BRITISH AMERICAN TOBACCO
MALAYSIA

news release

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High illegal cigarettes trade levels continue to hamper legal volumes

Petaling Jaya, 16 February 2012 - British American Tobacco (Malaysia) Berhad (BAT Malaysia) today announced that the Group's profit before tax was 'broadly flat' at RM956 million compared to RM959 million in 2010, a 0.3% decline. This was a good performance in light of the half year effect on margins (RM37 million) from the ban on pack sizes below twenty sticks implemented in July 2010, the one-time charges in respect of change in accounting policy for merchandising assets and restructuring of the Group's distribution model taken in the year.

Profit after tax for 2011 was 1.6% lower at RM719 million compared to RM731 million in 2010 principally from a lower effective tax rate in 2010 than 2011. The Group experienced a 1.3% decline in volumes as a result of decreased consumption and the still high levels of illegal cigarettes which stands at 36.1%[1].

Despite the volume decline, the Group charted a second consecutive year of market share growth, registering a full year market share of 61.1%, up 1.3 percentage points when compared to the previous year. This was driven by the strong performance of Dunhill in the premium segment to a record market share of 44.7% in 2011, up 1.8 percentage points combined with stronger enforcement by government authorities in curtailing illegal cigarettes and sale of certain sub-value for money brands below minimum price.

[1]Annualised figures from Wave 1 (March – May 2011), Wave 2 (June – August 2011) and Wave 3 (October – December 2011) of Illicit Cigarette Survey conducted by Confederation of Malaysian Tobacco Manufacturers (CMTM)

Arising from the Group's financial performance, BAT Malaysia's Board of Directors have declared a fourth interim dividend of 66.00 sen per share, tax exempt under the single tier exempt system for the financial year ended 31 December 2011. Excluding the third quarter special dividend, this represents a payout of 98% of earnings (110% of earning including the special dividend).

Commenting on the Group's performance, William Toh, Managing Director of BAT Malaysia said that in spite of a year with remarkable market share growth in 2011, the Group continues to face formidable challenges which are expected to continue if not further addressed.

"The year saw certain locally manufactured brands in the sub-value for money segment proliferating the market through their illegal sale of cigarettes below the Government-mandated minimum price and below total tax payable by manufacturers prior to distribution to retailers. We are however very encouraged with the various enforcement initiatives undertaken to date by the authorities to address this issue, and hope that such initiatives will help cease such unlawful activities.

"The high levels of illegal cigarettes, which now read a staggering 36.1% also continued to pose a major concern for both the Group and the industry as well as the Government, representing an estimated 9 billion sticks of smuggled cigarettes in the country. We are pleased to note however that the final wave of the Illicit Cigarette Survey (October – December 2011) readings commissioned by the Confederation of Malaysian Tobacco Manufacturers have indicated a decline in illegal cigarette trade volumes by 1.5 percentage points over the previous wave. We are confident that the Government's concern over the issue which led to the decision not to impose a cigarette excise increase in the Federal Budget 2012 has greatly attributed to this decline. We remain encouraged by such prudent cigarette excise policy which is demonstrative of the Government's seriousness in tackling this national issue," said Toh.

He added that the Group is appreciative of the various law enforcement agencies' initiatives in curbing the illegal cigarette problem, but stressed that increased enforcement and stricter penalties for those involved in illegal cigarette trading should be intensified to further reduce its incidence.

Barring any unforeseen changes to the operating landscape and the continued battle against illegal tobacco trade and sale of cigarettes below the minimum price and total tax impacting the legal market size, we are relatively optimistic on our outlook for 2012 given the strength of our portfolio and our recent share performance. The Group remains committed to deliver commercial sustainability and long term shareholder value through continued focus on its 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. Its brand portfolio includes well-established international names like Dunhill, Kent, Pall Mall and Peter Stuyvesant. British American Tobacco Malaysia has about 1,200 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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