BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD

(Company No : 4372-M)

CONDENSED CONSOLIDATED INCOME STATEMENTS

For the financial period ended 30 September 2016

	Note	3 months ended		Financial period ended	
		30.09.2016	30.09.2015	30.09.2016	30.09.2015
		RM'000	RM'000	RM'000	RM'000
Revenue		932,192	1,161,681	2,915,779	3,523,555
Cost of sales		(609,023)	(723,975)	(1,913,994)	(2,221,525)
Gross profit		323,169	437,706	1,001,785	1,302,030
Other operating income		538	186	1,672	4,495
Operating expenses		(75,408)	(88,621)	(315,753)	(340,343)
Restructuring expenses		-	-	(85,731)	-
Profit from operations		248,299	349,271	601,973	966,182
Finance cost		(3,983)	(2,393)	(10,006)	(7,742)
Profit before tax		244,316	346,878	591,967	958,440
Tax expense	5	(35,757)	(89,987)	(160,009)	(242,907)
Profit for the financial period		208,559	256,891	431,958	715,533
Effective tax rate		-14.6%	-25.9%	-27.0%	-25.3%
EPS (sen)	21	73.0	90.0	151.3	250.6
Net dividend per share (sen)					
- Interim 1		0.0	0.0	55.0	78.0
- Interim 2		0.0	0.0	45.0	78.0
- Interim 3	22	55.0	78.0	55.0	78.0
		55.0	78.0	155.0	234.0

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 2015.

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the financial period ended 30 September 2016

	3 months ended		Financial period ended	
	30.09.2016	**30.09.2015**	**30.09.2016**	**30.09.2015**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Profit for the financial period	208,559	256,891	431,958	715,533
Other comprehensive income:				
Items that may be subsequently reclassified to profit or loss:				
Change in fair value of cash flow hedges	5,347	(1,061)	1,307	2,200
Deferred tax on fair value changes of cash flow hedges	(1,283)	265	(314)	(550)
Total other comprehensive income for the financial period	4,064	(796)	993	1,650
Total comprehensive income for the financial period	212,623	256,095	432,951	717,183
Attributable to:				
Owners of the Company	212,623	256,095	432,951	717,183

The Condensed Consolidated Statements of Comprehesive Income should be read in conjunction with the Annual Audited Financial Statements of the Group for the year ended 31 December 2015.

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the financial period ended 30 September 2016

	Issued and fully paid ordinary shares of 50 sen each Number of shares	Nominal value	Non-Distibutable Cash flow hedge reserve	Distributable Retained earnings	Total attributable to owners
	'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2016	285,530	142,765	358	403,500	546,623
Profit for the financial period	-	-	-	431,958	431,958
Other comprehensive income for the financial period:					
- changes in fair value of cash flow hedges	-	-	1,307	-	1,307
- deferred tax on fair value changes on cash flow hedges	-	-	(314)	-	(314)
	285,530	142,765	1,351	835,458	979,574
Transaction with owners:					
Dividend for financial year ended 31 December 2015					
- Interim 4	-	-	-	(222,713)	(222,713)
Dividend for financial year ending 31 December 2016					
- Interim 1	-	-	-	(157,041)	(157,041)
- Interim 2				(128,488)	(128,488)
At 30 September 2016	285,530	142,765	1,351	327,216	471,332
At 1 January 2015	285,530	142,765	(2,885)	384,290	524,170
Profit for the financial period	-	-	-	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)
	285,530	142,765	(1,235)	1,099,823	1,241,353
Transaction with owners:					
Dividend for financial year ended 31 December 2014					
- Interim 4	-	-	-	(222,713)	(222,713)
Dividend for financial year ended 31 December 2015					
- Interim 1	-	-	-	(222,713)	(222,713)
- Interim 2				(222,713)	(222,713)
At 30 September 2015	285,530	142,765	(1,235)	431,684	573,214

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the Annual Audited Financial Statements of the Group for the year ended 31 December 2015.

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

CONDENSED CONSOLIDATED BALANCE SHEET
As at 30 September 2016

	Note	As at 30.09.2016 RM'000	As at 31.12.2015 RM'000
Non-current assets			
Property, plant and equipment		151,783	291,894
Computer software		1,144	490
Goodwill		411,618	411,618
Deferred tax assets		36,865	30,536
		601,410	734,538
Current assets			
Assets held for sale		60,694	-
Inventories		206,785	234,413
Receivables		530,451	201,860
Derivative financial instruments		4,800	5,089
Tax recoverable		398	398
Deposits, cash and bank balances		21,552	28,811
		824,680	470,571
Current liabilities			
Payables		391,318	302,827
Deferred income		961	2,606
Derivative financial instruments		2,702	10,736
Current tax liabilities		37,848	3,368
Borrowings	10	485,000	305,000
		917,829	624,537
Net current liabilities		(93,149)	(153,966)
		508,261	580,572
Capital and reserves			
Share capital		142,765	142,765
Cash flow hedge reserve		1,351	358
Retained earnings		327,216	403,500
Shareholders' funds		471,332	546,623
Non-current liabilities			
Deferred income		103	413
Deferred tax liabilities		36,826	33,536
		508,261	580,572
Net assets per share (RM)		1.65	1.91

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 2015.

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

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
For the financial period ended 30 September 2016

	Financial period ended 30.09.2016	Financial period ended 30.09.2015
	RM'000	RM'000
Operating activities		
Cash receipts from customers	3,077,961	3,670,972
Cash paid to suppliers and employees	(2,623,359)	(2,656,350)
Cash from operations	454,603	1,014,622
Income tax paid	(128,876)	(231,272)
Net cash flow from operating activities	325,727	783,350
Investing activities		
Property, plant and equipment		
- additions	(9,917)	(5,640)
- disposals	13,543	4,857
Disposal of assets held for sale	-	6,756
Interest income received	1,636	2,067
Net cash flow (used in)/from investing activities	5,262	8,040
Financing activities		
Dividends paid to shareholders	(508,242)	(668,140)
Interest expense paid	(10,006)	(7,742)
(Repayment)/Proceeds of revolving credit	180,000	(90,000)
Net cash flow used in financing activities	(338,248)	(765,882)
Decrease in cash and cash equivalents	(7,259)	25,508
Cash and cash equivalents as at 1 January	28,811	4,024
Cash and cash equivalents as at 30 June	21,552	29,532

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 2015.

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 2015.

   The audited financial statements of the Group for the year ended 31 December 2015 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 2015.

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 2015 was unqualified.

3. Unusual Items

   On 17th March 2016, the Company announced that it would be restructuring its business operations by sourcing tobacco products for its domestic market from other BAT factories regionally and would cease the manufacturing operations of its subsidiary, Tobacco Importers and Manufacturers Sdn Berhad ("TIM") located at Virginia Park, Jalan University, 46200, Petaling Jaya, Selangor. The winding down of factory operations at the Virginia Park site will be carried out in stages and targeted to complete by the 2nd half of 2017.

   The restructuring is in line with the Company's efforts towards realising a new and more sustainable business model, amidst an increasingly challenging business environment. The higher excise environment has ultimately led to the sharp rise in illegal cigarettes and significantly lower legal sales volumes resulting in rising cigarette production costs. The restructuring will enable the Company to sharpen its commercial capabilities whilst optimising the supply chain and transactional activities to ensure that the Company remains a competitive consumer-focused market leader.

   The winding down of the factory operations will affect approximately 230 employees who will be provided with a benefit package as well as the option to undergo a career-transition programme. Most of the equipment and machinery currently used for factory operations is intended to be sold to related parties within BAT group of entities.

   The land and buildings upon which the factory operations are located was disposed of by way of a public tender exercise. On 24 May 2016, the management of the Company as well as the Board had decided that the successful bidder of the public tender is LGB Realty Sdn. Bhd. and on 8 June 2016, the Board announced that TIM had entered into the sale and purchase agreement with the purchaser to dispose the said property for a total consideration of RM218 million. The proposed disposal has been duly approved by shareholders during the Extraordinary General Meeting held on 6th September 2016 and barring any unforeseen circumstances, is expected to complete by end of the year.

In relation to the winding down of its factory operations at the current Viginia Park site, as of 30th September 2016 year to date, the Group has made a provision for restructuring expenses of RM86 million (refer to Note 6 - Restructuring Expenses). Pursuant to the Company's announcement on the proposed disposal of the land and buildings upon which the factory operations are located, the Group has also classified these assets as Asset Held for Sale in the Balance Sheet.

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 2015, 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**	
	30.09.2016 RM'000	**30.09.2015 RM'000**	**30.09.2016 RM'000**	**30.09.2015 RM'000**
In respect of current year				
Current tax				
- Malaysian income tax	33,012	90,908	166,179	255,672
Deferred tax charge/ (credit)	5,568	(4,039)	(3,347)	(15,883)
In respect of prior years				
Under provision in respect of prior years - Malaysian income tax	(2,823)	3,118	(2,823)	3,118
	35,757	89,987	160,009	242,907

The average effective tax rate of the Group for the financial period ended 30 September 2016 is 27.0% and average effective tax rate of the Group for the financial period ended 30 September 2015 is 25.3%. The increase is mainly due to non-deductibility of restructuring expenses related to the winding down of the factory operations.

The average effective tax rate of the Group for the discrete third quarter of 2016 is 14.6% as compared to the same quarter last year of 25.9%. The reduction is mainly due to over-provision of tax in second quarter of 2016, which has been rectified in the third quarter of 2016.

6. Notes to the Statements of Comprehensive Income

	3 months ended		Financial period ended	
	30.09.2016	**30.09.2015**	**30.09.2016**	**30.09.2015**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Interest income	(538)	(416)	(1,636)	(2,067)
Interest expense	3,983	2,393	10,006	7,742
Depreciation and amortization	(542)	9,660	10,354	30,064
(Gain)/Loss on disposal of property, plant and equipments	-	32	33	(2,428)
Provision for and write-off/(write back) of Receivables	968	(504)	1,105	(157)
Provision for and write-off / (write-back) of inventory	527	210	3,396	1,334
Net foreign exchange (gain)/loss	(357)	(7,278)	2,368	(13,403)
(Gain)/ Loss on derivatives	1,393	2,621	(1,064)	5,946
Restructuring Expenses:	-	-	85,731	-
Impairment of Assets	-	-	32,696	-
Provision for Redundancies	-	-	32,701	-
Provision for Obsolete Materials	-	-	10,631	-
Project Cost	-	-	9,703	-

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 October 2016 (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 2016 are as follows:

Current	**RM'000**
2 weeks revolving credit maturing on 12th October 2016	35,000
2 weeks revolving credit maturing on 13th October 2016	110,000
2 weeks revolving credit maturing on 13th October 2016	140,000
1 month revolving credit maturing on 4th October 2016	50,000
1 month revolving credit maturing on 24th October 2016	95,000
3 months revolving credit maturing on 30th December 2016	20,000
3 months revolving credit maturing on 31st October 2016	35,000
	485,000

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 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 stood firm in its position that there is a challengeable case which is supported by external legal opinion on the matter. Accordingly, the Group pursued this matter through a judicial review filed on the 12 August 2014 in the Kuala Lumpur High Court. The High Court had granted a full stay pending the ultimate decision of the case.

On 12 August 2016, the High Court, in rending its decision ruled in favor of the Group and held that the Royal Malaysian Customs uplift and calculation of sales tax was without legal basis. The High Court further awarded costs of RM7000 to be paid to the Group. On 6 September 2016, Royal Malaysian Customs filed a notice of appeal to the High Court's decision. Pending the hearing(s) at the Court of Appeal, the decision date for the appeal would most likely be in the 3rd quarter of 2017.

There were no other contingent liabilities or contingent assets as at 18 October 2016 (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 2016 are as follows:

Property, plant and equipment:	**RM'000**
Authorised by the Directors and contracted for	639
Authorised by the Directors but not contracted for	17,409
	18,048

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 30.09.2016 RM’000	**As at 31.12.2015 RM’000**
Total retained profits of British American Tobacco (Malaysia) Berhad and its subsidiaries		
- Realised profits	459,266	536,857
- Unrealised loss	(1,926)	(2,420)
Less: Consolidation Adjustments	(130,124)	(130,937)
Total retained profits	327,216	403,500

The unrealised portion within unappropriated profits (retained earnings) as at 30 September 2016 predominantly relates to unrealised foreign exchange loss of RM1.9 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 18 October 2016 (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

The Group’s Domestic and Duty Free volume performance in the third quarter of 2016 recorded marginal growth of 0.2% versus last quarter. The growth in volume was mainly attributed to Duty Free which registered a 5% increase compared to the previous quarter, whereas Domestic volume remains relatively stable.

During the same period, Contract Manufacturing volumes declined 34.1% versus the preceding quarter.

As a result of the volume performance mentioned above, Revenue and Gross Profit for the third quarter of 2016 declined 3.2% and 0.6% respectively, when compared to the second quarter of the year.

Operating Expenses during the third quarter of 2016 were 63.6% below the preceding quarter. This is predominantly due to the provision for restructuring expenses of RM86 million that was recorded in second quarter of 2016 in relation to the winding down of its factory operations and timing of its administrative and marketing expenditure behind trade and brand initiatives. The third quarter of 2016 performance was also contributed by lower depreciation and tax expense due to the rectification of over-provision of these expenses in the second quarter of 2016, which have been adjusted in current quarter.

As a result, Profit from Operations in the third quarter of 2016 increased 109.4% (RM 130million) when compared to the second quarter of the same year.

17. Review of Performance

As of September 2016 year to date, total Legal Domestic market experienced a volume contraction of 28.6% versus the same period of last year mainly driven by the steep excise increase in November 2015, which in turn resulted in a significant increase in illegal cigarette trade. However, slower rate of decline was seen within the legal industry in recent months.

As a result of this market evolution, during the same period, the Group's Domestic and Duty Free volumes declined 30% when compared to the same period of last year.

Contract manufacturing business declined by 41.9% versus the same period of last year (cigarettes and non-cigarettes). This was largely driven by lower volumes across all markets i.e. Australia, Phillipines, Singapore, Korea, Japan and Taiwan markets.

As of August 2016 year to date, the Group registered 58.1% share within total legal market, declining by 2.8% versus full year 2015. This decline was mainly attributed to the down trading dynamics in the market after the excise driven price increase in November 2015.

Dunhill registered a market share of 43.3% as of August 2016 year to date (-2.8ppt vs full year 2015). Recent upgrades including product upgrade of Dunhill range in July 2016 managed to cushion the overall share decline by 0.3ppt vs full year 2015.

Year to date August 2016, Peter Stuyvesant recorded a 6.3% share of market, increasing 0.7ppt when compared to full year 2015.

Pall Mall recorded marginal decline of 0.2ppt versus full year 2015, closing at 4.3% share of market for year to date August 2016.

The excise led price increase along with implementation of additional productivity savings could only partially mitigate the negative impact of the overall volume reduction and its consequent escalating cost pressures. As a result, total Revenue for September 2016 year to date declined 17.2% (RM608 million) while Gross Profit declined 23.1% (RM300 million), both when compared to the same period of last year.

Operating Expenses for September year to date period were 7.2% lower than the same period last year (RM25 million), largely attributed to lower brand and trade marketing expenses and partially offset by the impact of inflation on the overall cost structure.

As of September 2016 year to date, the Group has recorded a one-off restructuring expenses (RM86 milion) in relation to the winding down of its factory operations, which was announced on 17th March 2016. The one-off restructuring expenses consist of provision for redundancies (RM33 million), asset impairment (RM33 million), provision for obsolete raw materials (RM11 million) and project cost (RM9 million).

As a result of the above, for September 2016 year to date, the Group recorded a decline of 37.7% (RM364 million) and 38.2% (RM366 million) in Profit from Operations and Profit before Tax respectively, when compared to the same period of last year. Profit from Operations, excluding the impact of one-off restructuring expenses, declined 28.8% (RM278 million).

Based on the audited net book value of the Group's said land and buildings as at 31 December 2015, the proposed disposal of the land and buildings (disclosed in Note 3), is expected to result in a total net gain of approximately RM149 million (excluding Tenancy cost for the initial 12 months). This will translate into an increase in earnings per share by approximately 52.1 sen based on the weighted average number of ordinary shares in issue as at 31 December 2015.

As of 30 September 2016, the Group has classified the said land and buldings to be disposed as Asset Held for Sale in the Balance Sheet.

The net sale proceeds of the Proposed Disposal, less the expenses for the Proposed Disposal will be utilised as cash dividends to shareholders.

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

The Group remains concerned with legal volumes continuing to be impacted by the current rampant illegal cigarette trade as a consequence of the unprecedented excise increase in November 2015, as well as consumer down trading within the legal market. The escalating illegal cigarette trade constitutes the most concerning challenge in 2016 for the legal tobacco industry after its sharp incidence increase from 36.9% in 2015 to 49.9%, as recorded in the month of May 2016 (Source: Illicit Cigarette Study). This means that almost one out of two packs of cigarettes sold is illegal.

Based on the result of the September 2016 year to date, the Group expects the full year 2016 Profit from Operations to be lower than the previous year.

21. Earnings Per Share

	3 months ended		Financial year ended	
	30.09.2016	**30.09.2015**	**30.09.2016**	**30.09.2015**
Basic earnings per share				
Profit for the financial period (RM'000)	208,559	256,891	431,958	715,533
Weighted average number of ordinary shares in issue ('000)	285,530	285,530	285,530	285,530
Basic earnings per share (sen)	73.0	90.0	151.3	250.6

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 55.00 sen per share, tax exempt under the single-tier tax system amounting to RM157,041,500 in respect of the financial year ending 31 December 2016 (for the financial year ended 31 December 2015, third interim dividend of 78.00 sen per share tax exempt under the single-tier tax system, amounting to RM222,713,400), payable on 24 November 2016, to all shareholders whose names appear on the Record of Depositors on 14 November 2016.

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 November 2016, 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 October 2016