

BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD

(Company No : 4372-M)

CONDENSED CONSOLIDATED INCOME STATEMENTS

For the financial period ended 30 June 2017

	Note	3 months ended		Financial period ended	
		30.06.2017	30.06.2016	30.06.2017	30.06.2016
		RM'000	RM'000	RM'000	RM'000
Revenue		774,090	962,575	1,544,814	1,983,587
Cost of sales		(492,822)	(637,516)	(1,007,210)	(1,304,971)
Gross profit		281,268	325,059	537,604	678,616
Other operating income		434	465	1,049	1,134
Operating expenses		(79,552)	(121,236)	(177,047)	(240,345)
Restructuring expense		(4,280)	(85,731)	(5,842)	(85,731)
Profit from operations		197,870	118,557	355,764	353,674
Finance cost		(3,894)	(1,978)	(5,404)	(6,023)
Profit before tax		193,976	116,579	350,360	347,651
Tax expense	5	(46,666)	(68,653)	(84,257)	(124,252)
Profit for the financial period		147,310	47,926	266,103	223,399
Effective tax rate		24.1%	58.9%	24.0%	35.7%
EPS	21	51.6	16.8	93.2	78.2
<u>Dividends</u>					
- Interim 1		-	-	40	55
- Interim 2	22	43	45	43	45
		43	45	83	100

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 2016.

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the financial period ended 30 June 2017

	3 months ended		Financial period ended	
	30.06.2017	30.06.2016	30.06.2017	30.06.2016
	RM'000	RM'000	RM'000	RM'000
Profit for the financial period	147,310	47,925	266,103	223,399
Other comprehensive income:				
Items that will not be reclassified to profit or loss:				
Deferred tax on defined benefit plan actuarial gain				
Items that may be subsequently reclassified to profit or loss:				
Changes in fair value of cash flow hedges	(4,253)	(271)	(10,253)	(4,095)
Deferred tax on fair value changes of cash flow hedges	1,021	68	2,461	1,024
Total other comprehensive income for the financial period	<u>(3,232)</u>	<u>(203)</u>	<u>(7,792)</u>	<u>(3,071)</u>
Total comprehensive income for the financial period	<u>144,078</u>	<u>47,722</u>	<u>258,311</u>	<u>220,328</u>
Attributable to:				
Owners of the Company	<u>144,078</u>	<u>47,722</u>	<u>258,311</u>	<u>220,328</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 2016.

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the financial period ended 30 June 2017

	Issued and fully paid ordinary shares		Non- distributable	Distributable	Total
	Number of shares	Nominal value	Cash flow hedge reserve	Retained earnings	attributable to owners
	'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2017	285,530	142,765	11,135	459,505	613,405
Profit for the financial year	-	-	-	266,103	266,103
Other comprehensive income for the financial year:					
- changes in fair value of cash flow hedges	-	-	(10,253)	-	(10,253)
- deferred tax on fair value changes on cash flow hedges	-	-	2,461	-	2,461
	-	-	(7,792)	266,103	258,311
Transactions with owners:					
Expense arising from equity-settled share based payment transactions	-	-	-	-	-
Recharge of share based payment	-	-	-	-	-
Dividend for financial year ended 31 December 2016					
- Interim 4	-	-	-	(219,858)	(219,858)
- Special dividend	-	-	-	(131,344)	(131,344)
Dividend for financial year ending 31 December 2017					
- Interim 1	-	-	-	(114,221)	(114,221)
At 30 June 2017	285,530	142,765	3,343	260,185	406,293
At 1 January 2016	285,530	142,765	358	403,500	546,623
Profit for the financial year	-	-	-	223,399	223,399
Other comprehensive income for the financial year:					
- changes in fair value of cash flow hedges	-	-	(4,095)	-	(4,095)
- deferred tax on fair value changes on cash flow hedges	-	-	1,024	-	1,024
- deferred tax on defined benefit plan	-	-	-	-	-
	-	-	(3,071)	223,399	220,328
Transaction with owners:					
Expense arising from equity-settled share based payment transactions	-	-	-	-	-
Recharge of share based payment	-	-	-	-	-
Dividend for financial year ended 31 December 2015					
- Interim 4	-	-	-	(222,713)	(222,713)
Dividend for the financial year ended 31 December 2016					
- Interim 1	-	-	-	(157,041)	(157,041)
At 30 June 2016	285,530	142,765	(2,713)	247,145	387,197

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 2016.

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

CONDENSED CONSOLIDATED BALANCE SHEET
As at 30 June 2017

	Note	As at 30.06.2017 RM'000	As at 31.12.2016 RM'000
Non-current assets			
Property, plant and equipment		26,987	27,609
Computer software		1,593	1,700
Goodwill		411,618	411,618
Deferred tax assets		30,136	27,193
		<u>470,334</u>	<u>468,120</u>
Current assets			
Assets held for sale		38,493	96,599
Inventories		303,911	214,947
Receivables		293,734	342,216
Derivative financial instruments		5,670	16,728
Tax recoverable		24,866	23,991
Deposits, cash and bank balances		5,283	33,131
		<u>671,957</u>	<u>727,612</u>
Current liabilities			
Payables		362,361	404,698
Deferred income		206	413
Derivative financial instruments		244	2,018
Current tax liabilities		41,099	42,275
Borrowings	10	315,000	130,000
Bank overdraft		14,955	325
		<u>733,865</u>	<u>579,729</u>
Net current asset / liabilities		(61,908)	147,883
		<u>408,426</u>	<u>616,004</u>
Capital and reserves			
Share capital		142,765	142,765
Cash flow hedge reserve		3,343	11,135
Retained earnings		260,185	459,505
Shareholders' funds		<u>406,293</u>	<u>613,405</u>
Non-current liabilities			
Deferred income		-	-
Deferred tax liabilities		2,133	2,599
		<u>408,426</u>	<u>616,004</u>
Net assets per share (RM)		1.42	2.15

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 2016.

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

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the financial period ended 30 June 2017

	Financial period ended 30.06.2017	Financial period ended 30.06.2016
	RM'000	RM'000
Operating activities		
Cash receipts from customers	1,679,735	2,082,163
Cash paid to suppliers and employees	(1,452,299)	(1,577,945)
Cash from operations	<u>227,436</u>	<u>504,218</u>
Income tax paid	(41,017)	(94,172)
Net cash flow from operating activities	<u>186,419</u>	<u>410,046</u>
Investing activities		
Property, plant and equipment		
- additions	(6,998)	(3,877)
- disposals	985	298
Asset held for sale		
- additions	-	-
- disposals	62,041	-
Additions of computer software	-	-
Interest income received	902	1,098
Net cash flow from investing activities	<u>56,930</u>	<u>(2,481)</u>
Financing activities		
Dividends paid to shareholders	(465,423)	(379,754)
Interest expense paid	(5,404)	(6,023)
Repayment of revolving credit	185,000	(35,000)
Net cash flow used in financing activities	<u>(285,827)</u>	<u>(420,777)</u>
Increase/(decrease) in cash and cash equivalents	(42,478)	(13,212)
Cash and cash equivalents as at 1 January	<u>32,806</u>	<u>28,811</u>
Cash and cash equivalents as at 30 June	<u>(9,672)</u>	<u>15,599</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 2016.

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 2016.

The audited financial statements of the Group for the year ended 31 December 2016 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 2016.

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 2016 was unqualified.

3. Unusual Items

On 17th March 2016, the Company announced that it would 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. As of 30th June 2017, the Group has ceased the production of domestic volumes and contract manufacturing for exports.

In relation to the cessation of its manufacturing operations at the current Virginia Park site, the Group has further recorded a restructuring expenses of RM5.8 million in the first half of 2017 (refer to Note 6 - Restructuring (income)/expenses).

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 sales tax of RM12.9 million. As of 31st December 2016, the Group disclosed a contingent liability of RM24.9 million in respect of sales tax. Additionally see note 11 below.

British American Tobacco (Malaysia) Berhad

5. Taxation

Taxation comprises:

	3 months ended		Financial period ended	
	30.06.2017	30.06.2016	30.06.2017	30.06.2016
	RM'000	RM'000	RM'000	RM'000
<u>In respect of current year</u>				
Current tax				
- Malaysian income tax	48,189	77,329	85,204	133,167
Deferred tax charge/ (credit)	(1,523)	(8,676)	(947)	(8,915)
	<u>46,666</u>	<u>68,653</u>	<u>84,257</u>	<u>124,252</u>

The average effective tax rate of the Group for the financial period ended 30 June 2017 was 24.0% and the average effective tax rate of the Group for the financial period ended 30 June 2016 was 36.0%, which includes non-deductibility of restructuring expenses incurred in the first half of 2016.

6. Notes to the Statements of Comprehensive Income

	3 months		Financial period ended	
	30.6.2017	30.6.2016	30.6.2017	30.6.2016
	RM'000	RM'000	RM'000	RM'000
Interest income	(287)	(372)	(902)	(1,098)
Interest expense	3,894	1,978	5,404	6,023
Depreciation and amortization	1,327	1,537	2,742	10,896
Loss/ (Gain) on disposal of property, plant and equipments	18	(24)	47	33
Provision for (write-back)/ write- off of receivables	5	74	(144)	137
Provision for write-off of inventory	2,810	2,805	2,924	2,869
Net foreign exchange (gain)/ loss	(3,393)	54	(1,706)	2,725
Loss/ (Gain) on derivatives	818	287	(1,930)	(2,457)
Restructuring expenses:	4,280	85,731	5,842	85,731
Impairment of Asset	-	32,696	-	32,696
Provision for Redundancies	-	32,701	-	32,701
Provision for obsolete materials	-	10,631	-	10,631
Project related costs	4,280	9,703	5,842	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 14 July 2017 (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 2017 are as follows:

Current	RM'000
1 week revolving credit maturing on 4 July 2017	50,000
2 weeks revolving credit maturing on 11 July 2017	25,000
2 weeks revolving credit maturing on 14 July 2017	240,000
	<u>315,000</u>

All borrowings are denominated in Ringgit Malaysia.

11. Contingent Liabilities and Contingent Assets

The Group had 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 pursued this matter through a judicial review filed on the 12 August 2014 in the Kuala Lumpur High Court. On 12 August 2016, the High Court ruled in favor of the Group and awarded costs of RM7,000 to the Group. On 6 September 2016, Royal Malaysian Customs filed a notice of appeal against the decision of the High Court. The appeal is pending the decision of the Court of Appeal which is likely to be in the first quarter of 2018.

There were no other contingent liabilities or contingent assets as at 14 July 2017 (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 2017 are as follows:

Property, plant and equipment:	RM'000
Authorised by the Directors and contracted for	14,924
Authorised by the Directors but not contracted for	7,281
	<u>22,205</u>

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 30.6.2017 RM'000	As at 30.6.2016 RM'000
Total retained profits of British American Tobacco (Malaysia) Berhad and its subsidiaries		
- Realised profits	362,297	363,579
- Unrealised gain	27,645	4,815
Less: Consolidation Adjustments	(129,757)	(121,248)
Total retained profits	<u>260,185</u>	<u>247,145</u>

The unrealised portion within unappropriated profits (retained earnings) as at 30 June 2017 predominantly relates to net deferred tax asset of RM28 million and unrealised foreign exchange loss of RM0.4 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 14 July 2017 (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

In the second quarter of 2017, the Group's Domestic and Duty Free volumes increased by 6.2% versus first quarter of 2017. This increase was driven by the recovery of market share in the second quarter coupled with the decline of illegal cigarette incidence from 58.9% in the first quarter of 2017 to 57.9% in May 2017 (Source: Consumer Track by Kantar Research Agency).

The volume recovery described above translated into second quarter of 2017 revenue and gross profit increase of 0.4%, and 9.7% respectively compared to the preceding quarter.

The Group registered market share growth from 53.5% in the first quarter of 2017 to 54.5% in May 2017. Dunhill, the biggest Premium brand in legal market, registered 38.8% market share

in May 2017 (+1.4% versus previous quarter). The increase was mainly driven by the launch of Dunhill's new line extension product that helped with the share recovery.

Within Aspiration Premium brands, Peter Stuyvesant and Pall Mall recorded a total market share of 11.8% as of May 2017, maintaining leadership in this segment for the 4th consecutive month. This achievement was largely attributed to Peter Stuyvesant's solid growth trajectory with a 7.6% share of market as of May 2017, holding steadily since first quarter of 2017.

Operating expenses during the second quarter of 2017 were 18.4% lower than preceding quarter. This was primarily attributed to lower overhead costs driven by cost base transformation initiatives the Group has undertaken, rental income from the sub-lease of the unutilised space currently tenanted by the Group and timing of spends.

During the second quarter of 2017, the Group has also recorded restructuring expenses of RM4.3 million which consisted of on-going cost of the project, outplacement programs and one-off expenses associated with the storage and transfer of unprocessed leaf and raw materials.

As a result, Profit from Operations in the second quarter of 2017 grew 25.3% (RM40 million) when compared to the first quarter of the same year.

17. Review of Performance

The Group's Domestic and Duty Free volumes in the first half of 2017 declined 16.9% when compared to the same period of last year.

Illegal cigarettes incidence for the same period has increased by about 16% from 50.0% in the first half of 2016 to 57.9% in May 2017. This was driven by the price gap between legal and illegal cigarettes and current macroeconomic factors that are impacting consumer spending power.

Since the first quarter of 2017, the Group's volumes have been on a recovery trend. This was driven by the recovery of market share in the second quarter coupled with the decline of illegal cigarette incidence from 58.9% in the first quarter of 2017 to 57.9% in May 2017.

Revenue for the first half of 2017 declined 22.1% (RM 439 million) when compared to the same period of last year in line with volume decline and the cessation of contract manufacturing for exports as of 31st December 2016. This led to a Gross Profit deterioration of 20.8% (RM141 million) versus the same period of last year.

Operating Expenses for the June 2017 year to date period was 26.3% (RM63 million) lower than the same period last year. This was attributed to overhead savings from cost base transformation initiatives the Group has undertaken, lower recharges from related entities, rental income from the sub-lease of the unutilised space currently tenanted by the Group and timing of spends.

In relation to the cessation of the manufacturing operations announced on 17th March 2016, the Group has further recorded a one-off restructuring expenses of RM5.8 million in the first half of 2017 which consisted of on-going cost of the project, outplacement programs and one off expenses associated with the storage and transfer of unprocessed leaf and raw materials.

As a result of the above, for June 2017 year to date, the Group registered an increase of 0.6% (RM2 million) and 0.8% (RM3 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 17.8% (RM78 million).

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.

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 high incidence of illegal cigarette trade. The outlook of the second half of 2017 will be very much dependent on the recovery of the legal market.

21. Earnings Per Share

	3 months ended		Financial year ended	
	30.06.2017	30.06.2016	30.06.2017	30.06.2016
Basic earnings per share				
Profit for the financial period (RM'000)	147,310	47,926	266,103	223,399
Weighted average number of ordinary shares in issue ('000)	285,530	285,530	285,530	285,530
Basic earnings per share (sen)	51.6	16.8	93.2	78.2

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 second interim dividend of 43.00 sen per share, tax exempt under the single-tier tax system, amounting to RM122,777,900 in respect of the financial year ending 31 December 2017 (for the financial year ended 31 December 2016, second interim dividend of 45.00 sen per share tax exempt under the single-tier tax system, amounting to RM128,488,500), payable on 23 August 2017, to all shareholders whose names appear on the Record of Depositors on 14 August 2017.

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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 14 August 2017, 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

DATUK LEE OI KUAN (LS0009536)

Company Secretary

Petaling Jaya

20 July 2017