BRITISH AMERICAN TOBACCO
MALAYSIA

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Illegal sale of products below Government mandated minimum price adds further woes to illicit cigarettes-plagued tobacco industry

***Petaling Jaya, 21 April 2011* –** British American Tobacco (Malaysia) Berhad (BAT Malaysia) today announced a profit after tax of RM178.5 million for the first three months in 2011, a decline of 7.0% compared to the same period last year.

The Group's volumes also registered a decline of 7.5% when compared with the same period last year. The decline was a result of continued pressure from the steep excise-led price increase in October 2010 which resulted in down trading of legal cigarettes to illicit cigarettes and the illegal sale of certain sub-value for money segment brands at between RM3.50 to RM5.00 - way below the Government mandated minimum cigarette price of RM7.00. This huge illegal price incentive created by the sale of brands below minimum price has caused smokers to also down trade to such cheap brands.

However, the Group's volumes performed marginally better than the industry average, amongst the Confederation of Malaysian Tobacco Manufacturers' (CMTM) members, that showed a decline of 9.0% compared to the same period last year. This was through the strong performance of DUNHILL's new product launches such as DUNHILL Reloc pack and DUNHILL Boost with capsule technology, and Peter Stuyvesant International which gained 3.3% market share since its launch.

Arising from the financial performance of the quarter under review, the Board of Directors has declared a first interim dividend of 60.00 sen per share, tax exempt under the single tier tax system in respect of the financial year ending 31st December 2011.

Commenting on the illegal sale of below minimum price of certain brands in the sub-value for money category, William Toh, Managing Director of BAT Malaysia said, "The emergence of the illegal sale of products below the minimum price created another cheap alternative to consumers. These cigarette packs sold below the minimum price are different from smuggled cigarettes as they are brands in the sub-value for money category that are manufactured locally. And since the total tax payable by manufacturers prior to distribution to retailers is approximately RM5.00 per pack of 20's, it is imperative to stamp out the sale of these products that can even go below the mandatory tax payable amount."

In addition to that, the industry at present is already riddled with an extremely high level of cheap illicit cigarettes. Based on the full year average of the Illicit Cigarette Survey conducted by CMTM in 2010, 36.3% of the total cigarettes market is made up of illicit cigarettes that are smuggled into the country. This goes to show that close to 4 out of every 10 cigarette packs or approximately 9 billion sticks of illicit cigarettes sold last year are of dubious origin without paying the required taxes. This resulted in a loss of excise and tax revenues to the government to the tune of approximately RM2 billion in 2010."

"Undoubtedly, enforcement efforts by the various law enforcement agencies have been intensified to combat illicit cigarettes plus illegal sale of locally made cigarettes below minimum price and we as an industry are very appreciative of the efforts and commitment put in by these enforcement agencies. We believe such strong enforcement efforts must continue and should be complemented with stronger deterrent actions as illicit trading and sale below minimum price activities are still very rampant. A monetary fine alone will not be sufficient deterrent to the illegal operators as their ill-gotten profits will be more than enough to cover any monetary fine that is imposed on them by the relevant authorities," Toh added.

The Group's profit outlook for 2011 remains cautious given volume decline pressures caused by the steep excise increase, lower margins from the ban of packs less than 20 sticks and the continuing high incidence of illicit trade. However, Toh concluded that the Group is committed to building long term shareholder value and will continue to drive its aligned strategic initiatives on Growth, Productivity, Responsibility and Winning Organisation.

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. Brand portfolio includes well-established international names like Dunhill, Kent and Pall Mall. British American Tobacco Malaysia has about 1,600 employees who are involved in the full spectrum of the tobacco industry, from leaf buying and processing to manufacturing, marketing and 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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