

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

CONDENSED CONSOLIDATED INCOME STATEMENTS

For the financial period ended 31 March 2013

	Note	3 months ended/ Financial period ended	
		31.03.2013	31.03.2012
		RM'000	RM'000
Revenue		1,095,739	1,042,762
Cost of sales		<u>(740,777)</u>	<u>(675,466)</u>
Gross profit		354,962	367,296
Other operating income		585	2,617
Operating expenses		<u>(76,922)</u>	<u>(101,520)</u>
Profit from operations		278,625	268,393
Finance cost		<u>(4,628)</u>	<u>(6,831)</u>
Profit before tax		273,997	261,562
Tax expense	5	<u>(69,793)</u>	<u>(67,053)</u>
Profit for the financial period		<u>204,204</u>	<u>194,509</u>
Earnings per share - basic (sen)	21	71.5	68.1
Earnings per share - diluted (sen)	21	71.5	68.1
Net dividend per share (sen) - Interim 1	22	68.0	65.0

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 2012.

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the financial period ended 31 March 2013

	3 months ended/ Financial period ended	
	31.03.2013 RM'000	31.03.2012 RM'000
Profit for the financial period	204,204	194,509
Other comprehensive income:		
Change in fair value of cash flow hedges	(2,195)	789
Deferred tax movement on other comprehensive income:		
- deferred tax on fair value changes of cash flow hedges	549	(197)
Total other comprehensive income for the financial period	<u>(1,646)</u>	<u>592</u>
Total comprehensive income for the financial period	<u>202,558</u>	<u>195,101</u>
Attributable to: Shareholders' equity	<u>202,558</u>	<u>195,101</u>

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 2012.

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

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the financial period ended 31 March 2013

	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 2013	285,530	142,765	525	341,606	484,896
Profit for the financial year	-	-	-	204,204	204,204
Other comprehensive income for the financial period:					
- changes in fair value of cash flow hedges	-	-	(2,195)	-	(2,195)
- deferred tax on fair value changes on cash flow hedges	-	-	549	-	549
	<u>285,530</u>	<u>142,765</u>	<u>(1,121)</u>	<u>545,810</u>	<u>687,454</u>
Transaction with owners:					
Dividend for financial year ended 31 December 2012					
- Interim 4	-	-	-	(219,858)	(219,858)
At 31 March 2013	<u>285,530</u>	<u>142,765</u>	<u>(1,121)</u>	<u>325,952</u>	<u>467,596</u>
At 1 January 2012	285,530	142,765	(242)	289,212	431,735
Profit for the financial year	-	-	-	194,509	194,509
Other comprehensive income for the financial period:					
- changes in fair value of cash flow hedges	-	-	789	-	789
- deferred tax on fair value changes on cash flow hedges	-	-	(197)	-	(197)
	<u>285,530</u>	<u>142,765</u>	<u>350</u>	<u>483,721</u>	<u>626,836</u>
Transaction with owners:					
Dividend for financial year ended 31 December 2011					
- Interim 4	-	-	-	(188,450)	(188,450)
At 31 March 2012	<u>285,530</u>	<u>142,765</u>	<u>350</u>	<u>295,271</u>	<u>438,386</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 2012.

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

CONDENSED CONSOLIDATED BALANCE SHEETS

As at 31 March 2013

	Note	As at 31.03.2013 RM'000	As at 31.12.2012 RM'000
Non-current assets			
Property, plant and equipment		402,904	416,014
Investment property		-	134
Computer software		2,351	2,801
Goodwill		411,618	411,618
Deferred tax assets		20,531	21,089
		837,404	851,656
Current assets			
Asset held for sale		417	417
Inventories		354,575	312,217
Receivables		252,294	200,400
Derivative financial instruments		751	2,287
Tax recoverable		-	418
Deposits, cash and bank balances		34,368	78,391
		642,405	594,130
Current liabilities			
Payables		303,607	317,828
Deferred income		3,304	3,304
Derivative financial instruments		2,632	2,670
Current tax liabilities		92,028	85,828
Borrowings	10	310,000	250,000
		711,571	659,630
Net current liabilities			
		(69,166)	(65,500)
		768,238	786,156
Capital and reserves			
Share capital	9	142,765	142,765
Cash flow hedge reserve		(1,121)	525
Retained earnings		325,952	341,606
Shareholders' funds		467,596	484,896
Non current liabilities			
Borrowings	10	250,000	250,000
Deferred income		8,801	9,628
Post employment benefit obligations		5,348	5,115
Deferred tax liabilities		36,493	36,517
		768,238	786,156
Net assets per share (RM)		1.64	1.70

The Condensed Consolidated Balance Sheets should be read in conjunction with the Annual Audited Financial Statements of the Group for the year ended 31 December 2012.

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

CONDENSED CONSOLIDATED CASH FLOW STATEMENTS

For the financial period ended 31 March 2013

	Financial period ended 31.03.2013	Financial period ended 31.03.2012
	RM'000	RM'000
Operating activities		
Cash receipts from customers	1,046,043	1,034,768
Cash paid to suppliers and employees	(860,923)	(797,416)
Cash from operations	<u>185,120</u>	<u>237,352</u>
Income taxes paid	(62,512)	(50,311)
Net cash flow from operating activities	<u>122,608</u>	<u>187,041</u>
Investing activities		
Property, plant and equipment		
- additions	(150)	(5,300)
- disposals	286	1,994
Additions of computer software	-	(265)
Interest income received	445	2,639
Net cash flow from investing activities	<u>581</u>	<u>(932)</u>
Financing activities		
Dividends paid to shareholders	(219,858)	(188,450)
Interest expense paid	(7,354)	(13,723)
Proceeds from revolving credit	60,000	-
Net cash flow used in financing activities	<u>(167,212)</u>	<u>(202,173)</u>
Decrease in cash and cash equivalents	(44,023)	(16,064)
Cash and cash equivalents as at 1 January	78,391	306,647
Cash and cash equivalents as at 31 March	<u>34,368</u>	<u>290,583</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 2012.

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 2012.

The audited financial statements of the Group for the year ended 31 December 2012 were prepared in accordance with MFRS.

There are no new MFRSs or interpretations that are effective for the first time in this quarter that would be expected to have a material effect on the Group.

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 2012.

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 2012 was unqualified.

3. Unusual Items

During the course of 2012 it was communicated by Ministry of Trade and Industry (MITI) that effective January 2013, duty exemption for inputs imported for the production of tobacco products to be re-exported would be withdrawn. The Group appealed this decision and on January 7th the withdrawal was suspended pending further review. Immediately thereafter the Group applied for a 2013 duty exemption quota and in Q1 2013, prior to grant of the aforementioned quota, the Group paid approximately RM33 million of import duties for inputs. This duty will be reclaimed on re-exportation of finished goods.

There were no other unusual items affecting assets, liabilities, equity, net income or cash flows during the financial period under review.

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.

5. Taxation

Taxation comprises:

	3 months / Financial period ended	
	31.3.2013	31.3.2012
	RM'000	RM'000
<u>In respect of current year:</u>		
Malaysian income tax	68,712	65,384
Deferred tax charge	1,081	1,669
	<u>69,793</u>	<u>67,053</u>

The average effective tax rate of the Group for the financial period ended 31 March 2013 is 25.5%, which is higher than the statutory tax rate of 25% mainly due to non-deductibility of certain expenses. This is in line with the average effective tax rate of the Group for the financial period ended 31 March 2012 of 25.6%.

6. Notes to the Statements of Comprehensive Income

	3 months / Financial period ended	
	31.03.2013	31.03.2012
	RM'000	RM'000
Interest income	(585)	(2,617)
Interest expense	4,628	6,831
Depreciation and amortization	13,333	14,101
Impairment of assets	-	7,777
Provision for and write-off of receivables	125	-
Provision for and write-off of inventory	1,498	781
Net foreign exchange loss	876	542
(Gain)/loss on derivatives	781	(592)

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 April 2013 (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 of equity securities for the period under review.

10. Borrowings

The Group's borrowings as at 31 March 2013 are as follows:

Current	RM'000
2-weeks revolving credits maturing on 5 April 2013	90,000
1-month revolving credits maturing on 19 April 2013	220,000
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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	560,000
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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 April 2013 (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 31 March 2013 are as follows:

Property, plant and equipment:	RM'000
Authorised by the Directors and contracted for	16
Authorised by the Directors but not contracted for	25,709
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	25,725
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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 31.3.2013 RM'000	As at 31.3.2012 RM'000
Total retained profits of British American Tobacco (Malaysia) Berhad and its subsidiaries		
- Realised profit	510,920	525,882
- Unrealised loss	(17,313)	(16,608)
Less: Consolidation Adjustments	(167,655)	(167,668)
Total retained profits	325,952	341,606

The unrealised portion within unappropriated profits (retained earnings) as at 31 March 2013 predominantly relates to net deferred tax liability of RM15,962,000 and provisions for non-material litigation of RM1,665,000.

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 April 2013 (the latest practicable date which shall not be earlier than 7 days from the date of issue of this quarterly report).

15. Segment Reporting

In addition to sales to the Malaysia domestic and duty free market, BAT Malaysia undertakes export contract manufacturing for British American Tobacco p.l.c. companies, predominantly in the Asia Pacific Region. The export contract manufacturing is both for cigarettes and processed tobacco ready for inclusion in cigarettes.

Segment information by business segments for current and comparative period is as follows:

	3 months / Financial period ended	
	31.3.2013	31.3.2012
	Sticks (billion)	Sticks (billion)
Volumes:		
Domestic and Duty Free Market	2.1	2.3
Export Contract Manufacturing – cigarettes	1.7	1.7
Export Contract Manufacturing – processed tobacco	2.6	0.9
Total Volumes	6.4	4.9

	3 months /	
	Financial period ended	
	31.3.2013	31.3.2012
	RM (million)	RM (million)
Gross Turnover:		
Domestic and Duty Free Market	962	1,003
Export Contract Manufacturing - cigarettes	77	34
Export Contract Manufacturing – processed tobacco	57	6
Total Gross Turnover	1,096	1,043

In the first quarter of 2013 BAT Malaysia experienced a substantial growth in export contract manufacturing of semi-finished goods as compared to same period last year. This volume growth was partially offset by a decline in domestic volume.

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

(NB: With effect from 1. Jan 2013 all market shares are quoted for the overall legal cigarette market inclusive of kretek cigarettes. In 2012 and prior years the company's share had been expressed as a percentage of the legal white cigarette market.)

First quarter 2013 revenue was in line with the previous quarter, higher contract manufacturing revenue offsetting domestic volume decline. Gross Profit however was 4.6% down predominantly due to the relatively higher margin impact of the lower domestic sales volume.

Profit from Operations was 10.9% higher than last quarter due to significantly lower Operating Expenses, 36.7% below the previous quarter. The lower first quarter expenses essentially stemmed from timing of the brand marketing and merchandising expenditure.

17. Review of Performance

BAT Malaysia continues its growth momentum achieving YTD March market share of 61.5%, an increase of +0.8 percentage point (ppt) versus full year 2012, and +1.0 ppt ahead of the same period last year. Dunhill continues to grow reaching share of market of 47.1% (YTD March 2013) a +1.1ppt increase versus full year 2012. BAT Malaysia's Aspirational Premium portfolio (Pall Mall and Peter Stuyvesant) has been stable in the first quarter with a collective share of market of 8.5ppt (YTD March 2013). This was a slight decrease of 0.1ppt versus full year 2012 and 0.2ppt versus SPLY.

The Company's domestic and duty free volume was down 4.9% as compared to SPLY, despite the share growth. Compared to Q1 2012, there is an overall legal market shrinkage of an estimated -6.0% following the October 2012 price increase, which is attributed also to the growth of illicit white. Contract manufacturing of cigarettes for export were maintained at the same level as Q1 2012, however contract manufacturing of semi-finished goods for export grew by 207.6%. The growth is accounted for by higher quantities for Australia, Singapore and Korea.

BAT Malaysia registered revenue growth of 5.1% versus same period last year, driven by the higher contract manufacturing volume (+RM94mn), albeit the revenue increase is exacerbated by the change in the costing model from toll to contract manufacturing that occurred in the middle of 2012. This increase was offset by decline in domestic volume (-RM41mn). Given the

relatively higher margin on domestic sales the lower domestic volume was the key driver of the 3.4% lower gross profit as compared to same period last year.

Operating expenses were 24.2% (RM25mn) lower versus same period last year. RM12mn is due to timing of merchandising and brand expenditure, RM8mn from absence of reforestation impairment incurred in Q1 2012, with the majority of the balance being due to higher allocation of corporate services overheads to Cost of Sales in the manufacturing company.

Profit from operations was 3.8% (RM10mn) ahead of same period last year, the lower operating expenses more than offsetting the lower gross profit. Profit after Tax and Earnings Per Share improved by 5.0% on SPLY with the effective tax rate was comparable year on year.

Inventories and receivables increased by RM42mn and RM52mn respectively, funded by increased revolving credits. The inventory increase is predominantly related to leaf and associated import duty paid in Q1 during the period when the Company had no import duty exemption quota (see Note 3 Unusual Items). The receivables increase arises from higher contract manufacturing export sales and prepayment on imported leaf.

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.

20. Future Year's Prospects

The Group is principally concerned about the overall shrinking legal market size and associated impact on domestic volume, driven by the continued growth of illicit white cigarettes. Though overall, illicit trade has been on a slowly declining trend this has been driven by decreased illicit kretek cigarettes, whilst illicit white cigarettes have been constantly increasing and competing with our legal portfolio, and are now at an all-time high.

The Group is pleased with its Q1 share performance, however is cautiously optimistic on the outlook for 2013 given the factors outlined above.

21. Earnings Per Share

Basic earnings per share	3 months / Financial period ended	
	31.3.2013	31.3.2012
Profit for the financial period (RM'000)	204,204	194,509
Weighted average number of ordinary shares in issue ('000)	285,530	285,530
Basic earnings per share (sen)	71.5	68.1

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 a first interim dividend of 68.00 sen per share, tax exempt under the single-tier tax system amounting to RM194,160,400 in respect of the financial year ending 31 December 2013 (for the financial year ended 31 December 2012, first interim dividend of 65.00 sen per share tax exempt under the single-tier tax system, amounting to RM185,594,500), payable on 23 May 2013, to all shareholders whose names appear on the Register of Members and Record of Depositors on 13 May 2013.

NOTICE IS HEREBY GIVEN that the Register of Members will be closed from 13 May 2013 to 15 May 2013 (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 9 May 2013, in respect of securities exempted from mandatory deposit;
- (b) Securities transferred to the Depositor's Securities Account before 4.00 p.m. on 13 May 2013, 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 April 2013