



MEDIA RELEASE

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LEGAL TOBACCO INDUSTRY UNDER SIEGE AS CONSUMERS CONTINUE TO PURCHASE CONTRABAND CHEAP CIGARETTES AND UNREGULATED VAPING PRODUCTS

Bukit Damansara, 31 October 2019 – British American Tobacco (Malaysia) Berhad (BAT Malaysia or the Company) today announced its financial results for the third quarter of the year that ended 30 September 2019 (Q3FY2019).

Total legal industry volume declined by 11% when compared to the same period last year largely attributed to high levels of illegal cigarette trade incidence which now stood at 65% (Source: Illicit Cigarettes Study) and impact from SST led pricing. It is compounded by the rapid growth of illegal vaping which puts further pressure onto legal cigarette volumes.

On a quarter to quarter basis, the legal industry volume continued to contract by 4% in quarter three compared to the preceding quarter. Despite prevailing headwinds, the Company's market share stood at 54.4%, a marginal decrease of 0.4ppt, primarily due to the slower Premium and Aspirational Premium (AP) segment performance – as a result of continuous downtrading in the market. However, this impact was partially offset by ROTHMANS growth of 0.5ppt quarter on quarter.

Albeit a challenging landscape plagued by stubbornly high levels of cheap contraband cigarettes and illegal vaping, the Company achieved a profit from operations of RM113 million, a 5.2% increase from the RM107 million registered in the immediate preceding quarter. This was achieved mainly driven by aggressive measures in managing the Company's cost base.

Q3 2019 Financial Highlights:

- Profit from operations increased by 5.2% in the current quarter compared with the preceding quarter. However, on a year to date basis, profit from operations declined by 28.3% to RM340 million. The underlying profits from operations declined by 16%, excluding the one-off benefit in 2018 related to GST.
- Revenue for the quarter under review decreased by 8.8%, and 10% year-on-year.
- Operating expense in the current quarter stood at RM49 million, 36.5% lower compared with the preceding quarter due to conscious management decision on addressing cost base and investment level.

Based on the Company's financial performance, the Board of Directors has declared a third interim dividend of 0.29 sen per share.



Erik Stoel, Managing Director of BAT Malaysia said:

“The current environment within the tobacco industry is one that is unsustainable and untenable for any legal company. While we continue in our commitment to deliver value to our shareholders, the results for this quarter was achieved on the back of conscious cost base and investment management.”

“The grim fact is, that the current scenario of cheap illegal and contraband tobacco products has further deteriorated in Malaysia despite the efforts by law enforcement agencies like the Royal Malaysian Police and the Royal Malaysian Customs to clamp down on the cartels running these syndicates. When are we going to realise that this is an issue that goes beyond tobacco duty evasion? We need more players like the Ministry of Health (MOH) bearing down on the inflow of cheap contraband cigarettes that does not comply with tobacco control laws into the country.”

“It is a known fact that illegal cigarette players do not play by any rules – they cross borders illegally, smuggle in cheap contraband cigarettes, ignore any rule or regulations like pictorial health warnings and then proceed to sell without any conscience below minimum price to anyone. This is a clear indicator that MOH’s biggest enemy to their public health objective is the illegal trade business. To this end, we urge MOH to focus their sights on this cheap contraband trade and collaborate with like-minded parties to manage this issue.”

Erik added:

“What Malaysia needs to do is come together and fight this huge issue collectively and pragmatically with all legal stakeholders. While there might be differing viewpoints and perspectives, we can all agree that fuelling a black economy that encourages corruption and crime will do the country no good.”

“We need a sustainable total nicotine regulatory and fiscal framework in order to build our business back into growth. As we look to the remaining 2019, we remain committed to adopting a multicategory approach with investment into new category segments such as tobacco heated products where Malaysia is the first market in South East Asia to launch ‘Glo’. However, diversification and investment into these new categories can only be done on the basis of sensible and pragmatic total category regulation that allows legal companies to operate and set a tighter control restricting the entry of illegal cigarettes into the country. Otherwise, it is simply unsustainable”.

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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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