BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD

(Company No : 4372-M)

CONDENSED CONSOLIDATED INCOME STATEMENTS

For the financial period ended 30 September 2017

	Note	3 months ended 30.09.2017	3 months ended 30.09.2016	Financial period ended 30.09.2017	Financial period ended 30.09.2016
		RM'000	RM'000	RM'000	RM'000
Revenue		757,282	932,192	2,302,096	2,915,779
Cost of sales		(481,168)	(609,023)	(1,488,378)	(1,913,994)
Gross profit		276,114	323,169	813,718	1,001,785
Other operating income		402	538	1,451	1,672
Operating expenses		(85,002)	(75,408)	(262,049)	(315,753)
Restructuring expense		(2,026)	-	(7,868)	(85,731)
Profit from operations		189,488	248,299	545,252	601,973
Finance cost		(2,617)	(3,983)	(8,021)	(10,006)
Profit before tax		186,871	244,316	537,231	591,967
Tax expense	5	(41,377)	(35,757)	(125,634)	(160,009)
Profit for the financial period		145,494	208,559	411,597	431,958
Effective tax rate		22.1%	14.6%	23.4%	27.0%
EPS	21	51.0	73.0	144.2	151.3
Dividends					
- Interim 1		-	-	40	55
- Interim 2		-	-	43	45
- Interim 3	22	43	55	43	55
		43	55	126	155

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 September 2017

	3 months ended		Financial period ended	
	30.09.2017 RM'000	30.09.2016 RM'000	30.09.2017 RM'000	30.09.2016 RM'000
Profit for the financial period	145,494	208,559	411,597	431,958
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	(3,046)	5,347	(13,299)	1,307
Deferred tax on fair value changes of cash flow hedges	731	(1,283)	3,192	(314)
Total other comprehensive income for the financial period	(2,315)	4,064	(10,107)	993
Total comprehensive income for the financial period	143,179	212,623	401,490	432,951
Attributable to:				
Owners of the Company	143,179	212,623	401,490	432,951

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 30 September 2017

	Issued and fully paid ordinary shares of		Non-distributable	Distributable	
	Number of shares	Nominal value	Cash flow hedge reserve	Retained earnings	Total 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	-	-	-	411,597	411,597
Other comprehensive income for the financial year:					
- changes in fair value of cash flow hedges	-	-	(13,299)	-	(13,299)
- deferred tax on fair value changes on cash flow hedges	-	-	3,192	-	3,192
	285,530	142,765	1,028	871,102	1,014,895
Transactions with owners:					
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)
- Interim 2	-	-	-	(122,778)	(122,778)
At 30 September 2017	285,530	142,765	1,028	282,901	426,694
At 1 January 2016	285,530	142,765	358	403,500	546,623
Profit for the financial year	-	-	-	431,958	431,958
Other comprehensive income for the financial year:					
- changes in fair value of cash flow hedges	-	-	1,307	-	1,307
- deferred tax on fair value changes on cash flow hedges	-	-	(314)	-	(314)
- deferred tax on defined benefit plan	-	-	-	-	-
	285,530	142,765	1,351	835,458	979,574
Transaction with owners:					
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	-	-	-	(128,488)	(128,488)
At 30 September 2016	285,530	142,765	1,351	327,216	471,332

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 September 2017

	Note	As at 30.09.2017 RM'000	As at 31.12.2016 RM'000
Non-current assets			
Property, plant and equipment		39,576	27,609
Computer software		1,549	1,700
Goodwill		411,618	411,618
Deferred tax assets		29,829	27,193
		482,572	468,120
Current assets			
Assets held for sale		18,976	96,599
Inventories		232,984	214,947
Receivables		312,540	342,216
Derivative financial instruments		1,574	16,728
Tax recoverable		7,296	23,991
Deposits, cash and bank balances		26,281	33,131
		599,651	727,612
Current liabilities			
Payables		271,741	404,697
Deferred income		103	413
Derivative financial instruments		210	2,018
Current tax liabilities		11,343	42,275
Borrowings	10	370,000	130,000
Bank overdraft		-	325
		653,397	579,728
Net current asset / liabilities		(53,746)	147,884
		428,826	616,004
Capital and reserves			
Share capital		142,765	142,765
Cash flow hedge reserve		1,028	11,135
Retained earnings		282,901	459,505
Shareholders' funds		426,694	613,405
Non-current liabilities			
Deferred income		-	-
Deferred tax liabilities		2,132	2,599
		428,826	616,004
Net assets per share (RM)		1.49	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 30 September 2017

	Financial period ended 30.09.2017	Financial period ended 30.09.2016
	RM'000	RM'000
Operating activities		
Cash receipts from customers	2,473,389	3,077,961
Cash paid to suppliers and employees	(2,129,527)	(2,623,358)
Cash from operations	343,862	454,603
Income tax paid	(93,540)	(128,876)
Net cash flow from operating activities	250,322	325,727
Investing activities		
Property, plant and equipment		
- additions	(15,355)	(9,917)
- disposals	1,847	13,543
Asset held for sale		
- additions	-	-
- disposals	111,726	-
Additions of computer software	-	-
Interest income received	1,157	1,636
Net cash flow from investing activities	99,375	5,262
Financing activities		
Dividends paid to shareholders	(588,201)	(508,242)
Interest expense paid	(8,021)	(10,006)
Repayment of revolving credit	240,000	180,000
Net cash flow used in financing activities	(356,222)	(338,248)
Increase/(decrease) in cash and cash equivalents	(6,525)	(7,259)
Cash and cash equivalents as at 1 January	32,806	28,811
Cash and cash equivalents as at 30 September	26,281	21,552

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 RM7.9 million as of year to date 30th September 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.

5. Taxation

Taxation comprises:

	3 months ended		Financial period ended	
	30.9.2017	**30.9.2016**	**30.9.2017**	**30.9.2016**
	RM'000	**RM'000**	**RM'000**	**RM'000**
In respect of current year				
Current tax				
- Malaysian income tax	40,340	33,012	125,544	166,179
Deferred tax charge / (credit)	1,037	5,568	90	(3,347)
In respect of prior years				
Under provision in respect of prior years	-	(2,823)	-	(2,823)
- Malaysian income tax				
	41,377	35,757	125,634	160,009

The average effective tax rate of the Group for the financial period ended 30 September 2017 was 23.4% and the average effective tax rate of the Group for the financial period ended 30 September 2016 was 27.0%, which included 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	
	30.9.2017	**30.9.2016**	**30.9.2017**	**30.9.2016**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Interest income	(255)	(538)	(1,157)	(1,636)
Interest expense	2,617	3,983	8,021	10,006
Depreciation and amortization	1,281	(542)	4,023	10,354
(Gain)/ loss on disposal of property, plant and equipments	(71)	-	(24)	33
Provision for (write-back) / write-off of receivables	(128)	968	(272)	1,105
Provision for write-off of inventory	1,654	527	4,578	3,396
Net foreign exchange (gain)/ loss	(1,381)	(357)	(3,087)	2,368
(Gain)/Loss on derivatives	385	1,393	(1,545)	(1,064)
Restructuring expenses:	2,026	-	7,868	85,731
Impairment of asset	-	-	-	32,696
Provision for redundancies	-	-	-	32,701
Provision for obsolete materials	-	-	-	10,631
Project related costs	2,026	-	7,868	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 17 October 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 September 2017 are as follows:

Current	**RM'000**
1 week revolving credit maturing on 3 October 2017	90,000
1 week revolving credit maturing on 4 October 2017	40,000
1 week revolving credit maturing on 6 October 2017	150,000
2 weeks revolving credit maturing on 9 October 2017	50,000
2 weeks revolving credit maturing on 11 October 2017	25,000
2 weeks revolving credit maturing on 13 October 2017	15,000
	370,000

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 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 17 October 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 September 2017 are as follows:

Property, plant and equipment:	**RM'000**
Authorised by the Directors and contracted for	20
Authorised by the Directors but not contracted for	6,884
	6,904

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 30.9.2017 RM'000	**As at 31.12.2016 RM'000**
Total retained profits of British American Tobacco (Malaysia) Berhad and its subsidiaries		
- Realised profits	380,884	559,209
- Unrealised gain	4,570	26,721
Less: Consolidation Adjustments	(125,269)	(126,425)
Total retained profits	260,185	495,505

The unrealised portion within unappropriated profits (retained earnings) as at 30 September 2017 predominantly relates to net deferred tax asset of RM4.9 million and unrealised foreign exchange gain of RM0.3 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

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. 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

The Group registered market share decline from 54.5% in the second quarter of 2017 to 53.9% in the third quarter of 2017. Dunhill, the biggest Premium brand in legal market, registered 38.4% market share in the third quarter of 2017 (-0.6% versus previous quarter). The decline is mainly due to the prevailing high level of illegal cigarette incidence at 56.1% as of August 2017 (Source: Consumer Track by Kantar Research Agency) as well as the growth of a lower price segment within the legal market.

Within Aspiration Premium brands, Peter Stuyvesant and Pall Mall recorded a total market share of 11.7% as of the third quarter of 2017, maintaining leadership in this segment for the 7th consecutive month. This achievement was largely attributed to Peter Stuyvesant's solid growth trajectory with a 7.6% share of market as of third quarter of 2017, holding steadily since second quarter of 2017.

As a result, volumes decreased by 1.7% versus second quarter of 2017, translating into revenue and gross profit reduction of 2.2% and 1.8% respectively when compared to the preceding quarter. However, the Group's gross margin continued to improve for the third consecutive quarter reaching 36.5% in the third quarter of 2017. This was the result of the full implementation of the Group's sourcing change from local manufacturing to importation model.

Operating expenses during the third quarter of 2017 were 6.9% higher than preceding quarter. This was primarily attributed to the pre-spend on marketing investment committed behind Rothmans, which was launched in the first week of October 2017.

During the third quarter of 2017, the Group has also recorded restructuring expenses of RM2.0 million which consisted of on-going cost of the project and outplacement programs.

As a result, Profit from Operations in the third quarter of 2017 declined 4.2% (RM8 million) when compared to the second quarter of the same year.

17. Review of Performance

The Group's Domestic and Duty Free volumes for September 2017 year to date, declined at 15.3% when compared to the same period of last year.

Illegal cigarettes incidence for September year to date, has increased from 51% in 2016 to 56.1% as of August 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 half of 2017, the Group's volumes have been on a recovery trend. However this trend was interrupted in the third quarter of 2017, mainly due to the market dynamics within the illegal cigarettes segment and the recent growth of lower price segment within the legal market.

Revenue, for September 2017 year to date, declined 21.0% (RM 614 milion) 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 18.8% (RM188 million) versus the same period of last year.

Operating Expenses for the September 2017 year to date period was 17.0% (RM54 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 RM7.9 million as of year to date September 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 September 2017 year to date, the Group registered a decline of 9.4% (RM57 million) and 4.7% (RM20 million) in Profit from Operations and Profit after 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. The outlook for the remaining period of 2017 and 2018 will be very much dependent on the recovery of the legal market.

21. Earnings Per Share

	3 months ended		**Financial year ended**	
	30.9.2017	**30.9.2016**	**30.9.2017**	**30.9.2016**
Basic earnings per share				
Profit for the financial period (RM'000)	145,494	208,559	411,597	431,958
Weighted average number of ordinary shares in issue ('000)	285,530	285,530	285,530	285,530
Basic earnings per share (sen)	51.0	73.0	144.2	151.3

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 third 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 (Third Quarter 2016 : 55 sen per share), payable on 23 November 2017, to all shareholders whose names appear on the Record of Depositors on 14 November 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 14 November 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
Kuala Lumpur
23 October 2017