

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

CONDENSED CONSOLIDATED INCOME STATEMENTS
For the financial year ended 30 June 2014

	Note	3 months ended		Financial year ended	
		30.06.2014	30.06.2013	30.06.2014	30.06.2013
		RM'000	RM'000	RM'000	RM'000
Revenue		1,226,165	1,156,646	2,380,475	2,252,385
Cost of sales		(797,103)	(780,492)	(1,544,366)	(1,521,269)
Gross profit		429,062	376,154	836,109	731,116
Other operating income		342	50	856	635
Operating expenses		(93,935)	(89,021)	(197,067)	(165,943)
Profit from operations		335,469	287,183	639,898	565,808
Finance cost		(5,052)	(5,447)	(8,295)	(10,075)
Profit before tax		330,417	281,736	631,603	555,733
Tax expense	5	(82,321)	(70,913)	(158,113)	(140,706)
Profit for the financial period		248,096	210,823	473,490	415,027
Earnings per share - basic (sen)	21	86.9	73.8	165.8	145.4
Earnings per share - diluted (sen)	21	86.9	73.8	165.8	145.4
Net dividend per share (sen)					
- Interim 1	22			75.0	68.0
- Interim 2	22	78.0	68.0	78.0	68.0

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 2013.

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the financial period ended 30 June 2014

	3 months ended		Financial period ended	
	30.06.2014	30.06.2013	30.06.2014	30.06.2013
	RM'000	RM'000	RM'000	RM'000
Profit for the financial period	248,096	210,823	473,490	415,027
Other comprehensive income:				
Items that may be subsequently reclassified to profit or loss				
Change in fair value of cash flow hedges	979	1,590	(129)	(605)
- deferred tax on fair value changes of cash flow hedges	(245)	(398)	32	151
Total other comprehensive income for the financial period	<u>734</u>	<u>1,192</u>	<u>(97)</u>	<u>(454)</u>
Total comprehensive income for the financial period	<u>248,830</u>	<u>212,015</u>	<u>473,393</u>	<u>414,573</u>
Attributable to:				
Shareholders' equity	<u>248,830</u>	<u>212,015</u>	<u>473,393</u>	<u>414,573</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 2013.

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

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the financial period ended 30 June 2014

	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 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
	<u>285,530</u>	<u>142,765</u>	<u>1,409</u>	<u>837,551</u>	<u>981,725</u>
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	<u>285,530</u>	<u>142,765</u>	<u>1,409</u>	<u>400,691</u>	<u>544,865</u>
At 1 January 2013	285,530	142,765	525	341,606	484,896
Profit for the financial year	-	-	-	415,027	415,027
Other comprehensive income for the financial period:					
- changes in fair value of cash flow hedges	-	-	(605)	-	(605)
- deferred tax on fair value changes on cash flow hedges	-	-	151	-	151
	<u>285,530</u>	<u>142,765</u>	<u>71</u>	<u>756,633</u>	<u>899,469</u>
Transaction with owners:					
Dividend for financial year ended 31 December 2012					
- Interim 4	-	-	-	(219,858)	(219,858)
Dividend for financial year ending 31 December 2013					
- Interim 1	-	-	-	(194,160)	(194,160)
At 30 June 2013	<u>285,530</u>	<u>142,765</u>	<u>71</u>	<u>342,615</u>	<u>485,451</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 2013.

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

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2014

	As at 30.06.2014	As at 31.12.2013
	RM'000	RM'000
Non-current assets		
Property, plant and equipment	352,464	380,736
Computer software	1,528	1,970
Goodwill	411,618	411,618
Deferred tax assets	24,344	10,806
	789,954	805,130
Current assets		
Asset held for sale	4,605	4,605
Inventories	303,147	293,979
Receivables	234,736	200,469
Derivative financial instruments	2,392	7,286
Deposits, cash and bank balances	25,290	59,596
	570,170	565,935
Current liabilities		
Payables	252,022	232,172
Deferred income	3,304	3,304
Derivative financial instruments	1,358	3,622
Current tax liabilities	154,547	69,849
Borrowings	360,000	510,000
	771,231	818,947
Net current (liabilities) / assets	(201,061)	(253,012)
	588,893	552,118
Capital and reserves		
Share capital	142,765	142,765
Cash flow hedge reserve	1,409	1,506
Retained earnings	400,691	364,061
Shareholders' funds	544,865	508,332
Non-current liabilities		
Deferred income	4,670	6,324
Deferred tax liabilities	39,358	37,462
	588,893	552,118
Net assets per share (RM)	1.91	1.78

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 2013.

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

CONDENSED CONSOLIDATED CASH FLOW STATEMENTS

For the financial period ended 30 June 2014

	Financial period ended 30.06.2014	Financial period ended 30.06.2013
	RM'000	RM'000
Operating activities		
Cash receipts from customers	2,346,208	2,195,744
Cash paid to suppliers and employees	(1,703,416)	(1,700,112)
Cash from operations	<u>642,792</u>	<u>495,632</u>
Income taxes paid	(85,057)	(105,088)
Net cash flow from operating activities	<u>557,735</u>	<u>390,544</u>
Investing activities		
Property, plant and equipment		
- additions	(9,611)	(6,397)
- disposals	12,012	2,005
Additions of computer software	-	(1,211)
Interest income received	713	635
Net cash flow from investing activities	<u>3,114</u>	<u>(4,968)</u>
Financing activities		
Dividends paid to shareholders	(436,860)	(414,018)
Interest expense paid	(8,295)	(10,350)
(Repayment)/Proceeds from revolving credit	(150,000)	(15,000)
Net cash flow used in financing activities	<u>(595,155)</u>	<u>(439,368)</u>
Decrease in cash and cash equivalents	(34,306)	(53,792)
Cash and cash equivalents as at 1 January	59,596	78,391
Cash and cash equivalents as at 30 June	<u>25,290</u>	<u>24,599</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 2013.

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 2013.

The audited financial statements of the Group for the year ended 31 December 2013 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 2013.

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 2013 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.

For the full year 2013 the Group disclosed a contingent liability of RM10.2 million in respect of sales tax. On 16 April 2014 the Group received a bill of demand for RM12.9 million. The Group’s original estimate was conservative and did not include any penalties given the Royal Malaysian Customs had taken over fourteen months to respond on the matter.

Additionally, see note 11 below.

British American Tobacco (Malaysia) Berhad

5. Taxation

Taxation comprises:

	3 months ended		Financial period ended	
	30.06.2014	30.06.2013	30.06.2014	30.06.2013
	RM'000	RM'000	RM'000	RM'000
<u>In respect of current year</u>				
Current tax				
- Malaysian income tax	82,223	70,330	169,722	139,042
Deferred tax charge/ (credit)	98	583	(11,609)	1,664
	<u>82,321</u>	<u>70,913</u>	<u>158,113</u>	<u>140,706</u>

The average effective tax rate of the Group for the financial period ended 30 June 2014 is 25.0%. This is in line with the average effective tax rate of the Group for the financial period ended 30 June 2013 of 25.3%.

6. Notes to the Statements of Comprehensive Income

	3 months ended		Financial period ended	
	30.06.2014	30.06.2013	30.06.2014	30.06.2013
	RM'000	RM'000	RM'000	RM'000
Interest income	(342)	(50)	(713)	(635)
Interest expense	4,478	5,447	8,295	10,075
Depreciation and amortization	10,102	13,396	24,264	26,729
(Gain)/Loss on disposal of property, plant and equipments	(45)	56	(188)	56
Provision for and write-off of receivables	625	164	741	289
Provision for and write-off / (write-back) of inventory	(6)	(1,368)	285	130
Net foreign exchange (gain)/loss	1,109	(2,407)	586	(1,531)
Loss on derivatives	1,064	2,848	795	3,269

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 15 July 2014 (the latest practicable date which shall not be earlier than 7 days from the date of issue of this quarterly report).

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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 2014 are as follows:

Current	RM'000
2-weeks revolving credits maturing on 11 July 2014	110,000
5-year medium-term notes 2009/2014 with a coupon rate of 4.48% per annum, maturing on 15 August 2014	250,000
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	360,000
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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 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 from Royal Malaysian Customs. 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 appropriate appeal and legal channels.

As such, with respect to this matter, no adjustment has been made to the Q2 2014 results.

There were no other contingent liabilities or contingent assets as at 15 July 2014 (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 2014 are as follows:

Property, plant and equipment:	RM'000
- Authorised by the Directors and contracted for	-
- Authorised by the Directors but not contracted for	9,097
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	9,097
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British American Tobacco (Malaysia) Berhad

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 30.06.2014 RM'000	As at 31.12.2013 RM'000
Total retained profits of British American Tobacco (Malaysia) Berhad and its subsidiaries		
- Realised profit	548,159	523,415
- Unrealised loss	(15,985)	(27,770)
Less: Consolidation Adjustments	(131,483)	(131,584)
Total retained profits	<u>400,691</u>	<u>364,061</u>

The unrealised portion within unappropriated profits (retained earnings) as at 30 June 2014 predominantly relates to net deferred tax liability of RM15,014,000.

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 15 July 2014 (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

Revenue in the second quarter of 2014 was 6.2% higher than the preceding quarter, mainly driven by a +5.9% increase in domestic and duty free volumes, and by a +20% growth in contract manufacturing volumes.

As a consequence of the flow through impact of the higher volume, Gross Profit recorded an increase of 5.4% when compared to first quarter of 2014. At the same time, Operating expenses were 8.9% lower than the previous quarter, situation that can be attributed predominantly to the timing of marketing expenditure.

Higher Gross Profit combined with lower Operating Expenses resulted in Profit from Operations being +10.2% ahead of first quarter of the year.

17. Review of Performance

YTD May 2014, BAT Malaysia's market share remained almost flat (decline of 0.1ppt versus same period last year), reaching 61.7% despite the large excise driven price increase in September 2013 that translated into further pressure for our Premium portfolio.

Dunhill recorded a share increase of +0.1ppt (SOM of 47.6%), with growth being observed in the lights and menthol variants that managed to more than offset the decline of its full flavour franchise. Peter Stuyvesant continued on a strong growth momentum following the introduction of the Resealable Reloc feature in 2013, achieving a market share increase of +0.8ppt ahead of the corresponding period in 2013 (SOM of 3.9%). On a different note, Pall Mall did not manage to show a positive performance in terms of market share declining -0.7ppt when compared to same period last year.

On a June YTD basis, BAT Malaysia has experienced an overall -5.5% decline in domestic and duty free volumes. This decline is driven by the overall reduction in the legal market consumption post the excise led price increase in September 2013. Contract manufacturing volume for YTD June 2014 was notably weak, down 18.4% when compared to the same period last year, largely due to the partial reallocation of volumes from Japan to another manufacturing facility and lower demand from the Philippines.

Despite the decline of domestic and contract manufacturing volumes versus SPLY, total revenue grew 5.7% as compared to the same period in 2013. This was largely attributed to the cumulative effect of the June 2013 price increase and the September 2013 excise led price increase on the domestic business, partially offset by a 14.9% decline versus SPLY in the contract manufacturing revenue.

As a consequence of the dynamics mentioned above, Gross Profit recorded a +14.4% increase when compared to the same period of last year.

Operating Expenses were higher by +18.8% versus the same period of last year, reflecting an increase in investment behind Brand and Trade retail contracts and activation programmes, and to a lesser extent, the impact of inflation on the overall cost structure.

Higher Gross Profit, coupled with the lower Operating Expenses in the comparative period in 2013, resulted in +13.7% (RM76 million) and +14.1% (RM58 million) increase in Q2 YTD versus SPLY in Profit Before Tax and Profit After 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 reiterates its concern for the overall decline in the legal market due largely to the impact of illegal cigarette trade, but is encouraged by the robust enforcement actions taken by Royal Malaysia Customs in addressing illegal cigarettes trade that started in the first quarter of the year. The performance of the Company in 2014 will continue to be dependent on the effectiveness and sustainability of enforcement activities against the illegal cigarettes trade.

Despite the circumstances and the ongoing business challenges, the Group is pleased with its first half performance and remains cautiously optimistic for the year ahead subject to the factors outlined above.

21. Earnings Per Share

	3 months ended		Financial period ended	
	30.06.2014	30.06.2013	30.06.2014	30.06.2013
Basic earnings per share				
Profit for the financial period (RM'000)	248,096	210,823	473,490	415,027
Weighted average number of ordinary shares in issue ('000)	285,530	285,530	285,530	285,530
Basic earnings per share (sen)	86.9	73.8	165.8	145.4

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 2014 (for the financial year ended 31 December 2013, second interim dividend of 68.00 sen per share tax exempt under the single-tier tax system, amounting to RM194,160,400), payable on 29 August 2014, to all shareholders whose names appear on the Register of Members and Record of Depositors on 11 August 2014.

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 11 August 2014, 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.

British American Tobacco (Malaysia) Berhad

By Order of the Board

DAVID CHIAM JOY YEOW (LS0009734)

Company Secretary

Petaling Jaya

22 July 2014