

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

CONDENSED CONSOLIDATED INCOME STATEMENTS

For the financial period ended 30 June 2015

	Note	3 months ended		Financial year ended	
		30.06.2015	30.06.2014	30.06.2015	30.06.2014
		RM'000	RM'000	RM'000	RM'000
Revenue		1,087,803	1,226,165	2,361,874	2,380,475
Cost of sales		(676,418)	(797,103)	(1,497,550)	(1,544,366)
Gross profit		411,385	429,062	864,324	836,109
Other operating income		3,436	342	4,309	856
Operating expenses		(125,375)	(93,935)	(251,722)	(197,067)
Profit from operations		289,446	335,469	616,911	639,898
Finance cost		(2,565)	(5,052)	(5,349)	(8,295)
Profit before tax		286,881	330,417	611,562	631,603
Tax expense	5	(71,594)	(82,321)	(152,920)	(158,113)
Profit for the financial period		215,287	248,096	458,642	473,490
Basic and diluted earnings per share - basic (sen)	21	75.4	86.9	160.6	165.8
Net dividend per share (sen)					
- Interim 1				78.0	75.0
- Interim 2	22	78.0	78.0	78.0	78.0
		78.0	78.0	156.0	153.0

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 June 2015

	3 months ended		Financial period ended	
	30.06.2015 RM'000	30.06.2014 RM'000	30.06.2015 RM'000	30.06.2014 RM'000
Profit for the financial period	215,287	248,096	458,642	473,490
Other comprehensive income:				
Items that may be subsequently reclassified to profit or loss				
Change in fair value of cash flow hedges	5,411	979	3,261	(129)
- deferred tax on fair value changes of cash flow hedges	(1,352)	(245)	(815)	32
Total other comprehensive income for the financial period	4,059	734	2,446	(97)
Total comprehensive income for the financial period	219,346	248,830	461,088	473,393
Attributable to:				
Shareholders' equity	219,346	248,830	461,088	473,393

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 June 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	-	-	-	458,642	458,642
Other comprehensive income for the financial period:					
- changes in fair value of cash flow hedges	-	-	3,261	-	3,261
- deferred tax on fair value changes on cash flow hedges	-	-	(815)	-	(815)
	285,530	142,765	(439)	842,932	985,258
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)
At 30 June 2015	285,530	142,765	(439)	397,506	539,832
At 1 January 2014	285,530	142,765	1,506	364,061	508,332
Profit for the financial year	-	-	-	473,490	473,490
Other comprehensive income for the financial period:					
- changes in fair value of cash flow hedges	-	-	(129)	-	(129)
- deferred tax on fair value changes on cash flow hedges	-	-	32	-	32
	285,530	142,765	1,409	837,551	981,725
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)
At 30 June 2014	285,530	142,765	1,409	400,691	544,865

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 June 2015

	As at 30.06.2015	As at 31.12.2014
	RM'000	RM'000
Non-current assets		
Property, plant and equipment	301,741	325,385
Computer software	644	1,034
Goodwill	411,618	411,618
Deferred tax assets	40,163	25,736
	<u>754,166</u>	<u>763,773</u>
Current assets		
Asset held for sale	-	4,540
Inventories	271,981	263,296
Receivables	223,746	236,011
Derivative financial instruments	3,843	1,522
Tax Recoverable		449
Deposits, cash and bank balances	5,683	14,469
	<u>505,253</u>	<u>520,287</u>
Current liabilities		
Payables	293,878	268,300
Deferred income	2,955	3,304
Derivative financial instruments	5,158	6,155
Current tax liabilities	131,328	74,512
Borrowings	235,000	360,000
Bank overdraft	12,000	10,445
	<u>680,319</u>	<u>722,716</u>
Net current (liabilities) / assets	(175,066)	(202,429)
	<u>579,100</u>	<u>561,344</u>
Capital and reserves		
Share capital	142,765	142,765
Cash flow hedge reserve	(439)	(2,885)
Retained earnings	397,506	384,290
Shareholders' funds	<u>539,832</u>	<u>524,170</u>
Non-current liabilities		
Deferred income	1,716	3,019
Deferred tax liabilities	37,552	34,155
	<u>579,100</u>	<u>561,344</u>
Net assets per share (RM)	1.89	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 June 2015

	Financial period ended 30.06.2015	Financial period ended 30.06.2014
	RM'000	RM'000
Operating activities		
Cash receipts from customers	2,429,901	2,346,208
Cash paid to suppliers and employees	(1,766,900)	(1,703,416)
Cash from operations	663,001	642,792
Income taxes paid	(106,685)	(85,057)
Net cash flow from operating activities	<u>556,316</u>	<u>557,735</u>
Investing activities		
Property, plant and equipment		
- additions	(3,016)	(9,611)
- disposals	3,727	12,012
Disposal of assets held for sale	6,756	-
Interest income received	1,651	713
Net cash flow from investing activities	<u>9,118</u>	<u>3,114</u>
Financing activities		
Dividends paid to shareholders	(445,426)	(436,860)
Interest expense paid	(5,349)	(8,295)
(Repayment)/Proceeds from revolving credit	(125,000)	(150,000)
Net cash flow used in financing activities	<u>(575,775)</u>	<u>(595,155)</u>
Decrease in cash and cash equivalents	(10,341)	(34,306)
Cash and cash equivalents as at 1 January	4,024	59,596
Cash and cash equivalents as at 30 June	<u>(6,317)</u>	<u>25,290</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	
	30.06.2015	30.06.2014	30.06.2015	30.06.2014
	RM'000	RM'000	RM'000	RM'000
<u>In respect of current year</u>				
Current tax				
- Malaysian income tax	76,149	82,223	164,764	169,722
Deferred tax charge/ (credit)	(4,555)	98	(11,844)	(11,609)
	<u>71,594</u>	<u>82,321</u>	<u>152,920</u>	<u>158,113</u>

The average effective tax rate of the Group for the financial period ended 30 June 2015 is 25.0%. This is in line with the average effective tax rate of the Group for the financial period ended 30 June 2014 of 25.0%.

6. Notes to the Statements of Comprehensive Income

	3 months ended		Financial period ended	
	30.06.2015	30.06.2014	30.06.2015	30.06.2014
	RM'000	RM'000	RM'000	RM'000
Interest income	(778)	(342)	(1,651)	(713)
Interest expense	2,565	4,478	5,349	8,295
Depreciation and amortization	9,800	10,102	20,404	24,264
(Gain)/Loss on disposal of property, plant and equipments	(2,460)	(45)	(2,460)	(188)
Provision for and write-off of Receivables	6	625	347	741
Provision for and write-off / (write-back) of inventory	(657)	(6)	1,124	285
Net foreign exchange (gain)/loss	(4,711)	1,109	(6,125)	586
Loss on derivatives	1,397	1,064	3,325	795

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 22 July 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 June 2015 are as follows:

Current	RM'000
2-weeks revolving credit maturing on 13th July 2015	70,000
2-weeks revolving credit maturing on 14th July 2015	30,000
1 month revolving credit maturing on 30th July 2015	135,000
	<hr/>
	235,000
	<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 third quarter of 2015.

As such, with respect to this matter, no provision for this demand has been made to the second quarter of 2015 results. There were no other contingent liabilities or contingent assets as at 22 July 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 June 2015 are as follows:

Property, plant and equipment:	RM'000
Authorised by the Directors and contracted for	3,894
Authorised by the Directors but not contracted for	1,719
	<u>5,613</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 30.06.2015 RM'000	As at 31.12.2014 RM'000
Total retained profits of British American Tobacco (Malaysia) Berhad and its subsidiaries		
- Realised profits	525,961	522,090
- Unrealised profit/(loss)	2,994	(6,529)
Less: Consolidation Adjustments	(131,449)	(131,271)
Total retained profits	<u>397,506</u>	<u>384,290</u>

The unrealised portion within unappropriated profits (retained earnings) as at 30 June 2015 predominantly relates to net deferred tax asset of RM2,600,000.

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 22 July 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

Domestic and Duty Free volumes for the second quarter of the year declined 11.8% versus the previous quarter mainly due to the overall volume decline in the legal domestic market.

Specifically on the Domestic business, in line with the overall market evolution, the Group recorded a volume contraction of 11.9% in the second quarter of 2015 versus the preceding quarter largely driven by the following factors: (i) volume correction in the second quarter after abnormal first quarter demand by customers and consumers in advance of the Goods and Services Tax (GST) implementation, (ii) softer demand amongst consumers due to weaker market sentiments after GST implementation, and (iii) the Group's uncompetitive price position during part of the month of April vis a vis the rest of the legal industry players.

During most of the second quarter of 2015 in order to preserve its competitive position in the market, the Group absorbed the impact of GST which negatively affected overall margins.

As a consequence of the above mentioned, revenue for the second quarter of the year was 14.6% lower than that registered for the first quarter. This, coupled with productivity savings and timing differences in expenditures, translated into a Gross Profit reduction of 9.2% versus preceding quarter.

Operating Expenses during the second quarter of 2015 were broadly in line with previous quarter whilst Operating Income recorded an increase of RM2.6million due to the gains from the disposal of assets related to the local leaf operation discontinued in the year of 2013.

As a result, Profit from Operations in the second quarter of 2015 declined 11.6% (RM 38million) when compared to the first quarter of the same year.

17. Review of Performance

On a June 2015 year to date basis, the Group recorded a share of market of 61.7% (+0.5ppt versus full year 2014) with growth mainly coming from the Aspirational Premium brands, namely Peter Stuyvesant (+1.0ppt)

Dunhill continued to maintain its clear leadership in the market with 46.7% share during the first half of 2015, recording a marginal decline of 0.3ppt versus full year 2014. However, Dunhill's performance in the second quarter of 2015 was still encouraging as the brand showed an increase of 0.7ppt versus the preceding quarter.

Within the Aspirational Premium segment, the Group continued its strong performance mainly driven by Peter Stuyvesant. As of June year to date 2015, the Group's Aspirational Premium share of market stands at 9.8%, which translated into a market share increase of 1.0ppt versus full year 2014. Peter Stuyvesant surpassed the 5% market share milestone, reaching 5.3% market share for the first half of the year. On the other hand, Pall Mall as of June 2015 year to date remained resilient holding to its 4.5% share of the market.

Other non core brands within the portfolio totaling 5.1% market share as of June 2015 year to date recorded a decline of 0.3ppt versus same period last year.

During the first half of the 2015, the legal market experienced a volume contraction of 9.6% versus the same period of last year largely attributed to a weak second quarter of 2015 (decline of 17.8% versus same period last year).

This contraction in the second quarter of 2015 was largely driven by the following factors: (i) volume correction in the second quarter after abnormal first quarter demand by customers and consumers in advance of the GST implementation, (ii) softer demand amongst consumers due to weaker market sentiments after GST implementation.

Outperforming the industry evolution described above, the Group's Domestic and Duty Free volumes in the second quarter of 2015 declined 17.0% versus the second quarter of 2014 (Domestic: -17.6% and Duty Free: -7.9%).

On a half year 2015 basis, Domestic and Duty Free volumes registered a decline of 9.0% versus same period last year largely as a consequence of a volume reduction of 9.7% in the Domestic business for this period.

Overall, after GST implementation in April of this year, the Group's volume performance has proven to be more resilient vis a vis the rest of the industry players and its key brands have performed strongly as highlighted by the share of market indicators.

Contract manufacturing volumes for June 2015 year to date continued to be weak, with a decline of 14.5% as compared to same period last year largely due to the reduction of volumes sold to the Australia and the South Korea markets.

Despite the overall decline in the domestic and contract manufacturing volumes, total revenue for June 2015 year to date declined at a lower rate of 0.8% (RM18million) when compared to the same period in 2014. This was largely attributed to the impact of the November 2014 excise led price increase on the domestic business, which partially mitigated the impact of the volume decline and the Group's absorption of GST.

As of June 2015 year to date, Gross Profit was 3.4% ahead of the same period last year (RM28million) as a consequence of lower cost of sales driven by productivity savings and an overall smaller volume base.

Operating Expenses for the first half of 2015 were 27.7% higher than the same period of last year (RM55million) due to timing of brand and trade marketing expenses (RM32million), one-off expenses associated with business restructuring mainly on the production area (RM7million), timing of overheads expenditure (RM7million) and, to a lesser extent, to the impact of inflation on the overall cost structure.

Other Operating Income recorded an increase of RM3.5million in the second quarter of the year due to higher interest income (RM 0.7million) and gains from the disposal of assets related to the local leaf operation discontinued in the year of 2013 (RM 2.6million).

On a separate note, Finance costs were 35.5% lower (RM 3million) during the first half of 2015 versus same period of last year due to the more flexible financing arrangement deployed following repayment of the Medium Term Note in August 2014.

As a result, during the first half of 2015 when compared to the same period of last year, the Group recorded a decline of 3.6% (RM 23 million) and 3.2% (RM 20 million) in Profit from Operations and Profit before Tax respectively.

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 believes that in terms of the recent GST implementation in Malaysia, it is still too early to come to a conclusion regarding its potential impact on the Group's performance for the short to medium term.

However, the Group acknowledges that the industry has been affected by the pressure on consumers' disposable income during the second quarter of 2015.

Illegal cigarette trade in Malaysia remains a key challenge in 2015 for the legal tobacco industry. Legal volumes continue to suffer from the impact of the illegal cigarette trade as a consequence of the steep excise increases in September 2013 and November 2014. 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.

The outlook for the rest of the year will depend heavily on the speed of recovery of the legal market.

21. Earnings Per Share

	3 months ended		Financial year ended	
	30.06.2015	30.06.2014	30.06.2015	30.06.2014
Basic earnings per share				
Profit for the financial period (RM'000)	215,287	248,096	458,642	473,490
Weighted average number of ordinary shares in issue ('000)	285,530	285,530	285,530	285,530
Basic earnings per share (sen)	75.4	86.9	160.6	165.8

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 second 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, second interim dividend of 78.00 sen per share tax exempt under the single-tier tax system, amounting to RM222,713,400), payable on 27 August 2015, to all shareholders whose names appear on the Record of Depositors on 17 August 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 August 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
28 July 2015