

BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD

(Company No : 4372-M)

CONDENSED CONSOLIDATED INCOME STATEMENTS

For the financial period ended 31 March 2014

		3 months ended/ financial period ended	
	Note	31.03.2014	31.03.2013
		RM'000	RM'000
Revenue		1,154,310	1,095,739
Cost of sales		(747,263)	(740,777)
Gross profit		407,047	354,962
Other operating income		514	585
Operating expenses		(103,132)	(76,922)
Profit from operations		304,429	278,625
Finance cost		(3,243)	(4,628)
Profit before tax		301,186	273,997
Tax expense	5	(75,792)	(69,793)
Profit for the financial period		225,394	204,204
Earnings per share - basic (sen)	21	78.9	71.5
Earnings per share - diluted (sen)	21	78.9	71.5
Net dividend per share (sen) - Interim 1	22	75.0	68.0

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 2013.

BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD

(Company No : 4372-M)

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the financial period ended 31 March 2014

	3 months ended/ financial period ended	
	31.03.2014 RM'000	31.03.2013 RM'000
Profit for the financial period	225,394	204,204
Other comprehensive income:		
Items that may be subsequently reclassified to profit or loss		
- Change in fair value of cash flow hedges	(1,108)	(2,195)
- Deferred tax on fair value changes of cash flow hedges	277	549
Total other comprehensive income for the financial period	(831)	(1,646)
Total comprehensive income for the financial period	224,563	202,558
Total comprehensive income for the financial period Attributable to:		
Shareholders' equity	224,563	202,558

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 2013.

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

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the financial period ended 31 March 2014

	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 2014	285,530	142,765	1,506	364,061	508,332
Profit for the financial year	-	-	-	225,394	225,394
Other comprehensive income for the financial period:					
- changes in fair value of cash flow hedges	-	-	(1,108)	-	(1,108)
- deferred tax on fair value changes on cash flow hedges	-	-	277	-	277
	<u>285,530</u>	<u>142,765</u>	<u>675</u>	<u>589,455</u>	<u>732,895</u>
Transaction with owners:					
Dividend for financial year ended 31 December 2013					
- Interim 4	-	-	-	(222,713)	(222,713)
At 31 March 2014	<u>285,530</u>	<u>142,765</u>	<u>675</u>	<u>366,742</u>	<u>510,182</u>
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>

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 2013.

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

CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 March 2014

	Note	As at 31.3.2014 RM'000	As at 31.12.2013 RM'000
Non-current assets			
Property, plant and equipment		368,182	380,736
Computer software		1,732	1,970
Goodwill		411,618	411,618
Deferred tax assets		24,001	10,806
		805,533	805,130
Current assets			
Asset held for sale		4,605	4,605
Inventories		305,634	293,979
Receivables		264,715	200,469
Derivative financial instruments		3,958	7,286
Deposits, cash and bank balances		50,529	59,596
		629,441	565,935
Current liabilities			
Payables		290,986	232,172
Deferred income		3,304	3,304
Derivative financial instruments		1,946	3,622
Current tax liabilities		114,631	69,849
Borrowings	10	470,000	510,000
		880,867	818,947
Net current (liabilities) / assets		(251,426)	(253,012)
		554,107	552,118
Capital and reserves			
Share capital	9	142,765	142,765
Cash flow hedge reserve		675	1,506
Retained earnings		366,742	364,061
Shareholders' funds		510,182	508,332
Non-current liabilities			
Deferred income		5,498	6,324
Deferred tax liabilities		38,427	37,462
		554,107	552,118
Net assets per share (RM)		1.79	1.78

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 2013.

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

CONDENSED CONSOLIDATED CASH FLOW STATEMENTS

For the financial period ended 31 March 2014

	Financial period ended 31.03.2014	Financial period ended 31.03.2013
	RM'000	RM'000
Operating activities		
Cash receipts from customers	1,090,064	1,046,043
Cash paid to suppliers and employees	(788,741)	(860,923)
Cash from operations	301,323	185,120
Income taxes paid	(42,717)	(62,512)
Net cash flow from operating activities	258,606	122,608
Investing activities		
Property, plant and equipment		
- additions	(2,695)	(150)
- disposals	1,185	286
Additions of computer software	(4)	-
Interest income received	371	445
Net cash flow from investing activities	(1,143)	581
Financing activities		
Dividends paid to shareholders	(222,713)	(219,858)
Interest expense paid	(3,817)	(7,354)
(Repayment)/Proceeds from revolving credit	(40,000)	60,000
Net cash flow used in financing activities	(266,530)	(167,212)
Decrease in cash and cash equivalents	(9,067)	(44,023)
Cash and cash equivalents as at 1 January	59,596	78,391
Cash and cash equivalents as at 31 March	50,529	34,368

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 2013.

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 2013.

The audited financial statements of the Group for the year ended 31 December 2013 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 2013.

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 2013 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.

For the full year 2013 the Group disclosed a contingent liability of RM10.2 million in respect of sales tax. On 16 April 2014 the Group received a bill of demand for RM12.9 million. The Group’s original estimate was conservative, however did not include any penalties given the Royal Malaysian Customs had taken over fourteen months to respond on the matter.

Additionally, see note 11 below.

British American Tobacco (Malaysia) Berhad

5. Taxation

Taxation comprises:

	3 months / Financial period ended	
	31.3.2014	31.3.2013
	RM'000	RM'000
<u>In respect of current year:</u>		
Malaysian income tax	87,499	68,712
Deferred tax charge	(11,707)	1,081
	<u>75,792</u>	<u>69,793</u>

The average effective tax rate of the Group for the financial period ended 31 March 2014 is 25.2%, which is higher than the statutory tax rate of 25% mainly due to non-deductibility of interest expenses. This is in line with the average effective tax rate of the Group for the financial period ended 31 March 2013 of 25.5%.

6. Notes to the Statements of Comprehensive Income

	3 months / Financial period ended	
	31.03.2014	31.03.2013
	RM'000	RM'000
Interest income	(371)	(585)
Interest expense	3,817	4,628
Depreciation and amortization	14,162	13,333
(Gain)/Loss on disposal of property, plant and equipments	(143)	-
Provision for and write-off of receivables	116	125
Provision for and write-off of inventory	291	1,498
Net foreign exchange (gain)/ loss	(523)	876
(Gain)/loss on derivatives	(269)	781

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 17 April 2014 (the latest practicable date which shall not be earlier than 7 days from the date of issue of this quarterly report).

British American Tobacco (Malaysia) Berhad

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 2014 are as follows:

Current	RM'000
10-days revolving credits maturing on 4 April 2014	220,000
5-year medium-term notes 2009/2014 with a coupon rate of 4.48% per annum, maturing on 15 August 2014	250,000
	<u>470,000</u>

All borrowings are denominated in Ringgit Malaysia.

11. Contingent Liabilities and Contingent Assets

The Group has on 8 January 2014 received a letter from the Royal Malaysian Customs disputing the method of calculation of sales tax following the change in transfer price valuation base imposed on 18 October 2012.

On 16 April 2014 the Group received a bill of demand for RM12.9 million in respect of sales tax and penalties (Sales Tax RM8.8 million and Penalties RM4.1 million) for the period from October 2012 through December 2013 from Royal Malaysian Customs. The Group stands firm in its position that there is a challengeable case which is supported by external legal opinion on the matter. Accordingly, the Group will pursue this matter through appropriate appeal and legal channels.

As such, with respect to this matter, no adjustment has been made to the Q1 2014 results. Furthermore, the potential incremental Q1 2014 sales tax amounts to RM1.5 million.

There were no other contingent liabilities or contingent assets as at 17 April 2014 (the latest practicable date which shall not be earlier than 7 days from the date of issue of this quarterly report).

British American Tobacco (Malaysia) Berhad

12. Capital Commitments

Capital commitments not provided for in the financial statements as at 31 March 2014 are as follows:

Property, plant and equipment:	RM'000
Authorised by the Directors and contracted for	-
Authorised by the Directors but not contracted for	644
	<u>644</u>

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

The following analysis of realized 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 31.3.2014 RM'000	As at 31.12.2013 RM'000
Total retained profits of British American Tobacco (Malaysia) Berhad and its subsidiaries		
- Realised profit	512,324	523,415
- Unrealised loss	(14,474)	(27,770)
Less: Consolidation Adjustments	(131,108)	(131,584)
Total retained profits	<u>366,742</u>	<u>364,061</u>

The unrealised portion within unappropriated profits (retained earnings) as at 31 March 2014 predominantly relates to net deferred tax liability of RM14,426,000.

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 17 April 2014 (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

First quarter 2014 revenue was 6% higher than the previous quarter principally being driven by domestic and duty free volume that were 7% ahead, however offset by significantly lower contract manufacturing volume, 17% down on Q4 2013.

Gross Profit was 5% higher than the preceding quarter, reflecting the stronger mix of higher margin domestic to contract manufacturing volume. Operating Expenses were 20% lower as compared with Q4 2013 despite being 34% higher than the same period last year. These quarterly fluctuations are principally attributed to the timing of marketing expenditure. The higher Gross Profit and lower Operating Expenses culminate in Profit from Operations being 17% ahead of the last quarter.

17. Review of Performance

YTD February, BAT Malaysia maintained its market share at 62.0% versus full year 2013, +0.3 ppt ahead of the same period last year. Dunhill continues to be the principle growth engine, achieving 47.8% share of market, +0.2ppt increased versus full year 2013 and up +0.5ppt against SPLY. The year on year growth is attributed almost entirely to Dunhill Ice, which was launched in Q1 2013. Since the introduction of the Resaleable Reloc feature to Peter Stuyvesant in 2013, the brand has been growing continually month on month. YTD February 2014, Peter Stuyvesant is +0.6ppt ahead of the corresponding period in 2013. Unfortunately, despite significant product improvements, Pall Mall continues to underperform, -0.5ppt below SPLY.

Following the significant excise led price increase in late September 2013, legal industry volumes have plunged. It is therefore no surprise that the Company's domestic volume declined 7.9% as compared to SPLY. On a positive note however, Q1 2014 volumes were ahead of Q4 2013 attributed in part to the improved stability of the legal market due to enhanced enforcement initiatives to crack down on the illegal cigarettes trade.

In Q1 2014, contract manufacturing volume was notably weak, down 23% as compared to SPLY, largely due to the partial reallocation of volumes from Japan to another manufacturing facility. It was anticipated that other contract manufacturing volume would increase to offset this, but this has not occurred.

Despite the lower domestic and contract manufacturing volume, as compared to the same period in 2013, the cumulative effect of the June 2013 price increase and the September 2013 excise led price increase has led to an increase in revenue of 5.3%. At a Gross Profit level, the higher margins and better mix of domestic volume was the key contributory factors leading to the 14.7% year-on-year growth.

Q1 2014 Operating Expenses were 34% (RM26 million) higher versus SPLY. However, it should be noted that due to timing of activities in Q1 2013, Operating Expenses were unusually low. In comparing the two periods, RM13 million is attributed to timing of brand and trade activities, RM5 million to higher investment in retail contracts and RM4 million due to increasing costs and higher sales force incentives.

The higher Gross Profit this quarter and low Operating Expenses in the comparative quarter in 2013 culminated in Q1 2014 Profit from Operations being +9.3% (RM26 million) and PAT +10.4% (RM21 million) ahead of same period last year.

18. Events Subsequent to the End of the Period

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

See note 11 on Sales Tax Contingent Liability.

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

Following the excise led price increase in late Q3 2013, illegal cigarettes trade spiked in the last quarter of 2013. Q4 2013 industry domestic volume collapsed by 17% and the wave three 2013 ICS (Illicit Cigarette Study) reading showed a huge +4.5ppt increase in illegal cigarette trade to 38.9%. The Group is highly concerned about the overall shrinkage of the legal market, but is however most encouraged by the Royal Malaysian Customs' response in addressing illegal cigarettes trade through their recent enforcement activities. In 2014, the performance of the Group will be heavily contingent on the effectiveness and sustainability of enforcement activities against the illegal cigarettes trade. In spite of the circumstances, the Group is pleased with its Q1 performance and remains cautiously optimistic for the year ahead given the factors outlined above.

21. Earnings Per Share

	3 months / Financial period ended	
Basic earnings per share	31.3.2014	31.3.2013
Profit for the financial period (RM'000)	225,394	204,204
Weighted average number of ordinary shares in issue ('000)	285,530	285,530
Basic earnings per share (sen)	78.9	71.5

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 first interim dividend of 75.00 sen per share, tax exempt under the single-tier tax system amounting to RM214,147,500 in respect of the financial year ending 31 December 2014 (for the financial year ended 31 December 2013, first interim dividend of 68.00 sen per share tax exempt under the single-tier tax system, amounting to RM194,160,400), payable on 28 May 2014, to all shareholders whose names appear on the Record of Depositors on 14 May 2014.

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 14 May 2014, 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

DAVID CHIAM JOY YEOW (LS0009734)

Company Secretary

Petaling Jaya

24 April 2014