

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

CONDENSED CONSOLIDATED INCOME STATEMENTS
For the financial period ended 30 September 2014

	Note	3 months ended		Financial period ended	
		30.09.2014	30.09.2013	30.09.2014	30.09.2013
		RM'000	RM'000	RM'000	RM'000
Revenue		1,209,910	1,171,384	3,590,385	3,423,769
Cost of sales		(779,192)	(768,176)	(2,323,558)	(2,289,445)
Gross profit		430,718	403,208	1,266,827	1,134,324
Other operating income		1,402	539	2,258	1,174
Operating expenses		(106,307)	(103,091)	(303,374)	(269,034)
Profit from operations		325,813	300,656	965,711	866,464
Finance cost		(4,562)	(5,291)	(12,857)	(15,366)
Profit before tax		321,251	295,365	952,854	851,098
Tax expense	5	(80,150)	(76,038)	(238,263)	(216,744)
Profit for the financial period		241,101	219,327	714,591	634,354
Earnings per share - basic (sen)	21	84.4	76.8	250.3	222.2
Earnings per share - diluted (sen)	21	84.4	76.8	250.3	222.2
Net dividend per share (sen)					
- Interim 1				75.0	68.0
- Interim 2				78.0	68.0
- Interim 3	22	78.0	68.0	78.0	68.0
		78.0	68.0	231.0	204.0

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 30 September 2014

	3 months ended		Financial period ended	
	30.09.2014	30.09.2013	30.09.2014	30.09.2013
	RM'000	RM'000	RM'000	RM'000
Profit for the financial period	241,101	219,327	714,591	634,354
Other comprehensive income:				
Items that may be subsequently reclassified to profit or loss				
Change in fair value of cash flow hedges	(518)	2,588	(2,655)	1,983
- deferred tax on fair value changes of cash flow hedges	130	(647)	664	(496)
Total other comprehensive income for the financial period	<u>(388)</u>	<u>1,941</u>	<u>(1,991)</u>	<u>1,487</u>
Total comprehensive income for the financial period	<u>240,713</u>	<u>221,268</u>	<u>712,600</u>	<u>635,841</u>
Attributable to:				
Shareholders' equity	<u>240,713</u>	<u>221,268</u>	<u>712,600</u>	<u>635,841</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 2013.

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

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the financial period ended 30 September 2014

	Issued and fully paid ordinary shares of 50 sen each		Non- distributable Cash flow hedge reserve	Distributable Retained earnings	Attributable to
	Number of shares	Nominal value			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	-	-	-	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 ending 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>
At 1 January 2013	285,530	142,765	525	341,606	484,896
Profit for the financial year	-	-	-	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:					
Dividend for financial year ended 31 December 2012					
- Interim 4	-	-	-	(219,858)	(219,858)
Dividend for financial year ending 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>

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 30 September 2014

	As at 30.09.2014	As at 31.12.2013
	RM'000	RM'000
Non-current assets		
Property, plant and equipment	345,263	380,736
Computer software	1,248	1,970
Goodwill	411,618	411,618
Deferred tax assets	29,515	10,806
	787,644	805,130
Current assets		
Asset held for sale	4,605	4,605
Inventories	332,710	293,979
Receivables	220,984	200,469
Derivative financial instruments	552	7,286
Deposits, cash and bank balances	28,558	59,596
	587,409	565,935
Current liabilities		
Payables	254,150	232,172
Deferred income	3,304	3,304
Derivative financial instruments	2,806	3,622
Current tax liabilities	125,136	69,849
Borrowings	385,000	510,000
	770,396	818,947
Net current (liabilities)/assets	(182,987)	(253,012)
	604,657	552,118
Capital and reserves		
Share capital	142,765	142,765
Cash flow hedge reserve	(485)	1,506
Retained earnings	419,079	364,061
Shareholders' funds	561,359	508,332
Non-current liabilities		
Deferred income	3,845	6,324
Deferred tax liabilities	39,453	37,462
	604,657	552,118
Net assets per share (RM)	1.97	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 30 September 2014

	Financial period ended 30.09.2014	Financial period ended 30.09.2013
	RM'000	RM'000
Operating activities		
Cash receipts from customers	3,569,870	3,352,307
Cash paid to suppliers and employees	(2,606,453)	(2,665,766)
Cash from operations	963,417	686,541
Income taxes paid	(199,694)	(220,038)
Net cash flow from operating activities	763,723	466,503
Investing activities		
Property, plant and equipment		
- additions	(14,659)	(18,581)
- disposals	15,553	4,017
Additions of computer software	-	(72)
Interest income received	1,775	1,174
Net cash flow from/(used in) investing activities	2,669	(13,462)
Financing activities		
Dividends paid to shareholders	(659,573)	(608,178)
Interest expense paid	(12,857)	(15,366)
(Repayment)/Proceeds from revolving credit	(125,000)	130,000
Net cash flow used in financing activities	(797,430)	(493,544)
Decrease in cash and cash equivalents	(31,038)	(40,503)
Cash and cash equivalents as at 1 January	59,596	78,391
Cash and cash equivalents as at 30 September	28,558	37,888

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 and 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.

5. Taxation

Taxation comprises:

	3 months ended		Financial period ended	
	30.09.2014	30.09.2013	30.09.2014	30.09.2013
	RM'000	RM'000	RM'000	RM'000
<u>In respect of current year</u>				
Current tax				
- Malaysian income tax	85,259	75,071	254,981	214,113
Deferred tax				
(credit)/charge	(5,109)	967	(16,718)	2,631
	<u>80,150</u>	<u>76,038</u>	<u>238,263</u>	<u>216,744</u>

The average effective tax rate of the Group for the financial period ended 30 September 2014 is 25.0%. This is in line with the average effective tax rate of the Group for the financial period ended 30 September 2013 of 25.5%.

6. Notes to the Statements of Comprehensive Income

	3 months ended		Financial period ended	
	30.09.2014	30.09.2013	30.09.2014	30.09.2013
	RM'000	RM'000	RM'000	RM'000
Interest income	(1,062)	(539)	(1,775)	(1,174)
Interest expense	4,562	5,291	12,857	15,366
Depreciation and amortization	11,044	17,745	35,308	44,474
Impairment of assets	164	-	164	-
(Gain)/Loss on disposal of property, plant and equipments	17	562	(171)	618
Provision for and write-off/ (write-back) of receivables	(543)	(183)	198	106
Provision for and write-off/ (write-back) of inventory	595	257	880	387
Net foreign exchange (gain)/loss	36	(3,590)	622	(5,121)
Loss/(Gain) on derivatives	1,204	(5,556)	1,999	(2,287)

7. Changes in Composition of the Group

On 21 August 2014, the entire issued and paid-up share capital of Commercial Marketers and Distributors Sdn Bhd ("CMD") which comprise of 73,906,000 ordinary shares of RM1.00 was transferred from Commercial Importers and Distributors Sdn Bhd ("CID") to the Company at a cash consideration of RM1.00 only ("Internal Share Transfer").

The Internal Share Transfer was part of the measure to streamline the corporate structure of BATM Group. CMD was previously a wholly-owned subsidiary of CID which in turn was a wholly-owned subsidiary of BATM. Upon completion of the Internal Share Transfer, CMD became a wholly-owned subsidiary of BATM. CID will then be wound up via members' voluntary winding up.

The Internal Share Transfer does not have any financial and operational impact on the Group for the financial year ending 31 December 2014. None of the Directors and/or major shareholders and/or persons connected with them has any interest, direct or indirect in the Internal Share Transfer.

8. Corporate Proposals

There were no new corporate proposals announced as at 10 October 2014 (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

The Company fully redeemed the entire RM250 million Medium Term Notes (MTN) 2009/2014 with a coupon rate of 4.48% per annum on 15 August 2014, which was previously issued on 17 August 2009. With the said redemption, the Company would not have any outstanding MTN and hence, the entire MTN Programme was duly terminated.

10. Borrowings

The Group's borrowings as at 30 September 2014 are as follows:

Current	RM'000
2 weeks revolving credits maturing on 13th October 2014	65,000
3 months revolving credits maturing on 5th November 2014	220,000
3 months revolving credits maturing on 20th November 2014	50,000
3 months revolving credits maturing on 25th November 2014	50,000
	<hr/> <hr/>
	385,000

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 the 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 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 towards the end of Q1 2015.

As such, with respect to this matter, no provision for this demand has been made to the Q3 2014 results. There were no other contingent liabilities or contingent assets as at 10 October 2014 (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 2014 are as follows:

Property, plant and equipment:	RM'000
- Authorised by the Directors and contracted for	14,959
- Authorised by the Directors but not contracted for	7,384
	<u>22,343</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 30.09.2014 RM'000	As at 31.12.2013 RM'000
Total retained profits of British American Tobacco (Malaysia) Berhad and its subsidiaries		
- Realised profit	561,593	523,415
- Unrealised loss	(10,724)	(27,770)
Less: Consolidation Adjustments	(131,790)	(131,584)
Total retained profits	<u>419,079</u>	<u>364,061</u>

The unrealised portion within unappropriated profits (retained earnings) as at 30 September 2014 predominantly relates to net deferred tax liability of RM9,938,000.

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 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

Domestic and Duty Free volumes for the third quarter of the year declined 1.5% versus the previous quarter mainly as a result of the price disparity in the market place during the month of September that negatively impacted the Group's competitive position (refer to YTD performance). In terms of contract manufacturing, volumes registered a decline of 3.9% versus previous quarter.

As a consequence of overall volume performance, revenue for the third quarter came 1.3% lower than for the previous quarter.

Despite the above, timing of expenditure and productivity savings contributed to lower cost of sales that translated into flat Gross Profit versus the previous quarter.

Operating expenses were 13.2% higher than the previous quarter predominantly due to the timing of marketing expenditure.

As a result, Q3 2014 Profit from Operations declined 2.9% when compared to the second quarter of this year.

17. Review of Performance

On an August year to date basis, the Group's market share declined 0.4ppt when compared to the same period of last year (current share of market: 61.5%), mainly as a consequence of downtrading in the market and a relatively weak performance by Pall Mall. On a more positive note, latest monthly market share read for the month of August showed encouraging signs in terms of performance.

Dunhill faces pressure coming from the decline in its full flavor franchise recording a share decline of 0.2ppt versus same period last year (SOM of 47.3%). Early results of Dunhill Taste variants launched in July of this year are promising, and have contributed to recent brand market share recovery.

Pall Mall year to date performance shows a 0.7ppt decline in share of market versus same period of last year. However, brand market share has stabilized after quarter 1, which constitutes a very good achievement after last years' underperformance. Resealable reloc feature was introduced in July to build on the brand's momentum.

Also, in the Aspirational Premium segment, Peter Stuyvesant continues its consistent growth trajectory since 2013, achieving solid market share increase of +0.9ppt ahead of corresponding period in 2013, and hitting 4.4 market share points in the month of August 2014.

Moving into the recent pricing developments, the Group announced an increase of RM 1 a pack across the portfolio effective as of September 8th, with the aim of fully offsetting inflationary pressure and the increase in operating costs, and consequently continuing to deliver against shareholders expectations. However, the price differential between our products and the rest of industry generated a significant share and consequent volume loss during the period following the price increase, resulting in a roll back of our prices in order to protect the Group's competitive position.

The Group's domestic and duty free sales volumes declined by 7.3% for Q3, and 6.2% September YTD, both compared to the same periods of last year. These rates of decline were bigger than the ones registered up to the month of August and as such impacted the financial performance of the Group year to date.

Contract manufacturing volumes for September YTD registered a reduction of 12.6% versus same period last year, confirming the weak performance in this area during 2014.

Despite the overall volume decline, total revenue grew 4.9% versus same period last year, largely attributed to the cumulative effect of the June 2013 price increase and the September 2013 excise led price increase on the domestic business.

These dynamics, coupled with the absence of non-recurring leaf restructuring expenses registered in 2013, and the implementation of additional productivity savings, contributed to an increase of 11.7% in Gross Profit in Q3 2014 versus same period of last year.

In the first nine months of 2014, Operating Expenses were higher by 12.8% when compared to the same period of last year, mainly as a consequence of the increase in investment behind Brand activation programmes and trade retail contracts and, to a lesser extent, the impact of inflation on overall costs.

Resulting from all the above, Profit from Operations recorded an 11.5% (RM99mn) increase in the third quarter of 2014 compared to same period of 2013.

Finally, repayment of the Medium Term Note in August 2014 contributed to lower interest costs for the Group enabling an increase of Profit After Tax of 12.6% (RM 80m) versus same period of 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 business operations of the Group were not materially affected by any seasonal or cyclical factors during the financial period under review.

20. Future Year's Prospects

The Group reiterates its concern about the overall decline in the legal market due largely to the impact of illegal cigarette trade. Nonetheless, the Group is very encouraged by the robust ongoing enforcement actions taken by Royal Malaysian Customs in addressing illegal cigarettes trade that started in the first quarter of the year.

These enforcement actions have proven to be effective and instrumental in driving the reduction of the share of illegal cigarettes trade from 38.9% in Quarter 4 2013, to 35.8% as recorded in the last reading earlier in 2014 (Source: Illicit Cigarette Study).

Considering still the magnitude of the illegal market, the performance of the Company in 2014 will continue to be dependent on the effectiveness and sustainability of enforcement activities. Despite these circumstances, the Group is pleased with its YTD performance and remains cautiously optimistic for the remaining part of the year.

21. Earnings Per Share

	3 months ended		Financial period ended	
	30.09.2014	30.09.2013	30.09.2014	30.09.2013
Basic earnings per share				
Profit for the financial period (RM'000)	241,101	219,327	714,591	634,354
Weighted average number of ordinary shares in issue ('000)	285,530	285,530	285,530	285,530
Basic earnings per share (sen)	84.4	76.8	250.3	222.2

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 2014 (for the financial year ended 31 December 2013, third interim dividend of 68.00 sen per share tax exempt under the single-tier tax system, amounting to RM194,160,400), payable on 27 November 2014, to all shareholders whose names appear on the Record of Depositors on 3 November 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 3 November 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

16 October 2014