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ANALYST BRIEFING QUARTER 1, 2014

AGENDA

- **Industry Review, Market Share and Volumes**
- **BATM Review**
- **Quarter 1, 2014 Results**
- **Other Highlights**
- **Future Prospects**



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Q1 2014 Headlines



- 2013, illegal cigarettes up by +1.2ppt V's 2012 (Wave 3 ICS 38.9%)
- New and unprecedented illegal cigarette enforcement by RMC.
- Declining legal industry* domestic volume -8.5% V's Q1'13.
- BATM Domestic & Duty Free volume -6.4% V's SPLY.
- Domestic market share growth of +0.1ppt against SPLY.
- Q1 2014 Contract Manufacturing volume -23% V's SPLY.
- Q1 2014 Profit From Operations +9.3% ahead of SPLY
- Q1 Dividend RM0.75 /share, 95% payout.



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INDUSTRY REVIEW, MARKET SHARE, VOLUMES AND BATM REVIEW

Industry Volume: -8.5% Decline V's SPLY

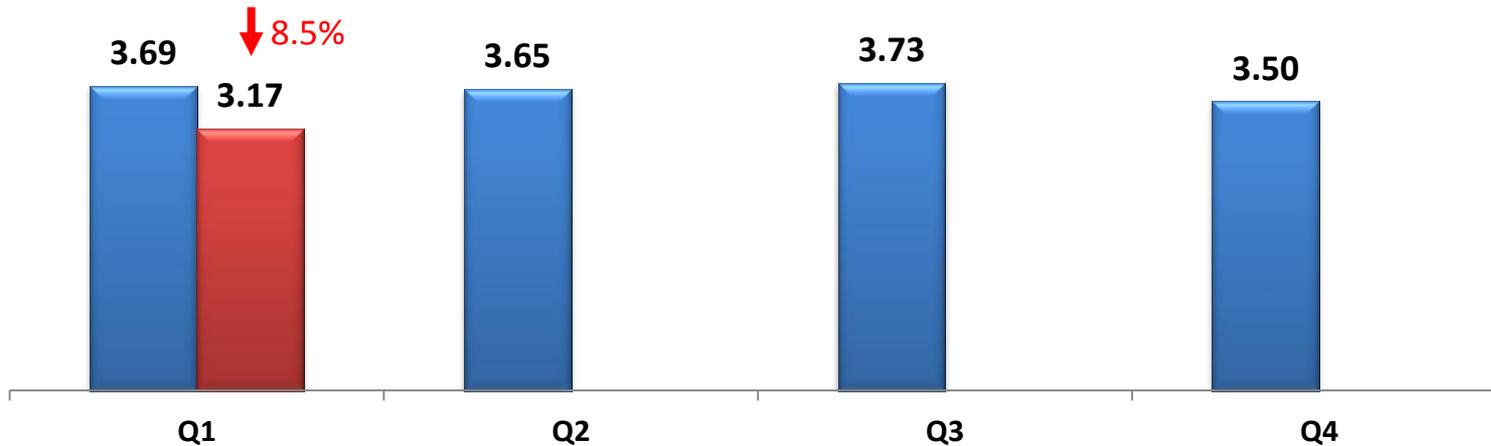
Source: Industry Exchange, IMS Volumes (Kretek + Whites)



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Industry Volumes (bns)
Big3 + Sub VFM + Kretek

■ 2013 ■ 2014



			Volume Variance	% Variance			Volume Variance	% Variance
	Q1 2013	Q1 2014	Q1 2014 vs. SPLY	Q1 2014 vs. SPLY	FY 2012	FY 2013	2013 vs. 2012	2013 vs. 2012
BATM	2.04	1.88	-0.15	-7.6%	8.69	8.04	-0.65	-7.5%
Total Big3	3.27	2.99	-0.28	-8.4%	13.57	12.75	-0.82	-6.0%
Other Whites (estimate)	0.10	0.08	-0.02	-21.2%	0.56	0.46	-0.10	-17.9%
Kretek	0.10	0.10	0.00	0.0%	0.45	0.49	0.04	9.4%
Total Big3 + OW + Kretek	3.47	3.17	-0.30	-8.5%	14.57	13.70	-0.88	-6.0%

Note: 1) IMS volumes of JTI & PMI will not be available on a monthly basis
2) Other Whites volumes extrapolated from Retail Audit

Q1 2014 vs. SPLY:

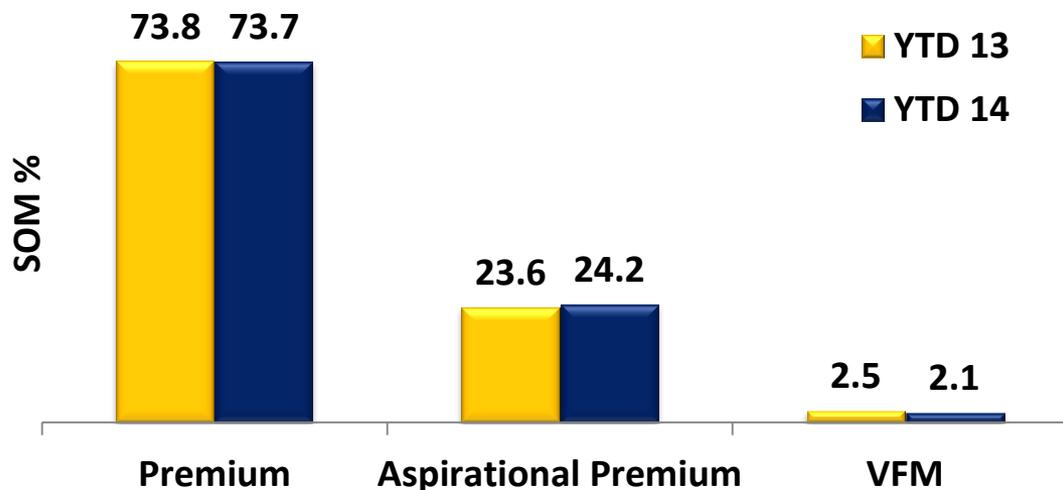
Big-3 -8.4% down. Driven by the price increase in Oct'13

FY 2013 vs. FY 2012:

Big-3 -6.0% down. Close at 12.75 billion sticks.

Aspirational Premium are growing at the expense of Premium and VFM

Source: YTD Feb 14 Malaysia Retail Audit (Base: Total Legal Market – White + Kretek)



SPLY 2013		YTD Feb 14	
<u>Share of Premium</u>	<u>YTD 13</u>	<u>Share of Premium</u>	<u>YTD 14</u>
BAT	72.3	BAT	72.7
<u>Share of Aspirational Premium</u>		<u>Share of Aspirational Premium</u>	
BAT	35.0	BAT	35.0
<u>Share of VFM</u>		<u>Share of VFM</u>	
BAT	0	BAT	0

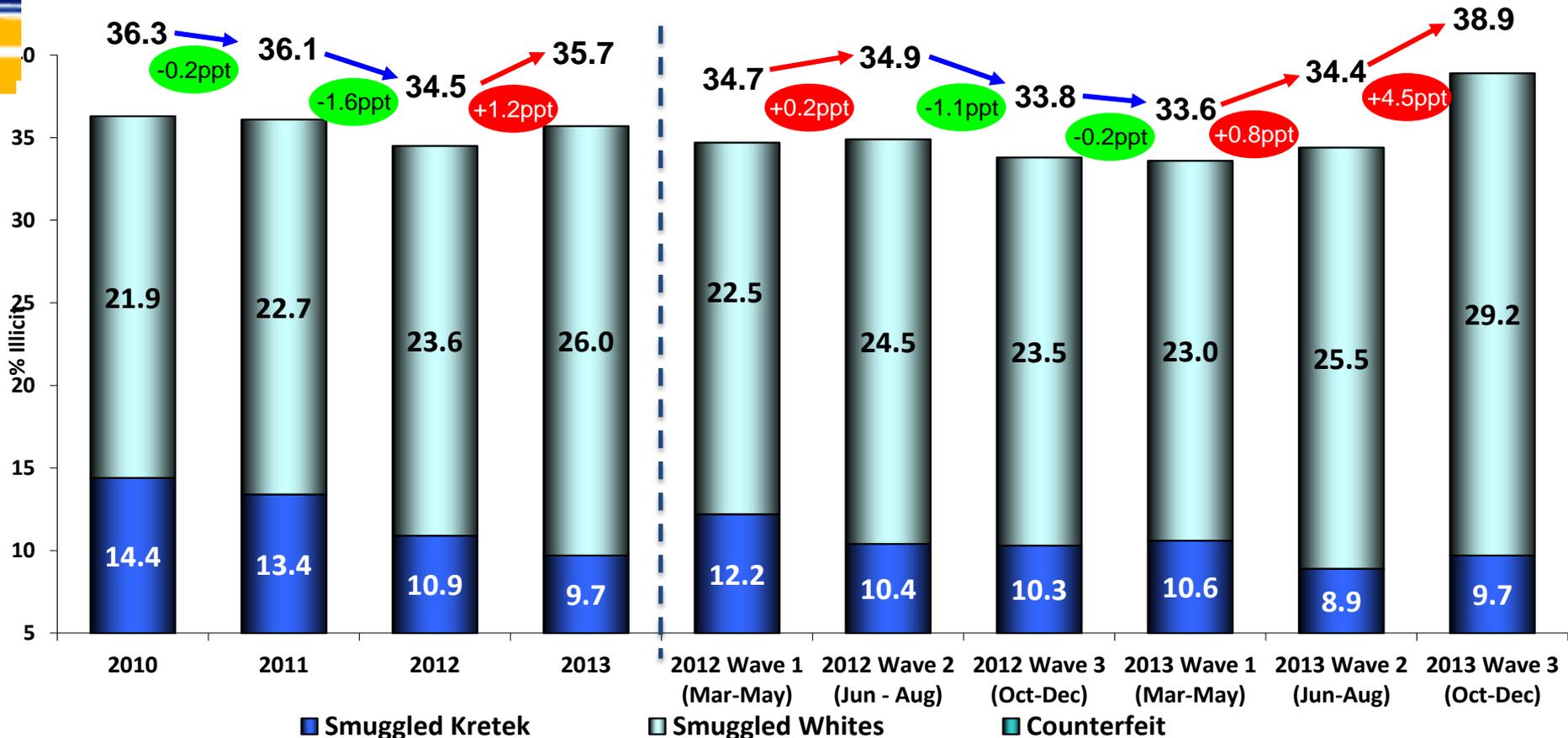
Sharp increase in illegal whites witnessed (W3'13) after excise led price increase

Source: Illicit Cigarette Study, 2010 - 2013

*Survey methodology does not capture sub-VFM brands selling at below minimum price.



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2013 vs. 2012

- Illicit up by +1.2ppt
- Driven by illicit whites which grew after price hikes in 2013

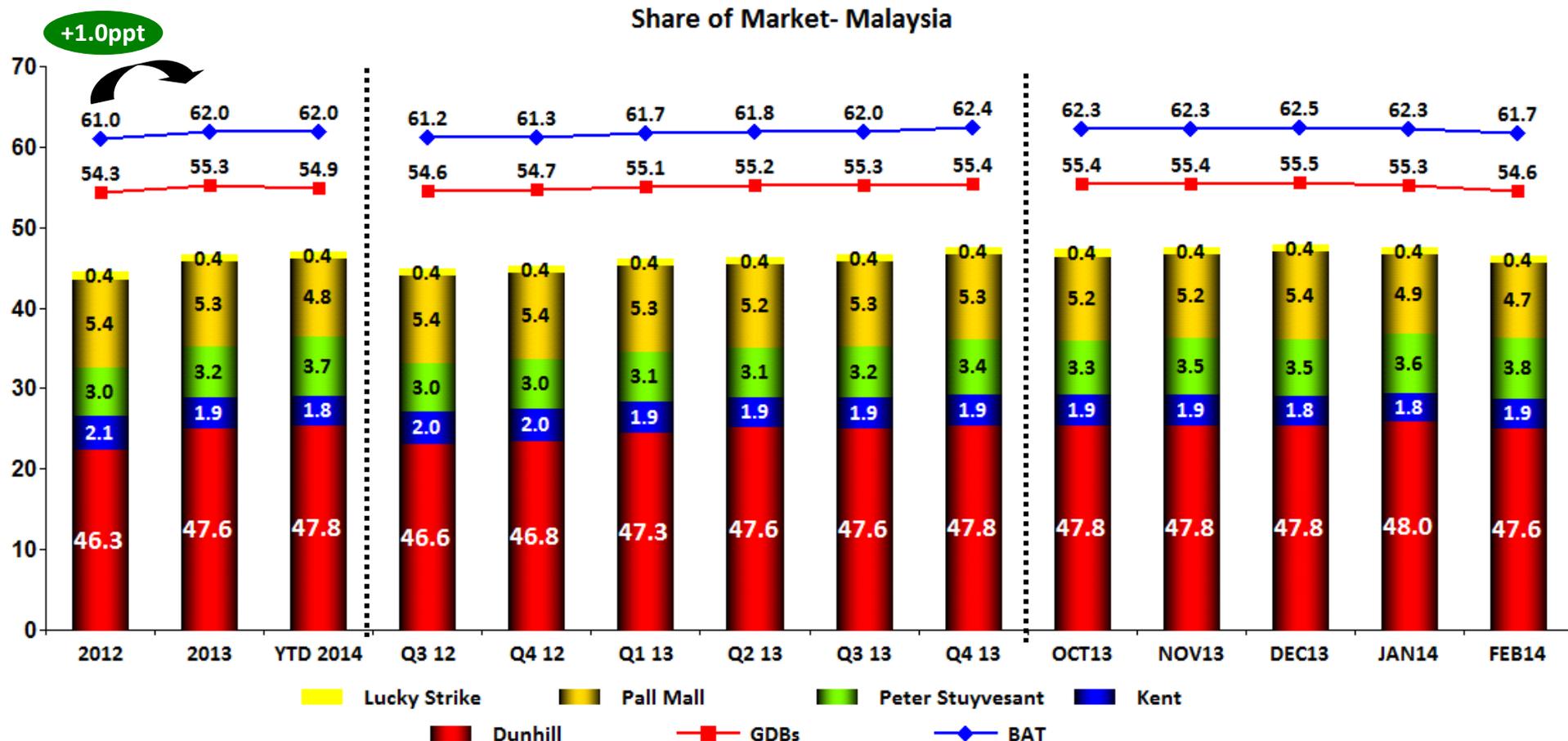
Oct-Dec '13 vs. Jun-Aug '13

- Smuggled Whites up by +3.7ppt
- Smuggled Kretek up by +0.8ppt

BAT showing slight softening post price increase YTD 14 show stable shares vs 2013.



Source: YTD Feb 14 Malaysia Retail Audit (Base: Total Legal Market – White + Kretek)



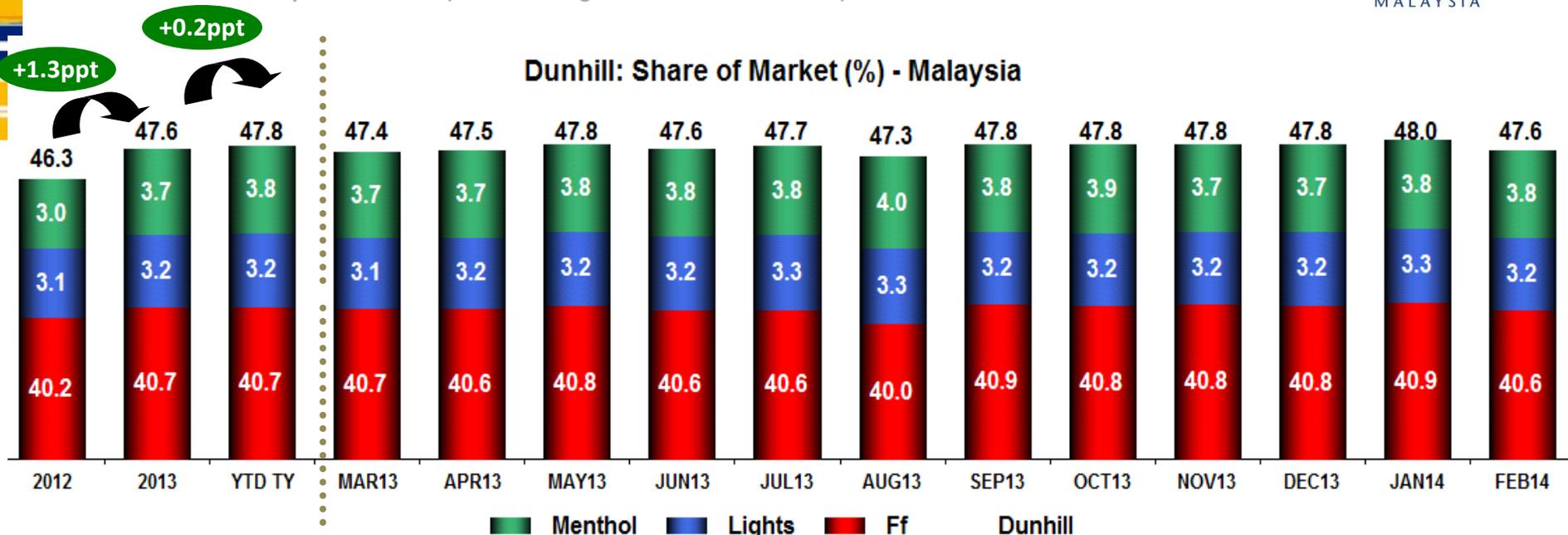
Peter Stuyvesant has been showing month-on-month gradual improvement since Sep'13

Dunhill: Continue to grow in YTD 14 while soften slightly in Feb14.



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Source: YTD Feb 14 Malaysia Retail Audit (Base: Total Legal Market – White + Kretek)



Mar 2013
Dunhill Ice – High Menthol Capsule product (Nationwide launch)

Sept 2013
Dunhill Kretek - Longer satisfaction with rich and finer taste (Nationwide launch)

Dec 2013
Dunhill FF & Lts - Limited Edition Pack (Nationwide launch)

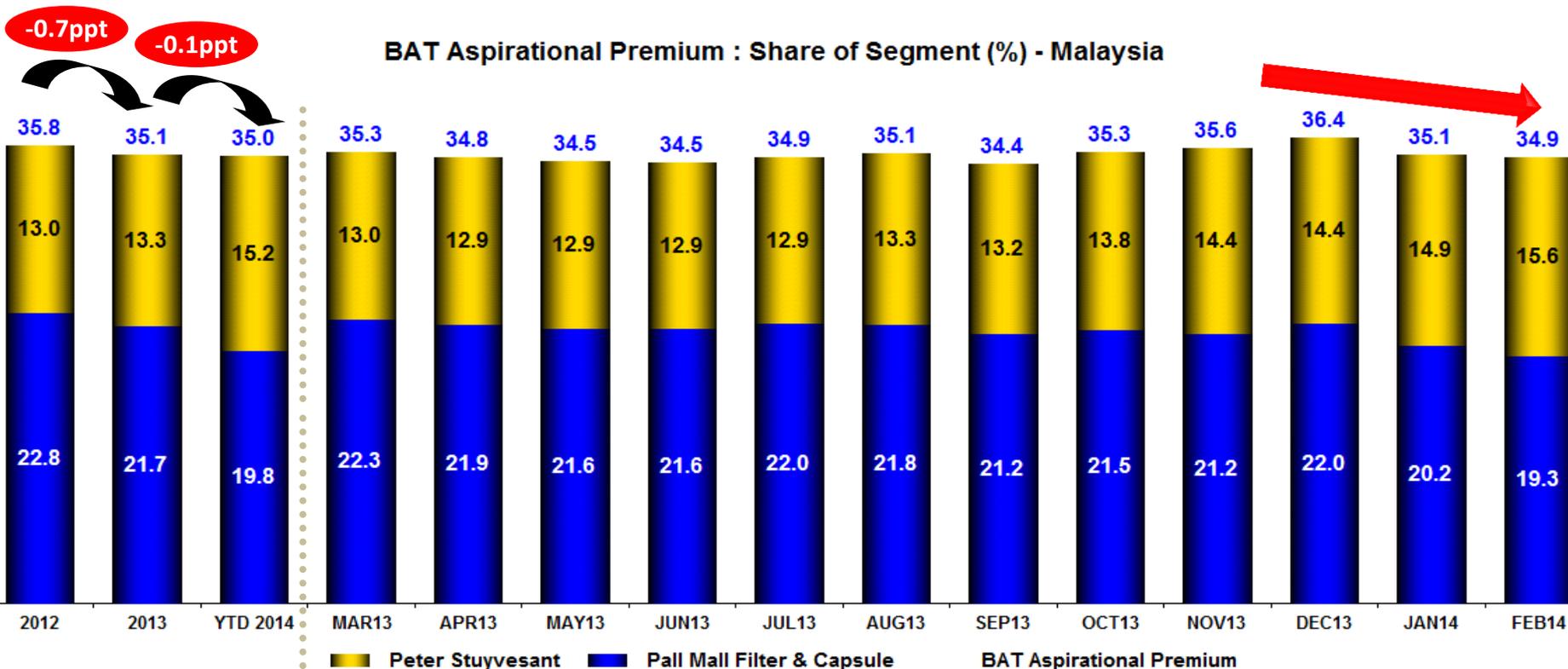


BAT Aspirational Premium SOS softened in recent months

Source: YTD Feb 14 Malaysia Retail Audit (Base: Total Legal Market – White + Kretek)



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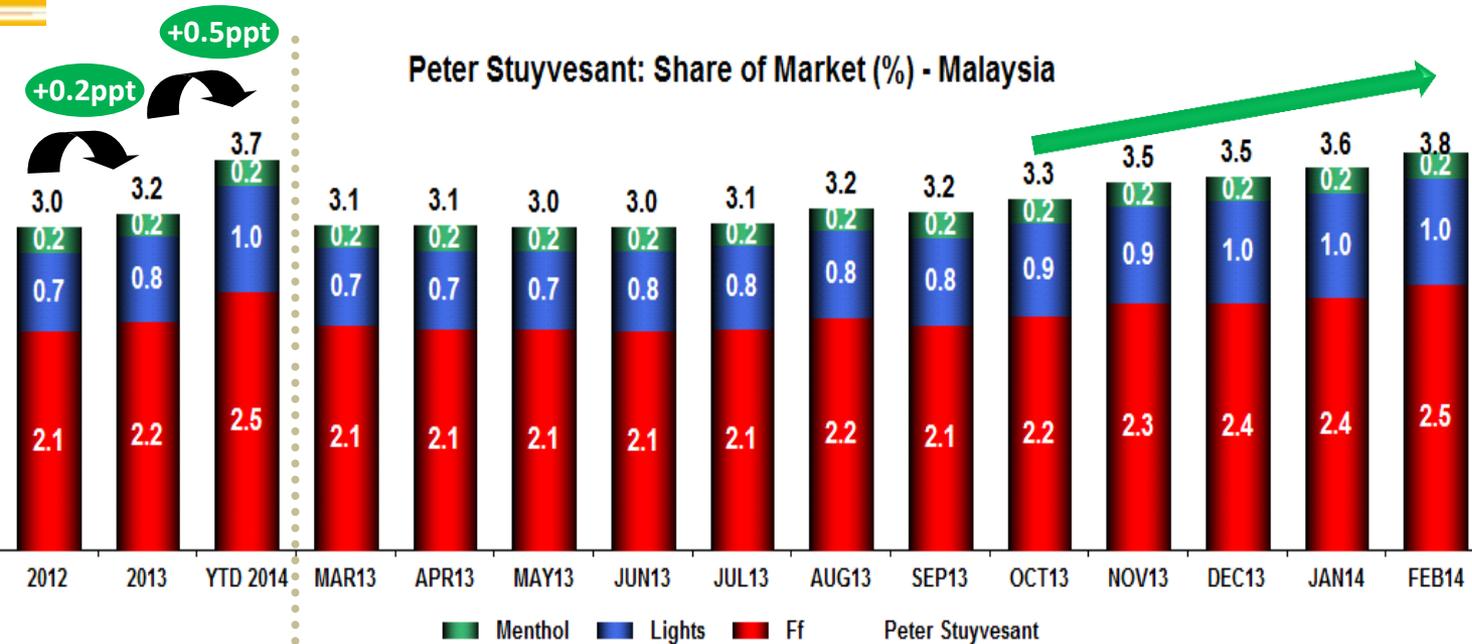


Source: Malaysia Retail Audit (Base: Total Whites, YTD FEB14)

Peter Stuyvesant contributed to the gains

Peter Stuyvesant rejuvenated since Jul'13

Source: YTD Feb 14 Malaysia Retail Audit (Base: Total Legal Market – White + Kretek)



Produk ini mengandungi lebih 4,000 bahan kimia termasuk tar, nikotina dan karbon monoksida yang membahayakan kesihatan.

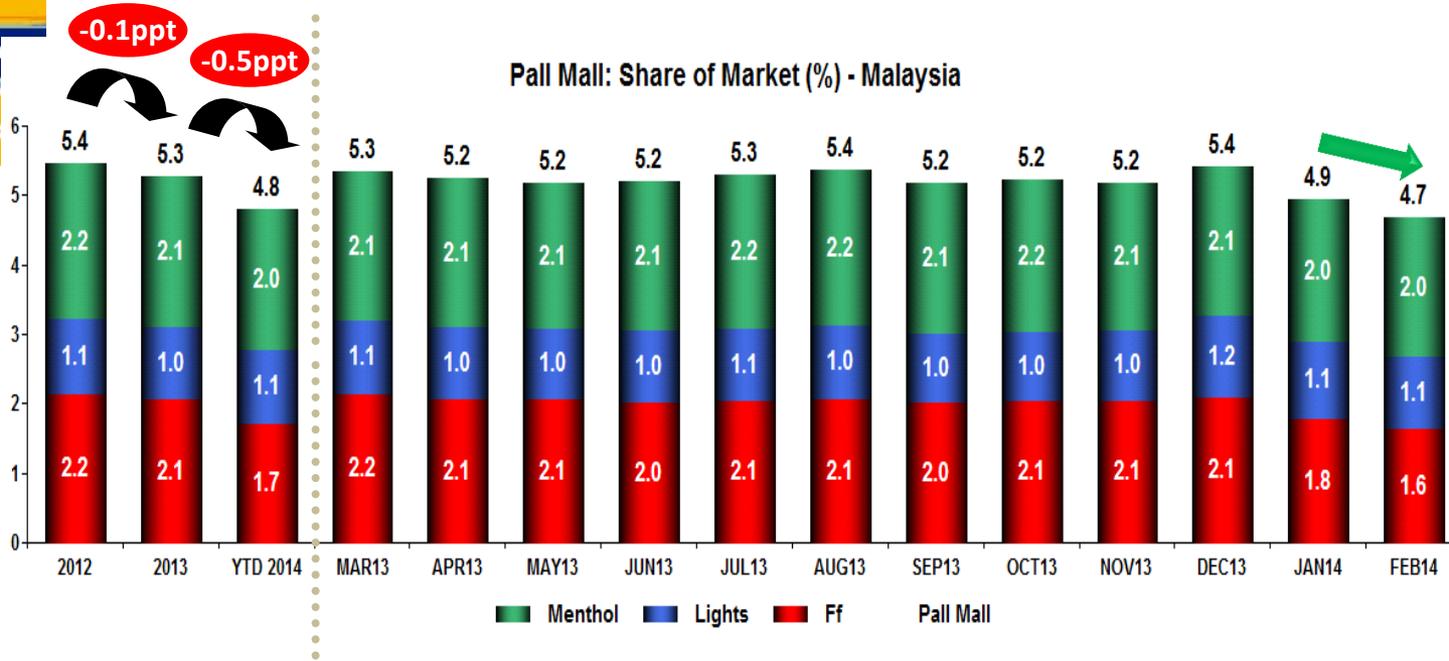
Pall Mall: Shown softening indication of +0.7ppt share gains post product upgrade in Feb'14

Source: YTD Feb 14 Malaysia Retail Audit (Base: Total Legal Market – White + Kretek)



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Dec 2013:
Pall Mall FF & Lts Product Upgrade:
New Blend Plus Capsule



Jun 2013:
Pall Mall Menthol Range Re-launch

Dec 2013:
Pall Mall FF & Lts Product Upgrade:
New Blend Plus Capsule



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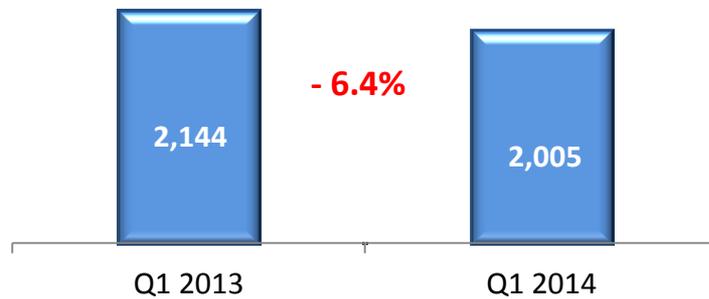
FINANCIAL HIGHLIGHTS

Q1: Volume and Revenue

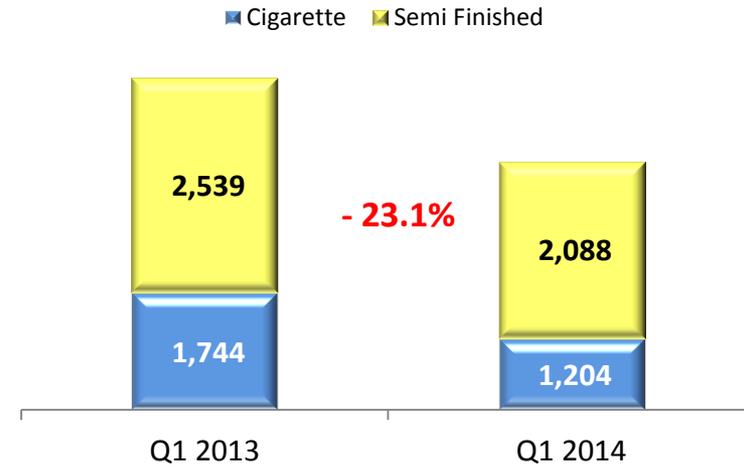


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Domestic & DF Volumes (mn stick)



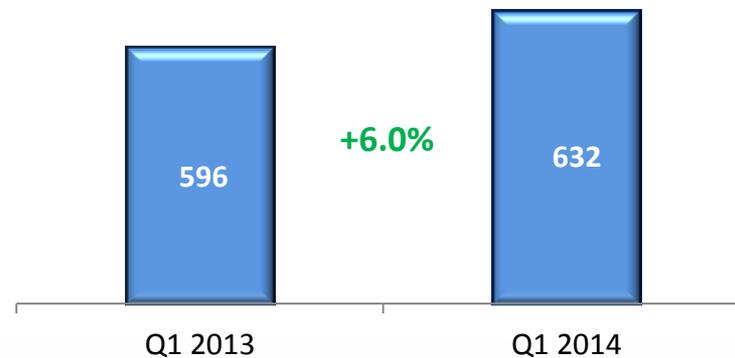
Contract Manufacturing Volumes (mn stick)



Revenue (RM'mn)



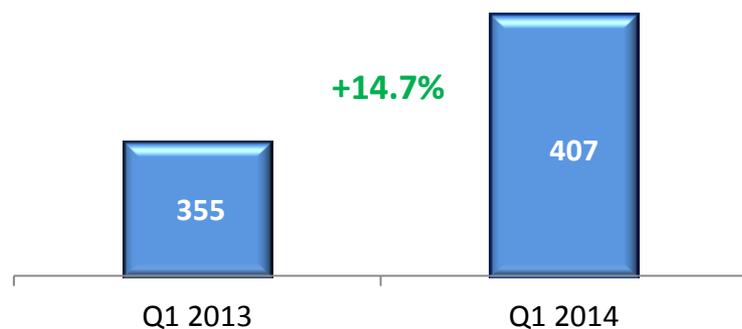
Net Turnover (RM'mn)



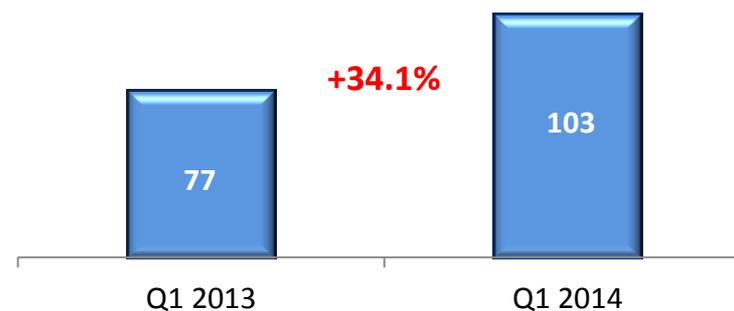


Key Metrics: Total Q1, 2014 vs SPLY

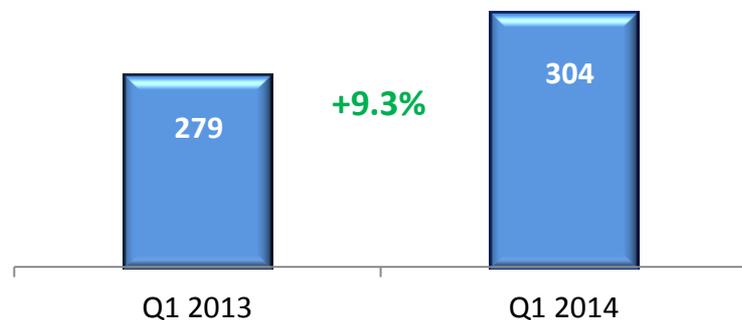
Gross Profit (RM'mn)



Operating Expenses (RM'mn)



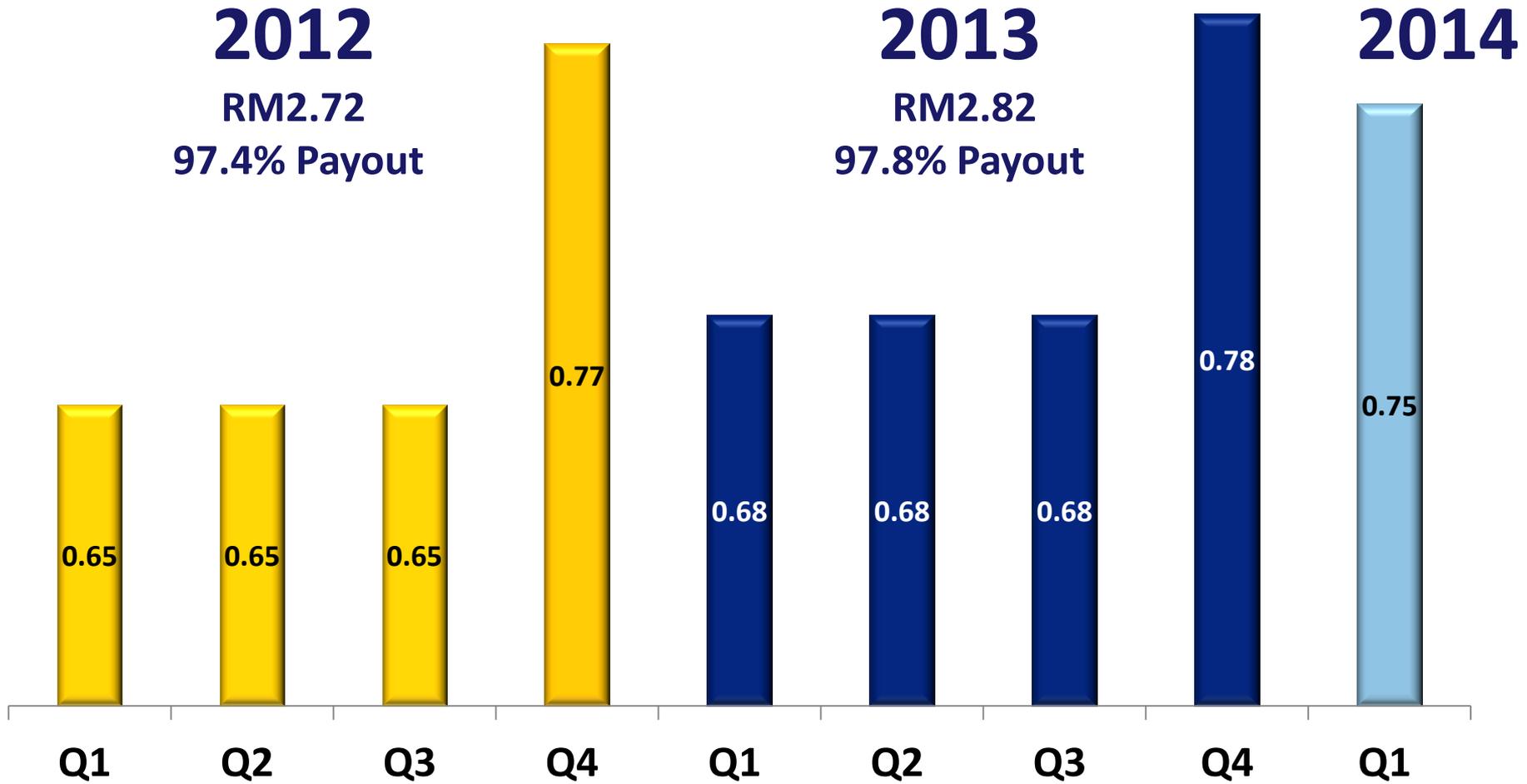
Profit from Operation (RM'mn)



Earning per Share (Sen/share)



Dividends Payout



Q1 2014 Dividend RM0.75, 95% Payout

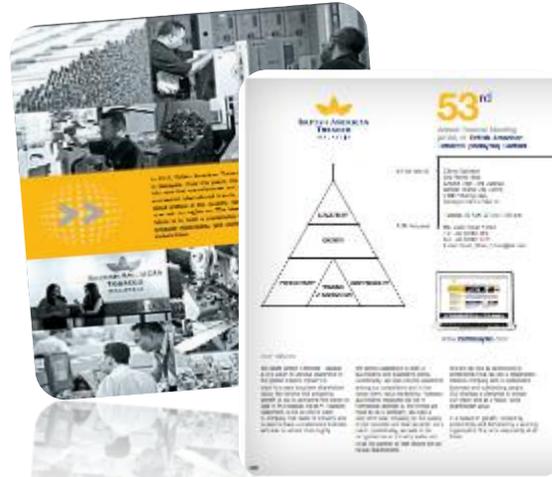


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OTHER HIGHLIGHTS

Highlights of Company's activities

The 2013 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&SKN=1

53rd Annual General Meeting (AGM) – 22 April 2014

The 53rd Annual General Meeting of the Company was held at One World Hotel on 22 April 2014 and all the resolutions tabled at the meeting were carried

Corporate Responsibility Highlights



Launch of BAT plc Sustainability Summary 2013

- Report on the Group's sustainability agenda key focus areas: Harm Reduction, Sustainable Agriculture, and Corporate Behaviour
- Available for download here: www.bat.com/sr2013
- For iPad and Android tablets: iTunes App Store and Google Play App Store



Initiatives against Illegal Cigarettes Trade



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Ops Outlet: Nationwide crackdown on illegal cigarettes at retail point by the Royal Malaysian Customs (RMC)

- *Ops Outlet (Operasi Outlet)* - launched by the RMC on 5th March 2014
- Through Ops Outlet, the Customs has intensified its enforcement activities at retail point and is pushing for stiffer penalties on retailers caught such as imprisonment



Jail for contraband sellers

Local man and three foreigners plead guilty to selling illegal ciggies

By WANI MUTHIAH
ani@thestar.com.my The Star, 10 Mar 2014



The offenders were jailed 7 days and fined between RM 1,000 – RM 5,000

RMC enforcement initiatives has received relentless media coverage since the launch of Ops Outlet on 5th March 2014



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FRIDAY, MARCH 21, 2014

NEW STRAITS TIMES | PAGE 33

The Star, THURSDAY 6 MARCH 2014 **NATION 3**

Cigarette crackdown intensifies

ILLICIT TRADE: Customs officers make big seizures, detain several shop owners



A restaurant owner caught for selling illicit cigarettes in Ampang, Kuala Lumpur, yesterday. Pic by Mir Aziz Mior Kamarubaid

KALIANI KANUPAN AND LAWANJA LINGAN
KUALA LUMPUR
news@nstm.com.my

Small quantity of illegal cigarettes valued at hundreds of ringgit were seized in the operation which ended at 2pm.
The 14-man team from the state Customs department was led by its assistant director Aziz Omar.
Two of the women, including a mother of two small children, were detained at Kampung Air Diriang, while the other was nabbed at Kampung Kekabak.
The officers later recorded a statement from the errant operator, in his 60s, to facilitate investigations into illegal cigarettes, believed to have been smuggled in from a neighbouring country.
Checks showed the operator was selling the cigarettes due to high demand for them.
He said his regular customers had switched to smuggled cigarettes because they were cheaper at RM5 a pack compared with regular cigarettes, which cost between RM7 and RM12 per pack. Additional reporting by Roslainy Haniff, Sharifah Mahiniah Abdullah Rashid, Ali Samsul Illi Shamsul and Rahmat Khairulazmi

THE Customs Department continued its nationwide blitz on the sale of illicit cigarettes over two days this week, seizing several thousand sticks and detaining several people.
The raids, conducted here and in Selangor, Penang, Kelantan, Perak, Kedah and Johor, had caused at least one store owner to resist detection while traders at other markets went running.
The raids here were carried out yesterday at a restaurant in Jalan Belangkas, Ampang and another in Pandan Jaya. More than 100 packs of cigarettes were seized during the raid in Jalan Belangkas.
The illegal cigarettes were found stashed under the cashier's counter and the restaurant owner, in his 60s, reluctantly surrendered them when questioned by enforcement officers.
Among the brands confiscated were Lum

man, Pine, Canyon, Gudang Garam and Nusantara.
The restaurant owner was taken to Ampang police headquarters for questioning.
At the Pandan Jaya restaurant, illicit cigarettes were found hidden in the shop's storeroom.
A foreigner who was managing the counter was detained to assist investigations and the restaurant owner, who was informed of the raid, was said to be rushing back from Kajang.
In Bandar Baru Sungai Balo, Selangor, Customs enforcement officers raided a mini market, but only found three packs of contraband cigarettes, which a Bangladeshi shopkeeper claimed was his.
The officers detained the foreigner for questioning.
In Tampar, three women were detained in separate raids by the department in the district yesterday for possessing illegal cigarettes.
The officers, who owned sundry shops in Kawasan A1 (Phoria) and Kampung Kebekak, were arrested in a three-hour operation.

NATION

Illegal ciggie vendors, beware!

Ops Outlet

Under this nationwide crackdown by the Customs Department on retailers selling illegal cigarettes, those caught will be remanded and can face jail terms of 3-5 years under section 135(1)(d) of the Customs Act (1967).

Malaysia is ranked No.1 in the world in the illegal cigarette trade (2013 Goldman Sachs Global Investment Research report); 38.9% of cigarettes in the local market are illegal*.

An estimated RM2bil in taxes is lost annually to the illegal cigarette trade.

The Health Ministry has issued a warning that illegal cigarettes are two times riskier and more harmful compared to legal ones due to the high levels of poisonous chemicals such as arsenic and cadmium.

The following have been identified as the Top 6 illegal cigarette brands in the Malaysian domestic market*:



* Source: Wave 3 2013 (October-December) of the Illicit Cigarette Study, commissioned by the Confederation of Malaysian Tobacco

- 1. Absence of the 6 rotational graphic health warnings as mandated by the Health Ministry.
- 2. No Malaysian tax stamp or Customs security mark.
- 3. No description of registered importer or manufacturer.
- 4. Packs with non-Malaysian tax stamps.
- 5. Brands not registered with Customs.
- 6. Packs with fewer than 20 sticks of cigarettes.

Ops Outlet to deter sale of illegal cigarette

By MADIRAH H. RODDY
news@nstm.com.my

PETALING JAYA: The Customs Department is enticing the help of cigarette outlets to put a stop to the selling of contraband smokers in the country.
The nationwide operation called Ops Outlet will educate the owners on why they should cease distributing illegal cigarettes.
The Malaysia-Singapore Coffershop Proprietors' General Association announced that it is supportive of the move after the launch of the operation yesterday.
"We would be criminals ourselves if we were to sell illegal cigarettes," said its president Ho Siu Ming.
He said it is important to make the owners be targeted at the consumers as well



Customs pressing for maximum sentence against contraband sellers

By FARIK ZOLKEPLI
fari@nstm.com.my

KUALA LUMPUR: Illicit cigarette vendors will now be treated like common criminals and remanded for up to seven days if they are caught.

Concerned that Malaysia is now ranked number one in the world for the sale of contraband cigarettes, the Customs Department is also pressing for maximum sentence against them.
Those caught selling the contraband items face a maximum three years imprisonment or a fine of up to 20 times the value of the seized item or both under Section 135(1)(d) of the Customs Act 1967. Repeat offenders face a maximum of five years imprisonment and a fine of up to 40 times the value of the item.

Customs director-general Datuk Seri Khazali Ahmad said the department would also push for a compulsory jail term for the offenders to act as a deterrent.
"The fear of being jailed is the best deterrent to cripple the illegal cigarette trade in the country. We want to put an end to the sales and consumption of the contraband," he told a press conference after launching a nationwide operation dubbed Ops Outlet yesterday.

Khazali said the illegal trade was costing the Government some RM1.9bil in unpaid duty annually and the department had formed 44 strike teams to conduct checks and raids on outlets suspected of selling illegal cigarettes.
"Currently, 25% of the total cigarettes on sale in the country are illegal products. Under Ops



Outlet, we aim to reduce the number to at least 30% this year," he said.
While the operation was focused on retailers, Khazali said those caught buying or even possessing the illegal item would face similar punishment.
He added that the department had encouraged wholesalers to blacklist traders found to have sold illegal cigarettes.
Khazali explained that since 2010, 752 people had been charged in court for the offence.
The department, he said, had seized more than 1.6 billion sticks of illegal cigarettes worth more than RM134mil since 2011.
"Unpaid duty on the seized products totalled RM181mil. We are making headway in the war against cigarette smuggling," he said.
Those with information on the sales of illegal cigarettes can contact the department at 1-800-888-855.
Studies have consistently found that illicit tobacco has higher concentrations of toxic heavy metals when compared to legal cigarettes. Their cadmium levels were also up to 6.5 times higher than authentic brands. They also contained thallium (4.9 times) and lead (13.8 times).

Woman hides in shop to avoid arrest

KUALA LUMPUR: A grocery shop owner locked herself inside her shop as Customs officers were about to detain her yesterday.
She was one of two grocery shop owners detained during Op Outlet raids against illicit cigarettes in Pekan Bukit Pasi and Taman Bukit Pasi at Lam.
The woman, however, eventually emerged

when Customs officers were about to break down the door of the shop.
She then told the officers she wanted to call her son to tell him she was being detained.
The officers, who arrived in six four-wheeled vehicles, split into two teams and raided four premises.
Following the hour-long operation by 20



Customs officers seizing cartons of illicit cigarettes during an Op Outlet raid in Batu Pahat, Johor, yesterday. Pic by Syarifah Abd Samad

personnel, two of the premises were discovered to have been selling illegal cigarettes.
About 50 cartons of cigarettes of various brands were seized from the two premises.
The owners were taken to Batu Pahat Customs Department office for investigation.
Raids were also carried out in Perak and Kedah yesterday.

In Teluk Anson, 2,656 sticks of contraband cigarettes worth RM292, seized from a 55-year-old sundry shop owner in Taman Sri Iskandar, Hutan Melintang.
During the raid, the presence of the Customs officers caused traders at the Teluk Intan Market to run hither-and-thither.
The officers, who arrived in several unmarked vehicles, recovered a polystyrene box filled with contraband cigarettes, which was left at a nearby parking lot by one of the traders.

In Alra, Kedah Customs officers detained a sundry shop owner in his 30s and seized 390 packs of cigarettes with an estimated value of RM350 during a raid in Taman Seri Aman here on 10.30pm yesterday.

Most of the cigarettes were found under the cashier's counter, while the remaining contraband was found stashed in a black garbage bag and hidden in a trash bin behind the counter.

THE CLOUD OF MYSTERY MAY SOON CLEAR

Use this to monitor what you produce

Future Prospects



Following the excise led price increase in late Q3 2013, illegal cigarettes trade spiked in the last quarter of 2013. Q4 2013 industry domestic volume collapsed by 17% and the wave three 2013 ICS (Illicit Cigarette Study) showed a huge +4.5ppt increase in illegal cigarette trade to 38.9%. The Group is highly concerned about the overall shrinkage of the legal market but is however most encouraged by the Royal Malaysian Customs' response in addressing illegal cigarettes trade through their recent and unprecedented enforcement activities.

In 2014, the performance of the Group will be heavily contingent on the effectiveness and sustainability of enforcement activities against the illegal cigarettes trade. In spite of the circumstances, the Group is pleased with its Q1 performance, and remains cautiously optimistic for the year ahead given the factors outlined above.



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THANK YOU