

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

CONDENSED CONSOLIDATED INCOME STATEMENTS

For the financial period ended 30 June 2013

	Note	3 months ended		Financial period ended	
		30.06.2013	30.06.2012	30.06.2013	30.06.2012
		RM'000	RM'000	RM'000	RM'000
Revenue		1,156,646	1,067,987	2,252,385	2,110,749
Cost of sales		(780,492)	(699,397)	(1,521,269)	(1,374,862)
Gross profit		376,154	368,590	731,116	735,887
Other operating income		50	7,415	635	10,032
Operating expenses		(89,021)	(72,454)	(165,943)	(173,974)
Profit from operations		287,183	303,551	565,808	571,945
Finance cost		(5,447)	(6,831)	(10,075)	(13,662)
Profit before tax		281,736	296,720	555,733	558,283
Tax expense	5	(70,913)	(75,872)	(140,706)	(142,925)
Profit for the financial period		210,823	220,848	415,027	415,358
Earnings per share - basic (sen)	21	73.8	77.3	145.4	145.5
Earnings per share - diluted (sen)	21	73.8	77.3	145.4	145.5
Net dividend per share (sen)					
- Interim 1	22			68.0	65.0
- Interim 2		68.0	65.0	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 30 June 2013

	3 months ended		Financial period ended	
	30.06.2013	30.06.2012	30.06.2013	30.06.2012
	RM'000	RM'000	RM'000	RM'000
Profit for the financial period	210,823	220,848	415,027	415,358
Other comprehensive income:				
Change in fair value of cash flow hedges	1,590	(175)	(605)	614
Deferred tax movement on other comprehensive income:				
Deferred tax on fair value changes of cash flow hedges	(398)	44	151	(153)
Total other comprehensive income for the financial period	<u>1,192</u>	<u>(131)</u>	<u>(454)</u>	<u>461</u>
Total comprehensive income for the financial period	<u>212,015</u>	<u>220,717</u>	<u>414,573</u>	<u>415,819</u>
Attributable to: Shareholders' equity	<u>212,015</u>	<u>220,717</u>	<u>414,573</u>	<u>415,819</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 30 June 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 period	-	-	-	415,027	415,027
Other comprehensive income for the financial period:					
- changes in fair value of cash flow hedges	-	-	(605)	-	(605)
- deferred tax on fair value changes on cash flow hedges	-	-	151	-	151
	<u>285,530</u>	<u>142,765</u>	<u>71</u>	<u>756,633</u>	<u>899,469</u>
Transaction with owners:					
Dividends for financial year ended 31 December 2012					
- Interim 4	-	-	-	(219,858)	(219,858)
Dividends for financial year ending 31 December 2013					
- Interim 1				(194,160)	(194,160)
At 30 June 2013	<u>285,530</u>	<u>142,765</u>	<u>71</u>	<u>342,615</u>	<u>485,451</u>
At 1 January 2012	285,530	142,765	(242)	289,212	431,735
Profit for the financial period	-	-	-	415,358	415,358
Other comprehensive income for the financial period:					
- changes in fair value of cash flow hedges	-	-	614	-	614
- deferred tax on fair value changes on cash flow hedges	-	-	(153)	-	(153)
	<u>285,530</u>	<u>142,765</u>	<u>219</u>	<u>704,570</u>	<u>847,554</u>
Transaction with owners:					
Dividends for financial year ended 31 December 2011					
- Interim 4	-	-	-	(188,450)	(188,450)
Dividends for financial year ended 31 December 2012					
- Interim 1	-	-	-	(185,594)	(185,594)
	<u>285,530</u>	<u>142,765</u>	<u>219</u>	<u>330,526</u>	<u>473,510</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 30 June 2013

	Note	As at 30.06.2013	As at 31.12.2012
		RM'000	RM'000
Non-current assets			
Property, plant and equipment		393,988	416,014
Investment property		-	134
Computer software		3,135	2,801
Goodwill		411,618	411,618
Deferred tax assets		19,960	21,089
		<u>828,701</u>	<u>851,656</u>
Current assets			
Asset held for sale		417	417
Inventories		317,749	312,217
Receivables		260,236	200,400
Derivative financial instruments		2,581	2,287
Tax recoverable		-	418
Deposits, cash and bank balances		24,599	78,391
		<u>605,582</u>	<u>594,130</u>
Current liabilities			
Payables		291,676	317,828
Deferred income		3,304	3,304
Derivative financial instruments		4,060	2,670
Current tax liabilities		119,362	85,828
Borrowings	10	235,000	250,000
		<u>653,402</u>	<u>659,630</u>
Net current liabilities		(47,820)	(65,500)
		<u>780,881</u>	<u>786,156</u>
Capital and reserves			
Share capital	9	142,765	142,765
Cash flow hedge reserve		71	525
Retained earnings		342,615	341,606
Shareholders' funds		<u>485,451</u>	<u>484,896</u>
Non current liabilities			
Borrowings	10	250,000	250,000
Deferred income		7,975	9,628
Post employment benefit obligations		626	5,115
Deferred tax liabilities		36,829	36,517
		<u>780,881</u>	<u>786,156</u>
Net assets per share (RM)		1.70	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 30 June 2013

	Financial period ended 30.06.2013	Financial period ended 30.06.2012
	RM'000	RM'000
Operating activities		
Cash receipts from customers	2,195,744	2,008,880
Cash paid to suppliers and employees	(1,700,112)	(1,549,498)
Cash from operations	<u>495,632</u>	<u>459,382</u>
Income taxes paid	(105,088)	(96,201)
Net cash flow from operating activities	<u>390,544</u>	<u>363,181</u>
Investing activities		
Property, plant and equipment		
- additions	(6,397)	(14,933)
- disposals	2,005	3,037
Additions of computer software	(1,211)	(443)
Interest income received	635	4,751
Net cash flow from investing activities	<u>(4,968)</u>	<u>(7,588)</u>
Financing activities		
Dividends paid to shareholders	(414,018)	(374,044)
Repayment of borrowings	(15,000)	-
Interest expense paid	(10,350)	(13,725)
Net cash flow used in financing activities	<u>(439,368)</u>	<u>(387,769)</u>
Decrease in cash and cash equivalents	(53,792)	(32,176)
Cash and cash equivalents as at 1 January	78,391	306,647
Cash and cash equivalents as at 30 June	<u><u>24,599</u></u>	<u><u>274,471</u></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

There were no 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 ended		Financial period ended	
	30.6.2013	30.6.2012	30.6.2013	30.6.2012
	RM’000	RM’000	RM’000	RM’000
<u>In respect of current year</u>				
Current tax				
- Malaysian income tax	70,330	74,203	139,042	139,587
Deferred tax charge/ (credit)	583	1,669	1,664	3,338
	<u>70,913</u>	<u>75,872</u>	<u>140,706</u>	<u>142,925</u>

The average effective tax rate of the Group for the financial period ended 30 June 2013 was 25.3%, which was higher than the statutory tax rate of 25% mainly due to non-deductibility of interest expense following the Group's move to the single tier tax system. The improvement in the effective tax rate of 0.3% from same period last year of 25.6% was mainly due to lower non-deductibility of interest expense as a result of Medium-Term Notes repayment by the Group in September 2012.

6. Notes to the Statements of Comprehensive Income

	3 months ended		Financial period ended	
	30.06.2013	30.06.2012	30.06.2013	30.06.2012
	RM'000	RM'000	RM'000	RM'000
Interest income	(50)	(2,097)	(635)	(4,714)
Interest expense	5,447	6,831	10,075	13,662
Depreciation and amortization	13,396	12,076	26,729	26,177
Loss on disposal of property, plant and equipments	56	1,872	56	1,673
Impairment / (Reversal of impairment) of assets	-	(5,515)	-	2,262
Provision for and write-off of receivables	164	628	289	628
Provision for and write-off / (Write-back) of inventory	(1,368)	57	130	838
Net foreign exchange (gain)/loss	(2,407)	(143)	(1,531)	399
(Gain)/Loss on derivatives	2,848	131	3,269	(461)

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 18 July 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 30 June 2013 are as follows:

Current	RM'000
2-weeks revolving credits maturing on 12 July 2013	235,000
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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	485,000
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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 18 July 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 30 June 2013 are as follows:

Property, plant and equipment:	RM'000
Authorised by the Directors and contracted for	19,869
Authorised by the Directors but not contracted for	6,318
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	26,187
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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 30.06.2013 RM'000	As at 31.12.2012 RM'000
Total retained profits of British American Tobacco (Malaysia) Berhad and its subsidiaries		
- Realised profit	527,570	525,882
- Unrealised loss	(17,407)	(16,608)
Less: Consolidation Adjustments	(167,548)	(167,668)
Total retained profits	<u>342,615</u>	<u>341,606</u>

The unrealised portion within unappropriated profits (retained earnings) as at 30 June 2013 predominantly relates to net deferred tax liability of RM16,869,000.

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 18 July 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

No segmental analysis is prepared as the Group is primarily engaged in the manufacture and sale of cigarettes and other tobacco products. The Group's management team review the financial information as a whole for decision making.

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.)

There was no material change in results versus previous quarter.

The Group did experience a small improvement in the second quarter with Profit After Tax up 3.2%. Second quarter Gross Profit was 6.0% ahead of the preceding quarter driven by higher domestic volume (+3.8%) with improved margins, but offset by lower contract manufacturing volume (-2.8%).

The Gross Profit improvement was diluted by increased Operating Expenses, +15.7% higher than Q1. The increased Operating Expenses are predominantly as a result of higher merchandising and share scheme costs.

17. Review of Performance

(NB: * With effective 1st January 2013, the Share of Market has been rebased to include total legal cigarette market, including kretek . All comparative has been rebased accordingly.)

BAT further strengthened its market leadership with +1.0 ppt growth versus SPLY to register 61.5% SOM* (YTD June 2013). Dunhill was the key driver of this growth +1.7ppt ahead of the corresponding period in 2012. Dunhill growth was partially offset by aggregate declines across the rest of the portfolio of -0.6ppt.

Drivers of Dunhill growth are both its core range and its newly introduced variants, including Dunhill Ice which was launched in Q1 2013 and had already contributed +0.3ppt. Dunhill Switch is +0.5ppt ahead of last year, and Dunhill Lights had also continued to strengthen its leadership in the Premium Lights segment, up +0.2ppt versus SPLY.

YTD versus SPLY BAT Malaysia has experienced a -3.6% decline in domestic and duty free volumes due to overall decline in legal market consumption. Contract manufacturing volume has increased significantly, contract cigarettes up 15% and semi finished goods 111% versus comparable period last year. (See Volume Analysis below).

As a result of the increase in contract manufacturing volume and margin BAT Malaysia registered revenue growth of +6.7% versus same period last year. However, given that contract manufacturing margin remain significantly lower than domestic and duty free, this had the net effect of weakening our mix and translated into a -0.6% year on year decline in Gross Profit YTD.

2012 Other Operating Income benefited from the sale of machinery and interest income on cash balances prior to the repayment of the Medium Term Note in September 2012. Neither of these repeat in 2013 accounting for a significant year on year decline in Other Operating Income.

Operating expenses however were lower by -4.6%, largely attributed to timing of brand spend, and also lower IT costs.

Resulting from the above Profit From Operations was 1.1% below the same period last year.

Lower interest cost, YTD -26% below SPLY, ascribed to the repayment of the Medium Term Note in 2012. Profit after Tax and EPS were flat versus same period last year.

Additionally during the quarter, the Group was compelled to cease domestic leaf growing operations. Flooding had continually disrupted leaf growing in Malaysia and damaged a significant portion of the first 2013 Malaysia domestic leaf crop. The impact of flooding combined with low yields had made Malaysian domestic leaf growing unattractive. Many farmers have now decided to stop leaf growing and in response to this, as a result the Group had decided to cease domestic leaf operations and source from overseas. This will result in a one-time cost of cessation of RM13mn in 2013.

Volume Analysis

	3 months ended		Financial period ended	
	30.06.2013	30.06.2012	30.06.2013	30.06.2012
	Sticks (billion)	Sticks (billion)	Sticks (billion)	Sticks (billion)
Volumes:				
Domestic and Duty Free Market	2.2	2.2	4.4	4.5
Export Contract Manufacturing – cigarettes	2.5	1.9	4.2	3.6
Export Contract Manufacturing – processed tobacco*	2.1	1.4	4.7	2.3
Total Volumes	6.8	5.5	13.3	10.4

* Processed tobacco is converted from weight (kg) to cigarettes equivalent (0.8kg/1000 cigs.)

18. Events Subsequent to the End of the Period

There were 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

Despite the Group achieving good share growth, this has not translated into volume growth as a result of a decline in legal market consumption due to increased competition from illicit white cigarettes. Total illicit cigarettes (white and kretek) has registered continual reduction since 2009, however notably this has been driven by ongoing decline in illicit kretek (-5.8ppt, 2009-2012), whilst illicit white cigarettes has simultaneously increased (+2.9ppt, 2009-2012), reaching an all time high of 23.6% in 2012. Given the YTD performance and overall market dynamics the Group has a cautious outlook on the second half of the year.

21. Earnings Per Share

	3 months ended		Financial period ended	
	30.6.2013	30.6.2012	30.6.2013	30.6.2012
Basic earnings per share				
Profit for the financial period (RM'000)	210,823	220,848	415,027	415,358
Weighted average number of ordinary shares in issue ('000)	285,530	285,530	285,530	285,530
Basic earnings per share (sen)	73.8	77.3	145.4	145.5

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 second 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, second interim dividend of 65.00 sen per share tax exempt under the single-tier tax system, amounting to RM185,594,500), payable on 29 August 2013, to all shareholders whose names appear on the Register of Members and Record of Depositors on 16 August 2013.

NOTICE IS HEREBY GIVEN that the Register of Members will be closed from 16 August 2013 to 20 August 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 14 August 2013, in respect of securities exempted from mandatory deposit;
- (b) Securities transferred to the Depositor's Securities Account before 4.00 p.m. on 16 August 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)
Secretary
Petaling Jaya
25 July 2013