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

**CONDENSED CONSOLIDATED INCOME STATEMENTS**
For the financial period ended 31 March 2016

| | Note | Financial period ended 31.03.2016 | 31.03.2015 |
|---|---|---|---|
| | | **RM'000** | **RM'000** |
| Revenue | | 1,021,012 | 1,274,071 |
| Cost of sales | | (667,455) | (821,132) |
| Gross profit | | 353,557 | 452,939 |
| Other operating income | | 669 | 873 |
| Operating expenses | | (119,108) | (126,347) |
| Profit from operations | | 235,118 | 327,465 |
| Finance cost | | (4,045) | (2,784) |
| Profit before tax | | 231,073 | 324,681 |
| Tax expense | **5** | (55,599) | (81,326) |
| Profit for the financial period | | 175,474 | 243,355 |
| | | | |
| Effective tax rate | | 24% | 25% |
| EPS | **21** | 61.5 | 85.2 |
| Net dividend per share (sen) | | | |
| - Interim 1 | **22** | 55.0 | 78.0 |

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

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

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
For the financial period ended 31 March 2016

| | Financial period ended | |
|---|---|---|
| | **31.03.2016** | **31.03.2015** |
| | **RM'000** | **RM'000** |
| Profit for the financial period | 175,474 | 243,355 |
| Other comprehensive income: | | |
| **Items that may be subsequently reclassified to profit or loss:** | | |
| Change in fair value of cash flow hedges | (3,824) | (2,150) |
| Deferred tax on fair value changes of cash flow hedges | 956 | 537 |
| Total other comprehensive income for the financial period | (2,868) | (1,613) |
| Total comprehensive income for the financial period | 172,606 | 241,742 |
| Attributable to: | | |
| Owners of the Company | 172,606 | 241,742 |

**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 31 March 2016

| | Issued and fully paid ordinary shares of 50 sen each | | Non-distributable | Distributable | |
|---|---|---|---|---|---|
| | Number of shares | Nominal value | Cash flow hedge reserve | 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 year | - | - | - | 175,474 | 175,474 |
| **Other comprehensive income for the financial year:** | | | | | |
| - changes in fair value of cash flow hedges | - | - | (3,824) | - | (3,824) |
| - deferred tax on fair value changes on cash flow hedges | - | - | 956 | - | 956 |
| | 285,530 | 142,765 | (2,510) | 578,974 | 719,229 |
| **Transaction with owners:** | | | | | |
| Dividend for financial year ended 31 December 2015 | | | | | |
| - Interim 4 | - | - | - | (222,713) | (222,713) |
| At 31 March 2016 | 285,530 | 142,765 | (2,510) | 356,261 | 496,516 |
| At 1 January 2015 | 285,530 | 142,765 | (2,885) | 384,290 | 524,170 |
| Profit for the financial year | - | - | - | 243,355 | 243,355 |
| **Other comprehensive income for the financial year:** | | | | | |
| - changes in fair value of cash flow hedges | - | - | (2,150) | - | (2,150) |
| - deferred tax on fair value changes on cash flow hedges | - | - | 537 | - | 537 |
| | 285,530 | 142,765 | (4,498) | 627,645 | 765,912 |
| **Transaction with owners:** | | | | | |
| Dividend for financial year ended 31 December 2014 | | | | | |
| - Interim 4 | - | - | - | (222,713) | (222,713) |
| At 31 March 2015 | 285,530 | 142,765 | (4,498) | 404,932 | 543,199 |

**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 31 March 2016

| | Note | As at 31.03.2016 RM'000 | As at 31.12.2015 RM'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | 285,637 | 291,894 |
| Computer software | | 436 | 490 |
| Goodwill | | 411,618 | 411,618 |
| Deferred tax assets | | 32,433 | 30,536 |
| | | 730,124 | 734,538 |
| **Current assets** | | | |
| Inventories | | 199,713 | 234,413 |
| Receivables | | 227,379 | 203,751 |
| Derivative financial instruments | | 17 | 5,089 |
| Tax recoverable | | 398 | 398 |
| Deposits, cash and bank balances | | 38,466 | 28,811 |
| | | 465,973 | 472,462 |
| **Current liabilities** | | | |
| Payables | | 334,548 | 304,717 |
| Deferred income | | 2,058 | 2,606 |
| Derivative financial instruments | | 5,931 | 10,736 |
| Current tax liabilities | | 17,445 | 3,368 |
| Borrowings | 10 | 305,000 | 305,000 |
| | | 664,982 | 626,427 |
| **Net current liabilities** | | (199,009) | (153,965) |
| | | 531,115 | 580,573 |
| **Capital and reserves** | | | |
| Share capital | | 142,765 | 142,765 |
| Cash flow hedge reserve | | (2,510) | 358 |
| Retained earnings | | 356,261 | 403,500 |
| **Shareholders' funds** | | 496,516 | 546,623 |
| **Non-current liabilities** | | | |
| Deferred income | | 310 | 413 |
| Deferred tax liabilities | | 34,289 | 33,537 |
| | | 531,115 | 580,573 |
| Net assets per share (RM) | | 1.74 | 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 31 March 2016

| | Financial period ended 31.03.2016 | Financial period ended 31.03.2015 |
|---|---|---|
| | RM'000 | RM'000 |
| **Operating activities** | | |
| Cash receipts from customers | 997,387 | 1,146,739 |
| Cash paid to suppliers and employees | (737,976) | (761,059) |
| Cash from operations | 259,411 | 385,680 |
| Income tax paid | (20,618) | (51,749) |
| Net cash flow from operating activities | 238,793 | 333,931 |
| **Investing activities** | | |
| Property, plant and equipment | | |
| - additions | (3,129) | (1,077) |
| - disposals | 23 | 49 |
| Interest income received | 726 | 873 |
| Net cash flow used in investing activities | (2,380) | (155) |
| **Financing activities** | | |
| Dividends paid to shareholders | (222,713) | (222,713) |
| Interest expense paid | (4,045) | (2,784) |
| Repayment of revolving credit | - | (20,000) |
| Net cash flow used in financing activities | (226,758) | (245,497) |
| **Increase in cash and cash equivalents** | 9,655 | 88,279 |
| **Cash and cash equivalents as at 1 January** | 28,811 | 4,024 |
| **Cash and cash equivalents as at 31 March** | 38,466 | 92,303 |

**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

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 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/ Financial period ended | |
|---|---|---|
| | **31.3.2016** | **31.3.2015** |
| | **RM'000** | **RM'000** |
| In respect of current year: | | |
| Malaysian income tax | 55,838 | 88,616 |
| Deferred tax charge | (239) | (7,290) |
| | 55,599 | 81,326 |

The average effective tax rate of the Group for the financial period ended 31 March 2016 is 24.1% and average effective tax rate of the Group for the financial period ended 31 March 2015 of 25.0%. The decrease is due to the change in statutory tax rate from 25% in 2015 to 24% in 2016.

6. Notes to the Statements of Comprehensive Income

| | 3 months/ Financial period ended | |
|---|---|---|
| | **31.03.2016** | **31.03.2015** |
| | **RM'000** | **RM'000** |
| Interest income | (726) | (873) |
| Interest expense | 4,045 | 2,784 |
| Depreciation and amortization | 9,359 | 10,604 |
| (Gain)/Loss on disposal of property, plant and equipment | 57 | - |
| Provision for and write-off of receivables | 63 | 341 |
| Provision for and write-off of inventory | 64 | 1,781 |
| Net foreign exchange (gain)/loss | 2,671 | (1,414) |
| (Gain)/loss on derivatives | (2,744) | 1,928 |

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 20 April 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 March 2016 are as follows:

| **Current** | **RM’000** |
|---|---|
| 2 weeks revolving credit maturing on 4th April 2016 | 20,000 |
| 1 month revolving credit maturing on 11th April 2016 | 30,000 |
| 3 months revolving credit maturing on 26th April 2016 | 20,000 |
| 3 months revolving credit maturing on 30th May 2016 | 60,000 |
| 3 months revolving credit maturing on 31st May 2016 | 120,000 |
| 3 months revolving credit maturing on 7th June 2016 | 55,000 |
| | 305,000 |

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 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 the 2nd quarter of 2016.

As such, with respect to this matter, no provision for this demand has been made to the Q1 2016 results. There were no other contingent liabilities or contingent assets as at 20 April 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 31 March 2016 are as follows:

| Property, plant and equipment: | **RM'000** |
|---|---|
| Authorised by the Directors and contracted for | 3,353 |
| Authorised by the Directors but not contracted for | 22,479 |
| | 25,832 |

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 31.03.2016 RM'000** | **As at 31.12.2015 RM'000** |
|---|---|---|
| Total retained profits of British American Tobacco (Malaysia) Berhad and its subsidiaries | | |
| - Realised profits | 491,803 | 536,857 |
| - Unrealised loss | (4,919) | (2,420) |
| Less: Consolidation Adjustments | (130,623) | (130,937) |
| Total retained profits | 356,261 | 403,500 |

The unrealised portion within unappropriated profits (retained earnings) as at 31 March 2016 predominantly relates to net deferred tax liability of RM1.9 million and unrealised foreign exchange loss of RM3.1 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 20 April 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

During the first quarter of 2016, the Group's volumes saw the full quarter impacted by the excise led price increase in November 2015, declining 7.7% versus the fourth quarter of 2015. This decline was driven by the Domestic business, where volumes dropped 11.1% versus the previous quarter.

During the first quarter of 2016, Contract Manufacturing volumes declined 6.0% versus the preceding quarter.

As a consequence of the weak volume performance revenue for the first quarter of the year was 3.5% lower than previous quarter. However, productivity savings and timing differences in expenditures could only partially offset the volume decline, translating into a Gross Profit reduction of 5.0% when compared to the fourth quarter of 2015.

Operating Expenses during the first quarter of 2016 were 20.9% above the preceding quarter, predominantly due to timing of administrative and marketing expenditure behind brand and trade initiatives.

Profit from Operations in the first quarter of 2016 declined 14.2% (RM39 million) when compared to the previous quarter.

17. Review of Performance

On a March year to date basis, the Group's domestic volumes declined by 34.0% compared to the same period of last year, mainly as a consequence of the overall pressure on the legal industry following the November 2015 steep excise increase, which in turn has resulted in a significant increase in illegal cigarette incidence.

Volumes sold in the Duty Free business increased by 28.9% when compared to the first quarter of 2015.

Contract manufacturing volumes registered a large decline, resulting in a total reduction (cigarettes and non-cigarettes) of 36.2% versus same period of last year, largely attributed to lower demand from the Australian, Philippines, Singapore and Taiwan markets.

In terms of share of the legal market, as of March 2016 year to date, BAT Malaysia registered a 58.7% share of market, declining 2.3ppt versus full year 2015. This decline is attributed to down trading in the market after the November 2015 excise driven price increase that negatively impacted the Premium segment of the industry, and with that the Group's biggest brand (Dunhill).

Dunhill recorded a decline of 2.6ppt versus full year 2015 mainly attributed to Dunhill Full Flavour franchise (-2.3ppt vs full year 2015). The launch of Dunhill Reserve in January 2016 could only partially offset the decline in Dunhill family. Overall, Dunhill still maintains its clear No.1 position with a market share of 43.5%.

Within the Aspirational Premium segment, BAT Malaysia grew 0.7 share points versus full year 2015, driven by the solid and consistent performance of Peter Stuyvesant, which continued to grow and reached 6.4% share of market in the month of March 2016 (+0.8ppt vs. full year 2015). The launch of Peter Stuyvesant Remix in February 2016 also contributed to the share growth at 0.2% in March 2016.

Pall Mall recorded a slight decline closing at 4.4% share of market for year to date March 2016 (-0.1ppt vs full year 2015).

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 first quarter of 2016 declined 19.9% (RM253 million) and Gross Profit declined 21.9% (RM99 million), both when compared to first quarter of 2015.

Operating Expenses in the first quarter of 2016 were 5.7% (RM7 million) lower than in the first quarter of 2015, driven mainly by timing of administrative expenses.

As a result of the above, during the first quarter of 2016, the Group recorded a decline of 28.2% (RM92 million) and 28.8% (RM94 million) in Profit from Operations and Profit before Tax respectively, when compared to the first quarter of 2015.

Restructuring of Business Operations: On 17th March 2016, the Group announced that it will be restructuring its business operations by sourcing tobacco products for its domestic market from other BAT factories regionally and would cease its manufacturing operations located at Virginia Park, Jalan University, 46200, Petaling Jaya, Selangor. The winding down of factory operations will be carried out in stages and targeted to complete by the 2nd half of 2017.

The restructuring is in line with the Group’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 Group to sharpen its commercial capabilities whilst optimising the supply chain and transactional activities to ensure that the Group remains a competitive consumer-focused market leader.

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

The land upon which the factory operations are located will be disposed of by the Group by way of a public tender exercise. An independent real estate agent has been appointed by the Group to act for and on behalf of the Group to deal with all matters relating to the proposed disposal of the land. The public tender exercise is scheduled to complete on or about May 2016. An announcement in relation to the proposed disposal of land will be made after the sale and purchase agreement for the land is signed. Shareholders’ approval on the disposal will be sought in accordance with the Main Market Listing Requirement of Bursa Malaysia Securities Berhad.

As of 31st March 2016, the Group has not reflected any provision for restructuring, asset impairment or gain/loss from asset disposal. The winding down of the factory operations will be carried out in stages till 2nd half of 2017 and the Group is in the midst of reviewing the impact on its financial results.

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 steep excise increase in September 2014 and unprecedented excise increase in November 2015, as well as consumer down trading within the legal market. The escalating illegal cigarette trade will be the single most important challenge in 2016 for the legal tobacco industry. There has been a sharp increase in illegal cigarette trade incidence from 33.7% in 2014 to 45.6%, as recorded in the month of December 2015 (Source: Illicit Cigarette Study).

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 current high incidence of illegal cigarette trade.

The outlook of 2016 will be very much dependant on the recovery of the legal market.

21. Earnings Per Share

| | **3 months/ Financial period ended** | |
|---|---|---|
| **Basic earnings per share** | **31.3.2016** | **31.3.2015** |
| Profit for the financial period (RM'000) | 175,474 | 243,355 |
| Weighted average number of ordinary shares in issue ('000) | 285,530 | 285,530 |
| Basic earnings per share (sen) | 61.5 | 85.2 |

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 first 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, first interim dividend of 78.00 sen per share tax exempt under the single-tier tax system, amounting to RM222,713,400), payable on 27 May 2016, to all shareholders whose names appear on the Record of Depositors on 18 May 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 18 May 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
26 April 2016