BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD

(Company No : 4372-M)

CONDENSED CONSOLIDATED INCOME STATEMENTS

For the financial year ended 31 March 2017

	Note	Financial period ended 31.03.2017	31.03.2016
		RM'000	RM'000
Revenue		770,724	1,021,012
Cost of sales		(514,388)	(667,455)
Gross profit		256,336	353,557
Other operating income		615	669
Operating expenses		(97,495)	(119,108)
Restructuring expenses		(1,562)	-
Profit from operations		157,894	235,118
Finance cost		(1,510)	(4,045)
Profit before tax		156,384	231,073
Tax expense	5	(37,591)	(55,599)
Profit for the financial period		118,793	175,474
Effective tax rate		24.0%	24.1%
EPS	22	41.6	61.5
Dividends			
- Interim 1	23	40	55

The Condensed Consolidated Income Statements should be read in conjunction w
Annual Audited Financial Statements of the Group for the year ended 31 Decemb

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the financial year ended 31 March 2017

	3 months ended	
	31.03.2017	**31.03.2016**
	RM'000	**RM'000**
Profit for the financial period	118,793	175,474
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 (loss)	(6,000)	(3,824)
Deferred tax on fair value changes of cash flow hedges	1,440	956
Total other comprehensive income for the financial period	(4,560)	(2,868)
Total comprehensive income for the financial period	114,233	172,606
Attributable to:		
Owners of the Company	114,233	172,606

The Condensed Consolidated Statements of Comprehesive Income should be read in conjunctio 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 year ended 31 March 2017

	Issued and fully paid ordinary shares of 50 sen each		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	-	-	-	118,793	118,793
Other comprehensive income for the financial year:					
- changes in fair value of cash flow hedges	-	-	(6,000)	-	(6,000)
- deferred tax on fair value changes on cash flow hedges	-	-	1,440	-	1,440
	285,530	142,765	6,575	578,298	727,638
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)
					-
At 31 March 2017	285,530	142,765	6,575	227,097	376,437
At 1 January 2016	285,530	142,765	358	403,500	546,623
Profit for the financial year	-	-	-	175,474	175,474
Other comprehensive income for the financial year:					
- changes in fair value of cash flow hedges	-	-	(3,824)	-	(3,824)
- deferred tax on fair value changes on cash flow hedges	-	-	956	-	956
- deferred tax on defined benefit plan	-	-	-	-	-
	285,530	142,765	(2,510)	578,974	719,229
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)
At 31 March 2016	285,530	142,765	(2,510)	356,261	496,516

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 March 2017

	Note	As at 31.03.2017 RM'000	As at 31.12.2016 RM'000
Non-current assets			
Property, plant and equipment		27,775	27,609
Computer software		1,647	1,700
Goodwill		411,618	411,618
Deferred tax assets		29,166	27,193
		470,206	468,120
Current assets			
Assets held for sale		99,510	96,599
Inventories		184,141	214,947
Receivables		374,133	342,216
Derivative financial instruments		12,414	16,728
Tax recoverable		24,866	23,991
Deposits, cash and bank balances		15,004	33,131
		710,068	727,612
Current liabilities			
Payables		402,070	404,697
Deferred income		310	413
Derivative financial instruments		768	2,018
Current tax liabilities		51,982	42,275
Borrowings	10	345,000	130,000
Bank overdraft		-	325
		800,130	579,728
Net current asset / liabilities		(90,062)	147,884
		380,144	616,004
Capital and reserves			
Share capital		142,765	142,765
Cash flow hedge reserve		6,575	11,135
Retained earnings		227,097	459,505
Shareholders' funds		376,437	613,405
Non-current liabilities			
Deferred income		-	-
Deferred tax liabilities		3,707	2,599
		380,144	616,004
Net assets per share (RM)		1.32	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 March 2017

	Financial year ended 31.03.2017	Financial year ended 31.3.2016
	RM'000	RM'000
Operating activities		
Cash receipts from customers	734,404	997,387
Cash paid to suppliers and employees	(641,214)	(737,976)
Cash from operations	93,190	259,411
Income tax paid	(10,106)	(20,618)
Net cash flow from operating activities	83,084	238,793
Investing activities		
Property, plant and equipment		
- additions	(4,468)	(3,129)
- disposals	2	23
Asset held for sale		
- additions	-	-
- disposals	40,675	-
Additions of computer software	-	-
Interest income received	615	726
Net cash flow from investing activities	36,824	(2,380)
Financing activities		
Dividends paid to shareholders	(351,201)	(222,713)
Interest expense paid	(1,510)	(4,045)
Repayment of revolving credit	215,000	-
Net cash flow used in financing activities	(137,711)	(226,758)
Increase/(decrease) in cash and cash equivalents	(17,802)	9,655
Cash and cash equivalents as at 1 January	32,806	28,811
Cash and cash equivalents as at 31 March	15,004	38,466

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. The winding down of factory operations at the Virginia Park site has been carried out in stages and is targeted to complete by the 2nd half of 2017.

In relation to the winding down of its factory operations at the current Viginia Park site, the Group has further recorded a restructuring expenses of RM1.6 million in the first quarter 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 RM12.9 million. For the full year 2016, the Group disclosed a contingent liability of RM24.9 million in respect of sales tax. The Group's original estimate was conservative and did not include any penalties.

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, in rending its decision ruled in favour of the Group. Royal Malaysian Customs filed a notice of appeal against the High Court's decision on 6 September 2016 and this appeal is currently pending the hearing(s) at the Court of Appeal.

Additionally, see note 11 below.

5. Taxation

Taxation comprises:

	3 months/ Financial period ended 31.3.2017 RM'000	3 months/ Financial period ended 31.3.2016 RM'000
In respect of current year		
Current tax		
- Malaysian income tax	37,015	55,838
Deferred tax charge/ (credit)	576	(239)
	37,591	55,599

The average effective tax rate of the Group for the financial period ended 31 March 2017 is 24.0% and in line with the average effective tax rate of the Group for the financial period ended 31 March 2016 of 24.1%.

6. Notes to the Statements of Comprehensive Income

	3 months/ Financial period ended 31.3.2017 RM'000	3 months/ Financial period ended 31.3.2016 RM'000
Interest income	(615)	(726)
Interest expense	1,510	4,045
Depreciation and amortization	1,415	9,359
Loss on disposal of property, plant and equipments	29	57
Provision for (write-back)/ write-off of receivables	(149)	63
Provision for write-off of inventory	114	64
Net foreign exchange loss	1,687	2,671
Gain on derivatives	(2,748)	(2,744)
Restructuring expenses:	1,562	-
Project costs	418	-
Storage and transfer of raw materials	673	-
Change management costs	471	-

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 April 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 31 March 2017 are as follows:

Current	**RM'000**
1 week revolving credit maturing on 4 April 2017	140,000
1 week revolving credit maturing on 6 April 2017	15,000
2 weeks revolving credit maturing on 10 April 2017	60,000
3 weeks revolving credit maturing on 17 April 2017	40,000
2 months revolving credit maturing on 24 May 2017	30,000
2 months revolving credit maturing on 29 May 2017	60,000
	345,000

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 stood firm in its position that there is a challengeable case which is supported by external legal opinion on the matter. Accordingly, the Group pursued this matter through a judicial review filed on the 12 August 2014 in the Kuala Lumpur High Court. The High Court had granted a full stay pending the ultimate decision of the case.

On 12 August 2016, the High Court, in rending its decision ruled in favor of the Group and held that the uplift and calculation of sales tax by the Royal Malaysian Customs was without legal basis. The High Court further awarded costs of RM7,000 to be paid to the Group. On 6 September 2016, Royal Malaysian Customs filed a notice of appeal against the decision of the High Court. Pending the hearing(s) at the Court of Appeal, the decision date for the appeal would most likely be in the 3rd quarter of 2017.

There were no other contingent liabilities or contingent assets as at 14 April 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 31 March 2017 are as follows:

Property, plant and equipment:	RM'000
Authorised by the Directors and contracted for	16,423
Authorised by the Directors but not contracted for	5,056
	21,479

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 31.3.2017 RM'000	As at 31.3.2016 RM'000
Total retained profits of British American Tobacco (Malaysia) Berhad and its subsidiaries		
- Realised profits	333,757	491,803
- Unrealised gain	23,237	(4,919)
Less: Consolidation Adjustments	(129,897)	(130,623)
Total retained profits	227,097	356,261

The unrealised portion within unappropriated profits (retained earnings) as at 31 March 2017 predominantly relates to net deferred tax asset of RM25.4 million and unrealised foreign exchange loss of RM2.2 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 April 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 first quarter of 2017, the Group's Domestic and Duty Free volumes declined by 11.6% versus fourth quarter of 2016. This decline was driven by the growth in illegal cigarettes incidence from 54.3% in October 2016 to 57.1% in December 2016 (Source: Illicit Cigarette Study). The continued impact of the November 2015 excise led price increase coupled with the challenging macro-economic factors further restrained consumer spending and resulted in the acceleration of illegal cigarettes incidence.

The Group has ceased contract manufacturing for exports as of 31st December 2016, however, in the first quarter of 2017, there were volumes recorded for the sale of residual leaf raw materials to related companies outside of Malaysia, in line with the winding down of the manufacturing operations.

The weak volume performance described above, coupled with timing differences in expenditures, translated into first quarter of 2017 revenue and gross profit decline of 8.3%, and 4.3% respectively, compared to the preceding quarter.

As of year to date February 2017, the Group registered 53.5% share of market within legal industry, a decline of 0.8% versus fourth quarter of 2016 . Dunhill, the biggest Premium brand in legal market, registered 37.3% market share for year to date February 2017 (-1.3ppt versus previous quarter). The decline was mainly driven by consumer down trading due to constraint in spending power. Despite the challenging environment, Dunhill demonstrated share recovery in the past 2 months.

Within Aspiration Premium brands, Peter Stuyvesant and Pall Mall recorded a total market share of 12.1% as of year to date February 2017, and for the first time, took leadership in that segment.. This achievement was largely attributed to Peter Stuyvesant's solid growth trajectory with a 7.7% share of market for year to date February 2017, gaining 0.7ppt when compared to fourth quarter of 2016.

During the first quarter of 2017, the Group has also recorded restructuring expenses of RM1.6 million which consists of the on-going cost of the project, outplacement programs and one-off expenses associated with the storage and transfer of unprocessed leaf and raw materials.

Profit from Operations, excluding the impact of one-off restructuring expenses in the current and previous quarter, declined 13.8% (RM26 million).

17. Review of Performance

The Group's Domestic and Duty Free volumes in the first quarter of 2017 declined 23% when compared to the same period of last year. Illegal cigarettes incidence for the same period has increased by +25% from 45.6% in December 2015 to 57.1% in December 2016 (Source: Illicit Cigarette Study), driven by the price gap between legal and illegal cigarettes post the steep excise hike in November 2015, plus current macroeconomic factors that are impacting consumer spending power.

Since December 2016, the Group's volumes have remained stable. However, illegal cigarette incidence has also maintained its level at 57%.

Revenue for the first quarter of 2017 declined 24.5% (RM 250 milion) when compared to the same period of last year in line with volume decline, leading to a Gross Profit deterioration of 27.5% (RM97 million) versus the same period of last year.

Operating Expenses for the first quarter of 2017 were 18.1% lower than the same period last year (RM22 million), attributed to timing of spends, lower recharges from related entities as well as overhead savings from cost efficiency initiatives the Group has undertaken.

In relation to the winding down of the factory operations announced on 17th March 2016, the Group has further recorded a one-off restructuring expenses of RM1.6 million in the first quarter of 2017 which consists of the 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 March 2017 year to date, the Group registered a decline of 32.8% (RM77 million) and 32.3% (RM75 million) in Profit from Operations and Profit before Tax respectively, when compared to the same period of last year.

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 as a consequence of the unprecedented hike in November 2015, as well as the challenging economic environment and poor consumer sentiments. The high incidence of illegal cigarette trade forms the main challenge in the short and medium term for the legal tobacco industry after its sharp increase from 36.9% in 2015 to a record high of 57.1% in the month of December 2016 (Source: Illicit Cigarette Study). Illegal cigarette trade has surpassed the legal market volumes with more than one out of two packs of cigarettes sold being illegal. The outlook of 2017 will be very much dependant on the recovery of the legal market.

21. Earnings Per Share

	3 months/ Financial period ended	
Basic Earnings Per Share	**31.3.2017**	**31.3.2016**
Profit for the financial period (RM'000)	118,793	175,474
Weighted average number of ordinary shares in issue ('000)	285,530	285,530
Basic earnings per share (sen)	41.6	61.5

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 first interim dividend of 40.00 sen per share, tax exempt under the single-tier tax system, amounting to RM114,212,000 in respect of the financial year ending 31 December 2017 (for the financial year ended 31 December 2016, first interim dividend of 55.00 sen per share tax exempt under the single-tier tax system, amounting to RM157,041,500), payable on 25 May 2017, to all shareholders whose names appear on the Record of Depositors on 16 May 2017.

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 16 May 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

DAVID CHIAM JOY YEOW (LS0009734)
Company Secretary
Petaling Jaya
20 April 2017