

BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD

(Company No : 4372-M)

CONDENSED CONSOLIDATED INCOME STATEMENTS

For the financial period ended 31 March 2015

	Note	3 months ended/ financial period ended	
		31.03.2015	31.03.2014
		RM'000	RM'000
Revenue		1,274,071	1,154,310
Cost of sales		(821,132)	(747,263)
Gross profit		452,939	407,047
Other operating income		873	514
Operating expenses		(126,347)	(103,132)
Profit from operations		327,465	304,429
Finance cost		(2,784)	(3,243)
Profit before tax		324,681	301,186
Tax expense		(81,326)	(75,792)
Profit for the financial period		243,355	225,394
Basic & diluted earnings per share (sen)	21	85.2	78.9
Net dividend per share (sen) - Interim 1	22	78.0	75.0

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 31 March 2015

	3 months ended/ financial period ended	
	31.03.2015	31.03.2014
	RM'000	RM'000
Profit for the financial period	243,355	225,394
Other comprehensive income:		
Items that may be subsequently reclassified to profit or loss:		
Change in fair value of cash flow hedges	(2,150)	(1,108)
Deferred tax on fair value changes of cash flow hedges	537	277
Total other comprehensive income for the financial period	<u>(1,613)</u>	<u>(831)</u>
Total comprehensive income for the financial period	<u>241,742</u>	<u>224,563</u>
Attributable to:		
Shareholders' equity	<u>241,742</u>	<u>224,563</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 STATEMENTS OF CHANGES IN EQUITY

For the financial period ended 31 March 2015

	Issued and fully paid ordinary shares of 50 sen each		Non- distributable Cash flow hedge reserve	Distributable Retained earnings	Attributable to Shareholders' Equity Total
	Number of shares	Nominal value			
	'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	-	-	-	243,355	243,355
Other comprehensive income for the financial period:					
- changes in fair value of cash flow hedges	-	-	(2,150)	-	(2,150)
- deferred tax on fair value changes on cash flow hedges	-	-	537	-	537
	<u>285,530</u>	<u>142,765</u>	<u>(4,498)</u>	<u>627,645</u>	<u>765,912</u>
Transaction with owners:					
Dividend for financial year ended 31 December 2014					
- Interim 4	-	-	-	(222,713)	(222,713)
At 31 March 2015	<u>285,530</u>	<u>142,765</u>	<u>(4,498)</u>	<u>404,932</u>	<u>543,199</u>
At 1 January 2014	285,530	142,765	1,506	364,061	508,332
Profit for the financial year	-	-	-	225,394	225,394
Other comprehensive income for the financial year:					
- changes in fair value of cash flow hedges	-	-	(1,108)	-	(1,108)
- deferred tax on fair value changes on cash flow hedges	-	-	277	-	277
	<u>285,530</u>	<u>142,765</u>	<u>675</u>	<u>589,455</u>	<u>732,895</u>
Transaction with owners:					
Dividend for financial year ended 31 December 2013					
- Interim 4	-	-	-	(222,713)	(222,713)
At 31 March 2014	<u>285,530</u>	<u>142,765</u>	<u>675</u>	<u>366,742</u>	<u>510,182</u>

The Condensed Consolidated Statements of Changes in Equity should be read in conjunction with the Annual Audited Financial Statements of the Group for the year ended 31 December 2014.

BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD

(Company No : 4372-M)

CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 March 2015

		As at 31.03.2015	As at 31.12.2014
	Note	RM'000	RM'000
Non-current assets			
Property, plant and equipment		316,052	325,385
Computer software		839	1,034
Goodwill		411,618	411,618
Deferred tax assets		33,037	25,736
		<u>761,546</u>	<u>763,773</u>
Current assets			
Asset held for sale		4,540	4,540
Inventories		267,735	263,296
Receivables		299,679	236,011
Derivative financial instruments		1,135	1,522
Tax recoverable		-	449
Deposits, cash and bank balances		92,303	14,469
		<u>665,392</u>	<u>520,287</u>
Current liabilities			
Payables		386,222	268,300
Deferred income		2,478	3,304
Derivative financial instruments		7,461	6,155
Current tax liabilities		110,930	74,512
Borrowings	10	340,000	360,000
Bank overdraft		-	10,445
		<u>847,091</u>	<u>722,716</u>
Net current (liabilities)/assets		(181,699)	(202,429)
		<u>579,847</u>	<u>561,344</u>
Capital and reserves			
Share capital	9	142,765	142,765
Cash flow hedge reserve		(4,498)	(2,885)
Retained earnings		404,932	384,290
Shareholders' funds		543,199	524,170
Non-current liabilities			
Deferred income		3,019	3,019
Deferred tax liabilities		33,629	34,155
		<u>579,847</u>	<u>561,344</u>
Net assets per share (RM)		1.90	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 31 March 2015

	Financial period ended 31.03.2015	Financial period ended 31.03.2014
	RM'000	RM'000
Operating activities		
Cash receipts from customers	1,146,739	1,090,064
Cash paid to suppliers and employees	(761,059)	(788,741)
Cash from operations	<u>385,680</u>	<u>301,323</u>
Income taxes paid	(51,749)	(42,717)
Net cash flow from operating activities	<u>333,931</u>	<u>258,606</u>
Investing activities		
Property, plant and equipment		
- additions	(1,077)	(2,695)
- disposals	49	1,185
Additions of computer software	-	(4)
Interest income received	873	371
Net cash flow used in investing activities	<u>(155)</u>	<u>(1,143)</u>
Financing activities		
Dividends paid to shareholders	(222,713)	(222,713)
Interest expense paid	(2,784)	(3,817)
(Repayment)/Proceeds from revolving credit	(20,000)	(40,000)
Net cash flow used in financing activities	<u>(245,497)</u>	<u>(266,530)</u>
Increase/ (Decrease) in cash and cash equivalents	88,279	(9,067)
Cash and cash equivalents as at 1 January	<u>4,024</u>	<u>59,596</u>
Cash and cash equivalents as at 31 March	<u><u>92,303</u></u>	<u><u>50,529</u></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/ Financial period ended	
	31.03.2015	31.03.2014
	RM'000	RM'000
<u>In respect of current year:</u>		
Malaysian income tax	88,616	87,499
Deferred tax charge	(7,290)	(11,707)
	81,326	75,792

The average effective tax rate of the Group for the financial period ended 31 March 2015 is 25.0% and is in line with the average effective tax rate of the Group for the financial period ended 31 March 2014 of 25.2%.

6. Notes to the Statements of Comprehensive Income

	3 months/ Financial period ended	
	31.03.2015	31.03.2014
	RM'000	RM'000
Interest income	(873)	(371)
Interest expense	2,784	3,817
Depreciation and amortization	10,604	14,162
(Gain)/Loss on disposal of property, plant and equipments	-	(143)
Provision for and write-off of receivables	341	116
Provision for and write-off of inventory	1,781	291
Net foreign exchange (gain)/loss	(1,414)	(523)
(Gain)/loss on derivatives	1,928	(269)

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 21 April 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 31 March 2015 are as follows:

Current	RM'000
2 weeks revolving credits maturing on 6 April 2015	340,000
	<hr/>
	340,000

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 date for the Judicial Review application would most likely be in quarter 2 2015.

As such, with respect to this matter, no provision for this demand has been made to the quarter 1 2015 results. There were no other contingent liabilities or contingent assets as at 21 April 2015 (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 March 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	8,427
	<u>8,427</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 31.03.2015 RM'000	As at 31.12.2014 RM'000
Total retained profits of British American Tobacco (Malaysia) Berhad and its subsidiaries		
- Realised profits	537,469	522,090
- Unrealised loss	(1,267)	(6,529)
Less: Consolidation Adjustments	(131,270)	(131,271)
Total retained profits	<u>404,932</u>	<u>384,290</u>

The unrealised portion within unappropriated profits (retained earnings) as at 31 March 2015 predominantly relates to net deferred tax liability of RM550,000 and unrealised foreign exchange gain of RM717,000.

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 21 April 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 (Quarter 1 2015 vs. Quarter 4 2014)

Revenue in the first quarter of 2015 was 5.7% higher than in the previous quarter driven by a 1.5% increase in domestic and duty free volumes, and by the impact of the excise led price increase in the domestic market in November 2014.

Higher cost of sales as a consequence of this excise increase, and the inflationary pressure on raw materials, translated into a Gross Profit growth of 1.8% when compared to the preceding quarter.

In terms of Operating Expenses, quarter 1 2015 registered a reduction versus quarter 4 2014 of 28.9% (RM51mil). This quarterly reduction is principally attributed to the timing of marketing expenditure (trade related: RM19mil, brand related: RM14mil) and, to a lesser extent, to the absence of material one-off costs associated with the discontinuation of cigarette ration to employees (RM8mil) registered in quarter 4 2014.

Gross Profit performance combined with the lower Operating Expenses for the quarter resulted in an increase of 21.9% (RM59mil) in Profit from Operations when compared to fourth quarter of last year.

17. Review of Performance

As of first quarter 2015, BAT Malaysia Group registered a 61.1% share of market, declining 0.1ppt versus full year 2014. This represents a commendable share performance despite the price increase in the fourth quarter of 2014.

Dunhill recorded a decline of 0.6ppt versus full year 2014 mainly as a consequence of Dunhill Full Flavour franchise (-1.1ppt vs. full year 2014). The launch of Dunhill Zest in January 2015, as well as the continued growth of the Dunhill Taste family, contributed to the marginal share growth for the innovative range, partially offsetting the share loss in the Full Flavour franchise. Overall, Dunhill maintains its clear No.1 position in the market with a market share of 46.4%.

Within the Aspirational Premium segment, BAT Malaysia Group grew its market share by 0.9ppt versus full year 2014, driven by Peter Stuyvesant. Peter Stuyvesant continues to grow and share gains have been consistently recorded on a monthly basis (currently at 5.2% share of market). Pall Mall remains stable at 4.5% share of market.

On a March year to date basis, the Group's domestic and duty free volumes marginally declined 0.4% when compared to the same period of last year. Despite the negative impact of the November 2014 excise led price increase, this strong volume performance was mainly driven by the abnormal demand by customers and consumers in advance of the GST implementation.

Contract manufacturing volumes declined 4.8% as compared to quarter 1 2014, largely due to declining volumes sold to the Australian market.

Mainly on the back of the Domestic and Duty Free business, this volume increase translated into a revenue growth of 10.4% (RM120mil). This was partially offset by higher cost of sales as a consequence of: a) inflationary increases on raw materials, b) the impact of the November

2014 Excise increase and, c) one-off expenses associated with business restructuring mainly on the production area as a consequence of overall volume decline.

As a result of the above, Gross Profit in quarter 1 2015 increased by 11.3% (RM46mil) when compared to same quarter of last year.

Operating Expenses in the first quarter of 2015 were 22.5% (RM23mil) higher than same period last year, driven mainly by timing of marketing expenditure, one-off business restructuring costs, and, to a lesser extent, by the impact of inflation on the overall cost structure.

Despite the increase in Operating Expenses, the higher Gross Profit recorded this quarter was the main contributor behind the increase in Profit from Operations and Profit After Tax of 7.6% (RM23mil) and 8.0% (RM18mil) respectively, both when compared to the first quarter of 2014.

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 is continuously monitoring the impact that the economic situation, within and outside Malaysia, may have on consumer disposable incomes. This includes the implementation of the Goods and Services Tax on 1 April 2015 on the domestic economy.

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 is very encouraged by the relentless enforcement efforts taken by Royal Malaysian Customs in 2014 in addressing the illegal cigarettes trade. Their enforcement actions have proven to be effective and instrumental in driving a sharp 6.1ppt reduction of the share of illegal cigarettes trade from 38.9% in quarter 4 2013 to 32.8%, as recorded in the last reading in 2014 (Source: Illicit Cigarette Study).

Despite the challenges mentioned above, the Group remains cautiously optimistic for the remainder of the year.

21. Earnings Per Share

Basic earnings per share	3 months/ Financial period ended	
	31.03.2015	31.03.2014
Profit for the financial period (RM'000)	243,355	225,394
Weighted average number of ordinary shares in issue ('000)	285,530	285,530
Basic earnings per share (sen)	85.2	78.9

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 first 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, first interim dividend of 75.00 sen per share tax exempt under the single-tier tax system, amounting to RM214,147,500), payable on 28 May 2015, to all shareholders whose names appear on the Record of Depositors on 18 May 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 18 May 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 April 2015