news release

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## GAME CHANGING EFFORTS NEEDED TO ADDRESS ILLEGAL CIGARETTES

**Petaling Jaya, 17 October 2013** - British American Tobacco (Malaysia) Berhad (BAT Malaysia) today announced its financial results for the third quarter of the year ended 30 September 2013.

**Year to date Quarter 3 2013 financial highlights:**

- **Revenue** grew by +4.7% versus same period last year primarily driven by the increase in contract manufacturing volume.
- **Gross profit** was +0.6% ahead against same period last year due to price increase and export volume growth marginally offsetting domestic volume decline and product cost increases.
- **Operating Expenses** were lower by -13% versus same period last year, a combination of 2012 non-recurring costs, lower IT costs and timing of expenditure.
- **Profit from operations** was +4.6% higher compared to the same period last year.
- **Profit after tax** and **Earnings Per Share** were 5.5% ahead compared to the same period last year.

Arising from the Group's financial performance, the Board of Directors has declared a third interim dividend of 68 sen per share. Year To Date dividends paid and declared represent 92% payout of Year To Date earnings.

BAT Malaysia maintained its strong share performance through July and August, further edging forward the year to date share of market to 61.8% (as of August 2013), reflecting a +0.9 percentage point growth versus the same period last year*.

"DUNHILL continues to perform extremely well, growing +1.5 percentage point ahead of the same period last year. Notably all the DUNHILL's SKUs have either grown market share or remained stable, with both Dunhill Switch and Ice adding +0.4 percentage point from last year. Notably, in Q3, the Group has launched Dunhill Kretek, the first Premium kretek in the market, and also in the quarter, Peter Stuyvesant was upgraded with a freshness seal. Overall, we are happy with our share performance, particularly Dunhill, but we are concerned about legal industry volume decline due to the continually high level of illegal cigarettes in the market. The recent disappointing high excise increase only exacerbates the situation, "said Stefano Clini, Managing Director, BAT Malaysia.

"The current state of the economy and further potential constriction of consumers' disposable incomes will not bode well for consumer goods. Based on the current dynamics, we expect a contraction of the legal market in the months to come, particularly as a result of consumers down trading to illegal cigarettes. If there is ever a time for a game changer to curb the illegal cigarette trade and claw back lost revenues, the time is now," added Clini.

Currently, Malaysia has one of the highest levels of illegal cigarette consumption in the world at 34.5%**, which means that more than 1 in 3 sticks sold are illegal. Priced around RM3 to RM4 per pack, illegal cigarettes are very affordable and widely available. Health proponents laud the virtues of increasing cigarette excise to reduce consumption, focusing only on the legal industry but conveniently ignore the fact that consumers are merely substituting legal cigarettes for illegal products.

Criminals rake in approximately RM1 billion in revenue per annum from illegal cigarettes and the Government loses up to RM 2 billion in lost excise revenues. "We commend the bold proposal by the Director General of Royal Malaysian Customs on making the sale and possession of illegal cigarettes punishable with a mandatory imprisonment term," said Clini. "Ending up with a loss of liberty and criminal record for these illegal cigarette operators may be more of a deterrent compared to just being slapped with a fine – which they consider to be merely a cost of doing business," he added.

"We also laud the Ministry of Home Affairs' and Royal Malaysian Police's ongoing efforts in Ops Cantas Khas to stamp out criminal syndicates and deprive them of their ill-gotten gains, as this would serve as a deterrent given that their motivation is financial gain. We believe illegal cigarette smuggling is part of these criminal networks and we hope that game changing efforts such as Ops Cantas Khas will be extended to address illegal cigarette trade," Clini further added.

"In spite of the uncertain business outlook from the expected loss in legal volumes, British American Tobacco Malaysia will not compromise on its adherence to the highest standards of quality in all of its products and operations, in order to meet the exacting demands of its consumers, shareholders and relevant stakeholders," said Clini.

**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.*

***International Tax and Investment Centre & Oxford Economics Report, September 2013*

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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