BRITISH AMERICAN TOBACCO
MALAYSIA

news release
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A high excise increase this upcoming Budget will likely push illicit cigarettes over the 40% mark

Petaling Jaya, 22 July 2010 – British American Tobacco (Malaysia) Berhad (BAT Malaysia) declared lower volumes and profit for the first half of 2011 compared to the same period last year. However, the Group's revenue and net turnover improved from the preceding quarter on the back of improved volumes driven by the strong performance of DUNHILL through its new capsule product launches of DUNHILL Boost and DUNHILL Switch.

Illicit cigarette incidence continues to be a significant concern. Another hefty excise increase in the upcoming Budget 2012 will likely push illicit cigarettes incidence in the country pass the 40% mark.

Another area of concern for the legal industry is the continued illegal pricing activities of some locally manufactured brands retailing at below the minimum price imposed by the Government.

Second quarter financials

BAT Malaysia posted a profit after tax of RM363 million for the first half of the year which is 4% lower compared to the same period last year.

The Group also registered a decline in volume by 4.4% for the first six months compared to the same period last year though it outperformed the cigarette industry's (members of the Confederation of Malaysian Tobacco Manufacturers) average contraction of 5.5%.

Commenting on the Group's performance in the first half of 2011, William Toh, Managing Director of BAT Malaysia stressed that the continued decline of legal cigarette volumes is to be expected given the high illicit cigarette trade in the country and cautioned that another steep hike in excise this year will further exacerbate the level of illicit cigarettes trade. The illicit cigarettes market has drastically increased from 14.4% in 2004 to 36.3% in 2010 as a direct consequence of high excise increases, which has incurred an estimated RM2 billion in tax revenue losses for the Government.

"While we acknowledge the Government's prerogative in raising excise tax in line with their economic and health agenda, however we also believe that this should not come at the expense of rising levels of illicit cigarettes trade. Therefore, we hope the Government will seriously take into consideration the current critical level of illicit cigarettes trade and the negative impact of a high excise increase," stressed Toh.

Toh also added, "We are very appreciative of the efforts and commitment put in by enforcement agencies like the Royal Malaysian Customs and Royal Malaysian Police to combat illicit cigarettes. We believe strong enforcement efforts must continue and should be complemented with heavier sanctions as monetary fines alone are not sufficient to deter illegal operators and criminal syndicates who can easily pay any compounds or fines with their lucrative ill-gotten profits. We also hope that the Ministry of Health will continue with their enforcement against illegal pricing activities of retailing below minimum price in the market"

Amidst this challenging environment, the Group has seen growth in its revenue (+5.2%) and net turnover (+5.3%) on the back of a 5.5% increase in volume in Quarter 2 versus the preceding quarter. The Group also registered a 61.3% market share in June 2011, a fifth consecutive month of growth since January 2011.

Dividend announcement

The Board of Directors of BAT Malaysia has declared a second interim dividend for 2011 of 60.00 sen per share. In addition, the Board has also declared a special dividend of 30.00 sen per share. These dividends are tax exempt under the single-tier tax system in respect of the financial year ending 31 December 2011.

Outlook 2011

The Group's profit outlook for 2011 remains cautious although improved in comparison to the outlook in Quarter 1. A key determinant on the year's performance will be the magnitude of the next excise increase.

In spite of the challenging business landscape, Toh concluded that BAT Malaysia remains committed to maintaining and enhancing its leadership position in the tobacco industry through the strength of its brand portfolio and people in delivering long term shareholder value without compromising its high standards of business conduct and responsibility.

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 close to 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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