

BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD

(Company No : 4372-M)

CONDENSED CONSOLIDATED INCOME STATEMENTS

For the financial period ended 30 September 2015

	Note	3 months ended		Financial period ended	
		30.09.2015	30.09.2014	30.09.2015	30.09.2014
		RM'000	RM'000	RM'000	RM'000
Revenue		1,161,681	1,209,910	3,523,555	3,590,385
Cost of sales		(723,975)	(779,192)	(2,221,525)	(2,323,558)
Gross profit		437,706	430,718	1,302,030	1,266,827
Other operating income		186	1,402	4,495	2,258
Operating expenses		(88,621)	(106,307)	(340,343)	(303,374)
Profit from operations		349,271	325,813	966,182	965,711
Finance cost		(2,393)	(4,562)	(7,742)	(12,857)
Profit before tax		346,878	321,251	958,440	952,854
Tax expense	5	(89,987)	(80,150)	(242,907)	(238,263)
Profit for the financial period		256,891	241,101	715,533	714,591
Basic and diluted earnings per share (sen)	21	90.0	84.4	250.6	250.3
Net dividend per share (sen)					
- Interim 1				78.0	75.0
- Interim 2				78.0	78.0
- Interim 3	22	78.0	78.0	78.0	78.0

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 2014

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the financial period ended 30 September 2015

	3 months ended		Financial period ended	
	30.09.2015 RM'000	30.09.2014 RM'000	30.09.2015 RM'000	30.09.2014 RM'000
Profit for the financial period	256,891	241,101	715,533	714,591
Other comprehensive income:				
Items that may be subsequently reclassified to profit or loss				
Change in fair value of cash flow hedges	(1,061)	(518)	2,200	(2,655)
- deferred tax on fair value changes of cash flow hedges	265	130	(550)	664
Total other comprehensive income for the financial period	<u>(796)</u>	<u>(388)</u>	<u>1,650</u>	<u>(1,991)</u>
Total comprehensive income for the financial period	<u>256,095</u>	<u>240,713</u>	<u>717,183</u>	<u>712,600</u>
Attributable to:				
Shareholders' equity	<u>256,095</u>	<u>240,713</u>	<u>717,183</u>	<u>712,600</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 2014.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the financial period ended 30 September 2015

	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 2015	285,530	142,765	(2,885)	384,290	524,170
Profit for the financial year	-	-	-	715,533	715,533
Other comprehensive income for the financial period:					
- changes in fair value of cash flow hedges	-	-	2,200	-	2,200
- deferred tax on fair value changes on cash flow hedges	-	-	(550)	-	(550)
	<u>285,530</u>	<u>142,765</u>	<u>(1,235)</u>	<u>1,099,823</u>	<u>1,241,353</u>
Transaction with owners:					
Dividend for financial year ended 31 December 2014					
- Interim 4	-	-	-	(222,713)	(222,713)
Dividend for financial year ending 31 December 2015					
- Interim 1	-	-	-	(222,713)	(222,713)
- Interim 2	-	-	-	(222,713)	(222,713)
At 30 September 2015	<u>285,530</u>	<u>142,765</u>	<u>(1,235)</u>	<u>431,684</u>	<u>573,214</u>
At 1 January 2014	285,530	142,765	1,506	364,061	508,332
Profit for the financial year	-	-	-	714,591	714,591
Other comprehensive income for the financial period:					
- changes in fair value of cash flow hedges	-	-	(2,655)	-	(2,655)
- deferred tax on fair value changes on cash flow hedges	-	-	664	-	664
	<u>285,530</u>	<u>142,765</u>	<u>(485)</u>	<u>1,078,652</u>	<u>1,220,932</u>
Transaction with owners:					
Dividend for financial year ended 31 December 2013					
- Interim 4	-	-	-	(222,713)	(222,713)
Dividend for financial year ended 31 December 2014					
- Interim 1	-	-	-	(214,147)	(214,147)
- Interim 2	-	-	-	(222,713)	(222,713)
At 30 September 2014	<u>285,530</u>	<u>142,765</u>	<u>(485)</u>	<u>419,079</u>	<u>561,359</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 2014.

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

CONDENSED CONSOLIDATED BALANCE SHEET
As at 30 September 2015

	As at 30.09.2015	As at 31.12.2014
	RM'000	RM'000
Non-current assets		
Property, plant and equipment	293,649	325,385
Computer software	543	1,034
Goodwill	411,618	411,618
Deferred tax assets	47,236	25,736
	<u>753,046</u>	<u>763,773</u>
Current assets		
Asset held for sale	-	4,540
Inventories	289,394	263,296
Receivables	206,514	236,011
Derivative financial instruments	11,893	1,522
Tax Recoverable	-	449
Deposits, cash and bank balances	29,532	14,469
	<u>537,333</u>	<u>520,287</u>
Current liabilities		
Payables	311,895	268,300
Deferred income	2,779	3,304
Derivative financial instruments	16,708	6,155
Current tax liabilities	74,401	74,512
Borrowings	270,000	360,000
Bank overdraft	-	10,445
	<u>675,783</u>	<u>722,716</u>
Net current liabilities	(138,450)	(202,429)
	<u>614,596</u>	<u>561,344</u>
Capital and reserves		
Share capital	142,765	142,765
Cash flow hedge reserve	(1,235)	(2,885)
Retained earnings	431,684	384,290
Shareholders' funds	<u>573,214</u>	<u>524,170</u>
Non-current liabilities		
Deferred income	1,064	3,019
Deferred tax liabilities	40,318	34,155
	<u>614,596</u>	<u>561,344</u>
Net assets per share (RM)	2.01	1.84

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 2014.

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

CONDENSED CONSOLIDATED CASH FLOW STATEMENTS

For the financial period ended 30 September 2015

	Financial period ended 30.09.2015	Financial period ended 30.09.2014
	RM'000	RM'000
Operating activities		
Cash receipts from customers	3,670,972	3,569,870
Cash paid to suppliers and employees	(2,656,350)	(2,606,453)
Cash from operations	<u>1,014,622</u>	<u>963,417</u>
Income taxes paid	(231,272)	(199,694)
Net cash flow from operating activities	<u>783,350</u>	<u>763,723</u>
Investing activities		
Property, plant and equipment		
- additions	(5,640)	(14,659)
- disposals	4,857	15,553
Disposal of assets held for sale	6,756	-
Interest income received	<u>2,067</u>	<u>1,775</u>
Net cash flow from investing activities	<u>8,040</u>	<u>2,669</u>
Financing activities		
Dividends paid to shareholders	(668,140)	(659,573)
Interest expense paid	(7,742)	(12,857)
(Repayment)/Proceeds from revolving credit	<u>(90,000)</u>	<u>(125,000)</u>
Net cash flow used in financing activities	<u>(765,882)</u>	<u>(797,430)</u>
Decrease in cash and cash equivalents	25,508	(31,038)
Cash and cash equivalents as at 1 January	<u>4,024</u>	<u>59,596</u>
Cash and cash equivalents as at 30 September	<u><u>29,532</u></u>	<u><u>28,558</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 2014.

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 2014.

The audited financial statements of the Group for the year ended 31 December 2014 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 2014.

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 2014 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.

On 16 April 2014 the Group received a bill of demand for RM12.9 million. For the full year 2014, the Group disclosed a contingent liability of RM22.3 million in respect of sales tax. The Group’s original estimate was conservative and did not include any penalties.

Additionally, see note 11 below.

5. Taxation

Taxation comprises:

	3 months ended		Financial period ended	
	30.09.2015	30.09.2014	30.09.2015	30.09.2014
	RM'000	RM'000	RM'000	RM'000
<u>In respect of current year</u>				
Current tax				
- Malaysian income tax	90,908	85,259	255,672	254,981
Deferred tax charge/ (credit)	(4,039)	(5,109)	(15,883)	(16,718)
<u>In respect of prior years</u>				
Under provision in respect of prior years	3,118	-	3,118	-
- Malaysian income tax				
	<u>89,987</u>	<u>80,150</u>	<u>242,907</u>	<u>238,263</u>

The average effective tax rate of the Group for the financial period ended 30 September 2015 is 25.3%, which was higher than the statutory tax rate of 25% mainly due to under provision in respect of prior year income tax.

6. Notes to the Statements of Comprehensive Income

	3 months ended		Financial period ended	
	30.09.2015	30.09.2014	30.09.2015	30.09.2014
	RM'000	RM'000	RM'000	RM'000
Interest income	(416)	(1,062)	(2,067)	(1,775)
Interest expense	2,393	4,562	7,742	12,857
Depreciation and amortization	9,660	11,044	30,064	35,308
(Gain)/Loss on disposal of property, plant and equipment	32	17	(2,428)	(171)
Provision for and write-off of receivables	(504)	(543)	(157)	198
Provision for and write-off /(write-back) of inventory	210	595	1,334	880
Net foreign exchange (gain)/loss	(7,278)	36	(13,403)	622
Loss on derivatives	2,621	1,204	5,946	1,999

7. Changes in Composition of the Group

On 2 September 2015, the Company announced that its dormant wholly-owned subsidiaries, namely Commercial Importers And Distributors Sdn Bhd, The Leaf Tobacco Development Corporation of Malaya Sdn Berhad and Tobacco Blenders And Manufacturers Sdn Bhd, would be wound up by way of a member's voluntary winding-up pursuant to Section 254(1) of the Companies Act, 1965.

Other than the above, there were no changes in the composition of the Group for the current financial period.

8. Corporate Proposals

There were no new corporate proposals announced as at 21 October 2015 (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 2015 are as follows:

Current	RM'000
2 weeks revolving credit maturing on 13th October 2015	120,000
2 weeks revolving credit maturing on 6th October 2015	50,000
2 weeks revolving credit maturing on 6th October 2015	100,000
	<hr/>
	270,000
	<hr/>

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 from Royal Malaysian Customs 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. 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 is now pursuing this matter through a judicial review filed on the 12 August 2014 in the Kuala Lumpur High Court. The High Court granted a

full stay pending the ultimate decision of the case. The hearing date for the Judicial Review application would most likely be in during the first quarter of 2016.

As such, with respect to this matter, no provision for this demand has been made to the third quarter of 2015 results. There were no other contingent liabilities or contingent assets as at 21 October 2015 (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 2015 are as follows:

Property, plant and equipment:	RM'000
Authorised by the Directors and contracted for	2,689
Authorised by the Directors but not contracted for	16,721
	<u>19,410</u>

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 30.09.2015 RM'000	As at 31.12.2014 RM'000
Total retained profits of British American Tobacco (Malaysia) Berhad and its subsidiaries		
- Realised profits	555,741	522,090
- Unrealised profit/(loss)	7,854	(6,529)
Less: Consolidation Adjustments	(131,911)	(131,271)
Total retained profits	<u>431,684</u>	<u>384,290</u>

The unrealised portion within unappropriated profits (retained earnings) as at 30 September 2015 predominantly relates to net deferred tax asset of RM6.9 million.

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 21 October 2015 (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

During the third quarter of 2015, Domestic and Duty Free volumes registered a 6.9% increase versus the previous quarter of the year. This evolution was mainly driven by the overall partial recovery of the legal industry after a soft second quarter of 2015 that coincided with the GST introduction in the market.

Contract manufacturing volumes declined 24.0% versus the preceding quarter largely due to declining volumes sold to the Australian market.

The recovery in the Domestic volumes, together with the impact of higher consumer prices as of end June 2015, translated into a Revenue and Gross Profit increase in the third quarter of the year of 6.8% and 6.4% respectively when compared to the second quarter.

Operating Expenses in the third quarter of 2015 were 29.3% lower than in the previous quarter largely driven by timing of marketing expenditure.

As a result of the above mentioned, Profit from Operations in the third quarter of 2015 increased 20.7% (RM60 million) when compared to the second quarter of the same year.

17. Review of Performance

As of September 2015 year to date, total Domestic industry volumes declined 10.9% versus the same period of last year largely driven by the softer demand amongst consumers due to weaker market sentiments after GST implementation. During this period, driven by strong market share performance, the Group performed slightly better than the industry registering a volume decline of 10.0% versus last year.

Contract Manufacturing volumes for September 2015 year to date continued to be weak largely due to the reduction of volumes sold to the Australian and the South Korean markets, showing a decline of 22.8% when compared to 2014.

In terms of market share, as of August 2015 year to date, the Group registered a reading of 62.0% (0.8ppt increase versus full year 2014) with Peter Stuyvesant fuelling the growth within the Aspirational Premium segment (1.2ppt increase versus 2014).

Dunhill maintained its clear leadership with a share of market of 46.9%, recording a marginal decline of 0.1ppt versus full year 2014. This decline was mainly attributed to the Dunhill Full Flavour range, although partially mitigated by Dunhill Zest and Dunhill Mix share gains, which are the Group's products introduced in the market in January 2015 and July 2015 respectively.

Within the Aspirational Premium segment, Peter Stuyvesant continued to grow reaching a 5.5% share of market as of August 2015 year to date. This translated into a market share increase of 1.2ppt versus full year 2014. In the month of August 2015, Peter Stuyvesant

recorded its record high share of market of 5.7%. Pall Mall has also delivered a marginal share gain of 0.1ppt to register a share of market of 4.6% as of August 2015 year to date.

Despite the overall reduction in Domestic and Contract Manufacturing volumes, total Revenue for September 2015 year to date declined at a lower rate of 1.9% (RM67 million) when compared to the same period of 2014. This was attributed mainly to the impact of the November 2014 excise led price increase and the end June 2015 price increase on the domestic business, which partially mitigated the impact of the Group's absorption of GST.

Revenue decline above mentioned, coupled with lower cost of sales driven by productivity savings and lower volume base, translated into a growth of Gross Profit of 2.8% (RM35 million) in the first 9 months of 2015 versus the same period of last year.

Operating Expenses for the September year to date period were 12.2% higher than the same period last year (RM37 million). This was largely attributed to timing of brand and trade marketing expenses (RM21 million), one-off expenses associated with business restructuring mainly on the production area (RM9 million) and, to a lesser extent, the impact of inflation on the overall cost structure.

Finance costs declined by RM5 million (or 39.8%) versus same period last year due to the more flexible financing arrangement deployed following repayment of the Medium Term Note in August 2014.

As a result of the above, September 2015 year to date Profit from Operations was flat at RM966 million, while Profit before Tax recorded an increase of 0.6% (RM6 million) both when compared to the first nine months of 2014.

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

Legal volumes continue to suffer as a consequence of the steep excise increases in September 2013 and November 2014 and the pressure on consumers' disposable income during the second and third quarter of 2015. In addition, illegal cigarette trade in Malaysia remains a key challenge in 2015 for the legal tobacco industry. However, the Group continues to be very encouraged by the relentless enforcement efforts taken by various enforcement agencies and in particular, the Royal Malaysian Customs to address the illegal cigarettes trade.

As a result, the outlook for the rest of the year will depend on the recovery of the legal market.

21. Earnings Per Share

	3 months ended		Financial year ended	
	30.09.2015	30.09.2014	30.09.2015	30.09.2014
Basic earnings per share				
Profit for the financial period (RM'000)	256,891	241,101	715,533	714,591
Weighted average number of ordinary shares in issue ('000)	285,530	285,530	285,530	285,530
Basic earnings per share (sen)	90.0	84.4	250.6	250.3

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 78.00 sen per share, tax exempt under the single-tier tax system amounting to RM222,713,400 in respect of the financial year ending 31 December 2015 (for the financial year ended 31 December 2014, third interim dividend of 78.00 sen per share tax exempt under the single-tier tax system, amounting to RM222,713,400), payable on 26 November 2015, to all shareholders whose names appear on the Record of Depositors on 17 November 2015.

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 17 November 2015, 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
27 October 2015