



SST PRICING UNCERTAINTY POTENTIALLY FUEL ILLEGAL CIGARETTES

Bukit Damansara, 19 October 2018 – British American Tobacco (Malaysia) Berhad (BAT Malaysia) today announced its financial results for the third quarter of the year ending 30 September 2018.

Total legal market is on a slow but gradual recovery since early 2018, registering a 1% volume growth in the third quarter versus preceding quarter. However, illegal volume share is still at a high of 63% of total consumption in Malaysia, stagnant compared to the second quarter of 2018 and continues to put pressure on the legal market.

The domestic volumes for BAT Malaysia remained stable during the third quarter versus preceding quarter, though concerns remain with price volatility caused by the different interpretation in the market of the quantum of Sales and Services Tax (SST) that needs to be passed on. The Company continues to show strong resilience in this challenging period, with volume recovery at 4.8% versus the first quarter of 2018.

The Company saw an improved third quarter revenue growth of 8.3% and profit from operations of 26.5%, attributed to stable volumes and one-off benefit from the tax holiday of Goods & Services Tax (GST) from June to August 2018.

On a year-to-date September 2018 basis, volumes, revenue and profit from operations are lower by 5.8%, 8% and 13% respectively compared to same period last year.

Based on this quarter's financial performance, the Board of Directors has declared a third interim dividend of 40 sen per share.

Erik Stoel, Managing Director of BAT Malaysia said: "We are encouraged by our overall results for the third quarter of 2018. However, we are concerned with the development on SST pricing. Until today, we have not been given clear guidance on the minimum quantum that needs to be passed on. We have met with the bureaucrats of the Ministry of Health who have indicated an expectation of a price increase of about RM1, ignoring the fact that SST is a replacement of GST. It is also inconsistent with the recent statement by the Minister of Health that the Ministry is looking at determining the recommended ceiling price to equalise and control cigarette prices across the board.

"Setting a price increase of such magnitude will spark a fresh push towards illegal cigarettes which will aggravate an already high incidence of illegal trade in this country, especially in the absence of effective Government initiatives to reduce illegal cigarettes.

“It was obvious that the 10% SST is a direct replacement of the 6% GST and the increase in price should include the incremental difference between the SST rate and the GST rate. This is also consistent with the practice in 2015 when the GST tax regime was put in place to replace the previous SST tax regime where cigarettes price increase was effected based on incremental tax differential between the then 5% SST and the 6% GST. Based on this, the practice has been to take the highest tax differential amount as the minimum tax quantum that needs to be passed on, consistent with Ministry of Health regulations that requires the minimum tax to be passed through in the cigarette pricing.

“We hope the price volatility brought on by the different interpretation of the SST implementation will cease soon when we receive proper guidance from the Ministry of Health to enable the industry players in Malaysia to navigate through this complexity and minimise impact on consumers.

“On the fight against illegal cigarettes, we applaud the recent crackdown initiatives by the Royal Malaysian Police on a major syndicate’s supply chain network, which is a step in the right direction towards effective enforcement. It is a positive sign of the Government walking the talk. We hope that there will be more enforcement actions taking place swiftly and effectively, as the national issue of illegal cigarettes remains widespread.

“We also welcome the recent announcement by the Director-General of Royal Malaysian Customs that they are making amendments to the Customs Act to include more deterrent penalties for the sale of illegal cigarettes and liquor. Amongst the stronger penalties include a minimum fine of RM100,000 and whipping. We believe that this is a critical component in the fight against illegal trade market and we hope to see that materialising in the current Parliamentary session.

“Whilst our results in Quarter 3 of 2018 is encouraging, our outlook remains dependent on the progress of the fight against illegal cigarettes and recovery of legal market as well as the resolution to SST pricing issue.”

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. The company markets 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 497 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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