

1st QUARTER 2018 RESULTS

**DATE : MONDAY
21 MAY 2018**

TIME : 5.00 P.M.

**VENUE : BRITISH AMERICAN TOBACCO MALAYSIA
GUOCO TOWER, DAMANSARA CITY
NO. 6 JALAN DAMANLELA
BUKIT DAMANSARA
50490 KUALA LUMPUR**

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

CONDENSED CONSOLIDATED INCOME STATEMENTS

For the financial period ended 31 March 2018

	Note	3 months ended	
		31.03.2018	31.03.2017
		RM'000	RM'000
Revenue	(i)	637,649	748,374
Cost of sales		(446,810)	(514,388)
Gross profit		190,839	233,986
Other operating income		1,300	615
Operating expenses	(i)	(62,322)	(75,145)
Restructuring expenses		-	(1,562)
Profit from operations		129,817	157,894
Finance cost		(3,191)	(1,510)
Profit before tax		126,626	156,384
Tax expense	5	(30,400)	(37,591)
Profit for the financial period		96,226	118,793
Effective tax rate		24.0%	24.0%
EPS	20	33.7	41.6
Dividends			
- Interim 1	21	33	40

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 31 March 2018

	3 months ended	
	31.03.2018	31.03.2017
	RM'000	RM'000
Profit for the financial period	96,226	118,793
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	(450)	(6,000)
Deferred tax on fair value changes of cash flow hedges	108	1,440
Total other comprehensive (expense)/income for the financial period	(342)	(4,560)
Total comprehensive income for the financial period	95,884	114,233
Attributable to:		
Owners of the Company	95,884	114,233

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 STATEMENT OF CHANGES IN EQUITY
For the financial period ended 31 March 2018

	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 2018	285,530	142,765	(1,812)	241,170	382,123
Profit for the financial year	-	-	-	96,226	96,226
Other comprehensive (expense)/income for the financial year:					
- changes in fair value of cash flow hedges	-	-	(450)	-	(450)
- deferred tax on fair value changes on cash flow hedges	-	-	108	-	108
Total comprehensive income	-	-	(342)	96,226	95,884
Transactions with owners:					
Expense arising from equity-settled share based payment transactions	-	-	-	-	-
Recharge of share based payment	-	-	-	-	-
Dividend for financial year ended 31 December 2017					
- Interim 4	-	-	-	(122,778)	(122,778)
At 31 March 2018	285,530	142,765	(2,154)	214,618	355,229
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
- deferred tax on defined benefit plan	-	-	-	-	-
Total comprehensive income	-	-	(4,560)	118,793	114,233
Transaction 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	227,096	376,436

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 2017.

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

CONDENSED CONSOLIDATED BALANCE SHEET
As at 31 March 2018

		As at 31.03.2018	As at 31.12.2017
	Note	RM'000	RM'000
Non-current assets			
Property, plant and equipment		34,289	34,836
Computer software		1,500	1,524
Goodwill		411,618	411,618
Deferred tax assets		38,762	37,666
		<u>486,169</u>	<u>485,644</u>
Current assets			
Assets held for sale		62	399
Inventories		230,024	236,636
Receivables		236,394	303,727
Derivative financial instruments		-	-
Tax recoverable		7,577	6,595
Deposits, cash and bank balances		19,650	11,554
		<u>493,707</u>	<u>558,911</u>
Current liabilities			
Payables		226,214	276,757
Deferred income		-	-
Derivative financial instruments		2,860	2,408
Current tax liabilities		5,573	5,267
Borrowings	10	390,000	378,000
Bank overdraft		-	-
		<u>624,647</u>	<u>662,432</u>
Net current asset / liabilities		<u>(130,940)</u>	<u>(103,521)</u>
		<u>355,229</u>	<u>382,123</u>
Capital and reserves			
Share capital		142,765	142,765
Cash flow hedge reserve		(2,154)	(1,812)
Retained earnings		214,618	241,170
Shareholders' funds		<u>355,229</u>	<u>382,123</u>
Non-current liabilities			
Deferred tax liabilities		-	2,599
		<u>355,229</u>	<u>616,004</u>
Net assets per share (RM)		1.24	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 STATEMENT
For the financial year ended 31 March 2018

	Financial period ended 31.03.2018	Financial period ended 31.03.2017
	RM'000	RM'000
Operating activities		
Cash receipts from customers	721,775	734,404
Cash paid to suppliers and employees	(568,284)	(641,213)
Cash from operations	<u>153,491</u>	<u>93,191</u>
Income tax paid	(32,068)	(10,106)
Net cash flow from operating activities	<u>121,423</u>	<u>83,085</u>
Investing activities		
Property, plant and equipment		
- additions	(1,038)	(4,468)
- disposals	42	2
Asset held for sale		
- disposals	1,420	40,675
Additions of computer software	-	-
Interest income received	218	615
Net cash flow from investing activities	<u>642</u>	<u>36,824</u>
Financing activities		
Dividends paid to shareholders	(122,778)	(351,201)
Interest expense paid	(3,191)	(1,510)
Drawdown of revolving credit	12,000	215,000
Net cash flow used in financing activities	<u>(113,969)</u>	<u>(137,711)</u>
Increase/(decrease) in cash and cash equivalents	8,096	(17,802)
Cash and cash equivalents as at 1 January	<u>11,554</u>	<u>32,806</u>
Cash and cash equivalents as at 31 March	<u>19,650</u>	<u>15,004</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 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 31 March 2017:

British American Tobacco (Malaysia) Berhad

	As previously stated	Changes	Restated
	31 March 2017	RM'000	31 March 2017
	RM'000	RM'000	RM'000
Revenue	770,724	(22,350)	748,374
Operating expenses	(97,495)	22,350	(75,145)
Profit for the financial period	118,793	-	118,793
<i>Earnings per share</i>	41.6	-	41.6

5. Taxation

Taxation comprises:

	3 months/ Financial period ended	
	31.03.2018	31.03.2017
	RM'000	RM'000
<u>In respect of current year</u>		
Current tax		
- Malaysian income tax	31,392	37,015
Deferred tax (credit) /charge	(992)	576
	30,400	37,591

The average effective tax rate of the Group for the financial period 31 March 2018 is 24.0% and is in line with the average effective tax rate of the Group for the financial period ended 31 March 2017 of 24.0%.

6. Notes to the Statements of Comprehensive Income

	3 months/ Financial period ended	
	31.3.2018	31.3.2017
	RM'000	RM'000
Interest income	(218)	(615)
Interest expense	3,191	1,510
Depreciation and amortization	1,549	1,415
Loss on disposal of property, plant and equipments	18	29
(Gain) on disposal of asset held for sale	(1,083)	-
Provision for write-off/ (write-back) of receivables	7	(149)
Provision for write-off of inventory	1,184	114
Net foreign exchange (gain)/loss	(1,457)	1,687
Loss/(gain) on derivatives	207	(2,748)
Restructuring expenses:	-	1,562
Provision of project related cost	-	1,562

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 May 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 March 2018 are as follows:

Current	RM'000
1 week revolving credit maturing on 2 April 2018	78,000,000
1 week revolving credit maturing on 3 April 2018	70,000,000
1 week revolving credit maturing on 4 April 2018	35,000,000
1 week revolving credit maturing on 6 April 2018	25,000,000
2 weeks revolving credit maturing on 10 April 2018	120,000,000
2 weeks revolving credit maturing on 11 April 2018	62,000,000
	<u>390,000,000</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 14 May 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 March 2018 are as follows:

Property, plant and equipment:	RM'000
Authorised by the Directors and contracted for	2,979
Authorised by the Directors but not contracted for	5,573
	<u>8,552</u>

13. Material Litigation

There was no material litigation as at 14 May 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 reviewed the financial information as a whole for decision making.

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

In the first quarter of 2018, the Group registered a market share of 54.7% with a growth of 0.8ppt versus the fourth quarter of 2017.

Dunhill solidified its position as Malaysia's leading cigarette brand by attaining a share growth of 0.5ppt with a market share of 38.2% due to initiatives that continue to reinforce the brand's legacy.

The entry into Value for Money (VFM) has strengthened the Group's portfolio with Rothmans exhibiting the highest growth within the legal market giving an increase in market share of 1.2ppt versus previous quarter. This launch enabled the Group to achieve 30% share of this segment. The segment growth is in line with the Group's projections.

Aspirational Premium experienced a share decline as a result of the gradual growth of VFM segment. Whilst both of the Group's Aspirational Premium brands (Peter Stuyvesant and Pall Mall) marginally declined in share, the Group managed to extend its leadership in the segment from 42% in 2017 to 44% in quarter 1 2018.

Total legal market remains under pressure with illegal volume share at 63% in quarter 1 2018, consisting of smuggled cigarette of 59% and quasi legal cigarette with fake tax stamps of 4% (Source: Consumer Track by Kantar Research Agency/ Illicit Cigarettes Study). This has translated in legal volume decline versus the fourth quarter of 2017, impacting the Group's volume by 8%.

The lower volume performance described above, translated into a first quarter revenue and gross profit decline of 6.9%, and 5.3% respectively when compared to the preceding quarter.

Operating expenses during the first quarter of 2018 were 39.4% (RM40.6 million) lower than preceding quarter mainly due to the absence of the provision for impairment of prepaid excise duties of RM21 million; lower distribution and marketing cost in the quarter compared to the preceding quarter when Rothmans was launched, and timing of other expenditure. Operating expenses, excluding the provision of impairment for prepaid excise duties decreased 24.3% versus preceding quarter. In this regard, the Group is actively engaging Royal Malaysian Customs (RMC) to obtain a refund of the prepaid excise.

Lower operating expenses offset the lower revenue translating to a 23.2% increase in Profit from Operations (RM24.5 million) when compared to fourth quarter in 2017.

16. Review of Performance

Total legal industry volume declined by 4% versus same period last year as a result of total illegal cigarette growth of 3.0ppt. As a consequence, the Group's Domestic volumes declined by 6% versus same period last year driven by market contraction.

Revenue for the first quarter of 2018 declined 14.8% (RM 110.7 million) when compared to the same period last year due to domestic and duty free volume decline and absence of the sale of residual leaf raw materials to related companies outside of Malaysia in Quarter 1 2017 in line with the winding down of the manufacturing operations. This combined with the portfolio mix impact due to the addition of Rothmans in the Group's portfolio led to a Gross Profit decline of 18.4% (RM43.1 million) versus the same period last year.

Operating Expenses for the first quarter of 2018 were 17.1% lower than the same period last year (RM12.8 million), attributed to lower recharges from related parties, overhead savings initiatives and timing of other operating expenditure.

As a result of the above, the Group registered a decline of 17.8% (RM28.1 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 duties typically announced annually during National Budget.

19. Future Year's Prospects

The Group remains very concerned with legal volumes continuing to be impacted by the current high incidence of illegal cigarette trade with no sign of reduction in the past Quarter. Consequently, such high incidence of illegal cigarette trade continues to be the main challenge in the short and medium term for legal tobacco industry. The outlook for 2018 will be very much dependent on the recovery of the legal market.

20. Earnings Per Share

	3 months ended/ Financial period ended	
	31.03.2018	31.03.2017
Basic earnings per share		
Profit for the financial period (RM'000)	96,226	118,793
Weighted average number of ordinary shares in issue ('000)	285,530	285,530

Basic earnings per share (sen)	33.7	41.6
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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 first interim dividend of 33.00 sen per share, tax exempt under the single-tier tax system, amounting to RM94,224,900 in respect of the financial year ended 31 December 2018 (First Quarter 2017 : 40 sen per), payable on 19 June 2018, to all shareholders whose names appear on the Record of Depositors on 5 June 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 5 June 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

21 May 2018