News Release

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HIGH ILLEGAL CIGARETTE TRADE INCIDENCE CONTINUES TO DOMINATE THE MALAYSIAN MARKET

Bukit Damansara, 23 October 2017 – British American Tobacco (Malaysia) Berhad (The Group) today announced its financial results for the third quarter of the year ended 30 September 2017.

The recovering volume trend as reported in Q2 2017 showed a stagnation in quarter 3 of this year, mainly due to a new illegal cigarette dynamic (legally perceived brands with fake tax stamps, introduced by certain local players), persistent pressure on consumer spending power and competitive entries in the legal low price segment (RM12).

The illegal cigarettes incidence went marginally down to 56% due to persistent enforcement by the Royal Malaysian Customs and other law enforcement agencies. However, this did not increase the legal market size due to the growth of new dynamic of legally perceived brands with fake tax stamps, which are currently not yet captured by illegal cigarette incidence studies.

Q3 2017 financial results:

- **Revenue** declined 21.0% for September 2017 year to date compared to the same period of last year, in line with volume decline as a result of the legal market contraction and the cessation of contract manufacturing for exports as of 31 December 2016.
- **Gross Profit** decreased by 18.8% for September 2017 year to date versus the same period of last year.
- **Operating Expenses** for September 2017 year to date was 17.0% lower than the same period last year. This was predominantly attributed to overhead savings from cost base transformation initiatives and lower recharges from related entities and timing of spends.
- **Profit from operations** registered a decline of 9.4% and Profit after tax reduced by 4.7% when compared to the same period of last year.

Arising from the Group's financial performance, the Board of Directors has declared a third interim dividend of 43 sen per share.

On a quarter to quarter basis this year, the Group registered a marginal decline of market share in the legal market of 0.6% to 53.9%. This was mainly driven by a decline in Dunhill market share (-0.6%) registering a total share in the legal market of 38.4%. The decline in share is mainly the result of down trading to the earlier mentioned new entries in the legal low price segment and the new dynamic of legally perceived brands with fake tax stamps.

Dunhill still remains the leading premium brand in the Malaysian market. All other brands of the Group remain fairly stable in market share, with Peter Stuyvesant showing strong performance.

Managing Director Erik Stoel quoted: "The challenge of the legal industry remains the pressure on the legal market size and BAT Malaysia's future outlook will be dependent on what initiatives are implemented to reduce illegal cigarette consumption.

BAT Malaysia is long recognized as the No.1 tobacco company in Malaysia, which we are and we are proud of that. However, that position is only true when you consider it within the legal market which currently constitute only 44% of total consumption in Malaysia. It is sad to realise that therefore the illegal cigarette syndicates and operators are collectively the No.1 in cigarette sales in Malaysia".

Stoel added further: "In that context the industry has recently been in the press around a proposal related to smaller packs, which we think can contribute to reducing the illegal cigarettes problem. Although we totally support more enforcement, we also know that enforcement alone will not fix the problem. A lot of critique from anti-smoking bodies was given, with the only real argument being that smoking is bad and should be further restricted and the industry is trying to make money out of this, and we should not be allowed to propose alternative solution to curb illegal cigarettes.

We do not expect everybody to support smoking or like the tobacco industry. However, smoking is a legally allowed adult choice, we are a legal industry in Malaysia and as such we are allowed to exist, do business and we pay our taxes like any other legal industry. People who already made the choice to smoke, will continue to smoke with or without the legal industry.

The truth is, illegal cigarettes is not just a challenge for the legal industry, it is a societal problem that fuels many more societal issues. With the proposal on smaller pack, we try to give adult smokers a legal and affordable option, that can reduce illegal cigarette incidence and consumption. In addition, it will help the sustainability of the legal industry as well as generating more government revenues.

For us, the choice is simple: do we want to look reality in the face and start working on the illegal cigarette problem, or do we just not consider any proposal because potentially the legal tobacco industry would benefit from it. We hope our Government will make the rational choice, which will help societal values, sustain employment, investments, shareholder return, government tax and reduce consumption. We will remain committed to continue to identify and propose solutions to solve this matter."

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 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 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.

For more information, please contact British American Tobacco Malaysia:

Fairuz Helmi, Head of External Affairs at 03-27208188 or Fairuz_Helmi@bat.com

Prianka Krishnamurthy, External Affairs Manager at 03-27208147 or Prianka_Krishnamurthy@bat.com