

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

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENTS
For the financial period ended 30 June 2019

	Note	3 months ended		Financial period ended	
		30.06.2019	30.06.2018	30.06.2019	30.06.2018
		RM'000	RM'000	RM'000	RM'000
Revenue		640,805	679,146	1,261,763	1,316,795
Cost of sales		(457,267)	(471,649)	(897,479)	(918,459)
Gross profit		183,538	207,497	364,284	398,336
Other operating income		828	824	4,924	2,124
Operating expenses		(77,335)	(56,297)	(142,062)	(118,619)
Profit from operations		107,031	152,024	227,146	281,841
Finance cost		(4,323)	(3,227)	(7,849)	(6,418)
Profit before tax		102,708	148,797	219,297	275,423
Tax expense	5	(26,443)	(38,664)	(54,432)	(69,064)
Profit for the financial period		76,265	110,133	164,865	206,359
Profit attributable to the owners of the Company		76,265	110,133	164,865	206,359
Effective tax rate		25.7%	26.0%	24.8%	25.1%
EPS	21	26.7	38.6	57.7	72.3
<u>Dividends</u>					
- Interim 1				30	33
- Interim 2	22	26	35	26	35

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 year ended 30 June 2019

	3 months ended		Financial period ended	
	30.06.2019	30.06.2018	30.06.2019	30.06.2018
	RM'000	RM'000	RM'000	RM'000
Profit for the financial period	76,265	110,133	164,865	206,359
Other comprehensive income:				
Items that may be subsequently reclassified to profit or loss				
Change in fair value of cash flow hedges	1,272	4,725	375	4,275
- deferred tax on fair value changes of cash flow hedges	(305)	(1,134)	(90)	(1,026)
Total other comprehensive income for the financial period	<u>967</u>	<u>3,591</u>	<u>285</u>	<u>3,249</u>
Total comprehensive income for the financial period	<u>77,232</u>	<u>113,724</u>	<u>165,150</u>	<u>209,608</u>
Attributable to:				
Shareholders' equity	<u>77,232</u>	<u>113,724</u>	<u>165,150</u>	<u>209,608</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 2018.

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

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET
As at 30 June 2019

	As at 30.06.2019	As at 31.12.2018
Note	RM'000	RM'000
Non-current assets		
Property, plant and equipment	67,138	44,031
Computer software	1,429	1,429
Goodwill	411,618	411,618
Deferred tax assets	38,028	31,311
Derivative financial instruments	158	-
	<u>518,371</u>	<u>488,389</u>
Current assets		
Asset held for sale	-	116
Inventories	187,238	162,282
Receivables	268,684	361,479
Derivative financial instruments	1,267	797
Tax Recoverable	7,941	9,416
Deposits, cash and bank balances	9,745	78,627
	<u>474,875</u>	<u>612,717</u>
Current liabilities		
Payables	183,757	235,867
Derivative financial instruments	375	198
Current tax liabilities	17,701	33,374
Borrowings	396,000	410,000
Lease liabilities	6,962	-
	<u>604,795</u>	<u>679,439</u>
Net current (liabilities) / assets	(129,920)	(66,722)
	<u>388,451</u>	<u>421,667</u>
Capital and reserves		
Share capital	142,765	142,765
Cash flow hedge reserve	659	374
Retained earnings	223,535	278,528
Shareholders' funds	<u>366,959</u>	<u>421,667</u>
Non-current liabilities		
Lease liabilities	21,446	-
Derivative financial instruments	46	-
	<u>388,451</u>	<u>421,667</u>
Net assets per share (RM)	1.29	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 30 June 2019

	Issued and fully paid ordinary shares		Non-distributable		Distributable	Attributable to Shareholders'
	Number of shares	Nominal value	Cash flow hedge reserve	Shared based payment reserve	Retained earnings	Equity 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	-	-	-	-	164,865	164,865
Other comprehensive income for the financial period:						
- changes in fair value of cash flow hedges	-	-	375	-	-	375
- deferred tax on fair value changes on cash flow hedges	-	-	(90)	-	-	(90)
	<u>285,530</u>	<u>142,765</u>	<u>659</u>	<u>-</u>	<u>443,393</u>	<u>586,817</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)
Dividend for financial year ended 31 December 2019 - Interim 1					(85,659)	(85,659)
At 30 June 2019	<u>285,530</u>	<u>142,765</u>	<u>659</u>	<u>-</u>	<u>223,535</u>	<u>366,959</u>
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)
	<u>285,530</u>	<u>-</u>	<u>3,249</u>	<u>-</u>	<u>206,359</u>	<u>209,608</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)
Dividend for financial year ended 31 December 2018 - Interim 1					(94,225)	(94,225)
At 30 June 2018	<u>285,530</u>	<u>142,765</u>	<u>1,437</u>	<u>-</u>	<u>230,526</u>	<u>374,728</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 year ended 30 June 2019

	Financial period ended 30.06.2019	Financial period ended 30.06.2018
	RM'000	RM'000
Operating activities		
Cash receipts from customers	1,354,487	1,422,307
Cash paid to suppliers and employees	(1,105,946)	(1,124,448)
Cash from operations	<u>248,541</u>	<u>297,859</u>
Income taxes paid	(75,438)	(66,060)
Net cash flow from operating activities	<u>173,103</u>	<u>231,799</u>
Investing activities		
Property, plant and equipment		
- additions	(1,944)	(5,986)
- disposals	2,453	42
Disposal of assets held for sale	680	2,000
Interest income received	<u>670</u>	<u>523</u>
Net cash flow from investing activities	<u>1,859</u>	<u>(3,421)</u>
Financing activities		
Dividends paid to shareholders	(219,858)	(217,003)
Interest expense paid	(7,265)	(6,418)
Drawdown/n(repayment) of revolving credit	(14,000)	7,000
Interest expense on lease liabilities	(584)	-
Repayment on lease liabilities	<u>(2,137)</u>	<u>-</u>
Net cash flow used in financing activities	<u>(243,844)</u>	<u>(216,421)</u>
Increase in cash and cash equivalents	(68,882)	11,957
Cash and cash equivalents as at 1 January	78,627	11,554
Cash and cash equivalents as at 30 June	<u>9,745</u>	<u>23,511</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 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 the current financial year. 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 except as explained in the preceding paragraph.

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

	3 months ended		Financial period ended	
	30.06.2019	30.06.2018	30.06.2019	30.06.2018
	RM'000	RM'000	RM'000	RM'000
<u>In respect of current year</u>				
Current tax				
- Malaysian income tax	30,610	30,137	61,239	61,529
Deferred tax charge/ (credit)	(4,167)	8,527	(6,807)	7,535
	<u>26,443</u>	<u>38,664</u>	<u>54,432</u>	<u>69,064</u>

The average effective tax rate of the Group for the second quarter 2019 and financial period ended 30 June 2019 were 25.7% and 24.8% respectively. In 2018, the average effective tax rate of the Group for the second quarter and financial period ended 30 June 2018 were 26.0% and 25.1% respectively.

The increase in the average effective tax rates in second quarter 2019 was mainly attributed to non deductible items.

6. Notes to the unaudited Statements of Comprehensive Income

	3 months		Financial period ended	
	30.6.2019	30.6.2018	30.6.2019	30.6.2018
	RM'000	RM'000	RM'000	RM'000
Interest income	(203)	(305)	(670)	(523)
Interest expense	4,323	3,227	7,849	6,418
Depreciation and amortisation	1,882	1,619	3,796	3,168
Depreciation of right-of-use-asset	1,689	-	3,365	-
(Gain)/ Loss on disposal of property, plant and equipments	(60)	-	(237)	18
Gain on disposal of asset held for sale	(566)	(518)	(566)	(1,601)
Provision for write-off of receivables	99	14	70	21
Provision for write-off of inventory	1,752	2,292	2,880	3,476
Net foreign exchange loss/ (gain)	399	1,868	(400)	411
(Gain)/ Loss on derivatives	(34)	163	161	370

7. Changes in Composition of the Group

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

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8. Material Related Party Transactions

Significant related party transactions which were entered into on contracted terms and conditions for the financial period ended 30 June 2019 are set out below:

	3 months ended		Financial period ended	
	30.6.2019	30.6.2018	30.6.2019	30.6.2018
	RM'000	RM'000	RM'000	RM'000
Purchase of leaf, cigarette packaging, wrapping materials and tobacco products from:				
PT Bentoel Internasional Investama, Tbk	50,756	48,585	93,667	96,663
Royalties paid/payable to:				
British-American Tobacco (Holdings) Ltd.	22,372	26,350	43,015	44,901
Payment of fees for technical and advisory support services to:				
British American Tobacco Investments Ltd.	6,408	5,405	12,675	10,910

9. Corporate Proposals

There were no new corporate proposals announced as at 18 July 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 30 June 2019 are as follows:

Current	RM'000
2 weeks revolving credit maturing on 15 July 2019	96,000
4 weeks revolving credit maturing on 29 July 2019	300,000
	<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 18 July 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 30 June 2019 are as follows:

Property, plant and equipment:	RM'000
Authorised by the Directors and contracted for	397
Authorised by the Directors but not contracted for	5,189
	<u>5,586</u>

14. Material Litigation

There was no material litigation as at 18 July 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 reviews 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 RM107 million in the current quarter versus RM120 million for the immediate preceding quarter, registering a decline of 10.9%.

Illegal cigarette incidence is still high at 60% (Source: Illicit Cigarettes Study) and legal industry volume contracted by 3% in the second quarter of 2019 versus the preceding quarter.

However, the Group's volume in the legal industry registered a 3.6% growth versus the preceding quarter and stabilized its market share at 54.8%, mainly driven by strong performance of Rothmans in the Value-for-Money (VFM) segment (+0.6ppt versus previous quarter). This translated to revenue growth of 3.2% (RM20 million) in the second quarter of 2019. Operating expense in the quarter was higher by 19.5% (RM12 million) mainly due to higher marketing spend in new segments.

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

Profit from operations was RM227 million year-to-date quarter 2 versus RM281 million for the same period last year, a decline of 19.4%.

Total legal industry volume declined by 8% when compared to the same period of last year largely attributed to SST led pricing and high illegal cigarette incidence of 60% (Source: Illicit Cigarettes Study). The growth of cigarettes with fake tax stamps and other illegal products in the market are building additional pressure on the legal industry volume.

Legal cigarette market experienced downtrading from Premium and Aspirational Premium (AP) segments to VFM segment, the only growing segment in the legal industry. Rothmans registered

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a solid performance in this new emerging segment, growing share by 1.6ppt as compared to the previous year.

Downtrading and market contraction in the legal market impacted the Group's volumes by 10% and revenues by 4.2% (RM55 million) versus same period last year, partially offset by SST led pricing benefit and the removal of GST.

The Group's investment in selfdriven initiatives to fight illicit trade, an aggressive marketing investment in the VFM segment during the second quarter, the pre-launch investment on the Group's tobacco heated product, 'Glo' and the phasing of spend resulted in an increase of operating expense of 19.8% versus same period last year.

As a result, profit from operations declined by 19.4% (RM55 million) due to market contraction and higher operating cost versus the same period of last year.

18. Events Subsequent to the End of the Period

There were no 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

The Group is extremely concerned about the market outlook for 2019 after the first 6 months of the year, due to the lack of progress on the reduction of illegal tobacco trade and the high level of affordability stretch on legal consumers in Malaysia. Due to these external challenges, the Group's focus for the second half of 2019 will be to rationalise operating costs and continue to work closely with the authorities on enhancing enforcement and other solutions to address illegal cigarette trade.

21. Earnings Per Share

	3 months ended		Financial year ended	
	30.06.2019	30.06.2018	30.06.2019	30.06.2018
Basic earnings per share				
Profit for the financial period (RM'000)	76,265	110,133	164,865	206,359
Weighted average number of ordinary shares in issue ('000)	285,530	285,530	285,530	285,530
Basic earnings per share (sen)	26.7	38.6	57.7	72.3

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 second interim dividend of 26.0 sen per share, tax exempt under the single-tier tax system, amounting to RM74,237,800.00 in respect of the financial year ending 31 December 2019 (Second Quarter 2018 : 35 sen per share), payable on 22 August 2019, to all shareholders whose names appear on the Record of Depositors on 9 August 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 9 August 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 SU JANE (MAICSA 7054020)

Company Secretary

Kuala Lumpur

25 July 2019