

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

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENTS

For the financial period ended 31 March 2019

	Note	3 months ended	
		31.03.2019	31.03.2018
		RM'000	RM'000
Revenue		620,958	637,649
Cost of sales		(440,212)	(446,810)
Gross profit		180,746	190,839
Other operating income		4,096	1,300
Operating expenses		(64,727)	(62,322)
Profit from operations		120,115	129,817
Finance cost		(3,526)	(3,191)
Profit before tax		116,589	126,626
Tax expense	5	(27,989)	(30,400)
Profit for the financial period		88,600	96,226
Profit attributable to the owners of the Company		88,600	96,226
Effective tax rate		24.0%	24.0%
EPS	20	31.0	33.7
<u>Dividends</u>			
- Interim 1		30	33

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 2018.

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

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the financial period ended 31 March 2019

	3 months ended	
	31.03.2019	31.03.2018
	RM'000	RM'000
Profit for the financial period	88,600	96,226
Other comprehensive income:		
Items that may be subsequently reclassified to profit or loss		
Change in fair value of cash flow hedges	(897)	(450)
- deferred tax on fair value changes of cash flow hedges	215	108
Total other comprehensive expense for the financial period	(682)	(342)
Total comprehensive income for the financial period	87,918	95,884
Attributable to:		
Shareholders' equity	87,918	95,884

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 2018.

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

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET
As at 31 March 2019

	As at 31.03.2019	As at 31.12.2018
Note	RM'000	RM'000
Non-current assets		
Property, plant and equipment	71,541	44,031
Computer software	1,429	1,429
Goodwill	411,618	411,618
Deferred tax assets	34,167	31,311
Derivative financial instruments	96	-
	<u>518,851</u>	<u>488,389</u>
Current assets		
Asset held for sale	116	116
Inventories	186,844	162,282
Receivables	278,922	361,479
Derivative financial instruments	353	797
Tax Recoverable	11,459	9,416
Deposits, cash and bank balances	19,971	78,627
	<u>497,666</u>	<u>612,717</u>
Current liabilities		
Payables	192,356	235,867
Deferred income	-	-
Derivative financial instruments	818	198
Current tax liabilities	22,633	33,374
Borrowings	396,000	410,000
Lease liabilities	6,181	-
Bank Overdraft	-	-
	<u>617,988</u>	<u>679,439</u>
Net current (liabilities) / assets	(120,322)	(66,722)
	<u>398,529</u>	<u>421,667</u>
Capital and reserves		
Share capital	142,765	142,765
Cash flow hedge reserve	(308)	374
Retained earnings	232,929	278,528
Shareholders' funds	<u>375,386</u>	<u>421,667</u>
Non-current liabilities		
Deferred tax liabilities	-	-
Lease liabilities	23,143	-
	<u>398,529</u>	<u>421,667</u>
Net assets per share (RM)	1.31	1.48

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 2018.

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

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the financial period ended 31 March 2019

	Issued and fully paid ordinary shares		Non- distributable		Distributable	Attributable to Shareholders' Equity
	Number of shares	Nominal value	Cash flow hedge reserve	Shared based payment reserve	Retained earnings	Total
	'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2019	285,530	142,765	374	-	278,528	421,667
Profit for the financial year	-	-	-	-	88,600	88,600
Other comprehensive income for the financial period:						
- changes in fair value of cash flow hedges	-	-	(897)	-	-	(897)
- deferred tax on fair value changes on cash flow hedges	-	-	215	-	-	215
	<u>285,530</u>	<u>142,765</u>	<u>(308)</u>	<u>-</u>	<u>367,128</u>	<u>509,585</u>
Transaction with owners:						
Expense arising from equity-settled share based payment transactions	-	-	-	-	-	-
Recharge of share based payment	-	-	-	-	-	-
Dividend for financial year ended 31 December 2018						
- Interim 4	-	-	-	-	(134,199)	(134,199)
At 31 March 2019	<u>285,530</u>	<u>142,765</u>	<u>(308)</u>	<u>-</u>	<u>232,929</u>	<u>375,386</u>
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 income for the financial period:						
- changes in fair value of cash flow hedges	-	-	(450)	-	-	(450)
- deferred tax on fair value changes on cash flow hedges	-	-	108	-	-	108
	<u>-</u>	<u>-</u>	<u>(342)</u>	<u>-</u>	<u>96,226</u>	<u>95,884</u>
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	<u>285,530</u>	<u>142,765</u>	<u>(2,154)</u>	<u>-</u>	<u>214,618</u>	<u>355,229</u>

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 2018.

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

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENTS
For the financial period ended 31 March 2019

	3 months ended	
	31.03.2019	31.03.2018
	RM'000	RM'000
Operating activities		
Cash receipts from customers	703,544	721,775
Cash paid to suppliers and employees	(565,922)	(568,284)
Cash from operations	137,622	153,491
Income taxes paid	(43,414)	(32,068)
Net cash flow from operating activities	94,208	121,423
Investing activities		
Property, plant and equipment		
- additions	(1,670)	(1,038)
- disposals	1,179	42
Disposal of assets held for sale	-	1,420
Additions of computer software	-	-
Interest income received	467	218
Net cash flow from investing activities	(24)	642
Financing activities		
Dividends paid to shareholders	(134,199)	(122,778)
Interest expense paid	(3,227)	(3,191)
Drawdown of revolving credit	(14,000)	12,000
Interest expense on lease liabilities	(299)	-
Repayment on lease liabilities	(1,115)	-
Net cash flow used in financing activities	(152,840)	(113,969)
Increase in cash and cash equivalents	(58,656)	8,096
Cash and cash equivalents as at 1 January	78,627	11,554
Cash and cash equivalents as at 31 March	19,971	19,650

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 2018.

Notes:

1. **Basis of Preparation**

The interim financial report is unaudited and has been prepared in accordance with the requirements of the 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 Berhad. It should be read in conjunction with the Group’s annual audited financial statements for the year ended 31 December 2018.

The audited financial statements of the Group for the year ended 31 December 2018 were prepared in accordance with MFRS.

MFRS 16 – Leases has been applied for the first time in this interim report. The adoption of MFRS 16 from 1 January 2019 and its impact to the financial report of the Group is disclosed in 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 2018.

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 2018 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 16 introduces a single, on-balance sheet lease accounting model for leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the assets.

The following table presents with the impact of changes on the financial statements from the adoption of the standard as at 1 January 2019:

	As at 31.12.2018 RM’000	Changes RM’000	As at 01.01.2019 RM’000
Non-current assets			
Right-of-use-assets	-	30,439	30,439
Non-current liabilities			
Lease liabilities	-	24,258	24,258

British American Tobacco (Malaysia) Berhad

Current liabilities

Lease liabilities	-	6,181	6,181
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In accordance with transitional requirements of MFRS 16, comparatives are not restated.

5. Taxation

Taxation comprises:

	Financial period ended	
	31.03.2019	31.03.2018
	RM'000	RM'000
<u>In respect of current year</u>		
Current tax		
- Malaysian income tax	30,630	31,392
Deferred tax credit	(2,641)	(992)
	<u>27,989</u>	<u>30,400</u>

The average effective tax rate of the Group for current and previous corresponding periods were 24%, in line with Malaysian statutory tax rate (24%).

6. Notes to the unaudited Statements of Comprehensive Income

	3 months ended	
	31.03.2019	31.03.2018
	RM'000	RM'000
Interest income	(467)	(218)
Interest expense	3,526	3,191
Depreciation and amortization	1,914	1,549
Depreciation of right-of-use-asset	1,676	-
(Gain) / loss on disposal of property, plant and equipments	(177)	18
Gain on disposal of asset held for sale	-	(1,083)
Allowance for (write-back)/ write-off of receivables	(29)	7
Provision for write-off of inventory	1,128	1,184
Net foreign exchange gain	(799)	(1,457)
Loss on derivatives	195	207

7. Changes in Composition of the Group

There were no changes in the composition of the Group during the financial period under review.

8. Related Party Transactions

There were no significant transactions with new related parties other than those disclosed in the audited financial statements for the year ended 31st of December 2018.

9. Corporate Proposals

There were no new corporate proposals announced as at 21 May 2019 (the latest practicable date which shall not be earlier than 7 days from the date of issue of this quarterly report).

10. Changes in Share Capital and Debt

There were no issuances, cancellations, repurchases, resale of equity securities for the period under review.

11. Borrowings

The Group's borrowings as at 31 March 2019 are as follows:

Current	RM'000
2 weeks revolving credit maturing on 15 April 2019	96,000
4 weeks revolving credit maturing on 30 April 2019	<u>300,000</u>
	<u>396,000</u>

All borrowings are denominated in Ringgit Malaysia.

12. Contingent Liabilities and Contingent Assets

There were no other contingent liabilities or contingent assets as at 21 May 2019 (the latest practicable date which shall not be earlier than 7 days from the date of issue of this quarterly report).

13. Capital Commitments

Capital commitments not provided for in the financial statements as at 31 March 2019 are as follows:

Property, plant and equipment:	RM'000
Authorised by the Directors and contracted for	250
Authorised by the Directors but not contracted for	<u>3,285</u>
	<u>3,535</u>

14. Material Litigation

There was no material litigation as at 21 May 2019 (the last 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

Profit from operations was RM120 million in the current quarter versus RM162 million for the immediate preceding quarter, registering a decline of 26%.

Legal market volume declined by 8.0% in the first quarter of 2019 versus the preceding quarter, predominantly impacted by the Sales & Services Tax (SST) led pricing in November 2018, coupled with the implementation of a Public Place Smoking (PPS) ban in January and very high illegal cigarette incidence, which continues to be at 61% (Source: Consumer Track by Kantar Research Agency/ Illicit Cigarettes Study), despite efforts by Royal Malaysian Customs on retail enforcement during the first quarter of 2019.

The Group with its more premium focused portfolio and wider geographic spread saw a higher volume impact than industry, registering a market share decline of 0.5ppt versus the previous quarter. This is attributed to the high price elasticity levels and the unprecedented affordability stretch on consumers mainly in rural areas in Malaysia, where illicit products are selling significantly below legal minimum price. Therefore, the legal cigarette industry experienced downtrading as well as market contraction post SST led pricing in November 2018. However, Dunhill, the leading cigarette brand in Malaysia is holding strong within the premium segment with a share of segment growth of 0.4ppt when compared to other premium brands.

The Group's volume experienced an outflow to quasi legal cigarettes with fake tax stamps. Furthermore, the Group was marginally impacted by the launch of a competitor's tobacco heated product. The Group's tobacco heated product in the same segment has not received price approval from the government, making Malaysia to be the first tobacco market where a competitor product was approved and not BAT in the same segment.

Volume performance in the first quarter translated to a decline in revenue of 19.4% (RM150 million) as well as a decline in profit from operations of 26% (RM42 million) versus the preceding quarter.

17. Review of Performance Year-to-date 2019 vs Year-to-date 2018

Profit from operations was RM120 million in the current quarter versus RM130 million for the same period last year, a decline of 7.5%.

Total legal industry volume declined by 6.0% when compared to the same period of last year largely attributed to SST led pricing and high illegal cigarette incidence of 61% (Source: Consumer Track by Kantar Research Agency/ Illicit Cigarettes Study).

Legal cigarette market experienced downtrading from Premium and Aspirational Premium (AP) segments to Value for Money (VFM) segment, the only growing segment in the legal industry. Rothmans registered a solid performance in this new emerging segment, growing share by 1.4ppt as compared to the previous year.

Downtrading and market contraction in the legal market impacted the Group's revenue by 2.6% (RM17 million) versus same period last year, partially offset by SST led pricing benefit and the removal of GST. The revenue decline and stable cost base led to a reduction of 7.5% (RM10 million) in profit from operations.

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 the National Budget.

20. Prospects

Whilst the Group continues to strengthen its portfolio with high quality products, the outlook of the Group remains highly dependent on the effectiveness of enforcement to curb illegal cigarette trade.

21. Earnings Per Share

	3 months ended	
	31.03.2019	31.03.2018
Basic earnings per share		
Profit for the financial period (RM'000)	88,600	96,226
Weighted average number of ordinary shares in issue ('000)	285,530	285,530
Basic earnings per share (sen)	31.0	33.7

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 30.00 sen per share, tax exempt under the single-tier tax system, amounting to RM85,659,000 in respect of the financial year ending 31 December 2019 (First Quarter 2018 : 33 sen per), payable on 25 June 2019, to all shareholders whose names appear on the Record of Depositors on 14 June 2019.

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 June 2019, in respect of ordinary transfers; and
- (b) Securities bought on Bursa Malaysia Berhad on a cum entitlement basis according to the Rules of Bursa Malaysia Berhad.

By Order of the Board

LEE MI RYOUNG (MAICSA 7058423)

Company Secretary

Kuala Lumpur

28 May 2019