

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

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

	Note	3 months ended		Financial period ended	
		30.09.2019	30.09.2018	30.09.2019	30.09.2018
		RM'000	RM'000	RM'000	RM'000
Revenue		584,344	735,528	1,846,107	2,052,323
Cost of sales		(422,817)	(461,981)	(1,320,296)	(1,380,440)
Gross profit		161,527	273,547	525,811	671,883
Other operating income		237	402	5,161	2,526
Operating expenses		(49,120)	(81,686)	(191,182)	(200,305)
Profit from operations		112,644	192,263	339,790	474,104
Finance cost		(3,823)	(3,629)	(11,672)	(10,047)
Profit before tax		108,821	188,634	328,118	464,057
Tax expense	5	(25,690)	(42,828)	(80,122)	(111,892)
Profit for the financial period		83,131	145,806	247,996	352,165
Profit attributable to the owners of the Company		83,131	145,806	247,996	352,165
Effective tax rate		23.6%	22.7%	24.4%	24.1%
EPS	21	29.1	51.1	86.9	123.3
<u>Dividends</u>					
- Interim 1		-	-	30	33
- Interim 2		-	-	26	35
- Interim 3	22	29	40	29	40
		29	40	85	108

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 September 2019

	3 months ended		Financial period ended	
	30.09.2019	30.09.2018	30.09.2019	30.09.2018
	RM'000	RM'000	RM'000	RM'000
Profit for the financial period	83,131	145,806	247,996	352,165
Other comprehensive income:				
Items that may be subsequently reclassified to profit or loss				
Change in fair value of cash flow hedges	2,196	607	2,571	4,882
- deferred tax on fair value changes of cash flow hedges	(527)	(146)	(617)	(1,172)
Total other comprehensive income for the financial period	<u>1,669</u>	<u>461</u>	<u>1,954</u>	<u>3,710</u>
Total comprehensive income for the financial period	<u>84,800</u>	<u>146,267</u>	<u>249,950</u>	<u>355,875</u>
Attributable to:				
Shareholders' equity	<u>84,800</u>	<u>146,267</u>	<u>249,950</u>	<u>355,875</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 September 2019

	As at 30.09.2019	As at 31.12.2018
Note	RM'000	RM'000
Non-current assets		
Property, plant and equipment	63,669	44,031
Computer software	1,429	1,429
Goodwill	411,618	411,618
Deferred tax assets	36,693	31,311
Derivative financial instruments	330	-
	<u>513,739</u>	<u>488,389</u>
Current assets		
Asset held for sale	417	116
Inventories	177,558	162,282
Receivables	248,112	361,479
Derivative financial instruments	2,759	797
Tax Recoverable	4,960	9,416
Deposits, cash and bank balances	28,635	78,627
	<u>462,441</u>	<u>612,717</u>
Current liabilities		
Payables	141,237	235,867
Derivative financial instruments	11	198
Current tax liabilities	20	33,374
Borrowings	431,000	410,000
Lease liabilities	5,458	-
	<u>577,726</u>	<u>679,439</u>
Net current (liabilities) / assets	(115,285)	(66,722)
	<u>398,454</u>	<u>421,667</u>
Capital and reserves		
Share capital	142,765	142,765
Cash flow hedge reserve	2,328	374
Retained earnings	232,428	278,528
Shareholders' funds	<u>377,521</u>	<u>421,667</u>
Non-current liabilities		
Lease liabilities	20,933	-
Derivative financial instruments	-	-
	<u>398,454</u>	<u>421,667</u>
Net assets per share (RM)	1.32	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 September 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	-	-	-	-	247,996	247,996
Other comprehensive income for the financial period:						
- changes in fair value of cash flow hedges	-	-	2,571	-	-	2,571
- deferred tax on fair value changes on cash flow hedges	-	-	(617)	-	-	(617)
	<u>285,530</u>	<u>142,765</u>	<u>2,328</u>	<u>-</u>	<u>526,524</u>	<u>671,617</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)
- Interim 2	-	-	-	-	(74,238)	(74,238)
At 30 September 2019	<u>285,530</u>	<u>142,765</u>	<u>2,328</u>	<u>-</u>	<u>232,428</u>	<u>377,521</u>
	29	-	-	-	-	-
At 1 January 2018	285,530	142,765	(1,812)	-	241,170	382,123
Profit for the financial year	-	-	-	-	352,165	352,165
Other comprehensive income for the financial period:						
- changes in fair value of cash flow hedges	-	-	4,882	-	-	4,882
- deferred tax on fair value changes on cash flow hedges	-	-	(1,172)	-	-	(1,172)
	<u>-</u>	<u>-</u>	<u>3,710</u>	<u>-</u>	<u>352,165</u>	<u>355,875</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)
- Interim 2	-	-	-	-	(99,936)	(99,936)
At 30 September 2018	<u>285,530</u>	<u>142,765</u>	<u>1,898</u>	<u>-</u>	<u>276,396</u>	<u>421,059</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 September 2019

	Financial period ended 30.09.2019	Financial period ended 30.09.2018
	RM'000	RM'000
Operating activities		
Cash receipts from customers	1,959,424	2,184,771
Cash paid to suppliers and employees	(1,606,875)	(1,698,424)
Cash from operations	<u>352,549</u>	<u>486,347</u>
Income taxes paid	(115,019)	(102,149)
Net cash flow from operating activities	<u>237,530</u>	<u>384,198</u>
Investing activities		
Property, plant and equipment		
- additions	(2,572)	(10,609)
- disposals	2,719	1,059
Disposal of assets held for sale	680	2,000
Interest income received	670	926
Net cash flow from investing activities	<u>1,497</u>	<u>(6,624)</u>
Financing activities		
Dividends paid to shareholders	(294,096)	(316,939)
Interest expense paid	(10,817)	(10,047)
Drawdown/ (repayment) of revolving credit	21,000	(38,000)
Interest expense on lease liabilities	(855)	-
Repayment on lease liabilities	(4,251)	-
Net cash flow used in financing activities	<u>(289,019)</u>	<u>(364,986)</u>
Increase in cash and cash equivalents	(49,992)	12,588
Cash and cash equivalents as at 1 January	78,627	11,554
Cash and cash equivalents as at 30 September	<u>28,635</u>	<u>24,142</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 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
	<hr/>	<hr/>	<hr/>
Non-current liabilities			
Lease liabilities	-	24,258	24,258
	<hr/>	<hr/>	<hr/>
Current liabilities			
Lease liabilities	-	6,181	6,181
	<hr/>	<hr/>	<hr/>

In accordance with transitional requirements of MFRS 16, comparatives are not restated.

British American Tobacco (Malaysia) Berhad

5. Taxation

Taxation comprises:

	3 months ended		Financial period ended	
	30.09.2019	30.09.2018	30.09.2019	30.09.2018
	RM'000	RM'000	RM'000	RM'000
<u>In respect of current year</u>				
Current tax				
- Malaysian income tax	22,847	53,466	84,086	114,995
Deferred tax charge/ (credit)	807	(5,932)	(6,000)	1,603
<u>In respect of prior years</u>				
Under/ (over) provision in respect of prior years				
- Malaysian income tax	2,036	(4,706)	2,036	(4,706)
	<u>25,690</u>	<u>42,828</u>	<u>80,122</u>	<u>111,892</u>

The average effective tax rate of the Group for the third quarter of 2019 and financial period ended 30 September 2019 were 23.6% and 24.4% respectively. In 2018, the average effective tax rate of the Group for the third quarter and financial period ended 30 September 2018 were 22.7% and 24.1% respectively. The lower effective tax rate in third quarter of 2018 was mainly due to non-taxable income.

6. Notes to the unaudited Statements of Comprehensive Income

	3 months		Financial period ended	
	30.9.2019	30.9.2018	30.9.2019	30.9.2018
	RM'000	RM'000	RM'000	RM'000
Interest income	(235)	(403)	(670)	(926)
Interest expense	3,823	3,629	11,672	10,047
Depreciation and amortisation	1,793	1,661	5,589	4,829
Depreciation of right-of-use-asset	1,691	-	5,056	-
(Gain)/ Loss on disposal of property, plant and equipment	(2)	-	(239)	18
Gain on disposal of asset held for sale	-	-	(566)	(1,601)
Provision for (write-back)/ write-off of receivables	(20)	(3)	50	18
Provision for write-off of inventory	2,252	1,171	5,132	4,647
Net foreign exchange (gain)/ loss	(10)	(334)	(410)	77
(Gain)/ Loss on derivatives	(183)	(200)	(22)	170

7. Changes in Composition of the Group

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

British American Tobacco (Malaysia) Berhad

8. Material Related Party Transactions

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

	3 months ended		Financial period ended	
	30.9.2019	30.9.2018	30.9.2019	30.9.2018
	RM'000	RM'000	RM'000	RM'000
Purchase of leaf, cigarette packaging, wrapping materials and tobacco products from:				
PT Bentoel Internasional Investama, Tbk	31,103	61,250	124,770	157,913
Royalties paid/payable to:				
British-American Tobacco (Holdings) Ltd.	19,074	24,445	62,089	69,347
Payment of fees for technical and advisory support services to:				
British American Tobacco Investments Ltd.	6,115	5,359	18,790	14,161

9. Corporate Proposals

There were no new corporate proposals announced as at 24 October 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 September 2019 are as follows:

Current	RM'000
4 weeks revolving credit maturing on 30 October 2019	431,000
	<u>431,000</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 24 October 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 September 2019 are as follows:

British American Tobacco (Malaysia) Berhad

Property, plant and equipment:	RM'000
Authorised by the Directors and contracted for	126
Authorised by the Directors but not contracted for	4,823
	<hr/>
	4,949
	<hr/> <hr/>

14. Material Litigation

There was no material litigation as at 24 October 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 RM113 million in the current quarter versus RM107 million for the immediate preceding quarter, registering an increase of 5.2% (RM6 million). The improved profit from operations result was mainly driven by aggressive measures in managing the Group's cost base.

Legal industry volume continued to contract by 4% in the third quarter of 2019 versus the preceding quarter, due primarily to the increase in illegal cigarettes trade as well as the impact of illegal vaping. The Group's market share declined marginally by 0.4ppt, registering at 54.4%. The decline is mainly driven by Premium and Aspirational Premium (AP) segment performance due to the continuous downtrading in the market; partly offset by Rothmans' solid growth of 0.5ppt quarter on quarter. Legal industry contraction as well as inventory adjustment from seasonal impact led to the decline in the Group's volume of 8% versus the preceding quarter, translating into 8.8% decrease in the Group's revenue (RM56 million) and a 12% decrease in the Group's gross profit (RM22 million).

Operating expense in the current quarter was 36.5% (RM28 million) lower as compared to the preceding quarter due to management decision to rationalise the cost base and investment level.

In summary, whilst the Group's revenue was continuously under pressure due to legal market contraction, the Group's improved profit from operations in this quarter was due primarily to lower operating expenses as mentioned above.

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

Profit from operations was RM340 million year-to-date versus RM474 million in the same period last year, representing a decline of 28.3% (RM134 million). This decline was driven mainly by lower volume as a result of legal market contraction and the absence of one-off factors reported in the same period last year such as the benefit from GST removal and prior year tax stamps refunds.

Total legal industry volume declined by 11% when compared to the same period last year largely attributed to SST led pricing, a rapid increase on illegal vaping products and continued high level

British American Tobacco (Malaysia) Berhad

of illegal cigarette incidence of 65% (Source: Illicit Cigarettes Study). The Group continues to see the illegal segment putting continued pressure onto legal cigarette volumes in Malaysia.

In the legal market, Value for Money (VFM) segment continues to grow by 5.6ppt versus same period last year due to affordability stretch on consumers. The Group's VFM brand Rothmans, registered a market share growth of 1.8ppt year-to-date versus the same period last year, reaching a total market share of 5.2% in the legal segment.

The combination of legal market contraction and downtrading led to a decline of 12.8% in the Group's volume and a decline of 10.0% in the Group's revenue (RM206 million) when compared to same period last year.

The Group has embarked on investing in new category segments such as "Glo", its tobacco heated products to ensure future sustainability, as well as supporting government authorities on any efforts in fighting illegal cigarettes trade in bringing back the legal cigarette market in Malaysia. The Group is very concerned about the lacklustre results of the government's efforts in combating illegal trade.

Given the pressure on cigarettes volume from rampant illegal cigarette trade and fast growth in vaping, the Group decided to rationalise its cost base and investment level significantly in quarter 3 2019 leading to lower operating expense versus same period last year of 4.6% (RM9 million).

18. Events Subsequent to the End of the Period

Given the current market landscape in Malaysia, the Group has embarked on an internal reorganisation. This aim to focus on optimising our ways of working, unlocking cost and accelerating investments on new categories and is also in line with the restructuring BAT is undertaking globally.

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 lack of progress on the reduction of illegal cigarette trade and the high level of affordability stretch on legal consumers in Malaysia. The recent rapid growth of unregulated vaping products in the market puts further pressure on the legal industry market. Due to these challenges, the Group will continue to rationalise operating costs and work closely with the authorities on enhancing enforcement and setting up a comprehensive and sustainable total regulatory and fiscal framework.

British American Tobacco (Malaysia) Berhad

21. Earnings Per Share

	3 months ended		Financial year ended	
	30.09.2019	30.09.2018	30.09.2019	30.09.2018
Basic earnings per share				
Profit for the financial period (RM'000)	83,131	145,806	247,996	352,165
Weighted average number of ordinary shares in issue ('000)	285,530	285,530	285,530	285,530
Basic earnings per share (sen)	29.1	51.1	86.9	123.3

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 29.0 sen per share, tax exempt under the single-tier tax system, amounting to RM82,803,700.00 in respect of the financial year ending 31 December 2019 (Third Quarter 2018 : 40 sen per share), payable on 26 November 2019, to all shareholders whose names appear on the Record of Depositors on 14 November 2019.

A Depositor shall qualify for entitlement only in respect of:

- (a) Securities transferred to the Depositor's Securities Account before 4.30 p.m. on 14 November 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

31 October 2019