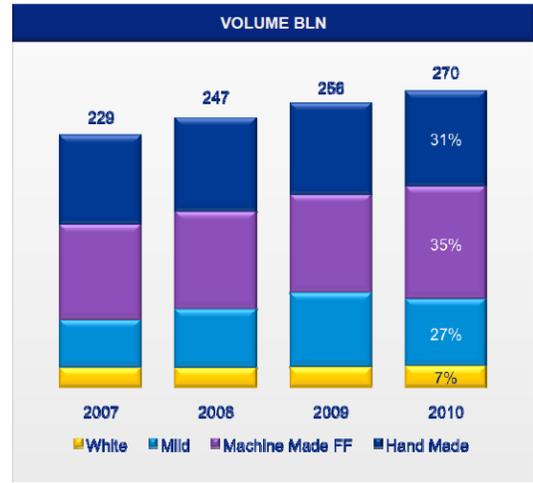


The Indonesia Tobacco Market: Foreign Tobacco Company Growth

Indonesia is the world's third largest cigarette market by volume (excluding China) and there are approximately 57 million smokers in the country.²⁻³ According to one tobacco company, the Indonesia tobacco market consisting of hand-rolled kreteks, machine-rolled kreteks and white cigarettes was 270 billion sticks with a profit pool of RP 26.5 trillion (\$2.95 billion USD) in 2010, an increase of 18% since 2007.¹ Additionally, Indonesia's cigarette retail volume and value are predicted to continue to grow consistently over the next five years.²



Source: BAT investor presentation¹

Indonesia's growing cigarette market, large population, high smoking prevalence among men, and highly unregulated market, make the country an attractive business opportunity for international tobacco companies attempting to make up for falling profits in developed markets like the United States and Australia. The powerful presence and nature of transnational tobacco companies (TTCs) in Indonesia increases the threat of the tobacco industry to public health because the companies' competitive efforts to reach young consumers and female smokers ultimately increase smoking prevalence in markets where they operate.⁴

Since 2005, the Indonesian market has shifted from being solely dominated by local manufacturers to a market where the number one, four and six spots are controlled by TTCs: Philip Morris International-owned Sampoerna, British American Tobacco-owned Bentoel, and KT&G-owned Trisakti respectively. In 2010, the combined market share of these three companies made up almost 40% of the Indonesian market.² Leading local tobacco companies include Gudang Garam (number two), Djarum (number three) and Najorono Tobacco Indonesia (number five).

Increased Presence of TTC in Indonesia

1 PT HM Sampoerna/ Philip Morris International (PMI)

- PMI, the leading TTC globally, is a United States-based corporation that acquired the majority share of Sampoerna in 2005 for Rp 48 trillion (\$ 5.2 billion USD).⁵
- In just three years under PMI, Sampoerna overtook the locally owned Gudang Garam to become the market leader in Indonesia in 2008.⁶ Currently the company controls about 29% of the market in Indonesia.⁷
- By 2010, sales increased by 3.9% to 78.8 billion cigarettes and Sampoerna recorded a net income of Rp 6.4 trillion (\$712.5 million USD), a 26.9% increase from 2009.⁷
- Sampoerna's dominance in Indonesia is due mainly to its hand-rolled kretek brands *Sampoerna Huja* and *Dji Sam Soe*, machine-rolled kretek *A Mild*, and white cigarette *Marlboro* (a PMI global brand).⁷
 - PMI's 2010 annual report highlights the importance of "local heritage brands" such as *Sampoerna A* and *Dji Sam Soe* to drive company profits.⁸

"We are reaping significant benefits from our acquisition in 2005 of Sampoerna in Indonesia. This close to \$5 billion investment represents our most successful acquisition to date in emerging markets." -CEO Camilleri, 2009⁶

#4 Bentoel Internasional Investama/ British American Tobacco (BAT)

- In 2009, BAT, a British company, finalized its acquisition of Bentoel Internasional Investama, the fourth largest tobacco company in Indonesia. The British company bought the majority shares of the local company for RP 5.5 trillion (\$579 million USD).¹
- In January 2010, BAT Indonesia fully merged its operations and assets in Indonesia under the Bentoel name.^{1,9}
- In 2010, the British-based company controlled 8% of the Indonesian tobacco market and sold 23 billion cigarettes, a 14% increase from 2009.¹⁰

- Since the merger, Bentoel Internasional has seen huge growth in volume and profit.
 - Volumes quickly grew by 2.8 billion sticks and the company recorded a RP 644.2 billion (\$71.7 million USD) profit.¹
 - The company also recorded a net profit of Rp 111.67 billion (\$13.1 million USD) in early 2011, a 210% increase from the previous year.¹¹
- Key Bentoel/BAT brands include kreteks *Star Mild* and *Neo Mild* and white cigarettes *Luck Strike* and *Country*.²

“We’ve now bought a business which gets us into one of the largest markets in the world. It gets us into the kretek segment, which is one of the largest segments of one of the largest markets in the world, so we think it is a very good position...in terms of a platform for future growth. And, that’s really why we bought [Bentoel Internasional].” CEO Paul Adams, 2009¹²

6 PT Trisakti Purwosari Makmur/ KT&G

- KT&G, a South Korean company, signed a deal in July 2011 to buy a 60% stake in Trisakti for RP1.1 trillion (\$132.6 million USD).¹³
- KT&G purchased controlling shares of Trisakti in order to benefit from the company’s sales networks and knowledge of the kretek market.¹³
- Prior to KT&G’s acquisition in 2011, the company controlled 0.3% of the Indonesian cigarette market selling 511 million sticks in 2010.²
- KT&G has rapidly been expanding its reach globally by opening new factories in Turkey, Iran and Russia and by increasing distribution of its most notable brand, *Esse*.¹⁴⁻¹⁵
 - *Esse* is a super slim cigarette directly marketed to health conscious women.¹⁵

In Indonesia, transnational tobacco companies are aggressively working to control the tobacco market. Strong tobacco control policies will be critical to prevent countless future deaths caused by the expansion of transnationals into Indonesia.

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