

BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD

(Company No : 4372-M)

CONDENSED CONSOLIDATED INCOME STATEMENTS

For the financial year ended 31 December 2015

	Note	3 months ended		Financial year ended	
		31.12.2015	31.12.2014	31.12.2015	31.12.2014
		RM'000	RM'000	RM'000	RM'000
Revenue		1,057,992	1,205,606	4,581,547	4,795,991
Cost of sales		(685,876)	(760,589)	(2,907,401)	(3,084,147)
Gross profit		372,116	445,017	1,674,146	1,711,844
Other operating income		486	1,231	5,211	3,489
Operating expenses		(98,543)	(177,581)	(439,115)	(480,955)
Profit from operations		274,059	268,667	1,240,242	1,234,378
Finance cost		(1,502)	(2,724)	(9,244)	(15,581)
Profit before tax		272,557	265,943	1,230,998	1,218,797
Tax expense	5	(78,029)	(78,503)	(320,936)	(316,766)
Profit for the financial period		194,528	187,440	910,062	902,031
Effective tax rate		28.6%	29.5%	26.1%	26.0%
EPS	21	68.1	65.6	318.7	315.9
- Interim 1		-	-	78.0	75.0
- Interim 2		-	-	78.0	78.0
- Interim 3		-	-	78.0	78.0
- Interim 4	22	78.0	78.0	78.0	78.0
		78.0	78.0	312.0	309.0

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 year ended 31 December 2015

	3 months ended		Financial year ended	
	31.12.2015 RM'000	31.12.2014 RM'000	31.12.2015 RM'000	31.12.2014 RM'000
Profit for the financial period	194,528	187,440	910,062	902,031
Other comprehensive income:				
Items that will not be reclassified to profit or loss:				
Deferred tax on defined benefit plan actuarial gain	-	485	-	485
Items that may be subsequently reclassified to profit or loss:				
Change in fair value of cash flow hedges	2,121	(3,200)	4,321	(5,855)
Deferred tax on fair value changes of cash flow hedges	(528)	800	(1,078)	1,464
Total other comprehensive income for the financial period	<u>1,593</u>	<u>(1,915)</u>	<u>3,243</u>	<u>(3,906)</u>
Total comprehensive income for the financial period	<u>196,121</u>	<u>185,525</u>	<u>913,305</u>	<u>898,125</u>
Attributable to:				
Owners of the Company	<u>196,121</u>	<u>185,525</u>	<u>913,305</u>	<u>898,125</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.

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the financial year ended 31 December 2015

	Issued and fully paid ordinary shares of 50 sen each		Non- distributable		Distributable Retained earnings	Total attributable to owners
	Number of shares	Nominal value	Cash flow hedge reserve	Share based payment reserve		
	'000	RM'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	-	-	-	-	910,062	910,062
Other comprehensive income for the financial year:						
- changes in fair value of cash flow hedges	-	-	4,321	-	-	4,321
- deferred tax on fair value changes on cash flow hedges	-	-	(1,078)	-	-	(1,078)
	-	-	3,243	-	910,062	913,305
Transaction with owners:						
Expense arising from equity-settled share based payment transactions	-	-	-	2,848	-	2,848
Recharge of share based payment	-	-	-	(2,848)	-	(2,848)
Dividend for financial year ended 31 December 2014						
- Interim 4	-	-	-	-	(222,713)	(222,713)
Dividends for financial year ended 31 December 2015						
- Interim 1	-	-	-	-	(222,713)	(222,713)
- Interim 2	-	-	-	-	(222,713)	(222,713)
- Interim 3	-	-	-	-	(222,713)	(222,713)
	-	-	-	-	-	-
At 31 December 2015	285,530	142,765	358	-	403,500	546,623
At 1 January 2014	285,530	142,765	1,506	-	364,061	508,332
Profit for the financial year	-	-	-	-	902,031	902,031
Other comprehensive income for the financial year:						
- changes in fair value of cash flow hedges	-	-	(5,855)	-	-	(5,855)
- deferred tax on fair value changes on cash flow hedges	-	-	1,464	-	-	1,464
- deferred tax on defined benefit plan	-	-	-	-	485	485
	285,530	142,765	(2,885)	-	1,266,577	1,406,457
Transaction with owners:						
Expense arising from equity-settled share based payment transactions	-	-	-	4,830	-	4,830
Recharge of share based payment	-	-	-	(4,830)	-	(4,830)
Dividend for financial year ended 31 December 2013						
- Interim 4	-	-	-	-	(222,713)	(222,713)
Dividends for financial year ended 31 December 2014						
- Interim 1	-	-	-	-	(214,148)	(214,148)
- Interim 2	-	-	-	-	(222,713)	(222,713)
- Interim 3	-	-	-	-	(222,713)	(222,713)
At 31 December 2014	285,530	142,765	(2,885)	-	384,290	524,170

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 2014.

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

CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 December 2015

	Note	As at 31.12.2015 RM'000	As at 31.12.2014 RM'000
Non-current assets			
Property, plant and equipment		291,894	325,385
Computer software		490	1,034
Goodwill		411,618	411,618
Deferred tax assets		30,536	25,736
		<u>734,538</u>	<u>763,773</u>
Current assets			
Assets held for sale		-	4,540
Inventories		234,413	263,296
Receivables		203,751	236,011
Derivative financial instruments		5,089	1,522
Tax recoverable		398	449
Deposits, cash and bank balances		28,811	14,469
		<u>472,462</u>	<u>520,287</u>
Current liabilities			
Payables		304,717	268,300
Deferred income		2,606	3,304
Derivative financial instruments		10,736	6,155
Current tax liabilities		3,368	74,512
Borrowings	10	305,000	360,000
Bank overdraft		-	10,445
		<u>626,427</u>	<u>722,716</u>
Net current liabilities		(153,965)	(202,429)
		<u>580,573</u>	<u>561,344</u>
Capital and reserves			
Share capital		142,765	142,765
Cash flow hedge reserve		358	(2,885)
Retained earnings		403,500	384,290
Shareholders' funds		546,623	524,170
Non-current liabilities			
Deferred income		413	3,019
Deferred tax liabilities		33,537	34,155
		<u>580,573</u>	<u>561,344</u>
Net assets per share (RM)		1.91	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 STATEMENT

For the financial year ended 31 December 2015

	Financial year ended 31.12.2015	Financial year ended 31.12.2014
	RM'000	RM'000
Operating activities		
Cash receipts from customers	4,785,710	4,760,449
Cash paid to suppliers and employees	(3,407,605)	(3,453,454)
Cash from operations	1,378,105	1,306,995
Income tax paid	(398,525)	(328,840)
Net cash flow from operating activities	979,580	978,155
Investing activities		
Property, plant and equipment		
- additions	(14,348)	(25,309)
- disposals	5,342	37,026
Disposal of assets held for sale	6,756	-
Additions of computer software	-	(4)
Interest income received	2,553	2,428
Net cash flow from investing activities	303	14,141
Financing activities		
Dividends paid to shareholders	(890,852)	(882,287)
Interest expense paid	(9,244)	(15,581)
Repayment of Medium Term Notes	-	(250,000)
Proceeds from revolving credit	(55,000)	100,000
Net cash flow used in financing activities	(955,096)	(1,047,868)
Increase/(Decrease) in cash and cash equivalents	24,787	(55,572)
Cash and cash equivalents as at 1 January	4,024	59,596
Cash and cash equivalents as at 31 December	28,811	4,024

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 2015, the Group disclosed a contingent liability of RM24.9 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	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
	RM'000	RM'000	RM'000	RM'000
<u>In respect of current year</u>				
Current tax				
- Malaysian income tax	68,642	66,306	324,314	321,287
Deferred tax charge/ (credit)	9,387	430	(6,496)	(16,288)
<u>In respect of prior years</u>				
Under provision in respect of prior years	-	11,767	3,118	11,767
- Malaysian income tax				
	<u>78,029</u>	<u>78,503</u>	<u>320,936</u>	<u>316,766</u>

The average effective tax rate of the Group for the financial period ended 31 December 2015 is 26.1%, which was higher than the statutory tax rate of 25% mainly due to non-deductibility of expenses in the current year and under provision in respect of prior year income tax.

6. Notes to the Statements of Comprehensive Income

	3 months ended		Financial period ended	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
	RM'000	RM'000	RM'000	RM'000
Interest income	(486)	(653)	(2,553)	(2,428)
Interest expense	1,502	2,724	9,244	15,581
Depreciation and Amortization	9,518	9,739	39,582	45,047
(Gain)/Loss on disposal of property, plant and equipment	66	(302)	(2,362)	(473)
Provision for and write-off of receivables	371	23	214	221
Provision for and write-off of inventory	2,970	852	4,304	1,732
Net foreign exchange (gain)/loss	718	(3,551)	(12,685)	(2,929)
(Gain)/Loss on derivatives	1,753	(359)	7,699	1,640

7. Changes in Composition of the Group

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 10 February 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 31 December 2015 are as follows:

Current	RM'000
2-weeks revolving credit maturing on 6th January 2016	135,000
2-weeks revolving credit maturing on 11th January 2016	40,000
2-weeks revolving credit maturing on 12th January 2016	55,000
2-weeks revolving credit maturing on 14th January 2016	75,000
	<hr/>
	305,000
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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 and/or decision date for the Judicial Review application would most likely be in during the end of the first quarter of 2016.

As such, with respect to this matter, no provision for this demand has been made to the fourth quarter of 2015 results. There were no other contingent liabilities or contingent assets as at 10 February 2016 (the latest practicable date which shall not be earlier than 7 days from the date of issue of this quarterly report).

British American Tobacco (Malaysia) Berhad

12. Capital Commitments

Capital commitments not provided for in the financial statements as at 31 December 2015 are as follows:

Property, plant and equipment:	RM'000
Authorised by the Directors and contracted for	-
Authorised by the Directors but not contracted for	2,277
	<u>2,277</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 31.12.2015 RM'000	As at 31.12.2014 RM'000
Total retained profits of British American Tobacco (Malaysia) Berhad and its subsidiaries		
- Realised profits	536,857	522,090
- Unrealised profit/(loss)	(2,420)	(6,529)
Less: Consolidation Adjustments	(130,937)	(131,271)
Total retained profits	<u>403,500</u>	<u>384,290</u>

The unrealised portion within unappropriated profits (retained earnings) as at 31 December 2015 predominantly relates to net deferred tax liabilities of RM3.0 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 10 February 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

Domestic and Duty Free volumes were heavily impacted during the fourth quarter of the year registering a 19.4% decline versus the previous quarter. This decline was driven by the unprecedented excise increase of approximately 36% effective 4th November 2015.

During the same period, Contract Manufacturing volumes declined 8.5% versus the preceding quarter.

The weak volume performance described above, coupled with inflationary increases in costs and timing differences in expenditures, translated into fourth quarter revenue and gross profit declines of 8.9%, and 15.0% respectively, when both compared to the third quarter of the year.

Operating Expenses in the fourth quarter of 2015 were 10.9% above the preceding quarter, predominantly due to timing of administrative and marketing expenditure behind trade retail contracts and brand initiatives.

As a result of the above mentioned, Profit from Operations in the fourth quarter of 2015 declined 21.5% (RM75 million) when compared to the third quarter of the same year.

17. Review of Performance

On a full year basis, the Group's domestic volumes recorded a decline of 13.5% versus 2014 mainly as a consequence of the overall softer demand amongst consumers due to weaker market sentiments after GST implementation, and the impact of the unusually large November excise increase.

Contract Manufacturing volumes for the export business registered a steep decline, resulting in a total reduction (cigarettes and non cigarettes) of 24.8% versus 2014. This was largely attributed to lower demand from the Australian, South Korean, Philippines and Taiwan markets.

In terms of legal share of market, the Group recorded in 2015 a 0.9ppt growth versus full year 2014, reaching 62.1%, with Peter Stuyvesant fuelling the growth within the Aspirational Premium segment (1.3ppt increase versus 2014).

Dunhill maintained its clear market leadership with a share of market of 46.9%, which represents a marginal decline of 0.1ppt versus last year. This was a strong performance of the Group's most important premium brand under a challenging environment, which was partially supported by the lights and new ranges namely Dunhill Zest and Dunhill Mix.

Within the Aspirational Premium segment, the Group gained 1.3ppt versus previous year, driven by Peter Stuyvesant which continued to show gains in share of market, reaching 6.4% share of market in December 2015. Also in this segment, Pall Mall remained stable versus last year, closing at 4.5% share of market.

Additional productivity savings and the tax driven price increases during the year could only partially mitigate the overall impact of the reduction in Domestic and Contract Manufacturing volumes, the inflationary costs increases and escalating cost pressures due to lower production volumes. This negatively affected the financial performance of the business in 2015 and

translated into a reduction of total Revenue of 4.5% (RM214 million) and of Gross Profit of 2.2% (RM38 million), both when compared to 2014.

In 2015, Operating Expenses were 8.7% (RM41 million) lower than last year despite inflationary pressures. This was largely attributed to the absence of one off cost related to discontinuation of cigarette rations in 2014 along with year on year savings (RM14 million), and the Group's continuous efforts in driving further efficiencies in marketing expenditure and overhead costs.

Other Operating Income recorded an increase of RM1.7 million in 2015, mainly due the gains from the disposal of assets related to the local leaf operation discontinued in the year of 2013 (RM 1.6 million).

Finance costs declined by RM6.3 million (or 40.7%) when compared to the same period of last year driven by the more flexible financing arrangement deployed following repayment of the Medium Term Note in August 2014.

As a result, despite the significant volume loss in 2015, the Group managed to record a marginal 0.5% increase in Profit from Operations (RM6 million), and a 1.0% increase in Profit before Tax (RM12 million).

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 2013 and 2014 steep excise increases, followed by the implementation of the Goods and Services Tax (GST) in April 2015, which further constricted consumers' disposable income. Adding to that, in November 2015 the tobacco industry was hit very hard by a massive and unprecedented excise increase which puts further pressure on the legal market.

The significant increase in illegal cigarette trade will be the single most important challenge in 2016 for the legal tobacco industry.

The Group continues to be 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 Group hopes that these agencies will further enhance their enforcement efforts and the courts will impose much steeper penalties given the high incidence of illegal cigarette trade caused by massive excise increase.

British American Tobacco (Malaysia) Berhad

The outlook of 2016 will be impacted by the massive excise increase and the recovery of the legal market will depend on enforcement efforts to reduce the high illegal cigarette incidence.

21. Earnings Per Share

	3 months ended		Financial year ended	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Basic earnings per share				
Profit for the financial period (RM'000)	194,528	187,440	910,062	902,031
Weighted average number of ordinary shares in issue ('000)	285,530	285,530	285,530	285,530
Basic earnings per share (sen)	68.1	65.6	318.7	315.9

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 fourth 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, fourth interim dividend of 78.00 sen per share tax exempt under the single-tier tax system, amounting to RM222,713,400), payable on 24 March 2016, to all shareholders whose names appear on the Record of Depositors on 7 March 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 7 March 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

17 February 2016