



CHANGING INDUSTRY DYNAMICS AND CONSTANT HIGH LEVELS OF ILLEGAL TRADE PRESSURING LEGAL VOLUMES

Bukit Damansara, 25 July 2019 – British American Tobacco (Malaysia) Berhad (BAT Malaysia or the Company) today announced its financial results for the second quarter of the year that ended 30 June 2019.

The illegal cigarette trade remains high, holding at 60% putting pressure on legal industry volume. (Source: Illicit Cigarettes Study). Total legal industry volume has declined by 8% when compared to the same period of the previous year, largely due to SST led pricing and high illegal cigarette incidences. The growth of quasi legal cigarettes with fake tax stamps and other illegal products in the market are putting additional pressure on the legal industry volume.

Despite external pressures, Quarter 2 of 2019 sees BAT Malaysia outperforming the legal industry, marking a 3.6% growth versus the preceding quarter. This has translated to revenue growth by 3.2% in the second quarter of 2019. However, consequent to the overall decline in legal volumes and increase in operating expenses by 19.5%, the Company registered a decline in profit from operations by 10.9% compared to the previous quarter.

The Company registered a market share of 54.8% in the second quarter of 2019, indicating a stabilization mainly driven by the strong performance of ROTHMANS in the value-for-money (VFM) segment. ROTHMANS continues its growth trend, registering an increase of 0.6ppt versus the previous quarter. This indicates a trend of downtrading from premium and aspirational premium to VFM.

Premium brand DUNHILL remains stable despite a slight impact to market share by 0.3 ppt when compared to the first quarter of 2019 due to affordability stretch on consumers remaining a key challenge.

Q2 2019 Financial Highlights:

- Revenue increased by 3.2% compared to previous quarter, yet H1 revenues were 4.2% below H1 SPLY;
- Operating expenses increased by 19.5% compared to previous quarter mainly due to higher marketing spend in new segments;
- Profit from operations registered a decrease of 10.9% compared to the previous quarter and down by 19.4% compared to SPLY attributed to phasing of operating expenses and the Group's investment into fighting the high levels of illegal trade.

Based on the Company's financial performance, the Board of Directors has declared a second interim dividend of 0.26 sen per share.



Erik Stoel, Managing Director of BAT Malaysia said:

“The results of the last quarter are a reflection of the escalated efforts management has undertaken in order to defend its position vigorously, preserve long-term shareholder value and fight against a dynamic marketplace under siege from continued high levels of contraband cigarettes.”

“If the industry continues to be pressured without any meaningful interventions, we will have to review the level of our investment in Malaysia.”

Four years on, since the surprise excise increase on legal tobacco, the levels of illegal tobacco have grown by double-digits despite constant calls for action to be taken. Erik added that all stakeholders need to wake up to the severity of the issue and take a reality check. The persistent high levels of illegal tobacco has seen the Company committing additional resources to commission an international study highlighting the impact of this black economy on the country.

“We needed to show that this is an issue that impacts more than just our business. Since the release of an international study by Oxford Economics on illegal tobacco, we have seen renewed vigour on the issue by stakeholders like Datuk Seri Akhbar Sattar coming out to voice his concerns.”

“The Royal Malaysian Police have also proactively engaged on the issue with Inspector General of Police Datuk Seri Abdul Hamid Bador and Bukit Aman Internal Security and Public Order Department Director Commissioner Datuk Seri Acryl Sani identifying and investigating four key syndicates. We applaud their swift action and hope that this continues to pressure and cripple the criminal syndicates masterminding this black economy.”

Erik also said that:

“I’d like to remind all stakeholders that this is an issue beyond enforcement. A cross-government action plan involving key ministries and agencies need to be in effect to bring down the levels of illegal tobacco entering into Malaysia.”

“We won’t be able to overcome this if, on the Government’s end, there is no collective will to ‘*come to the table*’ – especially, now, where new market dynamics have surfaced with the growth in cigarettes bearing fake tax stamps and unregulated vaping products. The last thing we want is for this highly illegal environment to persist and be normalised.”

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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 is the leading tobacco company in Malaysia. This strong position is built upon a portfolio of high-quality tobacco products designed to meet diverse consumer preferences. Our portfolio includes world- famous brands like DUNHILL, KENT, PETER STUYVESANT, PALL MALL and ROTHMANS.

British American Tobacco Malaysia employs almost 500 employees who are involved in a wide spectrum of disciplines, from generating insights, developing brands and making these available on a national level. In addition, we also set leading edge talent development practices as well as ensure a strong foundation of corporate governance and shareholder relations.

The company 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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