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

On 17th March 2016, the Company 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 the manufacturing operations of its subsidiary, Tobacco Importers and Manufacturers Sdn Berhad ("TIM") 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 Company'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 Company to sharpen its commercial capabilities whilst optimising the supply chain and transactional activities to ensure that the Company remains a competitive consumer-focused market leader.

The winding down of the factory operations will affect approximately 230 employees who 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 and buildings upon which the factory operations are located will be disposed of by way of a public tender exercise. The Company subsequently made an announcement on 8th June 2016 that TIM entered into a conditional sale and purchase agreement with LGB Properties (M) Sdn. Bhd. to dispose the said property for a total consideration of RM218 million. The proposed disposal is subject to the approval of the shareholders of the Company and barring any unforeseen circumstances, is expected to complete by end of the year.

In relation to the winding down of its factory operations, as of 30th June 2016, the Group has made a provision for restructuring expenses of RM86 million (refer to Note 6 - Restructuring Expenses). Pursuant to the Company's announcement on the proposed disposal of the land and buildings upon which the factory operations are located, the Group has also classified these assets as Asset Held for Sale in the Balance Sheet.

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 ended		Financial period ended	
	30.06.2016 RM'000	30.06.2015 RM'000	30.06.2016 RM'000	30.06.2015 RM'000
In respect of current year				
Current tax				
- Malaysian income tax	77,329	76,149	133,167	164,764
Deferred tax charge/ (credit)	(8,676)	(4,555)	(8,915)	(11,844)
	68,653	71,594	124,252	152,920

The average effective tax rate of the Group for the financial period ended 30 June 2016 is 36.0% and average effective tax rate of the Group for the financial period ended 30 June 2015 of 25.0%. The increase is mainly due to non-deductibility of restructuring expenses in relation to the cessation of factory operations. This will also impact the Group's effective tax rate for the full year of 2016, which is expected to be higher than the statutory tax rate.

6. Notes to the Statements of Comprehensive Income

	3 months ended		Financial period ended	
	30.06.2016 RM'000	30.06.2015 RM'000	30.06.2016 RM'000	30.06.2015 RM'000
Interest income	(372)	(778)	(1,098)	(1,651)
Interest expense	1,978	2,565	6,023	5,349
Depreciation and amortization	1,537	9,800	10,896	20,404
(Gain)/Loss on disposal of property, plant and equipments	(24)	(2,460)	33	(2,460)
Provision for and write-off of Receivables	74	6	137	347
Provision for and write-off / (write-back) of inventory	2,805	(657)	2,869	1,124
Net foreign exchange (gain)/loss	54	(4,711)	2,725	(6,125)
(Gain)/ Loss on derivatives	287	1,397	(2,457)	3,325
Restructuring Expenses:	85,731	-	85,731	-
Impairment of Assets	32,696	-	32,696	-
Provision for Redundancies	32,701	-	32,701	-
Provision for Obsolete Materials	10,631	-	10,631	-
Project Cost	9,703	-	9,703	-

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 July 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 30 June 2016 are as follows:

Current	**RM'000**
2 weeks revolving credit maturing on 11th July 2016	95,000
2 weeks revolving credit maturing on 14th July 2016	140,000
3 months revolving credits maturing on 7th September 2016	15,000
3 months revolving credits maturing on 30th September 2016	20,000
	270,000

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 3rd quarter of 2016.

As such, with respect to this matter, no provision for this demand has been made to the Q2 2016 results. There were no other contingent liabilities or contingent assets as at 20 July 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 30 June 2016 are as follows:

Property, plant and equipment:	**RM'000**
Authorised by the Directors and contracted for	4,072
Authorised by the Directors but not contracted for	18,802
	22,874

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 30.06.2016 RM'000	**As at 31.12.2015 RM'000**
Total retained profits of British American Tobacco (Malaysia) Berhad and its subsidiaries		
- Realised profits	363,579	536,857
- Unrealised loss	(4,815)	(2,420)
Less: Consolidation Adjustments	(121,248)	(130,937)
Total retained profits	247,145	403,500

The unrealised portion within unappropriated profits (retained earnings) as at 30 June 2016 predominantly relates to net deferred tax asset of RM6.9 million and unrealised foreign exchange loss of RM1 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 July 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 second quarter of 2016, the Group's Domestic and Duty Free recorded a decline of 9.1% versus the previous quarter driven by the continued impact of the November 2015 excise led price increase as well as reduced consumption during the fasting month.

During the same period, Contract Manufacturing volumes declined 11.1% versus the preceding quarter.

The weak volume performance described above, coupled with inflationary increases in costs and timing differences in expenditures, translated into second quarter revenue and gross profit decline of 5.7% and 8.1% respectively, when both compared to the first quarter of the year.

Operating Expenses during the second quarter of 2016 were broadly in line with previous quarter. During the same period, in relation to the winding down of its factory operations, the Group has made a provision for restructuring expenses of RM86 million (refer to Note 6 - Restructuring Expenses).

As a result, Profit from Operations in the second quarter of 2016 declined 49.6% (RM 117million) when compared to the first quarter of the same year. Excluding the impact of one-off restructuring expenses above mentioned, Profit from Operations registered a decline of 13.1% (RM31 million) versus the first quarter of 2016.

17. Review of Performance

During the first half of 2016, total Legal Domestic market experienced a volume contraction of 26.3% versus the same period of last year mainly driven by the steep excise increase in November 2015, which in turn resulted in a significant increase in illegal cigarette trade.

As a consequence of this market evolution, during the same period the Group's Domestic and Duty Free volumes declined 28.9% versus the first half of 2015.

Contract manufacturing business continued to experience weak volume performance registering a decline of 39.0% (cigarettes and non-cigarettes) versus the same period of last year, largely attributed to lower demand from the Australian, Philippines, Singapore and Taiwan markets.

As of May 2016 year to date, the Group registered 58.5% share of legal market, translating into a decline of 2.5ppt versus full year 2015. This decline is mainly attributed to down trading dynamics in the market after the excise driven price increase in November 2015.

Dunhill continued to lead the legal industry with a market share of 43.6% despite consumers' affordability pressures (-2.5ppt versus full year 2015). It is important and encouraging to note that during the second quarter of 2016, Dunhill recorded a marginal recovery of +0.2ppt versus previous quarter.

Within the Aspirational Premium segment, during the first half of 2016, the Group registered a share of market increase of 0.6ppt versus full year 2015, reaching 10.7%.

Year to date May 2016, Peter Stuyvesant recorded a 6.4% share of market, increasing 0.8ppt when compared to full year 2015. The launch of Peter Stuyvesant Remix (double capsule product) in February 2016 has partially contributed to the brand share of market gain.

Pall Mall recorded marginal decline of 0.2ppt versus full year 2015, closing at 4.3% share of market for year to date May 2016.

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 half of 2016 declined 16.0% (RM378 million) while Gross Profit declined 21.5% (RM186 million), both when compared to first half of 2015.

Operating Expenses for the June year to date period were 4.5% lower than the same period of last year (RM11 million), largely attributed to lower brand and trade marketing expenses and partially offset by the impact of inflation on the overall cost structure.

In the second quarter of 2016, in relation to the winding down of its factory operations, the Group has made a provision for restructuring expenses of RM86 milion (refer to Note 6 – Restructuring Expenses).

As a result of the above, for first half of 2016, the Group recorded a decline of 42.7% (RM263 million) and 43.2% (RM264 million) in Profit from Operations and Profit before Tax respectively, when compared to the same period of last year. Profit from Operations, excluding the impact of one-off restructuring expenses, declined 28.8% (RM178 million).

Based on the audited net book value of the Group's said land and buildings as at 31 December 2015, the proposed disposal of the land and buildings (disclosed in Note 3), is expected to result in a total net gain of approximately RM149 million. This will translate into an increase in earnings per share by approximately 52.1 sen based on the weighted average number of ordinary shares in issue as at 31 December 2015.

As of 30 June 2016, the Group has classified the said land and buldings to be disposed as Asset Held for Sale in the Balance Sheet.

The use of the gross cash proceeds of RM218 million will be reviewed and determined by the Board in the best interest of the Company by the end of 2016, and may be utilised to declare dividends, undertake capital reduction and/or repay current revolving credit facilities.

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 unprecedented excise increase in November 2015, as well as consumer down trading within the legal market. The escalating illegal cigarette trade constitutes the most concerning challenge in 2016 for the legal tobacco industry after its sharp incidence increase from 33.7% in 2014 to 45.6%, as recorded in the month of December 2015 (Source: Illicit Cigarette Study). This means that almost one out of two packs of cigarettes sold is illegal.

The outlook for the remaining part of 2016 will be very much dependant on the performance of the legal market. Based on the result of the first half of 2016, the Group expects the full year 2016 Profit from Operations to be lower than the previous year.

21. Earnings Per Share

	3 months ended		**Financial year ended**	
	30.06.2016	**30.06.2015**	**30.06.2016**	**30.06.2015**
Basic earnings per share				
Profit for the financial period (RM'000)	47,925	215,287	223,399	458,642
Weighted average number of ordinary shares in issue ('000)	285,530	285,530	285,530	285,530
Basic earnings per share (sen)	16.8	75.4	78.2	160.6

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 45.00 sen per share, tax exempt under the single-tier tax system amounting to RM128,488,500 in respect of the financial year ending 31 December 2016 (for the financial year ended 31 December 2015, second interim dividend of 78.00 sen per share tax exempt under the single-tier tax system, amounting to RM222,713,400), payable on 25 August 2016, to all shareholders whose names appear on the Record of Depositors on 15 August 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 15 August 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 July 2016