

BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD

(Company No : 4372-M)

CONDENSED CONSOLIDATED INCOME STATEMENTS

For the financial period ended 30 June 2018

	Note	3 months ended		Financial period ended	
		30.06.2018	30.06.2017	30.06.2018	30.06.2017
		RM'000	RM'000	RM'000	RM'000
Revenue	(i)	679,146	748,314	1,316,795	1,496,687
Cost of sales		(471,649)	(492,822)	(918,459)	(1,007,210)
Gross profit		207,497	255,492	398,336	489,477
Other operating income		824	434	2,124	1,049
Operating expenses	(i)	(56,297)	(53,776)	(118,619)	(128,920)
Restructuring expenses		-	(4,280)	-	(5,842)
Profit from operations		152,024	197,870	281,841	355,764
Finance cost		(3,227)	(3,894)	(6,418)	(5,404)
Profit before tax		148,797	193,976	275,423	350,360
Tax expense	5	(38,664)	(46,666)	(69,064)	(84,257)
Profit for the financial period		110,133	147,310	206,359	266,103
Effective tax rate		-26%	-24%	-25%	-24%
EPS	20	38.6	51.6	72.3	93.2
<u>Dividends</u>	21				
Interim 1				33	40
Interim 2		35	43	35	43

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 2017.

Note (i) 2017 Revenue and operating expenses restated in adoption of MFRS 15 starting 1st Jan 2018

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the financial period ended 30 June 2018

	3 months ended		Financial period ended	
	30.06.2018	30.06.2017	30.06.2018	30.06.2017
	RM'000	RM'000	RM'000	RM'000
Profit for the financial period	110,133	147,310	206,359	266,103
Other comprehensive income:				
Items that may be subsequently reclassified to profit or loss				
Change in fair value of cash flow hedges	4,725	(4,253)	4,275	(10,253)
- deferred tax on fair value changes of cash flow hedges	(1,134)	1,021	(1,026)	2,461
Total other comprehensive income for the financial period	<u>3,591</u>	<u>(3,232)</u>	<u>3,249</u>	<u>(7,792)</u>
Total comprehensive income for the financial period	<u>113,724</u>	<u>144,078</u>	<u>209,608</u>	<u>258,311</u>
Attributable to:				
Shareholders' equity	<u>113,724</u>	<u>144,078</u>	<u>209,608</u>	<u>258,311</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 2017.

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

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the financial period ended 30 June 2018

	Issued and fully paid ordinary shares		Non- distributable	Distributable	Attributable to
	Number of shares	Nominal value	Cash flow hedge reserve	Retained earnings	Shareholders' Equity
	'000	RM'000	RM'000	RM'000	Total RM'000
At 1 January 2018	285,530	142,765	(1,812)	241,170	382,123
Profit for the financial year	-	-	-	206,359	206,359
Other comprehensive income for the financial period:					
- changes in fair value of cash flow hedges	-	-	4,275	-	4,275
- deferred tax on fair value changes on cash flow hedges	-	-	(1,026)	-	(1,026)
	-	-	3,249	206,359	209,608
Transaction with owners:					
Dividend for financial year ended 31 December 2017					
- Interim 4	-	-	-	(122,778)	(122,778)
Dividend for financial year ended 31 December 2018					
- Interim 1	-	-	-	(94,225)	(94,225)
At 30 June 2018	285,530	142,765	1,437	230,526	374,728
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 period:					
- 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:					
Dividend for financial year ended 31 December 2016					
- Interim 4	-	-	-	(219,858)	(219,858)
- Special Dividend	-	-	-	(131,344)	(131,344)
Dividend for financial year ended 31 December 2017					
- Interim 1	-	-	-	(114,221)	(114,221)
At 30 June 2017	285,530	142,765	3,343	260,185	406,293

The Condensed Consolidated Statements of Changes in Equity should be read in conjunction with the Annual Audited Financial Statements of the Group for the year ended 31 December 2017.

BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD

(Company No : 4372-M)

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2018

		As at 30.06.2018	As at 31.12.2017
	Note	RM'000	RM'000
Non-current assets			
Property, plant and equipment		37,642	34,836
Computer software		1,476	1,524
Goodwill		411,618	411,618
Deferred tax assets		29,102	37,666
		<u>479,838</u>	<u>485,644</u>
Current assets			
Asset held for sale		-	399
Inventories		195,034	236,636
Receivables		324,592	303,727
Derivative financial instruments		1,877	-
Tax Recoverable		11,119	6,595
Deposits, cash and bank balances		23,511	11,554
		<u>556,133</u>	<u>558,911</u>
Current liabilities			
Payables		270,980	276,757
Derivative financial instruments		3	2,408
Current tax liabilities		5,260	5,267
Borrowings	10	385,000	378,000
Bank Overdraft		-	-
		<u>661,243</u>	<u>662,432</u>
Net current (liabilities) / assets		<u>(105,110)</u>	<u>(103,521)</u>
		<u>374,728</u>	<u>382,123</u>
Capital and reserves			
Share capital		142,765	142,765
Cash flow hedge reserve		1,437	(1,812)
Retained earnings		230,526	241,170
Shareholders' funds		<u>374,728</u>	<u>382,123</u>
Non-current liabilities			
Deferred tax liabilities		-	-
		<u>374,728</u>	<u>382,123</u>
Net assets per share (RM)		1.31	1.34

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 2017.

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

CONDENSED CONSOLIDATED CASH FLOW STATEMENTS

For the financial year ended 30 June 2018

	Financial period ended 30.06.2018	Financial period ended 30.06.2017
	RM'000	RM'000
Operating activities		
Cash receipts from customers	1,422,307	1,679,735
Cash paid to suppliers and employees	(1,124,448)	(1,452,299)
Cash from operations	297,859	227,436
Income taxes paid	(66,060)	(41,017)
Net cash flow from operating activities	231,799	186,419
Investing activities		
Property, plant and equipment		
- additions	(5,986)	(6,998)
- disposals	42	985
Disposal of assets held for sale	2,000	62,041
Additions of computer software	-	-
Interest income received	523	902
Net cash flow from investing activities	(3,421)	56,930
Financing activities		
Dividends paid to shareholders	(217,003)	(465,423)
Interest expense paid	(6,418)	(5,404)
Drawdown of revolving credit	7,000	185,000
Net cash flow used in financing activities	(216,421)	(285,827)
Increase in cash and cash equivalents	11,957	(42,478)
Cash and cash equivalents as at 1 January	11,554	32,806
Cash and cash equivalents as at 30 June	23,511	(9,672)

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 2017.

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 2017.

The audited financial statements of the Group for the year ended 31 December 2017 were prepared in accordance with MFRS.

MFRS 9 – Financial Instrument and *MFRS 15 – Revenue from Contracts with Customers* has been applied for the first time in this interim report. The adoption of MFRS 9 and MFRS 15 from 1 January 2018 does not have any significant impact to the financial report of the Group. Additionally, see note 4.

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 2017.

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 2017 was unqualified.

3. Unusual Items

There were no unusual items affecting assets, liabilities, equity, net income or cash flows during the financial period under review.

4. Changes in Significant Accounting Policies

MFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. As a result, upon the adoption of MFRS 15 with effect on 1 January 2018, the Group will recognise the revenue from contracts with customers that requires customer-related costs that have previously been treated as distribution and marketing costs to be allocated as a deduction of revenue.

The following table presents the financial impact on initial adoption of MFRS 15 to the consolidated income statement for the corresponding comparative period ended 30 June 2017:

British American Tobacco (Malaysia) Berhad

	As previously stated 30 June 2017 RM'000	Changes RM'000	Restated 30 June 2017 RM'000
Revenue	1,544,814	(48,127)	1,496,687
Operating expenses	(177,047)	48,127	(128,920)
Profit for the financial period	266,103	-	266,103
<i>Earnings per share</i>	93.2	-	93.2

5. Taxation

Taxation comprises:

	3 months ended		Financial period ended	
	30.06.2018	30.06.2017	30.06.2018	30.06.2017
	RM'000	RM'000	RM'000	RM'000
<u>In respect of current year</u>				
Current tax				
- Malaysian income tax	30,137	48,189	61,529	85,204
Deferred tax charge/ (credit)	8,527	(1,523)	7,535	(947)
	38,664	46,666	69,064	84,257

The average effective tax rate of the Group for the second quarter 2018 and financial period ended 30 June 2018 is 26.0% and 25.0%. In 2017, the average effective tax rate of the Group for the second quarter and financial period ended 30 June 2017 was 24.1% and 24.0% respectively.

The increase in the average effective tax rates from 24% to 25% in the first half of 2018 was mainly due to phasing of tax adjustments in quarter 2.

6. Notes to the Statements of Comprehensive Income

	3 months		Financial period ended	
	30.6.2018	30.6.2017	30.6.2018	30.6.2017
	RM'000	RM'000	RM'000	RM'000
Interest income	(305)	(287)	(523)	(902)
Interest expense	3,227	3,894	6,418	5,404
Depreciation and amortization	1,619	1,327	3,168	2,742
Loss on disposal of property, plant and equipments	-	18	18	47
Gain on disposal of asset held for sale	(518)	-	(1,601)	-
Provision for write- off/ (write-back) of receivables	14	5	21	(144)
Provision for write-off of inventory	2,292	2,810	3,476	2,924
Net foreign exchange loss/ (gain)	1,868	(3,393)	411	(1,706)
Loss/ (Gain) on derivatives	163	818	370	(1,930)
Restructuring expenses:	-	4,280	-	5,842
Project related costs	-	4,280	-	5,842

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 12 July 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 30 June 2018 are as follows:

Current	RM'000
1 week revolving credit maturing on 3 July 2018	65,000
1 week revolving credit maturing on 6 July 2018	35,000
2 weeks revolving credit maturing on 9 July 2018	118,000
2 weeks revolving credit maturing on 11 July 2018	85,000
2 weeks revolving credit maturing on 13 July 2018	82,000
	<u>385,000</u>

All borrowings are denominated in Ringgit Malaysia.

11. Contingent Liabilities and Contingent Assets

There were no other contingent liabilities or contingent assets as at 12 July 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 30 June 2018 are as follows:

Property, plant and equipment:	RM'000
Authorised by the Directors and contracted for	1,779
Authorised by the Directors but not contracted for	15,461
	<u>17,240</u>

13. Material Litigation

There was no material litigation as at 12 July 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

Total legal market continues to be under pressure with high illegal volume share of 63% in the second quarter of 2018 (Source: Consumer Track by Kantar Research / Illicit Cigarettes Study).

In spite of the continuous pressure from illegal cigarette trade, the Group registered a volume growth of 4.8% versus the first quarter of 2018, outperforming the total legal market which grew by 2.2%. This improving volume performance was the main driver for our second quarter revenue and gross profit growth of 6.5% (RM41 million) and 8.7% (RM 17 million) respectively, when compared to the preceding quarter.

With regards to market share, the Group has taken the decision to restate the legal market share from the second quarter of 2018 onwards. In previous reporting, the legal market share included multi-national companies and local manufacturers. Over the last twelve months, an illicit cigarette survey confirmed that more than 80% of brands sold in the market by local manufacturers are continuously below minimum price, using illegal tax stamps. Therefore, the Group has decided to remove such brands from the market share report in order to reflect a more accurate market share trend in the legal industry (Source: Illicit Cigarette Study).

After two consecutive quarters of share growth, the Group registered a market share of 57.2% (new reporting vs. 53.5% at old reporting) in the second quarter of 2018, which was 1.3ppt above year to date of the same period of last year, however 1.1ppt down vs the preceding quarter.

Dunhill registered a market share of 39.7% for the second quarter of 2018. This share is higher by 0.2ppt versus year to date of the same period of last year, however down by 1.0ppt vs the preceding quarter. The correction of 1.0ppt versus preceding quarter was partially due to the growth of Value for Money (VFM) segment and the continuous pressure of high levels of illegal and quasi legal (illegal tax stamps) trade. Affordability remains a key concern to continuously drive share growth in Premium segment.

Peter Stuyvesant & Rothmans showed fairly stable share performance. Peter Stuyvesant registered a growth of 0.2ppt to further expand leadership in the Aspirational Premium segment. Rothmans also experienced a slight share growth of 0.2ppt solidifying its position in the Value For Money (VFM) segment. We see moderate VFM segment growth which is in line with the Group's projections.

Operating expenses during the second quarter of 2018 were 9.7% (RM6 million) lower than preceding quarter. This was primarily attributed to lower overhead costs driven by cost base transformation initiatives the Group has undertaken and timing of other operating expenditure.

As a result, Profit from Operations in the second quarter of 2018 grew 17.1% (RM22 million) when compared to the preceding quarter.

16. Review of Performance

Total legal industry volume for June 2018 year to date declined by 3.5% when compared to the same period of last year, driven by illegal cigarette growth of 4ppt to 63%. The Group's Domestic and Duty Free volumes in the first half of 2018 declined by 6.7% versus the same period of last year, higher than the industry average rate of decline due to the Group's premium portfolio and geographical coverage.

Revenue and gross profit for the first half of 2018 declined by 12.0% (RM180 million) and 18.7% (RM91 million) respectively when compared to the same period of last year, mainly due to market contraction, absence of the sale of residual leaf raw materials to related companies outside of Malaysia and the portfolio mix impact as a result of Rothmans launch in the VFM segment.

The continuous cost base transformation that the Group is undertaking, lower recharges from related entities, and timing of other operating expenditure led to lower operating expenses by 8.0% (RM10 million) comparing to the same period of last year.

As a result of the above, the Group registered a decline of 20.8% (RM74 million) in Profit from Operations, when compared to the same period of last year.

17. 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.

18. Seasonal or Cyclical Factors

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

19. 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 2018 will be very much dependant on the recovery of the legal market.

20. Earnings Per Share

	3 months ended		Financial year ended	
	30.06.2018	30.06.2017	30.06.2018	30.06.2017
Basic earnings per share				
Profit for the financial period (RM'000)	110,133	147,310	206,359	266,103

British American Tobacco (Malaysia) Berhad

Weighted average number of ordinary shares in issue ('000)	285,530	285,530	285,530	285,530
Basic earnings per share (sen)	38.6	51.6	72.3	93.2

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.

21. Dividends

The Board of Directors has declared a second interim dividend of 35.00 sen per share, tax exempt under the single-tier tax system, amounting to RM99,935,500 in respect of the financial year ended 31 December 2018 (Second Quarter 2017 : 43 sen per share), payable on 23 August 2018, to all shareholders whose names appear on the Record of Depositors on 3 August 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 3 August 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

LEE MI RYOUNG (MAICSA 7058423)

Company Secretary

Kuala Lumpur

19 Jul 2018