

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

CONDENSED CONSOLIDATED INCOME STATEMENTS

For the financial year ended 31 December 2014

	Note	3 months ended		Financial year ended	
		31.12.2014	31.12.2013	31.12.2014	31.12.2013
		RM'000	RM'000	RM'000	RM'000
Revenue		1,205,606	1,093,453	4,795,991	4,517,222
Cost of sales		(760,589)	(705,886)	(3,084,147)	(2,995,331)
Gross profit		445,017	387,567	1,711,844	1,521,891
Other operating income		1,231	816	3,489	1,990
Operating expenses		(177,581)	(128,750)	(480,955)	(397,784)
Profit from operations		268,667	259,633	1,234,378	1,126,097
Finance cost		(2,724)	(5,332)	(15,581)	(20,698)
Profit before tax		265,943	254,301	1,218,797	1,105,399
Tax expense	5	(78,503)	(65,215)	(316,766)	(281,959)
Profit for the financial period		187,440	189,086	902,031	823,440
Effective tax rate		29.5%	25.6%	26.0%	25.5%
EPS	21	65.6	66.2	315.9	288.4
- Interim 1		-	-	75.0	68.0
- Interim 2		-	-	78.0	68.0
- Interim 3		-	-	78.0	68.0
- Interim 4		78.0	78.0	78.0	78.0
		78.0	78.0	309.0	282.0

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 year ended 31 December 2014

	3 months ended		Financial year ended	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
	RM'000	RM'000	RM'000	RM'000
Profit for the financial period	187,440	189,086	902,031	823,440
Other comprehensive income:				
Items that will not be reclassified to profit or loss:				
Defined benefit plan actuarial gain	-	1,801	-	1,801
Deferred tax on defined benefit plan actuarial gain/ (loss)	485	(450)	485	(450)
Items that may be subsequently reclassified to profit or loss:				
Change in fair value of cash flow hedges	(3,200)	(675)	(5,855)	1,308
Deferred tax on fair value changes of cash flow hedges	800	169	1,464	(327)
Total other comprehensive income for the financial period	(1,915)	845	(3,906)	2,332
Total comprehensive income for the financial period	185,525	189,931	898,125	825,772
Attributable to:				
Owners of the Company	185,525	189,931	898,125	825,772

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 STATEMENT OF CHANGES IN EQUITY
For the financial year ended 31 December 2014

	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 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:						
- deferred tax on defined benefit plan	-	-	-	-	485	485
- 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
	<u>285,530</u>	<u>142,765</u>	<u>(2,885)</u>	<u>-</u>	<u>1,266,577</u>	<u>1,406,457</u>
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	<u>285,530</u>	<u>142,765</u>	<u>(2,885)</u>	<u>-</u>	<u>384,290</u>	<u>524,170</u>
At 1 January 2013	285,530	142,765	525	-	341,606	484,896
Profit for the financial year	-	-	-	-	823,440	823,440
Other comprehensive income for the financial year:						
- changes in fair value of cash flow hedges	-	-	1,308	-	-	1,308
- defined benefit plan actuarial gain	-	-	-	-	1,801	1,801
- deferred tax on fair value changes on cash flow hedges	-	-	(327)	-	-	(327)
- deferred tax on defined benefit plan	-	-	-	-	(450)	(450)
	<u>285,530</u>	<u>142,765</u>	<u>1,506</u>	<u>-</u>	<u>1,166,397</u>	<u>1,310,688</u>
Transaction with owners:						
Expense arising from equity-settled share based payment transactions	-	-	-	3,475	-	3,475
Recharge of share based payment	-	-	-	(3,475)	-	(3,475)
Dividend for financial year ended 31 December 2012						
- Interim 4	-	-	-	-	(219,858)	(219,858)
Dividends for financial year ended 31 December 2013						
- Interim 1	-	-	-	-	(194,160)	(194,160)
- Interim 2	-	-	-	-	(194,160)	(194,160)
- Interim 3	-	-	-	-	(194,158)	(194,158)
At 31 December 2013	<u>285,530</u>	<u>142,765</u>	<u>1,506</u>	<u>-</u>	<u>364,061</u>	<u>508,332</u>

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 2013.

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

CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 December 2014

	Note	As at 31.12.2014 RM'000	As at 31.12.2013 RM'000
Non-current assets			
Property, plant and equipment		325,385	380,736
Computer software		1,034	1,970
Goodwill		411,618	411,618
Deferred tax assets		25,736	10,806
		<u>763,773</u>	<u>805,130</u>
Current assets			
Assets held for sale		4,540	4,605
Inventories		263,296	293,979
Receivables		236,011	200,469
Derivative financial instruments		1,522	7,286
Tax recoverable		449	-
Deposits, cash and bank balances		14,469	59,596
		<u>520,287</u>	<u>565,935</u>
Current liabilities			
Payables		268,300	232,172
Deferred income		3,304	3,304
Derivative financial instruments		6,155	3,622
Current tax liabilities		74,512	69,849
Borrowings	10	360,000	510,000
Bank overdraft		10,445	-
		<u>722,716</u>	<u>818,947</u>
Net current liabilities		(202,429)	(253,012)
		<u>561,344</u>	<u>552,118</u>
Capital and reserves			
Share capital		142,765	142,765
Cash flow hedge reserve		(2,885)	1,506
Retained earnings		384,290	364,061
Shareholders' funds		<u>524,170</u>	<u>508,332</u>
Non-current liabilities			
Deferred income		3,019	6,324
Deferred tax liabilities		34,155	37,462
		<u>561,344</u>	<u>552,118</u>
Net assets per share (RM)		1.84	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 STATEMENT

For the financial year ended 31 December 2014

	Financial year ended 31.12.2014	Financial year ended 31.12.2013
	RM'000	RM'000
Operating activities		
Cash receipts from customers	4,760,449	4,512,472
Cash paid to suppliers and employees	(3,453,454)	(3,407,769)
Cash from operations	<u>1,306,995</u>	<u>1,104,703</u>
Income tax paid	(328,840)	(287,069)
Net cash flow from operating activities	<u>978,155</u>	<u>817,634</u>
Investing activities		
Property, plant and equipment		
- additions	(25,309)	(35,319)
- disposals	37,026	9,780
Disposal of investment property	-	200
Disposal of assets held for sale	-	1,250
Additions of computer software	(4)	(484)
Interest income received	<u>2,428</u>	<u>1,178</u>
Net cash flow from/(used in) investing activities	<u>14,141</u>	<u>(23,395)</u>
Financing activities		
Dividends paid to shareholders	(882,287)	(802,336)
Interest expense paid	(15,581)	(20,698)
Repayment of Medium Term Notes	(250,000)	-
Proceeds from revolving credit	<u>100,000</u>	<u>10,000</u>
Net cash flow used in financing activities	<u>(1,047,868)</u>	<u>(813,034)</u>
Decrease in cash and cash equivalents	(55,572)	(18,795)
Cash and cash equivalents as at 1 January	59,596	78,391
Cash and cash equivalents as at 31 December	<u>4,024</u>	<u>59,596</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 year ended	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
	RM'000	RM'000	RM'000	RM'000
<u>In respect of current year</u>				
Current tax				
- Malaysian income tax	66,306	55,832	321,287	269,945
Deferred tax				
charge/(credit)	430	7,820	(16,288)	10,451
<u>In respect of prior years</u>				
Under provision in respect				
of prior years				
- Malaysian income tax	11,767	1,563	11,767	1,563
	<u>78,503</u>	<u>65,215</u>	<u>316,766</u>	<u>281,959</u>

The average effective tax rate of the Group for the financial year ended 31 December 2014 is 26%, which was higher than the statutory tax rate of 25% mainly due to under provision in respect of prior year income tax.

The average effective tax rate of the Group for the financial year ended 31 December 2013 was 25.5%, which was higher than the statutory tax rate of 25% mainly due to non-deductibility of interest expense following the Group's move to the single tier tax system.

6. Notes to the Statements of Comprehensive Income

	3 months ended		Financial year ended	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
	RM'000	RM'000	RM'000	RM'000
Interest income	(653)	(4)	(2,428)	(1,178)
Interest expense	2,724	5,332	15,581	20,698
Depreciation and amortization	9,739	12,966	45,047	57,440
(Gain)/Loss on disposal of				
property, plant and equipment	(302)	(1,430)	(473)	(812)
Provision for write-off/(write-back)				
of receivables	23	(1,321)	221	(1,215)
Provision for and (write-				
back)/write-off of inventory	(334)	5,426	546	5,813
Foreign exchange (gain)/loss	(3,551)	(415)	(2,929)	(5,536)
(Gain)/Loss on derivatives	(359)	2,683	1,640	396

7. Changes in Composition of the Group

On 21 August 2014, the entire issued and paid-up share capital of Commercial Marketers and Distributors Sdn Bhd ("CMD") which comprise of 73,906,000 ordinary shares of RM1.00 was transferred from Commercial Importers and Distributors Sdn Bhd ("CID") to the Company at a cash consideration of RM1.00 only ("Internal Share Transfer").

The Internal Share Transfer was part of the measure to streamline the corporate structure of BATM Group. CMD was previously a wholly-owned subsidiary of CID which in turn was a wholly-owned subsidiary of BATM. Upon completion of the Internal Share Transfer, CMD became a wholly-owned subsidiary of BATM. CID will then be wound up via members' voluntary winding up.

The Internal Share Transfer does not have any financial and operational impact on the Group for the financial year ending 31 December 2014. None of the Directors and/or major shareholders and/or persons connected with them has any interest, direct or indirect in the Internal Share Transfer.

8. Corporate Proposals

There were no new corporate proposals announced as at 10 February 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

The Company fully redeemed the entire RM250 million Medium Term Notes (MTN) 2009/2014 with a coupon rate of 4.48% per annum on 15 August 2014, which was previously issued on 17 August 2009. With the said redemption, the Company would not have any outstanding MTN and hence, the entire MTN Programme was duly terminated.

10. Borrowings

The Group's borrowings as at 31 December 2014 are as follows:

Current	RM'000
2 weeks revolving credits maturing on 12th January 2015	140,000
3 months revolving credits maturing on 5th February 2015	220,000
	<hr/>
	360,000
	<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 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 the Royal Malaysian Customs. The Group stands

British American Tobacco (Malaysia) Berhad

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 Q2 2015.

As such, with respect to this matter, no provision for this demand has been made to the Q4 2014 results. There were no other contingent liabilities or contingent assets as at 10 February 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 31 December 2014 are as follows:

Property, plant and equipment:	RM'000
- Authorised and contracted for	-
- Authorised but not contracted for	5,587
	<u>5,587</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 31.12.2014 RM'000	As at 31.12.2013 RM'000
Total retained profits of British American Tobacco (Malaysia) Berhad and its subsidiaries		
- Realised profits	522,090	523,415
- Unrealised loss	(6,530)	(27,770)
Less: Consolidation Adjustments	(131,270)	(131,584)
Total retained profits	<u>384,290</u>	<u>364,061</u>

The unrealised portion within unappropriated profits (retained earnings) as at 31 December 2014 predominantly relates to net deferred tax liability of RM8.4 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 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 reviews 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 in the fourth quarter declined 5.9% as compared to the previous quarter, reflecting the impact of the November excise led price increase. In terms of contract manufacturing, volume registered a decline of 20.1% versus previous quarter, continuing the weaker trend in this area during 2014.

In spite of the volume decline Gross Profit grew 3.3% compared to the third quarter of the year. This was largely attributed to the price increase, which mitigated the impact of volume decline, as well as to lower cost of sales as a consequence of timing of expenditure and productivity savings.

Operating Expenses in the fourth quarter were significantly above the preceding quarter, predominantly due to higher marketing expenditure behind trade and brand initiatives and timing of spend, as well as the occurrence of one-off costs arising from the discontinuation of cigarette rations to employees.

As a consequence, Profit from Operations in the fourth quarter of 2014 declined 17.5% when compared to the previous quarter.

17. Review of Performance

The Group closed the year with a share of market of 61.2% (average) declining 0.7ppt versus same period last year driven by down trading in the market and weaker performance from Pall Mall and non-supported brands. With affordability concerns amongst consumers, pressure on the Premium portfolio was further heightened with the November excise-led price increase, where the Group raised prices by RM1.50 a pack across the portfolio.

Dunhill recorded a decline of 0.6ppt compared to the same period last year, mainly attributed to loss from Dunhill Full Flavour franchise, whilst other strategic product ranges including the recently launched Dunhill Taste contributed marginal share growth. Dunhill remains the No.1 brand in the market, with a market share of 47.0% on a full year basis.

Within the Aspirational Premium segment, the Group gained 0.3ppt year-on-year, driven by Peter Stuyvesant which recorded a strong 1.1ppt gain on a full year basis, compared against same period last year, to close at 4.3% SOM. The growth trajectory for Peter Stuyvesant remains positive, as the brand ended the year at 5.2% SOM in December 2014.

The growth seen from Peter Stuyvesant is however offset by Pall Mall which registered a share loss of 0.8ppt versus same period last year, to close at 4.5% SOM on a full year basis. It is encouraging to note that since the introduction of the "Resealable Reloc" in the second half of the year, the brand has stabilized at 4.4% SOM.

In summary, the Group's focus brands, namely, Dunhill, Peter Stuyvesant and Pall Mall, have shown a resilient performance considering the challenging environment in 2014, with only a

0.2ppt loss versus same period last year. The bigger part of the corporate share decline year-on-year (0.5ppt) came from non-supported brands in the portfolio.

Overall the Group's domestic and duty free sales volume declined by 3.7% in 2014 versus 2013. This decline was mainly driven by the overall reduction in the legal market consumption as a consequence of the excise led price increases in September 2013 and November 2014, and to a lesser extent to the market share loss outlined above.

On a full year basis, volume of cigarettes under contract manufacturing for the export business registered a steep decline, resulting in a reduction of total export volume (cigarettes and non cigarettes) of 14.8% versus 2013. One of the causes of this decline was the partial reallocation of volumes from Japan to another manufacturing facility, and a generally weaker demand from the Philippines.

In spite of the overall volume decline in both domestic and exports, total revenue grew 6.2% compared to 2013. This was driven by the cumulative pricing impact of the June 2013 price increase, and the excise led price increases in September 2013 and November 2014 within the Malaysian domestic market.

This, coupled with the absence of non-recurring leaf restructuring expenses registered in 2013 and the implementation of the additional productivity savings in the production process resulted in the Group delivering a 12.5% increase in Gross Profit in 2014 when compared to previous year.

In 2014, Operating Expenses were higher by 20.9% when compared to 2013 mainly as a consequence of the increase in investment behind brand activation programmes and trade retail contracts, one off cost related to discontinuation of cigarette rations to employees and the impact of inflation on overall cost. On a separate note, the repayment of the Medium Term Note in August 2014 resulted in a reduction of interest costs of 20% (RM5 million) versus previous year.

As a result, for 2014, the Group recorded a 9.6% (RM108million) and 10.3% (RM113 million) increase versus same period last year 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. During 2014, the Government announced an excise increase of 12% on 1st November 2014, after the National Budget.

20. Future Year's Prospects

The Group is currently 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.

The Group is very encouraged by the robust ongoing retail enforcement actions taken by Royal Malaysian Customs in addressing the illegal cigarettes trade that started in the first quarter of 2014.

These enforcement actions have proven to be effective and instrumental in driving a sharp 6.6ppt reduction of the share of illegal cigarettes trade from 38.9% in Quarter 4 2013 to 32.3%, as recorded in the last reading in 2014 (Source: Illicit Cigarette Study).

However, on an industry level, 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. The Group is therefore hopeful of the continuous enforcement actions by Royal Malaysian Customs.

Given the above challenges, the Group remains cautiously optimistic for the year ahead.

21. Earnings Per Share

	3 months ended		Financial year ended	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Basic earnings per share				
Profit for the financial period (RM'000)	187,440	189,086	902,031	823,440
Weighted average number of ordinary shares in issue ('000)	285,530	285,530	285,530	285,530
Basic earnings per share (sen)	65.6	66.2	315.9	288.4

The Group does not have in issue any financial instrument or other contract that may entitle its holders 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 2014 (for the financial year ended 31 December 2013, fourth interim dividend of 78.00 sen per share tax exempt under the single-tier tax system, amounting to RM222,713,400), payable on 26 March 2015, to all shareholders whose names appear on the Record of Depositors on 3 March 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 3 March 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

16 February 2015