

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

CONDENSED CONSOLIDATED INCOME STATEMENTS

For the financial period ended 30 September 2013

	Note	3 months ended		Financial period ended	
		30.09.2013	30.09.2012	30.09.2013	30.09.2012
		RM'000	RM'000	RM'000	RM'000
Revenue		1,171,384	1,160,055	3,423,769	3,270,804
Cost of sales		(768,176)	(769,169)	(2,289,445)	(2,143,667)
Gross profit		403,208	390,886	1,134,324	1,127,137
Other operating income		539	1,305	1,174	11,337
Operating expenses		(103,091)	(135,392)	(269,034)	(309,730)
Profit from operations		300,656	256,799	866,464	828,744
Finance cost		(5,291)	(6,819)	(15,366)	(20,481)
Profit before tax		295,365	249,980	851,098	808,263
Tax expense	5	(76,038)	(64,307)	(216,744)	(207,232)
Profit for the financial period		219,327	185,673	634,354	601,031
Earnings per share - basic (sen)	21	76.8	65.0	222.2	210.5
Earnings per share - diluted (sen)	21	76.8	65.0	222.2	210.5
Net dividend per share (sen)					
- Interim 1	22			68.0	65.0
- Interim 2				68.0	65.0
- Interim 3		68.0	65.0	68.0	65.0
		68.0	65.0	204.0	195.0

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 September 2013

	3 months ended		Financial period ended	
	30.09.2013	30.09.2012	30.09.2013	30.09.2012
	RM'000	RM'000	RM'000	RM'000
Profit for the financial period	219,327	185,673	634,354	601,031
Other comprehensive income:				
Change in fair value of cash flow hedges	2,588	(564)	1,983	50
Deferred tax movement on other comprehensive income:				
Deferred tax on fair value changes of cash flow hedges	(647)	141	(496)	(12)
Total other comprehensive income for the financial period	<u>1,941</u>	<u>(423)</u>	<u>1,487</u>	<u>38</u>
Total comprehensive income for the financial period	<u>221,268</u>	<u>185,250</u>	<u>635,841</u>	<u>601,069</u>
Attributable to:				
Shareholders' equity	<u>221,268</u>	<u>185,250</u>	<u>635,841</u>	<u>601,069</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 September 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	-	-	-	634,354	634,354
Other comprehensive income for the financial period:					
- changes in fair value of cash flow hedges	-	-	1,983	-	1,983
- deferred tax on fair value changes on cash flow hedges	-	-	(496)	-	(496)
	<u>285,530</u>	<u>142,765</u>	<u>2,012</u>	<u>975,960</u>	<u>1,120,737</u>
Transaction with owners:					
Dividends for financial year ended 31 December 2012					
- Interim 4	-	-	-	(219,858)	(219,858)
Dividends for financial year ended 31 December 2013					
- Interim 1	-	-	-	(194,160)	(194,160)
- Interim 2	-	-	-	(194,160)	(194,160)
At 30 September 2013	<u>285,530</u>	<u>142,765</u>	<u>2,012</u>	<u>367,782</u>	<u>512,559</u>
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>
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)
- 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>

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 September 2013

	Note	As at 30.09.2013 RM'000	As at 31.12.2012 RM'000
Non-current assets			
Property, plant and equipment*		387,133	416,014
Investment property		-	134
Computer software		1,778	2,801
Goodwill		411,618	411,618
Deferred tax assets		19,282	21,089
		<u>819,811</u>	<u>851,656</u>
Current assets			
Asset held for sale		-	417
Inventories		383,558	312,217
Receivables		256,752	200,400
Derivative financial instruments		8,308	2,287
Tax recoverable		-	418
Deposits, cash and bank balances		37,888	78,391
		<u>686,506</u>	<u>594,130</u>
Current liabilities			
Payables		231,251	317,828
Deferred income		3,304	3,304
Derivative financial instruments		4,731	2,670
Current tax liabilities		79,485	85,828
Borrowings	10	630,000	250,000
		<u>948,771</u>	<u>659,630</u>
Net current liabilities		(262,265)	(65,500)
		<u>557,546</u>	<u>786,156</u>
Capital and reserves			
Share capital	9	142,765	142,765
Cash flow hedge reserve		2,012	525
Retained earnings		367,782	341,606
Shareholders' funds		<u>512,559</u>	<u>484,896</u>
Non current liabilities			
Borrowings		-	250,000
Deferred income		7,150	9,628
Post employment benefit obligations		-	5,115
Deferred tax liabilities		37,837	36,517
		<u>557,546</u>	<u>786,156</u>
Net assets per share (RM)		1.80	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 September 2013

	Financial period ended 30.09.2013	Financial period ended 30.09.2012
	RM'000	RM'000
Operating activities		
Cash receipts from customers	3,352,307	3,206,455
Cash paid to suppliers and employees	(2,665,766)	(2,594,620)
Cash from operations	686,541	611,835
Income taxes paid	(220,038)	(185,920)
Net cash flow from operating activities	466,503	425,915
Investing activities		
Property, plant and equipment		
- additions	(18,581)	(29,176)
- disposals	4,017	3,273
Additions of computer software	(72)	(961)
Interest income received	1,174	6,534
Net cash flow from investing activities	(13,462)	(20,330)
Financing activities		
Dividends paid to shareholders	(608,178)	(559,638)
Repayment of medium term notes	-	(400,000)
Proceeds from revolving credits	130,000	300,000
Interest expense paid	(15,366)	(26,693)
Net cash flow used in financing activities	(493,544)	(686,331)
Decrease in cash and cash equivalents	(40,503)	(280,746)
Cash and cash equivalents as at 1 January	78,391	306,647
Cash and cash equivalents as at 30 September	37,888	25,901

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	
	30.9.2013	30.9.2012	30.9.2013	30.9.2012
	RM’000	RM’000	RM’000	RM’000
<u>In respect of current year</u>				
Current tax				
- Malaysian income tax	75,071	61,429	214,113	201,016
Deferred tax charge/ (credit)	967	2,878	2,631	6,216
	<u>76,038</u>	<u>64,307</u>	<u>216,744</u>	<u>207,232</u>

The average effective tax rate of the Group for the financial period ended 30 September 2013 was 25.5%, which was higher than the statutory tax rate of 25% mainly due to non-deductibility of interest expense. The improvement in the effective tax rate of 0.1% 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	
	30.09.2013	30.09.2012	30.09.2013	30.09.2012
	RM'000	RM'000	RM'000	RM'000
Interest income	(539)	(1,275)	(1,174)	(5,989)
Interest expense	5,291	6,819	15,366	20,481
Depreciation and amortization	17,745	14,261	44,474	40,438
(Gain)/Loss on disposal of property, plant and equipments	562	(7,221)	618	(5,548)
Impairment / (Reversal of impairment) of assets	-	5,500	-	7,762
Provision for and write-off of receivables	(183)	(344)	106	284
Provision for and write-off / (Write-back) of inventory	257	1,770	387	2,608
Net foreign exchange (gain)/loss	(3,590)	5,015	(5,121)	4,872
(Gain)/Loss on derivatives	(5,556)	1,290	(2,287)	829

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 10 October 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 September 2013 are as follows:

Current	RM'000
2-weeks revolving credits maturing on 04 October 2013	130,000
1 month revolving credits maturing on 25 October 2013	250,000
5-year medium-term notes 2009/2014 with a coupon rate of 4.48% per annum, maturing on 15 August 2014	250,000
	<hr/>
	630,000
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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 10 October 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 September 2013 are as follows:

Property, plant and equipment:	RM'000
Authorised by the Directors and contracted for	5,819
Authorised by the Directors but not contracted for	5,171
	<hr/>
	10,990
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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 30.09.2013 RM'000	As at 31.12.2012 RM'000
Total retained profits of British American Tobacco (Malaysia) Berhad and its subsidiaries		
- Realised profit	553,376	525,882
- Unrealised loss	(17,495)	(16,608)
Less: Consolidation Adjustments	(168,099)	(167,668)
Total retained profits	<u>367,782</u>	<u>341,606</u>

The unrealised portion within unappropriated profits (retained earnings) as at 30 September 2013 predominantly relates to net deferred tax liability of RM18,555,000.

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 10 October 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.

Third quarter Profit After Tax was up 4.0% versus the preceding quarter, driven by stronger domestic price mix following the June price increase, and partially offset by lower contract manufacturing volume in the quarter and higher operating expenses.

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 maintained its strong share performed through July and August, further edging forward the YTD SOM to 61.8% (YTD August 2013), +0.9 ppt growth versus SPLY. Not surprisingly, Dunhill continues to be the main growth engine, +1.5ppt ahead of SPLY. Peter Stuyvesant,

buoyed by its recent upgrade, managed to maintain its y.o.y. SOM, whereas Pall Mall and other brands have all declined, collectively down -0.6ppt.

All Dunhill skus have either grown SOM or remained stable, key contributors being Dunhill Switch, up +0.4ppt versus SPLY, and Dunhill Ice, also up +0.4ppt versus corresponding period in 2012. In Q3 2013 the Group launched Dunhill Kretek, the first Premium kretek in the market, although yet to register a SOM result. Also in Q3, packaging for Peter Stuyvesant was upgraded together with the introduction of a freshness seal.

Domestic and duty free volume were slightly more robust in Q3, reducing the y.o.y. decline to -2.9% from -3.6% at the end of Q2. Contract manufacturing volume remains well ahead of 2012, contract cigarettes up 8% and semi finished goods 35%. (See Volume Analysis below).

YTD revenue growth, +4.7% V's SPLY, is attributed to the increase in contact manufacturing. Despite the domestic price increase in July this has not mitigated the impact of YTD domestic volume decline versus 2012.

Gross Profit was +0.6% ahead of SPLY, with the benefit of price increase and export volume growth offsetting domestic volume decline and product cost increases.

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.

YTD Operating Expenses were lower by -13% / RM41mn versus SPLY. Foreign exchange gains, lower IT costs and non recurring items were largely offset by the leaf restructuring cost, RM13mn, and settlement of a dispute with an export customer, RM9mn. Marketing costs were lower predominantly due to timing, lower incentives, and non-recurring 2012 costs.

Resulting from the movements above Profit From Operations was +4.6% ahead the same period last year. Interest cost is 25% lower than last year due to the more flexible financing arrangement deployed following repayment of the Medium Term Note in 2012. Effective tax rates are stable between the years resulting in Profit after Tax and EPS being 5.5% ahead of SPLY.

The key event in the quarter was the Government's decision to significantly increase excise rates, contrary to the industry's proposal and despite the already rampant illegal cigarette trade. Needless to say the Group was disappointed by this decision and consider this action will only fuel the sale of illegal cigarettes. Unless the Government takes additional steps to curb the illegal cigarette trade, it will neither grow revenue nor reduce consumption significantly as smokers will merely switch from legal to illegal cigarettes. Faced with the prospect of a substantial volume decline as a result of the excise increase, the Group was compelled to significantly increase prices to mitigate the volume impact.

Volume Analysis

	3 months ended		Financial period ended	
	30.09.2013	30.09.2012	30.09.2013	30.09.2012
	Sticks (billion)	Sticks (billion)	Sticks (billion)	Sticks (billion)
Volumes:				
Domestic and Duty Free Market	2.3	2.3	6.6	6.8
Export Contract Manufacturing – cigarettes	1.7	1.8	5.9	5.5
Export Contract Manufacturing – processed tobacco*	2.4	2.9	6.7	5.0
Total Volumes	6.4	7.0	19.2	17.3

* 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. However, this year, the government announced excise increase of 14% on 27 September 2013, before the National Budget.

20. Future Year's Prospects

The Group is concerned about the increasing pressure on consumers disposable income. This pressure resulting from the soft economy, together with measures to address the budget deficit, such as reduction in fuel subsidies and the widely anticipated introduction of GST combined with the significant recent excise increase will undoubtedly result in a disposable income crunch for smokers. The proliferation of illegal cigarettes provides a ready alternative to legal cigarettes, hence, unless the Government takes decisive actions to stem the illegal cigarette trade, it is set to grow at the expense of the legal market. In line with this, the Group has a cautious outlook for the last quarter and year ahead.

British American Tobacco (Malaysia) Berhad

21. Earnings Per Share

	3 months ended		Financial period ended	
	30.9.2013	30.9.2012	30.9.2013	30.9.2012
Basic earnings per share				
Profit for the financial period (RM'000)	219,327	185,673	634,354	601,031
Weighted average number of ordinary shares in issue ('000)	285,530	285,530	285,530	285,530
Basic earnings per share (sen)	76.8	65.0	222.2	210.5

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 third 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, third interim dividend of 65.00 sen per share tax exempt under the single-tier tax system, amounting to RM185,594,500), payable on 28 November 2013, to all shareholders whose names appear on the Record of Depositors on 1 November 2013.

A Depositor shall qualify for entitlement only in respect of:

- (a) Securities transferred to the Depositor's Securities Account before 4.00 p.m. on 1 November 2013, in respect of ordinary transfers; and
- (b) 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
17 October 2013