MEDIA INFORMATION
For immediate release

JTI Malaysia's Financial Performance Continues To Be Impacted by High Incidence of Illegal Cigarettes

Half Year Results For The Financial Year Ending 31 December, 2012

Kuala Lumpur, Thursday, 9 August, 2012

Second Quarter Results For Period Under Review

JT International Berhad's (JTI Malaysia) consolidated revenues declined by 0.9% to RM303.8 million in the second quarter for the financial year ending 31 December 2012, compared with RM306.6 million in the same period last year. Profit before tax in the current quarter was marginally lower at RM39.5 million compared with RM40.9 million in the second quarter of 2011. This decrease was mainly driven by increased marketing and operating expenditure.

The marginal decrease in revenues was due to a decline in sales volume and the continuous impact of illegal cigarettes. "The Illegal Cigarettes Study (ICS) by the Confederation of Malaysian Tobacco Manufacturers for Wave 1, 2012 showed that the incidence of illegal cigarettes remained high at 34.7%," stated Shigeyuki Nakano, Managing Director of JTI Malaysia. He added that JTI Malaysia's volumes were also impacted by the sale of certain local brands at prices below the mandatory Minimum Cigarette Price of RM7.00.

Whilst Winston, the leader in the value segment, saw a marginal decline, Mild Seven, JTI Malaysia's premium brand, continued to record strong growth.

First Half Results for Period Under Review

For the cumulative period to 30 June 2012, the Group achieved revenues of RM625.2 million compared with RM597.4 million for the corresponding period last year. Profit before tax for the first half-year of 2012 was higher at RM90.1 million compared with RM87.2 million for the same period last year. The 4.7% revenue increase was attributed to higher sales volume and an improved product mix. Profit before tax was higher, driven by higher sales volume and a better product mix, offset partially by higher marketing and operating expenditures.

For the first half of 2012, the Group achieved a market share of 19.7% compared with 20.0% for the same period last year (Nielsen Retail Audit Report). “Winston, the leader in the Value segment, saw its market share decline from 10.3% in 2011 to 9.7%, driven by the continued impact of illegal cigarettes and the sale of cigarettes below the minimum price,” Nakano highlighted. He said that JTI Malaysia, in a continuous effort to build brand equity and drive volume growth, introduced a new range of Winston in April 2012. Mild Seven increased its market share from 3.9% in 2011 to 4.3% this year.

Tobacco Industry Outlook

For 2012, JTI Malaysia expects the operating environment to be very challenging, with the sale of illegal cigarettes continuing to be a major concern to the legitimate tobacco industry. In expressing his concern on the incidence of illegal cigarettes, which remained high at 34.7%, Nakano called on the Government to continue enforcement efforts to address the threat. He noted that the decision by the Government not to impose a cigarette excise tax increase in the 2012 Federal Budget was showing positive results. Coupled with intensified and persistent enforcement by Government Agencies, the March - May 2012 Wave 1 results of 34.7% revealed a decline of 2.6 percentage point compared to the same period last year.

“However, we are seeing a strong emergence of local brands that are sold illegally at prices far below the mandated Minimum Cigarette Price”, Nakano said, citing recent media reports highlighting that brands being smuggled into Malaysia were from production bases in neighbouring countries.

He suggested that a national campaign, involving the public as well as the authorities, be launched to combat the illegal cigarettes issue. “Such a campaign will create greater awareness amongst retailers and smokers that selling and buying illegal cigarettes is a serious offence under Malaysian law,” he said.

Nakano added that the Group is confident that the incidence of illegal cigarettes could be further reduced this year through a pragmatic and moderate approach to cigarette taxation by the Government, coupled with persistent and intensified enforcement efforts by law enforcement agencies.

Despite the challenges, the Group will continue to remain competitive via effective investment in its global flagship brands – Winston, Mild Seven and Camel.

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JTI is a member of Japan Tobacco Group of Companies, a leading international tobacco product manufacturer. It markets world-renowned brands such as Winston, Mild Seven and Camel. Other global brands include Benson & Hedges, Silk Cut, Sobranie, Glamour and LD. With its headquarters in Geneva, Switzerland, and net sales of USD 11.2 billion in the fiscal year ended December 31, 2011, JTI has operations in more than 120 countries and about 25,000 employees. For more information, visit www.jti.com.