

TRANSFORMING

TODAY FOR TOMORROW

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4th QUARTER 2017

PERFORMANCE

13th February 2018

AGENDA

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

Business Review

2017 Business Highlights

BAT share growth

Dec'17: 54.6%
+1.4 ppt vs 2016

*(FY: 53.9%
-3.2ppt vs 2016)*

Dunhill share growth

Leadership in Aspirational
Premium

Rothmans strong in VFM
segment

New supply chain model
fully operational
improving gross profit
margin

Illegal cigarette incidence all time high

FY: 58.3%
+5.8 ppt vs 2016
(Q4: 59.0%)

Decline in legal market volume

*(exit'16 to exit'17 volume
stable)*

-8.8%
vs 2016

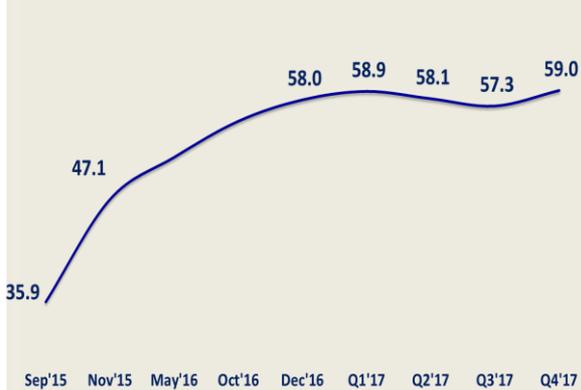
2017 Financial impacted by illegal trade

Revenue:
-20.1% vs 2016
Profit from operations excl.
restructuring:
-24.4% vs 2016

2017 performance continued to be challenged by illegal cigarettes

Recap: Key areas influencing business performance

High Illegal Trade Level



Consumer Affordability

Average consumer daily expenditure (National)

RM 35



64%

2x Meals



22%

Transportation



14%

Communication

VFM Entry

Premium

RM17



VFM

RM12



Effective
Enforcement



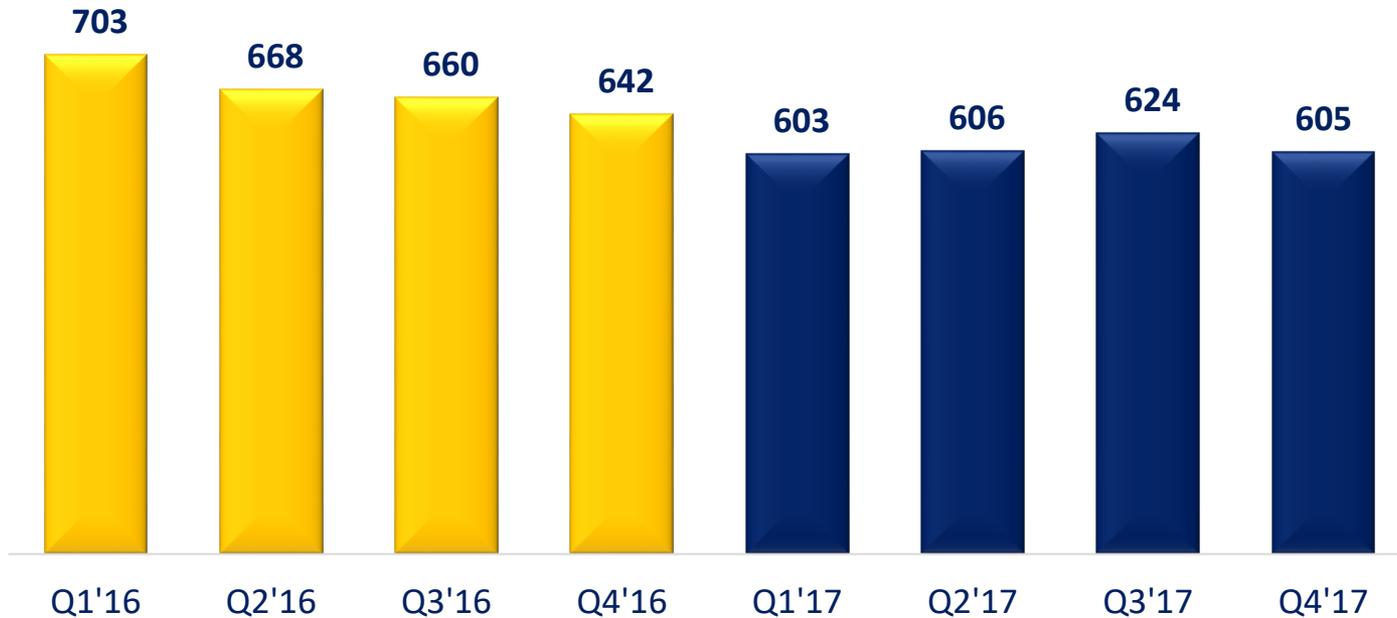
Alternatives to curb
demand for illegal



Addressing
affordability but
short term pressure

Market review update

Legal market stabilised in 2017 with concern in Q4

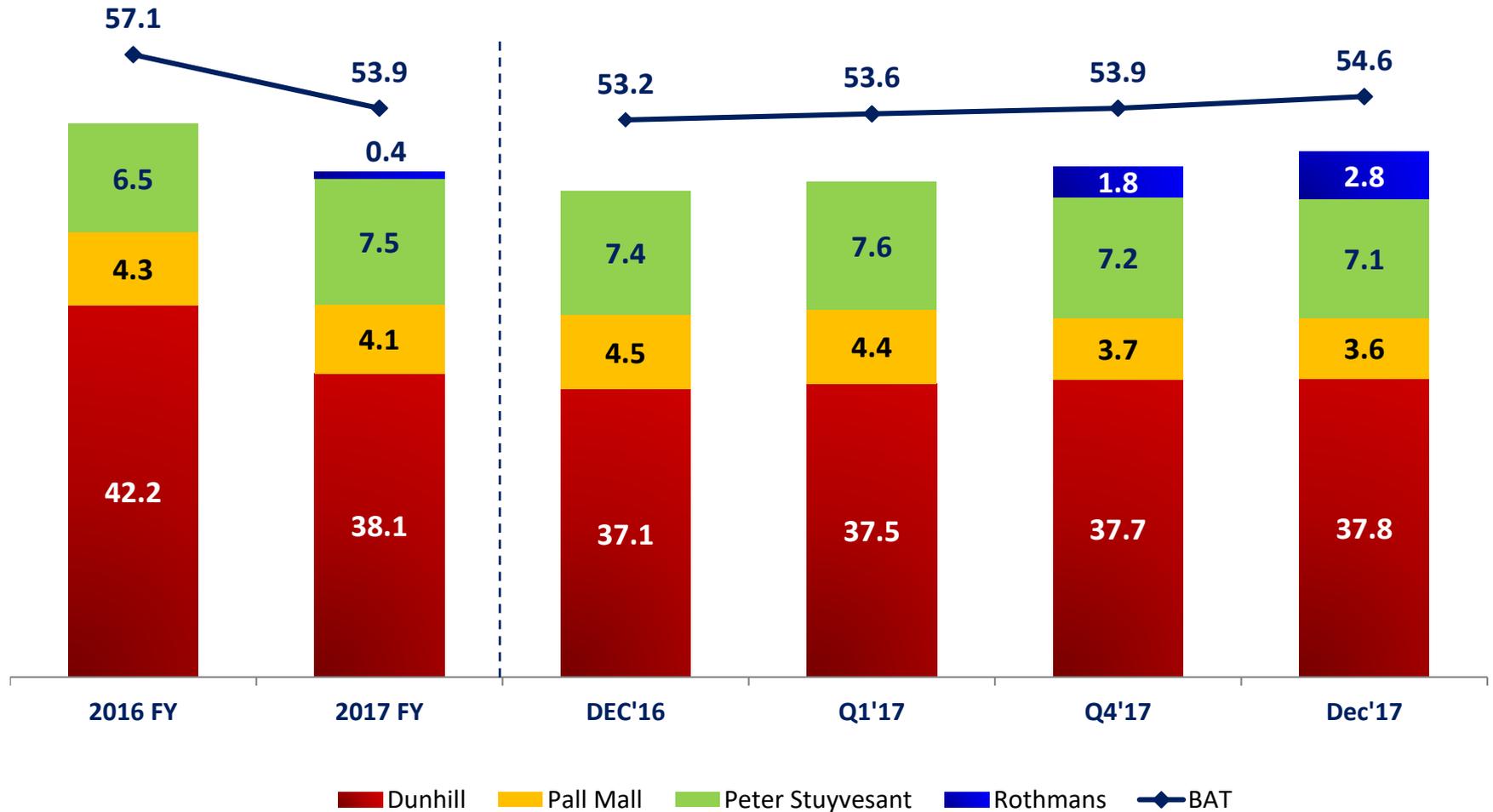


2017 vs. 2016:

To-Date Avg. (Jan-Sep)	FY 2016	FY 2017	FY 2017 vs SPLY	Q4	Q3	Q4 vs Q3
Industry	668	610	-8.8%	605	624	-3.0%
BAT	389	332	-14.5%	331	336	-1.5%

BAT gaining share exit 2017 vs exit 2016

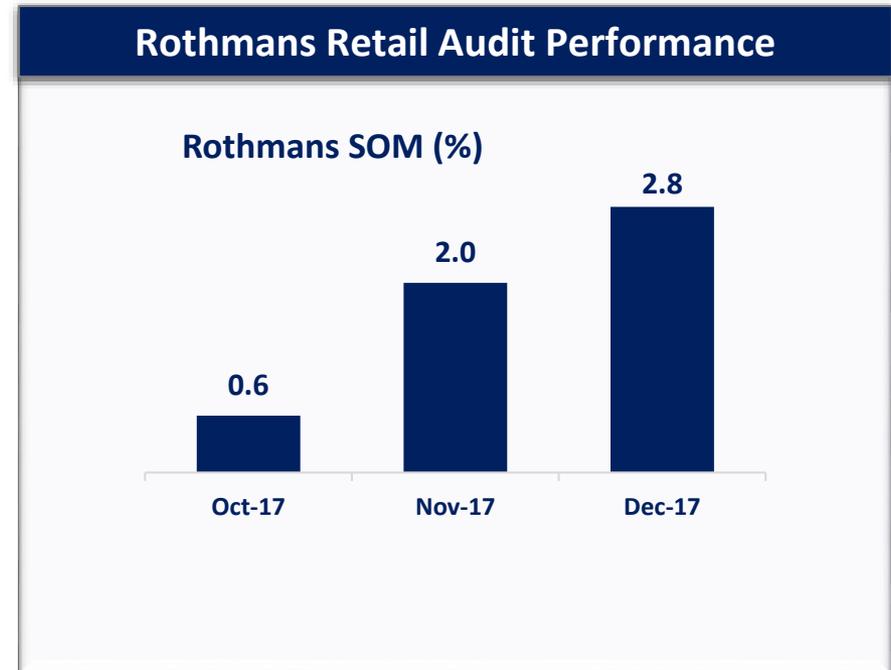
Share of Market – Malaysia (%)



Strong start in emerging VFM segment

VFM important to address consumer affordability

RM
12.00



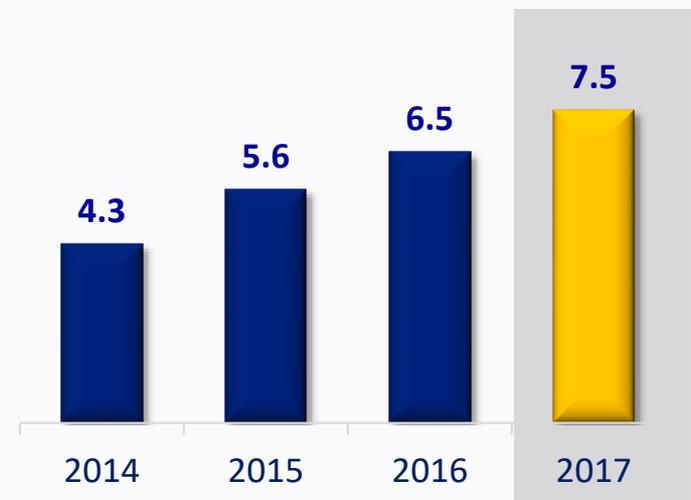
Rothmans establishes a strong position
Short term impact on gross margin, long term generator for growth

Strong brand portfolio enabling share recovery

Dunhill grew market share exit 2017 vs exit 2016



First time Leadership in Aspirational Premium



We are proud of 2017

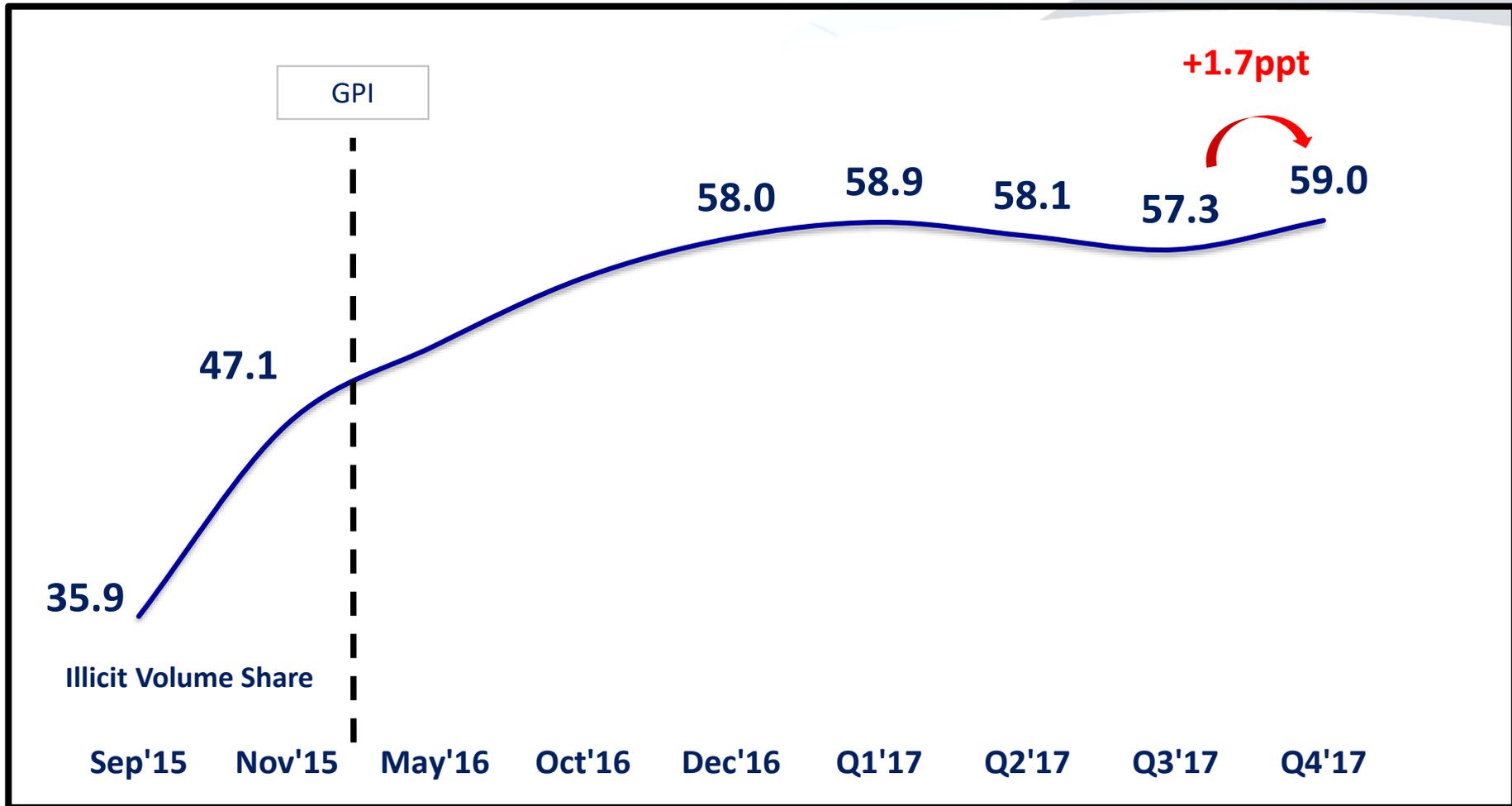
The business is stronger in spite of a challenging macro environment



- 1 Dunhill market share growing
- 2 Aspirational Premium gaining segment leadership since Feb'17
- 3 Rothmans entering VFM with strong equity and winning formula
- 4 Business transformation successful – full importation model
- 5 BATM moved to its new corporate office
- 6 Award in corporate governance by Minority Shareholder Watchdog Group
- 7 BATM certified as “Top Employer”



Our concern - Illegal cigarettes continued to grow

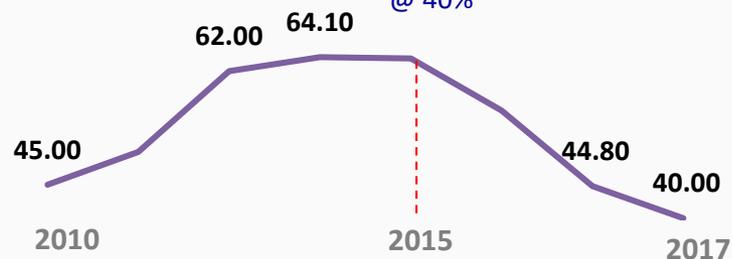


Challenging environment for any legal company to operate in

Shareholder's value negatively impacted by illegal trade

BATM Share Price

Figures in Ringgit per Share



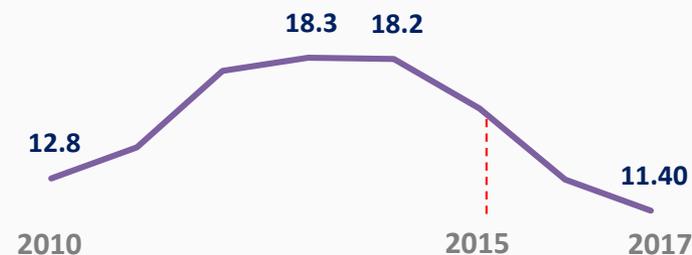
Nov15':
Excise hike
@ 40%

Illegal trade from
33% to 59%

Share Price at low
Jan 2018
RM 32.00/Share

Market Capitalization

Figures in Ringgit (billion)



TOP 30 Market Cap

Part of FMB KLSE Index until 2018

Growth of illegal trade has direct correlation with revenue evolution of BATM

Massive illegal trade should be hard to hide!!!



Volume

200 million packs



Distribution network

- 29 warehouses
- 500 delivery vans running daily



Profit

RM 493 mn
(Profit after tax)



Tax contribution

RM 1.6 bn – excise
RM 0.1bn – other tax



Monthly cash collection

RM 250 mn



Product regulation



Products **COMPLY**
with MOH regulations



Illegal cigarette trade

625 million packs



- 90 warehouses?
- 1500 delivery vans?

Est about RM 1bn



No tax paid (est RM4b loss)

Est RM 250 mn



No questions asked

The Bitter Truth: Illegal cigarette trade is a huge societal problem



- **Illegal cigarette trade is simply too big to ignore** - At close to 60%, it is the biggest tobacco player, though not contributing anything to this country.
- Accepting it undermines shareholder returns, the health agenda, many jobs in the legal industry and tax revenues that could be invested in the development of the country (schools, infrastructure etc).
- The size of the illegal cigarette trade is beyond the enforcement capability of the RMC alone.
- If one wants to solve it, than it requires an integrated and focused approach between all Law Enforcement Agencies. It should be a national priority!
- In addition we believe that all relevant stakeholders should have the willingness and open-mindedness to consider any alternative solutions, irrespective of origin, to eradicate this immense societal problem.
- We know that smokers will not quit smoking via more restrictions for the legal industry, as long as cheap illegal cigarettes are widely available.

2017

Financial

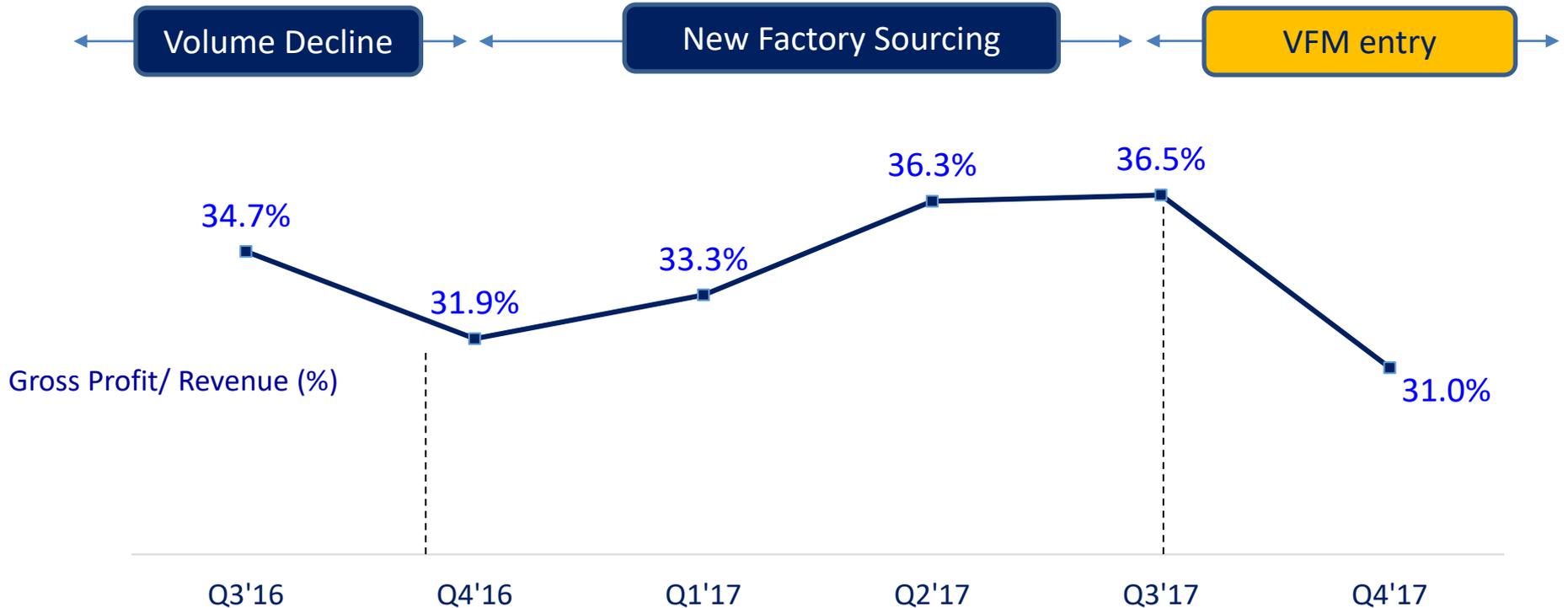
Performance

Financial Metrics Evolution

	YTD Q4 vs .SPLY	Q4 vs. Q3
Volume	-14.2% 	-3.2% 
Revenue	-20.1% 	-7.5% 
Operating expenses	-4.7%  -9.8% excl. prov for impairment of prepaid excise	+39.1%  +14.9% excl. prov for impairment of prepaid excise
Profit before tax w/o restructuring	-24.8% 	-45.3% 

Q4 bottom line impacted by VFM launch investment

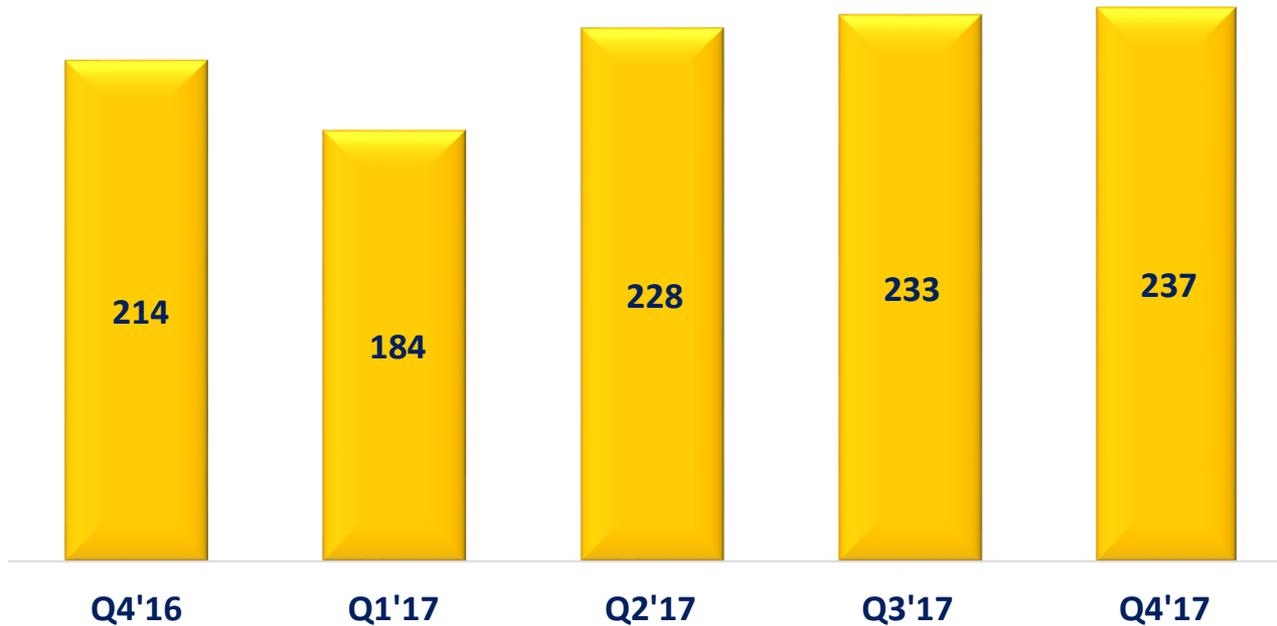
Gross margin evolution quarter on quarter



Sourcing change allowed margins recovery in 2017 & investment for VFM

Inventories evolution quarter on quarter

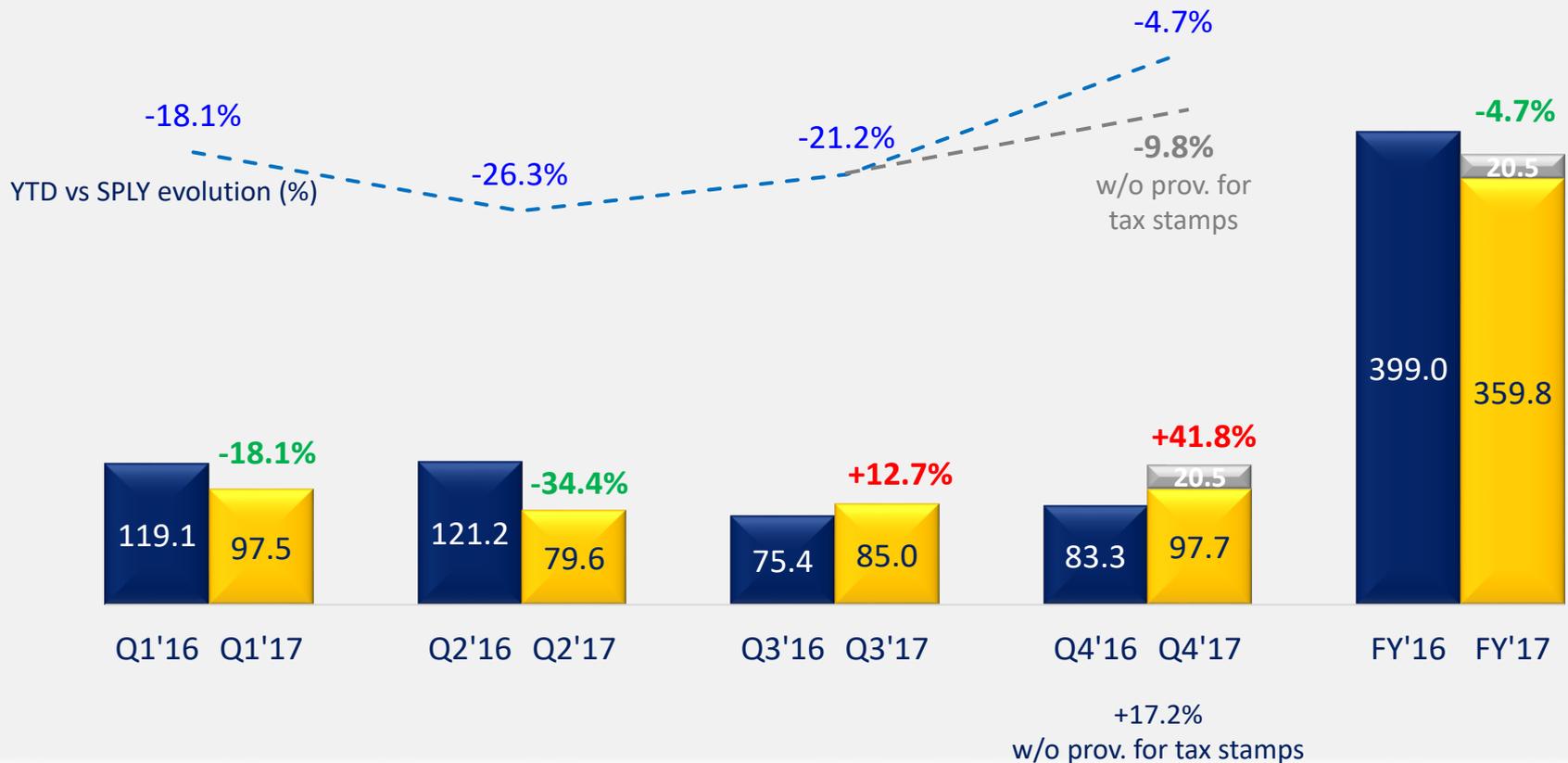
Total Inventories
(RM'mn)



**Inventories increased due to prepaid excise duties.
Continuous effort to optimize working capital**

Operating expenses evolution quarter on quarter

Discrete quarter operating expenses(RM' million)



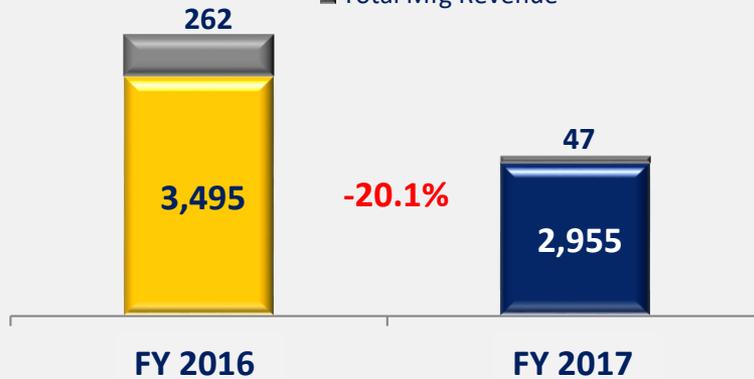
Continuous focus on cost base to optimize profit

Optimizing cost in delivering bottom line

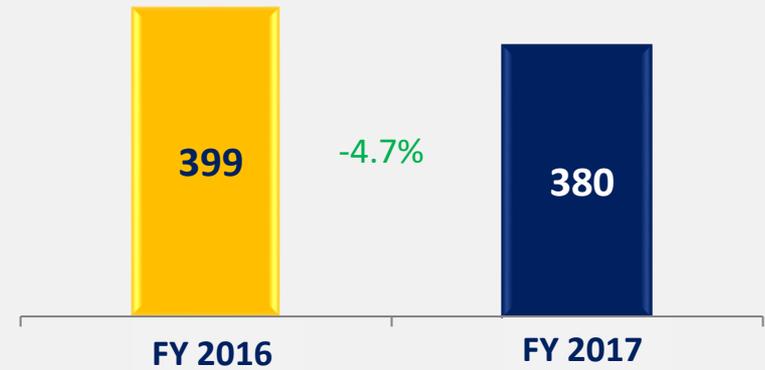
2017 Performance vs. SPLY

Revenue

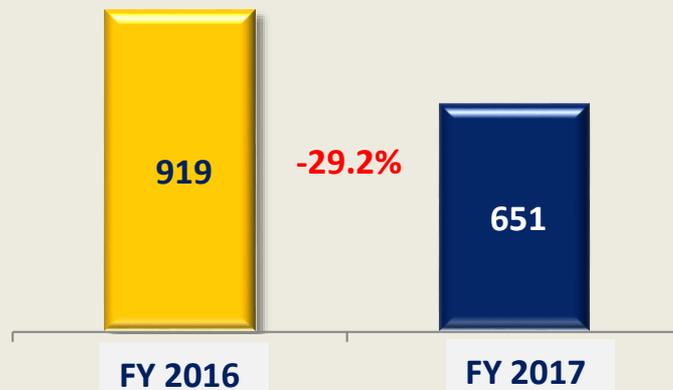
■ Total Mfg Revenue



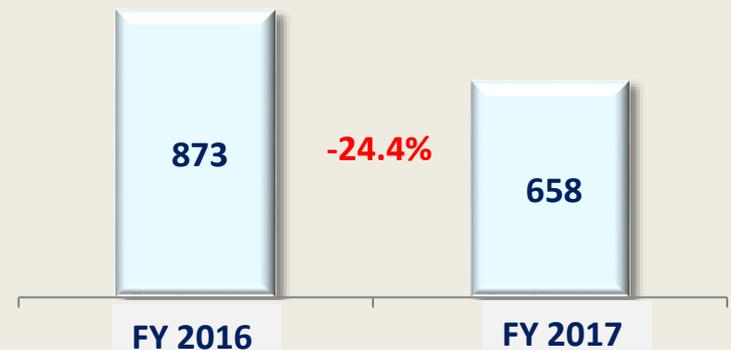
Operating Expenses (RM'mn)



Profit from Operation (RM'mn)



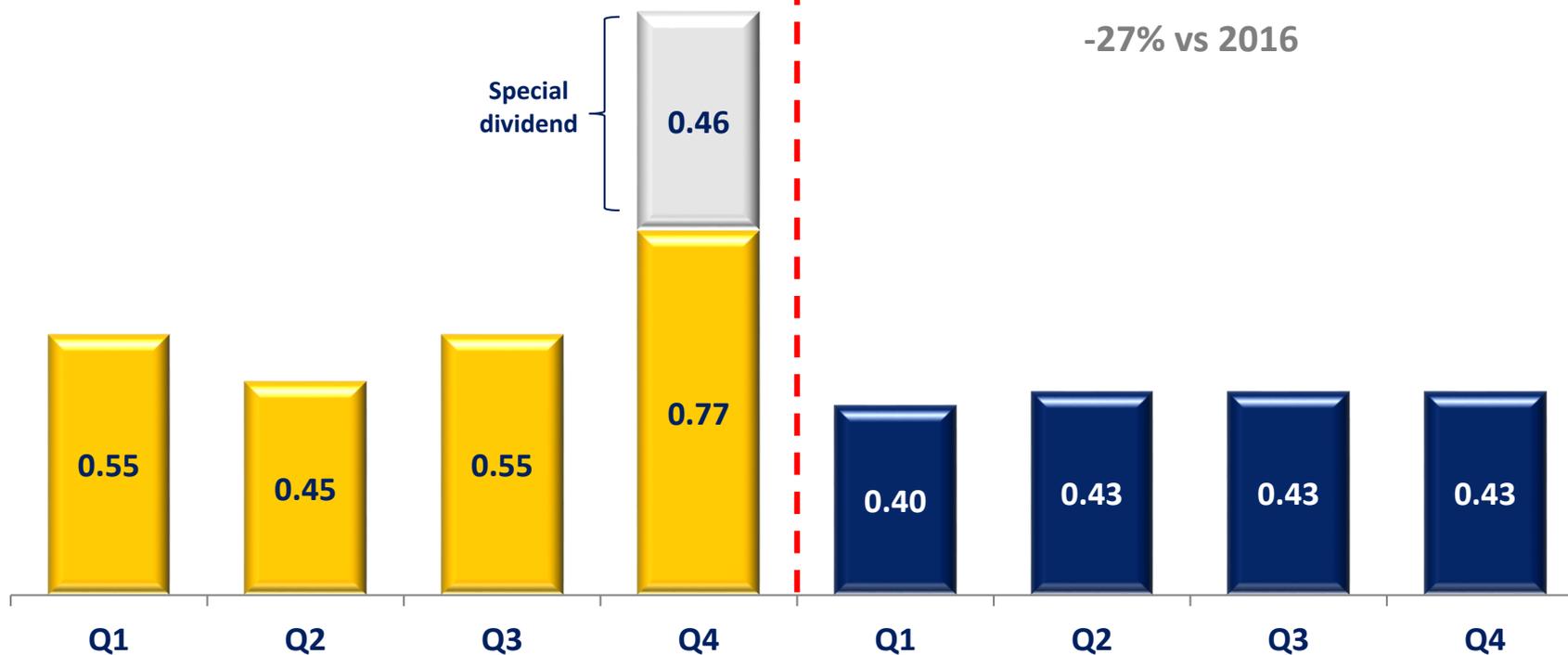
Profit from Operations (Excl. restructuring expenses)



Dividend payout

2016
RM 2.78
110.0% Payout

2017
RM 1.69
98% Payout
-27% vs 2016



Business challenges remains unchanged

**High illegal cigarette
level**

Consumer Affordability

**Future outlook dependent on the recovery of the legal
market and the willingness to take positive actions**

THANK YOU