

BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD
(Company No : 4372-M)

CONDENSED CONSOLIDATED INCOME STATEMENTS

For the period ended 31 December 2009

	Note	3 months ended		Financial year ended	
		31.12.2009	31.12.2008	31.12.2009	31.12.2008
		RM'000	RM'000	RM'000	RM'000
Revenue		1,020,950	1,002,447	3,923,421	4,135,220
Cost of sales		(630,898)	(605,933)	(2,379,034)	(2,465,472)
Gross profit		390,052	396,514	1,544,387	1,669,748
Other operating income		1,545	3,841	5,739	12,915
Operating expenses		(156,222)	(177,127)	(516,991)	(573,366)
Profit from operations		235,375	223,228	1,033,135	1,109,297
Finance cost - interest expense		(7,479)	(7,432)	(27,823)	(28,131)
Profit before tax		227,896	215,796	1,005,312	1,081,166
Tax expense	5	(55,031)	(42,922)	(258,528)	(269,483)
Profit for the financial period		172,865	172,874	746,784	811,683
Earnings per share - basic (sen)	23	60.5	60.5	261.5	284.3
Earnings per share - diluted (sen)	23	60.5	60.5	261.5	284.3
Net dividends per share (sen)					
- Interim 1		-	-	113.0	113.0
- Interim 2		-	-	61.0	76.0
- Proposed Final		62.0	76.0	62.0	76.0

The Condensed Consolidated Income Statements should be read in conjunction with the Annual Audited Financial Statements of the Group for the year ended 31 December 2008.

BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD
(Company No : 4372-M)

CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 December 2009

	Note	As at 31.12.2009 RM'000	As at 31.12.2008* RM'000
Non-current assets			
Property, plant and equipment	6	431,117	438,624
Investment property		1,654	-
Leasehold land	1	19,952	20,455
Goodwill		411,618	411,618
Computer software		6,550	15,232
Deferred tax assets		19,295	4,978
		890,186	890,907
Current assets			
Assets held for sale		4,288	20,638
Inventories		214,258	224,958
Receivables		164,712	257,818
Tax recoverable		-	33,604
Deposits, cash and bank balances		168,686	59,387
		551,944	596,405
Current liabilities			
Borrowings	12	-	250,000
Payables		219,088	285,737
Current tax liabilities		80,962	96,512
		300,050	632,249
Net current assets/(liabilities)		251,894	(35,844)
		1,142,080	855,063
Capital and reserves			
Share capital	11	142,765	142,765
Retained earnings		296,520	263,714
Shareholders' funds		439,285	406,479
Non-current liabilities			
Borrowings (interest bearing)	12	650,000	400,000
Post employment benefit obligations		6,043	5,297
Deferred tax liabilities		46,752	43,287
		1,142,080	855,063
Net Assets per share (RM)		1.54	1.42

* The restatement of the 2008 balance sheet reflects the change in the Group's accounting policy for recognition of actuarial gains and losses as explained in Note 1.

The Condensed Consolidated Balance Sheet should be read in conjunction with the Annual Audited Financial Statements of the Group for the year ended 31 December 2008.

BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD
(Company No : 4372-M)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2009

	Issued and fully paid ordinary shares of 50 sen each		Distributable	Total
	Number of shares	Nominal value	Retained earnings	
	'000	RM'000	RM'000	
At 1 January 2009 as previously reported	285,530	142,765	264,009	406,774
Effect of change in accounting policy	-	-	(295)	(295)
At 1 January 2009 restated	285,530	142,765	263,714	406,479
Defined benefit plan actuarial loss	-	-	(213)	(213)
Deferred tax on revalued land and buildings	-	-	60	60
Expense recognised directly in equity	-	-	(153)	(153)
Profit for the financial period	-	-	746,784	746,784
Dividends for financial year ended 31 December 2008				
- Final	-	-	(217,003)	(217,003)
Dividends for financial year ended 31 December 2009				
- Interim	-	-	(322,649)	(322,649)
- Interim 2	-	-	(174,173)	(174,173)
At 31 December 2009	285,530	142,765	296,520	439,285
At 1 January 2008 as previously reported	285,530	142,765	203,147	345,912
Effect of change in accounting policy	-	-	675	675
At 1 January 2008 restated	285,530	142,765	203,822	346,587
Defined benefit plan actuarial loss	-	-	(970)	(970)
Deferred tax on revalued land and buildings	-	-	123	123
Expense recognised directly in equity	-	-	(847)	(847)
Profit for the financial period	-	-	811,683	811,683
Dividends for financial year ended 31 December 2007				
- Special final	-	-	(31,694)	(31,694)
- Final	-	-	(179,598)	(179,598)
Dividends for financial year ended 31 December 2008				
- Interim	-	-	(322,649)	(322,649)
- Interim 2	-	-	(217,003)	(217,003)
At 31 December 2008	285,530	142,765	263,714	406,479

* The restatement reflects the change in the Group's accounting policy for recognition of actuarial gains and losses as explained in Note 1.

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the Annual Audited Financial Statements of the Group for the year ended 31 December 2008.

BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD
(Company No : 4372-M)

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the financial year ended 31 December 2009

	Note	Financial year ended 31.12.2009	Financial year ended 31.12.2008
		RM'000	RM'000
Operating activities			
Cash receipts from customers		3,927,189	4,071,077
Cash paid to suppliers and employees		(2,751,683)	(2,864,838)
Cash from operations		<u>1,175,506</u>	<u>1,206,239</u>
Income taxes paid		(251,266)	(251,489)
Net cash flow from operating activities		<u>924,240</u>	<u>954,750</u>
Investing activities			
Property, plant and equipment			
- additions		(107,162)	(101,536)
- disposals		8,862	9,132
Computer software			
- additions		(1,805)	(2,172)
- disposals		-	3
Disposal of assets held for sale		21,000	-
Interest income received		5,470	7,619
Net cash flow used in investing activities		<u>(73,635)</u>	<u>(86,954)</u>
Financing activities			
Dividends paid to shareholders		(713,825)	(750,944)
Proceeds from issuance of medium term notes		250,000	-
Repayment of medium term notes		(250,000)	-
Repayment of commercial papers		-	(100,000)
Interest expense paid		(27,481)	(28,131)
Net cash flow used in financing activities		<u>(741,306)</u>	<u>(879,075)</u>
Increase/(Decrease) in cash and cash equivalents		109,299	(11,279)
Cash and cash equivalents as at 1 January		<u>59,387</u>	<u>70,666</u>
Cash and cash equivalents as at 31 December		<u>168,686</u>	<u>59,387</u>

The Condensed Consolidated Cash Flow Statement should be read in conjunction with the Annual Audited Financial Statements of the Group for the year ended 31 December 2008

Notes:1. Basis of Preparation

The interim financial report is audited and has been prepared in accordance with the requirements of Financial Reporting Standard (FRS) 134 Interim Financial Reporting issued by the Malaysian Accounting Standards Board and paragraph 9.22 and Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad. It should be read in conjunction with the Group's annual audited financial statements for the year ended 31 December 2008.

The accounting policies and methods of computation adopted by the Group in these quarterly financial statements are consistent with those adopted in the most recent annual audited financial statements for the year ended 31 December 2008, except that the Group amended its treatment with regard to the recognition of actuarial gains and losses of retirement benefit schemes under FRS119 Employee Benefits. Previously, actuarial gains and losses that arose were recognised only to the extent that cumulatively they exceeded 10 per cent of the greater of the present value of the defined benefit obligation and the fair value of the scheme assets, and that portion was recognised in the income statement over the expected average remaining working lives of the employees participating in the plan. The Group believes that fully recognising actuarial gains and losses when they occur results in better presentation of the financial statements which is more in line with current market practice and expected financial reporting developments thus providing more comparable market information. Following the change in accounting policy, the Group now recognises actuarial gains and losses in the period in which they occur, within retained earnings.

As a result of the change in treatment of actuarial gains and losses, comparative amounts as at 31 December 2008 have been reclassified as follows:

	As previously reported RM'000	Effects of changes in accounting policy RM'000	As restated RM'000
Post employment benefit obligations			
- at 31 December 2008	5,002	295	5,297
Retained earnings			
- at 1 January 2009/31 December 2008	264,009	(295)	263,714
- at 1 January 2008	<u>203,147</u>	<u>675</u>	<u>203,822</u>

The new/revised standards, amendments to published standards and interpretations to published standards which have been issued by the MASB, but are not yet effective, and will have an impact on the Group are as follows:

- (a) FRS 8 Operating Segments (effective for annual periods beginning on or after 1 July 2009). FRS 8 replaces FRS 114₂₀₀₄ Segment Reporting. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group does not expect any changes arising from this standard as the chief operating decision maker relies on internal reports which are similar to those currently disclosed externally. The Group will apply this standard from financial periods beginning on 1 January 2010.
- (b) FRS 139 Financial Instruments: Recognition and Measurement (effective for annual periods beginning on or after 1 January 2010). This new standard establishes principles for recognizing and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. Hedge accounting is permitted only under strict circumstances. The Group will apply this standard from financial periods beginning on 1 January 2010. As allowed under the transitional provisions of FRS 139, the Group is exempted from having to disclose the possible impact on the application of this standard on the financial statements of the Group in the year of initial application.
- (c) FRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2010). FRS 7 provides information to users of financial statements about an entity's exposure to risk and how the entity manages these risks. As allowed under the transitional provisions of FRS 7, the Group is exempted from having to disclose the possible impact on the application of this standard on the financial statements of the Group in the year of initial application. The Group will apply this standard from financial periods beginning on 1 January 2010.
- (d) Amendments to FRS 101 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2010). The amendment to FRS 101 requires statement of comprehensive income that shows components of other comprehensive income not attributable to shareholders and specifies terminology changes. This standard only impacts the extent of disclosures in the financial statements. The Group will apply these amendments from financial periods beginning on 1 January 2010.
- (e) Amendments to FRS 117 Leases (effective for annual periods beginning on or after 1 January 2010). The amendment to FRS 117 requires entities with existing leases of land and buildings (combined) to reassess the classification of land as a finance or operating lease. The Group will reclassify prepaid leases of land within property, plant and equipment following this reassessment. The Group will apply these amendments from financial periods beginning on 1 January 2010.

The new/revised standards, amendments to published standards and interpretations to published standards which have been issued by MASB, but are not yet effective, and will not have an impact on the Group are as follows:

- (a) FRS 1 First-time Adoption of Financial Reporting Standards
- (b) Amendments to FRS1 First-time Adoption of Financial Reporting Standards
- (c) Amendments to FRS 2 Share-based Payment: Vesting Conditions and Cancellations
- (d) FRS 123 Borrowing Costs
- (e) FRS 127 Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- (f) IC Interpretation 9 Reassessment of Embedded Derivatives
- (g) IC Interpretation 10 Interim Financial Reporting and Impairment

- (h) IC Interpretation 11 FRS 2 – Group and Treasury Share Transactions
- (i) IC Interpretation 13 Customer Loyalty Programmes
- (j) IC Interpretation 14 FRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The new/revised standards, amendments to published standards and interpretations to published standards are effective for annual periods beginning on or after 1 January 2010.

2. Audit Report of Preceding Annual Financial Statements

The audit report of the Group's most recent annual audited financial statements for the year ended 31 December 2008 was not qualified.

3. Unusual Items

There were no unusual items affecting assets, liabilities, equity, net income or cash flows during the financial period under review except for the following:

- (i) Reorganisation costs incurred to achieve operational efficiencies. To the extent that employees could not be redeployed, a voluntary redundancy package was offered. The total amount of voluntary redundancies charged to income statement in the financial period under review was RM8.3 million.
- (ii) Impairment on machinery. Useful lives and residual values of assets were assessed, and where there were indications of impairment, an impairment charge was recognised mainly due to changes in legislation, changes in pack design and reduction in export volumes. A total impairment charge of approximately RM27 million was recognised in the financial period under review, of which RM13 million was recovered.

4. Changes in Estimates

There were no changes in estimates of amounts reported in prior financial years that have a material effect in the current quarter.

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5. Taxation

Taxation comprises:

	3 months ended		Financial year ended	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
	RM'000	RM'000	RM'000	RM'000
<u>In respect of current year</u>				
Current tax				
- Malaysian income tax	72,099	58,606	276,193	284,614
- Foreign tax	33	44	33	44
Deferred tax credits	(10,195)	(15,728)	(10,792)	(15,175)
<u>In respect of prior year</u>				
Malaysian income tax	(6,906)	-	(6,906)	-
	<u>55,051</u>	<u>42,922</u>	<u>258,528</u>	<u>269,483</u>

The average effective tax rate of the Group for the financial year ended 31 December 2009 is 26%, which is higher than the statutory tax rate of 25% mainly due to the non-deductibility of interest expense following the Group's move to the single tier tax system, and a one off tax adjustment for the shortfall of dividend franking credits due to tax refunds received, offset partially by recognition of deferred tax credits arising from temporary taxable differences.

The average effective tax rate of the Group for the financial year ended 31 December 2008 is 25%, which is lower than the statutory tax rate of 26% mainly due to deferred tax credits arising from temporary taxable differences.

6. Valuations of Property, Plant and Equipment

The valuations of land and buildings have been brought forward, without amendment, from the most recent annual audited financial statements for the year ended 31 December 2008. The carrying value is based on a valuation carried out in 1983 by independent qualified valuers less depreciation.

7. Sale of Unquoted Investments and/or Properties

On 8 October 2007, the Group entered into a sale and purchase agreement for the disposal of the final part of its property at Sungai Besi, Kuala Lumpur for a consideration of RM21,000,000. This disposal was completed on 23 January 2009 with no material gains or losses arising.

On 29 June 2009, the Group offered to dispose the property at Keningau for a consideration of RM1,950,000, which was accepted by the purchaser. This disposal is expected to be completed by the end of 2010 with no material gains or losses arising. This property is currently classified as an Asset Held For Sale.

Except for the above property disposals, there were no other sales of unquoted investments or properties during the financial period under review.

8. Quoted Securities

- a) There were no purchases or sales of quoted securities during the financial period under review.
- b) There were no investments in quoted securities as at the end of the financial period under review.

9. Changes in Composition of the Group

There were no changes in the composition of the Group during the financial period under review.

10. Corporate Proposals

There were no new corporate proposals announced as at 4 February 2010 (the latest practicable date which shall not be earlier than 7 days from the date of issue of this quarterly report).

11. Changes in Share Capital and Debt

On 2 November 2009, the Group repaid a RM150,000,000 Medium-Term Note that matured.

There were no other issuances, cancellations, repurchases, resale and repayment of either debt or equity securities for the period under review.

12. Borrowings

The Group's borrowings as at 31 December 2009 are as follows:

RM'000

Non-current

5-year medium-term notes 2007/2012 with a coupon rate of 4.05% per annum, maturing on 21 September 2012	400,000
5-year medium-term notes 2009/2014 With a coupon rate of 4.48% per annum, maturing on 15 August 2014	250,000
	<hr/> 650,000 <hr/>

All borrowings are denominated in Ringgit Malaysia.

13. Contingent Liabilities and Contingent Assets

There were no contingent liabilities or contingent assets as at 4 February 2010 (the latest practicable date which shall not be earlier than 7 days from the date of issue of this quarterly report).

14. Capital Commitments

Capital commitments not provided for in the financial statements as at 31 December 2009 are as follows:

	RM'000
Property, plant and equipment:	
Authorised by the Directors and contracted for	-
Authorised by the Directors but not contracted for	1,661
	1,661

15. Financial Instruments

Forward Foreign Currency Contracts

As at 4 February 2010 (the latest practicable date which shall not be earlier than 7 days from the date of issue of this quarterly report), the foreign currency contracts which have been entered into by the Group to hedge its foreign purchases are as follows:

Currency	Contract amount in foreign currency '000	Date of contract	Value date of contract	Equivalent amount in RM'000
Pound Sterling	5,800	05/01/2009 – 06/10/2009	25/02/2010 – 27/08/2010	31,706
Euro	2,992	06/10/2009 – 21/01/2010	17/02/2010 – 28/12/2010	15,008
US Dollar	10,100	06/10/2009 – 21/01/2010	17/02/2010 – 23/11/2010	35,073

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As at 4 February 2010 (the latest practicable date which shall not be earlier than 7 days from the date of issue of this quarterly report), the foreign currency contracts which have been entered into by the Group to hedge its foreign sales are as follows:

Currency	Contract amount in foreign currency '000	Date of contract	Value date of contract	Equivalent amount in RM'000
US Dollar	3,100	06/10/2009 – 17/11/2009	25/05/2010 – 22/10/2010	10,541

Foreign currency transactions in Group companies are accounted for at exchange rates ruling at the transaction dates. Foreign currency monetary assets and liabilities are translated at exchange rates ruling at the balance sheet date. Exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in the income statement.

There are no cash requirement risks as the Group uses fixed forward foreign currency contracts as its hedging instrument.

Credit Risks

The above financial instruments were executed with creditworthy financial institutions in Malaysia in line with the Group's policy.

16. Material Litigation

There was no material litigation as at 4 February 2010 (the latest practicable date which shall not be earlier than 7 days from the date of issue of this quarterly report).

17. Segment Reporting

No segmental analysis is prepared as the Group is primarily engaged in the manufacture and sale of cigarettes and other tobacco products in Malaysia.

18. Material Changes in the Quarterly Results as Compared with the Preceding Quarter

Industry volumes, as measured by the Confederation of Malaysian Tobacco Manufacturers' members' increased by 7% as compared to the previous quarter. BAT Malaysia's volumes outperformed the industry increasing by 8.9% in the current quarter as compared to the last quarter.

Consequently, the Group's revenue in the current period was higher by 11% versus the previous period.

However, profit before taxation in the current quarter was lower at RM227.9 million compared to the preceding quarter of RM234.5 million, as the increase in volumes and higher net pricing was offset by marketing expenditure for the launch of the new Dunhill pack, impairment of machinery and reorganisation costs.

19. Review of Performance

The overall industry volumes for 2009 as measured by the Confederation of Malaysian Tobacco Manufacturers members' sales, declined by 11.2% versus last year due primarily to the increasing levels of illicit trade and contraction of the economy impacting consumer spending power. Illicit trade incidence had reached staggering levels at 37.7%, based on an average of Wave 1 and Wave 2 of the surveys conducted by the Confederation of Malaysian Tobacco Manufacturers in 2009, up 12.0 percentage points from the full year of 2008.

BAT Malaysia's volume declined by 13.8% impacted by the above factors and compounded by one-off full year impact of tail end brand migration. Despite this significant decline in volumes the Group's realigned strategic portfolio led by the Global Drive Brands has performed commendably during the period under review, gaining 2.6 percentage points market share compared to last year to reach 54.6% market share. The main contributors to the strong performance of the Global Drive Brands are Dunhill and Kent, which have both gained 1.9 percentage points and 1.4 percentage points market share respectively in comparison to the previous period.

For the full year 2009, the Group's revenue was 5.1% lower at RM3,923.4 million compared to RM4,135.2 million in 2008. The decline in revenue was a result of the significant drop in volumes impacted by the factors above, partially offset by higher net pricing and improved sales mix.

Consequently, the Group's operating profit reduced by 6.9% to RM1,033 million from RM1,109 million further impacted by higher cost of sales from underutilisation of production capacity offset by savings from the implementation of a variety of productivity and cost management initiatives.

Profit after tax declined by 8% as the lower statutory tax rate in 2009 was offset mainly by the non deductibility of interest expense resulting in a higher effective tax rate in 2009.

20. Events Subsequent to the End of the Period

There are no material events subsequent to the end of the financial period under review that have not been reflected in the quarterly financial statements.

21. Seasonal or Cyclical Factors

The business operations of the Group were not materially affected by any seasonal or cyclical factors during the financial period under review.

22. Next Financial Year's Prospects

Industry volumes in 2009 have contracted by 11.2% as compared to the same period last year. This was driven by high levels of illicit trade, which averaged 37.7% (based on Wave 1 and Wave 2 of illicit survey), and pressures on consumer spending power following the global financial crisis and consequent economic downturn. Thus the Government's continued role in combating illicit trade through moderate tax increases and strong enforcement efforts, together with stricter penalties are vital in addressing this growing concern.

2010 will also see the implementation of regulation requiring the withdrawal of packs less than 20 sticks effective 1st June 2010, which will impose further pressure on the Group's operating margin.

The above adverse external factors will provide a challenging operating environment for the Group in 2010. Despite these factors, the Group is committed to protecting and enhancing its leadership position within the industry through its strategic initiatives.

23. Earnings Per Share

	3 months ended		Financial year ended	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
Basic earnings per share				
Profit for the financial period (RM'000)	172,865	172,874	746,784	811,683
Weighted average number of ordinary shares in issue ('000)	285,530	285,530	285,530	285,530
Basic earnings per share (sen)	60.5	60.5	261.5	284.3

The Group does not have in issue any financial instrument or other contract that may entitle its holder to ordinary shares and therefore, dilutive to its basic earnings per share.

24. Dividends

The Board of Directors recommends the declaration of a net final dividend of 62.00 sen per share, tax exempt under the single-tier tax system, amounting to RM177,028,600 in respect of the financial year ended 31 December 2009 (for the financial year ended 31 December 2008 – a net final dividend of 76.00 sen per share, tax exempt under the single-tier tax system, amounting to RM217,002,800), which subject to the approval by shareholders, will be paid on **7 May 2010** to all shareholders whose names appear on the Register of Members and Record of Depositors on **21 April 2010**.

NOTICE IS HEREBY GIVEN that the Register of Members will be closed from **21 April 2010** to **22 April 2010** (both dates inclusive) for the purpose of determining members' entitlement to the dividend.

A Depositor shall qualify for entitlement only in respect of:

- a) Securities deposited into the Depositor's Securities Account before 12.30 p.m. on **19 April 2010**, in respect of securities exempted from mandatory deposit;
- b) Securities transferred to the Depositor's Securities Account before 4.00 p.m. on **21 April 2010**, in respect of ordinary transfers; and
- c) Securities bought on Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of Bursa Malaysia Securities Berhad.

The total dividends (both declared and recommended) for the current financial year will therefore consist of (a) a first interim dividend of 113.00 sen per share, tax exempt under the single-tier tax system amounting to RM322,648,900; (b) a second interim dividend of 61.00 sen per share, tax exempt under the single-tier tax system amounting to RM174,173,300; and (c) a proposed net final dividend of 62.00 sen per share, tax exempt under the single-tier tax system, amounting to RM177,028,600 in respect of the financial year ended 31 December 2009 (total dividends for the financial year ended 31 December 2008 consists of (a) a first interim dividend of 113.00 sen per share, tax exempt under the single-tier tax system, amounting to RM322,648,900; (b) a second interim dividend of 76.00 sen per share, tax exempt under the single-tier tax system, amounting to RM217,002,800; and (c) a net final dividend of 76.00 sen per share, tax exempt under the single-tier tax system, amounting to RM217,002,800).

By Order of the Board

CHAN MEI MAE (LS0009460)

Company Secretary

Petaling Jaya

11 February 2010