

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

CONDENSED CONSOLIDATED INCOME STATEMENTS

For the 9 months ended 30 September 2012

	Note	3 months ended		Financial period ended	
		30.09.2012	30.09.2011	30.09.2012	30.09.2011
		RM'000	RM'000	RM'000	RM'000
Revenue		1,160,055	1,104,525	3,270,804	3,139,980
Cost of sales		(769,169)	(717,145)	(2,143,667)	(2,024,283)
Gross profit		390,886	387,380	1,127,137	1,115,697
Other operating income		1,305	2,634	11,337	8,527
Operating expenses		(135,392)	(143,797)	(309,730)	(376,294)
Profit from operations		256,799	246,217	828,744	747,930
Finance cost		(6,819)	(6,907)	(20,481)	(20,494)
Profit before tax		249,980	239,310	808,263	727,436
Tax expense	5	(64,307)	(63,041)	(207,232)	(188,469)
Profit for the financial period		185,673	176,269	601,031	538,967
Attributable to:					
Shareholders' equity		185,673	176,269	601,031	538,967
Earnings per share - basic (sen)	21	65.0	61.7	210.5	188.8
Earnings per share - diluted (sen)	21	65.0	61.7	210.5	188.8
Net dividends per share (sen)					
- Interim 1 dividend		-	-	65.0	60.0
- Interim 2 dividend		-	-	65.0	60.0
- Special interim dividend		-	-	-	30.0
- Interim 3 dividend		65.0	60.0	65.0	60.0
		65.0	60.0	195.0	210.0

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 2011.

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the 9 months ended 30 September 2012

	3 months ended		Financial period ended	
	30.09.2012	30.09.2011	30.09.2012	30.09.2011
	RM'000	RM'000	RM'000	RM'000
Profit for the financial period	185,673	176,269	601,031	538,967
Other comprehensive income:				
Change in fair value of cash flow hedges	(564)	1,688	50	3,629
Deferred tax on fair value changes of cash flow hedges	141	(422)	(12)	(908)
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Total other comprehensive income for the financial period	(423)	1,266	38	2,721
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Total comprehensive income for the financial period	185,250	177,535	601,069	541,688
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Attributable to:				
Shareholders' equity	185,250	177,535	601,069	541,688
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The Condensed Consolidated Statements of Comprehensive Income should be read in conjunction with the Annual Audited Financial Statements of the Group for the year ended 31 December 2011.

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

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the 9 months ended 30 September 2012

	Issued and fully paid ordinary shares of 50 sen each		Non- distributable	Distributable	Attributable to Shareholders' Equity
	Number of shares	Nominal value	Cash flow hedge reserve	Retained earnings	Total
	'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2012	285,530	142,765	(242)	289,212	431,735
Profit for the financial period	-	-	-	601,031	601,031
Other comprehensive income for the financial period					
- changes in fair value of cash flow hedges	-	-	50	-	50
- deferred tax on fair value changes on cash flow hedges	-	-	(12)	-	(12)
	<u>285,530</u>	<u>142,765</u>	<u>(204)</u>	<u>890,243</u>	<u>1,032,804</u>
Dividends for financial year ended 31 December 2011					
- Interim 4	-	-	-	(188,450)	(188,450)
Dividends for financial year ending 31 December 2012					
- Interim 1	-	-	-	(185,594)	(185,594)
- Interim 2	-	-	-	(185,594)	(185,594)
At 30 September 2012	<u>285,530</u>	<u>142,765</u>	<u>(204)</u>	<u>330,605</u>	<u>473,166</u>
At 1 January 2011	285,530	142,765	(1,374)	349,035	490,426
Profit for the financial period				538,967	538,967
Other comprehensive income for the financial period					
- changes in fair value of cash flow hedges	-	-	3,629	-	3,629
- deferred tax on fair value changes on cash flow hedges	-	-	(908)	-	(908)
	<u>285,530</u>	<u>142,765</u>	<u>1,347</u>	<u>888,002</u>	<u>1,032,114</u>
Dividends for financial year ended 31 December 2010					
- Interim 3	-	-	-	(179,884)	(179,884)
Dividends for financial year ended 31 December 2011					
- Interim 1	-	-	-	(171,318)	(171,318)
- Interim 2	-	-	-	(171,318)	(171,318)
- Special interim dividend	-	-	-	(85,659)	(85,659)
At 30 September 2011	<u>285,530</u>	<u>142,765</u>	<u>1,347</u>	<u>279,823</u>	<u>423,935</u>

The Condensed Consolidated Statements of Changes in Equity should be read in conjunction with the Annual Audited Financial Statements of the Group for the year ended 31 December 2011.

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

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 September 2012

	Note	As at 30.09.2012 RM'000	As at 31.12.2011 RM'000	As at 1.1.2011 RM'000
Non-current assets				
Property, plant and equipment		409,889	424,332	405,826
Investment property		138	138	1,636
Goodwill		411,618	411,618	411,618
Computer software		3,960	4,742	4,336
Deferred tax assets		20,102	20,102	15,158
		<u>845,707</u>	<u>860,932</u>	<u>838,574</u>
Current assets				
Asset held for sale		-	-	888
Inventories		333,158	192,959	193,572
Receivables		227,345	206,925	179,489
Derivative financial instruments		2,567	-	-
Deposits, cash and bank balances		25,901	306,647	356,623
		<u>588,971</u>	<u>706,531</u>	<u>730,572</u>
Current liabilities				
Payables		259,181	361,295	314,208
Deferred income		3,304	2,095	-
Borrowings	10	300,000	400,000	-
Current tax liabilities		81,796	67,566	66,758
Derivative financial instruments		3,706	322	1,832
		<u>647,987</u>	<u>831,278</u>	<u>382,798</u>
Net current (liabilities) / assets		<u>(59,016)</u>	<u>(124,747)</u>	<u>347,774</u>
		<u>786,691</u>	<u>736,185</u>	<u>1,186,348</u>
Capital and reserves				
Share capital	8	142,765	142,765	142,765
Cash flow hedge reserve		(204)	(242)	(1,374)
Retained earnings		330,605	289,212	349,035
Shareholders' funds		<u>473,166</u>	<u>431,735</u>	<u>490,426</u>
Non-current liabilities				
Deferred income		9,628	7,683	-
Borrowings	10	250,000	250,000	650,000
Post employment benefit obligations		5,414	4,511	4,117
Deferred tax liabilities		48,483	42,256	41,805
		<u>786,691</u>	<u>736,185</u>	<u>1,186,348</u>
Net assets per share (RM)		1.66	1.51	1.72

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 2011.

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

CONDENSED CONSOLIDATED CASH FLOW STATEMENTS

For the 9 months ended 30 September 2012

	9 months ended 30.09.2012	9 months ended 30.09.2011
	RM'000	RM'000
Operating activities		
Cash receipts from customers	3,206,455	3,024,725
Cash paid to suppliers and employees	(2,594,620)	(2,254,859)
Cash from operations	<u>611,835</u>	<u>769,866</u>
Income taxes paid	(185,920)	(172,242)
Net cash flow from operating activities	<u>425,915</u>	<u>597,624</u>
Investing activities		
Property, plant and equipment		
- additions	(29,176)	(26,204)
- disposals	3,273	14,766
Computer software		
- additions	(961)	-
Interest income received	6,534	8,123
Net cash flow from investing activities	<u>(20,330)</u>	<u>(3,315)</u>
Financing activities		
Dividends paid to shareholders	(559,638)	(608,179)
Interest expense paid	(26,693)	(24,206)
Proceed from revolving credits	300,000	-
Repayment of medium term notes	(400,000)	-
Net cash flow used in financing activities	<u>(686,331)</u>	<u>(632,385)</u>
Decrease in cash and cash equivalents	(280,746)	(38,076)
Cash and cash equivalents as at 1 January	306,647	356,623
Cash and cash equivalents as at 30 September	<u>25,901</u>	<u>318,547</u>

The Condensed Consolidated Cash Flow Statements should be read in conjunction with the Annual Audited Financial Statements of the Group for the year ended 31 December 2011.

Notes:

1. Basis of Preparation

The interim financial report is unaudited and has been prepared in accordance with the requirements of Malaysian Financial Reporting Standard (“MFRS”) 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 2011.

In compliant with MFRS, “MFRS 1 – First-time Adoption of Malaysian Financial Reporting Standards” has been applied in this interim report. The transition from FRS to MFRS does not have any significant impact to the financial report of the Group.

The audited financial statements of the Group for the year ended 31 December 2011 were prepared in accordance with FRS. As the requirements under FRS and MFRS are similar, the significant accounting policies and method of computation adopted in these quarterly interim financial reports are consistent with those adopted in the most recent annual audited financial statements for the year ended 31 December 2011.

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 2011 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.

4. Changes in Estimates

During the quarter, the Group reassessed its Forest Development Expenditure prepayment and revalued this asset to the lower of cost amortised over its useful life and net present value of expected future market price of carbon credits as traded in the European market. As a result, an impairment of RM6 million was recognised in current quarter, bringing the total to RM13 million for the financial period ended 30 September 2012.

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

British American Tobacco (Malaysia) Berhad

5. Taxation

Taxation comprises:

	3 months ended		Financial period ended	
	30.9.2012	30.9.2011	30.9.2012	30.9.2011
	RM'000	RM'000	RM'000	RM'000
<u>In respect of current year</u>				
Current tax				
- Malaysian income tax	61,429	53,432	201,016	179,789
Deferred tax charge/ (credit)	2,878	9,609	6,216	8,680
	<u>64,307</u>	<u>63,041</u>	<u>207,232</u>	<u>188,469</u>

The average effective tax rate of the Group for the financial period ended 30 September 2012 is 25.6%, 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. The non-deductible interest expense will reduce by 68% in the next quarter following the Group's move to redeem the Medium-Term Notes of RM400 million in September 2012. This will result in a reduction in effective tax rate by approximately 0.4% on an annual basis.

This quarter the Group's average effective tax rate is in line with the rate for the financial period ended 30 September 2011 of 25.9%.

6. Notes to the Statements of Comprehensive Income

	3 months ended		Financial period ended	
	30.9.2012	30.9.2011	30.9.2012	30.9.2011
	RM'000	RM'000	RM'000	RM'000
Interest income	(1,275)	(2,625)	(5,989)	(8,110)
Interest expense	6,819	6,907	20,481	20,494
Depreciation and amortization	14,261	15,990	40,438	46,118
Impairment / (Reversal of impairment) of assets	5,500	-	7,762	(11,558)
Provision for and write-off of receivables	(344)	1,998	284	1,998
Provision for and write-off of inventory	1,770	1,513	2,608	1,940
Net foreign exchange (gain)/loss	5,015	63	4,872	(25)
(Gain)/Loss on derivatives	1,290	(1,267)	829	(2,722)

7. Changes in Composition of the Group

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

8. Corporate Proposals

There were no new corporate proposals announced as at 16 October 2012 (the latest practicable date which shall not be earlier than 7 days from the date of issue of this quarterly report).

9. Changes in Share Capital and Debt

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

However, the Group redeemed its RM400 million medium-term notes 2007/2012 upon maturity on 21 September 2012 and utilised short term borrowings of revolving credits to fund its working capital needs. For details of the borrowing structure, please refer to note 10 below.

10. Borrowings

The Group's borrowings as at 30 September 2012 are as follows:

Current	RM'000
1-month revolving credits maturing on 22 October 2012	250,000
2-weeks revolving credits maturing on 5 October 2012	50,000
Non- current	
5-year medium-term notes 2009/2014 with a coupon rate of 4.48% per annum, maturing on 15 August 2014	250,000
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	550,000
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All borrowings are denominated in Ringgit Malaysia.

11. Contingent Liabilities and Contingent Assets

There were no contingent liabilities or contingent assets as at 16 October 2012 (the latest practicable date which shall not be earlier than 7 days from the date of issue of this quarterly report).

12. Capital Commitments

Capital commitments not provided for in the financial statements as at 30 September 2012 are as follows:

Property, plant and equipment:	RM'000
Authorised by the Directors and contracted for	13,647
Authorised by the Directors but not contracted for	3,879
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	17,526
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British American Tobacco (Malaysia) Berhad

13. Breakdown of realised and unrealised profit / (loss)

The following analysis of realised and unrealised retained profits / (accumulated losses) is prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants whilst the disclosure is based on the prescribed format by the Bursa Malaysia Securities Berhad.

	As at 30.9.2012 RM'000	As at 31.12.2011 RM'000
Total retained profits of British American Tobacco (Malaysia) Berhad and its subsidiaries		
- Realised profit	542,410	494,238
- Unrealised loss	(44,122)	(36,321)
Less: Consolidation Adjustments	(167,683)	(168,705)
Total retained profits	<u>330,605</u>	<u>289,212</u>

The unrealised portion within unappropriated profits (retained earnings) as at 30 September 2012 predominantly relates to net deferred tax liability of RM28,313,000 and provisions for non-material litigation of RM12,727,000.

The consolidation adjustments recognised for the Group mainly relate to accumulated goodwill amortisation recognised from years 2000 to 2005 and hence realised.

14. Material Litigation

There was no material litigation as at 16 October 2012 (the latest practicable date which shall not be earlier than 7 days from the date of issue of this quarterly report).

15. 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.

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

Domestic and cigarette contract manufacturing volume is in line with the previous quarter, however semi-finished goods contract manufacturing volume has increased substantially by 116%.

The higher contract manufacturing volume has led directly to increased Gross Profit this quarter, however this is overshadowed by the higher marketing activities undertaken this quarter compared to the second quarter. Q2 operating expenses were also notably lower due to the recognition of certain semi-variable differences between the two quarters.

As a result of the comparably higher operating expenses this quarter profit before tax is 16% lower than the preceding quarter.

17. Review of Performance

The Group registered a 62.5% market share for September YTD, a healthy 1.5 percentage point growth compared to full year 2011 (2.0 percentage point growth compared to same period last year). This strong performance was contributed mainly from Dunhill, growing 2.4 percentage points compared to full year 2011 from strong product offerings and also benefiting from enhanced enforcement by Government agencies in curbing illegal cigarette and certain brands selling below the Government mandated minimum price.

The Group's domestic and duty free sales volume declined marginally by 0.4% compared to the corresponding period in 2011. This was due to lower trade speculation ahead of the National Budget announcement than the previous year.

Contract manufacturing volume (cigarettes and semi-finished goods) grew 48% versus same period in 2011. The increase coming predominantly from Australia and Japan.

Revenue grew by 4.1% mainly attributed to the increase in contract manufacturing volume and the change from toll to full contract manufacturing. This increase was offset by lower domestic sales revenue and the recognition of distribution costs above gross revenue following move from direct sales to third party distribution last year.

Gross profit YTD was only 1% ahead of same period last year. The increase in gross revenue from contract manufacturing is offset by the lower domestic sales and the impact of distribution costs moving above gross revenue.

Profit before tax increased by 11% compared to same period last year, significantly ahead of gross profit growth, owing mostly to operating expenses that were 18% lower than the comparable period last year. Permanent operating expense reductions of RM39mn are generated by the movement of distribution costs above gross revenue, absence of merchandising depreciation, and net impact of non-recurring items i.e. cost to migrate distribution model, charges relating to accounts-related matters and reforestation impairment. RM20mn improvement in the year on year operating expenses is attributed to semi variable items, management incentives, performance based sales and distribution incentives but offset by higher IT costs. Balance of RM8mn improvement is caused by timing of marketing expenditures.

Profit after tax increased by 11%, in line with profit before tax.

18. 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.

19. Seasonal or Cyclical Factors

The results of the Group are generally impacted by changes in excise typically announced annually during National Budget. There was no excise increase again in 2012 however there was notably less trade speculation in 2012 versus previous year.

20. Current Financial Year's Prospects

The Government did not increase cigarette excise in 2013 Malaysia Budget. However, effective 19th October 2012, Royal Malaysia Customs mandated an increase in ex-factory pricing which results in higher ad-valorem and sales taxes to the Group. Consequently, the Group has taken a price increase for all its brands from 22nd October, 2012.

In light of the above, it is essential that the Government enforcement agencies maintain their current efforts in curbing the sale of illicit products and brands selling below the Government mandated price. The latest illicit incidence stands at 34.9% based on the second wave (June to August 2012) of the Illegal Cigarettes Study commissioned by the Confederation of Malaysian Tobacco Manufacturers (CMTM), increased by 0.2% versus the last wave. However, this still represents a 1.2% drop compared to full year 2011.

Based on the strong performance of Dunhill, together with the recent launch of the new Pall Mall global pack design, and despite the higher indirect taxes, the Group is optimistic on its outlook for the balance of 2012.

21. Earnings Per Share

Basic earnings per share	3 months ended		Financial period ended	
	30.9.2012	30.9.2011	30.9.2012	30.9.2011
Profit for the financial period (RM'000)	185,673	176,269	601,031	538,967
Weighted average number of ordinary shares in issue ('000)	285,530	285,530	285,530	285,530
Basic earnings per share (sen)	65.0	61.7	210.5	188.8

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.

22. Dividends

The Board of Directors has declared third interim dividend of 65.00 sen per share, tax exempt under the single-tier tax system amounting to RM185,594,500 in respect of the financial year ending 31 December 2012 (for the financial year ended 31 December 2011, third interim dividend of 60.00 sen per share tax exempt under the single-tier tax system, amounting to RM171,318,000), payable on 30 November 2012, to all shareholders whose names appear on the Register of Members and Record of Depositors on 12 November 2012.

NOTICE IS HEREBY GIVEN that the Register of Members will be closed from 12 November 2012 to 14 November 2012 (both dates inclusive) for the purpose of determining members' entitlement to the dividend.

British American Tobacco (Malaysia) Berhad

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 8 November 2012, in respect of securities exempted from mandatory deposit;
- (b) Securities transferred to the Depositor's Securities Account before 4.00 p.m. on 12 November 2012, 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.

By Order of the Board

CHAN MEI MAE (LS0009460)

Company Secretary

Petaling Jaya

23 October 2012