BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD

(Company No : 4372-M)

CONDENSED CONSOLIDATED INCOME STATEMENTS

For the financial period ended 31 Dec 2017

	Note	3 months ended		Financial period ended	
		31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**
		RM'000	**RM'000**	**RM'000**	**RM'000**
Revenue		700,163	840,613	3,002,259	3,756,392
Cost of sales		(483,305)	(572,781)	(1,971,684)	(2,486,775)
Gross profit		216,858	267,832	1,030,575	1,269,617
Other operating income		8,062	562	9,513	2,234
Operating expenses		(118,202)	(83,329)	(380,251)	(399,082)
Restructuring expenses		(1,377)	(27,542)	(9,245)	(113,274)
Profit from operations excluding land sale		105,341	157,523	650,592	759,495
Income related to land sale		-	159,461	-	159,461
Profit from operations		105,341	316,984	650,592	918,956
Finance cost		(3,346)	(493)	(11,367)	(10,499)
Profit before tax		101,995	316,491	639,225	908,457
Tax expense	5	(20,956)	(27,159)	(146,590)	(187,168)
Profit for the financial period		81,039	289,332	492,635	721,289
Effective tax rate		20.5%	8.6%	22.9%	20.6%
EPS	21	28.4	101.3	172.5	252.6
Dividends					
- Interim 1		-	-	40	55
- Interim 2		-	-	43	45
- Interim 3		-	-	43	55
- Interim 4	22	43	77	43	77
- Special dividend		-	46	-	46
		43	123	169	278

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 31 December 2017

	3 months ended		**Financial period ended**	
	31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Profit for the financial period	81,038	289,332	492,635	721,289
Other comprehensive (expense)/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	(3,739)	12,874	(17,038)	14,174
Deferred tax on fair value changes of cash flow hedges	899	(3,090)	4,091	(3,397)
Total other comprehensive (expense)/income for the financial period	(2,840)	9,784	(12,947)	10,777
Total comprehensive income for the financial period	78,198	299,116	479,688	732,066
Attributable to:				
Owners of the Company	78,198	299,116	479,688	732,066

The Condensed Consolidated Statements of Comprehesive 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 31 December 2017

	Issued and fully paid ordinary shares		Non- distributable		Distributable	Total
	Number of shares	Nominal value	Cash flow hedge reserve	Shared based payment reserve	Retained earnings	attributable to owners
	'000	RM'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	-	-	-	-	492,635	492,635
Other comprehensive (expense)/income for the financial year:						
- changes in fair value of cash flow hedges	-	-	(17,038)	-	-	(17,038)
- deferred tax on fair value changes on cash flow hedges	-	-	4,091	-	-	4,091
Total comprehensive income	-	-	(12,947)	-	492,635	479,688
Transactions with owners:						
Expense arising from equity-settled share based payment transactions	-	-	-	5,382	-	5,382
Recharge of share based payment	-	-	-	(5,382)	-	(5,382)
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	-	-	-	-	(114,212)	(114,212)
- Interim 2	-	-	-	-	(122,778)	(122,778)
- Interim 3	-	-	-	-	(122,778)	(122,778)
At 31 December 2017	285,530	142,765	(1,812)	-	241,170	382,123
At 1 January 2016	285,530	142,765	358	-	403,500	546,623
Profit for the financial year	-	-	-	-	721,289	721,289
Other comprehensive income for the financial year:						
- changes in fair value of cash flow hedges	-	-	14,174	-	-	14,174
- deferred tax on fair value changes on cash flow hedges	-	-	(3,397)	-	-	(3,397)
- deferred tax on defined benefit plan	-	-	-	-	-	-
Total comprehensive income	-	-	10,777	-	721,289	732,066
Transaction with owners:						
Expense arising from equity-settled share based payment transactions	-	-	-	5,898	-	5,898
Recharge of share based payment	-	-	-	(5,898)	-	(5,898)
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)
- Interim 2	-	-	-	-	(128,489)	(128,489)
- Interim 3	-	-	-	-	(157,041)	(157,041)
At 31 December 2016	285,530	142,765	11,135	-	459,505	613,405

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 31 December 2017

	Note	As at 30.12.2017 RM'000	As at 31.12.2016 RM'000
Non-current assets			
Property, plant and equipment		34,836	27,609
Computer software		1,524	1,700
Goodwill		411,618	411,618
Deferred tax assets		37,666	27,193
		485,644	468,120
Current assets			
Assets held for sale		399	96,599
Inventories		236,636	214,947
Receivables		303,727	342,216
Derivative financial instruments		-	16,728
Tax recoverable		6,595	23,991
Deposits, cash and bank balances		11,554	33,131
		558,911	727,612
Current liabilities			
Payables		276,757	404,697
Deferred income		-	413
Derivative financial instruments		2,408	2,018
Current tax liabilities		5,267	42,275
Borrowings	10	378,000	130,000
Bank overdraft		-	325
		662,432	579,728
Net current asset / liabilities		(103,521)	147,884
		382,123	616,004
Capital and reserves			
Share capital		142,765	142,765
Cash flow hedge reserve		(1,812)	11,135
Retained earnings		241,170	459,505
Shareholders' funds		382,123	613,405
Non-current liabilities			
Deferred tax liabilities		-	2,599
		382,123	616,004
Net assets per share (RM)		1.34	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 year ended 31 December 2017

	Financial period ended 31.12.2017	Financial period ended 31.12.2016
	RM'000	RM'000
Operating activities		
Cash receipts from customers	3,167,321	3,857,223
Cash paid to suppliers and employees	(2,666,030)	(3,005,920)
Cash from operations	501,291	851,303
Income tax paid	(128,941)	(244,821)
Net cash flow from operating activities	372,350	606,482
Investing activities		
Property, plant and equipment		
- additions	(23,855)	(14,416)
- disposals	9,899	1,417
Asset held for sale		
- additions	-	(8,131)
- disposals	93,214	268,658
Additions of computer software	-	(1,426)
Interest income received	1,477	2,194
Net cash flow from investing activities	80,735	248,296
Financing activities		
Dividends paid to shareholders	(710,970)	(665,284)
Interest expense paid	(11,367)	(10,499)
Drawdown/(Repayment) of revolving credit	248,000	(175,000)
Net cash flow used in financing activities	(474,337)	(850,783)
Increase/(decrease) in cash and cash equivalents	(21,252)	3,995
Cash and cash equivalents as at 1 January	32,806	28,811
Cash and cash equivalents as at 31 December	11,554	32,806

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

   As of 30 June 2017, the Group has ceased the production of domestic volumes and contract manufacturing for exports by its wholly owned subsidiary, Tobacco Importers and Manufacturers Sdn Berhad ("TIM").

   In relation to the cessation of TIM's manufacturing operations, the Group has further recorded a restructuring expenses of RM9.2 million as of year to date 31 December 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.

5. Taxation

Taxation comprises:

	3 months ended		Financial period ended	
	31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**
	RM'000	**RM'000**	**RM'000**	**RM'000**
In respect of current year				
Current tax				
- Malaysian income tax	32,327	54,804	157,871	220,983
Deferred tax charge / (credit)	(9,071)	(27,645)	(8,981)	(30,992)
In respect of prior years				
Over provision in respect of prior years - Malaysian income tax	(2,300)	-	(2,300)	(2,823)
	20,956	27,159	146,590	187,168

The average effective tax rate of the Group in the fourth quarter 2017 and financial period ended 31st December 2017 is 20.5% and 22.9%. In 2016, the average effective tax rate of the Group in the fourth quarter and financial period ended 31 December 2016 was 8.6% and 20.6% respectively.

The increase in the average effective tax rates in 2017 versus same period last year was attributed mainly to higher provisions made during the year whereas in the prior year, the reduction in average effective tax rates was attributed to non taxability on capital gain from the sale of equipment and machinery sold to related parties .

6. Notes to the Statements of Comprehensive Income

	3 months		Financial period ended	
	31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Interest income	(320)	(558)	(1,477)	(2,194)
Interest expense	3,346	493	11,367	10,499
Depreciation and amortization	1,731	2,295	5,754	12,865
Loss/(gain) on disposal of property, plant and equipments	-	(72)	(24)	(39)
Provision for write-off/ (write-back) of receivables	38	(1,272)	(234)	(167)
(Reversal)/provision for write-off of inventory	(59)	6,044	4,519	9,440
Provision for impairment of prepaid excise duties	20,525	-	20,525	-
Net foreign exchange gain	(865)	(6,062)	(3,952)	(3,694)
Loss/(gain) on derivatives	129	2,057	(1,416)	993
Restructuring expenses/ (income):	1,377	(131,919)	9,245	(46,187)

Gain on disposal of land and building	-	(159,461)	-	(159,461)
Impairment of assets	-	3,284	-	35,980
Provision for redundancies	-	8,085	-	40,786
Provision for obsolete materials	-	3,919	-	14,550
Leaseback rental	-	12,971	-	12,971
Provision/(reversal) of project related costs	1,377	(716)	9,245	8,987

7. Changes in Composition of the Group

On 24 December 2017, Tobacco Blenders and Manufacturers Sdn Bhd, indirect wholly-owned subsidiary of British American Tobacco Malaysia and The Leaf Tobacco Development Corporation of Malaya Sdn Bhd, direct wholly-owned subsidiary of British American Tobacco Malaysia were dissolved pursuant to members' voluntary liquidation. Both companies are dormant companies of the Group and the dissolution has no material financial impact to the Group.

8. Corporate Proposals

There were no new corporate proposals announced as at 6 February 2018 (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 December 2017 are as follows:

Current	**RM'000**
1 week revolving credit maturing on 2 January 2018	170,000,000
1 week revolving credit maturing on 3 January 2018	98,000,000
2 weeks revolving credit maturing on 9 January 2018	70,000,000
2 weeks revolving credit maturing on 10 January 2018	35,000,000
	378,000,000

All borrowings are denominated in Ringgit Malaysia.

11. Contingent Liabilities and Contingent Assets

There were no other contingent liabilities or contingent assets as at 6 February 2018 (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 2017 are as follows:

Property, plant and equipment:	**RM'000**
Authorised by the Directors and contracted for	19
Authorised by the Directors but not contracted for	975
	994

13. Material Litigation

There was no material litigation as at 6 February 2018 (the last practicable date which shall not be earlier than 7 days from the date of issue of this quarterly report).

14. 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.

15. Material Changes in the Quarterly Results as Compared with the Preceding Quarter

In the last quarter of 2017, the Group registered legal market share of 53.9% (+0.3% versus third quarter of 2017). Dunhill, the leading Premium brand in legal market, registered 37.7% market share in fourth quarter of 2017 (-0.7% versus previous quarter, recovering in December 2017 by 0.3% vs November 2017). The decline in Dunhill was primarily due to the prevailing high level of illegal cigarette incidence at 59% as of December 2017 (Source: Consumer Track by Kantar Research Agency) as well as the growth of a lower price segment within the legal market.

Within Aspirational Premium brands, Peter Stuyvesant and Pall Mall recorded a total market share of 10.9% in the final quarter of 2017, expanding leadership in this segment for the 10th consecutive month. This achievement was largely attributed to Peter Stuyvesant's solid growth trajectory in the first half of 2017 as well as its resilience in the second half of 2017.

The Group entered the Value For Money (VFM) segment in October 2017 through the introduction of Rothmans. In the fourth quarter of 2017, Rothmans stood at 1.8% market share and was becoming the fastest growing brand within the VFM segment, exiting 2017 at 2.8% market share.

Despite market share growth in the fourth quarter of 2017 versus the preceding quarter for the Group, the legal market has further contracted due to the growth in illegal cigarette incidence. As a result, legal market volume declined 3.0% versus the third quarter of 2017 while the Group's domestic volume declined at a lower rate of 1.1%.

The lower volume performance described above, coupled with the growth of lower price segment, translated into fourth quarter revenue and gross profit decline of 7.5% and 21.5% respectively, when compared to the third quarter of the year.

During the fourth quarter of 2017, the Group made a provision for impairment of prepaid excise duties of RM21 million (1.3% of total excise duties paid in 2017) that is pending refund from Royal Malaysian Customs (RMC). The pending excise duties refund from RMC was related to unutilised tax stamps and tax stamps wastages encountered during the manufacturing process. . The provision for impairment was made because decision on the refund of prepaid excise duties has yet to be made by the RMC. The Group had decided to take a prudent approach by recording the provision. Currently, the Group is actively engaging RMC to obtain the refund.

As a result, operating expenses during the fourth quarter of 2017 were 39.1% (RM33 million) higher than preceding quarter. Operating expenses, excluding the provision of impairment for prepaid excise duties increased 14.9% (RM13 million) versus preceding quarter.

During the fourth quarter of 2017, the Group has also recorded restructuring expenses of RM1.4 million which consisted of on-going cost of the project and outplacement programs.

As a result, Profit from Operations in the fourth quarter of 2017 declined 44.4% (RM84.1 million) when compared to the third quarter of the same year.

16. Review of Performance

The Group's Domestic and Duty Free volumes for December 2017 year to date declined 14.2% when compared to the same period of last year.

Illegal cigarettes incidence has increased from 52.6% in 2016 to 58.3% in 2017. This was primarily driven by the continued affordability pressure on consumers coupled with enforcement challenges on curbing illegal cigarettes trade.

The Group's volume recovery trend in the first half of 2017 stagnated in the second half of 2017, mainly due to the market dynamics within the illegal cigarettes segment and the continuous growth of lower price segment within the legal market in the fourth quarter of 2017.

Revenue, for December 2017 year to date, declined 20.1% (RM 754 milion) when compared to the same period of last year. The decline was driven by the domestic volume decline, cessation of contract manufacturing for exports as of 31 December 2016 and to a lesser extent, the growth of the lower price segment. The Group benefitted from the full importation model, that resulted in a 10% decline in the domestic segment cost of sales per unit versus 2016. This has helped to partially lessen the gross margin impact from the growth of the lower price segment, which translated to Gross Profit deterioration of 18.8% (RM239 million) versus the same period of last year.

Operating Expenses for 2017 were 4.7% (RM19 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 and the one-off rental income from the sub-lease of the unutilised space tenanted by the Group in the first three quarters of 2017. These cost savings were partially offset by the provision for impairment of prepaid excise duties of RM21 million that is pending refund from Royal Malaysian Custom (RMC) and the introductory investment behind the launch of Rothmans in the fourth quarter of 2017. Operating expenses, excluding the provision for impairment of prepaid excise duties declined 9.8% (RM39 million) versus 2016.

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 RM9.2 million in 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 December 2017 year to date, the Group registered a decline of 29.2% (RM268 million) and 31.7% (RM229 million) in Profit from Operations and Profit after Tax respectively, when compared to the same period of last year. Profit from Operations, excluding the impact of one-off restructuring expenses and income, declined 24.4% (RM213 million).

17. Events Subsequent to the End of the Period

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.

With reference to the appeal by the Royal Malaysian Customs filed in the Court of Appeal on 6 September 2016 against the decision of the High Court in favour of the Group, the appeal was eventually withdrawn by Royal Malaysian Customs and struck out by the Court of Appeal on 17 January 2018 with no order to cost.

18. Seasonal or Cyclical Factors

The results of the Group are generally impacted by changes in excise duties typically announced annually during National Budget.

19. Future Year's Prospects

Looking ahead to 2018, the Group remains very concerned with legal volumes continuing to be impacted by the current high incidence of illegal cigarette trade. The outlook for 2018 will be very much dependent on the recovery of the legal market.

20. Earnings Per Share

	3 months ended		Financial year ended	
	31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**
Basic earnings per share				
Profit for the financial period (RM'000)	81,039	289,332	492,635	721,289
Weighted average number of ordinary shares in issue ('000)	285,530	285,530	285,530	285,530
Basic earnings per share (sen)	28.4	101.3	172.5	252.6

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.

21. Dividends

The Board of Directors has declared a fourth 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 ended 31 December 2017 (Fourth Quarter 2016 : 77 sen per share and special dividend 46 sen per share), payable on 22 March 2018, to all shareholders whose names appear on the Record of Depositors on 13 Mar 2018.

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 13 March 2018, 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
Kuala Lumpur
13 February 2018