn)



Revenue and volumes impacted by illegal cigs trade

YTD Q3 Performance vs. SPLY

Domestic & duty free volume



Illegal cigs
Volume
Share

Change vs. SPLY

+13.7%

BAT
Volume

-15.3%

Revenue



BAT
Revenue

-21.0%

- Dom & Duty Free -16.0%
- Export -79.5%

Contract manufacturing ceased in Q2 2017

Optimizing cost in delivering bottom line

YTD Q3 Performance vs. SPLY

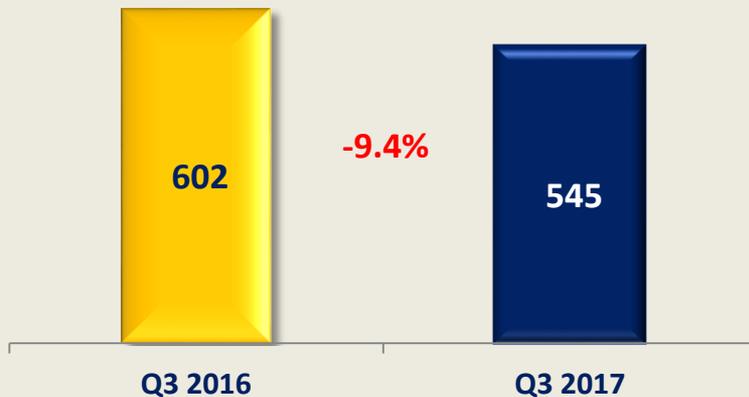
Operating Expenses (RM'mn)



Main Drivers

- Cost base transformation
- Reduction of recharges
- Sub-lease rental
- Timing of spend

Profit from Operation (RM'mn)



Profit from Operations (Excl. restructuring expenses)



Continue to transform cost base

Operating Expenses

YTD vs SPLY operating expenses (%)

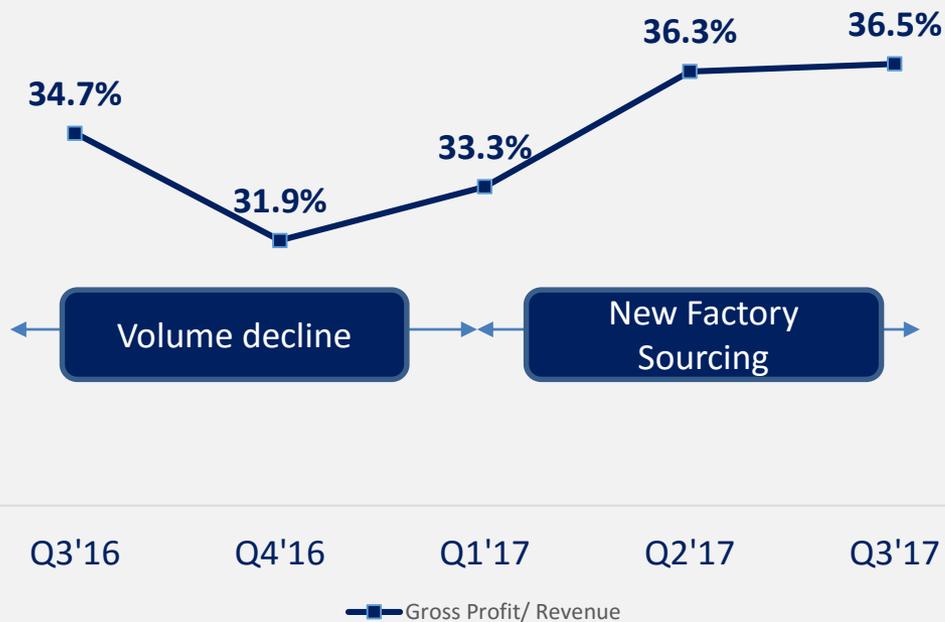


Discreet quarter operating expenses
(RM' million)

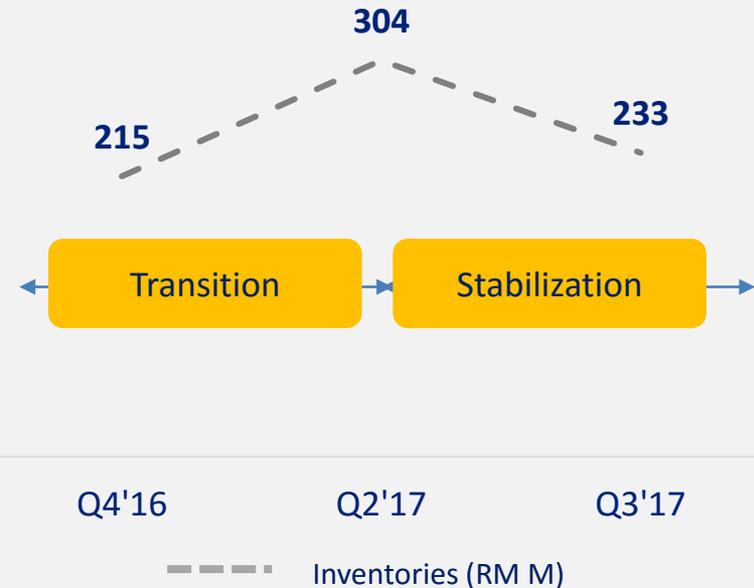
Cost base review during first half allows investment behind Rothmans

Successful implementation of new sourcing model

Gross Margins



Working Capital

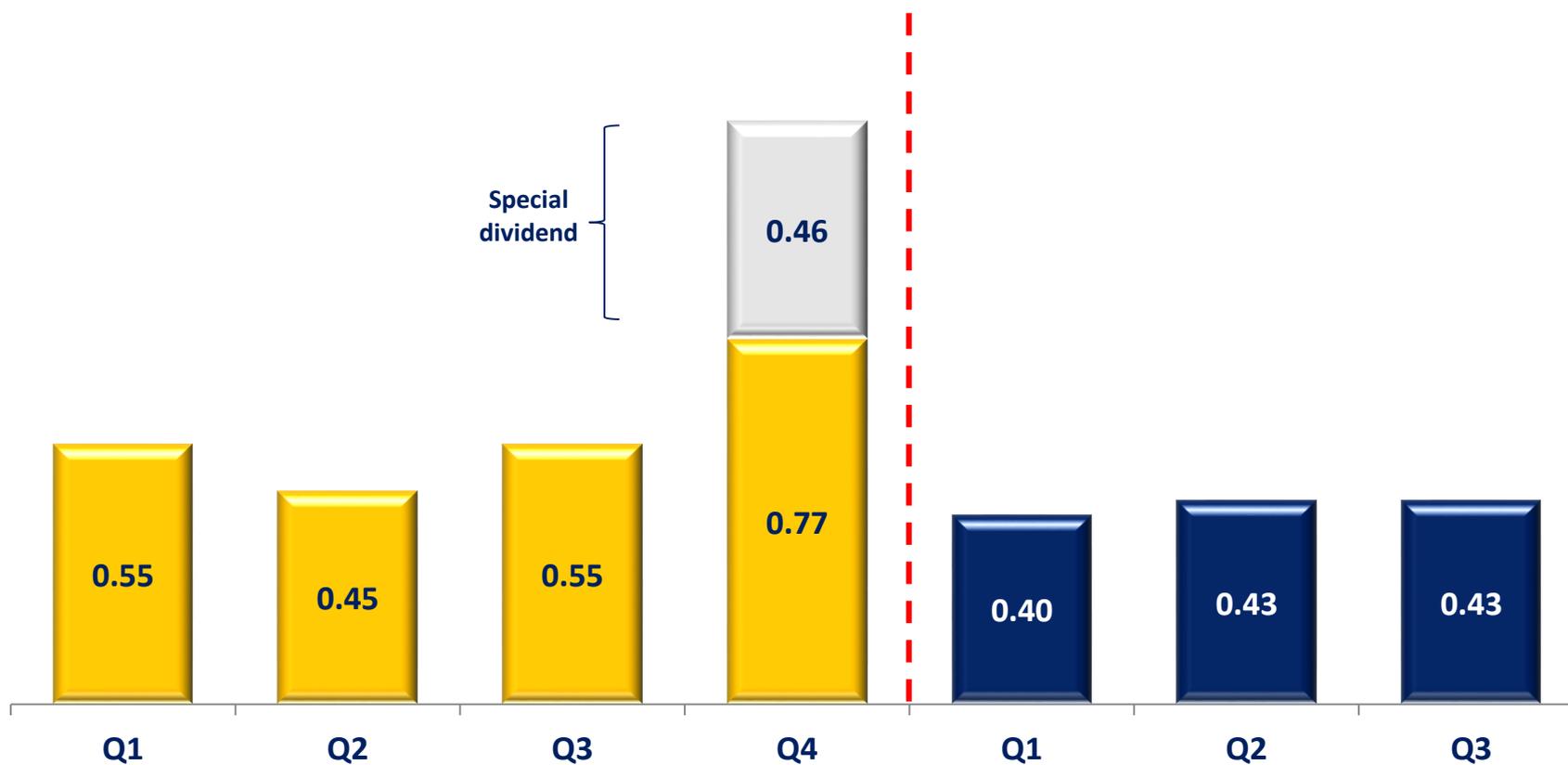


Sourcing change allowed margins recovery in 2017 and investment for VFM

Dividend Payout

2016

2017 YTD



Business challenges remains unchanged

**High illegal cigarettes
level**

Consumer Affordability

Future outlook dependent on the recovery of the legal market and the development of lower price segment

THANK YOU